Volume IV: Workshop and Project Visit Reports
1. Report of the EIR Planning Workshop
The Extractive Industries Consultative Review (EIR)

Planning Workshop

Brussels, Belgium
October 29-30, 2001

Report
## Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Welcome Speech by Prof. Dr. Emil Salim</td>
<td>3</td>
</tr>
<tr>
<td>2. Why the Extractive Industries Review? Ideas about a Process with Results.</td>
<td>4</td>
</tr>
<tr>
<td>Presentation by Mr. Bernard Salome from the Extractive Industries Review (EIR) Secretariat</td>
<td></td>
</tr>
<tr>
<td>3. Summary of Questions and Answers on Monday, October 30, 2001</td>
<td>5</td>
</tr>
<tr>
<td>Presentation by Ms. Monika Weber-Fahr – Annex 5</td>
<td></td>
</tr>
<tr>
<td>5. Identifying Questions of Subject Matter for the Four Regional Workshops</td>
<td>8</td>
</tr>
<tr>
<td>6. Information Marketplace</td>
<td>11</td>
</tr>
<tr>
<td>7. Open Space Sessions</td>
<td>12</td>
</tr>
<tr>
<td>7.1. Terms of Reference for the EIR Process</td>
<td></td>
</tr>
<tr>
<td>7.2. The Role of the WBG in the EIR Process</td>
<td></td>
</tr>
<tr>
<td>8. Selection Criteria for Participants of the Regional Workshops</td>
<td>13</td>
</tr>
<tr>
<td>9. Sector Specific Issues of Oil, Gas and Mining</td>
<td>14</td>
</tr>
<tr>
<td>10. Region-specific Issues: what to do and what to avoid in the Regional Workshops</td>
<td>15</td>
</tr>
<tr>
<td>11. Closing Plenary: Aspirations and Hopes – including Evaluation Results</td>
<td>17</td>
</tr>
<tr>
<td>12. Closing Remarks by Prof. Dr. Emil Salim</td>
<td>18</td>
</tr>
</tbody>
</table>

### Annexes:

<table>
<thead>
<tr>
<th>Annex</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Workshop Agenda</td>
<td>19</td>
</tr>
<tr>
<td>2. List of participants</td>
<td>22</td>
</tr>
<tr>
<td>3. Transcript of Prof. Dr. Salim’s welcome speech</td>
<td>29</td>
</tr>
<tr>
<td>4. The Stakeholder Universe</td>
<td>32</td>
</tr>
<tr>
<td>5. Presentation by Ms. Monika Weber-Fahr</td>
<td>33</td>
</tr>
<tr>
<td>6. Additional Questions from Section 5</td>
<td>36</td>
</tr>
<tr>
<td>7. ‘Mindmap’ of Section 8</td>
<td>38</td>
</tr>
<tr>
<td>8. Transcript of Prof. Dr. Salim’s closing remarks</td>
<td>40</td>
</tr>
</tbody>
</table>
1. Welcome Speech by Prof. Dr. Emil Salim

In a welcome address to the workshop participants, Dr. Salim outlined his vision and principles of the Extractive Industries Review. He summarized them around the principles of independence, trust, inclusiveness, equality, sustainability, honesty, and transparency. He noted that these were the principles he formulated when agreeing to take on the leadership of the review and demanded from the management of the World Bank Group that the review respect them.

**Independence**: He underlined that he is fully independent to do the job. During the workshop, he intends to clarify further remaining issues around independence in terms of budget and budget management with World Bank Group management. The budget envelope is US$ 1.5 million from the WBG, US$ 1.5 million from the Government of Norway and US$ 0.1 from the Government of Germany. He demanded a free hand in determining how to spend this budget of $3.1 million.

**Trust**: ‘Trust is the base’ he announced and emphasized the importance of trust from all stakeholders that shall participate on an equal basis: the World Bank Group, business, civil society, and governments. “If there is no trust in me, then forget about it, then I better pack my bags and leave the job.”

**Inclusiveness**: In order to achieve trust, the review needs to be inclusive. Inclusiveness means that everyone participates on an equal basis, with equal weight. While the quantity representation may not be equal, it is the quality that is important, he argued. He encouraged qualitative inputs from all participants at the Planning Workshop that would help move the Review forward, and help design a ‘bottom up’ approach for the regional consultations. He stated: “It is not a show. I don’t want a show. I hate shows”.

**Sustainability**: The discussion shall take place in the broader context of economic, social, and environmental sustainability. Economic sustainability requires that a yo-yo effect, namely economic instability that hurts the poorest the most, needs to be avoided. Social sustainability means that the spiritual, cultural environment of the social community where the activity takes place may not be killed for any reason. A long-term perspective is required since we are dealing with non-renewable, depletable resources. The key question is: “How can we save a depletable resource for future generations?” Also, he outlined that the discussions ought to be forward looking, seen in the context of development impacts of extractive industries, and be region-specific for policy making.

**Honesty**: Dr. Salim promised an honest review and wants the process be based on honesty. For a successful outcome he needs to have guaranteed direct access to the World Bank Group President and Board of Directors, whenever necessary. In the light of honesty, the report ought to be clear about what needs to be improved, and the Eminent Person wants the opportunity to comment on the management recommendations, at which point he can clearly state where he succeeded and where he failed.

**Transparency**: The fifth principle is transparency and he pledged to be open to all. The website will assure transparency, which is fundamental to finding out what needs to be done.

---

1 See Annex 3 for the transcript of the speech.
Dr. Salim pointed out that there are lots of studies and knowledge already available on the issues around extractive industries. However, there is no agreement between governments reflecting a joint understanding how depletable resources can be used for the benefit of future generations.

In closing, he stated: “Shall there be disagreement, okay let there be disagreement. But let’s make clear what we disagree about, and how to overcome the disagreement.” He called on the workshop participants to help him along in making sure the process is inclusive, open, and transparent.

2. Why the Extractive Industries Review? Ideas about a Process with Results

Bernard Salomé, Head of the Extractive Industries Review Secretariat, outlined the stakeholder map of the Extractive Industries Review, as well as the objectives of the Planning Workshop in Brussels, and how it fits in with the overall design of the review.

The stakeholder universe
There are four main stakeholder groups participating in the review: governments, business, civil society and the World Bank Group. (See Annex 4 for the presentational overview of the concept)

Governments: This stakeholder group encompasses governments from both north and south, as well as aid agencies, bilateral and multilateral agencies, and the UN family. Export credit agencies are part of the universe of the extractive industries, and therefore need to be considered also.

World Bank Group: Given the complexity of the organization, there are many different units that are involved in oil, gas and mining projects in some way. These include: the World Bank Groups evaluation departments: OED and OEG (Operations Evaluation Department/ Operations Evaluation Group), the Multilateral Investment Guarantee Agency (MIGA), the Compliance Advisor/Ombudsman (CAO), the Mining Department and the Oil, Gas and Chemicals department (CMN, COC), the Environmentally and Socially Sustainable Development Unit (ESSD).

Business: Businesses are subdivided into groupings, businesses from the north and from the south, private and public. The private companies are subdivided into junior and major companies. While major companies are bound by compliance guidelines, junior companies, often not listed at the northern stock markets, are not subject to this disciplinary force. The World Bank Group may have an influence here on business. Included are also private consultants, insurance companies, banks and associations, present at the Planning Workshop are the Mining Minerals Sustainable Development (MMSD) and International Association of Oil & Gas Producers (OGP).

Civil Society: Here there are community based organizations (CBOs), Northern and Southern NGOs, labor organizations, and academia. We will attempt to work as closely as possible with the affected communities. Southern NGOs will be very important in this respect. Artisanal Mining affects about 13 million people. Cross cutting issues that are of concern to this stakeholder group include human rights, gender, indigenous people, environment, governance: corruption, revenue management), and the issue of assuring that there is a dialogue between companies and the civil society.
Planning Workshop Objectives within the Overall Design of the Review

Bernard Salomé stressed that the process aims to be inclusive, and in addition to the regional workshops, there will also be other forms of consultation, for example through the website.

<table>
<thead>
<tr>
<th>Objectives of the EIR Planning Workshop</th>
<th>Build ownership of stakeholders on Review Process</th>
<th>Establish basic understanding of the starting points of stakeholders</th>
<th>Identify baseline information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Selection Criteria for Participants developed</td>
<td>Clarify expectations on the outcome of the Consultative Review</td>
<td>Consensus on structure of Regional Workshops</td>
<td>Agreement on questions to be discussed in Regional Workshops</td>
</tr>
<tr>
<td>Recommendations on overall design of the Consultative Review</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

3. Questions and Answers: Plenary on Monday, October 30, 2001

In a plenary session there was a lively debate, evolving around issues such as: Planning Workshop representation; independence of the process and the EIR secretariat; role of the World Bank Group in the process; climate change; differences between oil, gas and mining sectors. Dr. Salim’s position as chairman of both the Extractive Industries Review (EIR) and the World Summit on Sustainable Development; and the relationship of the World Bank Group with host governments and local communities. The summary captures only the key points made.

Selection of Participants – process, independence and regional representation: The concern about a skewed representation in the workshop and the little representation of Africa was aired. Apprehension and doubts were expressed with respect to the process being truly independent and a need for reassurance about the selection process was articulated.

Answer: It was explained that the process of determining invitees had taken place under a tight deadline and aimed at achieving good representation. Geographic balance had not been attempted, but rather quality representation. Selection criteria for future workshops would be
designed at this workshop. The EIR team sought to receive suggestions for candidates from the regions for the regional meetings.

**Independence of the EIR process and the Secretariat:** Some anxiety was expressed about who would be chosen for the expert groups, who would issue papers, the location of secretariat being inside IFC and whether it could be moved to Jakarta. The credibility of the process was seen as depending largely on the independence of the Eminent Person. There was a suggestion that this might be too much of a burden, and that he therefore needed a broader stakeholder group supporting him with an independent budget and an independent Secretariat.

**Answer:** Dr. Salim explained that the World Bank Group had some concerns with regard to the World Commission on Dams. The EIR needed a Secretariat with access to confidential information, that could act as a bridge for trust that would create ownership during the process for the World Bank Group in terms of what the EIR produced. There needed to be a “Chinese Wall” between the World Bank Group and the Secretariat (which was paying for its office space). He stressed that there was a fine line to be walked, being in and out of the World Bank Group. “In, to the extent that the World Bank is trusting you, but out in the sense that the in the process they will not influence your decision making.” On the issue of the secretariat’s independence, Dr. Salim explained that he was aware of the importance of independence and that the Secretariat staff worked for him, and he had asked for control of the budget allocation.

**Role of World Bank Group in the EIR:** It was mentioned that the World Bank Group was one of the stakeholders in the process, and that the management still had the choice to totally reject the recommendations. There were eight World Bank Group staff at the planning meeting, which should be independent of World Bank Group influence. Also, the question of the impact of World Bank Group staff on the review’s credibility, and whether their role was to listen or to participate was raised. Thirty NGOs had written a letter of concern to President Wolfensohn about such issues of the EIR, and now were questioning what they considered to be a glib, inadequate response from the World Bank Group.

**Answer:** James Bond, Director of the World Bank Group Mining Department explained that the World Bank Group capital is owned by about 180 countries. The role of World Bank Group management is to present projects and policies to the World Bank Group Board for decision. “If the recommendation comes out that the World Bank should get out of oil, gas and mining and this is supported by OED, OEG, then we will shut down the business.” He noted that it is important to understand that if the World Bank Group management is not involved, it cannot give an opinion on the consultation. There has to be a “buy-in” and there is a difficult trade-off between no involvement or some degree of participation by the World Bank Group. It was explained that for this workshop the World Bank Group staff were available to provide information and are there to listen.

**Climate Change:** It was noted that the climate issue is important and attention was drawn to a connection between emissions, the interaction with the Kyoto protocol and this process. A number of EIR stakeholders are involved in this area, and therefore the question arose why there were no renewable energy stakeholders at the workshop, and why neither affected parties from small island states had been invited. Another voice was concerned that the meeting might be “hijacked” by climate change issues and did not want the EIR to be used as a vehicle to discuss climate change.

**Answer:** It was pointed out that renewable energy and recycling are substance issues and the workshop is rather about defining the process.
**Differences between oil and gas and mining sectors:** It was noted that the oil, gas and mining sectors have different risk/reward profiles and different contributions to climate change.

**Translations:** There was a concern expressed about the style of the proposed regional workshops, and the need to have documents in local languages because of the difficulties caused if they are only in English.

**Dr. Salim’s chairmanship and connection between the EIR and the World Summit on Sustainable Development:** The EIR and the World Summit on Sustainable Development are two different processes, and the question arose how Dr. Salim sees the connection. He had earlier remarked the lack of a convention between governments regarding the extractive sectors, ought this not rather be an issue for the latter process?

**Answer:** Dr. Salim pointed out that the preparation process of the World Summit was underway and organized by governments. At this stage they were seeking ideas. In comparison, the EIR process was a bottom up process, and it had not been predetermined what would be discussed. The question for these processes was how to conduct sustainable development in the 21st century? He saw a need for the EIR to look forward, to define what the issues were in the regions and suggest how to cope with them. By January 2002, the second preparatory meeting would be held for the World Summit and then the topics would be negotiated: populations, climate change, ocean, sea, forest, bio-diversity. All these are land up topics. Mining and oil/gas projects on the other hand are land down and mainly found in developing countries.

**World Bank Group relationship with host governments:** A question was asked about the interface between the IFC and host governments. IFC was said to operate independently of governments, and an example was cited when the host government was not given an opportunity to comment on how mine rehabilitation was carried out. It was noted that social issues receive very small investments but pose the greatest challenges and that it was easier to know how to fix engineering problems than how to resolve social issues.

**Answer:** Mr. Bond clarified that his group was open to suggestions on such issues.


Monika Weber-Fahr from the WBG Mining Department held a *Power Point* presentation (see annex 5.)

**Comments:**

- Interface between International Finance Cooperation and government is observed with concern in a mining project in Ghana that IFC is operating independently of government with respect to reclamation.
- The challenge for mining projects are not on the engineering side but on social development.
- It was noted that the extractive industries sectors were a small percentage of World Bank Group funding and asked for details.
- A participant informed the plenary that a database at [www.seen.org](http://www.seen.org), which included all World Bank and IFC investments, suggests that about $20 billion in World Bank Group investments resulted overall in 40 billion tons of CO₂. Mining represents about 2% of total World Bank Group investments, oil and gas represents less than 2%.
It was noted that the TOR of the review state that extractive industries can contribute to poverty alleviation and economic development, and wanted clarification as the recommendations could be to exit from extractive industries. There was a question whether the TOR could be changed or adapted.

It was commented that the World Bank Group was not sufficiently forthcoming in making information available about its involvement in the extractive sectors.

Questions:

WBG relationship with local communities: A local community representative understood that the World Bank Group works with government and business and asked how many departments of the World Bank Group worked with local communities. Was there a strategy to provide a link with local communities?

Answer: Ms. Monika Weber-Fahr explained that World Bank Group gives loans to governments and that some projects work directly with local communities, mostly through social funds. In the case for sector reforms in mining, oil and gas, communities would be one of the three key stakeholder and an important party in the decision making. There are groups in the Bank who are working directly with local groups and communities.

Catalytic Role of WBG: A participant asked how many new projects in oil, gas and mining in the past five years would have proceeded without World Bank Group funding.

Answer: It was explained that in principle the World Bank Group only finances projects that would not go ahead without them. There were about eight projects in mining and fifteen oil and gas projects.

5. Identifying questions of Subject Matter for the Four Regional Workshops

The purpose of this working session was to identify key questions that shall be discussed during the four Regional Workshops in Asia and the Pacific, Latin America and Caribbean, Africa and Eastern Europe and Central Asia. For consistency purposes all Regional Workshops should deal with some comparable questions. This has to be carefully balanced with the need to be region specific. Each participant was asked to join one of the four groups:

1. Civil Society
2. Government
3. Business
4. World Bank Group

Each group applied a brainstorming and filter process and developed a set of priority questions through a sequence of filter mechanisms.

2 Brainstorming and Filter Process:
1. Please think alone and quiet and make a list of all “good questions” that come up to your mind (5’)
2. Select three of your list and write them on cards.
3. Meet your small working group, present your proposals, make a common list. (20’)
4. Select the 3 “best questions” from your list and present them.
5. Establish together a list of “best questions” and select 3-5 of them for the plenary presentation.

The questions should meet the following criteria:
1. They are suited to prepare decisions
2. They can really be discussed in a workshop situation
3. They cannot be answered simply by existing studies
5.1. Working Group ‘Business’

The group ‘Business’ identified five priority questions.1
1. What are major positive and negative contributions that Extractive Industries have made in your region, country and communities?
2. What would be the consequences of WBG withdrawal from the Extractive Industries for your region?
3. What are the specific regional priorities for Sustainable Development action by the WBG?
4. What can the WBG do to improve Sustainable Development of the extractive industries sector in the region?
5. How can the WBG promote a better project assessment and sustainable development framework?

5.2. Working Group ‘World Bank Group’

The group ‘World Bank Group’ identified four priority questions:
1. What are the key things that stop extractive industries from making a positive contribution to sustainable development and poverty reduction and what can the World Bank Group do about those?
2. What will happen if the World Bank Group withdraws from these sectors?
3. Should the World Bank Group work only with “good performers” on environmental, social economic matters in the sector (companies, countries) or also on improving “bad” performers?
4. Assuming the WBG stays in the sector: What requires most urgent attention? (what processes, what substance/project types)

5.3. Working Group ‘Civil Society’

This group identified eight key topics for questions, but did not establish any priority among these topics and questions.

A. Evaluation of the past: impact - process - compensation
1. How has the environment, human rights, the economy and your lives been impacted by oil, gas, and mining projects?
2. Have you realised the economic or social benefits promised, or were you consulted?
3. What has happened when you raised concern about projects with the appropriate authorities (e.g. Government/World Bank)?
4. To what extent have WBG projects in the sector upheld UN-Declaration on human rights and equity concerns; how can WBG adopt a rights-based approach?
5. How can WBG ensure that communities and indigenous peoples are compensated for the impacts of their bad projects?

---

1 A full collection of the questions that were identified by the group can be found in Annex 6.
B. Contribution to sustainable development
1. What practices can WB promote to ensure that oil, gas and mining projects result in environment social benefits?
2. Should WB require mechanisms for participatory revenue management?
3. What role should WBG play in ensuring that sustainability goals are achieved through resource development at the community level?
4. Where the revenues of the projects end up and how to ensure projects improve quality of life and people and reduce conflict?

C. Monitoring of project implementation
1. Should we require companies to allow independence monitoring?
2. Should WBG require the involvement of communities in development decisions and the Monitoring results (environmental, social, economic)?

D. Full participation, also on community level
1. How can WBG involvement in sector be made more accountable (Legally and Practically) to civil society and ensure all voices are heard?
2. Can we agree that indigenous peoples and other local communities should have right to free, prior and informed consent?

E. New policies
1. Should the WBG continue investing in oil, gas and mining or is there a better alternative for poverty alleviation?
2. What is the WBG Role in making clean + renewable energy available commercially, and how can the WBG ensure the reduction of emissions of Green House Gases?
3. Can local benefits justify the global impacts and local impacts?
4. Should World Bank be involved in Extractive Industries beyond mitigation of impacts of Mine Closure or Alternatives?

F. No GO
1. Should some areas be off-limits from o/g/m development?
2. Should oil, gas and mining be banned in some areas? Should WBG help in this process?
3. What criteria should be used for Go/No-Go options beyond technical and economic?

G. New procedures
1. What new standards, procedures and staff incentives are needed to achieve a rights-base approach to development?

H. Transparent information
1. Should WB require Governments and Companies to disclose info on environmental, social and revenue issues?
5.4. Working Group ‘Government’

This group has identified three priority questions with a set of sub-questions.

1. What are the costs and benefits of extractive industries activities in your country? How can they be optimised?
   - How can extractive industries projects ensure that economic, social and environmental benefits are optimised?

2. Identify key success factors/criteria for different countries, situations,…(one model approach won’t do).
   - How can capacity be improved for better environmental assessment and mitigation of their impacts of extractive industries activities?
   - IMF Role has to be examined.
   - Under which conditions should WBG be involved?

3. How can the WBG improve the development impact of their activities in extractive industries or alternative opportunities?
   - How can extractive industries activities be directed towards the goal of poverty alleviation?
   - How do you assert the correct balance between high capital-intensive projects, and lower degrees of mechanization with high unemployment.
   - Review incentive framework within WBG.

Following the logic of these questions they lead to the paramount question of: Should the WBG be involved in oil, gas and mining activities?

6. Information Marketplace

The Information Marketplace was an hour of time and space that was organized like a trade fair or a market place where the participants were exhibitors and visitors at the same time. This was an opportunity for participants to exchange information freely about their organizations and activities.

It included market stands on:
- Norwegian Case Study on how a country translated richness in resources to development and the benefit to the broader population.
- Consultative Group on Artisanal and Small Scale Mining (CASM), a multidonor initiative to address reduce poverty by supporting integrated sustainable development of communities affected by or involved in small-scale mining in developing countries. For further information see www.casmite.org
- Oxfam: A report on poverty and mining.
- Mine Closure and Social Mitigation project and Petroleum Sector Rehabilitation project in Romania
- Institute for Policy Studies: An internet data base on WBG projects in extractive industries.
- OED/OEG Evaluation: presentation of their concept and methodology.
- WBG: information and documents around oil, gas and mining including environmental and social safeguards and compliance.
- World Alliance for Community Health

---

4 A full collection of the questions that were identified by the group can be found in Annex 6.
7. **Open Space Sessions**

Here the workshop agenda allowed participants to initiate discussion groups. Two sessions were organized ad-hoc. One on the Terms of Reference of the EIR and another one on the role of the WBG in the EIR-process.

7.1 **Terms of Reference for the EIR Process**

Stephen Kretzmann from the Institute for Policy Studies initiated a discussion group on the Terms of Reference of the EIR. A lot of concerns centred around the content of the TOR, particularly vocally expressed by the representatives of the Civil Society. The group prepared an overview of the conclusions of the discussion and the negotiation process:

<table>
<thead>
<tr>
<th>“settled”</th>
<th>open issues (dissent)</th>
<th>open issue (consensus)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Biodiversity – issue to be discussed, as needed, in consultation</td>
<td>Beginning Statement in the TOR – inspires distrust? – omit / modify?</td>
<td>Clarify process for selecting -expert groups – focused research</td>
</tr>
<tr>
<td>Add. $ for review – will be sought (industry?)</td>
<td>WBG ‘actively involved’ – as a stakeholder? – what does ‘active’ mean?</td>
<td>Support for EP in form of stakeholder advisors</td>
</tr>
<tr>
<td>Participation + Focus is key</td>
<td>Who defines ToR?</td>
<td>Clarify who will write report process</td>
</tr>
<tr>
<td>Not replicate general reviews-focus on WB-Role</td>
<td>How to ensure credibility of process?</td>
<td>Clarify how OED / OEG feeds into consultation process</td>
</tr>
<tr>
<td>Get translations done! In advance!</td>
<td>Rushed / Hasty process? vs. “Get on with it”</td>
<td></td>
</tr>
<tr>
<td>Ensure differentiated treatment of different sectors</td>
<td>Moratorium vs. have consult. decide</td>
<td></td>
</tr>
<tr>
<td>Do project visits – consult communities</td>
<td>Role of Bank ?? Second the staff ?? Secretariat ?? ToRs ?? Outcome / Recommendations ?? Budget</td>
<td></td>
</tr>
</tbody>
</table>

7.2 **The Role of the World Bank Group in the EIR Process**

A second discussion group was initiated by Ina-Marlene Ruthenberg from the Extractive Industries Review Secretariat on the role of the WBG in the Extractive Industries Consultations. Concerns were expressed in the debate, particularly by Civil Society representatives, on what participation of WBG staff means. Clarity on this is important for the Secretariat as it designs the further workshops. It led to the formulation of the following questions:

?? The WBG has been treated so far as one of the four ‘stakeholder groups’ (government, civil society, private sector, and WBG). Is this of concern?

?? Why should the WBG be considered different to other stakeholder groups? If so, how should it be different?

?? Who and how many WBG representatives shall be invited to the Regional Workshops?
The discussion in the group revealed that for some participants the role of the WBG was not clear from the outset, and that its presence was perceived as already heavy. Others argued that if you seek change inside the WBG you need to build trust and ownership of WBG and that listening ought to be both ways. The group suggested that operational WBG staff should be invited as well as decision makers. However, the functions of the different members representing the WBG should be clarified better. The question was raised, who OED (Operations Evaluation Department), OEG (Operations Evaluation Group) and the Ombudsman of IFC/MIGA are and how they relate to the Consultative Review. The discussion concluded with the recommendation to put the right label on the groups and to preferably talk of ‘interest groups’ rather than ‘stakeholder groups’.

Subsequently, the group developed a model that approaches the concept of ‘interest group representation’ in a more integrated manner by identifying commonality of perspectives rather than ‘boxes’ based on affiliation to a certain organization. This model would allow the integration of WBG staff participation in the workshop based on what perspective/skill they represent:

Finally, a list was developed on what the WBG should keep in mind when participating in the workshops:

- Good representation: Bank should make sure that at future meetings staff participate that have specific knowledge about the issue to be discussed.
- Listen and understand
- Provide information
- Clarify expectations before coming
- Clarify but not advise
- Not argue defensively or try to persuade others too strongly about individual projects and their achievements.
- Role of the “independents” (OED, OEG, & Ombudsman) should be different: participate as observers

It is important to note that no consensus was reached by all participants concerning this presentation.

8. Selection Criteria for Participants and other Issues around organizing the Regional Consultation Workshops

One working group discussed the issues around organizing the Regional Consultation Workshops. Annex 7 shows the mind map that has been developed during that discussion. Main discussion points included:

Workshop attendance: Regional Consultation Workshop participation should be a combination of openness and by invitation. The process of generating potential participants should be open in the sense of creating a variety of different spaces through active marketing by the Secretariat. Several Civil Society representatives proposed a self selection process. It was recommended to use existing regional groups and associations for these processes. The question of financing for travel and lodging to participate in the workshop was raised. It was commented that the Dr. Salim has a budget that can cover these cost particularly in order to assure that representatives from local communicates can participate.

Marketing: There was broad call for an active marketing with sufficient timing for the Regional Consultation Workshops by the EIR-Secretariat. Proposed measures include announcements as
well as public solicitation. It was advised not to rely too much on electronic communication (e-mail and websites) as local communities do not have access to it. Invitations should be sent by fax so that they can be used to obtain visas.

**Process of selecting participants:** The emerging consensus of this discussion group was to seek an open process of identifying participants but that participation of the workshop would be by invitation. In selecting the final participants, the Regional Advisor could play an important role.

**Budget:** A set of questions evolved around issues like: Who gets financed? Financing ought to be equal for regions and be self organized. Furthermore, it was proposed that the funding ought to guarantee travel and lodging cost and that priority ought to be given to communities, NGOs/civil society representatives, and small enterprises.

**Other forms of participation:** The need to open venues for written comments for people who will not be able to make it to the workshop was noted.

**Language:** A lot of discussion centered around the language issue. The various background materials should be translated well in advance to give people adequate preparation time. Also, in the workshops there should be simultaneous translation.

**Location of workshops:** The question came up whether the location should only be in countries with oil, gas and mining projects with the WBG. Furthermore, the issue of experience with different stakeholders on the project level was raised.

**Representation:** The group recommended that a broad view should be assured. Also it was noted that not all parts of civil society think the same way or are represented by NGOs.

**Other relevant issues** that were discussed include: Creating spaces for open testimony, transparency, balance within the region, and gender.

In conclusion, there was broad agreement that there should be trust in the Eminent Person and that the ‘buck stops with him’.

9. **Sector Specific Issues of Oil, Gas and Mining**

One working group discussed the question: How can the Regional Workshops best consider sector-specific issues, which was rephrased to: Why should oil, gas and mining be considered differently? It was recommended that the EIR should distinguish between the three sectors as they differ substantially with respect to complexity of commercial, physical, and value chain, which in turn impacts the role of government and the private sector. Specific recommendations were:

1. Make sure that the different issues are considered and these should influence the invitations to the workshops.
2. Invite people with separate knowledge of gas and oil.
The group developed the table below which summarizes the main issues.

<table>
<thead>
<tr>
<th>ISSUES</th>
<th>OIL</th>
<th>GAS</th>
<th>MINING</th>
</tr>
</thead>
<tbody>
<tr>
<td>EMPLOYMENT CREATION:</td>
<td>Not necessarily huge differences, but Gas downstream with high impacts / power</td>
<td>More local employment</td>
<td></td>
</tr>
<tr>
<td>GLOBAL ENVIRONMENT: (Warming)</td>
<td>(2)</td>
<td>Less (3)</td>
<td>Coal – High greater issue.(1) Mining other (0)</td>
</tr>
<tr>
<td>REVENUE MANAGEMENT:</td>
<td>High returns medium returns</td>
<td>Lower returns (depends on mineral)</td>
<td></td>
</tr>
<tr>
<td>COMMUNITY ISSUES:</td>
<td>Important Important Important (More people)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>INVESTMENT PATTERN:</td>
<td>Not much (other than “post production”)</td>
<td>difference</td>
<td></td>
</tr>
<tr>
<td>INFRASTRUCTURE / PUBLIC GOOD:</td>
<td>High Economic Gas infrastructure beneficial to Regional / Local Community. Government Involvement required. Development</td>
<td>potential</td>
<td></td>
</tr>
<tr>
<td>POST-PRODUCTION (e.g. MINE CLOSURE):</td>
<td></td>
<td>High Post Production Costs</td>
<td></td>
</tr>
<tr>
<td>COMPLEXITY OF COMMERCIAL / PHYSICAL VALUE / CHAIN</td>
<td>HIGH</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The plenary discussion contributed with a number of comments which were not discussed further. The issues that were raised are:

- Consider alternatives, such as renewable resources and recycling.
- Look at the global impact of gas: methane leakage rates.
- Add an artisanal mining component.
- Realize the geological risk profiles are different.
- Look at the WBG role to substitute gas for coal.
- Look at the development links with land rights and title.
- Cover different fields with different people.

10. Region-specific Issues: What to do and what to avoid in the Regional Consultation Workshops

Another working group discussed the question how to integrate region specific issues into the workshop. Here is the list of recommendations of what should be done and what should be avoided.
<table>
<thead>
<tr>
<th><strong>We should do...</strong></th>
<th><strong>We should avoid...</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Understand what the regional issues are before planning the workshop.</td>
<td>1. Long process discussions</td>
</tr>
<tr>
<td>2. Use existing mechanisms of information to identify issues.</td>
<td>2. Talk shop + speeches</td>
</tr>
<tr>
<td>3. Workshop should be open to all.</td>
<td>3. Workshop driven by World Bank Group</td>
</tr>
<tr>
<td>4. Focus on affected communities, representative peoples in regional workshop.</td>
<td>4. Solving community conflicts</td>
</tr>
<tr>
<td>5. Invite appropriate people to present issues.</td>
<td>5. Catalogue of ‘bad examples’</td>
</tr>
<tr>
<td>6. Government (local &amp; central), industry, peoples, communities, Communities groups, NGO and donor organizations should be represented.</td>
<td>6. Programs which violate human &amp; social rights!</td>
</tr>
<tr>
<td>7. Equal benefits to all indigenous peoples.</td>
<td>7. Descriptive country ...</td>
</tr>
<tr>
<td>8. Prior consultation + analysis on topics, positions + process.</td>
<td>8. Regional experts from outside the region</td>
</tr>
<tr>
<td>9. Briefing paper on oil, gas and mining activities and local development.</td>
<td>9. Leaving people out and lack of transparency</td>
</tr>
<tr>
<td>10. Appoint regional specialists to scope issues.</td>
<td>10. Culturally inappropriate forms of facilitation</td>
</tr>
<tr>
<td>11. Use regional facilitator with a global outlook.</td>
<td></td>
</tr>
<tr>
<td>12. Evaluate existing conditions on EI e.g. environmental impact, social impact, economic, technology, and expectation for sustainable development for EI in the region</td>
<td></td>
</tr>
<tr>
<td>13. Implementation mechanisms to carry the process forward over the long term</td>
<td></td>
</tr>
<tr>
<td>14. Feedback outcome to communities + register reaction</td>
<td></td>
</tr>
<tr>
<td>15. Discuss + agree on use of output (e.g. feed into final report)</td>
<td></td>
</tr>
</tbody>
</table>

In the closing plenary a number of aspirations and hopes were raised.

- Clarification on the form and process of the Wrap-up workshop.
- What outcome can we expect from the Bank? What are the options for the Bank to operationalize the recommendations?
- The example of a consultative review in Canada on the investment climate was shared with the plenary. Drawing a parallel of the difficulties that the government faced in the process with its role and with providing information. The lessons learned was that it is important to explain and justify things as these questions do not mean to ‘co-op the agenda’ or force a conclusion. People simply want to know what exactly is going on. It turned out that many of the criticism were leveled with misunderstandings or lack of knowledge on both sides. Once these were overcome both sides were able to agree on the disagreements and then these could be tackled.
- Time is too compressed. Stretching it out by a few more months would make a huge difference in the ability reach out to different stakeholders and interest groups.
- The process leading to Brussels being full of inexplicable actions that tended to demonstrate that the WBG had something to hide. Doubts about the realism that the WBG will distance it self from projects were people suffer with their lives.
- There was concern that over the controversy about specific World Bank projects, the wider influence of the World Bank Group could be overlooked. The WBG had been influential in impacting many (mining) projects other than the ones that it financed directly, in for example, helping set standards.
- Having learned that the Bank is only funding 2-3% of all oil and gas projects the question is why doesn’t the industry fund this small share? What is the Bank’s value added and what would be thrown away if that 23% were no longer executed? Let’s look very closely at this 2-3%.
- Too little discussion about the impact of the sectors on climate change and how this affects small island states.
- Recommendation to carefully design and adapt the facilitation methodology for the Regional Workshops in order to ensure participation of indigenous and other communities leaders.
- Expressed hope to get out of the consultations a set of recommendations from Dr. Salim, which are actionable and which can be put to work to change the way the Bank does its business.
- Shared with the plenary that in his country he has seen a lot of positive work with the WBG in the areas of mining policies, laws, capacity building etc. and he does not want to see all this written off as being bad.
**Evaluation:** An evaluation was done by the participants on a voluntary basis after the official closing of the workshop. Although only 50% of the participants gave their votes, a clear positive tendency can be observed mixed with still existing doubts and fears from these voters.

<table>
<thead>
<tr>
<th>My expectations for this workshop are fulfilled</th>
<th>++ 5</th>
<th>+ 11</th>
<th>- 7</th>
<th>-- 1</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>The process in this workshop was useful for me:</th>
<th>++ 3</th>
<th>+ 15</th>
<th>- 6</th>
<th>-- 0</th>
</tr>
</thead>
</table>

| I think we are on a good way: | ++ 2 | + 17 | - 5 | -- 0 |

12. **Concluding Remarks by Prof. Dr. Emil Salim**

A *process with inherent conflict needs to build trust:* Dr. Salim remarked that in the Extractive Industries Review process, some completely opposing views were clashing: some stakeholders want the World Bank Group to get out of the extractive industries altogether, others believe they have a positive role to play. The review therefore has a conflict problem. This required a workshop that discussed process over substance, because “how can you go to the substance if there are two opposing groups who have different ideas, but have not yet had the opportunity to discuss these ideas”. This is why the Planning Workshop’s main purpose was to build trust between the different stakeholder groups.

*Interest based conflict resolution - understanding the reasons behind the opinions:* The approach that best deals with conflict situations of this type is not a negotiation between the groups, but a kind of “interest based conflict resolution”. Dr. Salim suggested that it was important to express the reasons behind each opinion, which needed to be understood by the other side. In doing this people may need to bang the fist on the table, and that is good, if there is no conflict in the meetings, if people don’t speak up, “then there is something wrong. Then it will explode outside the meeting hall”. Dr. Salim expressed his gratitude to the facilitators for having enabled this crucial exchange.

*Dr. Salim calls on participants to move forward now and stay involved:* Dr. Salim encouraged the workshop participants to now move forward. He reminded everyone that in the end, they all had the same goal in mind: “We are all committed to sustainable development (…) Second, we are all committed to poverty eradication. By having the same goal, I feel that can be the integrating factor that can put us together in the cooperative spirit.” He expressed his wish that the participants stay involved. “I really rely on you. You were here, you know the spirit, you know what is at stake.” Together they can walk the long walk that in the end should produce a case that makes a real difference to how the World Bank Group operates.

---

5 See Annex 8 for a transcript of the closing remarks.
Annex 1

The Extractive Industries Review (EIR)
Planning Workshop
Brussels,
Belgium, October 29 - 30, 2001

All events take place at the Metropole Hotel

Sunday, October 28th

18.00 – 19.00 Welcome Reception - Hall du Bar (Ground Floor)
19.00 – 23.00 Welcome Dinner hosted by Prof. Dr. Emil Salim – Salon Arthur Rubenstein (Ground Floor).

Monday, October 29th

09.00 – 10.45 Introduction - Salon Langevin (1st floor – Lift A).
1. Welcome by Prof. Dr. Emil Salim, including introduction of the EIR Secretariat and workshop facilitators. (10 minutes)
2. Why the Extractive Industries Review? Ideas about a process with results. Mr. Bernard Salome of the EIR-Secretariat. (15 minutes)
3. Objectives, expected results and methodology of the workshop. Mr. Dirk Jung, Facilitator from Denkmodell (10 minutes)
4. Questions and Answers (15 minutes)
5. Who are the participants? Where do they come from and who do they represent. (25 minutes)

10.45 – 11.15 Coffee Break - Salon Bourgmestres (2nd Floor – Lift B)

11.15 – 12.45 Break out groups: Identify questions that should be discussed during the Regional workshops in Eastern Europe/Central Asia, Latin America/Caribbean, Asia/Pacific and Africa. Each participant is asked to join one of the four groups:

1. Civil Society (Ms. Sybil Duemchen) - Break-out room 1 (Einstein, 1st floor – lift A)
2. Government (Ms. Ina-Marlene Ruthenberg) - Break-out room 2 (Marie-Curie, 1st floor – Lift A)
3. Business (Mr. Ulrich Erhardt) - Break-out room 3 (Caruso, 6th floor – Lift B)

In a moderated discussion each group will develop and "filter" 3 central and guiding questions that its members consider essential to be explored during
the regional workshops.

Methodology: For consistency purposes all regional workshops should deal with comparable questions. This has to be carefully balanced with the need to be region-specific. Given the limited time of three days per regional workshop, it is important to set a clear focus on selected issues and topics. The objective of this working step is to develop a list of 12 questions that participants recommend for the 4 regional workshops reflecting the different stakeholder perspectives.

12.45 – 14.00 Lunch - Salon Bourgmestres (2nd floor – lift A)

14.00 – 15.30 Plenary: Presentation of results of group discussions to Prof. Dr. Emil Salim and the EIR Team – Salon Langevin (1st floor – Lift A)

Methodology: The 12 priority questions (3 questions x 4 groups) will be presented and discussed in the plenary. Consensus and differences among the groups will be explained. All questions will be accepted and considered for the design of the regional workshops.

15.30 – 16.00 Coffee Break - Salon Bourgemestres (2nd floor – Lift A)

16.00 – 18.00 Information Marketplace – Salon Langevne (1st floor – Lift A)

This event will be organized like a trade fair or a market-place where participants can be exhibitors and visitors at the same time. This is an opportunity to exchange information freely about their organizations and activities.

Methodology: The objective of this working step is to provide organized space for stakeholder representatives to showcase information they bring to the process. This can be information material, studies, documentaries, posters, or simply cards put at the pinboard.

19.30 Cocktails and Dinner - Salon Bourgmestres (2nd floor – Lift A)

Tuesday, October 30th

09.00 – 10.30 Breakout Groups: How to organize the EIR process?

Proposed topics are:
1. How can we assure credibility and relevance of the EIR process? (Do what to do or not) - Break-out room 1 (Einstein, 1st floor – Lift A)
2. Selection criteria for participants of the regional workshops – Break-out room 2 (Marie-Curie, 1st floor – Lift A)
3. Special issues and concerns voiced during the workshop - Break-out room 3 (Caruso, 6th floor – Lift B)

10.30 – 11.00 Coffee Break - Bar Excelsior (Basement)

11.00 – 12.30 Plenary: Presentation of group results to Prof. Dr. Emil Salim and the EIR Team - Salon Ambassadeur (Basement)
12.30 – 14.00 Lunch - *Salon Arthur Rubinstein (Ground Floor)*

14.00 – 15.30 1. Shall we organize special preparation workshops for Community Based Organizations for each Regional Workshop?
2. Space for lingering questions.
3. Concluding remarks by Prof. Dr. Emil Salim.
### Participants

<table>
<thead>
<tr>
<th>NAMES</th>
<th>Affiliation/Address/Email</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr. Peter</td>
<td>Acquah</td>
</tr>
<tr>
<td>Ms. Motoko</td>
<td>Aizawa</td>
</tr>
<tr>
<td>Mr. Clive</td>
<td>Armstrong</td>
</tr>
<tr>
<td>Mr. James</td>
<td>Bond</td>
</tr>
<tr>
<td>Mr. Henry</td>
<td>Brehaut</td>
</tr>
<tr>
<td>Mr. Keith</td>
<td>Brewer</td>
</tr>
<tr>
<td>Mr. Marc</td>
<td>Brykman</td>
</tr>
<tr>
<td>Mr. Howard</td>
<td>Chase</td>
</tr>
</tbody>
</table>

- **Mr. Peter Acquah**  
  CLEIAA Facilitator (Africa)  
  P.O. Box CT3541  
  Cantonments  
  Accra, Ghana  
  Email: acquah@africaonline.com.gh

- **Ms. Motoko Aizawa**  
  Policy and Strategy Advisor  
  Environmental and Social Department (IFC)  
  2121 Pennsylvania Avenue, NW  
  Washington, DC 20433, USA  
  Email: Maizawa@ifc.org

- **Mr. Clive Armstrong**  
  Principal Economist  
  Oil, Gas and Chemicals Department  
  Joint World Bank/IFC Department  
  2121 Pennsylvania Avenue, NW  
  Washington, DC 20433, USA  
  Email: Carmstrong@ifc.org

- **Mr. James Bond**  
  Director  
  Mining Department  
  Joint World Bank/IFC Department  
  2121 Pennsylvania Avenue, NW  
  Washington, DC 20433, USA  
  Email: Jbond@worldbank.org

- **Mr. Henry Brehaut**  
  Chairman  
  World Alliance for Community Health  
  26 Pinehurst Crescent  
  Toronto, Ontario, M9A 3A5  
  Canada  
  Email: hbrehaut@sympatico.ca

- **Mr. Keith Brewer**  
  Director General  
  Economic and Financial Analysis Branch  
  Minerals and Metals Sector  
  Department of Natural Resources  
  9th Floor, 580 Booth Street  
  Ottawa, Ontario, Canada K1A 0E4  
  Email: kbrewer@nrcan.gc.ca

- **Mr. Marc Brykman**  
  Head of European Union Liaison  
  Shell International Ltd  
  Cantersteen 47 - 1000 Brussels  
  Belgium  
  Email: Marc.M.Brykman@ope.shell.com

- **Mr. Howard Chase**  
  Director of International Affairs  
  BP America  
  1776 - I Street, NW  
  Suite 1000  
  Washington, DC 20006, USA  
  Email: chaseh@bp.com
| Mr. Marcus Colchester | Director, Forest Peoples Programme  
World Rainforest Movement  
Forest Peoples Programme  
1c Fosseway Business Center  
Stratford Road, Moreton-in-Marsh  
GL56 9NQ, UK  
Email: marcus@fppwrm.gn.apc.org |
|----------------------|----------------------------------------------------------------------------------|
| Mr. James P. Cooney  | General Manager, Strategic Issues  
Placer Dome Inc.  
P.O. Box 49330 Bentall Station,  
Suite 1600 - 1055 Dunsmuir St.  
Vancouver, BC V7X 1P1  
Canada  
Email: Jim_Cooney@placerdome.com |
| Mr. Jürgen Cuno      | Assistant Director, European Government Affairs  
BP Europe  
Les Qatre Bras  
Mechelsesteenweg 455  
Chaussée de Malines  
1950 Kraainem, Belgium  
Email: cunojw@bp.com |
| Mr. Luke Danielson   | Project Director  
Mining Minerals Sustainable Development  
International Institute for Environment and Development  
1a Doughty Street  
London, WC1N 2PH, UK  
Email: Luke.Danielson@iied.org |
| Mr. Oronto Douglas   | Friends of the Earth International  
33 Islington High Street  
London N19LH United Kingdom  
Email: eluan@infoweb.abs.net |
| Ms. Cholpon Dyikanova| National Manager  
Community Business Forum  
Room 213A  
237 Ul. Panfilora  
Bishkek, 720040  
Kyrgyz Republic  
Email: Cholpon-cbf@elcat.kg |
| Ms. Adriana Maria Ef唳mie| Director  
Project Implementation Unit  
National Agency for Mineral Resources (NAMR)  
36-38 Mendeleev Street, Sector 1  
Bucharest, 70169, Romania  
Email: eftimie@namr.ro |
| Mr. Peter Eggleston  | Group Coordinator for Sustainable Development  
RIO TINTO  
6 St. James Square,  
London SW1Y 4LD, UK  
Email: Peter.Eggleston@riotinto.com |
<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Address</th>
<th>Email Address</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr. Carlos Saravia Frias</td>
<td>Subsecretario de Energia y Mineria Secretaria de Energia y Minas Ministerio de Economia 651 Avda Julio A. Roca Buenos Aires, Argentina</td>
<td><a href="mailto:Csarav@mecon.gov.ar">Csarav@mecon.gov.ar</a>, <a href="mailto:Pschun@mecon.gov.ar">Pschun@mecon.gov.ar</a></td>
<td></td>
</tr>
<tr>
<td>Mr. Arvind Ganesan</td>
<td>Director, Business &amp; Rights Human Rights Watch 1630 Connecticut Avenue, NW Suite 500 Washington, DC, 20009, USA</td>
<td><a href="mailto:ganesaa@hrw.org">ganesaa@hrw.org</a></td>
<td></td>
</tr>
<tr>
<td>Mr. Gino Govender</td>
<td>Industry Officer Mines and Energy Sectors ICEM Avenue Emile de Beco, 109 Brussels 1050, Belgium</td>
<td><a href="mailto:Gino.Govender@icem.org">Gino.Govender@icem.org</a></td>
<td></td>
</tr>
<tr>
<td>Mr. Alan Grant</td>
<td>Executive Director International Association of Oil &amp; Gas Producers (OGP) 25/28 Old Burlington Street London W1S 3AN, UK</td>
<td><a href="mailto:alan.grant@ogp.org.uk">alan.grant@ogp.org.uk</a></td>
<td></td>
</tr>
<tr>
<td>Mr. John Groom</td>
<td>Senior Vice President Safety Health and Environment Anglo American 20 Carlton House Terrace London SW1Y 5AN, UK</td>
<td><a href="mailto:Jgroom@angloamerican.co.uk">Jgroom@angloamerican.co.uk</a></td>
<td></td>
</tr>
<tr>
<td>Ms. Emmy Hafild</td>
<td>Walhi Indonesia</td>
<td><a href="mailto:emmy@walhi.or.id">emmy@walhi.or.id</a></td>
<td></td>
</tr>
<tr>
<td>Mr. Jay Hair</td>
<td>Secretary General International Council for Mining and Metals (ICMM)</td>
<td><a href="mailto:Jayhair@aol.com">Jayhair@aol.com</a></td>
<td></td>
</tr>
<tr>
<td>Mr. Simon D. Handelsman</td>
<td>Global Issues Advisor (natural resources &amp; finance) 609 West 114th Street, #61 New York, N.Y. 10025</td>
<td><a href="mailto:sdh@pobox.com">sdh@pobox.com</a>, <a href="http://www.Geocities.com/sdhnyc">http://www.Geocities.com/sdhnyc</a></td>
<td></td>
</tr>
<tr>
<td>Mr. Masnellyarti Hilman</td>
<td>Environment Impact Management Agency Deput IV for Law Enforcement and Environmental Management Gd. Otorita Batam (A) Lt. 6 Jl. DI. Panjaitan, By Pass, Kebon Nanas Jakarta, Timur 13410 Indonesia</td>
<td><a href="mailto:nellhilman@yahoo.com">nellhilman@yahoo.com</a></td>
<td></td>
</tr>
<tr>
<td>Mr.</td>
<td>Petr</td>
<td>Hlobil</td>
<td>CEE Bank Watch Network c/o Centre for Energy and Transportation Krátká 26, 100 00 Prague 10, Czech Republic Email: <a href="mailto:petr.hlobil@ecn.cz">petr.hlobil@ecn.cz</a></td>
</tr>
<tr>
<td>-------------------</td>
<td>---------------</td>
<td>--------------------------</td>
<td>-------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Mr.</td>
<td>Norman</td>
<td>S. Jennings</td>
<td>Senior Industrial Specialist International Labour Office 4, route des Morillons CH-1211 Geneva 22 Switzerland Email: <a href="mailto:Jennings@ilo.org">Jennings@ilo.org</a> Web: <a href="http://www.ilo.org">http://www.ilo.org</a></td>
</tr>
<tr>
<td>Mr.</td>
<td>Stephen</td>
<td>Kretzmann</td>
<td>Campaigns Coordinator Sustainable Energy and Economy Network (SEEN) Institute for Policy Studies 733 - 15th Street, NW # 1020 Washington, DC 20005 Email: <a href="mailto:Steve@seen.org">Steve@seen.org</a></td>
</tr>
<tr>
<td>Ms.</td>
<td>Juana</td>
<td>Kuramoto Huamán</td>
<td>Grupo de Análisis para el Desarrollo (GRADE) Avenida del Ejercito 1870 San Isidro, Lima 27, PERU Email: <a href="mailto:Kuramoto@grade.org.pe">Kuramoto@grade.org.pe</a></td>
</tr>
<tr>
<td>Ms.</td>
<td>Rachel</td>
<td>Kyte</td>
<td>Senior Specialist to the Ombudsman &amp; Compliance Adviser (IFC/MIGA) 2121 Pennsylvania Avenue, NW Washington, DC 20433, USA <a href="mailto:rkyte@ifc.org">rkyte@ifc.org</a></td>
</tr>
<tr>
<td>Ms.</td>
<td>Beatrice</td>
<td>Labonne</td>
<td>Senior Adviser Department of Economic and Social Affairs – UN Palais des Nations Geneva, Switzerland Email: <a href="mailto:blabonne@unog.ch">blabonne@unog.ch</a></td>
</tr>
<tr>
<td>Mr.</td>
<td>Andres</td>
<td>Liebenthal</td>
<td>Principal Evaluation Officer Coordinator, Environment and Water Operations Evaluations Department OED – World Bank 1818 H Street N.W. Washington DC, USA <a href="mailto:Aliebenthal@worldbank.org">Aliebenthal@worldbank.org</a></td>
</tr>
<tr>
<td>Mr.</td>
<td>Sebastião</td>
<td>Manchineri</td>
<td>Coordinator General Organization of Indigenous Peoples of the Amazon Region (COICA) Luis de Beethoven No. 47-65 y Capitán Rafael Ramos Quito, Ecuador Email: <a href="mailto:Haji@coica.org">Haji@coica.org</a></td>
</tr>
<tr>
<td>Ms.</td>
<td>Ludivine</td>
<td>Mata</td>
<td>Research Officer, European Affairs Total FINA ELF Rue de l’Industrie, 52 B- 1040 Brussels, Belgium Email: <a href="mailto:ludivine.mata@totalfinaelf.com">ludivine.mata@totalfinaelf.com</a></td>
</tr>
<tr>
<td>Name</td>
<td>Title</td>
<td>Organization/Address</td>
<td>Email</td>
</tr>
<tr>
<td>--------------</td>
<td>------------------------------------------</td>
<td>-----------------------------------------------------------</td>
<td>----------------------------</td>
</tr>
<tr>
<td>Mr. Michael</td>
<td>Adviser</td>
<td>Department of Petroleum &amp; Energy</td>
<td><a href="mailto:Michael_mcwalter@petroleum.gov.pg">Michael_mcwalter@petroleum.gov.pg</a></td>
</tr>
<tr>
<td>Mr. Roland</td>
<td>Senior Evaluation Officer</td>
<td>Operations Evaluations Group (IFC)</td>
<td><a href="mailto:Rmichelitsch@ific.org">Rmichelitsch@ific.org</a></td>
</tr>
<tr>
<td>Ms. Margaret</td>
<td>Head of Environment Loss Prevention Department</td>
<td>100 Thames Valley Park Drive Reading RG6 1PT, UK</td>
<td><a href="mailto:Margaret.mogford@bg-group.com">Margaret.mogford@bg-group.com</a></td>
</tr>
<tr>
<td>Mr. Jaff</td>
<td>Global Village Cameroon</td>
<td>B.P. 3499 Yaounde, Cameroon</td>
<td><a href="mailto:jaffnapoleon@yahoo.com">jaffnapoleon@yahoo.com</a></td>
</tr>
<tr>
<td>Mr. Jacques</td>
<td>Director</td>
<td>FENI Industries</td>
<td><a href="mailto:feniindustry@mt.net.mk">feniindustry@mt.net.mk</a></td>
</tr>
<tr>
<td>Mr. Petter</td>
<td>Vice President - Strategy</td>
<td>Norsk Hydro ASA</td>
<td><a href="mailto:Petter.nore@hydro.com">Petter.nore@hydro.com</a></td>
</tr>
<tr>
<td>Mr. Roberto</td>
<td>Directeur Commercial</td>
<td>Mission du Chili auspres de L’Union Européenne</td>
<td><a href="mailto:misue9@misionchile-ue.org">misue9@misionchile-ue.org</a></td>
</tr>
<tr>
<td>Mr. Glenn</td>
<td>Executive Director</td>
<td>Center for Environmental Leadership and Business</td>
<td><a href="mailto:G.Prickett@celb.org">G.Prickett@celb.org</a></td>
</tr>
<tr>
<td>Mr. Jim</td>
<td>Senior Program Manager</td>
<td>Business for Social Responsibility Education Fund</td>
<td><a href="mailto:jrader@bsr.org">jrader@bsr.org</a></td>
</tr>
<tr>
<td>Mr.</td>
<td>Miguel Angel Santiago</td>
<td>Director of External Affairs of ECOPETROL Carrera 13 No. 3624 Piso 8 Bogota, Colombia Email: <a href="mailto:Msantia@ecopetrol.com.co">Msantia@ecopetrol.com.co</a> <a href="mailto:Apreciad@ecopetrol.com.co">Apreciad@ecopetrol.com.co</a></td>
<td></td>
</tr>
<tr>
<td>-----------</td>
<td>-----------------------</td>
<td>----------------------------------------------------------------------------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>Mr. Keith</td>
<td>Slack</td>
<td>Policy Advisor OXFAM America 1112 – 16th Street, NW, Suite 600 Washington, DC 20036 Email: <a href="mailto:Kslack@oxfamamerica.org">Kslack@oxfamamerica.org</a></td>
<td></td>
</tr>
<tr>
<td>Mr. Stéphane Smets</td>
<td></td>
<td>European Union Liaison Adviser Shell International Ltd Cantersteen 47 - 1000 Brussels Belgium Email: <a href="mailto:Stephane.S.Smets@ope.simis.com">Stephane.S.Smets@ope.simis.com</a></td>
<td></td>
</tr>
<tr>
<td>Mr. Peter Smith</td>
<td></td>
<td>Environmental Engineering &amp; Geosciences Adviser Infrastructure and Urban Development Department Department for International Development 94 Victoria Street London, SW1E 5JL, UK Email: <a href="mailto:P-Smith@dfid.gov.uk">P-Smith@dfid.gov.uk</a></td>
<td></td>
</tr>
<tr>
<td>Mr. Ian Thomson</td>
<td></td>
<td>Principal Social Issues in Resource Development 2170-1050 West Pender Street Vancouver BC, Canada V6E 3S7 Email: <a href="mailto:rockdoc@direct.ca">rockdoc@direct.ca</a></td>
<td></td>
</tr>
<tr>
<td>Ms. Monika Weber-Fahr</td>
<td></td>
<td>Senior Economist Mining Department Joint World Bank/IFC Department 2121 Pennsylvania Ave Washington, DC 20433 Email: <a href="mailto:Mweberfahr@worldbank.org">Mweberfahr@worldbank.org</a></td>
<td></td>
</tr>
</tbody>
</table>

**Facilitators**

<table>
<thead>
<tr>
<th>Ms. Sybil Dümchen</th>
<th>Denkmodell</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr. Ulrich Erhardt</td>
<td>Denkmodell</td>
</tr>
<tr>
<td>Mr. Dirk Jung</td>
<td>Denkmodell</td>
</tr>
<tr>
<td>Ms.</td>
<td>Name</td>
</tr>
<tr>
<td>--------------</td>
<td>--------------------</td>
</tr>
<tr>
<td>Julia</td>
<td>Gritzner</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Roberta</td>
<td>Lovatelli</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Chandra</td>
<td>Priususilo</td>
</tr>
<tr>
<td>Kirana</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Ina-Marlene</td>
<td>Ruthenberg</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Emil</td>
<td>Salim</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Bernard</td>
<td>Salome</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Annex 3

Transcript of Prof. Dr. Salim’s welcome speech

Emil Salim:

Good morning ladies and gentlemen. I was currently asked by the World Bank to conduct an extractive industries review. Based on that, they asked me whether I am willing to do the job. In that discussion I asked him for five points.

Point one is independence: that I am fully independent to do my job as I think would be well do to do. Now I am working at independence in terms of budget. So, in this meeting we will have a discussion with the World Bank leadership on exactly how much (this I don’t know yet) and for what the budget will be allocated. The amount is 1.5 million dollars from the World Bank, 1.5 million dollars from the North Region and 0.1 million from Germany. The total is 3.1 million dollars. So, I am working today with a friend from the World Bank on the allocation of the budget. But I feel that independence requires an independent management of the budget, free from the World Bank. So, allocation of resources by the World Bank is point one. Independence is also required from how to do the work, regional consultation, the work that is being done, where it will be done, who will be doing this, that must be free from the World Bank determination or judgement. So, the first principle is independence.

And then the second principle comes that independence will be achieved if there is trust. So, I asked the World Bank to trust me as well as I trust them, but in that trust, it is also important that in my job of doing this review I must have the trust from the business, from the civil society and from the governments. So, it is important for the group that the World Bank Group trusts me in this job, that the business trusts me, that I am not tending to kill the business, certainly that I am not ignoring the civil society, that I am trying to articulate the civil society’s interest and that I am also taking into account the interest of the governments, where the activity of development takes place. So, trust is the base. If there is no trust in me, then forget about it, then I better pack my bags and leave the job.

My third point is, that to have that trust, inclusiveness is important. All four must participate on equal basis. It does not mean that the business is more important than the Civil Society, or that the World Bank is more important than the government. All must have an equal opportunity to join and I want equal opportunity from all, meaning inclusiveness in this deliberation. It is this as a background, why this meeting consists of four groups: the business, the civil society, the World Bank Group and the government. Maybe the quantity representation may not be equal but it is the quality that I want, and therefore in the matter of conducting the job, I asked for a planning workshop first and in conducting the planning workshop, it will be one in which everyone is on an equal basis. So, that was the other principle. Trust and inclusiveness and that everyone joined together to help me in trying to map out how to move forward in this review.
There is a need for a bottom-up approach regional consultation. It is not a show. I don’t want a show. I hate shows. I want to know where should be the difference is policy in Latin America, compared with Africa, compared with Central Asia, and Asia itself. So, we must know what is the unique thing, what is the proper emphasis on the policy, why is the mining project being developed and yet poverty increases. Why is the mining project being developed and yet the environment has been deteriorated. What is wrong in the way the development is taking place? And we need to be frank about this not hiding behind, that we are doing well, development is good and so on. I want to look forward. I don’t want to look backward.

I want that in the 21st century, if the World Bank is opening in this field, that the goal is to develop on a sustainable basis, economic sustainability, social sustainability, as well as environmental sustainability. Economic sustainability means that the mining sector, oil and gas should not create a yoyo economy, so that this economy goes up and down, up and down, and therefore killing those specifically weak. Second it must be socially sustainable, that means that there must not be a reason, that because of this development the population is pushed out, marginalized, that you kill the spiritual, cultural environment of the social community where this activity is being done. And third it must be environmentally sustainable. Mining, oil and gas are non-renewable, depletable resources so at the end of the road, when all these resources will be depleted, what is left over for those after the phase of depletion has taken place? Therefore, sustainable development is important. Therefore a long-term perspective is important.

Fourth is honesty; I want to be honest and I like that we are based on honesty. Therefore, I would like to have direct access to the President and also to the Board of Executive Directors. I want to be clear cut, and not talk behind me. We should be clear cut about what needs to be improved and why it needs to be improved. If it can be done simply with the management, then good. If not, I would like to have direct access to the President and also an opportunity to meet the Board of Executive Directors. And therefore, when the report is being submitted, and the management will accept or not accept the report, then I want to have the opportunity to comment on that report, so that you and I will know where I succeeded and where I failed.

The fifth principle is transparency. I will be open to you, open to the civil society, open to all and therefore we have opened a website, because transparency is the key of knowing what should and what must be done. These are the principles that I have submitted to the office. I am happy to say that he agrees. But of course, when you agree, by saying so, you still have to work hard in implementing it, in the World Bank management group, in the IFC, in the business and in the civil society. So, here I stand at the beginning of the line, when we are doing the Extractive Industries Review, as mining, oil and gas.

Of course, there is always the question, why are we doing it? Because in all the deliberation, we have documentation on climate change, forests, seas but under the ground we have nothing. There are a lot of studies but there is no agreement between governments. How can we save the depletable resource for future generations? So, I see a big hole in this field. A lot of studies have been done, book reports are available, but
where are the documents in which the government is tied up in the convention on this? What are the obligations of the government in managing resources that are depletable, so that the future generations are not worse off because of depletable resources? So, we are at the road of trying to put extractive industries on the road of sustainable development. I don’t know yet how, what will be the outcome. I am an economist and I don’t know a damn about mining, I don’t know anything about oil and gas. I am by training an economist. And therefore, I need your help. The help of all business, civil society, governments, experts, World Bank Group so that the strategy, the orientation, so that the approach is inclusiveness, open, transparent. Shall there be disagreement, okay let there be disagreement. But let’s make clear what we disagree about and how to overcome the disagreement. Therefore I ask for your help, this is a Planning Workshop and I invite all of you to participate, I start with a blank page, I don’t know what to do tomorrow and you will determine that. Thank you. May God bless you!
Annex 4

The Stakeholder Universe

- Develop Contact Database
- OGM departments
- Solicit suggestions from Region
- Solicit suggestions from Participants of

List of Participants
- Concept
- 40 Participants
- 40

- Public
- Private
- Insuran
- Consultants
- Private Banks
- North NGOs
- CBOs
- South NGOs
- NGOs
- Gender
- Human rights
- Indigenous People
- Artisan Mining
- Governance
- Environment
- AFFECTED COMMUNITIES

- Export Credit Agencies
- Major
- Junior
- North
- South
- Bilateral
- Multilateral
- Aid Agencies
- North
- South
- OIL
- GAS
- MINES

- Business
- Government
- WBG
- Civil Society
- WBG

- Task manager
- Global Product Group Depts.
- Bilateral
- Multilateral
- UN Family
- Bilateral
- Multilateral
- UN Family

- Clarify what is governance:
  - >corruption
  - >economic impact
  - >human rights

- How many stakeholder groups do we

- Priority to CBOs representing affected
  - Balance between oil, gas & mining

- Each stakeholder group have same share of people

- Balanced stakeholder representativit
Annex 5
Monika Weber-Fahr’s Power Point Presentation

What the World Bank Group does in the Extractive Industries

The World Bank Group

IBRD
Finance reform: development projects

IFC
Lend for/invest in private projects

IDA
Finance for the poorest countries

MIGA
Guarantees against country risk

The WBG is in the “development business” – and in the extractive sector for this reason

Opportunities for developing countries through extractive industries

- Fiscal impact / foreign exchange can generate income for investments in social infrastructure
- Income: Direct employment and growth of SMEs
- Local economic development: transfer of skills, training, public services (water, energy) and social services (education)
- Input for industry and source of affordable energy - in particular in countries with severe winters and no other lifeline for heating

Risks for developing countries through extractive industries

- Aboriginal issues: Impact on indigenous peoples
- Health/Human Development: Risks to poor worse than others
- Governance / Corruption: Prone to inefficiencies when state owned
- Macro-economic Management: Financial flows can distort economy
- Socio-cultural impact and disruptive living conditions for poor
- Mine closures or barriers to economic restructuring: Can add to poverty

Mission Statement

World Bank Group
... to fight poverty with passion and professionalism for lasting results

IFC
... to promote private sector investment in developing countries which will reduce poverty and improve people’s lives

MIGA
... to promote foreign direct investment into emerging economies to improve people’s lives and reduce poverty

Developing Extractive Industries: Where the Private Sector takes over
The “Global Product Groups” in the World Bank Group

- Sovereign Loans
- Advisory Services
- Partial risk guarantees
- Direct project loans
- Loan syndications
- Mezzanine financing
- Equity participation

Working towards a “Policy Project”: Dialogue with Government is key

- Comprehensive Development Framework (CDF) for Country X
- Country Assistance Strategy (CAS)
- Government Priorities
- WBG Analysis
- Country Assistance Strategy (CAS)
- Govt., WB, key stakeholders
- Env. and social due diligence
- Monitored by WB
- Mining Sector Analysis
- Design of, eg. Institutional Reform
- Approval by Board
- Implementation by Government
- If Final Agreement
- If things go wrong:
  - Inspection Panel

Working towards a “Transaction”: Private Sector Demand is key

- CAS country priorities
- Financial due diligence
- Technical due diligence
- Private sector considerations
- Development impact
- Policy issues
- Environmental diligence
- Social due diligence
- Monitoring by IFC
- If things go wrong:
  - Ombudsman

The World Bank’s “non-project” work: Initiatives, partnerships, research

- Example of “Non Lending and Advisory Services”
- Investment conferences and Roundtables:
  - Vietnam, China, Kazakhstan, Indonesia, Ghana
  - Conferences and research on key topics:
    - Finance & Sustainability, Mine Ministers’ Forum, Mining the Community, Mining Tourism
    - Partnerships and Outreach
      - Small scale mining, New Ventures
    - Business Partnerships for Development
- Best Practice Group on Social Mitigation, Energy, Environment and Regulation Projects
- Investment conferences, Roundtables and research on key topics:
  - World Bank Oil and Gas Forum, Reform Strategies & Private Partnerships in the Oil and Gas sector – training seminar, Workshop – China Oil and Gas sector reform, Workshop on Governance and Oil Revenue Management, Africa Gas Initiative, Natural Gas Private Sector Participation and Market Development, Cleaner Transport Fuels in Central Asia and Caucasus, Natural Gas Portfolio Prioritization in the Hydrocarbon sector

World Bank Group – Involvement in the Sector

Involvement in the Sector in numbers

- Lending by Sector 2000

Questions & Answers

Extractive Industries are only a small share of IBRD/IDA Lending


Multisector

- Environment 3%
- Private sector development 1%
- Oil and natural gas 5%
- Telecommunications 1%
- Health, nutrition & population 6%
- Social protection 7%
- Agriculture 7%
- Electric power and energy 6%
- Urban development and management 15%
- Environmental 6%
- Education 12%
- Water supply and sanitation 6%
- Transport and communications 1%
- Mining 1%
- Public sector management 13%
- Health, nutrition & population 6%
- Social protection 7%
- Agriculture 7%
- Electric power and energy 6%
- Urban development and management 15%
- Environmental 6%
- Education 12%
- Water supply and sanitation 6%
- Transport and communications 1%
- Mining 1%
- Public sector management 13%
- Extractive Industries are only a small share of IBRD/IDA Lending

Lending by Sector 2000 Total = $15.3 billion

- Energy 4%
- Transport and communications 1%
- Mining 1%
- Public sector management 13%
... and make up about 7% of IFC’s committed portfolio. Total: $14.321 billion (FY2001) (for IFC’s own account; in addition, $7.530 billion committed for others).

While a small number of large projects influenced the overall program of IDA/IBRD ... *Mine Closure projects in Russia, Ukraine, Poland, Hungary.

... WBG involvement in the sectors changed much over the past seven years ...

... while involvement of private sector activities increased over time ...

... and project objectives of IBRD/IDA projects evolved.
Annex 6

Complete list of questions identified by the group ‘Business’

1) How can the WBG in its project assessments ensure or promote a more effective engagement between companies & civil society

2) How could the WBG integrate the efforts of government, industry and civil society to better use the benefits of extracting industry in order to meet the objectives of sustainable development?

3) How can the WBG be more responsive to the development needs of its client countries and its citizens?

4) How could WBG investments in extractive sector be structured in order to improve their contribution to sustainable development (i.e. governance / capacity)?

5) What conditions are necessary for Community Based Organizations and NGOs to engage in partnerships with oil, gas and mining companies?

6) Given that past performance by industry and WBG demonstrate many shortcomings and little guidance for future practices, the question is how can we move forward on the basis of theories of Sustainable Development in oil, gas and mining with a spirit of experimentation?

7) What would be the consequences of WBG withdrawal from the Extractive Industries for your region?

8) Should involvement of the WBG in any oil, gas and mining project be subject to that project conforming to explicit, comprehensive standards to Sustainable Development? If so, how should those standards be developed? Monitored? Enforced?

9) What can the WBG policies and directives do so that the income produced by exploitation becomes a direct benefit for local communities?

10) How can WBG design a project assessment framework that demonstrates a “net benefit” towards Sustainable Development?

11) How to involve local development tools – formation, incubation (?) into the restructuration (?) of mining companies in Eastern Europe?

12) How can the WBG help to convert extractive resource wealth into local and regional sustainable wealth in developing countries?

13) What can the WBG do to improve Sustainable Development of the sectors in the region?

14) How can the WBG promote a better project assessment and Sustainable Development framework?

15) What are the differential features of investment and impacts of Oil, Gas, Mining? Should they be considered together?

16) Would withdrawal of WBG support exclude certain countries from exploiting their natural resources? Is this equitable?

17) What are major (a) positive and (b) negative contributions that extractives industries have made in your region, country and communities?


19) How are good standards and guidelines to be developed / defined?

20) What are the specific, regional priorities for Sustainable Development? Action by the WBG?

21) What will be the consequences if the projects in your region are stopped?
Complete list of questions identified by the group ‘Government’

1. What would have happened without WBG projects?
2. How could WBG extractive industries money have been better spent?
3. What are the specific errors made by WBG in resource projects?
4. How could WBG have carried out projects in a different, but improved, way?
5. How to ensure a) good governance b) openness and transparency in the extractive industry?
6. What can be done to facilitate a balanced participation of stakeholders?
7. Extractive Industries Project selection – What can be done to equitable choices (Sustainable Development)?
8. What can be done for the Extractive Industries Review to make a difference? Aid better spent
9. What is the economic, social & environmental impact of WBG projects?
10. How to integrate small-scale mining into the extractive sector?
11. How to make extractive industry companies more pro-active in environment management + Sustainable Development issues?
12. How can capacity be improved for better environmental assessment and mitigation of other impacts?
13. What is the purpose of mineral & petroleum resource exploitation in your country?
14. Do we think Extractive Industries will give the revenue compared to the environmental and social impact?
15. How to ensure sound and ‘equitable’ mine closure / transfer of rights?
16. Should existing WBG guidelines be changed?
17. How to ensure social and environmental sustainability of the extractive sector?
18. Business – what are their needs in term of assistance, funds, etc.?
19. Should mining/oil-gas projects be allowed to be financed even if World Bank Group is not involved? How?
20. Civil society – what are the alternatives to deal with their specific problems without WBG assistance?
21. Government – what is the contribution of WBG projects in the extractive industry?
Annex 7

‘Mindmap’ of Section 8

Criteria

v6

Balance within the region
- Resource persons: able + willing to bring case study
  - simultaneous translation
  - assure that material + working language is regional understood

Location
- open for interested groups
  - named by groups
- countries
- experience with different stakeholders
- projects
- only from countries that have O.G.M projects with WBG?

Gender

Representation
- assure broad view -> not all parts of civil society think the same or are represented by NGOs
- self-selection process

Trust in the eminent person when conflict on invitation / participation

Language

not only participation in going to the WS, but also:
-> written / paper
-> virtually / internet
-> also after workshop

who gets financing?
- equal for regions - self organised
- guarantee travel + lodging costs
- priority for communities, + NGOs / civil society
- small companies

What is the number of participants?
different spaces
- open testimony
- special parts for representatives of stakeholder-groups

combination
- invitation
- open

regional committee for preparing to have attendance
- with help from NGO-coordinators in the countries

self selection process - allocate budget
- use existing regional groups + associations

Marketing
- announcement -> public solicitation (newspapers)
- eMail is not enough -> access not assured, inclusiveness not guaranteed / not only internet but direct mailing + fax -> for visa

active secretariat
- on time / ahead
- in person of regional advisor

Preperation

Attendance

Budget

Transparency

Procedures v10
Annex 8

Transcript of Prof. Dr. Salim’s closing remarks

Emil Salim:

When the assignment was given to me, I received letters. Many letters told me to get the World Bank out of extractive industries. Clear-cut. No Go. Out. On the other hand, you noticed the Terms of Reference the first sentence was: The World Bank sees a role, a positive role, to improve extractive industries effort in development. So, you have on the one hand, Get the World Bank Out and on the other, World Bank In.

What does it mean? We are moving into a conflict problem, conflict issue. The question that arises is how do you develop a kind of trust? This model with which we invite Mr. Dirk Jung, Sybil and Ulrich to organize this kind of discussion was actually to lay down the base for developing the trust between people who want to kick the World Bank out or the other group that wants to keep the World Bank in. So the main purpose was trust building. The main purpose was to get the possibility of a process in which the trust building can be developed. That was then one of the main purposes. Of course, the disadvantage is that you don’t go to the substance of the issue. As you notice we emphasize the process, because how can you go to the substance, if there are two opposing groups who have different ideas, but don’t have yet the opportunity to discuss these ideas. That is why the logic was, let’s develop trust, let’s develop process. That is point one.

Then what is the purpose, what is the approach. The approach is not negotiation between A and B. The process is how to have a kind of interest based conflict resolution. You see the major thing I have learned in a nation full of conflict is find out the driving force. Why is A against B or B against A - the driving force. We are taught to develop the interest based conflict resolution. Behind the idea of those who want the World Bank out of this there is a reason. What is that reason? That reason must be understood by the World Bank. On the other hand when the World Bank wants to be still in the extractive industries, that reason must also be understood by the others. Now that is the interest based approach of conflict resolution. In a way that is the spirit and the Denkmodell of Dirk Jung. We ask a lot of him. We will meet a group that is violent against each other, so I was not surprised on the first day when we had a debate and I welcomed that debate, because in Indonesia, if people do not talk while they have a disagreement then there is something wrong. Then it will explode outside the meeting hall. That is why it is necessary to speak up, to bang your fist on the table, to shout, because everybody then knows where is the difference. Amy’s role is to bang her fist on the table. She may be annoying, but that is the way she is. Basically the idea is to find out the driving force that allows A to have the position and B the other position. I am thankful for the Denkmodell the organization was beneficial to create a process that makes this possible.

From here we move forward. The road is long, the budget is short, and the time given also short. The desire, ideally, I would love more time and a bigger budget. Life is not ideal, so you go with what you have. We have to continue our work, but if I see the result, the quality of the product will be negatively affected by time factor, by budget, of
course I will tell the World Bank, we are able to fulfill this, but you will have a second-class result. Let’s see what we can do, let’s move forward first and show what we can achieve. In that context, I really rely on you. You have been here, you know the spirit, you know what is at stake. I, therefore, invite you not to stop at this meeting only. Let’s continue this dialogue through email, through fax, through whatever and tell us how to improve this process, so the deliberation that will follow will be much more helpful and useful.

In the end all of us, whether pro or con the World Bank, I feel all of us have the same goal in mind. That is we all are committed to sustainable development: A development with environmental concentration, a development with social concentration, a development that uplifts the quality of life of the people. Second, we are all committed to poverty eradication. By having the same goal, I feel that can be the integrating factor that can put us together in the cooperative spirit. That is my wish and my hope. Therefore let me invite you to join our effort in this long march from here to the various regional consultation meetings, and at the end we knock at the door …and we present a case that makes the difference of how the World Bank should operate. So we are not making a dissertation, not a paper that is put in the garbage can, but we make all efforts that the ideas that we propose will be accepted. Therefore that strategy must be developed, but with your help and assistance, I am confident we can reach that goal. Thank you. May God bless you.
2. Latin America and Caribbean Workshop
Full Report
The Extractive Industries Review (EIR)

Latin America and Caribbean Regional Workshop

Rio de Janeiro, Brazil
15-19 April 2002

Testimonials and Consultation Report
Notes
The following report on the Extractive Industries Review’s Latin America and Caribbean Regional Workshop, held in Rio de Janeiro from April 15-19, 2002, was prepared by the EIR Secretariat. Its summarizes the views expressed by workshop participants, neither endorsing nor contradicting them.

As in common usage, unless otherwise indicated, use of the terms ‘World Bank’ or ‘the Bank’ refers to the entire World Bank Group. The Bank components principally concerned with extractive industries (the oil, gas and mining sectors) are the International Bank for Reconstruction and Development (IBRD), International Development Agency (IDA), the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA).

Abbreviations
CAO Compliance Adviser and Ombudsman
CEPF Critical Ecosystem Partnership Fund
COICA Coordinadora de las Organizaciones Indígenas de la Cuenca Amazonica
EIR Extractive Industries Review
GDP Gross Domestic Product
IBRD International Bank for Reconstruction and Development
IDA International Development Agency
IFC International Finance Corporation
IPO Indigenous Peoples’ Organization
MMSD Mining, Minerals and Sustainable Development
MIGA Multilateral Investment Guarantee Agency
NGO Non-Government Organization
WBG World Bank Group
Executive summary

Overview
The Extractive Industries Review’s first Regional Consultation Workshop was held in Rio de Janeiro, Brazil, 15-19 April 2002, for the Latin America and Caribbean region. Workshop participants represented government, industry (oil, gas and mining companies) civil society (non-governmental (NGOs), indigenous peoples’ organizations (IPOs) and labor unions), academia, and the World Bank Group itself.

The workshop was divided into two parts: the first comprising of a two-day open forum for civil society testimonials and a voluntary information session with World Bank Group representatives. This was followed by a closed forum for invited participants to present case studies and experiences of World Bank Group sponsored oil, gas and mining projects in the Latin America and Caribbean region.

The workshop discussed three possible scenarios regarding the future role of the World Bank Group in the extractive industries: complete withdrawal from the sector; changing, or modifying, current policies and processes; or expanding and changing to new ones. This led to broad agreement on ten key issues, which formed the basis of action-oriented recommendations for the World Bank Group should they continue to support oil, gas and mining projects. Nevertheless, some areas of dissent and alternative views were also noted. The entire process was guided by a team of facilitators and led by the EIR’s Eminent Person, Prof. Dr. Emil Salim.

Dr. Salim emphasized that the World Bank Group’s performance in the oil, gas and mining sector was judged by its own goal of achieving poverty eradication through sustainable development. Sustainable development meant economic, environmental and social development: increasing the wealth of society, maintaining social harmony and cohesion, and protecting ecosystems. The main issue for the Consultation was how the World Bank Group could balance the relationship between the poor, industry and government.

Civil society testimonials
Testimonials documented the lack of economic growth in Ecuador, the environmental and socio-cultural impacts of oil development in Bolivia, the cultural and social damage sustained by the Mapuche people in Argentina, the impact of trans-national mining companies in Peru, and problems associated with small-scale and artisanal mining in Bolivia.

Subsequent discussions identified nine problem areas: lack of transparency and access to information; lack of dialogue; insufficient consultation processes; lack of participation in decision-making; deficient legal frameworks; unjust distribution of benefits; low job creation; low levels of contract compliance; and insufficient government capacity to address problems. Proposals called for institutional strengthening, proper legal and regulatory frameworks, access to decision-making, and the participation of indigenous peoples. In addition, participants suggested monitoring of environmental, social, and
economic impacts by all groups, open consultations, special programs for artisanal mining, indemnity for ecological debt and the development of international policies for sustainability. The possibility of a moratoria on oil, gas and mining activities should also be considered.

Case studies
Case studies presented positive experiences of the Mining, Minerals and Sustainable Development (MMSD) project in Latin America, a new model for development regions used in connection with oil extraction in Columbia, and an example of oil industry best practice in Casanare, Columbia.

Positive experiences
Comments on the MMSD project underlined its conclusion that the region was conscious of the need to develop mining but also to improve the performance of all the sector’s stakeholders. The MMSD work showed it was not the case that industry and civil society had completely separate visions: there were many common positions between the players. Many were in favor of mining, even within the indigenous community, provided it was well done, commented one member of the MMSD team. The problem was that local communities did not always have the knowledge to participate. However, one lesson from the MMSD project was that even some interested parties have the perception that the extractive industries have not contributed sufficiently to local development.

A government report on the successful program in Columbia’s Magdalena Medio region showed that World Bank inputs had been essential for developing the extractive economy in Columbia. It showed there was a way to reverse the trend of resource-rich areas having the poorest welfare indicators and that there could be a model for reversing the increase of poverty in areas not benefiting from oil investments.

A comprehensive study on the economic, social and cultural impacts of a copper and gold mine in Argentina on a community, revealed contrasting perceptions of extractive industry activity. Mining, it concluded, had had a positive developmental impact, and protests were focused more against the local government than the company involved.

Negative experiences
Other case studies on mining were more negative. These included the economic, social and environmental impacts of mining in Peru; mining impacts on indigenous people in Argentina; the threat extractive industries posed to biodiversity in Peru and Bolivia; and mining in Chile.

A case study by a Bolivian NGO reported on a project aimed at assessing the environmental and social impacts of small-scale miners on the Vilacabamba-Amboro corridor. The study revealed the need for environmental legislation in Argentina to better protect impacted communities and ensure their participation in the drafting of relevant legislation. A Bolivian foundation attributed its own achievements to effective legislation in Bolivia and an entire environment that favored mining and benefited civil society.
The working group concluded that there was a need to distinguish between existing damage and anticipated damage in the future i.e. avoidable. Governments had a responsibility to mitigate existing damage, but did not always face up to their liabilities.

**Common understanding**

Three topics dominated subsequent discussions: what should be the World Bank’s role in achieving greater levels of sustainable development, and how could they facilitate positive, rather than negative, impacts?

In the framework of the Bank’s activities, there was a common understanding of the triangular relationships between civil society, government and industry, and between economic, environmental and social impacts. Suggestions for the World Bank to promote greater levels of sustainable development ranged from developing rules and providing training for participatory and consultative processes, to institutional financing for strengthening indigenous people’s organizations. It was recommended the Bank persuade companies it worked with to listen more attentively to the concerns of civil society and affected local communities.

To facilitate positive impacts, the Bank was invited to take steps to ensure the benefits from extractive activities reached the relevant communities. Some negative impacts could be avoided by increasing the transparency of its consultations, promoting the community voice and encouraging the social responsibility of business.

The Eminent Person drew attention to the dilemmas facing the Bank in cases when there was imperfect governance and benefits did not filter to the poor. Where there was poverty, the Bank should participate to ensure development was sustainable and that civil society were empowered.

**World Bank Presentations**

Presentations by the World Bank Group underlined the Bank’s fundamental role as a development organization. The Bank worked with both governments and the private sector, the latter because it believed a thriving private sector was essential for economic growth and poverty reduction. Staff also explained the Bank’s evolving system of safeguards, its global advocacy of environmental and social standards, and its project cycle.

**Safeguard policies**

The World Bank Group were challenged to demonstrate the effectiveness of their project safeguards, whether extractive industry investments necessarily relieved poverty and contributed to sustainable development, and whether governments could be trusted to transfer revenues to the localities where resources were extracted. It was noted that oil, gas and mining companies were businesses and not normally responsible for resolving social issues. This was the field of public policy.

Other comments pointed to the rising demand for natural resources making the continued involvement of the World Bank important in ensuring sustainable development. Some
offered examples of mining activity which had increased poverty, while others highlighted partnerships between government and industry where mining had improved the quality of life for the community. Bank staff agreed that the different arms of the World Bank Group could be better coordinated to deliver seamless packages of social, environmental and economic assistance.

Specific concerns relating to World Bank Group projects in Latin America and the Caribbean, included its role in activities such as institutional strengthening and technical assistance. Staff were asked about contractual requirements for public consultations, and whether there was a policy to increase the value of extracted materials through local downstream processing. Participants sought information on how progress in relation to poverty reduction and development is measured. Other concerns included how to mitigate past environmental damage, who might cover environmental liabilities after privatization, and the ongoing need for training and education to foster a ‘culture of caring’ in local communities.

Project viability
Bank staff explained that they have to ensure projects are economically viable in all aspects. To evaluate performance, the IFC typically reviewed projects five years after they are approved and assessed them in light of economic indicators. The overall aim was to ensure projects contributed to sustainable development and the Bank ensured communities were consulted on social and environmental matters, particularly for large projects. An example of how the World Bank Group fought poverty was their assistance in reforming the oil sector in Argentina. Along with the IFC’s subsequent support for private investment by local companies and others, the industry became more productive, viable and environmentally friendly.

Three Scenarios
Turning to three scenarios proposed by the Eminent Person, working groups discussed future relations between the World Bank Group and the extractive industries in the case of the Bank’s complete withdrawal from the sector, continuing the status quo, or with an expanded, or modified, role.

If the World Bank Group were to withdraw from the extractive sector, it could pool investments into other projects. But the chances for development in countries with large amounts of natural resources would be limited. Maintaining the status quo was a safe option, but risked industry making a less than full contribution to the United Nations Millennium Development Goals. Under present conditions, civil society had the opportunity to create a knowledge bank for disseminating information; multi-sectoral discussions, such as the EIR, were an opportunity for civil society to have a greater influence on the World Bank Group, than in the countries themselves. With the World Bank Group financing oil, gas and mining projects, some governments may elevate the importance of the extractive industries for achieving sustainable development over other sectors. The risk for governments therefore lay in the tendency of the World Bank Group to reduce its financial contributions to the extractive industries.
Opportunities to change the role of the World Bank Group lay in the support of other stakeholders in their efforts to fight poverty. The Bank could be a leading player in strengthening governance and stimulating the participation of all stakeholders through a common approach. The Bank could improve its image by modifying the way it worked and communicating more effectively with stakeholders. For companies, there would be opportunities to expand financing to small-scale and artisanal mining. Bank technical and financial support to industry could diminish environmental contamination, and with better access to World Bank credit, companies could bring greater benefits to local communities. For civil society, opportunities lay in improving the capacity of all players and ensuring better participation. For governments, increased World Bank activity would be an opportunity to finance more initiatives to develop the extractive sector.

**Broad consensus**

The Eminent Person called for elaboration of ten key issues into action-orientated recommendations for the Latin America and Caribbean region. They should be durable, implementable and deliverable by the World Bank Group if it was to stay involved in the extractive industries. These were:

- **Empowerment of civil society**—setting up equitable decision fora; developing citizens’ capability to participate in project decision-making and study impacts; financing of economic-ecological zoning studies as a means of diminishing conflict.
- **Good governance**—support for clear environmental and social policies; better administration for distributing benefits of extractive industry activities; capacity building; improved flow of information; and access to clean technology.
- **Social and environmental responsibility of business**—as a condition of financing, the Bank could promote better business practice and commitment to environmental and social issues; facilitate dialogue between the various actors and develop performance indicators.
- **Capacity building**—ensure training, and other support, to facilitate tripartite processes between government, industry and civil society; equalize management capacity and knowledge; develop sustainable community alternatives; and facilitate participation of other stakeholders in oil, gas and mining industry monitoring.
- **Small-scale mining**—support for small-scale mining in areas of its formalization; ensure government administration, social and environmental evaluation and monitoring of the sector.
- **Environmental liabilities**—support efforts to clean up past environmental legacies by means of grants for quantitative and qualitative inventories of liabilities; identify technologies to mitigate environmental problems; and prioritize liabilities on the basis of socio-economic and environmental risk.
- **Standards, guidelines and monitoring**—preparation, and wide dissemination, of social and environmental guidelines for mining, in addition to those for small-scale and artisanal mining; empowerment of environmental authorities, and communities; and the introduction of standardized indicators.
- **Conflict management**—obligatory facilitation of conflict management from the start of projects; development of local capacity for resolving disputes; better
communication; and definition of the Bank’s socio-economic standards to all the players involved.

• *Revenue management*—promote equitable distribution of revenues from oil, gas and mining projects; suitable allocation of fiscal revenues from rents, taxes and royalties; devise program to measure impact and stabilize the use of resources.

• *Partnership development*—set-up and support roundtables for tripartite dialogue between civil society, government and industry leading to recommendations that would link all the parties; follow-up, and participative monitoring, of socio-cultural and environmental impacts.

**Working together**

At the close of the workshop, Dr. Salim recognized the conflicts of interest existing between all stakeholders: the demand of civil society for impacted people to be treated with dignity; industry’s view that its efforts supplied the revenues that could be used for poverty reduction; the governments’ position that they were elected and yet accountable to their parliaments for the allocation of the necessary resources; and the World Bank Group’s own financial constraints. The meeting had, however, brought the stakeholders into one room and started the debate: tensions were lower, some trust had developed and there was agreement that all parties should work together.

**Post-Consultation Statement from Civil Society**

Following the Consultation, a statement from some civil society participants (including indigenous peoples’ representatives) highlighted issues concerning the workshop itself and whether or not the extractive industries had contributed to poverty alleviation in the region.

The statement criticized the Consultation for its limited focus, unequal participation (what was seen as an overwhelming number of participants from the oil and mining sectors) and imbalanced access to information. In their view, this had precluded a proper analysis of the issues. On the substantive side, there should have been more focus on the unfair distribution of extractive industry wealth and whether it contributed to economic development and relieved poverty.

The dissenting group recommended that the EIR’s focus be expanded to ensure a comprehensive understanding of the economic, social and environmental consequences of development through extractive activities. In their view, the World Bank Group had not been able to prove that the extractive industries contributed to poverty alleviation. Therefore, it should redirect its investments to other sectors, and reorient its development policies toward activities that had a greater impact on poverty alleviation, such as education and health, sustainable agriculture and tourism. Given the negative economic, social and environmental impacts, this view rejected all efforts to indiscriminately expand oil, gas and mining activities in Latin America and the Caribbean.

**Overwhelming impacts**

Indigenous community representatives underlined the overwhelming social, cultural, economic and environmental impacts of the extractive industries for which there had to
be indemnity. There were no standards and procedures to guarantee prior consultation, and their right to participate in decision-making. There were also no policies and procedures to guarantee that communities benefit from profits generated by the extractive industries, and that these contributed to the development of their communities and to poverty alleviation. Indigenous peoples’ participation in tripartite dialogue did not meet the basic principles of equity, given their unequal standing, not only financially but in terms of capacity vis-à-vis government and the industry. Extractive activities in indigenous territories also threatened biodiversity conservation and ancestral traditions, which were guaranteed by other international instruments such as the International Labor Organization's Convention 169 on Indigenous and Tribal Peoples in Independent Countries, as well as the Biological Diversity Convention. The World Bank had also not followed the policies and processes for indigenous peoples as recommended in the revision of the World Bank’s Indigenous Peoples’ Policy (Operational Directive 4.20).
Contents

Notes
Abbreviations and acronyms
Executive summary

1. Introduction

Open Forum
2. Welcome from Eminent Person Prof. Dr. Emil Salim
3. Testimonial Presentations
   Contribution of the extractive industries to development
   Dialogue and consultation
   Environmental and socio-cultural impacts
   Social Impacts on the Mapuche People
   Impact of transnational mining companies
   Small scale and artisanal mining

4. World Bank Voluntary Information Exchange
   The World Bank and development
   Working with governments
   Working with the private sector
   Project safeguards
   Global advocacy
   Questions and answers

Consultation
5. Keynote Speech by Prof. Dr. Emil Salim
6. Extractive Industries Review Process
7. Case Studies: Environmental, Social and Economic Impacts of Oil, Gas and Mining Projects
   MMSD project in South America and development zones for extractive economies
   Environmental legislation and oil policy
   Mining in Peru
   Threats to biodiversity and an example of sustainable development from mining
   Monitoring economic, social and cultural impacts (Argentina)
   Best practice Casanare
   Small hydroelectric plant for a mine
   General discussion

8. World Bank Investment and the Project Cycle in Latin America and the Caribbean
Extractive industries projects in Latin America
Questions and comments

9. **Three Scenarios**
   - Complete withdrawal
   - Continuing the status quo
   - Expansion and change
   - Plenary discussions

10. **Areas of Consensus**

11. **Closing Remarks by Prof. Dr. Emil Salim**

Annexes
1. Post-Consultation Statement from Civil Society
2. Workshop agenda
3. List of participants

Further information on the EIR website (www.eireview.org)
1. Transcript of Prof. Dr. Salim’s welcoming address
2. Transcripts of testimonies of local and indigenous communities
3. Transcripts WBG voluntary information presentations
4. Transcripts of environmental, social and economic impact case studies
5. Transcript of Prof. Dr. Emil Salim’s keynote speech
6. Transcript of WBG plenary presentations
7. Information market place participants
1. Introduction

The Extractive Industries Review (EIR) Regional Consultation Workshop for Latin America and the Caribbean, was convened in Rio de Janeiro, Brazil, April 15-19, 2002. This was the first of four regional multi-stakeholder workshops to discuss the role of the World Bank Group in the extractive industries. The agenda for the workshop was to analyze the involvement of the World Bank Group in the oil, gas and mining sectors of the region and whether these activities were compatible with their overall mission of poverty reduction and sustainable development. Approximately 85 participants attended the workshop representing civil society (non-government organizations, indigenous peoples’ groups, and labor unions), government, industry, academia, and the World Bank Group itself.

The formal three-day consultation was preceded by a two-day open forum for civil society testimonials (chapter 3) and a voluntary information session with World Bank Group representatives (chapter 4). Provision was also made for an ‘Information Market Place’, where participants had an opportunity to exhibit information on the work of their organizations. The subsequent workshop sessions were closed to participants who had been invited or ‘self-selected’, and featured case studies from stakeholders on the social, economic and environmental impacts of oil, gas and mining projects in Latin America and Caribbean (chapter 7), and presentations from the World Bank Group on its procedures, safeguards, and standards for extractive industry projects in the region (chapter 8). This set the scene for developing three possible scenarios for a future World Bank Group role: complete withdrawal from the extractive sectors; continuing with the status quo; or expanding, and changing, the Bank’s involvement (chapter 9). During its final stages, the consultation discussed ten key issues as the basis for a set of action-oriented recommendations for the World Bank Group (chapter 10).

The entire process was guided by the Extractive Industries Review’s Eminent Person, Prof. Dr. Emil Salim. Dr. Salim will use the conclusions of the Consultation as inputs for the final EIR report, to be presented to the World Bank Group President, James D. Wolfensohn, in September 2003. In line with the EIR mandate, note was taken throughout the workshop of dissenting views, which will be taken into account in the final report.

Additional material from the Rio de Janeiro consultation, including the case studies, testimonials and World Bank Group presentations, together with other background information, can be found on the EIR website: www.eireview.org
2. Welcome from Eminent Person Prof. Dr. Emil Salim

Welcoming participants to the open forum of the workshop, Dr. Salim introduced the testimonials as an opportunity to discuss the community experience of extractive industry developments. The development of natural resources by extractive industries, inevitably competed with the needs and interests of others. The question was how to exploit these natural resources to benefit society as a whole. The World Bank Group had established the EIR to assess whether this was being achieved and ensure the goal of poverty eradication through sustainable development was met.

Three pillars of sustainable development

Sustainable development had three pillars: economic, social and environmental sustainability. Economic sustainability meant increasing the welfare of society by reducing poverty, increasing living standards and the quality of life for all. Social sustainability meant protecting the fabric of society, ensuring social harmony existed, and social cohesion was maintained. Environmental sustainability meant ensuring the proper functioning of ecosystems, limiting pollution and protecting renewable resources, like plants, fauna and flora. Through sustainable development the World Bank aimed to eradicate poverty and disease, provide education, sanitation, and improve living standards. This had not been achieved in the past because sustainable development had not been on the agenda. The questions now were, what mistakes had been made, and what were the lessons learnt? How could the successes be repeated, and the failures eliminated?

Changing the World Bank

Dr. Salim hoped all stakeholders would combine to push the World Bank Group in the direction of poverty eradication through sustainable development. Hopefully ten years from now, the extractive industries would fulfill their job by raising the welfare of people in a dignified way.

3. Testimonial presentations

Testimonials on the impact of oil, gas and mining projects identified nine problem areas:

- Lack of information
- Lack of communication
- Inadequate consultation processes and low level of transparency
- Lack of participation in decision-making, and distance to the locations
- Deficient legal frameworks; territorial violations
- Unequal distribution of benefits
- Low employment generation
- Corruption
- Poor contract compliance
- Lack of government capacity to solve problems

Two testimonials set out the broad picture. Taking the example of oil extraction in Ecuador, a human rights organization examined the extractive industries’ contribution to development. An association of nine indigenous peoples’ organizations discussed the
issue of consultation and participation of indigenous people, the government and the media. There followed four national studies: environmental and socio-cultural impacts of the hydrocarbon industry in Bolivia; cultural and social impacts of mining in Argentina; the impact of trans-national mining companies in Peru; and small-scale, and artisanal, mining in Bolivia.

Proposals made during the presentations, and discussions, included the need for:

- Institutional strengthening (including mediation training)
- Effective legal, regulatory and security frameworks
- Consultation with impacted communities
- Participation of indigenous people in benefits generated
- Impact studies (environmental, social, economic), with participation of the groups involved
- System of monitoring impacts
- Transparency of consultations
- Information systems
- Special programs for artisanal mining
- Claims at an international level
- Indemnity for ecological debt
- Reorientation of company planning and project design
- Moratorium
- Development of international policies on sustainability

**Contribution of the Extractive Industries to Development: Oil in Ecuador**

Evaluating the contribution of the oil industry to Ecuador’s economic development, a presenter from the Center for Social and Economic Rights, Ecuador, cited the oil sector’s contribution to total exports (35 per cent), GDP (12 per cent) and the national budget (35 per cent). Oil revenues surpassed the combined total raised by taxation (although, this was an income tax rate of around 12 per cent, understood to be the lowest in Latin America). Ecuador’s economic dynamics were thus determined by oil and subject to its fluctuations, said the speaker.

Nevertheless, while 30 percent of known reserves had been extracted over the past 30 years, the social situation had deteriorated. Data showed that oil revenues equaled payments for external debt, 48 percent of the budget, which contrasted to less than 15 percent for education and health. Social expenditures per capita had fallen, despite oil wealth. One explanation for this was the poorly managed service contracts and participation agreements that placed increasing shares of the oil activity in private hands, damaging the state company.

Ecuador’s experience, supported by evidence from the World Bank Inspection Panel, challenged the World Bank’s view that supporting oil and mining was a way to combat poverty and promote development. Countries dependent on natural resources were often the poorest and showed the lowest investment in social development, he asserted. He believed World Bank structural adjustment programs had played a major part in bringing
this about, prioritizing debt repayments, supporting privatization and, most recently, promoting oil development in the Andean-Amazon countries.

The speaker concluded that oil resources had promoted neither economic growth nor social development in Ecuador. The oil model itself was flawed because it introduced few links to the local economy, did not include added value and did not use local components. In Ecuador, the external debt issue had to be addressed before oil revenues could be used for development. The World Bank should remember that dependence on oil resources left the economy highly vulnerable to price fluctuations. The productive sector should, therefore, be diversified. In Ecuador’s case an evaluation was needed to show how privatization of the oil sector had benefited the State, and could have boosted social expenditures. Resource management also had to be transparent.

**Dialogue and Consultation: Indigenous People and Governments**

COICA, an organization composed of national non-government organizations from nine Amazonian countries, drew attention to the social and cultural impact of extractive industry activities, and to the issue of participation in decision-making processes.

Oil drilling had caused major environmental and social impacts, leading to damage that affected food supplies, and major changes in the cultural identity of the people. Impact studies should not only be environmental, but cultural and social also. Indigenous people had the right to full participation; indeed, it should be an obligation to include them equally, along with government and industry. Many indigenous groups were ignorant of their fundamental rights and were sometimes subject to the manipulation of indigenous leaders. This called for institutional strengthening to enable indigenous people to develop strategies to protect their interests. They not only wanted to be consulted, they wanted to be a part of the decision-making process.

Projects assessments had to take into account the position of indigenous groups. But this was impossible without formulating programs and judicial procedures giving indigenous people an insight into what development and sustainability meant. Oil developments in the Amazon region had led to consequences that would be impossible to reverse, said the speaker, and this would further encourage people to crowd into large cities, rather than stay on their land.

**Environmental and Socio-Cultural Impacts of Hydrocarbons in Bolivia**

Testimony from the Confederation of Indigenous People in Bolivia, stated that some eighty percent of Bolivia’s indigenous territories were affected by oil activities, either already in operation or in the exploration stage. The main developments were pipelines for gas exports. Problems ranged from a lack of clear information for impacted communities to poor macroeconomic decisions made by the State. Consultation processes were weak and indigenous communities were inadequately represented in negotiations.

From the outset, government officials did not consider the number of people who would be affected by the oil developments, the geographical terrain or the differences existing between indigenous peoples. Impact assessments were too general in their design, and did
not necessarily correspond to realities in the field. In addition, there was a lack of capacity at the state level to ensure proper monitoring of the situation. Communities lacked information and knowledge about the procedures companies were required to follow, as well as an understanding of the technicalities of projects. As a result, while people were consulted, they were not able to make informed decisions. This had resulted in the dispersal of some communities as oil developments required them to move to new locations; cultural identities were eroded as communities became fragmented. Compensation, in the form of gifts, undermined the unity of the community, its traditional organization and modes of decision-making. It was claimed state authorities had failed to evaluate environmental impacts, such as the pollution of scarce water resources, and some farms had suffered a 20 percent fall in productivity due to environmental accidents. Communities had not received compensation of any kind from the revenues collected by the government.

An alternative approach, suggested by the speaker, was for the State to take full responsibility for disseminating timely and relevant project information to indigenous groups. It would ensure information was translated into several languages and transmitted to communities through leaders with the capacity to do so. This would enable indigenous people to actively participate in impact studies and become directly involved in monitoring activities.

Social Impacts on the Mapuche People
An NGO from the province of Neuquén, Argentina, discussed the impacts of oil developments on the Mapuche people, who straddled the border between Argentina and Chile. At Loam La Lata, two communities had been struggling for recognition from two oil companies for 30 years; neither of the companies had sought the consent of the communities, and both the State authorities and the companies had rejected proposals for dialogue. The Mapuches demanded the right to be consulted and to withhold their consent, but the companies claimed the Mapuches had come to the area from Chile and, as such, had limited rights. Meanwhile, the surrounding territory had suffered irreversible damage and had become heavily contaminated. It was asserted that this had caused serious health impacts on children and the elderly—a claim rejected by State authorities.

The Mapuches consequently imposed their own conditions within the territory. The company had responded with proposals that they compensate the communities for right of access. An agreement was reached, but the company, reportedly, did not honor it, which led the Mapuche to takeover a major processing plant in the area. The failure of further negotiations led to appeals being lodged at the national level, and subsequently to the Inter-American Court of Human Rights, in the United States. In addition to territorial claims, the Mapuche were demanding reparations for the cultural harm inflicted by oil and gas extraction. Their campaign demanded that all extractive activities within Mapuche territory be stopped, and that there should be a transition to alternative sources of energy, e.g. biomass, wind and solar energy. They also called for oil plans to be revamped to ‘realistic, sensible levels’, avoiding new exploratory activities, wells should be closed, extraction rates reduced and some areas declared untouchable to oil developments.
Impact of Transnational Mining Companies
A speaker from the National Coordination of Peruvian Communities Affected by Mining, discussed the environmental and social impacts of mining in Peru. Such was the wealth of mineral resources in the country, that over 80 companies were actively engaged in mining, not counting 60 to 90 smaller mining companies. Peru had attracted ten of the world’s largest mining firms.

The speaker claimed oil, gas and mining developments in Peru had caused air pollution, water contamination, and an increase in poverty at the community level. Unchecked, indigenous groups were at risk of being displaced. A map of the social and environmental crisis in Peru included the Tambo Grande project where the potential operations of a multinational company threatened a huge agricultural valley. The mine would create 6,000 to 8,000 jobs, but put at risk 36,000 agricultural jobs. Another example was the Yanacocha mine that, apart from a well-known mercury spill, had driven fish into other waters, depriving local fishermen of their livelihoods. Meanwhile, one company, who were being prosecuted in the United States, had taken over mines belonging to Centrominas and had allegedly elevated pollution to critical levels.

The speaker opposed further mining investment in Peru as it had failed to generate high levels of employment. In older mines, the trend had been to employ contractors, with labor supplied by third parties; this meant jobs were often precarious and few permanent workers were employed. Newer mines had not brought benefits to communities because the advanced technology used demanded highly skilled labor. As local workers became excluded from the workforce, social tensions had increased. In summary, the speaker believed that mining in Peru had violated the property rights of local communities and had not invested in productive social development programs. Building schools and hospitals, he insisted, did not solve the problems faced by farmers and local communities.

A representative from a labor association raised issues relating to another World Bank Group project, the Quellaveco mine, Peru, in which the IFC had a 20 percent share. As well as being a shareholder, the IFC had financed the feasibility study. At the national level, an environmental impact study with major shortfalls had already been accepted. The Quellaveco mining company had not consulted local communities on the project, nor taken their observations into account in the environmental impact study.

The impact study was made available to local communities, but the document was impossible for them to understand. The labor association was also waiting for the IFC to publish their impact assessments; this had been another opportunity for communities to make their views known, but was missed due to a lack of information on how they could participate. Beyond the impact assessments, an additional problem was the lack of capacity at the state level; the Peruvian government lacked the necessary technical resources, and qualified staff to ensure environmental safeguards were met. The mine was located 1,250 km south of the capital, Lima, hindering effective state monitoring.
The IFC also held a 5 percent share in the Yanacocha mine, where studies suggested the mine had significantly increased poverty in the local town of Cajamarca, leading it to become the second poorest in Peru. The IFC intervened after the mercury spill and was now undertaking an investigation into its social impacts. However, beyond the health risks arising from mercury poisoning, the agricultural sector had suffered economic losses as local farmers could no longer find markets for their produce.

In summary, the speaker highlighted the projects as two examples where World Bank Group investments had not alleviated poverty. Rather than sponsoring extractive industry developments, funds would have been better spent on developing sustainable agricultural projects. Much more positive was the involvement of the World Bank at Tambo Grande, where its investments in water projects were an exemplary case.

**Small-scale and Artisanal Mining**

Conservation International Bolivia highlighted a number of issues relating to small-scale mining. They underlined specific differences between small-scale and traditional mining, and how an alternative approach to the sector was needed from the perspective of government and technical assistance. Small-scale mining required a different scale of equipment and technology, was in a category of its own regarding legalities, sector organization and structure, environmental impacts, relations with local communities, and its vulnerability to mineral price fluctuations and financial resources.

The main concern was that much small-scale mining was conducted in locations with sensitive ecosystems, beyond the reach of monitoring and inspection. The miners themselves were often unaware they were causing environmental damage or operating in protected areas. Steps needed to be taken to assist miners and mitigate their collective environmental impact. This included the development of low-cost technologies, best practices and financial controls orientated towards small-scale mining; the establishment of environmental baselines in affected areas; and training for officials dealing with the sector, and for miners themselves. The provision of incentives may also encourage miners to put greater effort into minimizing the environmental impact of their operations. In highly sensitive areas, alternatives for generating income could be developed.

Three projects in Bolivia addressed some of these problems: the World Bank and the Scandinavian Fund provided credits for small-scale mining through the Vice-Ministry of Mining and Metallurgy; a Canadian project was developing regulations for the sector; and another arm of the World Bank, the CEPF, was funding Conservation International to carry out a hazard analysis of the Bilcabamba-Amoró corridor, between Bolivia and Peru, an area of small-scale mining, where there were many small, abandoned mines. Financing included provision for experimental reforestation and land reclamation in a mine closure plan for the area.

4. **World Bank Voluntary Information Exchange**

Informal World Bank Group presentations outlined relevant components of its oil, gas and mining activities, and their strategies towards the three sectors.
The World Bank Group and Development

The World Bank Director of Mining emphasized that the Bank was in the ‘development’ business unlike commercial banks; its shareholders were member governments, and its aims were consistent with the United Nations Millennium Development Goals. The link between those goals and the extractive industries was the large impact the sector had on the economy and on communities. Together they created economic growth, providing governments with fiscal revenues that could be used for health, education, and infrastructure development. But the extractive industries also gave rise to significant negative impacts such as environmental degradation and problems relating to land rights, cultural changes and revenue sharing.

The World Bank Group worked on three levels: with governments, with the private sector and with civil society. The Bank encouraged governments to deal with complexities of extractive industry developments by implementing the right laws, fiscal systems and regulations in their interface with the private sector. It was also trying to foster a constructive relationship between the private sector and civil society. The Bank relied on civil society to understand broader social trends.

Working with Governments

Outlining instruments used by the World Bank Group in their relations with governments, the Oil, Gas and Chemicals Department listed loans for investment projects and technical assistance, grants for energy activities and environmental issues, and guarantees to help implement complex projects.

The Bank cooperated with governments to create the right conditions for attracting competitive investment in the oil, gas and mining sectors. It aimed to improve legal and regulatory frameworks, institutional capacity, and the environmental and social performance of the sectors. The IBRD accounted for three quarters of total World Bank Group investment each year. In relation to the total IBRD/IDA financing of around $17bn, its investment in the extractive industries was relatively small, in recent years accounting for less than one or two percent of the total.

Cooperation with governments was in the context of each country’s Comprehensive Development Framework and associated assistance strategy. Only when such assistance was approved could the Bank begin discussing specific operations in the oil, gas and mining sectors. During the phase of project design, the World Bank evaluated different impacts of the project, not only in terms of its economic viability, but its effects on communities, the environment, the integration of markets through new standards, the introduction of quality raw materials and technologies.

Working with the Private Sector

The reason the World Bank Group provided, or mobilized, financing for the private sector was because it believed a thriving private sector was essential for sustained economic growth, which, in turn, was essential for poverty reduction. In the Bank’s view, if oil, gas and mining developments were owned and well managed by the private sector, in an environment of good governance, social and environmental safeguards and
regulatory frameworks, they were often better done. The IFC rarely provided financing for more than 20 to 25 percent of the total value of a project, and only invested in projects that were commercially viable. In addition, projects had to contribute to sustainable development, and meet all the environmental and social safeguards of the World Bank Group.

In Latin America, IFC investment in the oil, gas and mining sectors was generally for high risk developments, for example: cross-border projects; projects involving local companies generating locally used products, i.e. not generating foreign exchange; and developments where the World Bank brought some added value. For the World Bank, what mattered most was the importance of the investment for the country, not how important the World Bank was for the industry.

**Environmental and Social Safeguards**

The World Bank Group’s lead environmental specialist explained that the Group had ten ‘plus one’ safeguard policies. These covered natural habitats, disease control, cultural heritage, indigenous people, involuntary resettlement, cultural services, dams, projects in international waters, and projects in disputed territories. The ‘plus one’ referred to the crucial need to convey the ten policies to the public. Responsibility for enforcing these safeguards lay with the project team. In addition, application of safeguard policies was monitored by the World Bank’s Environmental Quality Control Unit which undertook an annual assessment of approximately 10 percent of all projects, and also through an inspection panel.

Key policies for the extractive industries in Latin America and the Caribbean were those protecting the environment, conserving natural habitats and protecting biodiversity, safeguarding dams, protecting the rights of indigenous people, and dealing with involuntary resettlement. The environmental policy called for categorization of projects as A, B, C or F12, depending on their impacts. Most projects in Latin America today were category B or C reflecting the Bank’s withdrawal from investments in sensitive areas. The natural habitat policy sought to prevent critical harm to eco-systems with endangered, or endemic, species. Safeguarding dams was important because they were used to store mining spoils. The indigenous safeguard policy was currently under consultation in the Latin America region, where it was nearly impossible to work without being involved with their communities. The involuntary resettlement policy was relevant to mining projects, highways and transmission lines, such as the Bolivia-Brazil pipeline development.

In addition to safeguard policies, the World Bank Group had published guidelines for the oil and gas, and mining industries, as well as procedures to be followed by the Bank and by external clients. Procedures were far more comprehensive than ten years ago, and stretched beyond issues relating to the immediate area surrounding a project. They also divided responsibilities, such as requiring companies to undertake an environmental impact assessment that was then evaluated by the Bank. Bank staff subsequently supervised projects to ensure all provisions were implemented. In 1999, after the World Bank Group Board set up the Compliance Adviser and Ombudsman’s (CAO) Office as
recourse for communities with complaints relating to World Bank Group-sponsored projects. The CAO’s office also advised the President of the World Bank Group, and senior management at the IFC and MIGA, on how the institution was handling its safeguard policies and how its investments were impacting on local communities.

Due to its stringent safeguard policies, participation of the World Bank Group now ‘added value’ to projects. The Bank’s investing departments were now able to record the added value they brought to projects in the form of sustainable environmental and social initiatives at the time of project preparation.

**Global Advocacy**
A Mining Department economist completed the World Bank Group’s initial presentation with an overview of what the Bank tried to do beyond projects. The aim was to try to influence the industry as a whole, by facilitating knowledge sharing and cooperation among different groups, for example, to tackle the problem of gas flaring. On the community side, in the Latin America and Caribbean region, the Bank was working with indigenous people and small-scale miners. Some governments were very open to assistance that helped small-scale miners, but there were limits on what the World Bank could achieve alone. Therefore, the exchange of information between different groups on technology, procedures and on ways to cooperate was valuable. Regarding environmental safeguards, there was much that different governments could learn from one another, particularly on the practical side. The World Bank was working to open up this dialogue between governments on how projects should be implemented, how agencies should function, and how laws should be monitored, and enforced.

**Questions and Answers**
Responding to questions, World Bank Group representatives explained that the reduction in World Bank funding for governments, reflected the policies chosen by those governments. Economic liberalization meant many governments were less involved in industrial production, and even large state firms in the oil sector operated commercially without relying on government guarantees. Most IBRD/IDA activity today was thus in the form of technical assistance.

When a state company was privatized after receiving loans from the government, or others, the government would sell the assets, or going concern, for the best price it could. If its value was not sufficient to pay back the loans, the government and other lenders would have to accept the fact that the funds had probably not been put to good use and would have to accept only part, or none, of the loan back. With very poor countries, among which only Bolivia in Latin America qualified, existing debt could be forgiven under the HIPC scheme and the money reinvested in human capital.

**Small-scale, Artisinal and Junior Firm Mining**
In relation to small-scale mining, staff confirmed that the World Bank was working with international donors to set up a mechanism to assist the sector and mitigate its social and environmental impacts. They noted that because of the small size of the sector, its needs were very different to other extractive industries. The IFC was developing programs for
small and medium-scale enterprises (SMEs), but small-scale mines were often classified as micro enterprises that could only be helped at the local level. The World Bank did provide financing for organizations that in turn financed such micro enterprises. Roughly half the World Bank’s mining business was with junior firms and half with larger firms. Very little business was done with the largest mining companies. The Bank’s strategy was to work with firms presenting viable projects, both those working nationally and internationally. Working with smaller firms, in some countries, required capacity building, particularly for environmental considerations, such as assistance to undertake proper environmental assessments.

**Environmental Safeguards**

In response to suggestions that the World Bank Group should support sectors that were less polluting and were in line with community interests, Bank staff underlined the relatively low level of IFC investment in the extractive industries, which averaged 7-10 percent. In Latin America in recent years, agricultural-related investment had been higher.

Asked about the role of the World Bank in the environmental clean-up of the extractive sector, Bank experts cited loans to the Government of Romania that had facilitated the closure of some coal mines. The Bank had assisted with retraining and redeploying displaced workers and with the environmental clean-up. In Latin America, the next big operation would be the further development of the Talara area, for which Petroperu had already received a loan. The project would focus on mitigating environmental impacts.

Other questions concerned how the World Bank Group graded oil, gas and mining projects from an environmental perspective, its procedures for approving projects, and whether statistics were available indicating the effectiveness of information disclosure to the public. In response, Bank representatives referred to the procedures for environmental and social reviews of projects underway since 1990, and the changes in those procedures since September 1998. Environmental and social requirements had become more comprehensive over time, and the CAO’s office was currently reviewing safeguard policies and the effectiveness of their implementation since September 1998. Officials agreed that national government requirements for environmental and social assessments often differed from World Bank Group requirements. Regarding access to information at all stages of the project cycle, Bank staff referred to a requirement, dating from January 1, 2002, to place all documents in a World Bank Infoshop, a public information center.

**Poverty Assessment**

Asked whether the World Bank assessed poverty conditions at the micro or macro level, officials referred to the joint Bank-government public assessments that identified different categories of people in certain communities. Governments, in turn, used these assessments in their inputs to non-Bank Poverty Reduction Strategy papers. One general concern was the frequent separation of environmental and social issues; the concept of sustainable development was therefore not addressed. The speaker cited an environmental impact study in Venezuela that had not addressed poverty issues such as
education, health, or housing. It was felt the World Bank should show investing companies how to integrate social and environmental considerations.

**Sustainable Extraction**

In response to questions raised on how the World Bank certified the sustainability of their oil and mining projects, the head of the Mining Department commented that sustainable mining meant a community would continue to realize its development potential after the life of the mine. The ideal model for mining was, therefore, to build an industry that contributed to local, regional and national development, but, as everyone knew, this had not been the reality in practice. What the World Bank had not achieved at Yanacocha, it was now trying to achieve in Laos (Sepon), and in all future projects. The Bank had to work both with the private sector and communities to put a successful development framework in place. If a mine did not create employment and improve the quality of life for communities, then it did not contribute to the broad social dimension the Bank was trying to achieve.
Consultation
5. Keynote speech by Dr. Emil Salim
Opening the formal Consultation, the EIR’s Eminent Person, Prof. Dr. Emil Salim, introduced the frame of reference for discussing the impact of the extractive industries, namely within the World Bank’s mandate of sustainable development and poverty reduction.

As the World Summit for Sustainable Development in Johannesburg approached, the concepts introduced in the Rio Principles of 1992 were also now reflected in the Millennium Declaration Goals of September 2000, the Doha Trade Round 2001, and the Monterrey International Conference on Financing for Development in 2002. The key element was the simultaneous interaction between economic, social and environmental sustainability.

Economic sustainability meant mobilizing and maintaining economic capital to support sustainable consumption for current and future generations. If that capital declined, development declined also. Social sustainability required sustained social capital; societies should be assured of food, health, education, basic human rights and enjoy social cohesion. Environmental sustainability was ensuring the sustainability of natural resources and ecosystems, and conserving this natural capacity by providing environmental services that would absorb waste and pollution.

Sustainable development of the 21st century required a more holistic approach, with no separation between economic, social and environmental imperatives. What was required was a new paradigm, and the question was whether the extractive industries could be put into that context? Oil, gas and mining resources were non-renewable. How could they be made sustainable?

Concerning poverty reduction, all agreed to the Millennium Development goals. The question was how to achieve these goals in areas where communities were handicapped due to a lack of basic rights: land and fishing rights, cultural and ethnic rights, intellectual property rights, no financial resources, and no collateral. The market failed to function below the poverty line. Governments also did not reach the poor. The further one went from the formal structure of government, the weaker was its power to protect communities in need. This was relevant to oil, gas and mining extraction, which was often deep in the jungle, far out to sea, or far away on the top of mountains.

How could the World Bank act to balance the equilibrium between civil society, industry and government and articulate the needs of the poor? The future role of the World Bank should ensure mining, oil and gas developments contributed to the eradication of poverty through sustainable development.
6. The Extractive Industries Review Process

*Background*
The Head of the EIR Secretariat, Bernard M. Salomé, drew attention to two key principles that complemented the visions set out by Dr. Salim: balanced representation of stakeholders and keeping the debate in focus.

By the end of the EIR process, a set of recommendations would be presented to the World Bank Group which reflected the discussions that took place between stakeholders. The Secretariat had to ensure that, while the voices of all stakeholders were heard, there was more emphasis the people most affected by oil, gas and mining projects. The process decided at the planning workshop in Brussels, in 2001, envisaged five interlocking activities:

- Project visits to oil, gas and mining sites with representatives from local communities, government and industry
- Independent community consultations, particularly for indigenous communities
- Four regional workshops for Latin America and the Caribbean, Eastern Europe and Central Asia, Africa, and Asia-Pacific
- Web-based consultations
- Focused research that concentrated knowledge in a balanced way that would be useful for possible recommendations to the World Bank Group.

The EIR would also take into account studies on the extractive industries being conducted within the World Bank Group, by the Operations Evaluation Department (OED) and the Operations Evaluation Group (OEG), and a compliance review of recent IFC and MIGA projects undertaken by the Compliance Advisor and Ombudsman’s office (CAO). The results of these reports would feed into the draft EIR report which Dr. Salim would present to the World Bank Group Management in September 2003.

*Extractive Industries Review Final Report*
The Final Report of the EIR would be developed using the evolving ‘Conceptual Framework’, posted on the EIR website. This document already reflected the views of stakeholders, from NGOs like Oxfam and Friends of the Earth, to industrial companies, and the World Bank Group itself. The Conceptual Framework would be progressively refined in light of reports produced from all EIR activities and recommendations posted by stakeholders. The intention was to be transparent, and ensure all stakeholder interests were represented in the Final Report.

The task for the next one and a half years of the Review was to stay focused on the role of the World Bank Group in the extractive industries: what were the respective roles of the World Bank, IFC, and MIGA, and how should they work together? Should they stay in, or stay out, of the extractive industries? All recommendations had to be concrete and implementable and their driving force be what would best contribute to poverty reduction and sustainable development.
Confirming both the position of the EIR and the way its recommendations would be handled by the World Bank, the Head of the Mining Department confirmed that the Bank wanted specific recommendations that could become operational inputs into its future work as a development institution. If Dr. Salim concluded, on the basis of tangible evidence, that the Bank should withdraw from the extractive industries, that view would certainly be presented to the World Bank Group President and Board.

7. Case Studies: Environmental, Social and Economic Impacts of Oil, Gas and Mining Projects
Forming the core of the Consultation, eighteen case studies were examined by working groups, whose conclusions were then discussed in the plenary sessions.

MMSD South America Project: Results and Challenges
Commenting on the Minerals, Mining and Sustainable Development (MMSD) project, a government representative from Ecuador underlined its conclusion that the region was conscious of the need to develop the mining industry, but also saw the need to improve the performance of all stakeholders. It was mentioned that, contrary to the view that industry and civil society had completely separate visions, the work of the MMSD showed this was not necessarily the case. There were some common positions between the different players.

One member of the MMSD team concluded that many groups were for mining, even some of the indigenous community. All stakeholders saw the need for participative, strategic planning. But, one problem was that communities did not have the adequate knowledge to participate in decision-making. This was an area where the World Bank Group might promote the necessary education for following through all the processes. Another participant added that training in participation processes was necessary in order to reveal the perceptions of the different sectors linked to mining. Civil society, government and industry needed to analyze the strengths, and weaknesses, of the mining industry.

The lesson from the MMSD project, commented a third participant, was that the extractive industries did not always contribute sufficiently to local development in all countries. Basic changes were needed in order for oil, gas and mining to contribute more effectively to sustainability. The rules of the game were changing, for example, the issue of participation was a new one. The Bank could be proactive in helping governments to successfully confront such challenges.

Another conclusion was that development through mining was possible through partnerships; the participation of civil society could facilitate the contribution of the extractive industries to sustainable development. Different players agreed that the relevant aspects of mining development were environmental performance, local development and public management. But it was also necessary to develop other areas of participation such as deciding mine closure plans and ensuring access to information and training. Space for participation needed to be generated beyond public consultations.
New Model for Development in Areas of Extractive Economy (Columbia)

World Bank inputs had been essential in a successful program to develop zones for extractive economies in Columbia, said a report by the country’s National Planning Department. The study of the Magdalena Medio region showed that it was possible to counter the trend of resource-rich areas in Columbia having the poorest welfare indicators. It was a way of intervening that could be a new model for reversing poverty generation in areas previously afflicted, rather than benefiting, from oil developments.

In Columbia, oil accounted for 4 percent of GDP and 30 percent of total exports. The outlook for oil exploration and production were very positive. Oil was even more important at the regional level, accounting for 80 percent of revenues in Arauca and Casarne. In 2000, royalty returns on investment in the two regions were 200 percent and 500 percent, respectively. At the same time, welfare and social indicators in the two regions were well below national averages. The proportion of people with unsatisfied basic needs amounted to 54 percent in Arauca and 52 percent in Casarne, compared to 31 percent nationally. The quality of life was satisfactory for only 60 percent and 58 percent of the respective communities, compared to 71 percent nationally. Energy coverage amounted 44 percent and 60 percent, compared to 95 percent nationally and drinking water was available to only 53 percent and 60 percent respectively, compared to 85 percent at the national level.

Columbia’s experience demonstrated the need for strong institutions to be in place prior to economic booms caused by the extractive industries. A low state presence and the low capacity of local and regional institutions to manage economic growth were contributing factors. Forced resettlement led to armed conflict, and weak, or non-existent, institutions limited the proper utilization of resources that could minimize such conflicts. Disagreement over the political control of resource management added to inter-ethnic conflicts in zones inhabited by indigenous people, and impeded the capacity of the state to avoid a deteriorating social situation, evident in crime and prostitution. This led to inefficient distribution of resources and opportunities for corruption.

The Magdalena Medio region was one of the richest in terms of natural resources, oil, gold, water, agriculture, and access to markets. But levels of violence were also high, at three times the national homicide rate. This changed after 1995 when, in the middle of intense armed conflict, local leaders and the local church (joined later by the Columbian Oil Company, Ecopetrol, and a religious NGO) began to organize their communities around their own development plan. 150 families from 29 municipalities met to define a series of common values and goals. The main goal was the development of peace, and the main value was recovery of trust. A development plan was formulated and a corporation created to work as an agent of change, also responsible for obtaining technical assistance from the National Department of Planning. Additional finance was provided through credits from the World Bank and UN Development Program. A Bank-approved credit for learning and innovation was directed at building the capacity of communities and existing institutions in promoting regional development, and was also used to provide technical
assistance for production. In turn, alliances with the private sector enabled small-scale farmers to take up permanent crops such as cacao and African palm oil that gave them a sustainable income over the long-term.

As the project generated trust, other players became involved which led to higher levels of financing. The World Bank considered the project its most successful credit program in Columbia, and one of its principal programs at the global level. From the perspective of the national government, this was a new form of intervention in an extractive industry zone. It required working in partnership with local organizations and building alliances with groups with strategic interests in the region, particularly the companies exploiting the resources.

Local development was possible, explained the speaker, because non-public institutions were able to effectively use public resources, which in turn strengthened the State. The community held meetings to develop and prioritize initiatives, which were then developed at the project level by the church-NGO-Ecopetrol alliance. With the approval of the alliance board, initiatives received financing from various sources of funding. A key element in the methodology was the active strengthening of communities through frequent workshops in the municipalities, using technical teams and facilities as a means of transferring knowledge and building capacity.

**Discussions**

Subsequent discussions noted that local development had been possible using non-public means; tripartite alliances had minimized the impact of the extractive industries without replacing the obligations of the state. Positive results had come from the participation of civil society, good use of public resources and strengthening the actions of the state. Both the Columbian regional development initiative, and the MMSD project, had actively engaged civil society. The MMSD workshops involved 600 people from five different countries; the Magdalena Medio program strengthened community organizations from 29 municipalities and set up a network to implement initiatives for productive development. Community participation had been strengthened by economic contributions from the state in return for two credits from the World Bank.

The tripartite alliance, another speaker noted, had allowed the state to minimize the negative impacts generated by the extractive industry without yielding on its responsibilities. Some felt, however, that it was important for the World Bank to take an active role to avoid a ‘limp leg’ developing in tripartite relationships. For example, there was no way civil society could actively participate unless training and basis tools were provided.

**Environmental Legislation and Oil Policy**

A paper on the need for adequate environmental legislation to achieve sustainable mining was complemented by a critique of oil policy from the perspective of indigenous people. Both agreed that legislation was needed taking into account the needs of communities and that they should actively participate in its drafting.
Appropriate Environmental Legislation for Sustainable Mining

A study by an Argentinean NGO on the evolving concepts of growth and development since the 1960s, pointed to the necessity for effective political and legal frameworks directed to reducing environmental damage. Mining activities in many countries had left a legacy of environmental liabilities that were, in many cases, abandoned. The presenter therefore proposed a comprehensive mine closure plan that would limit environmental impacts, as well as social impacts by helping communities living in the vicinity of the mine better prepare for the end of extractive activities.

Oil Politics from Indigenous Peoples’ Perspective

Listing the negative impacts of oil extraction, an indigenous people’s organization, from Ecuador, cited environmental damage to water, soil, air, flora and fauna. The impacts of oil developments on the economy of indigenous people had resulted in the destruction of their resources and the replacement of a barter economy with monetarist systems of exchange. Socio-cultural impacts included the introduction of new cultural elements, such as changes to their languages. However, positive impacts were also noted, such as the more positive attitude of indigenous groups towards both the government and companies involved.

The working group drew attention to the large geographical distances that often existed between the places where decisions about projects were made and the places where impacts were felt. In many cases the agencies making the decisions were not present to oversee what was happening at the local level, whereas indigenous people had to live with the consequences.

Discussions

Conclusions drawn by the working group included the need to distinguish between two types of damage - existing damage and future damage; the need for proper legislation; the lack of continuity in policy-making; the need for dialogue with representative groups; and the need for strategies to offset the negative impacts experienced. It was noted, however, that negative economic, environmental and social impacts produced the positive result of self-motivating afflicted communities to make their voices heard. Governments also had a responsibility to mitigate environmental liabilities, but did not always do so, mainly due to a lack of resources. With respect to this, World Bank staff referred to an initiative, not yet realized, to quantify existing environmental liabilities in Latin America and the Caribbean, and prioritize those most in need of remedy.

A clear, legal framework was necessary for oil extraction and mining in most countries, but communities needed to be more proactive in ensuring the enforcement of existing regulations. The lack of continuity in policy-making referred to agreements between industry, indigenous people and the government that were either unknown to the authorities in field, or lapsed when governments changed, or authorities left.

For dealing with negative impacts, indigenous people had proposed: mapping exclusion zones for natural resource extraction; community strengthening through training to improve consultation processes; negotiation, monitoring and efforts to facilitate good
leadership; improved dialogue between communities, industry and the government; education, information dissemination, improvement in participation mechanisms; and strengthening the skills of all actors. The World Bank Group could have an integral role in facilitating this.

**Mining in Peru**

One case study contrasted government and NGO perspectives on past practices, and the possible future of mining in Peru. It was generally recommended that arrangements be made to monitor and report ‘sustainability impacts’ and publish the results to the public. The capacity of communities and companies to deal with change and conflict should be improved and dialogue between different groups should be actively facilitated. In addition, only those economic activities that supported sustainable development should be promoted.

Presenters from the Peruvian Ministry of Energy and Mines underlined the importance of mining for Peru. The industry generated tax revenues and helped the country repay its debt. The sector was undergoing many changes to its legal, regulatory and institutional frameworks, in addition to discussions and consultations. This was contradicted by a civil society representative from Peru, who believed the mining sector, in particular, should not be supported due to its negative environmental impacts. (His arguments were previously presented in the testimonial session, p. 6).

**Discussions**

During discussions it was recommended that the World Bank persuade the companies it worked with to listen more carefully to local communities. One working group suggestion was for the World Bank Group to promote the right of communities to say “no” to mining projects, particularly with regard to their impact on indigenous people. Another suggestion was that the World Bank be more involved in monitoring, and reporting sustainability impacts.

The World Bank should work with governments on revenue management to ensure the even, and transparent, distribution of benefits from the extractive industries. It should also continue to finance institution-building with more focus on the sustainable development, consultation and participation of local communities. Many felt the World Bank should make compliance with standards a condition of investment with the private sector, and that funding should target cleaner technologies.

With regard to small-scale mining, capacity building was needed. One problem was that the technology used for artisinal and cooperative mining generated environmental liabilities, but another was the lack of credit and capital opportunities available to the sector to improve its productive practices. One participant referred to the massive layoff of mine workers in their country as a result of structural adjustment and privatization. This had led many workers to become members of mining cooperatives that continued to pollute the environment. World Bank support was needed to build operational capital and mitigate large environmental liabilities.
The working group also exchanged views on whether agriculture was better than mining for development; more information was needed on the economic alternatives to mining.

**Threats to Biodiversity and an Example of Sustainable Development from Mining**

The Consultation considered a case study on the Vilacabamba-Amboro corridor in Bolivia, where small-scale mining threatened biodiversity, together with a case study on the work of the Bolivian NGO, Inti Raymi Foundation, on sustainable development. Subsequent discussions led to recommendations on technical training, technical and financial support for stakeholders, strengthening of local monitoring and support for projects within the paradigm of sustainable mining.

The Vilacabamba-Amboro corridor, the Bolivian conservation NGO explained, was a mixture of protected and non-protected areas. Together with the Government, the NGO was just beginning to make contact with small miners regarding their environmental and social impacts. The Inti Raymi Foundation attributed its own achievements to Bolivian legislation such as the Law of Popular Participation, the Law of Decentralization and an entire environment that favored mining and benefited civil society.

**Discussion**

The two presentations raised the issue of the role of the World Bank Group in achieving greater sustainable development. According to participants this should involve reinvesting World Bank profits as credits in affected zones to assist communities, and the other players, develop their capacity for participation in order to build trust. The Bank should assist governments with social and environmental issues. It should offer financing for the development of extractive activities that were environmentally and socially responsible. It should specifically finance artisanal and small-scale mining to push forward their evolution towards environmentally, socially, and technically responsible mining. The World Bank, itself, should improve internal coordination between its different departments to avoid confusion.

**Monitoring Economic, Social and Cultural Impacts**

Such was the importance of Argentina’s Bajo de Alumbrera copper and gold project at Catamarca, the Secretariat had requested World Bank permission to study its impact, along with that of mining at Pascua Lama and Veladero, in the province of San Juan. Reporting on the study, a government research institute told the workshop that it had two objectives: one was to understand the real economic, social, cultural and environmental impacts; the other was to create a methodology for measuring impacts through all the stages of mine development to closure, that could be applied by all of Argentina’s provinces to monitor mining projects.

The study combined results from workshops with field evaluations. Teams of sociologists, anthropologists, economists, geologists and lawyers studied technical aspects of mining, and primary and secondary qualitative, and quantitative, data. They also undertook comprehensive information gathering, such as interviews, focus groups and opinion polls. Three impact areas were defined: the primary impact areas comprised zones in the immediate vicinity of the mines; secondary impact areas comprised of the
municipality, province or region; Argentina itself was examined for tertiary impacts. Economic impacts were measured using three variables: employment levels, added value, and direct, and indirect, tax revenues.

Reporting on its results, the research center highlighted the differences between what was said in the workshops and what they said in a 3,500-head survey. Complaints at the workshops referred to ecological damage, soil erosion, deforestation, and changes to the landscape. Concerns also included water and air pollution, environmental liabilities after mines closure, the destruction archaeological heritage, low job creation, and economic losses due to induced growth. In contrast, 70 percent of people surveyed later, agreed that mining had contributed, or could contribute, to regional development. In line with this result, the study identified many positive impacts and refuted some of the negative ones, e.g. the danger of pollution. Positive impacts included improvements to schools, hospitals and infrastructure, such as the extension of an electricity line that vastly improved irrigation for local agriculture.

During construction, the mine had created 4,000 jobs, and during extraction 735 jobs. However, each had a multiplying effect of 4, bringing the permanent total of jobs created by mining to 3,500. As a result, employment at Bajo de la Alumbrera had risen from 40 percent to 54 percent, salaries rose from below 600 pesos to between 600 and 1,000 pesos, and medical insurance levels rose from 53 percent to 73 percent.

Best Practice at Casanare

The BP operation at Casanare, a region northeast of Bogotá, Columbia, was an example of the company’s continuously improving corporate culture, explained a company representative. When the company began exploration in the 1990s, it faced much ill-will due to mistakes made by the oil industry elsewhere in the world. Meanwhile, the region had experienced an incredible social jump, thanks to the transfer of $800 million, of a total $1.3 billion received by Columbia in royalties, directly to the municipalities. The company was now perceived as part of the community, a solution to their needs, a partner in development and a force for well-being. Tripartite arrangements were based on a common vision and managed by a group comprising representatives of government, civil society and BP.

Continuous improvements, the speaker explained, meant monitoring, and then acting on monitoring. Opinion polls by independent companies measured changing perceptions. Surveys undertaken by another company showed that immigration had been 32 percent higher than in the rest of the country and that, surprisingly, the immigrants’ sense of well-being was the same, or higher, than that of the local community. Public service coverage in the towns was very high, reaching around 90 percent for water and energy. Energy consumption rose from 10,000 kW in 1993 to 80,000 kW in 2000. Housing had a very high coverage, school attendance was rising, unemployment was much lower than the national average, and agricultural outputs had increased.

Much remained to be done, especially for justice, where BP worked with Presidency of the Republic and the Excelencia de la Justicia Corporation on projects to promote
transparency, court development, and extra-judicial family advice. Other problems to be tackled included the decline in minor agricultural activities, the lack of skills among new immigrants, and the increase in crime and violence due to the generated wealth in the region.

Companies like BP were not usurping the role of the State. The company worked in a tripartite relationship with government and civil society, and entered into contracts with NGOs to materialize objectives using not only BP’s money, but funds from other companies abroad.

**A Small Hydroelectric Power Plant for a Mine in Brazil**

A case study was presented on a project to develop a hydroelectric power plant to provide power for a local mine in Brazil. The project was a learning process for the government and the community. Economically, it had been a success paying for itself within four years, and continuing to save the mining company around $200,000 per month. Community relations survived major conflicts and had developed from suspicion, to understanding and acceptance, the speaker remarked.

A commission was set-up, to oversee the entire construction of the plant, represented by teachers, NGOs, city councilors, government representatives and the company. It supervised all decisions and made recommendations to the government whether to approve them, or not. Actions taken included assessments of river water quality, foliage extinction, and impacts on species. Care was taken to minimize the resettlement of families, schools were renovated and a sewage treatment plant was installed. A communications program created a monthly newspaper to inform local people on the construction, and an environmental and sanitary education program for schools, and the rural population, dealt, *inter alia*, with a vermin problem. A program to foster industrial and commercial activities was introduced by the company and rural activities were fostered, and diversified. The company had been required to employ as many local people as possible, and additional manpower brought in for the construction phase was relocated after two years.

Positive impacts of the project included a significant increase in municipal income, improvements in education and training of the workforce, environmental awareness, better roads, additional electricity output, and the attraction of new investment. The project fostered a sense of ownership in the local community, evident from positive attitudes to the power plant. Lessons learned included the need for the community to participate in decisions affecting them directly, and solving problems in partnership with other stakeholders, rather than the company taking on a paternalistic role.

**General discussions**

Three topics concerning the World Bank Group recurred throughout the case study discussions: what should be the role of the World Bank Group in achieving higher levels of sustainable development; how could positive impacts be facilitated; and how could negative ones be avoided.
**Higher Levels of Sustainable Development**

Suggestions for the World Bank Group in promoting sustainable development in the extractive industries included facilitating local development plans, community consultations, public participation in decision-making, and participative budgets. It should support the development of rules for participative monitoring and provide training for all consultative processes. There should be financing for issues related to the mitigation of hazards on biodiversity and ecosystems in sensitive areas. The Bank should focus programs to respect local economic and cultural realities.

The World Bank could facilitate decentralization programs, support institutional financing to strengthen indigenous people’s organizations, and take into account the impacts of extractive industry developments on the rights and values of indigenous people. It should provide technical advice that complements extractive industry activities and environmental sustainability, as well as technical and financial assistance to develop production standards. It should also support baseline studies in protected areas surrounding extractive industry activities, and provide training for all stakeholders, including training programs in participative development planning. The Bank should achieve adequate harmonization in order to improve the situation of the poor.

**Facilitating Positive Impacts**

In the view of some participants, a number of actions by the World Bank Group would promote what was already working in the extractive industries. This included the assurance that benefits from mining would reach the communities involved and that governments would make an effective transfer of the wealth generated by mining to the communities involved.

The World Bank could promote effective legal and regulatory frameworks for revenue redistribution, promote decentralization to increase public investment in the resource areas, and ensure public consultations were carried out by applying finance-linked standards to companies and governments. By identifying sustainability indicators, the Bank could improve the quantity, and quality, of information on the social, economic, and environmental effects of mining activities. The Bank could promote the sharing of positive experiences, and strengthen opportunities for dialogue between communities and other stakeholders. It could build capacity for community-based environmental impact studies, the communities’ capacity to deal with change, and the capacity to deal productively with conflict. With governments, the World Bank could promote transparency and democracy and internally, it could focus on sponsoring only truly sustainable activities benefiting local communities.

**Avoiding Negative Impacts**

Actions the World Bank Group could take to minimize the negative impacts of the extractive industries included promoting transparency, developing systems of local, regional, and national consultation, and facilitating constructive dialogue between stakeholders. Participants believed communities should have the right to say “no” to any mining project and that the World Bank should support sustainable activities, other than mining, of benefit to local communities. Tools to improve communication were
necessary to ensure informed public participation and the Bank should encourage the social responsibility of business and set rules for obtaining mining rights that insisted on public consultation regarding environmental standards. The Bank should continue strengthening country institutions, facilitate access to technology, and work harder to develop effective leadership in local communities.

**Comments from the Eminent Person**

In the tripartite relationship between government, civil society and business, the three were not necessarily equal in strength. In reality, government and industry were likely to be strong where civil society were weak. In that case, there would be imperfect governance and projects would not be as successful in promoting development as they could be. The possibility of imperfect governance raised other questions:

- Should the World Bank Group work together with a government in imperfect conditions, for example, when a government was corrupt?
- Should the World Bank Group step in where the private sector was weak?
- Should the World Bank Group and governments work together where the institutional and legal frameworks were ineffective?
- If civil society was the weakest link, was the need for the World Bank Group not greater?

What were the benefits for the poor? The normal answer was that development raised taxes, revenues would be allocated by the government, employment levels would rise and absorb the poor, so everybody gained. But the assumption that the poor were benefiting from development required an assumption that governance was also working. This was not usually the case.

**The Need to be Pro-Poor**

Where there was poverty, there was a need for the World Bank. This meant having a mechanism of consultation for listening to the poor. In this respect, the inequality between different groups in civil society should also be considered. Indigenous people were the weakest group, followed by labor, and smaller NGOs. Strongest of all were the international NGOs, but they did not necessarily represent the interests of all in civil society. The World Bank should therefore focus its attention on vulnerable groups at the local level.

Another role for the World Bank Group was the second triangle—ensuring sustainable development balanced economic, environmental and social sustainability. These three aspects of development should be equally balanced, but, in reality, economic development often dominated, and environmental and social development was limited. Due to market failures, social and environmental considerations were not absorbed.

In summary, there were two conditions for World Bank Group involvement in the extractive industries:

- Aiming for sustainable development, i.e. closing the gap between economic development and environment/social development
• Strengthening civil society, i.e. ensuring a proper balance exists between government, business and civil society.

Examples had been given where government, industry and civil society had worked together. But, a remaining problem was the lack of trust between stakeholders. Industry did not trust the NGOs; NGOs saw industry as the enemy; governments distrusted civil society, but supported business. To achieve sustainable development, all groups had to move forward together.

8. World Bank Investment and the Project Cycle in Latin America

After summarizing the World Bank Group’s presentations from the previous day’s information session, a senior World Bank economist underlined the significance of the Group’s work in Latin America and the Caribbean. Of the $23 billion it invested in 2001, more than 30 percent was with the governments of the region. For the IFC, the region accounted for 26 percent of total business, and for MIGA it was more than 50 per cent.

In terms of investment, only $500 million went to the extractive industries, which was small by industry standards and this figure had been declining. Extractive industries accounted for only 7 percent of the IFC’s total investments, and were independent of World Bank Group lending to a country as a whole. The IFC lent to governments at a rate around 0.75 percent above the London Inter-Bank Borrowing Rate (Libor) and to the private sector at the market rate for that country, typically 3 to 5 percent above Libor. The IFC also invested in private sector equity, and it was due of the effectiveness of those investments that it was able to use the resources generated for other aspects of its business.

The Project Cycle

Project development involved a World Bank team visiting the country to discuss potential projects with the government. Discussions took place within the framework of the Country Assistance Strategy and relevant safeguard requirements. Further discussions were then held with stakeholders outside the World Bank Group and government. The resulting project appraisal was then subject to approval by the World Bank Group Board. If approved, it was then developed and implemented.

Implementation was subject to several processes that aimed to ensure the quality of the project, e.g. the evaluation group and an independent appeal panel for people who felt the World Bank had not followed proper procedures. Reports from the Operations Evaluation Group and the Operations Evaluation Department went directly to the World Bank Group Board of Directors. Their methodology was rigorous and subject to review by a subcommittee of the Board on development effectiveness.

A key difference in the project cycle with the private sector and those with governments, was the earlier involvement of the World Bank with the latter. Typically, the private sector presented projects ready for development. Nevertheless, the processes for both types of project allowed opportunity for consultation, at the design stage, during
preparation and at project appraisal. Environmental guidelines required a significant amount of consultation at the development planning stage.

The main focus of the World Bank’s relationship with governments was getting the environment right for sustainable extractive industry development. This meant developing the right policies and framework, but the real concern was whether there was the government capacity to implement these the way they were designed. The Bank, therefore, worked to ensure the capacity existed for effective regulation and oversight, and sought to find ways in which they could provide added value in terms of development impacts.

**Revenue Management**

Revenue management was an issue being addressed by oil, gas and mining staff at the World Bank, but they had yet to find answers to the many problems posed.

A representative from an indigenous people’s organization asked whether governments could be trusted with policies to transfer shares of oil revenues to the municipalities where it was extracted. Some indigenous groups had become impoverished due to the way big companies had managed their projects, he maintained.

**Effectiveness of Safeguards**

An Ecuadorian NGO challenged both the effectiveness of World Bank Group safeguards and the idea that extractive industry investment necessarily relieved poverty. The World Bank Group inspection panel itself had pointed out that the environmental impact study for the Prodeminca project in Ecuador had been badly conceived, with inadequate prior consultation. The failure of oil developments to alleviate poverty had been outlined in an Oxfam report and by the testimony of the human rights NGO from Ecuador.

In response, a senior World Bank environmental officer commented that the mining technical assistance project in Ecuador had been designed to increase government capacity to facilitate forest mapping (including national forests not open to exploration) and to foster a climate for attracting private investment. The inspection panel had ruled that publishing maps of the excluded areas not open to exploration would not be in the government’s best interests. He, himself, was not aware of a lack of consultation in the preparation of the environmental impact study and would be concerned if that were the case in connection with a World Bank or IFC loan. Regarding the advisability of increasing World Bank Group lending to the oil, gas and mining sectors, the Bank was already focusing it efforts on improving government capacity to manage the sectors, so that the private sector would better contribute to development.

**Increase in Poverty**

A human rights NGO called for World Bank presentations on extractive industry cases in different countries and how they had contributed to development. His earlier testimony concluded that the oil industry had not helped relieve poverty; but rather deepened it. The question was what responsibility the oil industry had to bear for this, as the problem did not only lie in how oil resources were managed, and what the social and
environmental impacts were. Also relevant were the arrangements that conditioned the economy, and this was an area where the World Bank Group could do much more. For example, in Ecuador’s case, management of their external debt was one of the main areas where the World Bank could contribute ideas, processes and mechanisms; wealth generated from the country’s natural resource extraction could then be used to relieve poverty.

**Small-scale mining**
A representative of small-scale miners in Ecuador reported how a very small contribution in the country had made possible the reorganization of the artisanal and small-scale mining sector, legal formalization of its operations, improvements in technology through training, raised awareness, harmonization of mining relations, and even introducing processes to diversify the productive sector through the reinvestment of small-scale mining profits in mining, and other activities. The speaker called on the World Bank to support small-scale miners who wanted to develop sustainable activities.

**New Role for the World Bank Group**
A representative, of a Brazilian research and exploration services institute, commented that if the World Bank Group were to withdraw from the extractive industries, the sustainable development process would be inhibited due to the rising demand for natural resources. However, the oil, gas and mining industries were businesses, and businesses were not generally responsible for solving social issues; this was the field of public policy. If business failed to solve social needs, it was indicative that there was a failure in public policy-making e.g. relating to distributive aspects and environmental protection. Brazil had examples both of mining activity that greatly increased poverty, and also where it fostered the quality of life in the community. The latter occurred where companies and governments worked responsibly together to ensure the equitable distribution of resources from projects. In the Brazilian Amazon, there were examples of towns where organized mining had led to the highest rate of evolutionary human performance, and of the worst performance in towns where mining was improvised and informal.

The Head of the Mining Department agreed that the different components of the World Bank Group could be better coordinated. Its management needed to ensure that Country Directors, and other managers, were integrating their departments to deliver seamless packages of social, environmental and economic assistance. Business Partners for Development was a partnership between components of the World Bank Group, 12 companies and some NGOs, and was exploring ways companies could contribute to sustainable development, in addition to being profitable enterprises.

**Extractive Industry Projects in Latin America and the Caribbean**
In a session focused specifically on the World Bank’s involvement in Latin America and the Caribbean, the Oil, Gas and Chemicals Department explained that, since 1993, the World Bank had worked with governments on seven oil and gas projects. Their focus had been on sector reform, development of natural gas and support for capacity building with governments and communities. On the mining side, over the same period, there had been
three projects. The IFC had made ten investments in oil and gas, and 24 in mining, where
the emphasis had been on promoting sustainable development. MIGA projects had
mostly been in mining.

On the oil and gas side, the World Bank worked with governments to help improve the
performance of the sector to foster opportunities for private investment, which the IFC
could help finance. For example, the Bank helped Argentina with the reform, and
liberalization, of its state-controlled YPF oil company. This enabled five of its service
companies to access the necessary financing to develop as businesses. This contributed to
a significant increase in oil and gas production in Argentina, making the sector a net
generator of funds for the central and provincial governments to use for development.
Employment opportunities were created and environmental remediation work was
undertaken at newly acquired oil fields, several of them becoming ISO certified for the
way they dealt with the environment. The IFC had eventually withdrawn because the
sector had matured and its support was no longer needed.

Mining assistance to the government in Argentina was aimed at reinforcing the legal and
institutional framework, setting up taxation systems, and providing necessary local
training facilities to ensure the sector’s contribution to sustainable development. As a
result, confirmed by a government research institute, there was a large increase in mining
investment, which rose from $240 million to more than $3 billion. This, in turn, led to an
increase in output with Argentina’s mining exports today equaling those of beef. The task
was now to sustain a high level of technology and raise skill levels to maintain the
efficiency of the mining sector.

Strategic Social and Environmental Management
World Bank Group involvement in the Bolivia-Brazil gas pipeline ostensibly comprised a
loan to the Government of Brazil, and a partial guarantee against risks. But its real role
was to plan the environmental and social management of what was a very complex
project, emphasized the World Bank’s lead environmental specialist for Latin America
and the Caribbean. Considering the total cost of the project, $2 billion, the World Bank’s
loan was small. Nevertheless, in partnership with the Inter-American Development Bank
and Andean Development Corporation, the Bank insisted that all relevant environmental
and social policies were followed and only one set of environmental specifications were
used for the project. In addition, only one environmental supervision company was
employed, and an environmental auditor, reporting to the banks, assessed the work of
contractors and the performance of supervisors. It was explained that environmental
control and monitoring could only take place when the sponsors, owners and financiers
agreed to manage the pipeline as one working unit.

The World Bank also initiated dialogue with the Government of Bolivia on the potential
social and environmental impacts of accelerated natural resource developments. The
Bank ensured that, for the first time, there was a strategic environmental dimension
employed for the increase in the exploration, and exploitation, of gas in Bolivia.
**Working with the Private Sector**
The World Bank had worked with one Brazilian company, Samarco, on iron production. It was a good example, an IFC economist suggested, of how a firm could combine corporate social responsibility with financial success. Over the period of the Bank’s involvement, the company transformed itself into one of the best employers in Brazil, in terms of its investment in human capital. It had also become an active member of the community, supporting training and education, raising awareness on environmental issues and participating in micro-credit programs to support the growth of SMEs.

**Cleaning-Up the Past**
Examples included the IFC’s potential investment in a company that was undertaking the clean-up and exploitation of silver mines abandoned in south Mexico in the 1920s and 1930s. The company had started an innovative program for training local suppliers in the basics of contracting services and participating in procurement processes. Another project, in Ecuador, aimed to prevent a future environmental legacy from abandoned small-scale mines. Working with the government, the World Bank helped set up a legal framework and develop mechanisms to enable small-scale miners to access the technology needed to improve safety levels. Today, Ecuador was probably the Latin American country with the highest share of legalized small-scale mining.

**Questions**
World Bank Group staff were questioned on the main role they saw for the Bank and for clarification of policies underlying activities like institutional strengthening and technical assistance. Participants asked whether there were contractual requirements for public consultation and negotiation; whether there was a policy to increase the value of extracted materials through local downstream processing; and why the World Bank was considering no longer investing in Latin America and the Caribbean, and what it might invest in instead. Participants wanted information on the Bank’s progress on poverty reduction and results of audits on the contribution of its projects to sustainable development. Was there the possibility of mitigating environmental liabilities from the past, and who could guarantee risks, and cover environmental liabilities, after privatization? Other concerns included the need to include small-scale mining, the ongoing need for training, and education to foster a culture of care at the local level.

**The Role of the World Bank Group**
World Bank Group staff explained that they had to ensure projects were viable in all economic aspects, including political risk, and as a Group they ensured all people were consulted on social and environmental concerns, especially for large projects. 13 of MIGA’s 24 mining projects, and half its overall business was in the Latin America and Caribbean region. In the Antamina project in Peru, MIGA had been actively involved in conflict resolution: in its role as a political risk insurance agency, it facilitated consultation between communities and mining companies with a view to avoiding claims that could arise between them.

The overall role of the World Bank Group in the extractive industries was to ensure the contribution of projects to sustainable development. For example, in Bolivia this might
include reaping more benefits from the extraction of a scarce resource, with downstream industries that ensured greater local participation. There was a role for the World Bank Group to help local entrepreneurs, through IFC financing and strategic plans with the government. But, it was important to recognize that mining companies were not necessarily wealthy and that being able to produce at the right price over the long-run was very important.

The World Bank Group also had a coordinating role to play between government, industry and civil society. It was in this way that the Latin American Organization for Energy, the Association of Oil Companies, and the Coordinator of Indigenous Organizations had come into being.

On the role of the World Bank Group in Latin America and the Caribbean, the Head of the Oil, Gas and Chemicals department agreed that the Bank had withdrawn over the past two to four years. He noted, also, that the world had changed since the Meltzer Commission, appointed by the U.S. Congress, demanded that development banks withdraw from financing oil, gas and mining projects as they could be done by the private sector. The regional departments and country directors, that set the strategy for the World Bank, were still suggesting that such financing and assistance was not needed. World Bank Group Management also felt there were other priorities they wanted to focus on.

**Evaluating Performance**

For evaluating performance, the IFC typically looked at projects five years after they were approved and assessed them in light of economic indicators. In addition to whether projects complied with, or surpassed, World Bank Group guidelines, development outcomes were analyzed based on the company’s own success, i.e. whether it was making profits and exceeding its capital costs. Evaluations looked at job creation, local living standards, schools, investment, training, and taxes generated for the government. Private sector development was also evaluated.

**Fighting Poverty**

Some participants believed that if the World Bank had not really contributed to the eradication of poverty, it should withdraw from the oil, gas and mining sectors. Conditions in some countries, one speaker suggested, were not right for industry to solve the problems. The World Bank Group could help promote government transparency, strengthen democratic institutions and facilitate public participation. If the World Bank Group withdrew from oil, gas and mining, it could invest in education, sustainable agriculture, and tourism, sectors that generated more employment and held generated wealth in the communities.

**Training**

The importance of the role of the World Bank in training was evident in the case of the Bolivia–Brazil pipeline. Due to the social impacts of the project, the Bolivian government was asking for a technical assistance loan to cover innovation and learning, and improve the capacity of shared management in the gas sector. This was an enormous training need.
9. Three Scenarios

Based on case studies, World Bank Group presentations, and discussions, working groups were asked to consider three possible scenarios for the future involvement of the World Bank Group in the oil, gas and mining sectors:

- Complete withdrawal
- Continuing the status quo
- Change and expansion

Each of the three groups were asked to look at the opportunities, and risks, of each scenario for the four main players—industry, government, civil society, and the World Bank Group itself.

Complete Withdrawal

For industry, complete withdrawal of the World Bank Group from oil, gas and mining would allow industry to work free of World Bank controls, in a market-based economy with lower environmental standards. The main risk would be the loss of a strong source of financing, exposing the industry entirely to expensive commercial financing. A transition period for adjustment would be needed.

For the World Bank Group, withdrawal from the extractive sector would release resources for other projects. But there may be loss of expertise within the World Bank in some areas, and it would no longer be able to deal with problems known to exist in the sector. There would be less than best practice standards applied in the industry. The Bank would be less subject to political pressure and have a greater opportunity to influence poverty. Against this would be risking lower chances for development in countries rich in natural resources with extractive industries, but with lower social standards, greater environmental impacts, and a demand for World Bank assistance. There would be less chance for community development in remote areas and an increase in inequality. Finally there was the risk that the Bank would appear disconnected with an important industrial sector.

For civil society, the withdrawal of the World Bank from oil, gas and mining would increase the amount of support for projects beneficial to communities. The risks included a loss of influence over the development of projects in the sector, the loss of an interlocutor, and lower socio-environmental standards leading to greater negative impacts. Lower levels of investment may lead to fewer resources available to fight poverty in remote areas. Civil society would also lose a facilitator for conflict resolution.

For government, World Bank Group withdrawal may allow governments a greater degree of self-determination, greater authority to define projects, opportunity to cooperate with other governments, and encounter fewer problems with civil society. Risks included the loss of support for institutional strengthening and discontinuity of development politics. There may be a general climate of distrust for investors.
Maintaining the Status Quo
For the World Bank Group, opportunities lay in ‘frontier’ countries if present practices were left unchanged. The status quo was the safest option in operational terms, particularly if the Bank embarked on a project in an uncertain situation. The risk of maintaining the status quo would be that the oil, gas and mining sector may not make an adequate contribution to potential needs, e.g. UN Millennium Development Goals.

For civil society, the World Bank Group, in its present role, acted as a ‘knowledge’ bank for disseminating information. While the Bank would have limited intervention at the country level, multi-sectoral discussions, for example, the EIR itself, could be created and have a greater influence on World Bank Group operations. There could be some opening towards social and other themes. The risks in continuing the way things are now included meeting strong environmental standards only to comply with Bank criteria and the possibility for corruption in the process. There was deficient completion monitoring and Bank rules and procedures were rigid. The Bank also intervened in the interest of some governments, and depended on them.

For Governments, present opportunities included an alliance for institutional and corporate strengthening, working as a motivator to implement better sustainable practices, availability for assistance for citizens, and sustainable environmental development of the extractive industries. The Bank could also provide a reference for new regulatory frameworks. The risks for governments lay in the tendency for the World Bank Group to reduce its financial contributions to the extractive industries. Governments would maintain an erroneous perception as to the importance of the extractive industries for sustainable development. Projects had a good impact but with limited sustainability afterwards.

Change and Expansion
In the change and expansion scenario, the opportunities for the World Bank Group in oil, gas and mining were felt to lie in supporting governments, civil society and companies in their contributions to improving the conditions of peoples’ lives. The Bank could be the leading player with a common approach for the change processes in the fight against poverty. This would come through strengthening of governance and stimulating the participation of all the players in development projects.

There was an opportunity to improve the Bank’s image among the different players by modifying its way of working and its communication with them, especially those in civil society that resisted further extraction activities. This might involve supporting communities with technical assistance services and industry with access to finance. Risks were that World Bank inputs might not be needed, that partners did not accept the proposals for change and that governments could react negatively to what they regarded as the Bank’s “interference”.

For companies, there would be opportunities to expand financing to small-scale and artisanal mining and to improve their environmental and social practices. Technical and financial support to business could diminish environmental contamination. With greater
access to World Bank credits, companies could bring greater benefits to the communities, helping with strengthening the institutions of indigenous people and civil society and building their capacity to manage and find solutions to conflicts and undertake negotiations. This would contribute to confidence within the tripartite dialogue. Risks for companies included mining laws that bypassed the autonomy of indigenous people, public disorder and political and social instability, and legal uncertainty.

For civil society the opportunities lay in improving the capabilities of the players, empowerment and greater participation, reconstruction and giving greater support to small-scale mining and artisanal mining. There was an opportunity to improve social, environmental, technological standards in mining in general and to increasing investment to resolve the backlog of environmental problems. Perceived civil society risks included proliferation of illegal mining and the politics of controlling it and increasing impact on the environment. It could occur that civil society was not prepared to participate and that the Bank neglected social investment in other sectors such as education, health, water and nutrition. There could be lack of coordination between the extractive industries and the capacity of civil society.

For governments, increased World Bank activity would be an opportunity to finance Government initiatives to develop the extractive industries, including improving geological information. They could train staff in financial control and monitoring. They could support extractive projects primarily through financing of the social portion. Governments would also be able to finance the strengthening of local organizations and the processes of tripartite dialogue and conflict resolution. Government risks lay in following the criteria laid down by the World Bank Group and accepting its evaluations. Governments may lose trained staff through emigration. There might be demands to prioritize adequate social investment, and politics might interfere.

**General Discussion**

A participant who preferred a major change in the role of the World Bank Group rather than increasing its activities wanted the Group to work with governments and companies so that development of the extractive industries really benefited society. The Bank was very important to the sector and should not stop participating, he added.

**New Private Sector Competencies**

Agreeing to a refocused role, an industry representative recalled that the workshop had heard about both the benefits and the costs, and the good and the bad practices. Companies, he felt, would need competencies in development assistance that they currently did not have. Whether the Bank fulfilled that role was the question the workshop was trying to address. Poverty alleviation, he noted, was a relatively new mission for the Bank: it meant that the Bank went where poverty had to be eliminated, no matter whether the country was a difficult or simple one. The Bank’s challenge was to devise products and services that worked in those conditions. At present, some companies managed their risks by investing to make sure that their partners had the right competency to sign all the contracts, the industry participant pointed out. Perhaps the Bank’s MIGA component could provide some of those services.
**New Bank Attitudes**

Among specific changes, one speaker agreed with Dr. Salim, that more than anything, change was needed in the attitude of the Bank. Environmental solutions, he said, had not been contemplated in many projects. It would be necessary to increase resources and to strengthen the indigenous organizations and civil society: at present the dialogue was a situation of inequality. Within civil society, communities had to have the possibility of being informed and to be able to participate in processes on whether or not they wanted the extractive industries to be developed. However, at least one speaker insisted that it was the role of governments, not the Bank, to train communities. It was government that had to realize the need for capable counterparts. The Bank would only be able to give conditions to governments to generate capacity to reduce poverty.

**Institutional Invigoration**

Another participant wanted institutional invigoration of the countries as the main change: to enlarge and improve administrative capacities. The Bank should support this and everything related to small and craft mining. It should also start making diagnoses of viable and non-viable sectors followed by restructure and increased assistance to the non-viable ones. The Bank should improve governance conditions in the region.

**Poverty Reduction**

To reduce poverty levels, one speaker proposed, the Bank should also consider both better redistribution of revenues coming from the extractive industries and monitoring of socio-environmental standards. One of the main problems companies faced was that they thought they were accomplishing their social role by paying taxes, but often the governments did not redistribute the revenues equitably. The extractive industries were then seen as a sector that did not contribute to reducing poverty levels. But companies were unable to tell governments how they should spend their revenues: if they did encroach on the sovereign rights of governments, they told where the line was.

Monitoring of socio-environmental standards should be from the perspective of reducing poverty levels, i.e. if the investment were generating economic growth, and if that growth reduced poverty. Often the indicators either did not exist or were not right. Poverty would only be overcome, insisted another speaker, when the region achieved bigger and better indicators of growth. A company representative thought that a consensus was needed regarding performance standards for sustainable development (a relatively new concept) that were hard, realistic, what people wanted and viable. Relatedly, poor performance according to such standards would require auditing and verification—areas where an organization like the Bank could play a useful role.

Referring to two important triangles (government-industry-civil society and the environmental-social-cultural dimension), an indigenous peoples’ representative believed that poverty eradication was possible provided there was dialogue and then consensus within the three sectors. Rights existed, he emphasized; towns had to define themselves and create identities that a consensus could take into account and on which trust could be built. It was important to work together to create a climate of trust in order to be able to
work out a development plan. The Bank, other interventions pointed out, had a role in improving the capacity of the industries and the government to understand the communities; it could open channels of dialogue and recommend follow-ups.

**Environmental Legacy**
An implicit role for the Bank, undefined in the workshop, lay in a discussion of environmental legacies that fell to the State when State-firms were privatized. Often, in Latin America and the Caribbean countries, the World Bank had financed the processes of privatization, it was pointed out. But the new owners took only the good part of state activities; the environmental liabilities remained with the government.

**Neutral Broker**
A number of comments referred to the Bank as neutral broker that created channels of dialogue—from the institutional policy of the government, the company and from the community. The neutral broker could help the process, but the institutions themselves had to open and create the space for dialogue channels. Tripartite committees could promote dialogue and the Bank could support those committees’ actions. Operational guidelines could improve the Bank’s role in advising governments and companies, using the experience of other places where guidelines had been better implemented and better practices existed. A complementary activity would be to generate an information network.

In connection with several references to problems of corruption in connection with government regulation of the oil, gas and mining sector, one speaker warned against seeing the World Bank as a ‘super-arbitrator’ that could resolve the problems of the State. Corruption and lack of transparency had been tolerated in Latin America and the Caribbean states: it was in their own hands to resolve them. The World Bank could work with governments to strengthen their capacities and give them standards. The role of the Bank was precisely that of not being more than a neutral broker.

**Recognize Existing Initiatives**
A government representative felt that it was important for the Bank to take advantage of initiatives that already existed in the region. Governments, he explained, had been working together on mining issues through a Conference of Ministries of Mining in Americas since 1995. The Conference could produce diagnoses of the main problems and those that were most urgent. One of them had been identified as the social, productive and poverty relief dimensions of small and medium scale mining, for example. The Bank could help boost the capacity of governments to carry out their role of control and regulation and to establish channels of dialogue wherein civil society felt heard and indigenous people felt that there was a common table to sit round.

**Local Economic Development Strategies**
For industry, a company representative noted that many developing countries insisted on local people having a very high share of the company work force, which often required technical capacity building. Looking at supply chains, one company was discussing with IFC and already had a pilot scheme in Nigeria by which local contractors became
involved in the oil and gas supply chain. Local economic development strategies in general were an area where the Bank could develop competency that industry did not have. But there were already examples of tripartite dialogue in which not only the companies, government and civil society participated, but also the World Bank—in Peru, indigenous peoples’ organizations would confirm that a favorable climate existed. Where those dialogues had taken place there was no conflict.

A New Role for the World Bank Group
For the Bank, a staff representative appealed for realism concerning what the Bank could or could not do. On one hand when there was a perfect government-industry-civil society triangle, where the private sector could provide the finance, where there was good governance, the Bank was not needed. But usually the Bank was asked to intervene when things were difficult, when governance was not ideal and civil society not so strong. He wanted the workshop to say what conditions and criteria the Bank should apply. In some cases, the Bank had taken the position that governance was way below what was necessary and refused its support, for example.

What the Bank had learned from the workshop was that there was a role to be explored and developed further in helping civil society to level the playing field. The Bank already acknowledged its neutral broker role, but had also to be realistic: sometimes governments changed, sometimes the same government reneged on the agreements with the Bank.

Dissemination of knowledge of best practices concerning the development impact of large controversial projects would be helpful. Where the revenues went and whether local people benefited from them had not been the focus of Bank attention, but it was paying increasing attention to it now. In summary, the Bank role was disseminating knowledge, learning and working with others in partnership.

10. Areas of Consensus
Introducing the closing session, Dr. Salim reminded participants that one specific objective in his own terms of reference had been to understand the views of stakeholders in three areas:

- The best future role for the World Bank Group in the extractive industries in order to promote sustainable development and poverty reduction
- Identifying areas where improvements were needed for World Bank Group operations
- Recommendations to focus, redesign or reconsider, future World Bank Group policies, programs, and projects in the oil, gas and mining sectors

The framework for sustainable development and poverty reduction that he had referred to at the opening was for the future. The Consultation was not looking into the past, because the past had not been taking such ideas into account. The task was thus to identify common areas where participants felt that improvement was needed in order to achieve poverty reduction through sustainable development of the extractive industries.

Another context for the Review was the view that the World Bank Group should not be in the extractive industries, Dr. Salim reminded participants. The U.S. Congress had received such a report two years previously. There were also NGOs that demanded that
World Bank Group involvement should stop right now. The question, however, was what did Latin American stakeholders think: should the World Bank Group be in, out or how?

But if it were established that the World Bank Group should stay involved, what were the areas of improvement needed? In Dr. Salim’s view the Consultation, recognizing the triangle of sustainable development and the power relationship between government, business and civil society, had identified, ten issues for on which he would want specific recommendations from Latin America. They should be durable, implementable and deliverable by the World Bank Group. These were:

- Empowerment of civil society
- Good governance
- Social and environmental responsibility of business
- Capacity building
- Small-scale mining
- Environmental liabilities (cleaning up the past)
- Standards, guidelines and monitoring
- Conflict management
- Revenue management
- Partnership development

The Consultation’s recommendations would be taken seriously, Dr. Salim promised, not only from representatives themselves, but as a reflection of the spirit how Latin America saw the role of the World Bank Group in the extractive industries and how they could reach poverty reduction through sustainable development In addition, Dr. Salim said he would present the Consultation’s views to the World Bank Group Executive Directors for Latin America, not as his own ideas, but as the concerns, the voice and aspirations of the friends from Latin America.

Ten working groups were set-up, each assigned to one of the issues. They reported as follows:

**Empowerment of Civil Society**

To empower civil society, it would be necessary to set up equitable decision fora, develop citizens’ capability to participate in project decision-making and to study economic and environmental impacts. Empowerment, it was understood, came through knowledge needed to take decisions, e.g. the indemnity process in the case of damage caused by certain actions.

In the interests of fair dialogue, the Consultation recommended that the World Bank Group contribute to the building of decision fora drawing on the balanced and informed participation of representatives of the existing organizational patterns of the players involved, the government and industry. The Bank should also contribute to the development of capacities for citizens’ participation in both the planning and implementation of projects and the monitoring of the use of resources flowing from the extractive industries. Thirdly, the Group should finance economic-ecological zoning.
studies as a means to diminish conflicts. All would call for non-reimbursable funds, which the Consultation recognized as a limitation.

Good Governance

Governance, one group agreed, was apparently an unsolvable problem in Latin America and the Caribbean countries. This called for the greatest presence of the Bank. The group also wanted the extractive industries to be competitive and efficient, and to work in a framework of sustainable development, including sustainability of the regions and communities after the extraction activities ceased. All of that had to be done by development of governance more than government. To improve governance there should be clear environmental and social policies, systems for distributing benefits flowing from extractive industry activities, capacity building, better information flows and access to clean technology.

In order prepare or update clear environmental and social policies, the World Bank Group should develop participative processes involving oil-, gas- and mining companies, civil society and governments. Their joint consultations and joint preparation of polices should respect and reflect agreements and outcomes of international and regional fora. To design efficient systems for distributing the benefits, the Bank should support regulations, local distribution policies and social monitoring mechanisms. Training, new processes, infrastructure and information would be necessary to strengthen the capacity of management to undertake dialogue and mediation, and to design and implement fiscal policies. The Bank should support (including provision of simple financing) long-term research programs and regional communication mechanisms to develop and transfer clean technology appropriate to local needs. The EIR report should be sent to governments, civil society and the oil, gas and mining companies.

During discussions, the point was made that development of extractive economy areas had large and inescapable political dimensions that depended on the capability of democratic and political systems to resolve the conflicts generated by the extractive industries. It was specifically recommended, therefore, that the Bank take political factors into consideration by investing not just in extractive industry development but also the social, economic and production development of the regions. Development loans would generate incentives for development and reduce social and political polarization.

Another comment from the floor clarified that governance was an issue within the framework of sovereignty, something the Bank should collaborate on increasing. At the same time, governance was not only an issue for central government; it involved all social actors and corporations. Civil society, NGOs and governments were the protagonists, the World Bank was a collaborator with them.

Continuity and coordination of public policies and the need for all players to support and monitor good governance interventions were identified as potential problem areas.

Social and Environmental Responsibility of Business
Better business practices and commitments to environmental and social matters should be promoted through their incorporation in financing requirements, dialogue between the various actors and development of performance indicators.

To promote good practice and company commitment, the World Bank Group should develop effective publications, workshops, meetings and other mechanisms, stimulate channels of communication among the players, and periodically report the results of such efforts. Incorporation of internationally recognized completion practices in financing requirements would require the World Bank Group to help build up codes of business conduct and to complete socio-environmental audits of the processes.

To promote dialogue and harmonization, the Bank should call for inputs from the three sectors as part of its requirements. It should also try to replicate successful experience of dialogue and conflict resolution. Development of basic social and environmental performance indicators would call for the Bank to organize a working group from the three sectors to draw up basic documentation, to mobilize discussion and meetings with groups involved, and to validate and circulate the indicators.

Constraints on improving business responsibility aspects included the capacity of civil society and governments to access information and to understand what was going on. Others were the reaction of companies and difficulties of reaching consensus on codes of practice, and the lack of representation and distrust among parties.

**Capacity Building**

While capacity building was called for under several recommendation areas, specific support from the World Bank Group was proposed in order to facilitate tripartite processes, to equalize management capacity and knowledge, to develop sustainable community alternatives and for participation in monitoring.

For better training to enable tripartite processes and make them more effective, the Bank should support seminars and workshops to build trust and mutual understanding, identify common interests. It should find resources to strengthen management capacity and raise knowledge levels to make management of projects more viable in terms of sustainable development. Parties should agree to dedicate part of their revenues to long-term training, including training people so that their own communities could manage sustainable development projects.

Also, part of the Bank’s oil, gas and mining projects would cover training to develop sustainable community alternatives and to prioritize and value local resources. With the Group’s project design and implementation processes there would be training for participation in socio-environmental monitoring.

The Consultation recognized as problematic the difficulties of finding adequate training organizations, government policies, in assigning part of oil, gas and mining revenues to education and in adjusting regulatory frameworks that covered social and environmental monitoring.
Small-scale Mining
The Consultation considered that the World Bank Group should support small-scale mining in areas of its formalization, government administration, social and environmental improvement, evaluation and monitoring.

Formalization and legalization of small-scale mining operations would call for the Bank to assist with financing, technical support and training in organization, in socio-environmental and socio-economic as well as in technical aspects of the industry. Bank-organized exchange of successful experience and involvement of universities and socio-environmental foundations would strengthen the capacity of governments to administer the small-scale mining sector. World Bank Group master plans and allocation of funds in stages, both as grants and credits would be needed to finance socially and environmentally responsible small-scale mining projects.

The Group should also support development and implementation of environmental technologies applicable to small-scale mining, help make governments aware of small-scale mining as a social problem, e.g. suggesting that they include social responsibility as a formal obligation of government and business, and assist governments and NGOs to develop incentives (i.e. economic and other benefits) for socially and environmentally responsible operators. Through governments, NGOs and community representatives, the Group should support small-scale mining evaluation and monitoring programs.

Constraints on the World Bank Group’s ability to support small-scale mining were identified as internal government policies, lack of dedicated offices to help strengthen small-scale mining administration the countries involved, the organizational problems in awareness building, and the need to reach and circulate agreements concerning evaluation and monitoring programs.

Environmental Liabilities
To support efforts to clean up the oil, gas and mining environmental legacy of the past, recommendations included grants for quantitative and qualitative inventories of liabilities, identifying technologies to mitigate them and implement corresponding projects and to assist in prioritizing the liabilities on the basis of socio-economic and environmental risk. The World Bank Group should also promote interchange and make public the experience of successful experiences in managing environmental liabilities. Through interaction with government, civil society and industry, it should develop mechanisms to apply resources to a sinking fund. Limitations in these endeavors were likely to be the resources required—human, physical and technological institutes.

Standards, Guidelines and Monitoring
Three areas of Standards, guidelines and monitoring would benefit from World Bank Group support, the Consultation felt: preparation of social and environmental guidelines for mining (and separately for small-scale and artisanal mining) and empowerment of environmental authorities; communities; and introduction of standardized indicators.
Environmental and social guidelines should distinguish the various phases of extraction—from exploration to closure—and include detailed analysis of environmental and social aspects. Support for their preparation should include their translation and circulation in several languages: existing World Bank guidelines were available only in English, downloading from the internet was a long and difficult process, and the cost otherwise was $125).

Distinct guidelines for small-scale mining should recognize its additional costs and growing environmental impact. They should include capacity building for the mine operators and local communities. Empowerment of environmental authorities and communities to undertake environmental impact studies should feature in technical assistance linked with IFC project financing. Systems of standardized indicators should be cost-effective, easily read and applied, and adjusted to local realities in each country—such as what was happening with redistribution. Indicators of environmental impact should be less vague; other should be introduced to measure poverty and sustainable development.

**Conflict Management**

When the World Bank Group participated in oil, gas and mining projects, there was a potential role for them to facilitate conflict mediation. This may be complex, and costly, but project agreements should recognize the need for such conflict management tools and a process should accordingly be built in.

Achieving these aims would call for the Bank’s involvement in building capacity at the local level, such as technical and conflict resolution training for all players, and roundtables for dialogue.

**Revenue Management**

Issues identified in the areas of equitable distribution of revenues from oil, gas and mining projects were the need to increase revenue flows, allocation of fiscal revenues from rents, taxes and royalties, efficient allocation of resources, setting up a program of impact measurement and stabilizing the use of the resource.

World Bank support was needed for activities that increased the value of resources generated by the extractive industries. In particular, this could be through financing activities with greater added-value components, such as introducing technology or increasing use of the resources to generate more value as a means to increase revenue flows.

The Bank should support development of institutional frameworks including all legal aspects at different levels for allocating fiscal revenues with more balance between the center and the regions. This was particularly needed in decentralized countries with regional and local governments. The Bank could also help with credit programs and “lease for learning and innovation” loans to strengthen capacity at regional and local level.
Programs of sectoral adjustment were needed along with improved legal and institutional frameworks that offered incentives so that development of the extractive industries had a more favorable impact on the country’s overall development. This was important at the macro level where the extractive industries were on such a large scale that they distorted the economy to the detriment of development of other productive activities.

Bank support was needed in the form of additional elements of judgment for evaluating and measuring the impact of the extractive industries, and how well or poorly its resources had been used to promote development in the regions. Assistance was needed to develop instruments that would stabilize the use of resources generated by the extractive industries. At national level this would stabilize national expenditures, smoothing them out over time.

**Partnership Development**

Partnership development would involve setting up and supporting a roundtable for a tripartite dialogue between civil society, the government and industry leading to recommendations that would link all the parties. The roundtable would be financed by the Bank. There would also be follow up and participative monitoring socio-cultural and environmental impacts.

The World Bank’s role would be to help define a clear agenda, the sectors, the goals, and the links between the extractive industries, poverty alleviation and social development. It would define how to organize the representation (e.g. by sub-sectors, regions or topics), ensure that civil society was adequately represented, and provide relevant technical assistance, advance information and studies. Bank support would also generate learning materials and information, and at the same time promote trust between the parties.

Partnership should also focus on monitoring of socio-cultural and economic environmental impacts of oil, gas and mining activities. With Bank support it would generate tripartite advice for both investment and development projects in the extraction sector. This would require access to information and an information network as well as resources to carry out the follow up.

**11. Closing remarks**

Closing the Consultation, Dr. Salim summarized the conflicts of interest that existed between major stakeholders during the meeting.

Civil society had highlighted the lack of environmental management in the development of the extractive industries. They were not demanding only output, revenue and money, but reminding all to uphold the dignity of man, protect indigenous people, and not forget the poor. Industry had highlighted the major contributions they made to government budgets, in the form of taxes, royalties and infrastructure development. How revenues were spent, and whether they were used for poverty reduction, in particular, was the governments’ responsibility. Governments underlined the fact that they were accountable to their parliaments, which passed their national budgets. Whether the amount allocated to poverty eradication was small or large,
parliaments had a responsibility to tell their governments where the shortcomings were.

But, while poverty had been reduced at the end of the 20th century, more than two billion people were still living below the poverty line, hunger prevailed, health was bad and more than one billion of the world’s population had no access to drinking water. The World Bank Group had explained its own constraints; it could not replenish IDA loans because the U.S. Congress was not extending sufficient funds, and it could not get more money from financial markets because the triple “A” standard, on which it relied, was being jeopardized by civil society’s attacks on the World Bank.

Looking to the future, the key notion was that major players in development should work together and build trust. During the Consultation, it seemed to have been accepted that stakeholders should work together. The goal was now to move closer to the goals of poverty alleviation through sustainable development. All workshop recommendations would be put on the record, including the alternative views. Dr. Salim concluded by suggesting representatives also convey their opinions on the role of the World Bank Group in the extractive industries to World Bank Executive Directors in their own countries. In the final analysis, the EIR report would be assessed by the Executive Directors, who would in turn advise the World Bank Group management on the decisions to be taken. By making themselves heard, stakeholders would be able to shape World Bank activities in the oil, gas and mining sectors in the direction of poverty alleviation through sustainable development.
Annex 1

The Extractive Industries Review
Latin America and Caribbean Regional Workshop
Rio de Janeiro, Brazil
15-19 April 2002

Post-Consultation Statement by Civil Society

12. Alternative views

Concerns in Ecuador
An example of disagreement over the way the World Bank Group proceeded in practice, was the intervention of the ecological conservation NGO, Decoin, Defensa y Conservación Ecológica de Intag, from Ecuador. Referring to the Ecuador Government’s $24 million Prodeminca project to promote mining, partly by generating geochemical information in the western part for sale to industry, the Bank’s contribution, said the speaker, was a $14 million loan. The NGO became concerned when project personnel, mining experts, entered Ecuador’s protected areas—the Catacahi Cayapas and Chocó—apparently with the permission of the Government. It was at that NGO’s request that the project had eventually become the subject of a World Bank inspection panel investigation. The speaker claimed that the panel’s report found basic policies had been violated, including the provision that local communities be consulted in connection with the requirement to prepare a study of the environmental impact.

The NGO was also concerned over the outcome of World Bank policies to modernize mining legislation, in order make mining more attractive to companies. Partly this had been good—its elaboration of rules for mining in protected areas, for example. But modernization for the Bank also included the elimination of royalties, which was what Ecuador eventually did. Today, companies could prospect and prepare for mining for a fee of $1 per hectare. Only when they began producing did it rise to $16 per hectare. The speaker worried that such changes would influence the legislation of other countries, leading to competition among them to have the most attractive laws for companies.

Civil society statement
Following the Consultation some participants from civil society highlighted several issues concerning the Consultation and whether or not the extractive industries had contributed to poverty alleviation in the region.

The Consultation, in their view had a limited focus, unequal participation and lack of information. The overwhelming number of participants from the mining and oil sectors, as well as those having first hand access to information about their respective activity had unbalanced the participation and limited analysis of the problems.
On the substantive side, the focus on whether or not the extractive industries generated wealth had been misplaced: the answer was obvious—those industries were among the most profitable in the world. What should have been discussed, in their view, was that this wealth had not been fairly distributed, had not contributed to economic development, and had not been an effective response to combating poverty. It was also crucial to analyze how Structural Adjustment Policies had contributed to poverty, and to set priorities in order to ensure that the most effective strategies in alleviating poverty were implemented.

The World Bank’s participation had contributed to the imbalance with an overwhelming presence (especially through its presentations): this should be modified in the remaining Consultations. Moreover, the information provided had been neither objective nor appropriate for the Review. Useful information would have included economic and social analyses that would have helped to understand the problem of poverty, and to put the role of the extractive industries into context within it.

The statement recommended that the Review's focus be expanded. In order to evaluate the problem, it was necessary to have a comprehensive understanding of the economic, social and environmental consequences of development through extractive activities. The World Bank, in the alternative view had not been able to prove that the extractive industries contributed to poverty alleviation. Therefore, it should redirect its investments to other sectors, and reorient its development policies toward activities that had a greater impact on the fight against poverty—such as education and health, sustainable agriculture and tourism.

Given the negative economic, social and environmental impacts, this view rejected all efforts to indiscriminately expand oil and mining activities in Latin America and Caribbean countries. These activities threatened the natural resource base on which other current and potential productive activities depended. In contrast, civil society organizations should be strengthened through investments in projects designed to promote sustainability and to contribute to poverty alleviation. Development resources should be redirected toward support for small-scale and artisanal mining, as well as toward mitigating the environmental impacts caused by the extractive industries in the region. The World Bank and governments should respect the wishes of the local communities when they are in opposition to extractive projects that threatened their way of life.

**Overwhelming community impacts**

Indigenous community representatives specifically underlined the overwhelming social, cultural, economic and environmental impacts of the extractive industries on indigenous territories that the communities there had to bear—for which there had to be indemnity to compensate for the negative effects of the activities. They pointed out that there had been a failure to recognize their fundamental rights, such as legal entitlement to territories and organizational structures. There had been constant attempts to manipulate their leaders, with the intention of dividing their communities. There had been no standards and procedures to guarantee prior consultation, and their right to participate in decision-
making. There were also no policies and procedures to guarantee that communities benefited from profits generated by the extractive industries, and that these contributed to the development of their communities and to poverty alleviation. Indigenous communities' participation in tripartite dialogue did not meet the basic principles of equity—given their unequal standing, not only financially but in terms of capacity, vis-à-vis government and industry.

At the same time, the World Bank and government information systems were extremely limited and inaccessible by indigenous communities. Extractive activities in indigenous territories also threatened biodiversity conservation and ancestral traditions, which were guaranteed by other international instruments such as the International Labor Organization's Convention 169 on Indigenous and Tribal Peoples in Independent Countries, as well as the Biological Diversity Convention. The World Bank had also not followed the policies and processes for indigenous peoples as recommended in the revision of the World Bank’s Indigenous Peoples’ Policy (Operational Directive 4.20). That document did not emphasize recognition of the fundamental rights of indigenous peoples already guaranteed internationally, e.g. the right to land and territories, natural resources, cultural integrity, right to self-determination, customary decision-making and conflict resolution processes, the right to informed consent, among others.
Annex 2

The Extractive Industries Review
Latin America and Caribbean Regional Workshop
Rio de Janeiro, Brazil
15-19 April 2002

Agenda

(All events took place at the Carlton Rio Atlántica Hotel)

April 15
Open Forum:
Testimonies of local/indigenous communities who’s lives have been impacted by oil, gas and mining projects in which the World Bank Group is directly or indirectly involved.

April 16
World Bank Group Information Session:
For those interested in understanding more about how the WBG works, WBG staff held a series of presentations and question and answer sessions.

April 17
Introduction:
- Dr. Salim
- Secretariat
- Facilitators: Denkmodell

World Bank Group Presentation:
- Strategy
- Policies
- Project Cycle

Environmental/Economic/Social Impacts:
- Discussion in three groups
Presentation of positive/negative impacts by 2 different stakeholders

Information Market Place:
Participants display their own materials

April 18
World Bank Group Presentation:
Projects in Latin America and the Caribbean

Case study Discussions:
3 case studies in three groups
Presentations on economic/social/environmental issues of projects

*Project Cycle/Role Play:*
3 groups discuss different phases of the project cycle

*Scenarios of Future WBG in OGM:*
3 different scenarios for WBG future involvement in OGM: withdraw / business as usual / expanded activities

**April 19**
*Scenarios:*
- Presentation of scenarios from previous day
Discussion

*Recommendations:*
- Discussion about recommendations in groups
- Report back from groups
- Discussion

*Conclusions:*
Wrap up: Dr. Salim
Annex 3

怎样的 extractive industries review
拉丁美洲和加勒比区域研讨会
里约热内卢，巴西
15-19四月2002

名单参与者

Abastoflor, Widen
AIPE - Asociación de Instituciones de Promoción y Educación
玻利维亚
E-mail: aipe@ceibo.entelnet.bo

Acosta, Arias Jorge
协调区域经济和社 essays
Centro de Derechos Económicos y Sociales
Lizardo Garcia 512 y Diego de Almagro
6楼
Apdo. 17-07-8808
基多，厄瓜多尔
E-mail: jcosta@cdes.org.ec

Alzira Duarte, Maria
经济学家
DNPM - Departamento Nacional de Produção Mineral
Setor de Autarquias Norte, Quadra 01 - Bloco B, 70.040-200, Brasilia, DF
巴西
E-mail: dmemng@net.em.com.br

Anderson, Ronald
首席环境分析师
环境与社会发展部
国际金融公司
E-mail: randerson@ifc.org

Antazu, Teresa
秘书处妇女
AIDESEP
Av. San Eugenio 81 Urb. Santa Catalina
利马
秘鲁
E-mail: aidesep@peru.com, antazu2000@peru.com
Aray, Yaritza  
Representante CONIVE  
Oficina Junto a la Direcccion de Asuntos Indigenas  
Edificio Ministerio de Educacion, piso 14  
Caracas, Venezuela  
E-mail: conive@latinmail.com  
No show

Armstrong, Clive  
Principal Economist  
Oil and Gas Department  
World Bank Group  
E-mail: carmstrong@ifc.org

Ayala, Alejandro  
Coordinador Proyecto Páramo  
Conservation International Colombia  
Carrera 13 # 71 - 41  
Bogota  
Colombia  
E-mail: aleaya@tutopia.com

Barreto, Maria Laura  
Investigadora  
CETEM/MCT - Centro de Tecnologia Mineral  
Av. Ipê, 900 - Ilha da Cidade Universitária  
21941-590, Rio de Janeiro – RJ  
Brazil  
E-mail: lbarreto@cetem.gov.br

Barry, Mamadou  
Senior Underwriter  
Multilateral Investment Guarantee Agency  
World Bank Group  
1818 H Street NW  
Washington, DC 20433  
United States  
E-mail: mbarry2@worldbank.org

Bermeo, Antonio  
Asesor en Aspectos Ambientales y Comunitarios  
Ministerio de Energía y Minas  
Baquedano 222 y Reina Victoria  
Edificio Araucaia, piso 3  
Quito
Ecuador
E-mail: antonbermeo@hotmail.com, prodemil@ecnet.ec

Bond, James
Director
Mining Department
World Bank Group
E-mail: jbond@worldbank.org

replaced by Kaldany, Rashad on Wednesday April 17
Director
Oil and Gas Department
World Bank Group
E-mail: rkaldany@ifc.org

Bonelli, Julio
Director General de Asuntos Ambiéntales
Ministerio de Energía y Minas
Las Artes 260
San Borja, Lima
Perú
E-mail:

Cabrera, César
Gerente de Asuntos Corporativos
Minera Yanacocha S.R.L.
Av. Camino Real 348, Torre El Pilar, Piso 10
Lima 27
Perú
E-mail: ccab9065@yanacocha.newmont.com

Caceda Vidal, Ruperto
Dirigente Nacional
Coordinadora Nacional de Comunidades del Perú Afectadas por la Minería
Calles Carlos Arrieta 1059, Urbanización Santa Beatriz, Lima 1
Perú
E-mail: comunidades@conacamiperu.org

Camaño Moreno, Andrés
Corporate Environment Manager
Minera Escondida Limitada
Américo Vespucio Sur No. 100, Piso 9
Las Condes, Santiago
Chile
E-mail: andres.f.camano@bhpbilliton.com
Cantuarias, Felipe  
Vicepresidente - Asuntos Corporativos  
Compañía Minera Antamina, S.A.  
Av. La Floresta 497, 4to piso  
Urb. Chacarilla, San Borja Lima 41  
Perú  
E-mail: Fcantuarias@antamina.com

Cartagena Diaz, Patricio  
Vice Presidente Ejecutivo  
Comisión Chilena del Cobre  
Augustina Ponce 61, 4to piso  
Santiago  
Chile  
E-mail: pcartage@cochilco.cl

Cartagena, Robert  
Director  
CIDOB – Confederación de Pueblos Indígenas de Bolivia  
Villa 1ero de Mayo  
Barrio San Juan, Santa Cruz de la Sierra  
or  
Casilla postal 6135, Santa Cruz  
Bolivia  
E-mail: cidob@scbbs.com.bo, robecarta@starmedia.com

Castro Delgadillo, Monica  
Consultora Ambiental/ Responsable Gestión Ambiental  
Viceministerio de Energía e Hidrocarburos  
Edificio Palacio de Comunicaciones  
Av. Pariscopal  
Santa Cruz  
Bolivia  
E-mail: Mcastro@energia.gov.bo

Castro, Manuel Fernando  
Director Proyectos Especiales  
Departamento Nacional de Planeación  
Grupo de Inversiones Especiales  
Calle 26 No. 13-19 Piso 17  
Bogota  
Colombia  
E-mail: mcastro@dnp.gov.co, amjimenez@dnp.gov.co

Chappuis, Maria
Asesora Viceministro de Minas
Ministerio de Energía y Minas
Las Artes Sur 260
San Borja, Lima 41
Perú
E-mail: mchappuis@mem.gob.pe

Costa, Umberto Raimundo
Director Presidente
Companhia de Pesquisas de Recursos Minerais
SGAN 803, Conj J, Parto A, 19 andar
70830-030 Brasilia DF
or
Av. Pasteur 404 Urca
22290-240 Rio de Janeiro RJ
Brasil
E-mail: Umberto@cprm.gov.br

Cotts, Nicholas
Director Asuntos Externos - Ambientales
Minera Yanacocha S.R.L.
Av. Camino Real 348, Torre El Pila, Piso 10
Lima 27
Perú
E-mail: ncot9003@yanacocha.newmont.com

Cretini, Oscar
Comisión Comb. y Minería
Timbúes 2020
1262 Ciudad de Buenos Aires
Argentina

Dabbs, Alan
Instituto Pro Natura
Av. Presidente Wilson 164, 13 andar, Rio de Janeiro 20030-020
Brazil
E-mail: info@pronatura.org.br
No show

de Castro Sirotneau, Gloria Janaina
Mestre em Geociencias
CETEM – Centro de Tecnologia Mineral
Av. 4 Quadra D- Cidade Universitária
Ilha do Fundão – 21941-590
Rio de Janeiro
Brazil
Email: Gcastro@cetem.gov.br

de Freitas Borges, Luciano
Planning Superintendente
CPRM - Companhia de Pesquisas de Recursos Minerais
Bloco U-3, Andar S/74,
70.065.900, Brasília
Brazil
E-mail: LucianoFBorges@uol.com.br

De la Cruz, Rodrigo
Asesor Técnico
COICA
Luis de Beethoven N47-65 y Capitán Rafael Ramos
Ecuador
E-mail: Cruz@coica.org, info@coica.org

Dias, Sergio
Manager of Environmental Affairs
SAMARCO Mineração SA
Brazil
E-mail: sdias@samarco.com.br

Diez de Medina, Javier
Fundación Inti Raymi
c/12 Calacoto 2550
La Paz
Bolivia
E-mail: Jdmedina@irop.emirsa.com

Edelmann, Sidney
Senior Evaluation Officer
Operations Evaluation Group
International Finance Corporation
World Bank Group
E-mail: sedelman@worldbank.org

Erdmann Ritter, João
Geologist
National Department of Mineral Production
SAN Quaddra 01, Bloco B
Brasília, DF
Brasil
E-mail: ritter@dnpm.gov.br

Espinosa, Cesar Anibal
Undersecretary of Mines  
Ministerio de Energía y Mines  
Baquedano E7-13 (222) y Reina Victoria, Piso 8  
Quito  
Ecuador  
E-mail: subsecm@ecnet.ec, cesaranibal38@htomail.com

Feitosa, Vitor  
General Manager Health Safety and Environment  
BHP  
Brazil  
E-mail: vitorf@samarco.com.br

Fierro, Carlos  
Director de Proyectos  
Fundación Futuro Latinoamericano  
Av. Atahualpa 1127 y Juan González, piso 2  
Casilla 17-17-558  
Quito  
Ecuador  
E-mail: ffla@fulano.org

Gacitúa-Marió, Estanislao  
Senior Social Scientist  
Latin American and Caribbean Regional Department  
World Bank Group  
E-mail: egacituamario@worldbank.org  
Geisse, Guillermo  
Hernan Blanco  
CIPMA Centro de Investigación y Planificación del Medio Ambiente  
Santiago, Chile  
E-mail: ggeisse@cipma.cl  
No show

Gibertoni, Marcello  
National Agency of Oil  
Rua Senador Danias, 105, 12o andar  
Centro 20031-201, Rio de Janeiro RJ  
Brasil  
E-mail: mgibertoni@arp.gov.br

Hilarión Madariaga, Mónica  
Secretaria Privada  
Ministerio de Minas y Energía  
Avenida Dorado - CAN  
Colombia
E-mail: secretarioprivado@energiminas.gov.co

Jocelyn, Charles Jean  
coordinador del área de la FOAG  
FOAG  
34 avenue Leopold Heder  
97300 Cayanne  
Guyane Francaise  
E-mail: foag@nplus.gf  
No show

Jordan, Rita  
Programa PASMA  
Timbues 2020  
1262 Ciudad de Buenos Aires  
Argentina  
E-mail: rjordan@infovia.com.ar

Kyllmann, Valery  
Public Relations  
CHACO  
Centro Empresarial Petrol  
Piso 6 – Av. San Martin  
Equipterol Norte  
Santa Cruz  
Bolivia  
E-mail: Kyllmav@chaco.com.bo

Kyte, Rachel  
Senior Specialist  
Compliance Advisor / Ombudsman Office  
World Bank Group  
E-mail: rkyte@ifc.org

Larrea, Ramiro  
Director Ejecutivo  
CEPLAES  
Sarmiento N. 39-198 y Hugo Moncayo  
Quito  
Ecuador  
E-mail: ceplaes@andinanet.net, rlarrea57@hotmail.com

Lazarte, Armando  
Dialogos Tripartitos  
EAP- SNMPE  
Malecón e y 5 Neros
1320-401 Miraflores
Perú
E-mail: Armando.g.lazarte@exxonmobil.com

Letelier, José Tomas
Vice President
Government Affairs Latin America and Sustainable Development
Placer Dome
Gertrudis Echenique 30, Piso 14
Las Condes, Santiago
Chile
E-mail: Jose_tomas_letelier@placerdome.com

Macdonald, Gary
Director de Desarrollo Social
Newmont Mining Corporation
1700 Lincolnd Street
Denver, CO 80203
United States
E-mail: garymacdonald@corp.newmont.com

Manchineri, Sebastiao
COICA – Coordinadora de la Organizaciones Indígenas de la Cuenca Amazónica
Luis de Beethoven D-49 y Pasaje Carelly
Ecuador
E-mail: Info@coica.org, Haji@coica.org

Marquez Chanamè, Gladys
Directora
Departamento Asesoria Técnica
Asociación Civil "Labor"
Urb. Magistgerial K-12 Ilo
Lima
Peru
E-mail: gmarquez@terra.com.pe

Martins, Renato
Regional Secretary
ICEM Brazil
Rua Visconde de Inhauma 134, 7 andar, salsa 715, Centro
Rio de Janeiro 20094-900
Brazil
E-mail: icembr@uol.com.br

Matthews, Gerry
Advisor
Group and International Relations
Shell Oil Company
Government Affairs
1401 Eye Street, NW Suite 1030
Washington, DC 20005
Email: gerry.p.matthews@si.shell.com

Mayorga Alba, Eleodoro
Lead Economist
Oil and Gas Department
World Bank Group
E-mail: emayorgaalba@worldbank.org

Mendez, Maria Elena
Asociación Merunto
Comité Asesor
Eventus 151 Conjunto Residencial Las Flores
Edif.. Amapola Piso 15 Apto. 151
Avd. Paez,
El Paraíso Caracas
Venezuela
E-mail: rsosam@etheron.net

Mizaíl de Souza, José Mendo
Executive Secretary
Brazilian Institute of Mining
SCS - Quadra 02, Bloco D
Ed. Oscar Niemeyer
11º andar, sala 1107 e 1108
CEP 70316-900, Brasilia, DF
Brazil
E-mail: ibrambsb@uol.com.br

Mura, Claudio
Coordinador general
Coordenação das Organizações Indígenas da Amazônia Brasileira
Av. Ayrao 235
Bairro Presidente Vargas
09.025-290 Manaus AM
Brazil
E-mail: coica-dh@buriti.com.br

Nahass, Samir
Senior Geologist
Centro de Tecnologia Mineral - CETEM
Av. Ipê, 900 - Ilha da Cidade Universitária
21941-590, Rio de Janeiro - RJ
E-mail: snahass@cetem.gov.br

Nahuel, Florentino
Responsable Hidrocarburos
Coordinación Mapuche Neuquen Werken
Calle Sarmiento 1010
CP8300
Neuquén Capital
Argentina
E-mail: jnahuel@hotmail.com, tinonahuel@yahoo.com.ar

Osay, Sonia
Presidente
Fundación Cordón del Plata
Godoy Cruz 636, 5500 Ciudad, Mendoza
Argentina
E-mail: cordondelplata@ciudad.com.ar

Pastrana, Octavio
British Petroleum – Latin America and Caribbean
Bolivia
E-mail: pastraof@bolivia.amoco.com

Quea, Felipe
Asesor de Despacho del Vice Ministro de Minas
Ministerio de Energía y Minas
Las Artes 260
San Borja, Lima
Perú
E-mail:

Quintero, Juan
Lead Environmental Specialist
Latin American and Caribbean Regional Department
World Bank Group
E-mail: jquintero@worldbank.org

Ramos López, Sandra Inés
Directora Ejecutiva Nacional
Movimiento de Mujeres "Maria Elena Cuadra"
Nicaragua
E-mail: mec@ibw.com.ni

Rezende, Marcus de Almeida
National Agency of Oil
Rua Senador Dantas, 105, 11 andar
Centro – CEP 20031-201 Rio de Janeiro, RJ
Brazil
E-mail: marcus@anp.gov.br

Ribeiro Tunes, Marcelo
Director General
DNPM - Departamento Nacional de Producao Mineral
Endereco do DNPM, Setor de Autarquias Norte, Quadra 01 - Bloco B, 70.040-200 - Brasilia, DF
Brasil
E-mail: marcelotunes@dnpm.gov.br

Riley, Kenneth
Manager of Operational Excellence and Health Environment and Safety
ChevronTexaco Latin America Upstream Operation
Avenida La Estanci,
Centro Banaven (Cubo Negro)
Torre D, Piso 7
Chuao, Caracas 1061
Venezuela
E-mail: kriley@chevrontexaco.com
No show

Sánchez Delgado, Alcides
Gerente
Coop. Minera "Bella Rica"
Ecuador
E-mail: asanchez100@hotmail.com

Santa Ana, Soledad
Asuntos Ambiéntales e Internacionales
Comisión Chilena del Cobre
Agustinas 1165, 4 Fl.
Santiago
Chile
E-mail: santaana@cochilco.cl

Santa Cruz B., Carlos E.
Vice Presidente
Newmont Perú Limited
Lima,
Perú
or
Av. Camino Real 348, Rorre El Pilar, Piso 10
Lima 27
Perú
E-mail: csan0230@yanacocha.newmont.com

Santiago, Miguel Angel
Asesor de Presidencia
Empresa Colombiana de Petróleos - ECOPETROL
Carrera 13 No. 36-24, Piso 8,
Bogota, D.C.
Colombia
E-mail: Msantiag@ecopetrol.com.co Apreciad@ecopetrol.com.co

Sarasara Andrea, Cesar
Presidente
CONAP - Confederacion de Nacionalidades Amazonicas del Peru
Brigadier Pumacahua 974, Jesus Maria, Lima 1
Perú
E-mail: Conap@terra.com.pe

Sarudiansky, Roberto M.
Coordinador de Relaciones y Instituciones Internacionales
Subsecretaria de Minería
Av. Julio A. Roca 651 - 2º Piso
1322, Buenos Aires
Argentina
E-mail: sarudi@inti.gov.ar

Shakay, Adolfo
Presidente
CONFENIAE
Union Base, Puyo, Quito
Ecuador
E-mail: ashacay@hotmail.com

Slack, Keith
Coordinadora de Pueblos Étnicos de Santa Cruz
Bolivia
E-mail: cpesc@scbbs-bo.com

Suárez, Rubén
Coordinador Salud
OPIAC
Carrera 8, # 19-34, Oficina 500
Santafé de Bogota, Bogota
Colombia
E-mail: opiac@007mundo.com , estrada51@hotmail.com

Taucer, Evelyn
Conservación Internacional Bolivia  
E-mail: etaucer@conservation.org.bo

Timmers, Jake  
General Manager  
Minera Quellaveco S.A.  
Los Colibries 104,  
San Isidro, Lima 28  
Peru  
E-mail: jtimmers@mantas.cl

Torres, Liszett  
Subsecretaria de Protección Ambiental  
Ministerio de Energía y Minas  
Juan Leon Mera y Orellana, Ed MOP, 4to piso  
Quito  
Ecuador  
E-mail: ltorres@menergia.gov.ec, nvalarezo@menergia.gov.ec

Vasconcello Monteiro, Kathia  
Friends of the Earth Brazil  
Porto Alegre, Rio Grande do Soul  
Brazil  
E-mail: foebr@cpovo.net

Verona, Edward  
Vice President for Government and Public Affairs  
ChevronTexaco Latin America Upstream Operation  
Avenida La Estancia  
Centro Banaven (Cubo Negro)  
Torre D, Piso 7  
Chuao, Caracas 1061  
Venezuela  
No show

Vieira, Ricardo  
GE Comunicacao Institucional  
PetroBras  
Brazil  
E-mail: ricardovieira@petrobras.com.br  
No show

Villalba, Luis Antonio  
Ministerio de Obras Publicas y Comunicaciones Gabinete del Viceministro de Minas y Energía  
Nangapiry y Los Rosales, San Lorenzo, Asunción
Paraguay
E-mail: gvme@conexion.com.py

Villas-Bôas, Roberto, Prof. Dr.
International Coordinator of CYTED – XIII
Iberoamerica
Coordinador Internacional
Centro de Tecnologia Mineral - CETEM
Av. Ipê, 900 - Ilha da Cidade Universitária
21941-590, Rio de Janeiro – RJ
Brazil
E-mail: villasboas@cetem.gov.br

Weber-Fahr, Monika
Senior Economist
Mining Department
World Bank Group
E-mail: mweberfahr@worldbank.org

Zaldivar Villalba, Carlos
Secretaria
Ministerio de Obras Publicas y Comunicaciones Gabinete del Viceministro de Minas y Energía
Nangapiry y Los Rosales, San Lorenzo, Asunción
Paraguay
E-mail: calzal_61@yahoo.com

Zorilla, Carlos
President
Defensa y Conservación Ecológica de Intag – DECOIN
PO Box 144 Otavalo, Imbabura
Ecuador
E-mail: itagcz@uio.satnet.net
Executive Summary
The Extractive Industries Review (EIR)

Regional Consultation Workshop for Latin America and the Caribbean
Rio de Janeiro, Brazil
April 15-19, 2002

Executive Summary
Notes
The following executive summary to the report on the Extractive Industries Review Latin America and Caribbean Regional Workshop, held in Rio de Janeiro from 15 to 19 April 2002 was prepared by the EIR Secretariat. Its summarizes the views expressed by workshop participants, neither endorsing nor contradicting them.

As in common usage, unless otherwise indicated, use of the terms ‘World Bank’ or ‘the Bank’ refers to the entire World Bank Group. The Bank components principally concerned with extractive industries (the oil, gas and mining sectors) are the International Bank for Reconstruction and Development (IBRD), International Development Agency (IDA), the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA).

Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>CA/O</td>
<td>Compliance Adviser/Ombudsman</td>
</tr>
<tr>
<td>CEPF</td>
<td>Critical Ecosystem Partnership Fund</td>
</tr>
<tr>
<td>COICA</td>
<td>Coordinadora de las Organizaciones Indígenas de la Cuenca Amazonica</td>
</tr>
<tr>
<td>EIR</td>
<td>Extractive Industries Review</td>
</tr>
<tr>
<td>GDP</td>
<td>gross domestic product</td>
</tr>
<tr>
<td>IBRD</td>
<td>International Bank for Reconstruction and Development</td>
</tr>
<tr>
<td>IDA</td>
<td>International Development Agency</td>
</tr>
<tr>
<td>IFC</td>
<td>International Finance Corporation</td>
</tr>
<tr>
<td>IPO</td>
<td>Indigenous peoples’ organization</td>
</tr>
<tr>
<td>MMSD</td>
<td>Mining, Minerals and Sustainable Development</td>
</tr>
<tr>
<td>MIGA</td>
<td>Multilateral Investment Guarantee Agency</td>
</tr>
<tr>
<td>NGO</td>
<td>non-government organization</td>
</tr>
<tr>
<td>WBG</td>
<td>World Bank Group</td>
</tr>
</tbody>
</table>
Executive summary

Overview
The Extractive Industries Review’s first Regional Consultation Workshop was held in Rio de Janeiro, Brazil, 15-19 April 2002, for the Latin America and Caribbean region. Workshop participants represented government, industry (oil, gas and mining companies), civil society (non-governmental (NGOs), indigenous peoples’ organizations (IPOs) and labor unions), academia, and the World Bank Group itself.

The workshop was divided into two parts: the first comprising of a two-day open forum for civil society testimonials and a voluntary information session with World Bank Group representatives. This was followed by a closed forum for invited participants to present case studies and experiences of World Bank Group sponsored oil, gas and mining projects in the Latin America and Caribbean region.

The workshop discussed three possible scenarios regarding the future role of the World Bank Group in the extractive industries: complete withdrawal from the sector; changing, or modifying, current policies and processes; or expanding and changing to new ones. This led to broad agreement on ten key issues, which formed the basis of action-oriented recommendations for the World Bank Group should they continue to support oil, gas and mining projects. Nevertheless, some areas of dissent and alternative views were also noted. The entire process was guided by a team of facilitators and led by the EIR’s Eminent Person, Prof. Dr. Emil Salim.

Dr. Salim emphasized that the World Bank Group’s performance in the oil, gas and mining sector was judged by its own goal of achieving poverty eradication through sustainable development. Sustainable development meant economic, environmental and social development: increasing the wealth of society, maintaining social harmony and cohesion, and protecting ecosystems. The main issue for the Consultation was how the World Bank Group could balance the relationship between the poor, industry and government.

Civil society testimonials
Testimonials documented the lack of economic growth in Ecuador, the environmental and socio-cultural impacts of oil development in Bolivia, the cultural and social damage sustained by the Mapuche people in Argentina, the impact of trans-national mining companies in Peru, and problems associated with small-scale and artisanal mining in Bolivia.

Subsequent discussions identified nine problem areas: lack of transparency and access to information; lack of dialogue; insufficient consultation processes; lack of participation in decision-making; deficient legal frameworks; unjust distribution of benefits; low job creation; low levels of contract compliance; and insufficient government capacity to address problems. Proposals called for institutional strengthening, proper legal and regulatory frameworks, access to decision-making, and the participation of indigenous peoples. In addition, participants suggested monitoring of environmental, social, and economic impacts by all groups, open consultations, special programs for artisanal mining, indemnity for ecological
debt and the development of international policies for sustainability. The possibility of a moratoria on oil, gas and mining activities should also be considered.

**Case studies**
Case studies presented positive experiences of the Mining, Minerals and Sustainable Development (MMSD) project in Latin America, a new model for development regions used in connection with oil extraction in Columbia, and an example of oil industry best practice in Casanare, Columbia.

**Positive experiences**
Comments on the MMSD project underlined its conclusion that the region was conscious of the need to develop mining but also to improve the performance of all the sector’s stakeholders. The MMSD work showed it was not the case that industry and civil society had completely separate visions: there were many common positions between the players. Many were in favor of mining, even within the indigenous community, provided it was well done, commented one member of the MMSD team. The problem was that local communities did not always have the knowledge to participate. However, one lesson from the MMSD project was that even some interested parties have the perception that the extractive industries have not contributed sufficiently to local development.

A government report on the successful program in Columbia’s Magdalena Medio region showed that World Bank inputs had been essential for developing the extractive economy in Columbia. It showed there was a way to reverse the trend of resource-rich areas having the poorest welfare indicators and that there could be a model for reversing the increase of poverty in areas not benefiting from oil investments.

A comprehensive study on the economic, social and cultural impacts of a copper and gold mine in Argentina on a community, revealed contrasting perceptions of extractive industry activity. Mining, it concluded, had had a positive developmental impact, and protests were focused more against the local government than the company involved.

**Negative experiences**
Other case studies on mining were more negative. These included the economic, social and environmental impacts of mining in Peru; mining impacts on indigenous people in Argentina; the threat extractive industries posed to biodiversity in Peru and Bolivia; and mining in Chile.

A case study by a Bolivian NGO reported on a project aimed at assessing the environmental and social impacts of small-scale miners on the Vilcabamba-Ambaro corridor. The study revealed the need for environmental legislation in Argentina to better protect impacted communities and ensure their participation in the drafting of relevant legislation. A Bolivian foundation attributed its own achievements to effective legislation in Bolivia and an entire environment that favored mining and benefited civil society.

The working group concluded that there was a need to distinguish between existing damage and anticipated damage in the future i.e. avoidable. Governments had a responsibility to mitigate existing damage, but did not always face up to their liabilities.
**Common understanding**
Three topics dominated subsequent discussions: what should be the World Bank’s role in achieving greater levels of sustainable development, and how could they facilitate positive, rather than negative, impacts?

In the framework of the Bank’s activities, there was a common understanding of the triangular relationships between civil society, government and industry, and between economic, environmental and social impacts. Suggestions for the World Bank to promote greater levels of sustainable development ranged from developing rules and providing training for participatory and consultative processes, to institutional financing for strengthening indigenous people’s organizations. It was recommended the Bank persuade companies it worked with to listen more attentively to the concerns of civil society and affected local communities.

To facilitate positive impacts, the Bank was invited to take steps to ensure the benefits from extractive activities reached the relevant communities. Some negative impacts could be avoided by increasing the transparency of its consultations, promoting the community voice and encouraging the social responsibility of business.

The Eminent Person drew attention to the dilemmas facing the Bank in cases when there was imperfect governance and benefits did not filter to the poor. Where there was poverty, the Bank should participate to ensure development was sustainable and that civil society were empowered.

**World Bank Presentations**
Presentations by the World Bank Group underlined the Bank’s fundamental role as a development organization. The Bank worked with both governments and the private sector, the latter because it believed a thriving private sector was essential for economic growth and poverty reduction. Staff also explained the Bank’s evolving system of safeguards, its global advocacy of environmental and social standards, and its project cycle.

**Safeguard policies**
The World Bank Group were challenged to demonstrate the effectiveness of their project safeguards, whether extractive industry investments necessarily relieved poverty and contributed to sustainable development, and whether governments could be trusted to transfer revenues to the localities where resources were extracted. It was noted that oil, gas and mining companies were businesses and not normally responsible for resolving social issues. This was the field of public policy.

Other comments pointed to the rising demand for natural resources making the continued involvement of the World Bank important in ensuring sustainable development. Some offered examples of mining activity which had increased poverty, while others highlighted partnerships between government and industry where mining had improved the quality of life for the community. Bank staff agreed that the different arms of the World Bank Group could
be better coordinated to deliver seamless packages of social, environmental and economic assistance.

Specific concerns relating to World Bank Group projects in Latin America and the Caribbean, included its role in activities such as institutional strengthening and technical assistance. Staff were asked about contractual requirements for public consultations, and whether there was a policy to increase the value of extracted materials through local downstream processing. Participants sought information on how progress in relation to poverty reduction and development is measured. Other concerns included how to mitigate past environmental damage, who might cover environmental liabilities after privatization, and the ongoing need for training and education to foster a ‘culture of caring’ in local communities.

**Project viability**

Bank staff explained that they have to ensure projects are economically viable in all aspects. To evaluate performance, the IFC typically reviewed projects five years after they are approved and assessed them in light of economic indicators. The overall aim was to ensure projects contributed to sustainable development and the Bank ensured communities were consulted on social and environmental matters, particularly for large projects. An example of how the World Bank Group fought poverty was their assistance in reforming the oil sector in Argentina. Along with the IFC’s subsequent support for private investment by local companies and others, the industry became more productive, viable and environmentally friendly.

**Three Scenarios**

Turning to three scenarios proposed by the Eminent Person, working groups discussed future relations between the World Bank Group and the extractive industries in the case of the Bank’s complete withdrawal from the sector, continuing the status quo, or with an expanded, or modified, role.

If the World Bank Group were to withdraw from the extractive sector, it could pool investments into other projects. But the chances for development in countries with large amounts of natural resources would be limited. Maintaining the status quo was a safe option, but risked industry making a less than full contribution to the United Nations Millennium Development Goals. Under present conditions, civil society had the opportunity to create a knowledge bank for disseminating information; multi-sectoral discussions, such as the EIR, were an opportunity for civil society to have a greater influence on the World Bank Group, than in the countries themselves. With the World Bank Group financing oil, gas and mining projects, some governments may elevate the importance of the extractive industries for achieving sustainable development over other sectors. The risk for governments therefore lay in the tendency of the World Bank Group to reduce its financial contributions to the extractive industries.

Opportunities to change the role of the World Bank Group lay in the support of other stakeholders in their efforts to fight poverty. The Bank could be a leading player in strengthening governance and stimulating the participation of all stakeholders through a common approach. The Bank could improve its image by modifying the way it worked and communicating more effectively with stakeholders. For companies, there would be
opportunities to expand financing to small-scale and artisanal mining, Bank technical and financial support to industry could diminish environmental contamination, and with better access to World Bank credit, companies could bring greater benefits to local communities.

For civil society, opportunities lay in improving the capacity of all players and ensuring better participation. For governments, increased World Bank activity would be an opportunity to finance more initiatives to develop the extractive sector.

**Broad consensus**
The Eminent Person called for elaboration of ten key issues into action-orientated recommendations for the Latin America and Caribbean region. They should be durable, implementable and deliverable by the World Bank Group if it was to stay involved in the extractive industries. These were:

- **Empowerment of civil society**—setting up equitable decision fora; developing citizens’ capability to participate in project decision-making and study impacts; financing of economic-ecological zoning studies as a means of diminishing conflict.
- **Good governance**—support for clear environmental and social policies; better administration for distributing benefits of extractive industry activities; capacity building; improved flow of information; and access to clean technology.
- **Social and environmental responsibility of business**—as a condition of financing, the Bank could promote better business practice and commitment to environmental and social issues; facilitate dialogue between the various actors and develop performance indicators.
- **Capacity building**—ensure training, and other support, to facilitate tripartite processes between government, industry and civil society; equalize management capacity and knowledge; develop sustainable community alternatives; and facilitate participation of other stakeholders in oil, gas and mining industry monitoring.
- **Small-scale mining**—support for small-scale mining in areas of its formalization; ensure government administration, social and environmental evaluation and monitoring of the sector.
- **Environmental liabilities**—support efforts to clean up past environmental legacies by means of grants for quantitative and qualitative inventories of liabilities; identify technologies to mitigate environmental problems; and prioritize liabilities on the basis of socio-economic and environmental risk.
- **Standards, guidelines and monitoring**—preparation, and wide dissemination, of social and environmental guidelines for mining, in addition to those for small-scale and artisanal mining; empowerment of environmental authorities, and communities; and the introduction of standardized indicators.
- **Conflict management**—obligatory facilitation of conflict management from the start of projects; development of local capacity for resolving disputes; better communication; and definition of the Bank’s socio-economic standards to all the players involved.
- **Revenue management**—promote equitable distribution of revenues from oil, gas and mining projects; suitable allocation of fiscal revenues from rents, taxes and royalties; devise program to measure impact and stabilize the use of resources.
- **Partnership development**—set-up and support roundtables for tripartite dialogue between civil society, government and industry leading to recommendations that would
link all the parties; follow-up, and participative monitoring, of socio-cultural and environmental impacts.

Working together
At the close of the workshop, Dr. Salim recognized the conflicts of interest existing between all stakeholders: the demand of civil society for impacted people to be treated with dignity; industry’s view that its efforts supplied the revenues that could be used for poverty reduction; the governments’ position that they were elected and yet accountable to their parliaments for the allocation of the necessary resources; and the World Bank Group’s own financial constraints. The meeting had, however, brought the stakeholders into one room and started the debate: tensions were lower, some trust had developed and there was agreement that all parties should work together.

Post-Consultation Statement from Civil Society
Following the Consultation, a statement from some civil society participants (including indigenous peoples’ representatives) highlighted issues concerning the workshop itself and whether or not the extractive industries had contributed to poverty alleviation in the region.

The statement criticized the Consultation for its limited focus, unequal participation (what was seen as an overwhelming number of participants from the oil and mining sectors) and imbalanced access to information. In their view, this had precluded a proper analysis of the issues. On the substantive side, there should have been more focus on the unfair distribution of extractive industry wealth and whether it contributed to economic development and relieved poverty.

The dissenting group recommended that the EIR’s focus be expanded to ensure a comprehensive understanding of the economic, social and environmental consequences of development through extractive activities. In their view, the World Bank Group had not been able to prove that the extractive industries contributed to poverty alleviation. Therefore, it should redirect its investments to other sectors, and reorient its development policies toward activities that had a greater impact on poverty alleviation, such as education and health, sustainable agriculture and tourism. Given the negative economic, social and environmental impacts, this view rejected all efforts to indiscriminately expand oil, gas and mining activities in Latin America and the Caribbean.

Overwhelming impacts
Indigenous community representatives underlined the overwhelming social, cultural, economic and environmental impacts of the extractive industries for which there had to be indemnity. There were no standards and procedures to guarantee prior consultation, and their right to participate in decision-making. There were also no policies and procedures to guarantee that communities benefit from profits generated by the extractive industries, and that these contributed to the development of their communities and to poverty alleviation. Indigenous peoples’ participation in tripartite dialogue did not meet the basic principles of equity, given their unequal standing, not only financially but in terms of capacity vis-à-vis government and the industry. Extractive activities in indigenous territories also threatened biodiversity conservation and ancestral traditions, which were guaranteed by other
international instruments such as the International Labor Organization's Convention 169 on Indigenous and Tribal Peoples in Independent Countries, as well as the Biological Diversity Convention. The World Bank had also not followed the policies and processes for indigenous peoples as recommended in the revision of the World Bank’s Indigenous Peoples’ Policy (Operational Directive 4.20).
3. Eastern Europe and Central Asia Workshop
Full Report
The Extractive Industries Review (EIR)

Regional Consultation Workshop for Eastern Europe and Central Asia

Budapest, Hungary
June 19-22, 2002

Draft
Testimonials and Consultation Report
Notes
The Extractive Industries Review Regional Consultation Workshop for Eastern Europe and Central Asia, was held in Budapest, Hungary from 19-22 June, 2002. This report was prepared by the EIR Secretariat and it summarizes the views of workshop participants, neither endorsing nor contradicting them.

As in common usage, unless otherwise indicated, use of the terms ‘World Bank’ or ‘the Bank’ refers to the entire World Bank Group. This comprises the International Bank for Reconstruction and Development (IBRD), International Development Agency (IDA), the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA).

Abbreviations
BTC  Baku-Tbilisi-Ceyhan (pipeline)
CAO  Compliance Adviser and Ombudsman
CPC  Caspian Pipeline Consortium
EBRD European Bank for Reconstruction and Development
EIR  Extractive Industries Review
GDP  Gross Domestic Product
IBRD  International Bank for Reconstruction and Development
IDA  International Development Agency
IFC  International Finance Corporation
ILO  International Labour Organization
IMF  International Monetary Fund
IPO  Indigenous Peoples’ Organization
KTK  Caspian Pipeline Consortium
MMSD Mining, Minerals and Sustainable Development
MIGA Multilateral Investment Guarantee Agency
NAMR National Agency for Mineral Resources (Romania)
NGO  Non-Government Organization
OECD Organisation for Economic Co-operation and Development
OPEC Organization of the Petroleum Exporting Countries
UNEP United Nations Environment Program
WBG  World Bank Group
## Contents

<table>
<thead>
<tr>
<th>Notes</th>
<th>ii</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abbreviations and Acronyms</td>
<td>ii</td>
</tr>
<tr>
<td>Executive Summary</td>
<td>vi</td>
</tr>
</tbody>
</table>

1. Introduction 16

**Open Forum** 16

2. Welcome from Eminent Person, Prof. Dr. Emil Salim 16

3. Civil Society Testimonials 17
   - Coal Industry Restructuring 17
     - Ukraine 17
     - Russia 18
   - Gold Mining 20
     - Cyanide Consequences in Kyrgyzstan 20
     - Mining Potential in Romania 21
   - Oil Extraction 22
     - World Bank Policy 22
     - Oil Projects in Kazakhstan 22
     - Oil And Gas in Azerbaijan and Georgia 25
     - Russian Pipeline 28
     - Indigenous People and Oil 30

4. World Bank Voluntary Information Exchange 31
   - Overview 31
   - Bank Outlays 32
   - The World Bank Group in the Transition Economies of the ECA Region 33
   - Financing Private Sector Projects 33
   - Criteria for Involvement 34
   - Project Environmental and Social Review 35
     - Policies and Guidelines 36
     - Procedures 36
   - Benefits in Question 37
     - Kazakhstan 37
     - Azerbaijan and Georgia 38
     - Lessons Learnt 39
     - Gold Mining 39
   - Conclusions 40

**Consultation** 40

5. Keynote Speech By Prof. Dr. Emil Salim 40

6. Extractive Industries Review Process 41

7. World Bank Group in Eastern Europe and Central Asia 43
   - Overview of Regional Strategy 43
   - Questions and Comments 43
     - Coal Industry Restructuring 43
     - Economic Development 43
     - Transition 45
     - Relations with Governments 45
Project Monitoring 46
Case Study 1: Early Oil Project 46
  Background 46
  Environmental Improvements 46
  Developmental Benefits 47
  Lessons Learnt 48
Questions and Comments 48
Azerbaijan Oilfields 48
  Environmental Concerns 48
  Diversification 49
Case Study 2: Mine Closure in Romania 49
  Background 49
  Mine Closure 50
  Looking Ahead 50
Questions and Comments 51
8. Case Studies: Environmental, Social and Economic Impacts 51
   of Oil, Gas and Mining Projects
   Oil and Gas 52
     Oil Development in Kazakhstan 52
     Oil in Azerbaijan and Georgia 52
     Oil in Russia 54
     Oil Industry Perspectives 54
   Coal Industry Restructuring 55
     Coal Mining in the Ukraine 55
     Coal Mining in Russia 57
   Minerals Extraction 58
     Mineral Resources in Romania 58
     Copper, Zinc and Gold In Turkey 59
     Gold Mining in Kyrgyzstan 61
     Mining, the Environment and International Organizations 63
9. Sector-Specific Recommendations 64
   Mineral Mining 64
   Coal Industry 65
   Oil and Gas Industry 66
   Common Themes 68
10. Final Recommendations: Cross-Cutting Themes 68
   Good Governance 68
   Transition Policy 69
   Closure Policy And Cleaning Up The Past 69
   Standards, Guidelines And Monitoring 70
   Disclosure Policy And Information Sharing 71
   Revenue Management and Distribution 72
   Impacts And Benefits at Community Level 73
   Institution Building and Regulatory Frameworks 73
   Social Mitigation 74
11. Closing Remarks 74
   World Bank Group 74
   Industry 75
   Civil Society 75
   Eminent Person 75
Annexes

1. Post-Consultation Statement 77
2. Workshop Agenda 79 ..
3. List of Participants 81

Further information on the EIR website (www.eireview.org)
Executive Summary

Overview
The Extractive Industries Review (EIR) Consultation Workshop, for the countries of Eastern Europe and Central Asia, was convened in Budapest, Hungary, June 19-22, 2002. This was the second in a series of regional multi-stakeholder consultations; the first, for Latin America and the Caribbean, took place in Rio de Janeiro, Brazil, April 2002.

The process was guided by the EIR’s Eminent Person, Prof. Dr. Emil Salim, as an exercise to explore the proper role of the World Bank Group with respect to the extractive industries in the region, in particular whether the projects they sponsor contribute to poverty alleviation and sustainable development. Its task was to look to the future to see whether a role for the World Bank Group was still necessary in the extractive industries and, if so, whether this role should be improved.

The workshop attracted over 80 participants from civil society (non-government organizations, community-based organizations and labor unions), government, the oil, gas and mining industry, academia, and the World Bank Group itself. The workshop was organized into two parts: the first comprising a two-day open forum for civil society testimonials and a voluntary information session by the World Bank Group, and the second comprised of a formal three-day consultation with a limited number of invited, or ‘self-selected’ participants from each stakeholder group. Participants presented case studies relating to regional oil, gas and mining projects, followed by focused group discussions on the positive and negative environmental, social and economic impacts of the extractive industries.

The Consultation identified a number of cross-cutting themes where change was deemed necessary if the World Bank Group were to continue their involvement in the extractive industries in Eastern Europe and Central Asia. The themes reflected recent experiences of Bank-supported policies and projects, particularly of coal mining in Russia and the Ukraine, gold extraction in Kyrgyzstan, and oil and gas production in the Caspian Sea region. The main issues of concern included social mitigation, environmental clean-up, governance, revenue management, transparency, community development, no-go zones, technologies to be avoided and the importance of private sector involvement. There was general agreement on addressing the World Bank Group’s activities in the context of region-specific policies for transition from command to market economies.

Privatization should take place in the context of adequate legal regulatory and judicial frameworks and, in the case of mines, of properly financed close-down strategies. Participants wanted the World Bank Group to target corruption, establish socially acceptable conditions for price liberalization, ensure continuity of social services previously provided by state enterprises, and create micro-finance schemes. The use of oil funds should be prioritized in favor of affected areas, and this made a condition of oil sector investment. Participants felt social mitigation should be part of both the country assistance strategies, project design and implementation. Recognizing the problem of environmental legacy found throughout Eastern Europe and Central Asia, participants enjoined the World Bank Group to fund clean-up activities in all its projects and to consider financing projects to clean-up old mines, including uranium mines. It should also work with governments to create social safety nets in advance of mine closures.

1 ‘Self-Selection’: the selection of civil society representatives attending the formal 3-day session of the consultation workshop was coordinated with the help of Petr Hlobil, of CEE Bankwatch Network. The self-selection process gave civil society the responsibility of nominating twenty-five suitable participants from a variety of non-governmental organizations to represent their interests at the workshop.
Participants urged the World Bank Group to embrace specific policies on good governance at the level of country assistance strategies. Also of concern was whether the Bank’s own standards, guidelines and monitoring were fully adequate for the complete life cycle of projects. Regarding revenue management, suggestions included making revenue disclosure by governments and companies a standard loan condition. One proposal was to forbid the use of highly toxic methods in mining and oil exploration, and to ban operations that generated hazardous waste, or dumped waste into water.

Civil Society Testimonials
Open forum testimonials by civil society covered three areas: concern over the environmental and social consequences of coal restructuring; the impact of mining activities; and experiences of oil and gas projects.

Coal Mining
In the coal sector, testimonials documented under-funding at the expense of social and environmental concerns. Presenters felt the World Bank Group had given bad advice to governments, such as establishing single companies to monopolize mine closure programs. It was felt projects had not always been suitably categorized compared to their real impacts, inappropriate models for restructuring had been used, and too little time had been left between pilot and follow-up programs for lessons to be learnt. NGOs thought the World Bank Group’s monitoring of the restructuring process had not always been sufficient. A lack of analysis of the energy sector meant coal had been stock-piled and economically-viable mines closed, despite the belief of many that they would be needed in the long term.

Mineral Mining
Testimonies on gold mining highlighted social, environmental and governance problems arising from a cyanide spill at the Kumtor gold mine, Kyrgyzstan, in 1998. Speakers pointed to an insufficient emergency response plan, lack of access to information, reports of intimidation, and health concerns resulting from the spill. The local community was also concerned about the structural integrity of the company’s tailings dam and potential hazards it could cause for the village and its water supply. The testimony called on the World Bank Group to consider the effect on communities before it supported similar projects, especially where interests lay in different development paths, such as agriculture and tourism. Other testimony concerned the World Bank Group’s preliminary discussions to support the development of an open-pit gold mine in Rosia Montana, Romania. Despite its preliminary status, the Canada-based company was promoting its local position by citing compliance with World Bank directives, while ignoring local demands for a referendum. In addition to environmental concerns and forced resettlement, there were no known plans for sustaining the local economy after extraction was complete.

Oil and Gas
One presentation linked the efforts of the World Bank Group to reform national legislation relating to the oil and gas industries in developing countries to the desire of Western governments to diversify their energy supplies. Others claimed project goals to attract foreign investment had not succeeded in halting the decline in per capita GDP, improving unemployment levels or alleviating poverty, and structural adjustment programs had left some governments with no alternative to oil exploitation. It was felt World Bank Group involvement in oil field rehabilitation had not mitigated environmental problems, there was a lack of transparency regarding project information, the Bank had underestimated the level of democracy underlying local decision-making, and ignored warnings of funds misallocation. Many local communities continued to suffer energy shortages despite Bank-sponsored petroleum developments. Noting that Bank participation was crucial to oil
and gas investments, speakers felt the World Bank Group should attach conditions to loan agreements with government and industry to ensure environmental and social safeguards were followed. Bank participation should also require transparency over financing and comprehensive environmental assessments. As with coal restructuring, World Bank Group oil and gas projects in the region should always be category A and there should be independent panels to monitor their social and environmental impacts.

**Indigenous people**
Indigenous people’s associations from Russia testified to their critical situation as a consequence of oil and gas extraction. Ethnic development should be included alongside economic, environmental and social concerns in the concept of sustainable development. Although the World Bank Group had specific policies for indigenous peoples, speakers wanted an ongoing dialogue, full participation from the inception of projects and a full moratorium on new oil developments. They also wanted the interests of indigenous people taken into account in World Bank Group country strategies for Russia.

**World Bank Group Presentations**
In a voluntary information exchange, Bank staff reported on the Group’s global and regional outlays and the changing focus of its projects. Environmental and social standards were now more important, but the Bank wanted to go beyond this to a more holistic approach to sustainable development and poverty reduction. The Bank espoused the Millennium Development Goals, championed globally important development issues and coordinated the efforts of bilateral and multilateral development institutions and agencies.

**Outlays**
World Bank Group outlays in 2001 totaled between $22 and 23 billion, with the region of Eastern Europe and Central Asia accounting for between 13 and 18 per cent. Bank instruments comprised of loans and grants for investment projects, technical assistance and structural adjustment programs. For the extractive industries, the Bank expected resource projects to contribute to overall economic development. It saw the best role of government as that of regulator and administrator, and its emphasis in the past decade had been on reforming legal and regulatory frameworks, with increasing attention given to fiscal management and large structural adjustment operations. The Bank had also had a role in promoting dissemination of best practices in areas such as revenue management.

**Strategy and Projects**
In Eastern Europe and Central Asia, the transition from command to market economies raised major issues in the restructuring of energy and resource markets. The focus had been on reform, privatization and aligning the sector with international market prices. World Bank Group investments amounted to $2 billion for mining and $1 billion for oil and gas. IFC and MIGA had worked together to create frameworks for the competitive development of the newly privatized oil, gas and mining sector. In addition to sector reforms and privatization, the Bank had promoted good governance and proper social and environmental safeguards. The private sector welcomed IFC involvement to mitigate the political risk in higher risk countries, or for complex projects. In the past decade, the World Bank Group had moved to a policy approach more focused on governance, transparency, disclosure, poverty alleviation and other aspects. Future challenges would involve working with small companies to add developmental value to extraction activities at the local level and improve corporate governance and social responsibility. Current strategy sought to close down the huge excess capacity in the region’s mining sector, which was both a drain on national budgets and inhibited the competitiveness of viable mines. The Bank sought to bring about mine closure in an environmentally responsible way and mitigate social impacts.
**World Bank Group Case Studies**

A World Bank case study on the Early Oil project in the Caspian Sea pointed to the significant benefits of the development. These included increased revenues for the participating governments, an increase in upstream investments, growth of business for local shipyards, and greater regional integration. The Bank’s offshore oil and gas guidelines had improved environmental protection in the area and taken a step toward dealing with the legacy of contamination. In a second case study, World Bank representatives examined mine closure in Romania, where a program had been jointly designed with the Government to mitigate past, present and future problems relating to closure.

Civil society organizations challenged Bank representatives on a number of issues. Most people remained poor despite World Bank Group support for oil and gas developments, they argued. Job creation programs had been inadequate, many local people had no supply of energy, and there was a lack of transparency and dialogue from the perspective of those affected by extractive industry developments. In many cases, environmental problems had not been solved, land use was in dispute, living standards had fallen, revenues were not equitably redistributed, old technologies were still in use, and emergency response plans were lacking. NGOs queried the emphasis on extractive industries in Eastern Europe and Central Asia given that price trends for mineral and energy commodities, compared to manufactured goods, would keep countries relatively poor. Noting the attendant risk of mono-culture economies, they called for diversification including greater support for downstream industry to create knowledge-based markets.

**Case Studies**

Twelve case studies documented experiences of extractive industry projects in Eastern Europe and Central Asia from the perspective of civil society, industry, government, academia and other organizations.

**Oil and Gas**

A case study on a 1993 oil and gas field rehabilitation project in Kazakhstan, pointed to the general neglect in region, the few benefits realized for the local community from the oil development, and high levels of corruption in the sector. World Bank staff explained that the project reflected old policies and procedures. Another study reviewed the role of the World Bank Group in the Early Oil project in Azerbaijan and Georgia. Dependence on petroleum development pointed to evidence of “Dutch disease” in the Azeri economy, and many people in both countries remained below the poverty line and suffered energy shortages. There was also concern that World Bank environmental safeguards were not rigorous enough for the Caspian Sea. In Azerbaijan, NGOs complained of lack of transparency regarding key project documents and the management of the oil fund. World Bank staff explained that they would be working further with the Government and IMF to establish procedures for spending the $600 million so far accumulated in the fund. Bank staff affirmed that environmental monitoring had shown no impediment to the ecology surrounding the offshore facilities, though, on land, conditions had improved but there was a huge legacy of contamination. Another case study reported on an NGO inspection of the area surrounding the 1994 Komi oil spill in Northwest Russia. NGOs questioned the actions of the companies charged with the clean-up: restricted access to contaminated areas, inadequate equipment for clean-up operations and health risks posed to workers. They judged the ecological components of World Bank programs throughout Western Siberia and Komi as unsuccessful and felt the Bank should fund re-cultivation of polluted territories where they were involved in projects. NGOs also called on the World Bank Group to instate an independent panel of international NGOs to monitor projects.
Taking a broader view, the International Association of Oil and Gas Producers (OGP) presented a report, prepared for the World Summit on Sustainable Development, on 70 case studies representing industry best practice in twelve areas identified by UNEP. Preservation of biodiversity was exemplified by projects in Azerbaijan and Kazakhstan, and capacity building in projects in the Caspian Sea where oil firms had promoted small and medium-sized enterprises. In addition to ensuring the availability of affordable, environmentally sound and socially acceptable energy products to a growing world population, the study foresaw the oil industry further contributing to poverty alleviation by broadening the benefits of the wealth it created.

**Coal Mining**

Case studies on World Bank Group involvement in coal industry reconstruction contrasted failures in Ukraine with relative successes in Russia. In Ukraine, the failure of reforms and endemic corruption led the World Bank to withdraw its support; up to half the funds allocated for the social and environmental mitigation of mine closure was embezzled and none of the Bank’s requirements complied with. It was felt the World Bank was in part to blame for encouraging the closure policy which led to such extreme ecological, social and economic impacts. The government still subsidized the mining sector and its agencies had failed to control disbursements to workers. Other concerns were the lack of dialogue, lack of transparency and lack of active monitoring procedures. World Bank staff agreed the situation was grim and explained that remedial measures had been under discussion with the government at the time. Another study analyzed World Bank coal sector restructuring in Russia. Economic data showed a rise in sector growth and labor productivity, and a decline in state subsidies. On the other hand, only 50 percent of the social component of the project had been fulfilled. Defending the closure program, a Russian research institute added that the decommissioning of loss-making mines was crucial for building new ones required to meet the forecasted demand for coal.

**Mineral Mining**

A presentation by the National Agency for Mineral Resources (NAMR), Romania, underlined the contribution of the agency, which was established by the World Bank Group in advance of petroleum and mining rehabilitation projects, to the mineral resources sector. As an independent regulatory authority, the agency had contributed to development of the new legal framework and the preparation of petroleum and mining laws, including a prospective law obliging mine closure plans to be in place from the start of projects. Among the environmental programs funded, a sectoral environmental assessment study analyzed the past, present and future effects of the mining as the basis of a national plan for mitigating the environmental impacts of the sector.

Two case studies referred to the Ovacik gold mine, and the Cayeli copper and zinc mine, in Turkey. The Cayeli project had introduced high standards to the Turkish mining industry and was recognized as a model mining project: it was the first to use submarine tailings disposal, there were no signs of acid rock drainage, spillage or mishandling of waste materials. The Ovacik gold mine was another example of good industry practice following previous mistakes, such as inadequate community consultations and environmental assessments. The project had since been upgraded and World Bank staff confirmed Ovacik was now a showcase project.

Four other case studies raised issues relating to the cyanide spill at the Kumtor Gold Mine, in Kyrgyzstan. Major concerns regarding the circumstances of the spill included the operating company’s failure to implement an emergency response plan, the low degree of public consultation and transparency, and the effects of cyanide contamination on public health and the local environment. More general concerns related to the long-term impact of the mine, including its preparations for closure and questionable security of its frozen tailings dam. Due to the mine, local farmers had reduced water supplies for irrigation and communities were concerned that dust
particles from the mine explosions could contaminate future water supplies from the glacier above the village. A representative from the local Community and Business Forum (CBF), set-up after the Kumtor spill, documented longer-term social concerns including the communications gap, sustainability of benefits from projects and support for small, local projects. Their work was aimed at improving public access to information, increasing employment opportunities, and supporting for new, local enterprises.

**World Bank Role**

Presenting some recommendations for the mining sector, also applicable to the oil and gas sectors, UNEP highlighted the need for the continued involvement of the World Bank Group. Market forces neglected environmental and social costs, and the World Bank and other organizations, needed to come up a mechanism to internalize these costs. Lessons learnt from major mining accidents in the developed and developing world, since 1975, proved inadequate preparation, poor waste control, insufficient emergency response plans, lack of public consultation, lack of recognition of potential impacts, inadequate monitoring, and poor maintenance. UNEP had four recommendations for consideration: environmental impact assessments should be living documents for the life of a project; emergency response plans in place from the beginning; local and national issues should be considered to ensure both community and government support; and corporate environmental management tools should be assessed in project approval and evaluation.

**Sector-Specific Recommendations**

The Consultation drew up sector-specific recommendations for the coal, mineral, and oil and gas sectors, grouping them according to three scenarios: (1) the World Bank Group maintaining, or expanding, existing policies; (2) changing, or modifying, them; (3) withdrawing from the extractive industries in the region completely. For all sectors, the majority of recommendations focused on changing, or modifying, current practices rather than simply expanding, or withdrawing, World Bank Group support.

**Changing, or Modifying, Existing Policies**

The World Bank Group should remain engaged in its financing role as a means of enabling the participation of national industries, setting standards, and promoting good practice, governance and transparency in the extractive industries. The Bank should ensure all stakeholders are involved from the earliest stages of projects, and promote partnerships between all parties. Transparency should be a priority in project design and implementation, and project steering committees established, with real accountability, representing all stakeholder groups. World Bank Group leverage would be used to effectively bring governments into the consultation process. There would also be a mechanism for implementation of all declared ‘good intentions’ of best practice, such as the OECD guidelines and ILO conventions. In Eastern Europe and Central Asia, all projects should be considered as category A, eliminating the less rigorous category B procedures. Bank processes should be simplified, and shortened, without compromising fundamental conditions.

**Economic Development**

Relating to mine closure, the group suggested that restructuring and financing be synchronized and based on an agreed, comprehensive program drawn up in consultation with all major stakeholders. Projects would be financed with more favorable terms and the Bank would negotiate with governments to channel funds to impacted areas to promote sustainable economic activity after mine closure. Investment, though IFC loans and World Bank guarantees, should also target the development of profitable mines. After project completion, there should be measurement of the impact of project on the macro-economy. In the oil sector, priority should be given to energy efficiency and renewable resource projects; the Bank would favor gas development at the expense
of oil. Projects should minimize fiscal incentives and maximize the development of domestic, downstream industry. The Bank should undertake capacity-building, and further develop existing programs for small and medium businesses in the area of the extractive industry, with job creation as a major component of every project. Local governments should receive specific revenue allocations in project agreements, incremental to those normally received from the central government.

**Social And Environmental Impacts**
The World Bank Group should only invest in projects able to maximize benefits to a country, ensuring poverty eradication and improved living standards for its people. To that end, the Bank would promote broad consultation at the national level with the participation of all stakeholders, particularly local communities and indigenous peoples. The rehabilitation of existing sites would be a priority, including clean-up operations and the mitigation of environmental, and social, problems. Baseline indicators for poverty, health and the environment should be developed and the Human Development Index (HDI) used in preference to GDP to evaluate the benefits of extractive industry developments. The Bank would implement social and environmental monitoring through dynamic coordination with local communities and other stakeholders. Closure plans would be mandatory, and loan agreements would include models of best international practice for mine closure i.e. transparent with public controls, social and environmental mitigation. Sanctions should be taken against companies who fail to deliver on these requirements. The Bank would insist that emergency response plans be developed with concerned communities, in place from the beginning of a project and be periodically reviewed as a condition of financing. The Bank should define, and implement, environmental, safety and technical standards and recognize that its standards are independently valuable for use as ‘generally accepted international standards’ acceptable to host governments and used by companies.

**Governance**
At all stages of the project cycle, the Bank needed to develop, and maintain, clear procedures for facilitating public partnerships; the role of civil society should be increased in decision-making and project implementation and local governments engaged in community consultations from the start of projects. The Bank would promote transparency regarding information on production sharing agreements and on its own project evaluations. It would insist governments provide details on how royalties and tax revenues were spent, e.g. receipt and expenditure reports, and oil funds would be independently audited. The Bank would look for synergies with other initiatives, such as the Soros Initiative².

**Withdrawal from the Extractive Industries**
For a scenario in which the World Bank would phase-out their involvement in the extractive industries, it should avoid financing new coal mining capacities, including open pit extraction. In mineral mining, the Bank would observe a ban on all new mines in sensitive areas, such as near mountains, national reserves, indigenous people, and subsistence communities. Its projects would ban the use of cyanide and other toxic technologies, and an objective criteria would be developed to identify ‘no-go zones’, which would be respected.

**Final Recommendations: Cross-Cutting Themes**
The Consultation formulated final recommendations in the context of nine cross-cutting themes: governance; transition policy; closure policy and cleaning-up the past; standards, guidelines and monitoring; disclosure policy and information sharing; revenue management and distribution;

---

² [www.publishwhatyoupay.org](http://www.publishwhatyoupay.org)
impacts and benefits at community level; institution building and regulatory frameworks; and social mitigation.

**Good Governance:** the World Bank Group should address this firstly through Country Assistance Strategies by means of legislative frameworks and measures to address human rights issues and to build democracy. Noting that the World Bank Charter presently prohibited it from interfering in political processes, the Bank would also try to change its own charter along the lines the EBRD’s Article 1. The Bank would monitor levels participation and ensure action on issues that arose. It would strengthen its resident missions so that they could facilitate public participation in countries with undemocratic governments.

**Transition Policy:** the World Bank Group should target the development of effective legal and regulatory frameworks prior to privatizing oil, gas and mining industries. The Bank would help to formulate and finance close-down strategies for non-profitable state companies. Micro-finance schemes, training programs and proper pension schemes would have priority in Country Assistance Strategies. The World Bank Group should promote anti-corruption campaigns and link such action to loan agreements with host governments. This called for strong coordination with the IMF. Price liberalization would be effected in a socially acceptable way and implemented as a partnership between the private sector, governments and communities. The Bank should help develop services and value-added sectors through the promotion of small and medium enterprises. Use of oil funds should be prioritized to sustain services in the affected areas and investment in the municipalities could be facilitated through local tax schemes.

**Closure Policy and Cleaning-Up The Past:** closure plans should be in place from the start of new mining developments and be a condition of World Bank Group financing. For ongoing projects, the Bank should insist on adequate closure plans being developed. Detailed decommissioning plans would be published in the language of the country, costs of closure would be met and the World Bank Group and governments would work together to ensure a social safety net was in place in advance of mine closure. To deal with environmental legacy issues, the World Bank should consider funding clean-up of projects, including old uranium mines. Funding could be in the form of grants, low interest clean-up loans or the mine reclamation funds now being required by law in some countries. There would be full transparency and public control.

**Standards, Guidelines and Monitoring:** the World Bank Group should issue sets of guidelines covering all environmental and social aspects of projects. Borrowers should pre-qualify by demonstrating use of best practice, including OECD guidelines on corporate governance and the ILO conventions on minimal acceptable standards. A project governance board could be established with representatives from each stakeholder groups given accountability for the monitoring of various aspects of projects. For monitoring, general indicators on social, environmental, safety, and financial issues would be developed for all World Bank Group projects. Borrowers not following guidelines or maintaining standards would black-listed.

**Disclosure Policy And Information Sharing:** environmental and social impact assessments should be fully disclosed, as well as annual monitoring reports. Disclosure would also cover environmental action plans, emergency response plans, accident and response reports. Product sharing agreements should also be released to the extent feasible. Disclosure of all government revenues should be incorporated into environmental and social impact assessments and actual payments recorded in annual monitoring reports. Disclosure would also track the impact of revenues flowing to local communities. There would be a base-line from which to track human development indicators at both the local and national level, independently validated by civil society experts.
Revenue Management and Distribution: all revenues should be disclosed by companies and governments and dedicated funds, such as oil funds, be established to channel revenues from the extractive industries into development. Oil funds should be subject to regular independent auditing by a steering committee including public representatives. The committee would conduct regular public and parliamentary hearings on the use of the fund’s resources. The Bank was recommended to establish best practice guidelines for oil funds and to take a leading role in ensuring such funds work. The manual would address the amelioration of environmental and social impacts from the extractive industries and black-list what the funds should not finance under any circumstances, such as weapons purchases. To support revenue management, the Bank would condition loans on disclosure of revenues by governments and companies, and to that end would amend its own disclosure, and other, policies.

Impacts and Benefits at the Community Level: the World Bank Group should consistently take steps to provide advantages to the local population whenever it embarked on a project. The Bank should assess the situation at the local level and, with such knowledge, not fund projects that destroyed traditional ways of life or damaged existing conditions at the local level. Procedures would require all concerned parties, including nomadic populations, to be identified, consulted and brought into agreement on project preparations. The Bank could use its leverage to require governments to guarantee, for example, compensation and insurance (including ecological insurance) to local communities. A jointly agreed plan would minimize the negative impacts of a project on the local community, while providing programs for community development. Preservation and protection would be a distinct component of every project, and continuous public monitoring of social and economic impacts, and benefits, would be ensured with the results evaluated in the context of the community development plan.

Institution Building and Regulatory Frameworks: opportunities for local business development would be identified from the start of projects to ensure the sustainability of the local economy after extraction activity came to an end. A strategic plan, aimed at building the capacity of local businesses and developing locals skills, would be reflected in community consultations from an early stage and implemented through cooperation between the government and the community. This would be underpinned by an effective regulatory framework and a methodology would be identified for monitoring the progress of local businesses.

Social Mitigation: would commence before, or in parallel, with project development. Early consultation with all stakeholders was required to ensure all sensitive factors were addressed. The World Bank should sponsor training and education programs and increase efforts to involve local governments. In co-ordination with other international financial institutions, a set of guidelines should be created on local economic development and social mitigation. These guidelines should be reflected in country assistance strategies.

Conclusions
Closing remarks for the Consultation were made by representatives of the World Bank Group, industry, and civil society, respectively, and the Eminent Person to the EIR, Dr. Emil Salim.

World Bank Group
On behalf of the World Bank Group, the Director for Oil, Gas and Mining confirmed that poverty reduction and sustainable development were the *sine qua non* of Bank activities. Many region-specific issues had been raised by the Consultation that presented particular challenges; the region was in transition, and its democracies evolving. The importance of disclosure, transparency, good governance and community development were concerns all stakeholders shared. The Bank were
willing to admit shortcomings, to learn from the past and to improve future practices. At the same time, there was a danger of setting standards so high that it would result in two unintended consequences, which should be taken into consideration: first, internally, the World Bank Group felt there were limits to what it, and its partners, could do. There was an increasing aversion to risk, and the Bank may not want to be involved in difficult projects. Second, from an external point of view, if standards were set too high, the World Bank Group would not be seen as a useful partner. However, the Bank would continue to work with all stakeholders in succeeding workshops and assess all recommendations thoroughly.

**Industry**

An industry representative proposed two additions to the set of recommendations. First, there should be a clear recommendation on how to attract private sector investment for future projects; most of the discussions had focused on how to mitigate the impacts of ongoing projects. Second, was an issue raised in the preparatory workshop in Brussels, and not followed through - namely the energy mix. Promoting a shift from other energy sources to natural gas was a golden chance for the World Bank Group; it could assist countries with the gasification of their energy sectors. This change in the energy mix, which had not been addressed, was extremely important from the point of view of sustainability at the local, national and global level.

**Civil Society**

A civil society representative proposed the addition of a further recommendation on how various modalities of development should be balanced within the World Bank Group. Bearing in mind its limited capital for loans and guarantees, was it better to use money to promote development through the extractive industries, or promote development through other sectors, such as agriculture? This should at least be a topic for consideration in the following Consultations.

**Eminent Person**

Sustainable development combined three objectives at once: economic, social and environmental development. If the World Bank Group was to stay engaged in the extractive industries, it should do so along the path of sustainable development, minimizing the negative social, environmental and economic impacts of the past. First, social demands must be met; one such demand was poverty eradication. Second, it was important to recognize the demands placed on the environment; resources in the world were limited yet supported an ever-growing global population. Third, came economic considerations; quality of life should be raised, irrespective of an increasing world population. The triangle of government, industry and civil society, represented by the World Bank, were responsible for the realization of sustainable development. Market and policy failures should be remedied through consultation and consensus building. In Eastern Europe and Central Asia, stakeholders had agreed on the need for good governance, without which development objectives would fail. Could extractive industries be a part of sustainable development, when oil, gas and minerals were non-renewable resources? Only if in the process of exploiting non-renewable resources, an investment was made in renewable resources i.e. education, capacity building, the protection of ecosystems and communities. The question was how to translate this into action; the success of the EIR would depend on the goal of sustainable development being embraced by all - industry, government, civil society, and the World Bank Group itself.
1. Introduction
The Extractive Industries Review (EIR) Regional Consultation Workshop for Eastern Europe and Central Asia was held in Budapest, Hungary, June 19-22, 2002. This was the second in a series of four multi-stakeholder consultations to discuss the role of the World Bank Group in the extractive industries. The agenda for the workshop was to analyze the involvement of the World Bank Group in the oil, gas and mining sectors of the region and whether these activities were compatible with their overall mission of poverty reduction and sustainable development. Over eighty participants attended the workshop, representing civil society (non-governmental organizations, community-based organizations and labor unions), government, the oil, gas and mining industry, academia, and the World Bank Group itself.

The formal three-day consultation was preceded by a two-day open forum for civil society testimonials (chapter 3) and a voluntary information exchange with World Bank Group representatives (chapter 4). Provision was also made for an ‘Information Market Place’, where participants were able to exhibit additional information on their organizations and activities. The subsequent workshop sessions were closed to participants who had been invited or ‘self-selected’3. These sessions featured presentations from the World Bank Group on its procedures, safeguards, and standards for extractive industry projects (chapter 7), as well as case studies from stakeholders on the environmental, social and economic impacts of oil, gas and mining projects in the Eastern Europe and Central Asia region (chapter 8). Drawing on these presentations, participants identified sector-oriented recommendations concerning the role and impact of the World Bank Group in the extractive industries in the region (chapter 9). These were expanded into a set of action-oriented recommendations on key issues of concern if the World Bank were to continue actively supporting oil, gas and mining projects in the region (chapter 10). The final recommendations were the subject of a post-Consultation statement agreed to by selected representatives from each stakeholder group.

The entire process was guided by the Extractive Industries Review’s Eminent Person, Prof. Dr. Emil Salim. Dr. Salim will use the conclusions of the Consultation as inputs for the final EIR report, to be presented to the World Bank Group President, James D. Wolfensohn, in September 2003. In line with the EIR mandate, note was taken throughout the workshop of dissenting views, which will be taken into account in the final report.

Additional material from the Budapest consultation, including case studies, testimonials and World Bank Group presentations, can be found on the EIR website: www.eireview.org

---

3 ‘Self-Selection’: the selection of civil society representatives attending the formal 3-day session of the consultation workshop was co-ordinated with the help of Petr Hlobil, of CEE Bankwatch Network. The self-selection process gave civil society the responsibility of nominating twenty-five suitable participants from a variety of civil society organizations to represent their interests at the workshop.
Part One: Open Forum

2. Welcome From Eminent Person Prof. Dr. Emil Salim

Welcoming participants to the open forum of the Consultation, Eminent Person, Dr. Emil Salim, underlined the purpose of the workshop; to explore the role of the World Bank Group in the extractive industries, whether such a role was appropriate, and if so, how should it be improved? The aim was to assess how the World Bank Group could contribute to poverty alleviation through development that was environmentally, socially and economically sustainable; development by the people, for the people. In that context, the open forum, consisting of testimonials and the World Bank Group information session, was an opportunity to hear the community voice, assess their experiences and address their concerns relating to extractive industry projects in Eastern Europe and Central Asia.

3. Civil Society Testimonials

Dr. Salim emphasized that the testimonial sessions were designed to obtain input from the viewpoint of those people directly impacted by oil, gas and mining development. As the basis of deciding how things could be improved, he needed to know how civil society felt about the World Bank Group, government and industry. The purpose was to listen rather than discuss, and interventions during the testimonial presentations were therefore confined to clarifying the points raised. He expressed appreciation to the fifteen organizations and individuals who submitted testimony, describing them as frank, honest, and straight to the point. He particularly noted their concern over mine closures and the role of large oil companies.

a. Coal Industry Restructuring

Three testimonials took up the theme of restructuring the region’s coal industry and the social and environmental consequences of the associated mine closure schemes. Two testimonies described experiences in Ukraine and one described experiences in Russia.

Ukraine

In Ukraine, large-scale mine closure commenced in the mid-1990s after the Ukrainian Cabinet decided to restructure the sector. A state-owned company was set up through which all cash funds for the restructuring were subsequently allocated. In the case of the presenter’s home area, Lugansk Oblast, the mine closure funds amounted to only 25-30% of those required. All funds were therefore used in the physical liquidation of the mines (closing fifty-four with another forty-six in the process of closure), and insignificant funds were allocated to tackle social and environmental issues.

A review of the liquidation process determined that the mines were closed in contravention of Ukrainian legislation relating to water codes, air protection and waste handling, and there were instances where project controls had not been in place. After the mine closures, there were other unanticipated problems such as under-flooding, methane contamination, and radioactive slime contamination. The situation deteriorated in the region as the social impact of the mine closures became apparent: miners demanding payment for wages in arrears; wages being paid in kind, e.g. the distribution of bread instead of cash; and a lack of fuel for heating, leading people to extract coal manually, to sell or to use themselves.
Separate testimony from the Ukraine National Ecological Center noted that the mine closure program was only initiated by the Ukrainian Government following guidance from the World Bank. The World Bank orchestrated the operation, advising the Ukrainian Government on the procedure for mine closure, so were therefore viewed to have had a significant role in the restructuring of the coal sector and the ensuing problems experienced.

The trade union representative agreed the sector had certainly needed reform, but that restructuring had worsened the situation in the very aspects that had been the concern of the program, namely social and environmental mitigation. The mine closure programs, even if well developed, had not received sufficient financing to address the future of the mining towns after the actual closure of the mines had been achieved. The quality of life for local communities had sharply decreased, worsened by the disappearance of public services. Other problems were attributed to the company set up to deal with mine closure, on advice from the World Bank. The firm was essentially a monopoly and proved to be non-transparent, undemocratic and unaccountable to the public or workers. Some of its staff were accused of taking bribes and the Ukrainian Parliament had investigated an alleged misuse of approximately $14 million in funds allocated for the creation of new jobs for ex-miners.

The presenter asserted that the World Bank’s categorization of the mine closure projects was unsuitable, considering the impact they had on the region. In countries like Ukraine, where there was a lack of both public participation and government accountability, such projects should have been billed as ‘category A’ rather than ‘category B’ in order to ensure adequate community consultations and environmental assessments were undertaken. Another concern was the short timeframe, of less than one year, between the pilot mine closure projects and the development of secondary projects. It was suggested that, in many cases, environmental assessments of the mines selected for closure had not been undertaken. It was only after this issue had been raised by NGOs that the authorities undertook such assessments of previous mine closure programs.

Supporting testimony from the Ukraine Coal Mining Union emphasized Ukraine’s dependence on coal, which supplies half the country’s energy. Since Ukrainian independence, coal production had been cut by a factor of two and the mine closures had led to an environmental catastrophe, hitting whole regions in the Ukrainian East. Of 380 spoil heaps, eighty were currently burning, emitting sulfur oxides contributing to acid rain. In the past, there had also been sub-surface nuclear explosions carried out at two Ukrainian mines, which had since been closed and the situation there beyond control.

Over the previous eleven years, $500 million had been allocated for all activities related to mine closure, but this proved to be only a third of the project requirements, which amounted to $1.5 billion. The World Bank Group allocated funds for coal sector restructuring in two tranches totaling $300 million but, it was claimed, the funds had been used by the Government to pay its debts to Russian and Turkmen energy carriers. Nevertheless, the Government had complied with Bank demands that the coal industry be restructured, closing 106 out of 280 active mines, without relevant funds to support the process. The mines had simply been flooded, causing neighboring mines to also close as the shafts were interconnected.

A World Bank mining expert explained that it had been the responsibility of the government and its agencies to manage the mine closure process, while the Bank had a supervisory role, advising the government when necessary. However, if the government did not want to cooperate with the World Bank, as had occurred in the Ukraine, there was little it could do and, for this reason, the Bank had not been engaged in Ukrainian mining sector since 2000. When the Bank was involved, a
social safety net had been in place to ensure unemployed workers received back wages, severance pay, and, for a limited time, unemployment benefits. The situation had since deteriorated without its involvement. The Bank would not support the program as it now stood, where the government insisted on increasing production levels and subsidies. In the long-term, this situation would become unsustainable and workers would be worse off.

Russia
Testifying to Russia’s experience of World Bank-led coal sector restructuring, the Independent Coal Employee’s Union of Russia explained that the Government had negotiated two loans for the process. The first, for $500 million, was released in 1996; the second, for $800 million, covered the period from 1998 to 2001. The restructuring was intended to establish a competitive coal-mining industry and resolve social problems within the sector.

It was suggested World Bank experts evaluated the restructuring program favorably as the sector had almost broken even, efficiently producing 270 million tons of coal, as compared to 290 million tons at the start of restructuring. But, in reality 183 enterprises had been liquidated, more than 400,000 people laid off and the social situation in mining regions had become extremely strained. For example, only ten percent of initial employment targets were achieved, with only 4,000 to 5,000 people, out of a total of 400,000, able to find adequate new jobs; another 40,000 found alternative employment but not that which necessarily matched their expertise. Despite the apparent provision in the World Bank programs for dealing with such problems, they were not viewed to have been implemented effectively.

Meanwhile, ten million tons of coal remained unsold in mine storage yards, leading to some cost-effective mines being taken out of production, further contributing to the sharp displacement in Russia’s energy sector. It was argued this occurred because the electric power and the gas markets were regulated by the government, unlike coal. As a result, domestic gas prices were four to seven times lower than the world price, and significantly lower than the price of coal, which was sold at a comparable price in both the domestic and foreign market. The competitiveness of coal was undermined, as power producers chose gas.

With the Russian coal sector severely depressed, large capital investments would only be effective after several years, but the Russian coal industry had not received substantial investment for five years and the accumulated depreciation of the sector’s basic assets amounted to seventy percent. The World Bank, emphasized the presenter, had contributed to the mistake of utilizing domestic gas rather than coal which led to the liquidation of coal mines that were just beginning to break even. But Russia’s current supply of coal would eventually be exceeded by demand, requiring the equivalent of 440 million tons of coal to be replaced by other energy sources, as the scaled-down industry would no longer be able to produce such an quantity.

The presenter admitted that the World Bank was not involved in correcting the energy price distortions in the Russian market. Its role had purely been to adjust the programs implemented in the coal sector. But the Bank imposed some adjustments which were viewed unsuitable. For example, the mining union was in conflict with the World Bank over the Bank’s strong opposition to the signature of a sectoral tariff agreement. The Bank maintained that the government should not participate in owner-employee relations in a sector where up to 90 percent of coal-producing enterprises were privatized. But the union argued the tariff agreement would encourage owners take certain steps, such as stimulating sectoral investments. Further, they said that it was the trade union, not the Bank, who had encouraged employers to assume a certain set of social responsibilities towards their workers and the Government to consider what further steps should be taken to solve economic and social problems.
Liquidation did not just lead to unemployment, but also raised the issue of relocation, as many localities were geared to serve a single enterprise, coal mining. Yet, the relocation program was only being implemented for ten percent of mine workers, which meant the alleviation of social problems in the coal-mining sector were estimated to take another twenty to thirty years. While the involvement of the World Bank had been important for coal sector restructuring, the presenter emphasized that if the Bank failed to comprehensively monitor the process, key goals leading to the stabilization of the national economy, rather than just a single industry, would not be achieved as the social costs would be too great to overcome.

Environmental consequences of mine closure included profuse gas emissions from the predominantly older mines in the Russian Donbass region (the Don Coal Basin). Asphyxiating and explosive gases had penetrated cellars and basements in buildings and highly acidic mine water from abandoned mines had risen to the surface and contaminated potable water reservoirs. Subsidence in the areas surrounding former mines was another problem.

Asked by the EIR Secretariat whether the World Bank had had a positive or negative impact on mine closure, bearing in mind the extreme conditions from 1993 to 1996, and 1998 compared to the present, the presenter commented that a whole package of actions could have been adopted to save mining enterprises. However, the Government had opted to simply liquidate problem mines, with wage arrears only partially covered by the federal budget. In 1996, the average backlog in wage payments had reached six to eleven months in regions like the Russian Donbass. The trade unions did not directly condemn the World Bank Group for the problems experienced with restructuring, as particular decisions were made by the government. But it was perceived that World Bank Group guidelines had been blindly followed.

b. Gold Mining

**Cyanide Spill in Kyrgyzstan**

A testimony entitled "Impact of the Kumtor Gold Mine on the Life of Nearby Village of Barskoon" presented the consequences of the 1998 cyanide spill in the area of the Kumtor Gold Mine, in Kyrgyzstan. The Kumtor mine was situated high up, in the glacier zone, some 4,000m above sea level. It was financed with loans from the IFC ($40 million) and EBRD ($40 million).

Presenters emphasized the community’s concern that the 20-ton truck involved in the accident lay in the Barskoon river for six hours before the company released information to the public. In the meantime, local people had used the water supply for their usual activities, unaware of the possible contamination. Although the Canadian company denied there was any poisoning, the presenter had evidence stating that many people had suffered from cyanide acid poisoning. People were still sick even today and the mortality rate was seen as unusually high: 15 people had died in the January and February after the incident. The doctors were unable to properly diagnose the causes of all these deaths, though four had clearly died of cancer. Two women suffered miscarriages and others were advised to have abortions for fear of fetal abnormalities.

In the aftermath of the spill, local people blocked the company’s access road, demanding fair compensation. The company subsequently paid partial compensation of 1,000 soms per adult ($20) and 500 soms per child ($10). It also promised to compensate the negative effects on the 1998-99 harvest though, to date, this had not happened. Aside from the cyanide spill, the local community were also concerned about the Kumtor tailings facility. Earthquakes in the area were frequent and they feared the dam was unlikely to withstand a strong tremor which could lead to disastrous consequences for villages downstream of the mine site. Another public health concern was the dust
from mine explosions settling on the glaciers that were the source of drinking water for the local community. The presenter called on the World Bank to think about the impacts on local communities before supporting such projects. The community was interested in different paths of development, such as organic farming and tourism.

In subsequent questioning, the EIR noted that an International Scientific Commission of independent experts had analyzed the impacts of the cyanide accident, and whether it would have lasting effects. Commenting on its work, the director of the Human Rights Bureau in Kyrgyzstan recalled the Commission’s recommendation that scientific research should compare data five years prior to the accident to the data of the five years afterwards. However, there was no evidence that such a monitoring process was in existence.

According to other testimony, calcium hypochlorite decontamination was carried out after the cyanide spill by both the company and the Government’s Ministry of Health. Those measures turned out to be excessive and exacerbated the cyanide contamination. The speaker had also independently determined that, while international experts said there was no evidence of poisoning, up to 23 percent of those who requested hospital assistance had traces of cyanide in their blood and urine. In order prevent such situations occurring again, government agencies should ensure an emergency action plan is in place. As of now, this had only been partially developed in Kyrgyzstan.

**Mining Potential in Romania**

Three testimonials referred to a $400 million proposal, reportedly under consideration for funding by the World Bank Group, to develop an open-pit gold mine in Rosia Montana, Romania. This would be the largest such pit in Europe and would directly affect some 2000 people, many from 750 family farms. It was noted that the tailings from the planned method of cyanide leaching would create a 600 ha cyanide lake with a capacity of 250 million tons retained by a 180-m high dam. Rain in Romania’s Rosia Montana area was acidic enough to form gases at the lake that could be of concern to health and there was a risk of cyanide leaking into soil and underground water. Meanwhile, the Baia Mare accident had already shown that the Romanian authorities were unable to cope with a major leakage, alleged the speakers. They also feared for the capacity of the Romanian Government and local authorities to enforce mining and other regulations.

One NGO testified that although there had been a World Bank Group fact-finding mission to Rosia Montana its members had not been contacted. The IFC was currently still in preliminary discussions with the company, a 80:20 joint venture between Toronto-based Gabriel Resources and Minvest, the Romanian state company. There was considerable opposition to the project as it would force the resettlement of people in several villages. This was despite Gabriel Resources’ advertised claim that it was abiding by the World Bank directives, including that on resettlement. Many people were reluctant to move as the average small, family farm measured 450 sq m whereas the company were only offering 200 sq m.

At public consultations organized by the company, those who opposed the development had two requests: a referendum for every affected community; and abandoning the plan to use cyanide leaching on an unprecedented scale. As a consequence, the company had cancelled the initial series of consultations for a meeting at which miners from the nearby mining town had shouted in favor of the development as they feared the privatization of Minvest would jeopardize their jobs, said the presenter.

Another presentation, by a geological engineer, drew attention to the impact of the mine on the very poor mountain communities who rely on the surrounding territory for their livelihoods, but would have to be resettled if the mine went ahead. Even if employed by the mine, many people,
having forfeited their traditional livelihoods or being too old, would be unable to find new jobs once the mine closed in 10 years and small economic initiatives were likely to fail due to a lack of business training. Locals feared their land and forests becoming contaminated by cyanide, a profusion of waste heaps, and the disappearance of the lake as a water source for the community. It was alleged that a huge amount of money was being spent on security for the mine rather than investing for local development, and miners were known to have been paid by the company to demonstrate and support their interests.

A third presentation focused on the exploitation license which had by-passed the 1998 mining law, that calls for environmental and social impact assessments and post-closure rehabilitation programs to be undertaken prior to the project. Despite this, no assessments had yet appeared and the exploitation license allowed the company to start the project any time they wished. Due to problems with corruption in Romania, locals feared the company had influenced the government decision to declare Rosia Montana a disadvantaged zone in 1999. This granted concessions to the Canadian company, such as no VAT payments for ten years, no significant export duties, a corporate tax holiday, and indemnification against environmental damages caused by previous owners.

In answer to questions from the EIR, one presenter said IFC support was essential for the project to continue. They pointed out that, while 50 percent of people had refused to express an opinion about the mine proposal, this did not mean they supported it. In Romania, people were still intimidated to speak out and at the time, some people were in the process of contesting property rights for land lost during the Ceausescueau period. Bad governance and corruption were viewed at the top of the list of problems.

c. Oil and Gas Extraction

World Bank Policy
Testimony from the Institute for Policy Studies suggested that the context for the World Bank’s involvement in oil projects in Kazakhstan was their assistance in reforming national regulations and legislation. Technical co-operation programs for the former Soviet Union and its republics (including Kazakhstan) had provided expert legal and technical assistance to help develop international standards, and contractual and physical frameworks. The underlying policy had been set out by the Senior Vice President and General Counsel of the World Bank in 1995: “In any productive sector, the presence of an enabling legal and physical framework is an important catalyst for new investment and especially for the inflow of foreign investment”.

This was particularly the case in the petroleum sector where investments were typically long-term and high-risk. In other words, the structural and legal changes encouraged in developing countries by the World Bank and the IMF had much broader implications. For a fraction of the cost of large extractive industry projects, long-term changes had quietly been worked into countries’ legal and regulatory systems favoring deregulation and privatization, and the overall liberalization of the market. Such changes had improved the prospects for further investment by multinational oil and gas companies based primarily in the United States and Europe. The rationale for them had little to do with poverty alleviation or sustainable development.

In 1981, a U.S. Treasury report prescribed the measures the World Bank should take, noting they should increase investment in the oil and gas sector in order to "expand and diversify global energy supplies, to enhance security of supplies and reduce OPEC market power over oil prices". The influential U.S. Treasury also wanted to ensure developing countries were able to service their debt payments to northern commercial banks. Thanks to the World Bank, many new areas of the world,
including the former Soviet Union, were now opening up their energy supplies to the United States and Europe. The legislative and regulatory reforms encouraged by the Bank's staff set the stage for billions in investment from export credit agencies, other international financial institutions, and private capital.

Since 1980, World Bank investments in oil and gas had succeeded in servicing developed countries who were, incidentally, large contributors to the World Bank, while not benefiting to the same extent the developing countries where the petroleum was drilled. While the industry could generate revenues and satisfy U.S. public demand for oil products, this was not necessarily conducive to poverty alleviation. If the EIR was to be true to its mandate, such investments, and the policies that enabled them, should be comprehensively reviewed, the speaker urged.

**Oil Projects in Kazakhstan**

Continuing the testimony with particular reference to Kazakhstan, the speaker remarked that since 1993, per capita GDP had dropped by 40 per cent, poverty had increased, human development indicators had worsened, and public financial accountability had remained very poor. All this despite a near tripling of foreign direct investment, mainly in the oil and gas industry. While it was not argued that such results were the fault of the World Bank, some projects had not helped:

a. The Uzen oilfield rehabilitation project was financed with $109 million from the IBRD in 1996. The project was strategically important due to its size and initial plans to develop an eastern terminus for an undersea trans-Caspian pipeline and the development had the potential to make a vital contribution to the economy of Kazakhstan. However, with Soviet era pipes and rigs still present in Uzen today, there is no visible evidence that the loan was put to good use. Neither workers nor locals knew of any foreign, or World Bank-related, activities and no improvement in field and environmental conditions have been observed. In addition, tanker traffic could increase by 300 percent if the Baku-Ceyhan project went ahead, so this was an area that needed to be looked at in terms of an environmental impact assessment, said the speaker.

b. A recently approved $150 million IFC project in the north of Kazakhstan would create a new oil export route from a new terminal in Karacharognoruk to the CPC (Caspian Pipeline Consortium (KTK) project) in Utteral. This was a cause for concern as the Bank needed to look at the environmental implications of not only the first pipeline, the CPC, but of building a second pipeline alongside it. Communities along the CPC claimed environmental legislation, and other regulations, had been ignored in the construction of the first pipeline and were demanding to be relocated. Although the loan was approved recently, there had been no public hearings and no information was readily available for the community.

c. In 2000, the IFC extended a $20 million loan to the First International Oil Company for the development of the southern Karakh oil field. This was a small oil field with an output amounting to around 8,000 barrels per day, exported entirely by tank cars. According to the speaker, it was one of the worst managed fields ever seen; video footage showed inadequate waste disposal, excess oil being dumped into unlined drains with spills overrunning onto the ground.

In conclusion, the speaker reported on comments reputedly made by the IMF mission chief for Kazakhstan, that poverty reduction by no means the main purpose, nor necessarily the result, of World Bank Group investment in the oil and gas sectors in Kazakhstan. This contrasted with the World Bank's own conclusions from a recent evaluation of its programs in the country, which stated that poverty alleviation should be their top priority in Kazakhstan. Regulatory and legislative changes had been specifically designed to increase petroleum sector investment in this region and it was therefore important to evaluate the impact of such investments in the broader
context of the work of the World Bank in the region. In other words, structural adjustment loans may lead a country to develop its natural resource sector as means of servicing their debt to the World Bank.

*Environmental and Social Concerns:* Testimony from the Global Institute on Ecology analyzed the first tranche of World Bank funding for Kazakhstan - $60 million for oil and gas remediation work. This was allocated to improve environmental aspects of the extraction activities and the living environment for the people. The Global Institute understood that, in line with the mission of the World Bank, the larger portion of its loans had the objective of alleviating poverty in the region.

The region itself was seen as a ‘new oil province’ with colossal oil projects being implemented by significant market players, who clearly had key interests of their own and foresaw large financial gains. Observing the oil developments, local communities remained pessimistic about their sustainability and doubted the opportunity existed to benefit from either current, or future, projects. The old oil field in the region had been in production for quite some time and gave a poor impression regarding its compliance with environmental laws and the quality of work carried out. For this reason, the Global Institute, together with several international organizations, put together the Caspian Caravan program (also financed by the World Bank) to inspect the oil fields, including the well-known Uzen oilfield.

The Uzen field had produced oil for several decades, completely razing the surrounding area, with little remaining of the former landscape. The field burned up to 70 flares, with nothing done to suppress gas or carbon emissions, and employed outdated methods of extraction, for example using oil sumps, which caused pools of oil to become trapped in niches in the ground, turning to asphalt. The inspectors believed they would see at least some progress as a result of World Bank influence, but what they had found was much worse than anticipated. The Caspian Caravan Program were surprised to find a similar situation at another oilfield, Sazan-Kurak, which had been in operation since 1998. Despite being a new development, the joint venture, between the First Oil Company and Kazakhoil, also used outdated practices, such as oil sumps and gas flaring, and the surrounding landscape had been razed with no re-vegetation. Although the World Bank had invested $20 million in the project for environmental mitigation, the technical director of the oil field did not know of the existence of such funds nor had been assigned any tasks concerned with soil rehabilitation, or gas and soot suppression.

The presenter contrasted the wages of several thousand local oil workers with those workers in nearby towns. The comparatively high wages of the oil field employees had caused local inflation, particularly in housing and food prices. Overall, this had led to a deterioration in the quality of life for the majority of the local population, despite payments by the oil companies to the local budget. There were other examples of communities where the benefits of nearby oil developments had not been realized at the local level. The Mangyshlak peninsula territory was an area of adverse climatic conditions where special allowances had previously been given to local inhabitants to compensate living there. Due to budgetary problems, such allowances had been suspended, cutting salaries of people like teachers by 50 per cent. This meant towns, near the richest oil fields in the region, were unable to provide a monthly allowance of $20 per teacher. In villages near the Korche gonag field, where the IFC recently allocated a loan for the construction of an oil pipeline connecting to the KTK network, local authorities had requested that the oil companies resettle people elsewhere due to health concerns. The presenter claimed this indicated that the oil companies had failed to enlighten the World Bank of this potential problem when the project was under review for funding.
The construction of the 1580-km KTK pipeline, which carries oil from the Kantiginad oil field, had given rise to massive public discontent and its operation was the source of many environmental and social problems, said the presenter. The most critical point was where the pipeline reached the Black Sea shore near an historically developed recreation area. The Global Institute had found the majority of the population against both the existing pipeline and the construction of a second. In his view, when the strategic decisions about the pipeline construction were made, the sustainable development principles that should be of concern to the World Bank, were not thought through as they should have been.

The Global Institute’s recommendations for the whole Caspian Sea basin called for recognition of the area’s uniqueness as regards the diversity of renewable resources and the implications this has from a sustainable development perspective. The profusion of plans by large companies to drill for oil in the Caspian Sea and facilitate large-scale commercial production of oil by 2005 posed a serious environmental threat. Historically, fishing had been a regular business for all communities living around the Caspian Sea; indeed the area was known for its unique sturgeon population. The recreational potential of the sea was also huge. Alternative energy sources should also be explored in the Caspian region as the potential aggregate capacity of wind and solar energy generation would be enough to provide electricity to more than just local communities. The presenter urged that financing parties, including the World Bank, should work out a regional development strategy for the Caspian Sea basin prior to funding any local project, whether for oil production or for restructuring, such as port development.

Asked by the EIR about the responsibility of the World Bank for the shortcomings experienced, the presenters strongly recommended the Bank recognize the level of corruption within oil companies in Kazakhstan when embarking on business discussions.

**Oil and Gas in Azerbaijan and Georgia**

**Azerbaijan:** Testimony from the Environmental Law Centre (ECOLEX) focused on the Early Oil Project in Azerbaijan, contrasting the World Bank’s $2 billion funding for research into oil development with the $1.5 million extended for agricultural development. The setting for current problems was 1,800 hectares of contaminated land and abandoned oil wells inherited from the USSR when Azerbaijan achieved independence in 1992.

Azerbaijan is a unique territory of only 90,000 sq km, exhibiting 9 of the 13 climatic zones of the planet, and with a population of 8 million. The country has significant oil resources and since petroleum production began in 1873, the amount extracted has since equaled the amount of oil produced by Kuwait over 45 years. But Azerbaijan failed to become another Kuwait as the country was under the continual influence of the Russian Empire, then the Soviet Union and now transnational corporations.

The first contract after independence was signed in 1994 when the Azerbaijan International Oil Company was established. Among the shareholders, Amoco and BP held a 44 percent share and BP had become the main operator. The World Bank extended a $200 million loan to BP to develop the Chirag oil field, surprising in the view of the speaker, as the company had assets worth more than $240 billion. Out of the $200 million the World Bank allocated, only $1.5 million was extended for the construction of a sturgeon hatchery facility. At the time, the political and economic climate in Azerbaijan was unsettled, with high levels of corruption and a lack of democracy. The situation today is much the same with Azerbaijan currently rated the third most corrupt nation in the world. There was a perception of a lack of transparency surrounding the project, as documents were not disclosed to the public, and the World Bank did nothing to
enlighten the Azerbaijani people of the project. Nor had they required either the Government, or the companies involved, to inform the public of their activities asserted the speaker.

When the contract was signed, the Azeri people were reassured that, in addition to oil, the country would receive supplies of associated gas from the Chirag oil field (1 billion cubic meters of gas per year, worth $1 million dollars). But, that gas was now being flared, meaning $1 million dollars of the total annual gas consumption of Azerbaijan was being wasted (the country’s total gas requirement was 12 billion cubic meters per annum). This was at a time when more than 5 million people in rural areas had no gas at all. Instead, they had to cut forests and use wood as fuel. As a consequence, Azerbaijan was gradually being desertized and together with some other areas of Transcaucasia, the country was considered one of the most vulnerable territories according to the International Convention on Desertification. Few would believe Azerbaijan had undergone a fuel crisis in the last year, when 80 percent of the population in 80 percent of the territory had neither gas nor electricity.

One of the prerequisites suggested by international financial institutions was the establishment of an Azeri oil fund, which currently holds more than $500 million. However, the money has not been spent to meet the needs of the population. While $80 million went to refugees displaced from the conflict in Nagorni Karabak, funds have neither been used for the development of the oil sector nor for agriculture. International finance institutions are not seen to have sufficiently supervised the process, but were planning on extending further funds to Azeri oil companies and the Government.

Despite these shortcomings, the presenter was not recommending that the extractive industry should not be financed. On the contrary, his organization proposed a different approach. The World Bank should set out certain conditions for the Government and oil companies:

- Projects must be environmentally safe and all equipment dismantled on completion. Under the production sharing agreement (PSA) for the Chirag field, the Azeri people would acquire ownership in 30 years by which time oil resources would be exhausted. But the World Bank had not made the company assume responsibility for the dismantling and liquidation of the facility. This meant, in the long run, the Azeri people would become owners of useless pieces of steel.
- There should be agreement that 90 percent of employees should be local people while the remaining 5 to 10% would be international personnel.
- The World Bank should insist on transparency when financing further projects, and should take more responsibility in monitoring how the revenues, generated by the oil projects, are spent.

The reason his organization did not oppose the World Bank funding future oil projects was because the Bank was seen as having the leverage to encourage the Government to be more democratic. Currently, outspoken newspaper editors and political opponents were tried in court, NGOs could not get the accreditation they needed and the public opinion was largely ignored.

Questioned by the EIR as to whether the World Bank or IFC were required for the oil developments, the presenter agreed it was a process that could not be stopped. But two large-scale projects were about to be launched in the territory of Azerbaijan: construction of the Baku-Dzhikha oil pipeline and Baku-Tbilisi-Erzrum gas pipeline. The companies making up the consortia involved in the construction process would not invest their own funds. Instead, the more influential companies would approach the World Bank for funding. The presenter’s organization proposed those companies should receive a list of the Bank’s conditions and that the terms should be in line with the needs of the people living in the territory.
Regarding whether World Bank projects classified as category A came with conditions that were too onerous, the presenter linked the $200 million invested in the Chirag project with the company’s declared production cost of $1 per barrel and its selling price of $25 per barrel. The Chirag oil rig, built with World Bank money, produced 120,000 barrels a day which would imply the funds are available to ensure rigorous standards are met.

It should be a condition of new projects, urged the presenter, that companies research all ecological impacts. Everyone should provide documentation on the effect the industry had had on the local ecology. Gas and oil pipelines would go through regions of Azerbaijan that had no gas or oil and the companies concerned should be required to give some of these resources to the people impacted, the presenter maintained. Under current circumstances, the Bank should make it a prerequisite that companies carry out comprehensive assessments of the environment, e.g. in connection with the proposed Baku-Dzhikha and the Shakhdonis pipeline. But the presenter’s organization was also calling for a comprehensive environmental assessment because oil was also transported by the Baku-Supsa pipeline and by railroad through the same territory. How would all those transportation routes impact on the environment?

On the social side, the influence of the World Bank was also important. The gas pipeline would cut across the whole of Azerbaijan—a territory that had no gas supply and no electricity. It should be a condition that the Government and the company supply gas to those situated in the territory. The current proposal to sell gas to Azerbaijan at world prices, is not acceptable.

Georgia: The Greens Movement of Georgia recalled that the Chirag Early Oil project had been the first designed by the IFC and EBRD as a means of fostering development in the countries involved. Their aim had been to attract foreign direct investment with the intention of improving the livelihood of people in the area. Unfortunately this had not happened, either in the resource country, Azerbaijan, or the transit country, Georgia.

Problems included a lack of transparency, despite the IFC and EBRD requirements to make public environmental impact assessments, environmental monitoring plans and oil spill response plans. The transparency issue was more problematic because Azeri people are not always aware of their rights by law. Ratified by the Parliament of Azerbaijan, the production sharing agreement had been the basis of British Petroleum-Amoco operations in the region and local people had very restricted access to the document.

In Georgia, the main problems resulted from interactions between civil society and BP, local governments and the central government. Civil society had not had access to environmental monitoring plans, nor had local people had the opportunity to raise their concerns with the company. Another issue was access to energy, with some 80 percent of Georgian people experiencing fuel poverty. Roads, which were particularly bad in Georgia, had been made worse by the oil company. Instead of repairing them, the company had sent un-needed notebooks and pens for the local school. Finally, there was an issue of the low salaries paid during construction and maintenance, from 30-60¢ an hour; agricultural activities paid better. However, land had been damaged by the development and people were not satisfied with the compensation they had received. Some local governments were more corrupt than others. The people had fought for their land rights, and local and national level officials had tried to buy them off. Several times they had appealed unsuccessfully to the Georgian International Oil Company, the responsible state agency that was heavily financed by the World Bank.
The NGO, the Black Sea Eco-Academy, gave testimony on the implementation of the Baku-Supsa oil pipeline, in Georgia from 1999. They recalled the initial expectations voiced by local economists and politicians: the project would build a basis for energy independence and security in the region; create a footing for other projects aimed at improving the energy sector, the economy and quality of life; and create jobs for the local population. These expectations had been evaluated by a survey of stakeholders over the period 2000 to 2002 carried out by the organization. The economic review of the Kolkhida areas where the Supsa Terminal was located was based on data gathered in the course of the survey. It gave a realistic picture of future changes to the area, the economic background of project implementation and the way the Supsa Terminal functioned. Prior forecasts by economists had proved incorrect and problems had arisen:

- The implementation of the project had not created job opportunities for local unskilled workers. The share of local population in the total workforce of the terminal amounted to only 1 percent and they were exclusively low-pay support personnel.
- The Supsa Terminal project occupied land in an important agricultural region where farming was the only significant source of income. The terminal paid 1.5 lary per sq m to use the land, whereas income from growing corn in that area amounted to 15 lary, i.e. 10 times more than that paid by the Supsa Terminal management.
- Local people believed they had been deceived as the land on which the terminal was based was worth more than twice that paid to them. Neither the initiation of a number of lawsuits, or efforts on the part of the World Bank, had prompted any reaction.
- Supsa inhabitants were unhappy that the multiple promises the management of the Supsa terminal had given regarding water and electricity supplies to their village had come to nothing. People had taken to protesting in an attempt to be heard.
- Intensive traffic during the construction of the terminal, and its operation since, had significantly damaged local roads leading inhabitants to take action such as setting up roadblocks to demand improvements. There had been no response from either the local government or the management of the Supsa Terminal.
- Negative environmental effects were evident around the Supsa Terminal and the neighboring wetlands which are listed as wetlands of International Importance under the Ramsar Convention. The construction of the terminal had impeded the successful implementation of the Kolkheti National Park project.
- Powerful lighting installed for security at the terminal had caused thousands of migrant birds, such as quails, to die in transit. Due to the high noise levels, several rare species, including roe deer, had left the territory.

In answer to questions from the EIR, the presenter confirmed that the World Bank was financing the Baku-Supsa pipeline project, adding that one of the biggest problems the survey had revealed was that the World Bank had not informed or surveyed the population prior to approving project funding.

**Russian Pipelines**

Testifying to its own investigations in Russia, Greenpeace underlined the importance of oil and gas production for Russia and the significant scale and environmental impact of Russia’s oil spills.

In one notorious accident, there was a spill of more than 100,000 tons of oil in the Komi Republic, in Northwest Russia, in 1994. Later that year, the World Bank extended a $99 million loan for the clean-up operation and put in place preventative measures to guard against future oil spills. Greenpeace visited the area in 1999 and 2000 and found the situation alarming. According to official data at the time, the contaminated area was more than 700 hectares: current data reported...
60 hectares of land that remained contaminated, with another 20 hectares used for the storage of oil detritus. Less than half the 1994 spill had been cleared away, leaving around 75,000 tons on the ground surface from that time. However, the total amount of oil on the ground amounted to 200,000 tons due to further spills after 1994.

The World Bank had not responded to Greenpeace’s suggestion for a joint visit to the Komi Republic to evaluate progress of the project, and at a meeting in Spring 2000 in Moscow, Greenpeace was told that the project had been assessed as ‘on the whole quite successful’. Greenpeace had specifically suggested the visit to Komi where a larger portion of the funds seemed to have been stolen. It was also important that independent technological experts participated in such visits as, otherwise, World Bank representatives would only be shown ‘clean’ areas and thus be deceived.

Meanwhile, the Lukoil Company recently went to Komi to implement a $25 million five-year decontamination plan. In April this year, Greenpeace held a round-table meeting with other technological organizations such as VVF and Aisara. The World Bank had been invited but failed to attend. Greenpeace’s own investigations showed the conditions under which people were working to extract the oil: they wore no masks and there was an absence of other safety equipment, wages were low and they worked an average of 10 hours a day for months at a time.

The Komi oil developments had been certified long before the pipelines were leaking and the production technologies bad. Had the World Bank acted fast enough and were the companies they had provided assistance to now in a better shape than those which had had no assistance? Greenpeace said that in the case of Komi, there had been a request for help as soon as possible and if the World Bank had arranged some independent supervision of the project, everything would have been much more effective.

In 1993 and 1994, the World Bank had allocated “oil rehabilitation” loans of $500 million and $610 million to Russian companies Lukoil, Yukostrans and Neftesedanko. Part of these funds were intended for environmental mitigation such as reducing oil spills and for the clean-up of contaminated areas. However, during the Greenpeace visit to the West-Siberian oilfields of Lukoil and Yukos, they saw a large number of oil spills and came across areas where access was limited to pass-holders only, despite the fact the areas between the oilfields and the roads were federal property. In general, Greenpeace found their access to contaminated areas, and relevant data pertaining to them, limited by the oil companies in Western Siberia and Komi. This included the areas where the World Bank had financed the projects. Private conversations with individuals revealed the money had primarily been used to set up checkpoints on public roads to limit access. The companies had then placed sand on the oil-contaminated areas that adjoined the roads and built high sand dams along the roads so nothing could be seen from vehicles traveling along them. Such actions definitely had nothing to do with the environmental rehabilitation and clean-up process, Greenpeace pointed out.

In 2000, the Dutch consulting company, IWACO, were contracted by Greenpeace to carry out an assessment in West Siberia. They found between 700,000 to 840,000 hectares of the land were contaminated with oil. Their report was available in English and an abridged Russian translation had been passed to the World Bank Moscow Office. Greenpeace consequently undertook numerous actions to mitigate the oil contamination, such as organizing a ‘camp’ at the Samotlor oilfield close to Nizhnevartovs, West Siberia in August 2000. With shovels and buckets, volunteers attempted to remove the oil. They succeeded in removing 50 tons in three weeks, demonstrating that oil companies could do the same, if not more with their financial resources and specialist equipment. They had not done so, neither with their own money, nor with funds from the
World Bank. Satellite photographs were available that showed the scale of the contamination in the West Siberia to be so extensive that it could be seen from the outer space.

Greenpeace was also concerned about projects on the island of Sakhalin being financed by the IBRD, or under review by the IFC, and the impacts on small indigenous groups in the area. The livelihood of the entire population of Sakhalin would change drastically as 99.9 percent of the people earned their living by salmon fishing and salmon eggs production—excluding a tiny portion of the population paid by oil companies in the form of bribes. The salmon population, which was the economic basis of the island, would be put at risk from oil spills, waste discharges and the construction of an oil pipeline.

There was the similar threat to the last one hundred gray whales of the Okhotsk-Korean population, due to Exxon’s exploration for oil in the region. The threat of oil spills, discharges from drilling agents, and the intensification of air and sea traffic would cause these protected mammals to migrate from their habitual feeding grounds and they may gradually die out. Greenpeace and a number of other organizations had written many letters to the Government and to the companies involved demanding they stop the exploration, but to no avail.

Greenpeace believed the West should be responsible for the environmental crimes committed in Russia in the course of producing oil, as the oil was mainly exported to the West and served as a basis for the well-being of the western economy. Greenpeace also believed there should be independent controls for all projects. Environmental and social impacts needed to be monitored by an independent organization, otherwise company officials would lie, steal the money and give inaccurate impressions of how the money had been spent.

**Indigenous People and Oil**

The Director of the Russian Association of Indigenous Peoples of the North (RAIPON) gave testimony on the situation in the northern part of Russian territories, where there was a population of more than 200,000 people living between Kola Peninsula (Murmansk Oblast) and the far Chukotka territory in the Far East. In an area of severe climactic conditions, to which the indigenous people had adapted to over many years, the oil and gas developments in the Russian Federation had greatly impacted on their traditional way of life.

These indigenous groups were fully dependent on their local environment and particularly vulnerable. Due to the remoteness of the communities, the lack of developed infrastructure, lack of training and their non-involvement in any business activities, the people were in a desperate social and economic condition. Despite living in territories rich with gold, gas and oil reserves (the source of 80 percent of Russian oil), such resources had not improved their lives. The main reason for their situation was a lack of clear-cut federal legislation and mechanisms to implement the rights of indigenous peoples, said the speaker. Sustainable economic, social and environmental development always forgot *ethnic* development, he continued. Ethnic cultural survival was one of the cornerstones of their sustained development as, due to their paucity, these peoples were at the limits of physical survival. The largest group numbered more than 30,000, the smallest no more than 100.

Acknowledging that the World Bank was one of the few financial institutions with its own policy towards indigenous peoples, the Association’s proposals called for:

- Ongoing dialogue with the Bank
- Full moratorium to be declared on any new development and construction of oil pipelines that may result in impacts to the ecosystem and biodiversity of the Arctic area.
• For projects the World Bank planned to implement, communities should have the right to be informed of projects from the first stage of negotiations rather than from the final stage of approvals and notifications.

• Indigenous peoples interests to be considered in the development of World Bank country strategies for the Russian Federation, including the use of assessments by independent public experts to evaluate environmental and social impacts, i.e. an expert ethnological assessment, developed jointly with the Russian Federation.

Asked by the EIR about the proposed involvement of the indigenous people in the World Bank’s strategic policy, the presenter explained that his Organization had already taken part in negotiations between World Bank and Russian Government regarding a 3-year cooperation plan with the Russian Federation and with the Ministry of Trade. At the Ministry’s request, the Association was preparing a section of the document with proposals for involving indigenous peoples and their organizations from the inception phase of developing projects for their territories.

Nenets people of Yasavey: the President of a regional branch of RAIPON testified on behalf of the Nenets people who live in the territory of the Nenets Autonomous District, located in the European part of the Russian North. Their livelihoods were traditional, mainly limited to deer-raising and fishing. Intensive oil development, that commenced in the 1960s, had left 253 abandoned derricks with unexhausted wells beneath. They were partially being rehabilitated and two oil projects there had been financed by the World Bank Group.

Further developments were taking place with a joint Conoco-Lukoil project, in the Ardalin fields, where the loan had been repaid. The experience of the project had been good from an environmental standpoint. The company applied advanced technologies and had probably the most environmentally friendly practices of any company in the region. Nevertheless, there were social and economic issues to be resolved between the company and the indigenous people. No permanent mechanism for assistance or formulated approach had been observed so far, bar short-term help in the form of snowmobiles and food.

Oil development and production conflicts had recently taken a new turn, the presenter said. Pipeline and rig construction had changed the traditional migration routes of deer droves, meaning new passageways would need to be built. Unfortunately, deer raisers did not know how, and of what materials, those passageways would be made. Some oil companies had tried to minimize costs by proposing inexpensive and ineffective designs, claiming the deer raisers had agreed to them. There were many examples of uncompleted deer passageways on sites where a 50 to 60-kilometer long pipeline had been built. Some had been designed for vehicles and deer, but deer would not use them. In other places the companies claimed, incorrectly, that there was no need for passageways as deer could not pass under the pipe.

This led the Association to start an open dialogue with the companies in order to settle the dispute. Round-tables brought together oil company managers, community leaders, representatives of deer-raising farms and deer drivers. The aim was a joint solution, recognizing the link between the Russian Federation’s policy of oil production and the economic development of the region. Indigenous people wanted consultations with the World Bank, and other international organizations, at the earliest stage of discussions, whenever support or financing was first proposed for a project. RAIPON aimed to assist by finding its own solutions for the region as it was in the initial stages of resource development and should avoid the damage already caused in West Siberia.

Asked by the EIR if the organization were objecting to the pipeline and calling for a moratorium on oil and gas projects, the presenter replied that many pipeline projects were already in discussion,
with a host of licenses being signed. Were these projects not implemented, it would cause larger problems than those already present. But, importantly, if the companies and governments did not learn to work together, they may as well abandon all their efforts.

4. World Bank Voluntary Information Exchange

Overview
The World Bank Group made a series of presentations in the voluntary information exchange at the open part of the workshop. These explained the structure of the Group, the size of its financing and insurance business, the cycle of activities leading to country assistance strategies and projects, and the main changes in procedures over the past ten years.

Specifically, speakers set out the opportunities for developing countries with respect to oil, gas and mining, and the risks they ran with promoting the extractive industries. With these kinds of development, the IBRD/IDA focused on policy advice, sector reform, restructuring, creating the framework for effective private investment, capacity building for governments and developing their partnership/leadership roles on key global issues, and providing advice on selective investments. IFC and MIGA undertook investments and risk insurance, and added value in areas of environmental, social, economic and political concern where possible.

Oil, gas and mining projects made up only 4 percent of the Group’s portfolio, compared to 29 percent on infrastructure projects and 23 percent on social development. During the past 7-8 years, the level of activity in the region by the World Bank Group had progressively declined, though MIGA’s investments were growing. On the mining side, things had been slow because of a cyclical downturn and, reflecting consolidation within the industry, the amount of overall exploration and project development had fallen off dramatically. MIGA showed a contrary trend, with mining accounting for 13 percent of its new business in 2001. Examples of non-financial support for the extractive industries were its global gas flaring reduction initiative, its work with indigenous people’s groups and the Government in Peru, and its support of initiatives such as the MMSD to develop the sustainable element of mining practices.

Introducing the session, the Bank’s Director for Oil, Gas and Mining cited the Millenium Development Goals as the organization’s overall aim: the World Bank was committed to improving education, people’s health and people’s overall quality of life. Oil, gas and mining provided affordable energy, income to governments and improved infrastructure. Fiscal revenues from extractive industries could contribute to these overall goals of the World Bank Group. But the Bank was also aware of the many impacts such industries had on communities and the environment. These obviously had be limited, or mitigated, and the question was how this could be achieved. When considering the various stakeholder groups involved with the extractive industries, the IBRD/IDA was more closely connected to governments for which it provided guidance on capacity building and assistance in dealing with past legacies, while the IFC/MIGA worked with the private sector, providing international project finance. The World Bank Group worked hard to ensure the concerns of civil society were met, such as setting high environmental standards and resolving community needs. In this respect, there had been a great change in policies and standards over the last two decades. But the Bank wanted to go beyond social and environmental safeguards towards a more holistic approach. More than anything, the World Bank Group wanted to ensure its activities were sustainable. The Bank had a role in coordinating the efforts of bilateral and multilateral institutions, and other agencies, active in the field of development. Its own projects had been standard setters, for governments, other banking institutions and industry players.
Bank Outlays
In 2001, the Bank spent a total of $22-23 billion dollars which, though substantial, paled in comparison to private sector flows to developing countries. Some $10 billion came from the IBRD/IDA, $7 billion from the IFC, and $5 billion from MIGA and the IFC. Of this, between 13 and 18 percent were funds extended to Eastern Europe and Central Asia.

In the previous ten years, work on reforming the legal and regulatory frameworks in many countries had been especially important in the extractive industries sector. Governments in the region were the owners of the resources in the ground and, therefore, the ones that granted access through their mining codes or oil legislation. It was part of the Bank’s work to provide an interface between government and the private sector, increasing the capacity of government to execute its functions with respect to monetary, environmental and social policies, and effectively administrate the extractive sectors.

The World Bank Group in the Transition Economies of the ECA Region
As the countries of Eastern Europe and Central Asia went through transition to become market economies, their governments were confronted with the issue of major restructuring in their energy and resource markets. Large sectors, such as the coal industry, were neither cost effective nor competitive. Mining had become a large drain on government budgets due to the high level of subsidies, for example, Ukrainian coal industry absorbed 3 percent of GDP in subsidies. Governments, with the assistance of the World Bank, embarked on a process of reform, privatizing nationalized industries and bringing prices into line with international markets. New trading relationships needed to be established and social problems addressed, as well as tackling the legacy from years of environmental neglect. The coal sectors in Russia, Ukraine, Romania and Poland gave rise to particularly severe social problems due to the high levels of unemployment following the implementation of adjustment programs and mine closures.

To start, the World Bank financed a number of investments, before providing assistance on fundamental sector reforms, and capacity building at the government level. The oil and gas sectors, and in a large part, coal mining also, were seen as economically viable industries in the long term. It was therefore imperative to ensure the right rules were established regarding access to natural resources and with respect to revenue management.

Financing Private Sector Projects
Clarifying the roles of IFC and MIGA in relation to private sector investments in oil, gas and mining, World Bank staff explained that IFC extended direct financing and guarantees for projects, while MIGA provided risk insurance. Together they could create a framework for the competitive development of the private sector.

The IFC use a number of financial instruments, extending long-term loans in U.S. dollars and other currencies, with some project financing lasting up to 15 years. Increasingly popular are the IFC’s guarantees for local currency borrowing as a way of reducing foreign exchange risk. However, given the volume of work going into projects, the IFC would not generate adequate earnings from their loans. They were, therefore, also involved on the equity side, where companies were happy to see the presence of the IFC.

The IFC was also recognized for syndicating loans under its own name, so-called B loans, which gave added comfort to international commercial banks. They felt that if there were problems with payments being made in a country, very often those due to the IFC would be honored. In such
cases, the IFC liked to become involved early in the process so that its own people could look at financing from several aspects—technical, environmental, social, insurance and economic. They could raise the right issues and try to address the risks and concerns early on, putting together a structure that would be acceptable not only to itself but to other institutions. Many financial institutions looked to the IFC and respected their involvement, as opposed to investment banks which were seen to merely structure the deals, take their fees and disappear.

As the private investment side of the World Bank Group, the IFC was needed foremost in higher risk countries, where the private sector did not want to invest alone. Consistently, companies said that even though they might be able to finance investments directly themselves, their concerns about political risk meant the involvement of the World Bank Group gave a certain degree of comfort and protection. This was the case with cross-border projects where there was substantial risk and substantial external funding; foreign partners then encouraged World Bank Group private sector participation. IFC was generally seen as a preferred creditor in countries with bad debt and restructuring requirements as the IFC would continue to do business where, often, private sector investment would dry-up. On the other hand, some companies preferred to keep the World Bank Group from funding small projects, in the belief they would face far less criticism from NGOs who were vigilant in monitoring Bank activities.

One of the biggest challenges was how to obtain more leverage and work more closely with local businesses as a way of adding developmental value to the extractive industries. The IFC therefore tried to work on a greater scale with service contract companies on large projects. Another area where the Bank added developmental value was corporate governance: how companies were run, decision-making processes, acknowledging minority shareholder rights and revenue management. Extractive industry companies paid high levels of taxes and royalties and the challenge lay in ensuring governments used these revenues in an effective way. Companies were more aware of this today than they were in the past, and were increasingly looking for ways to work with governments to ensure revenues flowed back to benefit the region.

Criteria for Involvement

World Bank staff classified recent projects in the region into two categories: public and private sector projects. Since 1994, 15 projects had been undertaken with governments, ranging from a $525 million loan for coal mine closure in Russia, to $1 million to assist Georgia negotiate pipeline projects. With the private sector, the Bank had sponsored 16 projects, ranging from a $200 million investment in Azerbaijan and Georgia for the Early Oil project, to $9 million to assist Poland recover methane from the Silesian coal beds.

The criteria for deciding whether the World Bank Group should support particular extractive industry projects was reflected in the Bank’s assessment of the benefits and risks presented for the country in question. Benefits included: revenues gained from taxes and foreign exchange; income growth and an increase in employment levels; growth of small businesses; development at the local level, such as improved infrastructure (electricity and roads), education and skill-training; public services (sanitation, health and education) and sources of affordable energy. The risks included: environmental damage; health hazards; bad governance (corruption, poor revenue management); macroeconomic distortions causing currency instability (‘Dutch disease’); and socio-cultural impacts (affects on indigenous communities; change to traditional livelihoods). There was also the risk of enclaves developing around large projects, and eventual resource depletion, leading to painful readjustments.

Discussions: During questions, World Bank staff agreed with comments made by the NGO, CEE Bankwatch Network, that public sector projects could theoretically be more effective. Friends of
the Earth queried the assertion that companies paid considerable money in taxes as, in Eastern Europe and Central Asia, they generally enjoyed tax holidays, and benefited from loopholes in regulatory frameworks, and a lack of enforcement of laws. In response, staff said the World Bank did analyze projects in terms of the preferential treatments, negotiated concessions, and tax benefits governments may use to attract investors. But its financial and economic analyses excluded these considerations, as many companies went bankrupt when such concessions disappeared.

Resource taxation, the Bank agreed, was important as a country’s natural resources were part of its patrimonial heritage. There was only one objective for natural resource taxation from a country perspective: to ensure the country maximized its share of the net benefits of resource development. Companies may be offered an attractive rate of return to compensate for the risks they took. Or, as in the U.K., for example there were low rates of taxation for companies involved in North Sea oil and gas extraction, as projects were difficult technically, in an area becoming depleted of good resources.

The IFC did look at the benefit split between governments and the private sector. In their experience, governments were very effective at obtaining large revenues, particularly from the oil industry. There were often sophisticated taxation systems, profit-related rates and so on. The Bank’s evaluation group looked at what actually happened to revenues in practice; it was possible large amounts of revenue would flow overseas, perhaps to repay debt. But ultimately a very large net present value from the project was secured by governments. But the IFC did not choose to support projects purely on the basis of greatest net present value to the country. It supported projects that were brought to it for financing; while there were oil and gas projects in their portfolio, this did not stop them supporting projects in other sectors. If the IFC believed a project had good potential and could meet their standards, they would support it, but decisions regarding privatization, for example, would have already been made by the government involved.

Commenting on the criteria the Bank used for sponsoring extractive industry projects, the Ukraine National Ecological Centre commented that they could find no fit with reality in the case of the Baku-Supsa pipeline. Energy for local development had not been supplied and associated gas was flared from the oil platforms. Just a few people from thousands in the local communities had benefited from employment, or entrepreneurial, opportunities. Those who were employed, often had contracts lacking social guarantees and workers were often paid less than expected. Despite what was said about large projects developing the local infrastructure, this had remained inadequate both in Georgia and Azerbaijan. There were examples where local services had been disrupted during the construction of the pipeline, for example, in Georgia, where the community itself had to pay for repairs to the local water supply. Revenues may well be generated for the government, but it was necessary to see how the funds were used for the benefit of the people in Azerbaijan.

In reply, the Director for Oil, Gas and Mining, at the IFC, agreed there was considerable gas flaring related to the Baku-Supsa pipeline project. The original understanding was for the Government to use the gas, but they had had difficulty building the infrastructure to do so. Meanwhile gas flaring had been reduced from 40 percent to 25 per cent, and it was projected to be eliminated completely over the next few years. This had been the responsibility of the Government, which had been slower addressing the issue than the Bank had hoped.

The issue of job creation came up in regard to many projects. During the construction phase, there were generally many employment opportunities for local people, but this declined once construction was completed. The Bank was very much focusing on this problem: indeed, new projects, currently being financed by the Bank, were almost making the maximization of local
employment a condition of its involvement. It was necessary to think ahead of the construction period, and build the capacity of the local community to develop other sustainable businesses surrounding the projects in question.

With regard to revenues, Bank staff pointed out the difference between Georgia and Azerbaijan. In Azerbaijan, much of the revenues went to the oil fund, which was carefully monitored by the IBRD, IFC and the IMF, who worked together to ensure revenue streams were transparent. There was also wide representation on the oversight committee. The Ukraine National Ecological Centre objected, however, that only one person made decisions regarding the oil fund in Azerbaijan: the President.

**Project Environmental and Social Review**

In the past ten years, the Bank’s policy approach had moved from pure compliance with policies, guidelines and procedures to dealing with issues such as governance, transparency, disclosure, oil funds and poverty alleviation, explained the IFC’s Environment and Social Development Department. Evaluation issues were dealt with on a project-by-project basis, whereas previously the IFC were only policed on their compliance with policies and guidelines.

**Policies and Guidelines**

The umbrella policy, for environmental and social assessments, was common to MIGA, IFC and IBRD/IDA. Environmental assessments covered natural habitats, forestry, pest management, safety of dams, international waterways and disputed areas. Social assessments included involuntary resettlement, indigenous peoples and cultural property, forced labor and, specific to the IFC, child labor.

Guidelines differed from policies in that they provided specific numerical values, for example, in terms of emissions or water quality. Guidelines were articulated in a number of documents such as the 1998 Pollution Prevention Abatement Handbook, the IFC Interim Guidelines and the Occupational Health and Safety Guidelines. An exclusion list prevented Bank involvement in the production or trade in radioactive materials. The Handbook was a joint World Bank Group consultation document that set out guidelines for working with the extractive industries. It included project guidelines on coal mining, onshore oil and gas development, and lead and zinc smelting. The IFC’s 1995 Interim Guidelines covered oil and gas development offshore, and both underground and open cast mining. Bank representatives emphasized the flexibility of environmental and social policies to address new issues. Gas flaring in Azerbaijan, for example, was subject to a production sharing agreement with the state energy company: it had to be in line with the Bank’s onshore/offshore guidelines that committed the IFC to reduce gas flaring.

**Procedures**

Where the World Bank institutions differed was over their environmental and social review procedures and disclosure policies. It was a responsibility of the Board, the Bank staff and the sponsor to ensure environmental due diligence. Bank staff undertook review to ensure project compliance with policies and guidelines. It began with environmental screening to determine the environmental assessment category as A, B, C or F1. Categorization depended on the project type, location, sensitivity, scale and the applicability of other safeguard policies. Most extractive industries projects were category A because of their potential environmental impacts, which could be unprecedented or irreversible. Category B addressed issues that were site specific, for example, wastewater treatment, or control of emissions etc. Most, if not all, MIGA guarantees for the extractive industries were for category A projects. There were very few category C projects. In addition, some 40 to 50 percent of World Bank lending went to financial intermediaries, where the
Bank lent money to a financial institution, which then funded sub-projects, some of which concerned the extractive industries.

When projects came to the respective organizations they went through an appraisal process. If deemed commercially viable, and compliant with the Bank's safeguard policies and guidelines, they were presented to the World Bank Board for approval. Thereafter the project was supervised to ensure the implementation of all obligations in the investment agreements and compliance with host country requirements. The Board, the sponsor and (in MIGA's case) the applicant were responsible, not only for environmental and social due diligence in project preparation but for community consultations and for implementing all the provisions within investment agreement. Within each Bank institution there was a core environmental and social team responsible for appraising the project, providing environmental and social clearance and supervision of the project.

In addition to staff supervision, the Operations Evaluation Department (OED) in the IBRD and Operations Evaluation Group (OEG) within IFC and MIGA were responsible for project appraisals with all projects of five years or more, going through their evaluation procedure.

**Benefits in Question**

During discussions, the Environmental Law Centre from Azerbaijan challenged the Bank on its 'responsibility' for projects. If the Bank was 'not liable for the efficiency of the governments' with which it dealt, how could it justify funding a project where, for example, the government was responsible for supplying gas to the Azeri population, but did not do so. While people died from cold and hunger, the Bank willingly provided $200 million to an oil company, the government benefited from revenues and the Bank received its interest payments. Why not give that money directly to the people? The NGO explained that as little as 10 years ago, Azerbaijan had been quite a developed nation, with a skilled workforce. It was one of the first countries to produce commercial oil, but generations of oil workers were now leaving because the projects funded by the World Bank did not oblige the borrowers to secure jobs for locals. The loans were used to outsource foreign contractors.

Further, regarding the reduction of gas flaring, the World Bank has been misinformed: when phase I of production started, it would be fed through the pipeline currently used to transport oil from Chirag. It did not matter to the Bank whether the gas was burned, sold or simply frozen underground or underwater, but it did matter to the Azeri people, said the speaker. Replying, the World Bank Oil, Gas and Mining Director agreed that although the project did benefit Azerbaijan and Georgia, the Bank would probably do it better today. Revenues were going to an oil fund for the Azeri government, and the Bank hoped it would be used properly. Georgia was receiving revenues from the transit fees, and so was also benefitting. Future projects being considered by the Bank would be approach them differently. It was looking not only to meet its own safeguards and policies, but also seeking to secure employment opportunities at the local level, not just those directly linked to the projects but beyond that, to ensure overall community development.

Another speaker asked why the coherent system of environmental and social assessment, appraisal and monitoring established and tested elsewhere, had failed in Azerbaijan, Georgia and Kazakhstan? World Bank staff explained that one of the biggest issues in the Caspian region and northern Russia, was the environmental legacy from Soviet times.

**Kazakhstan**

*Community development:* A representative from Atyrau, a city in the Caspian Region of Kazakhstan, challenged the assertion that World Bank investments brought about improvements, particularly to the local community. Testimonials showed that the funding of oil operations in New Uzen (Akshabulak) had brought results opposite to those anticipated. She wanted to know if the
Bank was planning to put representatives of community organizations on its panels so it had access to more objective, and accurate, local information. A Bank representative, while not familiar with the project raised, acknowledged the problem when there was a decline in people's standard of living, but this had to be seen in the context of enormous changes in the region. The projects supported by the World Bank hopefully stimulated new investments, a growth in income and employment. The Bank had had several objectives for the Uzen oilfield project: to keep up production, to assist in the reorganization of the company and to provide training for local people.

**Better results:** The representative of the World Bank agreed that their investments in the oil and gas industry in Azerbaijan, Georgia and Kazakhstan could have had better results, for example, transparency. The Komi oil spill was also not an ideal situation, the Bank Oil, Gas and Mining Director agreed. The question was, what difference had the World Bank made? It had provided a loan to assist in the clean up operation. Would the areas have been worse off if the Bank had not been present? Could the Bank do better in terms of monitoring? Yes, but overall, the World Bank was clearly trying to help. The same applied to mining projects: they were complex, but the Bank had been trying to assist the affected communities. The question was whether the involvement of the World Bank Group was better than none at all? He suspected the answer was yes, it was better the Bank was engaged, although there were obvious improvements that could be made in these projects.

**Azerbaijan and Georgia**

A participant from Georgia asked whether the World Bank was tracing the distribution of the revenues earned by the Georgian government from the Baku-Supsa pipeline. The answer was no, the funds were going to the central budget. At the time, 1997 to 1998, the World Bank was not focusing on that issue as their involvement in Georgia was part of an overall dialogue with the Government under the country assistance strategy. One question raised the issue of current litigation over the ownership of 12 hectares of land on which the Supsa terminal now stood. A Bank representative stated that a recent supervision mission of the project had not raised any issues of that nature. But, if it were the case that this was directly related to involuntary resettlement as a result of the project and people had not been compensated, it was an issue the Bank could follow up on if the speaker could identify the village in question.

**Best available technology:** Questioned on the use of best available technology at the Supsa terminal (in particular, wastewater facilities) Bank experts explained that Supsa had met World Bank guidelines. When the IFC developed its guidelines on mining and offshore oil and gas developments, in 1995, the underlying premise was not to require best available control technology. Admittedly, this could be a possible recommendation of the EIR, they agreed. The World Bank Group should be a standard setter by implementing the best available technology in its guidelines: the revision of the 1998 Pollution Prevention Abatement Handbook may be an opportunity to do so. For the Early Oil project in the Caspian, the Bank had not required best available control technology, but it did require the operators to identify toxicity levels for discharges into the Caspian, to ensure they were at acceptable levels. Monitoring reports confirmed that the ecological impact from those discharges was not significant. It, therefore, did not follow that without the best available control technology, you would have an ecological disaster.

**Emergency Response Plans:** Another participant asked why there was still no emergency response plan in place, at the national or company level, to deal with possible oil spills in the Caspian Sea from a project jointly funded by the World Bank Group and the European Bank for Reconstruction and Development (EBRD). In response, the EBRD representative commented that major offshore oil spills were of significant concern to all the international financial institutions involved in projects in the region. The World Bank had financed the Caspian environmental program, for
example, to address how to deal with major oil spills. The EBRD had financed a large project in Turkmenistan to help the Government develop a national response plan for oil spills. This had been completed and signed into law in Turkmenistan in 2002. The EBRD had provided grant funding to Azerbaijan for a similar project.

Confirming that there was still no emergency response plan in Azerbaijan and in Georgia, the plan was in draft, an IFC representative commented that this was a common problem. The Bank worked with governments to develop national response plans when they did not have the capacity to deal with oil spills. It had been clear with the Early Oil Project that an oil spill response plan was required that did not rely on the Government, but was tailored to the project itself, and had the capacity to handle up to two or three spills. But, ideally, it was preferable for a national response plan to be in place.

Concluding with a comment for the Extractive Industries Review team, the questioner said national oil spill response plans were not being developed quickly enough, despite the assistance of international financial institutions and multilateral organizations. Agreeing that a project based response plan was less effective without a national response plan, an IFC representative compared this issue to others routinely faced by the private sector: lack of national capacity for managing biodiversity and for dealing with indigenous peoples. These usually had to be worked on in the context of a project, and the Bank could probably do it better.

A participant commented that if the Bank put privatization as a condition for structural adjustment loans, it could make an oil spill response plan a condition for investment with oil companies. Agreeing, a Bank representative said that was why oil, gas and mining were now the responsibility of joint Bank (IBRD-IFC) departments to facilitate better coordination. However, a willing partner was key, and in this case it would have to be the Government. But, there were limits to the Bank’s leverage. In the case of the Chad-Cameran pipeline project, the Bank had had the leverage to get certain things done that would not have been possible in many countries. But this was not always the case.

**Lessons Learnt**

A speaker asked Bank representatives to present two or three projects in the region where it had got things right from the social and environmental point of view. What were the projects where communities benefited, where the Bank had been socially responsible, where there were no environmental problems?

From a mining perspective, replied a World Bank senior mining engineer, the Bank had learned lessons from mine closures in Russia and the Ukraine. Benefits could been seen from two Bank projects: the work in Poland and also Romania. The Director for Oil, Gas and Mining referred to the Polar Lights project (financed jointly with EBRD) and the KGM project in Kazakhstan where there had been few environmental problems. A participant disagreed that Poland had been a good example: the Bank’s only interest had been to close the mines; it was the work of powerful trade unions which ensured people’s interests were represented.

Regarding possible leverage with governments, the Bank had been invited by the government in Kazakhstan to undertake a mining sector review. A year of dialogue had led to a set of recommendations for actions within the capacity of the Government for environmental management.
Gold Mining

One commentator raised the IFC’s potential investment in gold mining in Romania (Rosia Montana), where they would be working with a company with a dubious track record and no history in gold mining. The Romanian government and the company involved had been using the IFC name to promote the project. An IFC mining investment specialist confirmed that the Bank had had initial discussions with a Canadian company in connection with the Rosia Montana gold mine, as had the EBRD and numerous other financial institutions. Before engaging further, IFC had examined the environmental and social impacts of the project. Initial indications suggested the project could have substantial economic benefits for a very depressed region. If the IFC engaged, it would be in a position to ensure that standards were met. If it did not engage, the company may go ahead without the Bank.

Commenting on further information that the company had already started the involuntary resettlement program prior to community consultations, the Director for Oil, Gas and Mining emphasized that if the company did not comply with World Bank standards, there was nothing it could do if the IFC were not officially engaged in the project.

Questioners asked representatives from the World Bank and EBRD about the procedure for monitoring the implementation of the clean-up plan at the Kumtor mine, Kyrgyzstan. It had been stated that closure costs would amount to $5 million, but a U.S. expert had indicated this amount would be inadequate. Replying, the EBRD representative agreed closure costs would exceed $5 million, but no one had ever claimed this amount would be enough. The conceptual plan for mine closure had been developed at the earliest stages, before financing the project, and the estimated figures may need to be revised.

Another issue discussed related to projects that were co-financed over a period of time, after which the loans were paid off and the co-financers were no longer directly involved in the project. For example, how could it be ensured that the Government appropriately use the funds accumulated for mine closure at Kumtor to benefit the local community and mitigate the effects of closure. The EBRD representative pointed out for the Eminent Person, that the region was not used to dealing with problems relating to the extractive industries, such as mine closure. The mine closure experience in the region was practically non-existent.

Conclusions

Commenting on the World Bank Group’s presentations, a Russian participant said it seemed the Bank sincerely believed that oil, gas, and gold mining would bring benefits to people, and remain consistent with the Bank’s mission for poverty reduction and sustainable development. Yet, he had not heard a convincing regional example; on the contrary, he had heard mostly negative comments. He added that Russia’s indigenous communities, residing in areas of vast natural resources, had seen no benefits at all. Given that oil and gas developments were a mere 3 percent of World Bank Group investments, would it not make sense to freeze all projects, at least until the completion of the EIR and appraisal in 2003. This would give an opportunity to look at deliverables and shift the focus. Replying, the World Bank Director for Oil, Gas and Mining reiterated that the Bank was not ready to put a moratorium on its activities in the extractive sector. It felt there were projects where the Bank could make a difference for the better. They were very willing to learn from the EIR and change things as it went along.

Another concern was the Bank’s work with governments in countries that had not yet evolved into truly democratic societies. If the Bank were unable to effectively monitor what governments were doing, were they not effectively contributing to the spread of corruption at the national level and fostering an even greater split between the rich and the poor? The World Bank Director for Oil,
Gas and Mining, agreed that corruption was an important issue and there were some countries where the Bank was unwilling to operate as governance was so poor. There were other countries which were not fully democratic, but where the Bank felt sufficient benefits would accrue to the country and its citizens. It was question of judgment. There were examples of countries without good governance that had done very well from their natural resources, therefore natural resources, per se, were not a recipe for disaster.
Part Two: Consultation

5. Keynote Speech By Prof. Dr. Emil Salim

Opening the formal Consultation, the Eminent Person to the EIR, Prof. Dr. Emil Salim pointed to three issues for consideration. What was the best future role of the World Bank in the extractive industries? What were the areas of consensus, and of dissenting views? What should be the proper recommendations for reconsidering the role of the World Bank Group in the extractive industries?

The context for this was the 50 developing countries in the World from which oil, gas and mining products were imported. There were 3.5 billion people in those countries, of whom 1.5 billion earned less than $2 a day. Most did not have access to safe drinking water, energy, adequate housing, education or health facilities. Yet, they were countries rich in natural resources - minerals, oil and gas. Of the 25 most mineral-dependent states, almost half were low in the Human Development Index (HDI) table; six were extremely low. Higher value added could produce higher income for these developing countries, specifically, from oil, gas and mining. But after 50 years of extractive industry development, there was little downstream development with most of the countries still producing, and exporting, raw materials. As a result, there had not been the growth there should have been from oil, gas and mining.

The big players in this development, were the large companies. Small, weak companies were found in developing countries where there were ineffective governments, poor legal and regulatory frameworks, bad governance, limited technical skills, and low capacity in raising domestic taxation. Such countries were underdeveloped because they had underdeveloped governance, remarked Dr. Salim.

But, while good governance was crucial, this alone would not be enough for the world economy eradicate poverty. Trade barriers created an unlevel playing field between the developed and developing world: for example, tariffs put in place in developed countries to protect their industries from imports of processed commodities from oil, gas and mining. And when import duties were raised, nobody in international financial institutions objected. Under these circumstances, the principles of globalization should be applied: free market mechanisms, free trade, privatization, perfect competition. But, the developing countries were knocked out in that battle of globalization, due to a lack of capacity, training, strength. Statistics on global development from 1970 to 2000, showed that the poorest 20 percent of the world's population suffered a decline in the share of global income, from 2.4 to 1.4 per cent. The richest 20 percent had increased their share of global income from 70 to 83 percent. Secretary-General Kofi Annan had pointed out that in those last 30 years, the top 20 percent had increased its income at the expense of the global environment. Climate change, the rise in sea-levels, loss of biodiversity, pollution were all hitting the poor in the developing countries.

Conventional economic development needed to be transformed into a single concept of sustainable development. This meant social sustainability, of which the key aspect was poverty eradication; economic sustainability, i.e. changing unsustainable patterns of production and consumption; and environmental sustainability i.e. maintaining proper functioning of ecosystems. Sustainable development was not a slogan but a necessity and required the involvement of all stakeholders.
It was in this spirit participants were invited to the EIR consultation, to open up the dialogue between business, government, civil society and the World Bank Group. The aim of the EIR was to find a solution, so Dr. Salim urged participants to speak out and put the issues on the table. He wanted the meeting to contribute to the long march from divergence to converge of development between North and South.

6. Extractive Industries Review Process

The Head of the EIR Secretariat, Bernard M. Salomé, placed the Eastern Europe and Central Asia Consultation in the context of the region’s transition from command to free market economies, and the legacy of communist rule. The first objective of the EIR process, set out in the terms of reference of the Eminent Person, was to obtain and understand stakeholders' views on the role of the World Bank in the extractive industries. The second was to identify areas of possible consensus, and dissenting views. The third objective was to make recommendations that would focus and redesign World Bank Group policies and programs within the context of World Bank Group operations, i.e. providing finance, and sharing knowledge, as well as the direct and indirect impacts from their policy co-ordination.

The difficulty in such an exercise had been encountered in similar reviews, for example, the World Commission on Dams, or the MMSD report. Namely, how to integrate stakeholders, how to ensure all views are recorded in a balanced way, and how to make sure everyone participates. At the EIR planning workshop in Brussels the previous year, there were long discussions on who the stakeholders were, who should participate and how to perform the analysis. It had been jointly decided that there were four main groups: industry, civil society, the World Bank Group and government. It had also been agreed that priority would be given to committee-based organizations and to people directly affected by the projects or the policies of the World Bank Group.

In Brussels, stakeholders agreed on five types of activities for the EIR: (1) regional consultation workshops in four regions (Latin America and the Caribbean, Eastern Europe and Central Asia, Asia-Pacific and Africa); (2) community consultations; (3) project visits; (4) commissioned research in three phases; and (5) web-based consultations. The substantive framework would, therefore, feature project visit reports, community testimonials, research projects, and results from regional multi-stakeholder consultations.

Regarding commissioned research, the EIR had received a series of research proposals in Phase I of the research program from which a number would be selected and resources be allocated. In Phase II, there would be further discussions with stakeholders prior to commissioning research that would be based on terms of reference prepared by the EIR Secretariat. Phase III would cover issues highlighted by the Secretariat towards the end of the process. In the workshops, the EIR Secretariat aimed for a balanced stakeholder representation, active participation by participants, and discussions focused on the direct, and indirect, role of the World Bank Group in the extractive industries in order to achieve a specific set of recommendations.

Information from all these activities would be used to feed into the EIR’s Conceptual Framework, which was continually modified and published on the web. This would form the basis of a draft final report which would be discussed with stakeholders before becoming the official report of the Extractive Industries Review.

In parallel to the EIR, the World Bank Group’s Operations Evaluation Department (OED) and the Operation Evaluation Group (OEG) were conducting an internal review of oil, gas and mining
projects inside the World Bank Group. There would also be a review undertaken by the Bank’s Compliance Advisory and Ombudsman. All these studies would be included in the Consultation Report submitted to World Bank Group President, James D. Wolfensohn. The World Bank Group would then have three months to provide comments and make some management recommendations. During that time, Dr. Salim would also be in a position to provide his own comments to the management.

At the first EIR workshop in Rio de Janeiro, Brazil, in April, participants were asked whether the World Bank Group should stay in the extractive industries, withdraw, or modify its approach. The majority of stakeholders felt the World Bank Group had a role to play in oil, gas and mining activities in the region. But others expressed dissenting views during, and after, the workshop. Business as usual was not acceptable; any endorsement of World Bank Group oil, gas and mining projects were conditional on a substantial reform of their activities to ensure poverty reduction and sustainable development in the long term.

7. The World Bank In Eastern Europe And Central Asia

Overview of Regional Strategy
World Bank Group operations in Eastern Europe and Central Asia were based in a region of 30 countries and 400 million people, with an average per capita GDP of around $2,000 - below the World Bank threshold. The economies of the region faced the legacy of communist rule and political changes of the past decade. Democracies were immature, huge inefficiencies remained in the public sector, and macroeconomic policies needed strengthening. The Bank was trying to work with the relevant governments on market liberalization and institution building and, in particular, helping the heavily indebted energy sector.

The World Bank’s strategy for the region was evolving; it had been a learning process together with the countries involved. Workshop participants could be reassured that some aspects coming out of the Budapest workshop may well be built into the Bank’s future strategy. Previous projects in the region also did not reflect the Bank’s present strategy.

The primary strategy had been to close down the huge excess capacity in the extractive industries in the countries that had borrowed from the World Bank. Such excess capacities were a huge drain on national budgets and mines that were, in principle, economically viable were not as their excess capacity was being dumped on the market. The second strategy was to close down uneconomic operations in an environmentally responsible way, mitigating not only the environmental legacy from the past but mitigating possible impacts of eg mine closure. The third element was social mitigation; creating jobs for former mine workers, providing training, extending micro-credits to finance the development of small and medium sized enterprises. Fourth, was the transfer of the remaining economically viable mines to the private sector. This required the involvement of the private sector, so the mines could be operated in a more efficient manner.

Questions and Comments
Coal Industry Restructuring
A Russian trade union representative recalled that in his country over 60 percent of enterprises in the coal sector had closed down as a result of World Bank involvement. Over 400,000 had lost their jobs and only 10 percent found new employment. Of the 34,000 families to be resettled from unsafe locations, only 12 percent had actually been moved during project implementation. Why had 90 percent of processes aimed at enterprise liquidation been implemented, while such a small
percentage of social issues had been addressed? How was project performance evaluated, and how did the Bank intend to amend this situation?

Replying, a senior World Bank mining engineer explained that the Russian Government were confronted with supporting large, uneconomic industries at huge expense to the budget. Despite the deep social pain reforms would cause, it was felt there was no choice but to go ahead in order to realize improvements in the long-term. It was true that, today, the coal mining industry employed fewer people, but it was more efficient, workers were assured stable jobs, and the industry would produce coal for many years to come. At the beginning, neither the World Bank nor the Government knew the extent of trouble the Russian economy would face in the following two or three years. But, the Bank should have looked more at the social aspects at that time. These considerations had been built into subsequent programs, especially in Poland and Romania, and the Bank did not embark on joint programs with governments without now taking into account the social safety net, job creation, and training for the people.

Economic Development
CEE Bankwatch queried the World Bank’s strategy of putting so much emphasis on the extractive industries in the Eastern Europe and Central Asia region, where they accounted for 16 percent of the portfolio. How could the Bank guarantee the development of sustainable industries in these countries, i.e. industries not based purely on raw materials, but on finished products that would help economies become knowledge-based markets? Such markets were not so vulnerable to the price shocks inherent in the raw materials market. Other comments regarded the general nature of current World Bank policies. The debate on revenue management had focused on transparency rather than how the money would be spent in the economy. There was also too much emphasis on oil sector development in these countries, commented the speaker, and policies were resulting in a primary focus on oil funds in these countries, on which all hopes had become based.

Responding, World Bank representatives said that avoiding commodity dependency and mono-industry economies was indeed a concern. In this respect, countries in Central Asia were in a better position to balance their economies than in Eastern Europe, where mining was a dominant industry. The World Bank would like to see all these economies diversify and its component institutions were supporting a number of different projects outside the extractive industries e.g. developing financial markets, manufacturing and tourism. Revenue management was still an issue, in Azerbaijan and Kazakhstan, for example. But they were countries that had managed their mineral resources well. Together with the IMF, the World Bank was especially focusing on countries highly dependent on single commodities. The structure and management of oil funds were an important part of limiting market volatility and providing benefits for future generations.

An industry representative commented on Kyrgyzstan’s dependence on gold mining and how its economy would not develop without support from the World Bank. The role of the IFC was therefore crucial for stimulating private investment in the country. In response, the World Bank’s Director for Oil, Gas and Mining outlined the IFC’s priority sectors as five pillars: financial markets, infrastructure development, health and education, information technology, and new technologies. For the IFC to become involved on a project-specific basis in the extractive industries, the projects had to be sustainable in the sense mentioned by the Eminent Person—economically viable, environmentally sound and socially beneficial. Subject to the results of the Extractive Industries Review, the IFC would continue to support projects on a selective basis where it felt that it had a role. That role usually addressed social and environmental issues in coordination with the sponsor and governments.
An oil company executive noted the interest companies such as his own had in cooperating with the World Bank, and asked what kind of incentives the World Bank could give them. Discussions had focused on how to mitigate the negative consequences of foreign investment flows, how to define best practices, and how companies were supposed to act while investing abroad. Strategically, did the World Bank see these ideas as complementary, or contradictory, he asked. The Director for Oil, Gas and Mining agreed that the World Bank did try to address both parts. The World Bank Group advised governments on establishing the right framework to promote private sector investment and on how to restructure their state-owned enterprises. This was achieved by establishing the right regulatory and policy framework to encourage private sector investment and encourage privatization. On the other hand, the Group was helping to build capacity to ensure those projects undertaken by the private sector were done in a proper fashion. World Bank technical assistance loans helped build up the capacity of governments to monitor environmental and social issues of extractive industry projects, and to monitor revenue flow to ensure they were used in an appropriate way. But some countries did not welcome this type of involvement from the World Bank.

From a national perspective, a government representative from Russia questioned the objective of the World Bank’s long-term strategy. Did sustainable development also mean developing industries that were an attractive investment, or was this a tactical objective? Another issue was the balancing of economies, at the national, regional or global level. In his view, the effort so far had been to seek balanced economies at the global level. This could bring excellent results, but there would still be many depressed regions and mono-industry regions, and policies would perpetuate this type of development. Another issue were the low prices for energy, the government representative continued. This translated into low prices for major consumer nations like the U.S., the European Union and Japan. Low resource prices were not cheap for the citizens residing in the energy producing countries in the region. Since 1992, (the year of the Rio de Janeiro Earth Summit), the USA had increased energy consumption by over 300 million tons. Energy was cheap, and there was no reason to save it. For the last 20 years, the price of crude oil had been constant at around $20 per barrel, while the cost of processing industrial goods had grown. The problem for transition economies and developing countries was the imbalance of prices between processed products and raw material industries. If World Bank policy was encouraging the development of the extractive industries in energy-rich countries, those countries may remain relatively poorer.

In response, a World Bank economist disagreed that there was a contradiction between encouraging a country to develop its natural resources and the general objective of economic development. There were many steps to take to ensure resource development led to economic development. But, as regarded energy efficiency, many countries still had energy prices which did not reflect market prices. One of the first things the World Bank encouraged governments to do was to allow prices to reflect the true market value. The issue of balanced economies was complicated and small countries often had a limited number of industries where they had a genuine competitive advantage. Reliance on one industry opened up countries to price volatility, but this did not mean they would be better off if they did not try to develop those competitive strengths.

**Transition**

A representative of International Federation of Chemical Energy, Mining and General Workers Unions (ICEM) questioned whether privatization would cure rather than kill the patient. To be effective in a globalizing environment, privatized companies had to introduce certain managerial practices, split the business into independent units, downsize and outsource, and, according to Western experience, cut back on staff. When such instruments were introduced into a country in transition, i.e. economies with high unemployment, it seemed contradictory to set one goal of tackling employment and another to privatize.
Bank staff agreed that this was very difficult. In Poland, economic growth had absorbed the first 100,000 workers who were unemployed. But in mining areas today, where unemployment was much higher as a result of the economic slowdown, there was no further restructuring or preparations for privatization. In Russia, the Bank had proposed a gradual program of privatization, but the burden on the budget was huge because so few reforms were taking place in the rest of the country i.e. subsidies were being maintained. The government had to take the plunge to move forward because it had few other options, and despite the hardships experienced, jobs were being created. But this period of transition was unique, and the Bank had no prior models to deal with this transition and these types of privatization. A lesson for future privatizations was that a social safety net be in place before it happened.

Relations with Governments
A representative, from the Russian Association of Indigenous Peoples of the North, asked if there was a system to evaluate expected project outcomes of long-term cooperation with national governments after three years, and if any conclusions or analyses were made when signing subsequent three-year, or longer-term, cooperation agreements? A senior representative from the World Bank, referred to their ‘living’ strategy: the five components previously mentioned, were not static but gradually shifted. There was much more emphasis on privatization and social mitigation today than ten years ago. Three-year Country Assistance Strategies, were not signed contracts, but rather agreements between the Bank and the governments involved on how the economic development of the country should be approached. Loans were extended for the period necessary to complete the project and, generally, had a life far longer than three years.

Project Monitoring
In answer to a question on how monitoring of World Bank Group projects was facilitated, the Head of the IFC’s Operations Evaluation Department (OED) explained that it was a systematic process and had been going on for around 30 years. At the end of each period, a project/implementation completion report was completed by World Bank staff and by the government, or the borrower. This was reviewed by the OED, which was independent and at times severely critical of what the Bank had done. Those documents were available publicly. Regarding project evaluations, IFC evaluated a random sample of around 50 percent of projects five years after their approval. In addition to those project evaluations, it undertook special studies such as the Extractive Industries Evaluation in connection with the EIR. The IFC Department also performed country evaluations and participated in IBRD evaluations, for example on Kazakhstan and Russia. The findings from these evaluations were taken into account and were timed to feed into the next country assistance strategies.

Project Example 1: Early Oil Project
Background
When the Bank commenced the project in 1995, the development of the Chirag field, in the Caspian Sea, was already known as the “contract of the century”. The total cost, some $1.9-2 billion dollars, had covered development of the oil field, construction of a pipeline through Georgia, and rehabilitation of a pipeline within Azerbaijan up to the border of Azerbaijan and Russia. The sponsors were international oil companies from seven countries, together with Sokar, the state oil company of Azerbaijan. IFC involvement consisted of a $100 million dollar A-loan for the account of the IFC, and a $100 million dollar B-loan for the accounts of participating banks.

This was the first major foreign investment in Azerbaijan and Georgia at the time. In Azerbaijan, the Bank had been looking to reduce unemployment, increase the demand for services, and generate oil revenues for the Government. Georgia would benefit from transit fees, economic
activity within the country and the project would establish Georgia as a transit country for the Caucasus. Russia would benefit mainly from tariff revenues from the oil pipeline. Expected longer term impacts included the generation of further investments in Azerbaijan’s oil and gas sector. It was hoped the development would enable Azerbaijan would become a major oil province, and have completed its transition from a planned to a market economy.

Environmental Improvements

Looking at the Early Oil Project from an environmental perspective, a senior Bank environmental specialist for the region recalled that in 1995/1996, when the Bank was considering investment, there was a legacy of oil contamination in Baku and environmental problems in Georgia. Despite the challenges the project posed, and the risk involved, the World Bank Board had approved the project in 1999 and now, three or four years later, they felt proud of some of their achievements.

The offshore oil and gas guidelines introduced in the Caspian by the World Bank had improved environmental performance. The two terminals, at Sengachel and Supsa, were operating according to the international standards defined by World Bank guidelines. One could question whether these standards could be better. But, compared to the refineries at Batumi, the refinery at Supsa was state-of-the-art and the western road export pipeline was also run according international standards. In three years of operation, there had been only one illegal tap, in contrast with the previous situation in Georgia where two or three taps were found every kilometer. The probability of oil spills was minimal, but there were oil spill response plans in place for the Caspian Sea, the Black Sea and along the western road pipeline, all of international standard, compliant with World Bank guidelines and independently audited.

At the Supsa terminal, there were environment issues over which the parties involved in the project had no control. For example, tankers coming in from all parts of the world. The Bank obtained an undertaking from the seller ensuring that tankers coming into the Supsa terminal complied with the Marple Convention regarding ballast water and waste management. This had basically introduced international standards for tanker performance in the context of offloading oil from World Bank projects in the Black Sea. Gas flaring was also an issue where the Bank did not have total control; the state oil company, Socar, was responsible for dealing with the gas produced. Nevertheless, over the past three years, the Chirag offshore platform had reduced gas flaring from 38 million cubic feet per day in 2000, to 25 million cubic feet in 2001. In 2002, this would be further reduced to between 18 to 19 million cubic feet per day, with continued World Bank involvement in the project, this downward trend was expected to continue.

But from another perspective, the World Bank’s environmental impact in Azerbaijan and Georgia had been small due to the extensive environmental problems in both countries. Nevertheless, Bank involvement, particularly on the Georgian side, had been a significant step forward in dealing with the legacy of contamination.

Developmental Benefits

World Bank representatives added that the economic benefits and development impacts of the project were also significant. It had been called Early Oil because the project marked the first stage in the development of oilfields in the Caspian and Azerbaijan. To date some $2 billion dollars had been spent on construction, and some $600 million dollars had been spent locally in Azerbaijan providing significant local employment. The AIUC had spent about $100 million dollars since 1994-1995 on local salaries, and the majority of its employees were Azeris. The same thing had occurred for GBC in Georgia.
The associated gas produced by the project was delivered free to Socar, which had a significant value for the Azeri government at a time when there had been power and gas shortages in Azerbaijan. Today, that 100 million cubic feet of free gas was a significant amount. The revenues generated for the Azeri Government from the project alone were about $400 million dollars. In addition to a growth in employment opportunities, the services industry in Azerbaijan was growing. Because of the location of the country, much construction including assembly of the platforms, had to take place locally. As a result of the project, the Chirag platform had been upgraded in Baku with a total investment of some $400-500 million.

Technical assistance to the Government of Georgia on transit tariff negotiations for both BTC and the South Caucasus pipeline focused on maximizing economic benefits and minimizing social environmental costs. Capacity building in Georgia had helped the Government to monitor compliance with environmental requirements during the implementation and operational phases of the project. The Bank had also helped to establish rules for the use of tariff revenues in Georgia and (with the IMF) was working with the Government of Azerbaijan to set up an oil fund. That effort incorporated the IMF’s operational parameters and rules for the use of the deposited funds.

World Bank representatives believed that without the success of the project, further development in the oil and gas sectors in the Caspian would have been delayed. The success of the Early Oil project had reassured investors. There would be a $10 billion upstream investment in Azerbaijan to develop the Azeri Chirag and the Azeri deep-water oil fields. There would be a related investment of $6 billion for a gas pipeline project in the South Caucasus, and the Baku-Ceyhan pipeline. These projects, together with the Chirag development, had contributed to regional integration and helped Georgia establish itself as a transit country in the Caucasus.

**Lessons Learnt**

Nevertheless, this was an early stage of development, and the World Bank Group and the oil companies were still learning from the experience. Since 1998, civil society had been active in their communication regarding the Early Oil project and the Bank working to do more, particularly regarding transparency.

A CEE Bankwatch press release had highlighted a number of documents it wanted released to the public, and the Bank was working on some of them with the companies and the governments involved. The AAs and the environmental impact assessments had already been released, the consultation process had started and the Caspian website was up and running. All the relevant documents were available and more would be deposited.

Reflecting civil society concerns about the impact of the project on local communities, and related employment opportunities, the World Bank was discussing putting a strategy in place with recommendations for oil companies to maximize ‘local content’ by doing as much of the construction work as possible in Azerbaijan. Even today, significant community development had been achieved in Azerbaijan from money spent by oil companies to help the local communities. The Bank side had provided support in the form of technical assistance so that local companies could compete for contracts. The Bank was also trying to put other instruments in place, such as credit lines and micro-finance banks which would give small local companies access to financing, so that they could bid, grow and participate in the contract. The Bank also wanted to apply lessons from the Early Oil project to future financing in Azerbaijan.

**Questions and Comments**

*Oil Fields in Azerbaijan*
In response to questions, an IFC manager, in the Central and Eastern Europe Department, clarified that the $10 billion being invested in the Azerbaijan oil fields would be used to fund onshore and offshore drilling, and related facilities. The fields would use rigs constructed and assembled locally in Azerbaijan. All contracts would be let in Azerbaijan, which would generate significant benefits for the government and the economy. This would ensure local employment, whether with Azeri firms or joint ventures with foreign companies. Regarding differences of opinion between the Azerbaijan President and the CEO of an international oil company concerning the money actually spent (referred to by an Azeri NGO), the figures had been corroborated by Sokar, the state oil company.

Environmental Concerns

A World Bank environmental specialist agreed with the views of an NGO that an EIA should be undertaken for the whole Caspian region and that projects should be discussed from the outset in their entirety. Although, to his knowledge, there had been no such umbrella studies before specific investments were made, the IFC had agreed with BP that they should undertake a study of the environmental impacts in the Caspian region. The report would be made public and published on the web. One of its purposes was to contextualize and perform environmental impact assessments on specific projects. There would be separate EIAs undertaken for Azerbaijan, Georgia and Turkey in relation to the BTC project. These would then be pulled together to cover environmental and social aspects for the whole region. When those documents were satisfactory to the IFC, they would be released for a minimum of 60 days.

A Russian NGO noted that the Bank still viewed the Chirag project as environmentally sound and in accordance best international practices. However, there were neither national nor inter-regional oil spill response plans in Azerbaijan and, with reference to best practices, the Astra rig, which used zero discharge, was less than 150 km away from the Chirag platform. Clarifying, the Director for Oil, Gas and Mining agreed that a regional oil spill response plan was lacking. But it was a fact that the IFC did business in countries where such national plans never existed. What did exist was the World Bank requirement for a response plan to be in place, prior to investment, to deal with all contingencies associated with spillage from a Bank-related project. However, as projects were designed and constructed to minimize the probability of spills, such oil spill response plans were purely back-up plans should there be a problem.

Certainly, he agreed, oil spill response plans for the project would be better if national plans were in place and a strategy for the Caspian existed. The reality was that project spills were minimal—only five occurred in 2001, of which only one escaped containment and that had been cleaned up fairly quickly. With the regional study BP was doing, the Bank was moving towards putting national response plans in place, for Georgia, Azerbaijan, and for the Caspian. Most oil companies and certainly the World Bank Group, would be interested in more regional strategies.

Responding to concerns that the Baku-Supsa pipeline would go through the Gobustan reserve, where there was a designated UNESCO heritage site, the Bank environmental expert confirmed that the western road export pipeline did not do so, as World Bank natural habitat policy dictated otherwise. Such issues made the Bank look at projects in terms of the lack of capacity in these countries to protect such areas.

Diversification

Referring to an IFC press release stating that oil revenues would increase GDP in Azerbaijan by 40 per cent, one NGO asked how the World Bank could prevent the country becoming a one commodity exporting country. In addition, the speaker did not understand why Bank micro-financing had to be related to extractive industries. SMEs were important but if those enterprises
were dependent on the extractive sector, they would be vulnerable (i.e. to price changes). Replying, the Director for Oil, Gas and Mining explained that it was in the World Bank’s interest to diversify. Oil and gas projects could be locomotives for other forms of investment, for example the aluminum smelter in Mozambique, which was putting the country on the map. The Bank’s interest was to develop the economy, and if oil and gas were the abundant resource, the industries could be built up using local labor and local contractors, who would in turn develop the capacity to work on projects throughout the Caspian region. Through its involvement in this project, the Bank could therefore promote other aspects of the economy.

Mine Closure in Romania

Background
The World Bank presented a second case study on mining in Romania. The mining industry had been built up far beyond what was commercially viable, with 278 mines in operation on which 10 percent of the population were dependent. By 1996, the Government was confronted with an industry that was draining the economy of $385 million a year. In addition, mines were unsafe as there had been little investment between 1990 and 1996.

In 1996, the Government took decisive action to close uneconomic mines and reduce the labor force from 173,000 to approximately 35,000-40,000. Within a year, 83,000 workers left the industry, with compensation packages, as they saw no future in mining. A large number of mines were not maintained and suffered production stoppages and the general disruption resulted in a sharp decline in economic activity, an increase in unemployment, and inadequate mediation of social concerns. Miners marched on Bucharest in protest, leading the Romanian government to request assistance from the World Bank. This resulted in a jointly designed program to deal with the past, present and future lives of the mines.

Mine Closure
The World Bank and government jointly identified uneconomic mines for closure. Methods for closure, including the environmental requirements, were to be included in a best practice mine closure manual to be developed and used by the responsible government agency for all 29 mine closures. A program of environmental rehabilitation, financed by the World Bank and the Government, was underway at 25 of the mines being closed. Funds from the sale of former mine buildings went to the relevant mining companies who owned them, but this money would be used as part of the mine closure program, for example, to pay workers. A large part of the mining area had been re-cultivated and given back as common ground for cattle grazing.

At one mine, where rehabilitation was complete, former office buildings had been converted for use by a small company employing 30 people producing tubing for glass fiber cables. The social mitigation program addressed not only the needs of mine workers, but also of their families. These communities had formerly been dependent on the mines which, under a command economy, had been responsible for housing, schools and other services. The program offered support for new enterprises: at 11 of the 29 mines, former mine offices had been converted to workspace centers to encourage the establishment of new businesses. $600 million had been set aside for companies to train and recruit employees resulting in the creation of 6,000 new jobs over a period of one-and-a-half years. In one village, the local municipality and mayor had developed a website program, in cooperation with the National Agency for Development, to reach out to small companies in the rest of Europe. Greek and Belgian firms had provided new employment.

Supporting these efforts, NGOs were administering a micro-credit scheme. A government ordinance provided the legal framework for public funds to be used through NGOs. In addition, the
Bank had a community development pilot scheme in place which included a small grant program to improve local infrastructure.

**Looking Ahead**

Discussions had focused on administering the mining sector in a more efficient way, i.e. through capacity building, and management of resources. Subsidies had already been lowered to around $100 million, and would be further reduced. The National Agency for Mineral Resources (NAMR) were made responsible for petroleum and mining, functioning as an independent regulator. To attract new investment, the World Bank was working with the Government on new mining legislation, which was currently in the parliamentary committee, and expected to be approved during the year. The revised legislation would address environmental and social issues related to mining, on which consultations would be required.

A sectoral environmental assessment was conducted throughout the country based on consultations and workshops with various stakeholders and formed the basis of an action program for land-use planning. The issue of protected areas was also discussed with the Ministry of Environment and Forestry, focusing on who would be responsible for “pollution stocks and pollution flows”, for example, after a bidding process on an old mine or concession area.

**Questions and Comments**

Asked why the Government had rejected the World Bank’s social and environmental guidelines in 1997, but accepted them in 2000, a Bank representative explained that the Government had initially been hesitant about mine closure for political reasons. But facing external pressure, particularly from the IMF, to undertake reforms and with an increasing financial drain on the budget, the government had changed its mind.

The World Bank Group provided $44.5 million of the total $62-63 million program, with the remainder co-financed by other donors. 35 percent of the total was entirely dedicated to the social component. The Bank assisted the Government in prioritizing which mines to close first, by identifying those which were huge loss-making operations. This was necessary as, while production had ceased at 160 mines, none had been closed. The workforce was also rationalized, with surplus workers reallocated to clusters of mines in the area.

One participant asked whether the World Bank had applied a standard solution for mining restructuring, and whether other methods had been recommended, such as privatizing some mines, in addition to closing inefficient ones. World Bank representatives explained that at the start of closure program, mines were producing coal which was being stockpiled as the demand for coal in Romania was so low. In addition, coal was being out-competed by gas, which had acquired an increasing market share.

One speaker outlined concerns highlighted by local NGOs. Mine closure had not addressed issues such as slope stabilization: there was no fertile soil to put into places that had been leveled off, leaving them subject to further erosion and making re-vegetation impossible. Regarding water management, pumping stations had been entrusted to local authorities but they did not have the funds to operate them. There were also cases where the firms, who had won mine closure bids, were based far from the affected areas. This had caused significant tensions between local authorities and local communities, as the firms were not viewed to be operating in the interests of the community. Other concerns related to the mitigation of social impacts. It was claimed that only 30 percent of the 6,000 jobs offered had been taken, implying there was a systemic problem with the whole process. It was also felt that the three-month monitoring process was not being undertaken in partnership with affected communities.
World Bank representatives confirmed they were tackling the problems related to the local administration of water pumping stations and would follow up on the concerns regarding slope stabilization. Regarding external contractors, the agency responsible for the mine closure program had urged firms to involve as many local people as possible. But, there was obviously a trade off between the costs and the number of workers who could be employed locally.

Local NGOs were also not convinced that the establishment of workspaces for new businesses at former mines would be economically viable in the long term, as they were generally unconnected to commercial areas. World Bank staff agreed the workspace centers were not close to commercial areas, but they did cater to areas where former miners were unemployed. This was why the Bank was trying to create the right incentives for entrepreneurs to set up small, local businesses. Admittedly, this would be difficult to achieve, but the Bank considered it a worthwhile cause.

8. Case Studies: Environmental, Social and Economic Impacts of Oil, Gas and Mining Projects

12 case studies (see annex 4) documented experiences of oil, gas and mining projects in Eastern Europe and Central Asia. A number of organizations presented case studies on the impacts of oil and gas projects on the environment and local communities: Greenpeace (Russia); the Green Alternative (Georgia); the Black Sea Eco-Academy (Georgia); The Centre for Ecological Justice (Kazakhstan); and the International Association of Oil and Gas Producers (U.K.). Experiences of coal mine closure were presented by the Russian Academy of Science Energy Research Institute; the National Ecological Centre (Ukraine); and the Miners’ Independent Trade Union in Ukraine. Three NGOs presented case studies on gold mining in Kyrgyzstan and Romania: CEE Bankwatch Network (Hungary); Community Business Forum (Kyrgyzstan); and Tera Milenial III (Romania).

Other mining industry viewpoints were represented by the UNEP Division of Technology, Industry and Economics (France), two industrial firms, Cayeli Bakir Isletmeleri and Normandy Madencilik (both from Turkey).

Case studies were divided into three separate working groups with a rapporteur reporting back to the plenary session (see chapter 8).

Oil and Gas

Oil Developments in Kazakhstan

Becoming the “New Petroleum Province” had not made local people in Kazakhstan happy, concluded a study of oil and gas development in Kazakhstan. Certainly, they did not share the optimism of the serious oil market players operating in the region. Projects referred to were the Uzen project in the Aksha-Bulak oil field, financed in 1997 with $66 million, and the $20 million Sazan-Kurak project, funded in 2000.

A public inspection by the Caspian Caravan Programme found an area of razed landscape, no signs of recultivation, gas flares devoid of soot collectors and oil spills. In short, the region was abandoned and neglected. World Bank loans had intended to rehabilitate the oil and gas fields, promote nature conservation and mitigate social issues. But the local community in Novy Uzen reported opposite results. Locals had few sources of additional income and resented the oil workers whose monthly wages of $300-400 greatly exceeded their own meager budgets. There was high unemployment in the region, exacerbated by the migration of workers people from Uzbekistan and Turkmeniya. There was also concern that funds may have been misappropriated due to corruption in the oil and gas industry in Kazakhstan. The NGO questioned why the loans had not had more impact, and only appeared to have aggravated social tensions?
Bank representatives explained that the Uzen project had been implemented in 1993, when the Bank had lent to a state-owned entity which ran and operated the facility. The smaller Sazan-Kurak project was in a remote area of the country, and had created substantial employment for Kazakhs. In line with rules and regulations in Kazakhstan, the company had contributed $100,000 for community development purposes.

**Oil in Azerbaijan and Georgia**

A case study by the Greens movement of Georgia focused on the involvement of the World Bank Group in the first stage of a project to extract Azeri oil reserves and distribute them through a pipeline across Georgia. Collaboration between the Bank with the Azeri and Georgian governments began in 1995, when long-term financing was extended by the IFC and IBRD in the form of a Structural Adjustment Credit to support structural reforms and mitigate the risks associated with private sector investments. This assistance was the first of its kind in the region, and included policy advice on institution building in the oil sector, environmental rehabilitation, legal reforms and the ratification of a number of international treaties. According to the World Bank, the project was expected to start an oil boom, with tax revenues increasing the Azeri state budget by 14 percent over eleven years, and the associated pipeline development anticipated to attract an increase in foreign direct investment into Georgia. The project was also to create a precedent for possible future involvement by the World Bank Group in the region.

The project included oil production at the Chirag platform, construction of a new pipeline, rehabilitation of the northern pipeline route to Novosibirsk, and construction of a western route for oil transit through Georgia. The Supsa oil terminal would also be constructed on the Saku Georgia-Black Sea coast. The terminal and the western route pipeline were completed in 1999.

There were a number of concerns relating to these oil developments. While the Azeri economy had grown, it was showing an increasing reliance on the oil sector, with no indication that it would be able to diversify out of petroleum. This increased worries that such reliance on resource-based growth would lead to Dutch Disease. Despite the petroleum development, much of the population in Azerbaijan, as well as Georgia, were still living below the poverty line. Both countries were preparing poverty reduction strategy documents. There were also problems with the supply of energy, disputes regarding compensation for land, and roads damaged during the construction of the pipeline had not yet been repaired by the oil company. While Georgia was benefiting little from oil transit revenues, the government were promoting oil projects through policy reforms and private sector risk mitigation. This seemed to explain the government’s willingness to cooperate with the World Bank on construction of the Supsa oil terminal, despite the fact it was situated in an area of national parkland.

The NGO went on to outline problems with transparency at the international and national level. Although the production sharing agreement had been adopted by the Azeri Parliament, the Government had refused to publish it. NGOs also felt there was a lack of coordination regarding the monitoring of oil revenues in Azerbaijan, as well as in Georgia. They had urged the World Bank to work with the IMF, who had apparently expressed concern that it was not clear where the oil revenues were going and how they were being dispersed. The oil fund set up in Azerbaijan was state-owned, and out of the hands of the Parliament, as the President had the sole power to take decisions regarding the management of the fund. There was no oil fund in Georgia, and the state budget was controlled by Parliament, but the President intervened through decrees, often granting tax holidays to the company.
With respect to economic development, World Bank staff noted that the Early Oil project had generated around $400 million in Azerbaijan over four years. This reflected the good performance of the oil field and also high oil prices. Revenues had been deposited in the oil fund, and today amounted to $600 million. This had not been spent because the Government was currently working with the World Bank and IMF to establish the procedures to spend it. The oil fund was transparent as a result of the World Bank and IMF work, with independent audits complying with international IAS accounting standards. Georgia had benefited from the construction of a new pipeline; the former pipeline, an environmental hazard, had been decommissioned. Regarding revenue management, the Bank were advising the Georgian government on how revenues from the pipeline, and other projects, could be transferred to the federal budget. The Bank was also working to improve the environmental capacity of the Georgian government to monitor implementation of future pipeline projects crossing the region.

Regarding the environment, NGOs were concerned about the wastewater discharged by the terminal into the Caspian Sea which, according to the IFC, was within acceptable standards. However, expert opinion suggested that the discharges had reduced the number of the sturgeon and salmon in the Caspian Sea. World Bank staff clarified that the criteria for discharges had been based upon toxicity levels within the Caspian. In accordance with World Bank guidelines, they would not have a significant environmental impact. The Bank received monitoring reports from the company, confirmed by independent audits, that confirmed they were in compliance with these standards. Such audits had also never indicated any loss of sturgeon, salmon, or seals. Responding, the NGO noted that the Production Supply Agreement (PSA) did not specify what standards would be used, but only what the discharge rates would be. These contradicted applicable legislation in Azerbaijan where national standards, dating from 1977 and 1984, forbade any discharges into the sea. Bank representatives did not wish to dispute whether the PSA was less rigid than Azeri law; the Bank had applied its guidelines in consideration of the environmental impact of the discharges. The Bank, like other operators over a number of years, had established toxicity levels in the vicinity of the Chirag platform and monitoring had shown that the discharges were no impediment to the ecology and fauna in the vicinity of the facility.

**Oil in Russia**

A case study by Greenpeace described the impact of the 1994 oil spill in Komi, Northwest Russia, where, according to official data, more than 100,000 tons of oil were spilled. An assessment by Greenpeace concluded that the ecological aspects of World Bank programs in Western Siberia and Komi were unsatisfactory. There had been further spills at Komi, oil pollution had not really been reduced and oil companies were restricting public rights to freedom of moment and information.

In 1993-1994, the World Bank had issued oil rehabilitation loans of $500 million and $610 million to four Russian companies to extract oil, transport it in Western Siberia, reduce oil leaks and rehabilitate polluted land. Greenpeace had suggested to the Bank a joint visit to Komi to evaluate the clean-up project. This idea was rejected by a Bank official, who said the project was judged as quite successful.

When Greenpeace visited the area in 1999 and 2000, the situation was alarming. Under a half of the oil spills had been cleaned up. The World Bank loan had applied to an area of 20 hectares contaminated with 20,000 tons of oil, while Government statistics suggested the total area of contamination was 700 hectares and 200,000 tons of oil. In addition, there were 20 hectares of waste fields where about 55,000 tons of oil from the oil spills had been dumped. Up to 10 billion cubic meters of associated gas was being flared annually—just less than the total annual gas consumption of Azerbaijan.
From this experience, Greenpeace recommended the World Bank to not invest in projects located in protected areas, such as national reserves, nor in territories where there were potential ecological and social conflicts. To distinguish itself from commercial banks, the World Bank should employ an independent panel of international NGOs to monitor the transparency of projects and undertake site visits with World Bank representatives to ensure the Bank saw the real impacts of projects rather than just what the company wanted to reveal. The next step for the Bank in Russia’s energy sector, would be for it to shift from investment in the oil industry to investment in energy efficiency and alternative sources of energy: Russia’s production costs were currently four or five times higher than those in the West. Finally, Greenpeace felt that the World Bank should not invest in a country with a high level of corruption.

During discussions, Bank staff commented that progress on the Komi spill had been well monitored. There had been numerous Bank missions to the site and a major Swiss-based monitoring company was assessing the use of funds on the clean-up operation and for the pipeline itself.

**Oil Industry Perspectives**

A presentation by the International Association of Oil and Gas Producers (OGP), whose members comprise 57 companies from all over the world, underlined the organization’s capacity to be a vehicle for raising many kinds of standards in the oil and gas industry: on safety, the environment, on impact assessments, etc. Specific reference was made to an oil and gas industry report compiled at the request of the United Nations Environment Program (UNEP) for the World Summit on Sustainable Development. The report compiled research on best practices for the oil and gas industry today, presenting them as 70 case studies, of which at least two were World Bank projects. Many projects were tripartite, with industry in partnership with governments and other organizations, such as the WWF. The study could provide useful inputs for the EIR, for example, new ways of dealing with the sustainable development aspect of future oil and gas projects.

According to OGP, future challenges for the industry were that it ensured the supply of affordable, secure, environmentally sound, and socially acceptable energy products and services to meet growing global demand, and to improve the contribution of the oil industry to social welfare, i.e. ensure the wealth created by the industry alleviates poverty.

During discussions, an NGO objected to the assertion that oil companies were bringing additional human rights protection to areas where they worked. He pointed to a recent NGO report referring to the “empty promises” of the Chad-Cameroon pipeline development; the President of the Chad, he added, had just bought guns with the first revenues from the oil fund. Another participant referred to impact of the AGIP ‘Early Oil’ project on biodiversity in the Caspian sea. AGIP was building earth-fill islands that had had negative impacts on sturgeon breeding grounds. Responding, an industry representative explained that a rough evaluation of the islands had indicated they had not caused any significant impacts. But, there was concern due to the particularities of the surrounding environment and the company was, therefore, planning to establish biomarkers to give accurate baseline figures for the flora and fauna. This information had yet to be released because of the size of the project. Regarding the treatment facilities, the impact was practically nil, as there was zero gas flaring policy. The policy was to re-inject the gas.

---

4 *The Oil and Gas Industry from Rio to Johannesburg and beyond: Contributing to Sustainable Development*, The International Association of Oil and Gas Producers (OGP) and International Petroleum Industry Environmental Conservation Association (IPIECA)
5 *Broken Promises: The Chad-Cameroon Oil and Pipeline Project: Profit at Any Cost?*, Friends of the Earth International (2001)
Coal Industry Restructuring

Coal Mining in the Ukraine

Two case studies, on the restructuring of the coal mining sector in Ukraine, raised issues related to a project initially supported by the World Bank Group.

The study by the Miner’s Independent Trade Union of the Ukraine described the situation in the coal-mining sector and highlighted problems relating to World Bank involvement in the sector’s restructuring. A long overdue presidential decree, ordering restructuring of the coal-mining sector, was issued in 1996. Almost a year later, the World Bank agreed to provide funds to assist in the reorganization of the Ukrainian coal industry. As a consequence, 100 mines had been shut down, or were in the process of closure. Out of a total of $500 million allocated for mine closure, $200 million was spent on the physical liquidation of mines, $170 million for the mitigation of social and economic problems, and $90 million for job creation, with only $40 million earmarked to tackle environmental issues.

The speaker estimated that over 50 per cent of the funds had been embezzled and none of the World Bank Group’s requirements had been complied with during project implementation. The economic situation in Ukraine had not improved; on the contrary, it had worsened. Ukraine had become one of the most corrupt post-Soviet states, with black market operations accounting for nearly 70 per cent of its economy. When the World Bank management realized the scope of the corruption in Ukraine, they simply discontinued relations with the Government.

The trade union representative told the EIR that he was convinced the Ukraine needed loans from the World Bank. But recommendations from the Bank should be far more specific; loans should be allocated for specific investment programs, developed with due attention to environmental concerns and social needs, such as the creation of new jobs.

A companion study from the National Ecological Center of Ukraine elaborated on the environmental and social issues of the mine closure programs. A major environmental problem had been how to dispose of waste piles from mining activities. Some piles had been re-cultivated, but continued to scatter dust particles in the surrounding area and many waste piles ignited spontaneously in Summer due to the high carbon content in the waste rock. Land subsidence was a problem, with significant structural impact on some buildings. In certain areas, water from the mines had contaminated drinking water meaning local wells could no longer be used. Towns and their suburbs were subject to under-flooding, which had worsened.

The most significant problems were found in the depressed mining towns. There was a significant deterioration in living standards due to a lack of funds to finance public services such as telecommunications, public transport, and medical services. Unemployment had increased and many former mine workers had not received compensation, either in wage arrears or severance pay. Those who did receive compensation had soon spent it on food, alcohol and other requirements, leaving them on the subsistence line. Many workers had migrated to other regions of the Ukraine, and CIS states, in search of work.

According to the presenter, a company called UDKR had been established as the central authority for the closure of mines, on advice from the World Bank. But UDKR were not seen to have been transparent in their decision-making, which was undertaken without the consultation of local authorities, workers or the general public. UDKR’s disbursement of funds had been impossible to monitor and the organization had denied having available funds for environmental or social programs. There was evidence that earmarked funds had been misused. For example, $14 million, designated for the creation of new workplaces for former mine workers, had been used by a bank to
cover its own debts before depositing the remainder. Although UDKR had been involved in the physical liquidation of 80 mines, virtually none had been completely decommissioned. They had been physically closed, but work relating to the closure program had not been performed before the mines were transferred to the local authorities, who did not have sufficient funds to support them. UDKR had contracted work to companies that were not local, meaning unemployed workers could not find temporary contracts to perform the liquidation work.

The main recommendation from this experience, continued the speaker, was to improve the dialogue with the public. Before the individual mine closure projects were approved, there should have been effective consultations with miners, local authorities, NGOs and independent environmental experts. There was a sense the closure programs had been set to a limited timeframe, were low quality and lacked an adequate ecological component.

It did not seem as if the Bank had any active monitoring procedures for the mine closures, and on-site inspections of mine closure operations had been rare. The first serious mission with an on-site inspection had taken place after the first loan was utilized, i.e. after the funds had been spent, when the Bank was preparing to extend another loan to the Government.

In conclusion, the presenter attributed the worse than expected consequences of mine closure to the World Bank’s classification of the projects as Category "B" that called for only for an abridged estimation of ecological impacts.

**Discussions**

During discussions, there was a call for systematic analysis to compare the coal sector with other sectors, such as light industry, in order to evaluate the role of the World Bank. Regarding whether the role of the World Bank had made the situation in Ukraine better or worse, it was felt mine closure had been pushed through too quickly, leading to more negative, than positive results. The sector was again surviving on subsidies, despite the fact that mines had been shut down. It was suggested more time should have been spent on project development and implementation, perhaps with the involvement of influential foreign investors who would have had leverage on the Government.

In response, the World Bank’s Mining Policy Group manager agreed that the situation was extremely grim and had been a learning experience for the Bank. In Russia, Romania and Poland, coal sector budgetary support had also been difficult and staff had had to work hard to achieve positive overall results. But in the Ukraine, there were significant budget irregularities; indeed, at one time, the IMF had suspended its support to the country as funds were disappearing. With respect to the actual closure, the Government had not made the agreed funding available due to a budget crisis. The Ukrainian economy and the total industrial sector, including the coal industry, had declined by over 50 per cent between 1990 and 2000. The Bank realized follow-up work would be required to remedy the situation, in particular to deal with the social and environmental aspects of the coal sector, and had been in dialogue with the Government. However, fearing resistance from the miner’s unions, the Government felt Bank proposals were politically unfeasible and had agreed to increase both production and subsidies in the coal industry, thereby increasing the overall cash drain on the economy. Under these circumstances, the World Bank had no choice but to withdraw.

Asked by the EIR whether the World Bank should re-engage in coal restructuring in the Ukraine, the Chairman of the Trade Union replied yes. As an elected member of the Ukrainian Parliament, member of its Committee on Fuel, Energy and Nuclear Safety, and a member of the Supreme Soviet on Fuel, Energy and Nuclear Safety, he confirmed that the Ukraine needed assistance from
the World Bank in the form of loans, investment, reforms and structural reorganization. They should work together to correct the mistakes.

**Coal Mining in Russia**

A case study, by the Energy Research Institute from Moscow, reviewed the World Bank’s $1.3 billion support, in 1996, for coal industry restructuring in Russia. The program featured large-scale privatization of Russian coal-mining companies, the closure of over 170 mines and the laying off of 500,000 workers. Project implementation was over 10 years and included four consecutive phases.

Since 1996, the share of state subsides to GDP reduced ten-fold, the share of expenditures to losses in the coal industry decreased 3.5 times, and average monthly labor productivity grew by, approximately, 70 percent over the last five years. In 2000-2001, the sector grew by 10-11%, with most of this increase coming from private enterprises. In addition, the occupational injury and mortality rate per 1 million tons of coal declined.

The second phase of privatization, from 1996 to 1998, focused on divesting coal enterprises from non-core facilities and operations. All public services facilities owned by the mining companies were transferred to the jurisdiction of municipal authorities, some mines were closed, and others enlarged to improve their investment potential. The Government were aware that it would be difficult to provide social protection to unemployed miners without assistance from World Bank loan facilities. Thus, the first coal loan, $500 million, was to support the structural reorganization of the sector.

The third phase of privatization, 1998-2000, was the period of active mine closure. State allocations for the coal sector, amounting to 57 per cent, were channeled into social protection programs for workers. Two major coal companies were put up for sale and the World Bank agreed to support the privatization process with a further $800 million loan. By the end of 2001, almost 70 percent of mining enterprises were privately owned and accounted for 70 percent of total production.

**Discussions:** While agreeing with the summary, a representative from the Independent Coal Employees’ Union of Russia, referred the EIR to project documents which stipulated that economic and social issues should be resolved simultaneously: adequate social protection programs had to be devised and fully financed before workers were laid off as a result of the decommissioning of mines. But this did not happen; 183 mines were liquidated and 500,000 people lost their jobs. In a district of the Rostov Oblast, 35,000 people became unemployed but only 4,000 new jobs were created.

Some 35,000 families were also to be relocated to new houses from unsuitable accommodation near the former mines. But over the past 6 years, only 20 percent of the relocation program had been implemented and 26,000 families were still awaiting relocation. With funding for 2002 at around 11 percent of the previous year, relocation would take several decades to complete.

This raised the question for the World Bank regarding its own assessment of the restructuring program and whether it had been successfully completed and yielded positive results. In the opinion of the speaker, this was only true in macroeconomic terms as not even fifty percent of the social component had been fulfilled. This figure downgraded the evaluation of the program to below the "satisfactory" mark.

**Minerals Extraction**
Mineral Resources in Romania
A technical officer from the National Agency for Mineral Resources (NAMR), in Romania, presented her experience of two World Bank projects designed to rehabilitate the petroleum and mining sectors. In a country where mineral resources were of great importance, Romania needed sector reforms, modern institutions, and a new legal and regulatory framework that favored the participation of the private sector. World Bank programs had established the NAMR, in 1993, as an independent regulatory authority for the mineral resources sector, with broad competency under the petroleum and mining laws. The agency granted concessions, regulated the petroleum and mineral sectors and oversaw implementation of the petroleum and the mining law. These laws, along with the development of the legal framework, had been prepared with significant support from the World Bank, and the agency had succeeded in attracting investment in both the petroleum and the mining sectors. The presenter underlined the Bank’s contribution to capacity-building within the NAMR through training on negotiation, economic evaluation, and environmental management.

Petroleum sector rehabilitation had been funded by a $175.6 million World Bank Group loan to the NAMR and state companies, Petrom (the main oil producer), Romgas (the gas producer), and Compet (the oil transporter). The aim of the project was to contribute to institutional strengthening, create a legal framework, facilitate the development of an efficient and market-oriented petroleum sector, promote private investment and improve the performance of certain Romanian companies. It had enabled the first licensing round for 15 exploration and production blocks, for which international consultants helped NAMR staff promote and prepare competitive data packages and apply a model concession agreement for royalties. This experience had enabled agency staff to organize other licensing rounds on their own. A second program developed the national geological database to attract private investment for exploration. A third program developed a methodology to set up tariffs for petroleum pipeline transportation.

Mine closure and social mitigation were the focus of a second project funded by a $44.5 million loan implemented by the NAMR and the Ministry for Industry. There were three main objectives: to develop effective technical and environmental procedures for the formal closure of uneconomic mines; to identify effective measures for mitigating social hardships resulting from restructuring the sector, and create diverse employment opportunities for redundant workers; and to strengthen the agencies involved in restructuring the sector, also introducing a modern mine licensing system.

The NAMR had developed a new mining law, mining controls, and a minerals title registry. The drafts to amend the mining law were discussed with government ministries, national and international companies, and other organizations. Currently under consideration by the Chamber of Deputies, the mining law introduced an obligation to incorporate mine closure plans from the beginning of a project, which would be revised every five years.

The NAMR also developed environmental programs, including a sectoral environmental assessment study, which was a broad analysis of the past, present and future effects of mining in Romania.

Copper, Zinc and Gold Mining in Turkey
Cayeli Copper and Zinc Mine: the first of two case studies on mining in Turkey, referred to a copper and zinc mine at Cayeli, Northeastern Turkey, near the Black Sea. The project was partly financed by IFC loans amounting to $75 million which, the speaker said, had made the project viable. Bank involvement had also set standards for safety, health and environmental issues. Shareholders’ contribution to the total capital amounted to $140 million dollars. In addition a further $65.3 million had been spent on capital items since production started. The underground
mine produced sufficient rock for onsite processing to make 158,000 tons of copper concentrate (25 percent copper) and 85,000 tons of zinc concentrate (51 percent zinc).

The safety management system at the plant was based on North American standards and regulations, following Turkish standards where they were more stringent. Records showed a total of 442 consecutive days of production with no lost time from accidents (only negligible accidents). The site had a full medical unit and provided extensive technical training for employees, increasing their career opportunities within Turkey.

The environmental management system was also based on North American standards. A bi-annual environmental audit was performed by external consultants, and all employees and contractors received environmental awareness training. Waste management featured ‘backfilling’ where tailings were combined with cement, or submarine disposal of tailings at a depth of minus 385 meters, well below safe levels indicated by mathematical modeling. Baseline water quality had been determined prior to construction, and had been monitored quarterly since 1995. Process and waste water were treated and discharged into submarine tailings system. Solid waste was segregated by type (steel, wood and some plastics) and sold for recycling. Grease, oil, sulphide contaminated materials were stored separately and transported to a licensed disposal facility. Noise from plant activities was controlled with sound level measurements taken on site, and offsite, day and night. Equipment was selected to minimize noise and trees were planted at specific locations to dampen sound. Dust was captured at source by filtering units.

In addition to Turkish taxes, the company paid a municipal main tax of around $230,000 directly to the village of Madanli. Annual net salary payments to local employees amounted to $4.2 million dollars, and a further $4.2 million dollars went to local contractors, suppliers and shops. Thus, 35 percent of annual outlays, approximately $9 million dollars, stayed within the local region. In support of the local community, the company constructed a full-sized football field for use by local sports club, annually provided a portion of sports operating supplies and contributed to a summer recreation program for children. The company also donated supplies and materials requested by local organizations. It rarely donated cash.

During discussions, a participant from another Turkish mining firm confirmed that the Cayeli project had introduced very high standards to the Turkish mining industry. It was the first example of submarine tailings disposal in the country, which made good sense in the area where there was little room for high dams and where the bottom of the Black Sea was anoxic and, therefore, dead. At the mine itself, there were no signs of acid rock drainage (ARD), or waste material mishandling; it was a perfect example of mining, he testified.

Ovacik Gold Mine: the Ovacik open-pit gold mine, near Izmir, Turkey, commenced operation in May 2001. The mine produced unusually clean ore, containing 2.5 milligrams of gold per ton, and extracted 300 tons annually. The plant was said to represent the best available technology in the European Union and had followed EU directives for protecting soil and the environment.

The company was probably the first in Europe to lodge a $1.5 million rehabilitation bond with the Government. The bond was in response to community concerns regarding eventual closure of the mine. In addition, the company had taken out umbrella insurance of up to $200 million. When the mine was closed, the company would remove all concrete and sea structures, the tailings pond would be dewatered and re-vegetated, and surface water would be monitored for a minimum of 10 years. If water from the site did not meet discharge criteria, the company would build a water treatment plant and run it for as long as necessary. The company was also removing and storing top
soil, and, on a trial basis, planting trees with the idea of partly reforesting the whole area when the open-pit mining was complete.

The Ovacik tailings dam was designed with a very high safety factor, meeting first degree earthquake zone requirements. The dam had been built four years previously and showed no signs of strains or leakage. It was equipped with a cyanide destruction unit and a heavy metal stabilization unit using ferric sulphite. Zero discharge could be determined because the area was arid and the difference between precipitation and evaporation was about 1.5 meters. Other highlights included the use of cyanide in extraction technology. The Ovacik mine did not allow cyanide discharges into the environment, in contrast to elsewhere, where small discharges were permitted: 0.2 milligram per liter in some areas in the U.S., up to 2 milligrams in Canada and up to 1 milligram under World Bank standards. The mine was also committed to 1 milligram per liter for cyanide discharged into the tailings pond. In March 2002, levels were actually less than 0.1 milligrams. Figures from Ovacik reflected their clean operations and rigorous monitoring. The occupation health picture was similar.

A representative from the United Nations Environment Program (UNEP) noted the development of an international, voluntary cyanide code, under the auspices of UNEP, that would be considered the new baseline for minimum acceptable standards in gold mining. The presenter confirmed that the Ovacik plant never exceeded 300 ppm in air because an alarm would be set off at around 5 ppm. The UNEP representative further noted that the excellent report on the Ovacik mine today, contrasted to past mistakes in 1990 and 1991. At that time, consultations with local communities ranged from poor to non-existent. The environment impact assessment had not been actively applied, and the design of the plant had needed to be upgraded due to the controversy over cyanide. This explained why there was a cyanide detox plan. From a financial point of view, there were long delays in making the mine operational, with implications for cash flow and the cost of capital.

Elaborating on the mine’s partnership with the local community, the presenter said there had been originally been serious opposition to the mine. Out of the 350 employees, 81 percent were from three villages surrounding the mine and it was company policy to obtain goods and services from the nearest available source. NGOs had been involved in both the training of local suppliers and the purchasing process; the company also had established programs to assist individuals to develop small-scale businesses. A major initiative was aimed at encouraging gold artisans to work in the area, so the gold produced by the mine could generate jobs for 3,000 people. Such businesses would still be able to make jewellery after the mine closed using gold from elsewhere.

With recommendations for the EIR, the presenter commented that company management believed community partnerships were essential in projects such as these, to avoid disputes that could affect business. The presenter also felt that the EIR should consider the criteria where the World Bank could play a catalyst role; as an honest broker, the Bank could ensure that NGOs, companies and the government did a good job to the benefit of the local community. In Turkey, revenues went to the government with nothing trickling back to the local level, which meant companies had to make additional efforts to work closely with the community.

Following up, World Bank staff commented that the Ovacik mine had been a testing ground where everybody had learned a lesson; NGOs, the community, the government and certainly the World Bank. Ovacik was now a showcase and the World Bank had added many improvements to it. But the cost of environmental safeguards in such a project were usually 2.5 to 10 percent of the total cost, at most; at Ovacik the cost of safeguards were almost 50 per cent of the budget. In a sense, things had been overdone, and some of the money involved could have gone to furnish community needs.
Gold Mining in Kyrgyzstan

Four case studies elaborated on issues raised by the cyanide spill near the Kumtor gold mine in Kyrgyzstan. Friends of the Earth focused not only on the circumstances of the spill, but also on the degree of public consultation and awareness, and the long-term impact of the mine, including its preparations for closure. Another NGO\(^6\) reported on its survey of the medical and environmental consequences of the spill, undertaken in 1999, a year after it occurred. A representative from the Bureau on Human Rights and Rule of Law, in Kyrgyzstan, highlighted problems of access to information, while a representative from the local Community Business Forum explained how the public was being informed today. The company, it pointed out employed 1,500 workers and its operations directly benefited 10,000 people.

From the NGO perspective, the main issues included the choice of technology, deficiencies in project preparations, the circumstances surrounding the cyanide accident, and whether or not the project constituted sustainable development, taking into account its social and environmental impacts. The underlying issue was how much leverage the World Bank had in this process.

Friends of the Earth were not able to trace any public involvement in the preparation stages of the project, even though the procedures for the environmental impact assessment recommended there should be a record of public consultations. In addition, they were not aware of the availability of any environmental assessment documents in either Russian or Kyrgyz. NGOs felt safety concerns had not been sufficiently addressed: there were improper safety measures in place for the transportation of hazardous substances. Two NGOs felt a safer alternative to cyanide technology should be used, one more suited to mountainous terrain where there was an ongoing risk of accidents, or earthquakes, with potentially hazardous consequences. There were concerns regarding the safety of applying calcium hypochlorite and sodium hypochlorite for cyanide detoxification and what seemed to be a delayed monitoring of individual environmental components. The local community felt it was unacceptable that the company failed to inform them of the accident for 5-6 hours, especially considering a chlorine compound was used on a large scale to neutralize the spill. Compensation was meager, and amounted to just $20 dollars per person and 20 tons of sugar for the whole village of Barskaun. The result, during the first days of the spill, said NGOs, was an emergency situation where the maximum permissible concentration of cyanides in water, air and soil were exceeded 1,590 times.

One NGO reported cyanide poisoning as a main impact of the accident: 5.6 percent of the local population with serious effects, 25.9 percent with medium effects, and 68.5 percent with mild effects. Out of 68 children, hospitalized at the Kyrgyz Research Institute of Obstetrics and Pediatrics at the time of the accident, 23.6 percent had cyanide in their urine. The NGO noted that local climactic conditions, namely the decreased oxygen content in the local environment, the wind conditions in the coastal area, and the lack of currents in the lake, would have retarded the normally rapid decay of toxic cyanide.

Regarding mine closure, only $5 million had been allocated for final closure which the World Bank had acknowledged was insufficient. The assumption was that the Kyrgyz government would take care of mine closure, with little responsibility taken by the Kumtor operating company. The NGO questioned the long-term stability of the frozen dam and tailings and whether they were stable given evidence of other melting glaciers in the region. The original environmental impact assessment did not consider the dam or tailings as a cause for concern, but this assessment was drafted before climate change became an accepted phenomenon. Hydro-geologists from

\(^6\) Human Development Centre “Tree of Life”, Kyrgyzstan
Kyrgyzstan had confirmed the possibility that the permafrost could melt beyond the designed thickness, of 1.5 m, by 2030-40. This raised doubts whether the tailings would remain sufficiently covered by permafrost and that, with the changing hydrogeology of the area, could pose a significant toxic health hazard in the future.

Other concerns related to the difficulty in accessing information through the operating company, despite frequent requests from NGOs. After the cyanide spill in 1998, an NGO requested information on the emergency response plan, a list of the prior accidents, as well as, the company's own assessment of their safeguard policies. The company responded that this information could only be forwarded to the Government and specialists. Only after a visit from a representative of the IFC Compliance Advisory Ombudsman’s office in 2000 did the company disclose elements of the emergency response plan. The Community and Business Forum also identified access to credible information as a key issue for communities and NGOs. The Forum tried to encourage the flow of information by publishing regular reports for more than 100 national and local NGOs, and 30 community-based organizations, and had organized seven site visits to the Kumtor mine to address the concerns of specialists, local communities, and local NGOs. The Forum felt that it was important to define the roles of different stakeholders and to build the capacity of community-based organizations. It was important for governments to ensure the fair distribution of revenues with tangible benefits for local communities. Too often, the speaker agreed, revenues went into the federal budget and did not reach the local people.

Discussions: In subsequent discussions, Friends of the Earth raised the question of the World Bank’s leverage in major projects like Kumtor. They felt this leverage was significant at the approval stage of a project, but the World Bank’s influence decreased over time. What sort of power did the Bank have during, and after, a project to ensure safeguards were met? Was it possible that the $150 million spent on the project was less than the eventual cost of addressing the pollution it caused in following decades?

In a general comment regarding the development impacts of the project, an IFC representative pointed out that gold was still an important industry for the Kyrgyz Republic and represented over 30 percent of exports. The operating company was also two-thirds owned by the Kyrgyz Republic, with only one third in foreign hands. The IFC believed governments could greatly benefit by obtaining revenues from taxes and royalties from such projects rather than being shareholders in companies. From Kumtor, for example, the Kyrgyz Republic had received $38 million in various taxes, $4.7 million in royalty payments, $3.8 million in management fees and paid out $115 million dollars in worker’s salaries. The government had only received $7 million in dividends, but had taken an investment risk at a time when gold was worth $350 to $375 an ounce: the Government negotiated a deal with the private investor, choosing to retain a 70% share of profits in lieu of other forms of taxation that might have reduced its exposure to fluctuations in gold prices.

Mining, the Environment and International Organizations
A representative from UNEP presented some recommendations to the EIR on mining, that were also applicable to the oil and gas industries. UNEP fundamentally believed the World Bank had a role in the extractive industries. Market forces neglected environmental costs, she pointed out, and the World Bank, other international financial institutions and the markets needed a mechanism to internalize these environmental and social costs. Meanwhile, environmental quality was deteriorating; resource demand and product consumption were unsustainable, local improvements were often negated by increased growth, i.e. improvements in energy efficiency, or in water use, would not have the benefit impacts they could in a region undergoing 10 percent growth. Environmental institutions and laws were not implemented and environmental technologies existed but were under-utilized.
A UNEP listed some major mining accidents since 1975, including failures in tailings dams, transportation and pipe facilities. These were worldwide problems, not just common to developing countries, and occurring in all types of mines, whether precious metals, base metals or coal mines. Lessons had been learned from inadequate preparation and lack of waste control; inadequate emergency response plans; lack of communication with local communities; inadequate recognition of potential impacts; and inadequate monitoring and maintenance.

Lessons from the tailings dam failure at the Aurul (now Transgold) mine in Romania showed the importance of ongoing operational monitoring, regulatory controls, emergency response, the need for a pro-active industry, and the importance of due diligence for financiers. A recent cyanide containment failure in Nevada had again been caused by a monitoring system did not work. The reality of mining today was the gap between facts and perceptions. Standards, codes and permits existed, but the mining industry still needed to gain the trust and confidence of the public; in short, earn their social license to operate. Governments also had a role to play in creating the right legislative environment. Financiers too, including the World Bank Group, needed to ensure their investments supported the best practice, and this should continue beyond the point when the loan was repaid. It was appalling, she added, that one international financial institution was reported to have ordered Turkey to pass a law on industrial development zones reducing the required environmental impact studies to a mere formality to benefit foreign investors.

Typically in tailings dam accidents, companies claimed that the structure had met legally established stability requirements. That was one of reason for World Bank standards and guidelines to be strengthened as they were used by a variety of organizations, for projects or in the financing of projects. From that perspective, UNEP had four recommendations for consideration by the EIR:

- Environmental impact assessments should be living documents. They should endure the life of the mine and not be viewed as just documents to enable the initial investment. Assessments should respond continuously to changes at the mine and from consultations with the affected communities.
- Emergency response plans should be developed and in place from the beginning of a project.
- Ensure both government and community support for a project i.e. obtain the social license to operate.
- Assess corporate environmental management systems and tools for project evaluation. Perhaps CEOs should be made personally responsible for the environmental and social aspects of their operations, which should be reviewed in an annual report.

The necessary management tools were available for both government and industry. Government regulations called for environmental impact assessments, design standards, pollution standards, waste management systems and monitoring of operations. Tools for industry included environmental management systems, life cycle assessments, public sustainability reporting, supply chain management, extended producer responsibility and environmental management accounting.

One NGO agreed that accidents were symptomatic of bad management, which could often be traced from the very beginning of a project in the attitude of companies towards the community. It seemed as if the World Bank, and other financial institutions, were only prompted to react to such shortfalls after incidents occurred, rather than prior. The presenter elaborated that the world needed metals and minerals, and in some cases extractive industries were the only possible resource for
economic development. But it was an absolute must that projects contributed to sustainable development at the local, regional and national level, in the long-term.

9. Sector-Specific Recommendations
A plenary discussion received reports from each of the three working groups and drew broad conclusions on the role and impact of the World Bank Group in Eastern Europe and Central Asia in the three sectors of mineral mining, coal mining, and oil and gas.

Mineral Mining
In mineral mining, the broad impact of the World Bank had been economic, in attracting investments from private sources. Specific impacts were more varied: there were positive benefits of providing employment for thousands of people, as in the case of the Kumtor gold mine. But negative aspects included the frequent lack of consultation with the local community and lack of transparency surrounding projects.

Looking ahead, the World Bank should have greater leverage, throughout the life of a project. It should promote equitable revenue management so money reached those most in need, and ensure public participation before projects reached approval. The role of the World Bank would reflect recognition that the standards for mining were not adequate and guidelines were too theoretical. Poverty reduction was not a reality and development was unsustainable. Environmental impact assessments should be reviewed and evolve to suit the changing circumstances of a mine, once active.

i. Maintain or Expand:
One recommendation was suggested for the World Bank Group to maintain or expand their activities in the mineral mining sector:

- Finance projects with more favorable terms

ii. Change and Modify:
The following overlapping proposals were outlined for the World Bank Group to change or modify their existing activities in the mineral mining sector:

- Define, and implement, technical, safety, and environmental standards
- Develop, and maintain, clear procedures to regulate the implementation of public partnerships in the preparatory, implementation and completion stages of projects
- Minimize fiscal incentives and maximize domestic downstream industry
- Ensure transparency for project revenues by insisting that governments provide details on how mining royalties and tax revenues are spent (e.g. receipts and expenditure reports)
- Make concerted efforts to negotiate with governments to channel revenues to the affected areas to ensure sustainable economic activity after mine closure
- Insist on mandatory closure plans and funding in line with international best practices
- As a special chapter on decommissioning in loan agreements, including best models of mine closure (transparent, with public control, social and environmental mitigation). The clause would sanction the company if it failed to implement such models
- Use the Human Development Index (HDI) than GDP to evaluate benefits of the mining industry for any country
• Evaluate all mining projects as category A, and eliminate category B
• Deal only with directly affected stakeholders in project negotiation and financing
• Insist that local governments are part of project negotiations and receive specific revenue allocations under project agreements
• Insist, as a condition of lending, that emergency response plans are developed with affected communities and put in place from the beginning of a project, subject to periodical review

iii. Withdrawal:
Two recommendations were proposed for the World Bank in ceasing some mineral mining activities:

• Ban all new mines in sensitive areas (mountains, national reserves, resorts, near indigenous or subsistence communities)
• Ban the use of cyanide and other toxic technologies at existing and new mines

Coal Industry
In the coal sector, studies for the Ukraine and Russia had shown how the results of industry restructuring programs were unexpected. In the Ukraine, the World Bank had been influential in persuading the Government to restructure the sector, while only indirectly formulating the strategy to achieve this. The overall economic, political, social and environmental impacts of the restructuring had been negative. Privatization was incomplete, with much of the sector still in the public domain, restructuring had been poorly implemented, for example, funds had disappeared, and there were significant environmental challenges to be resolved. Nevertheless, the working group felt the World Bank should remained engaged in the extractive sector in the Ukraine, but do the job better.

The World Bank became involved in coal restructuring in Russia after the first stage of privatization. Its main impacts had been positive at the macroeconomic level. However, social problems had not been mitigated and trade unions reported a negative experience of restructuring due to high levels of unemployment.

i. Maintain or expand:
The working group outlined two recommendations for the World Bank Group to maintain or expand their existing activities in the coal sector:

• Investment (e.g. IFC loans and World Bank guarantees) should not only target mine closures but the development of profitable mines
• After project completion, the impact of projects on the macro-economy should be evaluated

ii. Change and modify:
The majority of the group’s recommendations focused on modifying or changing existing World Bank Group policies in the coal sector:

• Develop a 10 year program for coal sector restructuring, with early involvement of different stakeholders and transparency of design and implementation
• Establish a steering committee representing all stakeholders, with real accountability
• Develop mechanisms to implement declared ‘good intentions’ of business, such as OECD guidelines, or ILO conventions
• Develop ongoing programs for small and medium business development in coal mining regions
• Ensure job creation a major component of every project
• Strengthen capacity building initiatives
• Implement social and environmental monitoring through dynamic coordination with local communities, and other stakeholders
• Ensure social and environmental components do not lag behind closure and privatization components in project implementation
• Synchronize restructuring and financing after consultation with all major stakeholders and based on an agreed, comprehensive program
• Have projects and programs prepared by governments before their review with the World Bank for selection of priorities (rather than vice versa)

t. Withdrawal:
Two recommendations were outlined for the World Bank Group in ceasing some activities in the coal sector:

• The World Bank Group should phase out financing of new coal mining capacities, including open-pit extraction
• No new coal projects

Oil and Gas Industry
In the oil and gas sector, the World Bank role in Azerbaijan and Kazakhstan had been that of financier, institution builder and policy adviser. In Russia, the Bank had been involved in environmental mitigation and major restructuring in Siberia. Negative impacts were noted across the board. Social impacts included insufficient creation of local employment, and conditions were deemed worse by some participants as a result of World Bank Group involvement. From an environmental perspective, there were many critical statements regarding the role of the World Bank. The main concern with respect to governance, was the lack of transparency in the use of funds and the Bank’s insufficient role in initiating institution building. Many felt their access to information had been restricted by the World Bank, governments and companies involved. The working group felt the World Bank should ensure all aspects of projects are completed, especially with regard to the environment, and expectations should be reduced, i.e. the World Bank Group should not be expected to solve all the problems in a country. But Bank staff should to make it clearer to communities what they could, and could not, achieve. This was a reason why grass-roots consultations were so important.

i. Maintain or Expand:
The working group outlined the following recommendations for the World Bank to maintain, or expand, existing policies and activities in the oil and gas sector:

• Recognize that World Bank Group standards are independently valuable as ‘generally accepted international standards’ for host governments, whether it is involved in financing or not
• Ensure the Bank’s role as financier is used as a means of enabling the participation of national companies, setting standards, promoting good practice, and good governance
• Promote transparency, including production sharing agreements and the World Bank’s own internal and external evaluations.
• Invest only in projects able to demonstrate poverty eradication and an improvement in living standards

ii. Change and modify:
The following recommendations suggested changes and modifications to World Bank Group activities in the oil and gas sector:

- To promote the partnership of the World Bank with industry, civil society and government. In particular, ensure broad consultations at the national level, with the participation of governments and all stakeholders (including local communities and indigenous peoples) in open discussions.
- Simplify and shorten necessary processes, without compromising fundamental conditions.
- The World Bank, working with NGOs, communities and governments should develop social and economic criteria for the local and regional level before project implementation and regularly measure progress against those criteria.
- To promote good governance, including full transparency of government revenues and audited disclosure on the use of oil funds. Look for synergies with other entities working on such issues e.g. the Soros Initiative.
- Give priority to the rehabilitation of existing sites, such as mitigating environmental and social problems.
- Maximize the role of civil society in the decision-making, and implementation of projects, in particular until EIR recommendations come into force.
- Develop base line and performance indicators (e.g. for poverty, health, and environment), and track results. An explicit connection should be made between the role of the World Bank in the country assistance strategy and the role of the IFC and MIGA in private lending to projects, to ensure consistency within a country.
- The World Bank should challenge disinformation put forward for political purposes and publish actual project outcomes.
- Priority be given to energy efficiency and renewable projects, and move towards supporting more gas, and less oil.
- Priority be given to projects utilizing by-products and waste from the extractive industry.

iii. Withdrawal:
The following recommendations were put forward for the World Bank Group in ceasing some activities in the oil and gas sector:

- No public money should be used to support new fossil fuel extraction.
- Develop effective criteria for identifying ‘no-go zones’ and review this periodically in light of changing technology.
- Allow for a community ‘veto’ during consultations.
- 5 year phase out of oil and gas investment (the group did not fully agree on this).

Common Themes:
The Consultation concluded its discussion of sectoral recommendations with proposals for common themes:

- Involvement of all stakeholders from an early stage.
- Greater priority for social and environmental concerns in the planning stage.
- Transparency.
- Revenue management.
- No-go zones.
- Cut down on the decision-making time when evaluating a project.
- Involve governments at an early stage in the project cycle.
• Increase the responsibility of the government for project implementation

Elaborating the last point, it was suggested that the World Bank work with governments from the start to devise the most acceptable methods of project implementation. Projects should be incorporated into the government’s own program for national economic development. Responding, World Bank staff agreed that, in principle, early consultation was preferable, but was not always feasible. With some projects, companies had already started extraction before the World Bank Group were involved, and with others, implementation had gone so far ahead that World Bank procedures would not allow it to participate.

10. Final Recommendations: Cross-Cutting Themes

Based on presentations by the World Bank Group, and case studies on oil, gas and mining projects in the region, the Eminent Person called for further discussion in nine areas where significant issues had been raised: good governance; transition policy; mine closure policy and cleaning-up the past; standards, guidelines and monitoring; disclosure policy and information sharing; revenue management; impacts and benefits at community level; institution building and regulatory frameworks; social mitigation.

1. Good governance—Should the World Bank Group be involved in governance issues, and if so, how? How could the administrative capacity of governments be raised if they are not fulfilling their role at the national, regional and local level? How could the World Bank promote good governance? How could agreements with the World Bank Group be effectively enforced? What were the most adequate indicators for baseline and follow-up studies related to sustainable development?

The working group felt country assistance strategies in Eastern Europe and Central Asia should specifically promote good governance. This meant developing effective legislative and administrative frameworks, promoting transparency and disclosure, and promoting human rights and democracy. The Charter of the World Bank presently prohibited it from interfering in political processes, and this should be changed, along the lines the EBRD’s Article 1. The World Bank Group could perhaps apply Basle performance measurements and reduce the number of confidential project documents, i.e. release internal evaluation reports to the public. Bank representatives acknowledged that there were contractor limitations on this, but felt this could be accommodated through negotiation with contractors concerning the timing and level of detail in the reports. It was also felt the World Bank should monitor levels of public participation and ensure action was taken on issues that arose. The Bank’s resident missions should have increased capacity to facilitate such participation, especially in countries with poor governance.

2. Transition policy—What should be the most appropriate sequencing of reforms, including privatization, in the oil, gas and mining sectors? Should there be minimum conditions for price liberalization? How should declining local and regional economic growth be remediated? How could local services, formerly provided by state enterprises, be improved and adapted to changing circumstances?

How could the World Bank Group promote the development of effective legal and regulatory frameworks? Recognizing that most privatizations had already taken place, the working group noted that in many countries, the legislative and judicial reforms were required. The World Bank Group should provide technical assistance in the drafting of laws, and facilitate the training of legislators. The World Bank should help to formulate close-down strategies for non-profitable state companies, financed through grants and low-interest loans, in a fully transparent way and public
control. Micro-finance schemes, training programs and proper pension schemes were also required, all of which should take priority in country assistance strategies. The Bank could perhaps promote anti-corruption campaigns and link such action with investment or loans. This called for close coordination with the IMF. Price liberalization needed to be undertaken in a socially acceptable way that took affected groups, like pensioners, into account. Such social mitigation should be implemented as a partnership between the private sector, governments and communities. The final recommendation was for the World Bank to develop services and value-added sectors by promoting small and medium enterprises. The Bank should condition all sector investment on sustaining social services in areas affected by privatization, mine closure or restructuring. For example, local tax schemes could be used to raise funds at the municipal level to mitigate social problems, or World Bank bridging loans could be used until funds generated by the project were placed in oil funds.

3. Closure policy and cleaning-up the past—How could past damage caused by oil, gas and mining be mitigated, and the necessary clean-up coordinated among the various actors? What (if any) should be the role of the World Bank Group in mine closures? Which policies would be most effective when dealing with mine closure impacts on employment, social services and treatment of environmental legacies?

Ideally, closure plans should be in place from the beginning of a project and the World Bank should ensure this is a condition of financing for new projects. For projects already underway, the Bank should insist on the development of a closure plan as soon it became involved. Detailed decommissioning and closure plans should be published in the language of the relevant country. It was felt information was often condensed into pamphlets and important details skimmed over. The working group proposed that cost estimates for closure be verified either by the World Bank, or by a third party. This would ensure sufficient funds were available for closure operations in the event that the company was unable to complete the work, e.g. in the case of bankruptcy. The creation of special mine closure funds would be preferable. The World Bank and governments should work together to ensure a social safety net was in place in advance of mine closure. The Bank could also consider the establishment of a kind of insurance system for regions affected by mine closure.

Technical specifications in closure plans should sufficiently protect areas with sensitive seismic conditions. Such specifications should be verified using computer modeling. It was recommended that the World Bank consider financing necessary clean-up operations at old mines, specifically with regard to uranium tailings. It was recognized that this was dependent on the World Bank’s policy of non-involvement in the nuclear cycle. A more innovative approach to financing legacy issues was required, such as the use of mine reclamation funds, now being required by law in some countries.

4. Standards, guidelines and monitoring—Were existing World Bank Group standards and guidelines sufficient? What indicators best demonstrated their effective implementation? How were standards monitored, and how might they be best enforced? Who should monitor the implementation of standards and guidelines once the World Bank Group was no longer involved in a project i.e. after disbursement? What were the main problems faced by industry with respect to the application and monitoring of standards, and how might the World Bank Group assist?

It was recommended that the World Bank Group issue a set of guidelines covering all environmental and social aspects relating to extractive industry projects. Borrowers should pre-qualify by demonstrating their use of current best practices, e.g. OECD guidelines on corporate governance and the ILO conventions on minimal acceptable standards. General indicators should be developed, and made public, to assist in the monitoring of all World Bank projects. These would
include social, environmental, technical, and economic indicators, that would be used to report project progress, maybe every six months. Such a procedure would increase transparency, improve performance and facilitate auditing and reviewing. The working group called on the World Bank to retain an interest in projects for their complete life cycle. Companies that did not follow guidelines and standards could be blacklisted, and others rewarded for good practice, such as enjoying differentiation on financial markets due to the lower risk implied with respect to their operations.

Some were concerned that, by setting more standards and guidelines, the World Bank Group would increase the bureaucracy of a project. The working group emphasized that standards already existed, for example OECD guidelines, and the World Bank Group could issue a comprehensive list of standards aimed at those parties hoping to obtain investment. Guidelines could be tailored more specifically for projects. For example, the creation of a governance board, consisting of various stakeholders, who would act as agents in the area of their expertise (e.g. labor unions on social issues, NGOs on the environment). They would assist in developing guidelines and then continue to monitor them during project implementation. A final recommendation raised the possibility of the World Bank providing financial resources for revising systems of environmental and safety controls. Such funds would greatly improve project implementation as control systems were often technically obsolete. World Bank staff agreed this would not be a problem if introduced at the beginning of project discussions.

5. Disclosure policy and information sharing—What project information should be routinely disclosed to the public by the various actors? How can the information provided be trusted by all stakeholders, host communities in particular? Is there a role for the World Bank Group to facilitate universal application of disclosure policies?

The working group recommended full disclosure of environmental and social impact assessments, (including amendments to them), and evaluation reports prepared by the OED7, as well as emergency response plans, accident reports, taxes, royalty payments, laws and regulations. Ideally, production sharing agreements should also be released, but it was recognized there may be confidentiality issues arising from contractual agreements. Disclosed documents should be translated, and available in a user-friendly format, perhaps tailored to different target audiences; for example, adjusted for technical specialists or local communities. Information should be disseminated on the internet and, in some cases, made available in local libraries, to ensure full accessibility by affected communities, local and international NGOs. Disclosure should be facilitated as early as possible, although it was acknowledged this may be constricted by the fact that the World Bank was not always approached by sponsors early enough in the project cycle.

It was suggested that the disclosure of government revenues be incorporated into environmental and social impact assessments. Payments should be recorded in annual monitoring reports and disclosure would track what funds actually went to the local community and monitor their impact. Ideally, there should be a baseline from which to track human development indicators at both the local and national level. Independent validation could be undertaken by civil society experts. It was suggested that a type of ‘interdepartmental commission’ may facilitate disclosure by bringing together government ministries, relevant World Bank Group departments associated with a project, trade union officials and representatives of the public. Such a balanced body could control the distribution of financial resources and monitor project implementation.

7 A World Bank representative confirmed that OED evaluation reports would be disclosed as of July 1, 2002. A recommendation to change the disclosure policy on OEG reports was reasonable, but would require the restructuring of relevant reports, which currently contained confidential client information.
The World Bank Group could build disclosure into the conditions of structural adjustment and private sector loans. It was recognized, however, that the Bank’s leverage may be limited in this respect. Governments were often reluctant to disclose sensitive information and, in this respect, the lack of a mandate to promote democracy in the Bank’s charter should perhaps be remedied and clear messages sent through the country assistance strategy that governments satisfy minimum levels of transparency. With regard to companies, the World Bank could exert leverage through legal agreements for loans, but this was more difficult in shareholder agreements covering Bank equity. One possibility for encouraging disclosure in the private sector would be to release information on those who met the standards, and those who did not. The World Bank Group already had a large portfolio in the industry, and this could provide the necessary incentive.

It was further suggested by one participant that recommendations on disclosure provided to the World Bank Group by the EIR could be disseminated to the whole industry and have a wider impact well beyond the individual projects being financed by the World Bank Group. International organizations were frustrated that governments who were signatories to international conventions, were not applying them. He had yet to see one operation in the former Soviet Union that actually met environmental, health and safety standards. But looking at the portfolio, perhaps the best ones were those that had been financed by the World Bank Group, and other international financial institutions.

6. Revenue management and distribution—How could the World Bank Group help people hold their governments accountable for revenues generated by oil, gas and mining? How could stakeholders work together to improve transparency in the management of revenues? What processes might the World Bank Group encourage to assure an equitable distribution of revenues? Once revenue management was designed, how could the World Bank Group ensure the plan was effectively implemented?

All revenues should be disclosed by both the company and the government. But, it was recognized that some companies would find this difficult due to their contractual obligations to the government. The focus was, therefore, what role the World Bank should have in facilitating revenue disclosure?

The working group proposed that the disclosure of revenues by governments and companies should be made a standard condition of loans extended by the World Bank Group. To that end, it proposed that World Bank Group amend its own disclosure policy, and related policies, as necessary. It was acknowledged that some governments and companies may attempt to bypass the World Bank for assistance if their requirements were too stringent. However, the Bank could offset this by setting out the criteria for companies that wanted to be known as ‘socially responsible’. The World Bank should develop mechanisms for reporting and auditing revenue flows and ensure the participation of civil society, independent auditors, governments and companies. The Bank could mobilize international efforts in that direction and at the national level negotiate with governments to assist them in developing standard legislative models.

There was common agreement that funds, such as oil funds, should be used to finance socio-economic development. The World Bank should take a leading role in making such funds work by inducing governments to use revenues in an effective way. Guidelines should be established for the proper use of oil funds, and other funds, accumulated from extractive industry projects. These guidelines should outline the methods for addressing environmental and social issues arising the extractive industries, specify what revenues should come into the fund and provide a blacklist on what funds should not be used for, e.g. purchases of weapons or alcohol production. Guidelines
could also include stabilization models to guide the use of funds in stabilizing fluctuations in the cost of other resources.

Other comments focused on the problems of using oil funds as a general model. Three different issues had been highlighted at an IMF conference on revenue management: (1) the transparency and the efficiency of resource allocation was a part of the whole expenditure plan of governments, as analyzed by the World Bank in its public expenditure reviews; (2) funds typically had one or two purposes: sterilizing capital inflows by placing funds in foreign securities to prevent appreciation of the local currency, and saving for future generations; (3) there had been bad experiences with oil funds almost everywhere in the world as different interest groups attempted to obtain a share. Successful management of oil funds seemed to imply good governance. But in developing countries, where democracy was weak and corruption strong, was it possible for funds to be made transparent? It was the World Bank’s task to exert its influence over governments who were dependent on their loans and investments.

It was felt by some that revenue management struck to the heart of the sovereign nation and governments would not allow private companies, NGOs, nor even the World Bank Group, to dictate how revenues were managed. The Consultation should have low expectations on this issue. Others were confident the Bank had the leverage, even in an advisory capacity, to promote transparency, implement public controls and promote democracy building in a country.

7. Impacts and benefits at community level—How could environmental and social impacts at the local level be avoided? How could the World Bank Group ensure that communities benefited from projects? How could all stakeholders work together to achieve overall positive impacts at the local level? What role might the World Bank Group play in promoting cooperation?

The World Bank Group must understand the situation at the local level in order to ensure benefits from extractive industry projects were realized by communities. The first recommendation therefore suggested it be obligatory that World Bank officials visit proposed project sites, and organize public consultations with all concerned, to ensure communities were fully aware of the possible impacts on the area.

Second, the Bank should avoid funding projects that threatened traditional ways of life or damaged existing conditions at the local level. Environmental impacts should be thoroughly assessed and the specificities of communities analyzed. Those with relevant ethnological expertise should be consulted to assess impacts on indigenous peoples. Indeed, the World Bank Group should abide by ILO convention 169 on protecting the rights of indigenous peoples. This could be used in the development of projects, to frame agreements between the indigenous peoples and the World Bank Group.

Third, the process should identify and consult all relevant parties in a region, whether local or indigenous communities, or nomadic populations. Project assessments had to be agreed between all parties concerned. The World Bank should ensure that governments provide guarantees to local communities, such as compensation payments and insurance.

Fourth, the provision of local benefits and protections should be a distinct component of every project. Community development plans should be formulated, supplemented by preservation and protection programs. The aim of this would be to minimize the negative impacts of a project on the local community and take account of their welfare after a project closed. Development plans would be drafted on the basis of consultations and would be made known to communities at the earliest possible stage. Finally, continuous monitoring of the social and economic aspects of
projects was needed to evaluate what benefits were filtering to local communities, and development plans should be modified if necessary.

In short, the World Bank Group, as a political entity, should be able to influence all processes affecting local communities i.e. how funds are spent in the community interest; how community expectations can be managed; building capacity at the local level by providing training; ensuring adequate numbers of local workers are employed.

8. Institution building and regulatory frameworks—What should the World Bank Group do to build the capacity of governments and civil society groups at the local, regional and national level? What should be the World Bank Group role in building the capacity of businesses?

The working group on institution building interpreted the subject as referring to the sustainability of business and the need to secure a future for industrial activity, bearing in mind extraction activity would come to an end. Its recommendations identified areas for local business development and opportunities that would have an impact at the local level. The main proposal was for the World Bank Group to build business capacity by facilitating cooperation between governments, operating companies and the communities involved. This business capacity would be built within the structure of the community to ensure its longevity once the extractive industry closed.

If the goal was to develop businesses that outlasted the contractor, relevant participants had to be identified. It would also be necessary to identify a methodology to monitor the progress of new businesses to be sure their activities were sustainable. A crucial aspect would, therefore, be the development of local skills, not for the extractive industry, but for the business being promoted. A rigorous regulatory framework, and support for regulatory authorities, would be needed before and during the life or the project. The World Bank Group could support a study of supply linkages to establish the business development potential in an area. A gap analysis would show what needed to be done. A strategic plan should target the required capacity to build sustainable businesses, reflecting consultations with local people, and entrepreneurs, from an early stage.

9. Social mitigation—What were the respective responsibilities of various stakeholders in addressing the social and environmental impacts of oil, gas and mining activities, and how could those responsibilities, perhaps, be shared? What should be done about ‘irresponsible’ actors? Would incentives be needed to encourage junior companies to act in a socially and environmentally responsible manner? What mechanisms could potentially absorb the ‘social costs’ of oil, gas and mining projects?

The working group underlined the view that social mitigation should be considered an important part of any project. The question was how to achieve it. The first concern was timing: mitigation should be addressed before, or in parallel, with the project. The second recommendation was for early consultation with all stakeholders in order to adequately address sensitive issues from the outset of projects. The working group proposed training and educational programs, and a program to involve and educate local governments. In co-ordination with other international financial institutions, a set of guidelines should be created on local economic development and social mitigation. These guidelines should then be reflected in country assistance strategies. The World Bank could also help in the creation of a good business environment, even when the local economic situation was poor.

12. Closing Remarks
Closing remarks for the Consultation were made by representatives from the World Bank Group, industry and civil society, respectively, and the Eminent Person to the EIR, Dr. Emil Salim.

**World Bank Group**

On behalf of the World Bank Group, the Director for Oil, Gas and Mining said that poverty reduction and sustainable development were the *sine qua non* of Bank activities and the Consultation had raised some excellent recommendations and new ideas. World Bank staff would take these suggestions very seriously; the EIR was not a *pro forma* exercise and would have an impact on what World Bank did.

Many region-specific issues had been raised by the Consultation; the region was in transition, its democracies were still evolving, and this presented particular problems and challenges. The importance of disclosure, transparency, good governance and community development were concerns all stakeholders shared. He had a strong impression that stakeholders would like the World Bank Group to stay involved. This was in contrast to the negative perception of the Ukraine project, but if understood correctly, even the Ukrainian delegation would like the World Bank Group to remain involved. The Bank were willing to admit shortcomings, to learn from the past and to improve in the future.

At the same time, from the messages coming out of the Consultation that set the standards very high, there was a risk of two unintended consequences. Internally, the World Bank Group felt there were limits to what it and its partners could do. Within the World Bank Group, there was an increasing aversion to risk and the Bank may not want to be involved in difficult projects. From an external point of view, if standards were set too high, the World Bank Group would not be seen as a useful partner. It was hoped all this would be taken into consideration. The Bank would continue to work with all stakeholders in succeeding workshops and thoroughly assess recommendations coming out of the consultations.

**Industry**

Noting that the set of recommendations were based to topics pre-identified by the EIR Secretariat, an industry representative proposed two additions. There should be a very clear recommendation on how to involve the private sector. Most of the discussion had been on how to mitigate impacts of ongoing projects, and an equally important aspect was how to attract private sector involvement. Second, was an issue raised in the preparatory workshop in Brussels that had not been followed through, namely the energy mix. There had been no discussion in the Consultation about the impact of the energy mix on the local, regional and global environment. Promoting a shift from other energy sources to natural gas was a golden chance the World Bank Group should take and it could actually implement this by assisting countries with gasification. This change in the energy mix, which had not been addressed, was extremely important from the point of view of sustainability at the regional, national and global level.

**Civil Society**

Recalling the Prague meetings of the World Bank in 2000, when Mr. Wolfensohn had promised a process to evaluate the extractive industries, a civil society representative proposed the addition of a further recommendation on how various ways of achieving development should be balanced within the Bank. Bearing in mind its limited capital for loans and guarantees, was it better to use that money to promote development through the extractive industries, or rather promote development through other sectors, such as agriculture? This should at least be a topic for
consideration in the following Consultations—to discuss how to promote the balance between various modalities of development within the World Bank Group.

**Eminent Person**

Dr. Emil Salim recalled the main theme of the Consultation: what should be the role of the World Bank Group in reducing poverty through sustainable development? Sustainable development was not the same as conventional economic development, which considered only the cost-benefit ratios. Sustainable development combined three objectives at once, economic, social and environmental development, and this required a paradigm shift in the 21st century. Evaluations showed that 50 years of single-track, economic development had raised standards for only 20 percent of the world’s population in the 20th century. Poverty eradication was still an imperative—how to give 2 billion people access to energy services and 1 billion people access to safe drinking water. Another result of development in the 20th century was environmental degradation. Necessary conventions on climate change, biodiversity and the Kyoto protocol signified that 20th century development had been wrong, and this must be changed to sustainable development.

The EIR had to ensure that the development paradigm in the World Bank also changed. If the World Bank Group was to stay engaged in the extractive industries, it should do so along the path of sustainable development, minimizing the negative social, environmental and economic impacts of the past. It meant reconsidering how to treat costs, not only economic costs, but the internalized environmental and social costs. World leaders participating in the World Summit on Sustainable Development had agreed on a holistic approach to development that embraced economic, environmental and social aspects together. The success of the EIR would be if the goal of sustainable development was embraced by all—industry, government, civil society and the World Bank Group.

First, it was important to meet social demands; all individuals had the right to be recognized and participate in development. One demand was poverty eradication. The world had sufficient capability to provide food and safe water, and that capability should not be polluted by others who had power and money. That was why there was social impact analysis. Second, it was important to recognize demands placed on the environment. Resources in the world were limited yet supported an ever-growing global population. Who had the right to control those resources? What about no-go zones? The survival of eco-systems were also needed for the survival of life. Third, came economic considerations. As populations increased, the quality of life should also increase, therefore, economic, social and environmental development had to go hand-in-hand. Market mechanisms were necessary but not sufficient alone, as the market failed to absorb impacts on the eco-system and communities. Governments were crucial to mitigate market failures, but this required good governance, without which policies would fail.

The triangle of government, industry and civil society, represented by the World Bank, were responsible for the realization of sustainable development. But the playing field must be level and a balance was required between all three stakeholders. Market and policy failures should be corrected through consultation, deliberation, and consensus building. In Eastern Europe and Central Asia, stakeholders had agreed on the need for good governance, without which development objectives would fail. Again, poverty eradication required government, industry, and civil society working together, on the same path of sustainable development.

Could extractive industries be part of sustainable development, when oil, gas and minerals were non-renewable resources? Only if in the process of exploiting the non-renewable resource, they were replaced by renewable ones i.e. revenues being used in a sustainable way for education, and capacity building, as well as protecting eco-systems and the health and quality of life for current
and future generations. The question was how to translate this into action with specific recommendations. All the stakeholders had spoken and full consensus could not be reached. But, there were areas of agreement and disagreement and these were a basis for working together.
Annex 1

The Extractive Industries Review
Eastern Europe and Central Asia Regional Workshop
Budapest, Hungary
19-22 June 2002

Post-Consultation Statement

A post-Consultation statement, agreed by selected representatives from each stakeholder group following the workshop, reported that there had been broad agreement on ways in which the World Bank Group could change in the interests of poverty reduction through sustainable development. Representatives from civil society, industry, government and the World Bank Group identified nine cross-cutting themes where change was necessary for continued World Bank involvement in the extractive industries in Eastern Europe and Central Asia.

The themes reflected recent experiences of World Bank Group-supported programs, in particular coal mining in Russia and Ukraine, gold extraction in Kyrgyzstan, and oil and gas production in the Caspian Sea region. There was broad agreement on addressing the World Bank Group’s activities in the context of region-specific policies for the transition from command to market economies, including those for social mitigation. Also addressed were issues relating to governance, revenue management, environmental mitigation, mine closure, transparency and community development. In addition, no-go zones were discussed, including technologies that should be avoided, and the importance of private sector involvement was recognized.

The consultation group urged the World Bank Group to formulate specific policies on good governance at the level of country assistance strategies. With respect to the extractive industries, where large revenues for government were the norm, they urged the Bank to provide relevant information to all stakeholders, and monitor levels of participation. Participants felt privatization should take place where adequate legal and regulatory frameworks were in place. The World Bank should promote anti-corruption campaigns, establish socially acceptable conditions for price liberalization where necessary, ensure continuity of social services previously provided by state enterprises, and create microfinance schemes. The Bank could also condition oil sector investment on the prioritization of oil funds in favor of affected regions.

As with the previous consultation workshop for Latin America and the Caribbean, stakeholders in Eastern Europe and Central Asia were concerned with revenue management and whether the World Bank Group’s own standards, guidelines and monitoring were fully adequate for the life cycle of projects. To assist people in holding their governments accountable for the revenues generated by the extractive industries, the Bank should establish guidelines for best practice in running oil, and other, funds. Disclosure of revenues by governments and companies should be a standard loan condition. A multi-stakeholder mechanism was suggested for the monitoring and auditing of revenue flows.

Participants took the view that social mitigation should be part of both country assistance strategies, and project design and implementation. It was felt country assistance strategies should recognize local economic development and social mitigation, and the Bank should create guidelines for this. Recognizing the environmental legacy problems of the extractive industries throughout Eastern Europe and Central Asia, participants enjoined the World Bank to fund clean-
up operations for all its projects, and consider financing projects to clean-up old mines, including uranium mines. The Bank should publish detailed decommissioning plans and draw up technical specifications to protect project areas from the consequences of earthquakes and spills. It should work with governments to create a social safety net in advance of mine closures and ensure such closures were properly financed.

Among other issues discussed, were proposals forbidding the use of highly toxic methods in mining, e.g. cyanide leaching, and oil exploration, e.g. the use of synthetic muds, and to ban operations that generated hazardous waste, or dumped waste into water.
Annex 2

The Extractive Industries Review
Eastern Europe and Central Asia Regional Workshop
Budapest, Hungary
18-22 June 2002

Agenda

(All events took place at the Hotel Inter-Continental, Budapest)

Part One: Testimonials and World Bank Group Information Exchange

June 18, 2002

Testimonials from civil society.

June 19, 2002


Part Two: Closed Multi-Stakeholder Consultation Workshop

A closed Multi Stakeholder Consultation Meeting in which representatives from civil society, industry, governments and the World Bank Group will participate with facilitation and guidance from Dr. Emil Salim and a team of professional facilitators.

June 20, 2002

Introduction:
- Key note speech from the Eminent Person, Dr. Emil Salim
- Presentation of the facilitators and the concept of facilitation.
- Introduction to the EIR process and background
- Introduction to the program and working procedures (Facilitators)

Presentation on policies and strategy of the World Bank Group:
- Open questions and statements
- Short presentation of the lecturers and cases of the coming afternoon session
- Explanation of the purpose and procedure of the information market place
- First opportunity for the logistic preparation of the market place

Cases, experiences and lessons learned about the WBG’s involvement in Oil, Gas and Mining Projects:
- Representatives from the different stakeholder groups present and discuss the economic, social and environmental impacts of oil, gas and mining projects in which the WBG was actively involved.
- Plenary discussion: Impact and Role of the World Bank Group in the Oil, Gas, Mining Projects in the Region
Information Market Place: This event gave participants the opportunity to exhibit materials and exchange information freely about their organizations and activities.

June 21, 2002

World Bank Group presentation on policies and project portfolio in East Europe and Central Asia
- Explanation of the scenarios and organization of the working groups
- Questions and Answers

Scenario Development
- 3 moderated Working Groups
- Presentation and discussion of the scenarios

Recommendations to the World Bank Group
- Work in self-moderated working groups to elaborate recommendations
- “Gallery” of recommendations

June 22, 2002

Recommendations to the World Bank Group (continued)
- Presentation and discussion of the recommendations
- Final discussion of open questions
- Processing of the Workshop results (next steps)
- Wrap up and closing remarks by the Eminent Person, Dr. Emil Salim.
Annex 3

The Extractive Industries Review
Eastern Europe and Central Asia Regional Workshop
Budapest, Hungary
18-22 June 2002

List of participants

Abdylmanova, Galina
Ministry of Energy and Mineral Resources of the Republic of Kazakstan
Head Division of International Cooperation Section
E-mail: abdylmanova@minergo.kegoc.kz
Tel: (8) 31 72 10 24 11
(8) 33 32 12 19 80
Fax: (8) 31 72 10 22 35

Ablova, Natalia
Bureau on Human Rights and Rule of Law
40, Manas avenue, Suite 319/77
Bishkek, 720001
Kyrgyzstan
Email: rights@elcat.kg
Tel.: (996) 312 21 18 74
Fax: (996) 312 22 39 24

Akhobadze, Sofiko
Executive Director
Black Sea Eco Academy
51 Rustaveli Str.
P. O. Box 58, 384500
Batumi, Georgia
E-mail: mefri@batumi.net
Tel: (995) 88 22 74 640
Mobile: (995) 99 53 85 28
Home: (995) 222 20337
Fax: (995) 22 27 46 42 or 43

Altinoluk, Sabri
Deputy General Manager
Cayeli Bakir Isletmeleri A.S.
Isletme P.K 42 5300
Cayeli/Rize
Turkey
Email: altinoluks@cayelibakir.com
saltinoluk@superline.com
Tel.: (90) 464 54 46 430
Fax: (90) 464 54 46 450
Toronto info: 416 36 16 400
Amon, Ada – (Testimonials only)
Energiaklub
H-1117 Budapest
Moricz Zsigmond Korter 15
H-1519 Budapest PO Box 411
Budapest,
Hungary
E-mail: level@energiaklub.hu
amonada@energiaklub.hu
Tel: (36) 1 209 72 23
Fax: (36) 1 466 88 66

Anderson, Ronald
Chief Environment Specialist
CETBP, IFC, Environment/Social
International Finance Corporation
2121 Pennsylvania Avenue, N.W. F9P-120
Washington D.C. 20433
USA
Email: roanderson@ifc.org
Tel: (1) 202 473 7953

Armstrong, Clive
Principal Economist, COC, IFC
International Finance Corporation
2121 Pennsylvania Avenue, N.W. F8P-202
Washington D.C. 20433
USA
Email: carmstrong@ifc.org
Tel: (1) 202 473 2411

Arne, Ken
Norox
Bishkek,
Kyrgyzstan
Email: kenarme1@yahoo.com, kenypm@bishkek.su
Tel.: (996) 312 670 802
(996) 312 54 77 51
Fax: (996) 312 67 07 36 or
(996) 312 54 77 52

Badalov, Ruben M.
First Vice-President
Independent Coal Employees’ Union of Russia
64, Zemiyanoi val
109004 Moscow,
Russia
Email: inter@vkp.ru
rosugleprof@mtu-net.ru  
Tel.: (7-095) 915 16 75  
Fax: (7-095) 915 26 52

**Bara, Alexandru**  
Central European University  
Budapest  
Hungary  
Paleologu St No. 3, Bucharest  
Romania  
Tel: (40) 93 51 32 48  
Fax: (36) 13 53 33 82  
E-mail: alexbara@kioszk.hu

**Bilbo, Mike**  
Regional Advisor  
British Petroleum  
Britannic House  
1 Finsbury Circus  
London, EC2M 7BA  
United Kingdom  
Tel: (44) 0 20 74 96 43 11  
Fax: (44) 0 20 74 96 57 38  
E-mail: bilbom@bp.com

**Bogdan, Irina**  
Chairman of the Board of the Khabarovsk Krai Environmental Public Organization (Ecodal)  
Director of the Environmental Law Clinic  
Legal Address: 4, Oboronnaya Str.  
Khabarovsk, 68007  
Mailing Address: P. O. Box 95/3  
Khabarovsk,  
Russia  
Email: ecodal@clinic.kht.ru  
bogdani@mail.kht.ru  
Tel.: (7) 42 12 31 38 44/42 12 30 81 05  
Fax:: (7) 42 12 30 44 78

**Brown, Peter** – (Testimonials only)  
Blvd. Unirii 28  
Baia Mare 4800  
Maramures  
Romania  
Tel: (40) 62 20 61 43  
E-mail: assoc@mail.alphanet.ro

**Bruil, Janneke** – (Testimonials only)  
Friends of the Earth International Secretariat  
PO Box 19199, 1000 gd  
Amsterdam  
The Netherlands
Busz, Henk
Sector Manager
ECSIE, WB
Email: hbusz@worldbank.org
Tel: (1) 202 473 2686

Chernova, Galina
Center of Ecological-Justice Initiative "Globus"
ul. Chimkentskaya 8a
Balikshy, Atyrau, 466400
Kazakhstan
Email: globus-caspi@nursat.kz
Tel.: (7) 31 22 24 15 73
Fax: (7) 31 22 23 10 29

Cyglicki, Robert
Polish Green Net
u. Kolumba 6,
Szczecin, 70-035
Poland
Email: cyglicki@eko.org.pl
fzrobert@eko.org.pl
Tel.: (48) 609 68 67 93
Fax: (48) 914 89 42 32

Dmitrievskiy, Anatoly N.
Member, Russian Academy of Science
Director of Oil and Gas Institute
Ap. 40, Ulitsa Ostrovityanova 10/1
Moscow
Russia
Email: A.dmitrievsky@ipng.ru
Tel: (7-095) 135 73 71
Fax: (7-095) 135 54 65

Dyikanova, Cholpon
National Manager
Community Business Forum
170, Manas Ave., ap.19
Bishkek,
Kyrgyzstan
Email: Cholpon-cbf@elcat.kg, Gentlefl@yahoo.com
Tel.: (996) 312 42 17 29
Fax: (996) 312 42 17 29

Feiler, Jozsef
Policy Coordinator
Central and Eastern European NGO
Network for Monitoring Activities of International Financial Institutions
(CEE Bankwatch Network)
C/o MTVSz
P.O.Box 123
Hungary 1450
Email: jfeiler@zpok.hu
Jozseff@bankwatch.org
Tel.: (36) 12 16 72 97
(36) 12 17 08 03
Mobile: 0 63 04 36 51 22
Fax: (36) 12 16 72 95

Frijns, Johan – (Testimonials only)
Friends of the Earth International Secretariat
PO Box 19199, 1000 gd
Amsterdam
The Netherlands
Tel: (31) 20 622 13 69
Fax: (31) 20 639 21 81
E-mail: ifi@foei.org

Giral, Dominiques
Manager for Eastern Europe and Central Asia
Middle East Consult
14 Reus de Paris
Bievres, 91570
France
E-mail: middleeastconsult@netcourrier.com
Tel: (33) 01 69 41 86 32
(33) 06 08 62 84 45
Fax: (33) 01 69 85 55 34

Grant, Alan
Executive Director
International Association of Oil & Gas Producers (OGP)
25/28 Old Burlington Street
London, , W1S 3AN
United Kingdom
Email: alan.grant@ogp.org.uk
Tel.: (44) 207 292 06 01
Fax: (44) 207 434 37 21

Hlobil, Petr
International Oil and Climate Coordinator
CEE Bankwatch Network
Kratka 26
Praha 10, 100 00
Czech Republic
Email: petr.hlobil@ecn.cz
Tel.: (420) 274 81 65 71
Fax: (420) 274 81 65 71
Hoskin, Wanda M.A.
Administrateur de Programme
UNEP, Division: Technology, Industry and Economics (Mining)
Tour Mirabeau - 39-43, quai Andre Citroen
Paris 75739 Cedex 15
Paris
France
E-mail: wanda.hoskin@unep.fr
Tel: (33-1) 44 37 76 16
Fax: (33-1) 44 37 14 74

Isayev, Samir
Chairman
Environmental Law Centre (ECOLEX)
ugol Neftchilyar u R. Beibutov
Baku, 370 000
Azerbaijan
Email: ecolex@azdata.net
samir_isayev@yahoo.com
Tel/Fax: (994 12) 47 71 19
(994-50) 312 14 39 (mobile)

Janashia, Nana
Manager
Caucasus Environmental NGO Network
14 B, Chonkadze Street
Tbilisi, 380007
Georgia
Email: nana.janashia@cenn.org
Tel.: (995) 32 62 39 48
(995) 39 57 77 22
Fax: (995) 32 92 39 47

Kadoglou, Maria – (Testimonials only)
Hellenic Mining Watch
Platanos 13
546 Thessaloniki
Greece
E-mail: kadoglou@atenef.gr

Kaldany, Rashad
Director, COC, IFC
International Finance Corporation
2121 Pennsylvania Avenue, N.W. F8P-216
Washington D.C. 20433
USA
Email: rkaldany@ifc.org
Tel: (1) 202 473 6787

Kaminski, Pawel
ECSIE, Environment/Social
Email: pkaminski@worldbank.org
Tel: (48) 52 43 80 29

**Kane, Steve**
Assistant Treasurer – Production Upstream Treasurer’s
Exxon Mobil Corporation
800 Belt Street, Room 3771
Houston, Texas, 77002-7497
USA
Tel: (1-713) 656 50 95
Fax: (1-713) 656 35 57
E-mail: steven.e.kane@exxonmobil.com

**Karahan, Sabri**
Managing Director, Mining Dipl. Engineer
Normandy Madencilik A.S - Newmont
Arjantin Caddeel No. 15/4
06700 Gazi Osman Pasa
Ankara
Turkey
Tel: (90) 312 486 19 42
312 466 28 31
Fax: (90) 312 466 19 43
E-mail: sabrikarahan@superonline.com

**Kaya, Niihat**
Acting Vice President
Turkish International Co-operation Agency
Akay Caddesi No. 6 Kucucesat,
Ankara,
Turkey
Email: n.kaya@tika.gov.tr
Tel.: (90) 312 41 72 790
Fax: (90) 312 41 72 799

**Kinman, Michelle** – (Testimonials only)
ISAR, Washington D.C.
USA

**Kirsh, Daniella** – (Testimonials only)
Buds Foundations For Human Rights and Nature

**Knijnikov, Aleksei**
Program Coordinator
Institute for Civic Initiatives Support (ISAR)
ISAR-Moscow, Post Box 210
119019 Moscow,
Russia
Email: clearh@online.ru
Tel.: (7-095) 251 76 17
Kochladze, Manana
The Greens Movement of Georgia
Chavchavadze Av 62
380062 Tbilisi,
Georgia
Email: kety.tchitchinadze@cenn.org
greenalt@wanex.net
gagreens@greens.org.ge
manana@wanex.net
Tel.: (995) 32 22 38 74
Fax: (995) 32 22 33 47

Koneczny, Karol
Polish Academy of Sciences
Division of Strategic Research
Mineral and Energy Economy Research Institute
ul. Wybickiego 7
31-261 Krakow
Poland
Tel: (48) 12 632 33 00 or 22 45
Mobile: (48) 502 94 77 15
Fax: (48) 12 632 22 45
E-mail: koneczny@min-pan.krakow.pl

Kravtchenko, Boris
International Secretary
The Russian Trade Union of Metal Workers in the Nickel, Cobalt &Platinoids Industries
2/1 Ul. Verkhniaya Radisoavskaya
Moscow, 109240
Russia
Email: Kravtchenko@rao.nornik.ru
Tel.: (7-095) 785 86 79 - 785 21 30
Fax: (7-095) 785 86 72

Kretzmann, Stephen – (Testimonials only)
Campaign Coordinator
Sustainable Energy and Economy Network (SEEN)
Institute for Policy Studies
733 15th Street, N.W.
Washington D.C 30005, USA
E-mail: steve@seen.org
Tel: (1-202) 234 93 82/210
Fax: (1-202) 387 79 15

Lee, Megan – (Testimonials only)
ISAR, Washington D.C.
USA

Lupberger, Kent
Manager, IFC, CMN
International Finance Corporation
2121 Pennsylvania Avenue, N.W. F 8K-258
Washington D.C. 20433
USA
Email: klupberger@ifc.org
Tel: (1) 202 473 0725

Malbasic, Ivona
Egyetemes Letezes Termeszetvedelmi Egyesulet (ETK)
PO Box 123,
Budapest, H-1450
Hungary
Email: ivona@zpok.hu
Tel.: (36) 1 217 08 03
Fax: (36) 1 216 72 95

Marton, Piroch – (Testimonials only)
Pannon Termeszetvedemci Szovetseg
E-mail: piroch@elender.hu

Mastepanov, Alexey
The Head of Department of Strategic Development
Ministry of Power
Russia
E-mail: mastepanov@mte.gov.ru

Mazanek, Czeslaw
Mineral and Energy Economy Research Institute of the Polish Academy of Sciences
31-261 Krakow
ul. Wybickiego 7
Poland
Tel: (48) 12 632 33 00
Fax: (48) 12 632 22 45
E-mail: koneczny@min-pan.krakow.pl

Michelitsch, Ronald
Senior Evaluation Officer
Operation Evaluation Group (OEG)
International Finance Corporation
2121 Pennsylvania Avenue, N.W. F3K-270
Washington D.C. 20433
USA
E-mail: rmichelitsch@ifc.org
Tel: (1-202) 458-07 68
Fax: (1-202) 974 43 02, OED/OEG

Michell, Phil
Environmental Manager
Karachaganak Petroleum Operations
Burlinsky Region,
West Kazakhstan Oblast
Kazakhstan Branch Office 418440
Kazakhstan
Email: michel@kivo.com phil.michell@btopenworld.com
Tel.: (44) 787 94 30 153
(44) 208 865 4410
Fax: (44) 208 865-4301
Mobile:(44) 78 79 43 01 53

Moldogazieva, Kalia
Director
Human Development Center
"Tree of Life"
Moscowskaja Gogol St. 109 Apt. 146 or P.O.Box 1963, Central Post Office,
Bishkek, 720000
Kyrgyzstan
Email: kalia@netmail.kg, kalia@tree.life.cango.net.kg
Tel.: (966) 312 28 01 50 or (996) 312 28 74 90
Fax: (966) 312 20 01 50

Moorcroft, David
Director, Sustainable Development
British Petroleum
Botanic House, 1 Finsbury Circus
London, EC2M7B 9BA
United Kingdom
Email: moorcrdl@bp.com
Tel.: (44) 207 496 21 20
(44) 790 151 31 14 (mobile)
Fax: (44) 207 496 45 48

Mrost, Andre
Regional Secretary for Eastern Europe
International Federation of Chemical, Energy, Mine and General Workers' Union (ICEM)
Avtozavodskaya 6-9 A, PO Box 55
Moscow, 109280
Russia
Email: icemmoscow@mtu-net.ru
Tel.( 7-095) 291 68 83 or 275 17 96 (H)
Tel/Fax: (7-095) 291 56 83

Mzhavanatze, Shota
Georgian International Oil Corporation
Georgia
Email: giocdir@gioc.ge
Tel.: (995) 99 57 73 02
(1 609) 17 51 957
Fax: (995) 32 92 02 45

Nazari, Mehrdad
Principal Environmental Specialist  
European Bank for Reconstruction and Development  
One Exchange Square  
London EC2A 2JN  
United Kingdom  
E-mail: nazarin@ebrd.com  
Tel: (44) 207 338 77 29  
Fax: (44) 207 338 68 48

Nedelcu, Codruta – (Testimonials only)  
“Terra Mileniul III” / ARIN  
Braila, 6100  
Romania  
Tel: (40) 744 026 091  
E-mail: codruta_n@softhome.net  
arin_br@softhome.net

Negulescu, Arabela Sena  
Senior Operations Officer  
ECSPF,  
Bucharest, Romania  
(Mining, oil and gas projects), ECA Region

Nore, Petter  
Vice President  
Norsk Hydro  
Kjorbovn. 16, Sandvika  
Oslo, 246  
Norway  
Email: petter.nore@hydro.com  
Tel.: (47-22) 53 81 00  
(47-22) 53 94 62 (direct)  
(47-22) 53 83 51  
Fax: (47-22) 22 53 98 44

O’Neill, Donal  
Shell International Exploitation, External Affairs  
Carel van Bylandtlaan 23, Room 3B28  
PO Box 663 2501CR  
The Hague  
The Netherlands  
Email: D.O’neill@siep.shell.com  
Amber Broughton secretary- a.broughton@siep.shell.com  
Tel.: (31) 0 70 377 48 82  
0 70 337 14 77  
Fax: (1-202) 466 14 98

Peskov, Vladislav  
Association of Nenets people of “Yasavey”  
ul. Smidovicha 20-11
Naryan Mar, Nenec Autonomy Region, 16600
Russia
Email: vladpskv@mail.ru, yasavey@atnet.ru
Tel.: (7-818) 534 81 64
Fax: (7-818) 534 81 63

**Piksrys, Saulius**
Chairman
ATGAJA
CEE Bankwach Network
PO Box 156
LT-3000 Kaunas,
Lithuania
Email: atgaja@atgaja.ot.lt
Tel.: (370) 37 42 55 66
Fax: (370) 37 42 52 07

**Plakitkin, Yury A.**
First Deputy Director
Russian Academy of Sciences
Energy Research Institute (ERI RAS)
31, 2 Nagornaya Str.
Moscow, 113186
Russia
Email: vulesowa@eriras.ru
luplak@eriras.ru
Tel.: (7 095) 127 4667
Fax: (7-095) 123 44 85

**Plakitkin, Ludmila S.**
Russian Academy of Sciences
Energy Research Institute
Head of the Laboratory of Scientific Basis of Regulation and Development of Coal Industry
31/2 Nagomaya Str.
Moscow, 113186
Russia
E-mail: luplak@eriras.ru
Tel: (7-095) 123 88 02
Fax: (7-095) 123 44 85

**Robul, Aleksandr**
General Director
Reformugol, Coal Program PIU
21/12 Bolshoi Drovyanoi
Moscow, 109004
Russian Federation
Email: rcoal@reugol.dol.ru
Tel.: (7-095) 915 58 87
Fax: (7-095) 915 73 59

**Roth, Stephanie**
Alburnus Mayor  
Sighisoara  
Romania  
T/F: none  
E-mail: gonefishing@sighisoara.com

**Ryjenko, Andrey**  
Senior Banker  
Natural Resources Team  
Banking Department  
European Bank for Reconstruction and Development  
1 Exchange Square  
London EC2A 2EH  
United Kingdom  
Tel: (44-207) 338 71 59  
Fax: (44-207) 338 61 01

**Schenato, Adelmo**  
Health, Safety, Quality and Environment Manager  
ENI S.p. A  
Agip Division  
Via dell Union Europea 3  
20097 San Donato Milanese  
Milano,  
Italy  
E-mail: adelmo.schenato@agip.it  
Tel: (39) 02 520 35 200  
Fax: (39) 02 520 35 202

**Shlikov, Oleg**  
Vice President  
The Russian Trade Union of Metal Workers in the Nickel, Cobalt and Platinoids Industries  
2/1 Ul. Verhniaya Rodischevskaya  
Moscow, 109240,  
Russia  
Email: mop@nornik.ru  
Tel.: (7-095) 785 86 77or 785 21 33  
Fax: (7-095) 785-8672

**Sierra, Tycho** – (Testimonials only)  
Hungarian Environmental Partnership Foundation  
PO Box 411, H-1519  
Budapest,  
Hungary  
E-mail: tycho@okotars.hu  
Tel: (36) 1 209 56 25  
Fax: (36) 1 466 88 66

**Sirila, Jozef**  
Deputy Head
Mining and Gas Industry Department
Ministry of Economy
Mierova 19, 827 15
Bratislava,
Slovakia
Email: sirila@economy.gov.sk
Tel.: (421) 2 48 54 19 26
Fax: (421) 2 48 54 39 04

Sora, Florina
Technical Officer
National Agency for Mineral Resources (NAMR)
Project Implementation Unit
36-38 Mendeleev Bd.
Bucharest, 70169
Romania
Email: flsora@namr.ro
Tel.: (40-1) 313 22 04 (office)
(40) 723 53 70 01 (mobile)
Fax: (40-1) 210 74 40

Sulyandziga, Rodion
Russian Association of Indigenous Peoples for the North
Russia
Email: raipon@online.ru or udege@online.ru
Tel.: (7-095) 938 95 27
Fax: (7-095) 938 95 67

Targulian, Oganes Yu
Special Projects
Green Peace
Novaya Bashilovska St. 6,
Moscow, GSP-4, 101428
Russia
E-mail: gpmoscow@diala.greenpeace.org
oganes@diala.greenpeace.org
Tel: (7-095) 257 41 16 or 18 or 22
Fax: (7-095) 257 41 10

Taylor, Meg
Compliance Adviser/ Ombudsman, CAO,
International Finance Corporation
2121 Pennsylvania Avenue, N.W. F11K-232
Washington D.C. 20433
USA
Email: mtaylor@ifc.org
Tel: (1) 202 458 9452

Timmons, John
General Manager
Cayeli Bakir Isletmeleri A.S.
Isletme P.K 42 5300
Cayeli/Rize
Turkey
Email: timmonsji@cayelibakir.com
Tel.: (90) 464 54 46 430
Fax: (90) 464 54 46 450

Tsitsiragos, Dimitris
Director IFC
Eastern Europe Department
International Finance Corporation
2121 Pennsylvania Avenue, N.W. F10P-286
Washington D.C. 20433
USA
Email: dtsitsiragos@ifc.org
Tel: (1) 202 473 1928

Tursunov, Khasan
CAREC Board Member
The Regional Environmental Centre for Central Asia (CAREC)
Denov Street 20
Tashkent, 70042
Uzbekistan
Email: hasan@mail.tps.uz, hasan@proeco.silk.org
Tel.: (8) 10 98 871
43 19 38
Fax: (8) 14 42 603
10 99 871/ 1123

Urbansky, Yuri
CEE Bankwatch Network
National Ecological Center Energy Coordinator in Ukraine
P.O Box 89, 01025, Kiev-25,
Ukraine
Tel (380) 44 238 62 60
Fax: (380) 44 238 62 59
E-mail: urbik@torba.com or urbik@bankwatch.org
urbik@sms.umc.com.va,

Van der Veen, Peter
Manager Mining Policy Group, CMN
International Finance Corporation
2121 Pennsylvania Avenue, N.W. F8K-210
Washington D.C. 20433
USA
Email: pvanderveen@worldbank.org
Tel: (1) 202 473 4242

Volynets, Mykhaylo
Chairman
Miners' Independent Trade Union of Ukraine
65, Krasnoarmiskaya, St 2nd floor
Kiev, 03150
Ukraine
Email: ftcu@volynets.kiev.ua
Tel.: 
Fax: (380) 44 227 72 83 or 
(380) 44 227 33 38

**Vujnovich, Michael**
Senior Representative
Placer Dome International LTD.
35 Onslaw Gardens
London, SW 73PY
United Kingdom
Email: risksstrategies@netscape.net
Tel.: (44) 207 584 83 46
(44) 777 075 28 65 cell
Fax: (44) 171 565 06 58
(44) 207 565 06 58

**Welch, Carol** – (Testimonials only)
Friends of the Earth
1025 Vermont Ave. N.W, Suite 300
Washington D.C. 2005
USA
Tel: (1-202) 783 74 00
Fax: (1-202) 783 04 44
E-mail: cwelch@foe.org

**Wheatley, Tracy** – (Testimonials only)
Energiaklub
H-1117 Budapest
Moricz Zsigmond Korter 15
H-1519 Budapest PO Box 411
Budapest,
Hungary
E-mail: tracy@energiaub.hu
Tel: (36) 1 209 72 23
Fax: (36) 1 466 88 66

**Yermakov, Valeriy Victorovich** – (Testimonials only)
Environmental Organization of Luhansk Region “Zeleny Suit” (Green World)
s.16th Liniya St., Apt. 230
Luhansk, 91055
Ukraine
Tel: (38) 06 42 53 07 27
Fax: (38) 06 42 55 13 97
E-mail: erworld@ua.im
Yertlessova, Zhannat Dzh.
Ex-Vice Minister of Economy, Finance, Defense
President, SANA Consulting
Abai Avenue 71
Astana, 473000
Kazakhstan
E-mail: consana@kepter.kz or sanacon@kepter.kz
Tel: (7-317) 2 32 81 49 or 2 32 32 77
Fax: (7-317) 2 32 32 43

Extractive Industries Review Secretariat
Emil Salim
Eminent Person
E-mail: kehati@indo.net.id; esalim@rad.net.id
Tel/Fax: (62) 21 831 0574

Bernard M. Salome
Head of Secretariat
E-mail: bsalome@eireview.org
Tel: (62) 21 831 05 74 or (1-202) 473 4432 Cell: (1-202) 352 1811
Fax: (1-202) 614 1604

Chandra Kirana
Executive Assistant TO Eminent Person
E-mail: wbeir@cbn.net.id; Kirana63@Indo.net.id
Tel/Fax: (62) 21 831 05 74

Roberta Lovatelli
Program Coordinator
E-mail: rlovatelli@eireview.org
Tel: (1-202) 473 60 43
Fax: (1-202) 614 1605

Julia Grützner
Program Officer
E-mail: jgrutzner@eireview.org
Tel: (1-202) 473 58 39
Fax: (1-202) 614 1603

Emily Horgan
Communications Officer
E-mail: ehorgan@eireview.org
Tel: (1-202) 473 3917

Peter Ellwood
Communications Consultant
E-mail: ellwoodp@hotmail.com
Tel/Fax: (62) 21 831 0574
Didier Rancher
External Consultant
E-mail: didierrancher@minitel.net
Mobile: (33) 684 50 18 88

Robert Goodland
Advisor
E-mail: rbtgoodland@aol.com
Tel: (1-703) 356 21 89

Ismid Hadad
Advisor
E-mail: ihadad@kehati.or.id
Tel: (62) 21 522 80 31

Viktoria Kovacs
Conference Liaison
E-mail: landconference@worldbank.org
Tel: (361) 374 9583

Dirk Jung
Facilitator
berlin@denkmodell.de

Sybil Duemchen
Facilitator
berlin@denkmodell.de

Jaroslav Straka
Facilitator
jarda@europrofis.cz
Executive Summary
The Extractive Industries Review (EIR)

Regional Consultation Workshop for Eastern Europe and Central Asia
Budapest, Hungary
June 19-22, 2002

Draft
Executive Summary
Notes
The Extractive Industries Review Regional Consultation Workshop for Eastern Europe and Central Asia, was held in Budapest, Hungary from 19-22 June, 2002. This Executive Summary was prepared by the EIR Secretariat and it summarizes the views of workshop participants, neither endorsing nor contradicting them.

As in common usage, unless otherwise indicated, use of the terms ‘World Bank’ or ‘the Bank’ refers to the entire World Bank Group. This comprises the International Bank for Reconstruction and Development (IBRD), International Development Agency (IDA), the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA).

Abbreviations
BTC  Baku-Tbilisi-Ceyhan (pipeline)
CAO  Compliance Adviser and Ombudsman
CPC  Caspian Pipeline Consortium
EBRD  European Bank for Reconstruction and Development
EIR  Extractive Industries Review
GDP  Gross Domestic Product
IBRD  International Bank for Reconstruction and Development
IDA  International Development Agency
IFC  International Finance Corporation
ILO  International Labour Organization
IMF  International Monetary Fund
IPO  Indigenous Peoples’ Organization
KTK  Caspian Pipeline Consortium
MMSD  Mining, Minerals and Sustainable Development
MIGA  Multilateral Investment Guarantee Agency
NAMR  National Agency for Mineral Resources (Romania)
NGO  Non-Government Organization
OECD  Organisation for Economic Co-operation and Development
OPEC  Organization of the Petroleum Exporting Countries
UNEP  United Nations Environment Program
WBG  World Bank Group
Executive Summary

Overview
The Extractive Industries Review (EIR) Consultation Workshop for the countries of Eastern Europe and Central Asia was convened in Budapest, Hungary, June 19-22, 2002. This was the second in a series of regional multi-stakeholder consultations; the first, for Latin America and the Caribbean, took place in Rio de Janeiro, Brazil, April 2002.

The process was guided by the EIR’s Eminent Person, Prof. Dr. Emil Salim, as an exercise to explore the proper role of the World Bank Group with respect to the extractive industries in the region, in particular whether the projects they sponsor contribute to poverty alleviation and sustainable development. Its task was to look to the future to see whether a role for the World Bank Group was still necessary in the extractive industries and, if so, whether this role should be improved.

The workshop attracted over 80 participants from civil society (non-government organizations, community-based organizations and labor unions), government, the oil, gas and mining industry, academia, and the World Bank Group itself. The workshop was organized into two parts: the first comprising a two-day open forum for civil society testimonials and a voluntary information session by the World Bank Group, and the second comprised of a formal three-day consultation with a limited number of invited, or ‘self-selected’ representatives from each stakeholder group. Participants presented case studies relating to regional oil, gas and mining projects, followed by focused group discussions on the positive and negative environmental, social and economic impacts of the extractive industries.

The Consultation identified a number of cross-cutting themes where change was deemed necessary if the World Bank Group were to continue their involvement in the extractive industries in Eastern Europe and Central Asia. The themes reflected recent experiences of Bank-supported policies and projects, particularly of coal mining in Russia and the Ukraine, gold extraction in Kyrgyzstan, and oil and gas production in the Caspian Sea region. The main issues of concern included social mitigation, environmental clean-up, governance, revenue management, transparency, community development, no-go zones, technologies to be avoided and the importance of private sector involvement. There was general agreement on addressing the World Bank Group’s activities in the context of region-specific policies for transition from command to market economies.

Privatization should take place in the context of adequate legal regulatory and judicial frameworks and, in the case of mines, of properly financed close-down strategies. Participants wanted the World Bank Group to target corruption, establish socially acceptable conditions for price liberalization, ensure continuity of social services previously provided by state enterprises, and create micro-finance schemes. The use of oil funds could be prioritized in favor of affected areas, and this made a condition of oil sector investment. Participants felt social mitigation should be part of both the country assistance strategies, project design and implementation. Recognizing the problem of environmental legacy found throughout Eastern Europe and Central Asia, participants enjoined the World Bank Group to fund clean-up activities in all its projects and to consider financing projects to clean-up old mines, including uranium mines. It should also work with governments to create social safety nets in advance of mine closures.

\[1\] ‘Self-Selection’: the selection of civil society representatives attending the formal 3-day session of the consultation workshop was coordinated with the help of Petr Hlobil, of CEE Bankwatch Network. The self-selection process gave civil society the responsibility of nominating twenty-five suitable participants from a variety of non-governmental organizations to represent their interests at the workshop.
Participants urged the World Bank Group to embrace specific policies on good governance at the level of country assistance strategies. Also of concern was whether the Bank’s own standards, guidelines and monitoring were fully adequate for the complete life cycle of projects. Regarding revenue management, suggestions included making revenue disclosure by governments and companies a standard loan condition. One proposal was to forbid the use of highly toxic methods in mining and oil exploration, and to ban operations that generated hazardous waste, or dumped waste into water.

Civil Society Testimonials
Open forum testimonials by civil society covered three areas: concern over the environmental and social consequences of coal restructuring; the impact of mining activities; and experiences of oil and gas projects.

Coal Mining
In the coal sector, testimonials documented under-funding at the expense of social and environmental concerns. Presenters felt the World Bank Group had given bad advice to governments, such as establishing single companies to monopolize mine closure programs. It was felt projects had not always been suitably categorized compared to their real impacts, inappropriate models for restructuring had been used, and too little time had been left between pilot and follow-up programs for lessons to be learnt. NGOs thought the World Bank Group’s monitoring of the restructuring process had not always been sufficient. A lack of analysis of the energy sector meant coal had been stock-piled and economically-viable mines closed, despite the belief of many that they would be needed in the long term.

Mineral Mining
Testimonies on gold mining highlighted social, environmental and governance problems arising from a cyanide spill in Romania, in 1998. Speakers pointed to an insufficient emergency response plan, lack of access to information, reports of intimidation, and health concerns resulting from the spill. The local community was also concerned about the structural integrity of the company’s tailings dam and potential hazards it could cause for the village and its water supply. The testimony called on the World Bank Group to consider the effect on communities before it supported such projects, especially where interests lay in different development paths, such as agriculture and tourism. Other testimony concerned the World Bank Group’s preliminary discussions to support the development of an open-pit gold mine in Rosia Montana, Romania. Despite its preliminary status, the Canada-based company was promoting its local position by citing compliance with World Bank directives, while ignoring local demands for a referendum. In addition to environmental concerns and forced resettlement, there were no known plans for sustaining the local economy after extraction was complete.

Oil and Gas
One presentation linked the efforts of the World Bank Group to reform national legislation relating to the oil and gas industries in developing countries to the desire of Western governments to diversify their energy supplies. Others claimed project goals to attract foreign investment had not succeeded in halting the decline in per capita GDP, improving unemployment levels or alleviating poverty, and structural adjustment programs had left some governments with no alternative to oil exploitation. It was felt World Bank Group involvement in oil field rehabilitation had not mitigated environmental problems, there was a lack of transparency regarding project information, the Bank had underestimated the level of democracy underlying local decision-making, and ignored warnings of funds misallocation. Many local communities continued to suffer energy shortages despite Bank-sponsored petroleum developments. Noting that Bank participation was crucial to oil and gas investments, speakers felt the World Bank Group should attach conditions to loan agreements with government and industry to ensure environmental and social safeguards were followed. Bank participation should also require transparency over financing and comprehensive environmental
as with coal restructuring, World Bank Group oil and gas projects in the region should always be category A and there should be independent panels to monitor their social and environmental impacts.

**Indigenous people**

Indigenous people’s associations from Russia testified to their critical situation as a consequence of oil and gas extraction. Ethnic development should be included alongside economic, environmental and social concerns in the concept of sustainable development. Although the World Bank Group had specific policies for indigenous peoples, speakers wanted an ongoing dialogue, full participation from the inception of projects and a full moratorium on new oil developments. They also wanted the interests of indigenous people taken into account in World Bank Group country strategies for Russia.

**World Bank Group Presentations**

In a voluntary information exchange, Bank staff reported on the Group’s global and regional outlays and the changing focus of its projects. Environmental and social standards were now more important, but the Bank wanted to go beyond this to a more holistic approach to sustainable development and poverty reduction. The Bank espoused the Millennium Development Goals, championed globally important development issues and coordinated the efforts of bilateral and multilateral development institutions and agencies.

**Outlays**

World Bank Group outlays in 2001 totaled between $22 and 23 billion, with the region of Eastern Europe and Central Asia accounting for between 13 and 18 per cent. Bank instruments comprised of loans and grants for investment projects, technical assistance and structural adjustment programs. For the extractive industries, the Bank expected resource projects to contribute to overall economic development. It saw the best role of government as that of regulator and administrator, and its emphasis in the past decade had been on reforming legal and regulatory frameworks, with increasing attention given to fiscal management and large structural adjustment operations. The Bank had also had a role in promoting dissemination of best practices in areas such as revenue management.

**Strategy and Projects**

In Eastern Europe and Central Asia, the transition from command to market economies raised major issues in the restructuring of energy and resource markets. The focus had been on reform, privatization and aligning the sector with international market prices. World Bank Group investments amounted to $2 billion for mining and $1 billion for oil and gas. IFC and MIGA had worked together to create frameworks for the competitive development of the newly privatized oil, gas and mining sector. In addition to sector reforms and privatization, the Bank had promoted good governance and proper social and environmental safeguards. The private sector welcomed IFC involvement to mitigate the political risk in higher risk countries, or for complex projects. In the past decade, the World Bank Group had moved to a policy approach more focused on governance, transparency, disclosure, poverty alleviation and other aspects. Future challenges would involve working with small companies to add developmental value to extraction activities at the local level and improve corporate governance and social responsibility. Current strategy sought to close down the huge excess capacity in the region’s mining sector, which was both a drain on national budgets and inhibited the competitiveness of viable mines. The Bank sought to bring about mine closure in an environmentally responsible way and mitigate social impacts.

**World Bank Group Case Studies**

A World Bank case study on the Early Oil project in the Caspian Sea pointed to the significant benefits of the development. These included increased revenues for the participating governments, an increase in upstream investments, growth of business for local shipyards, and greater regional
integration. The Bank’s offshore oil and gas guidelines had improved environmental protection in the area and taken a step toward dealing with the legacy of contamination. In a second case study, World Bank representatives examined mine closure in Romania, where a program had been jointly designed with the Government to mitigate past, present and future problems relating to closure.

Civil society organizations challenged Bank representatives on a number of issues. Most people remained poor despite World Bank Group support for oil and gas developments, they argued. Job creation programs had been inadequate, many local people had no supply of energy, and there was a lack of transparency and dialogue from the perspective of those affected by extractive industry developments. In many cases, environmental problems had not been solved, land use was in dispute, living standards had fallen, revenues were not equitably redistributed, old technologies were still in use, and emergency response plans were lacking. NGOs queried the emphasis on extractive industries in Eastern Europe and Central Asia given that price trends for mineral and energy commodities, compared to manufactured goods, would keep countries relatively poor. Noting the attendant risk of mono-culture economies, they called for diversification including greater support for downstream industry to create knowledge-based markets.

Case Studies
Twelve case studies documented experiences of extractive industry projects in Eastern Europe and Central Asia from the perspective of civil society, industry, government, academia and other organizations.

Oil and Gas
A case study on a 1993 oil and gas field rehabilitation project in Kazakhstan, pointed to the general neglect in region, the few benefits realized for the local community from the oil development, and high levels of corruption in the sector. World Bank staff explained that the project reflected old policies and procedures. Another study reviewed the role of the World Bank Group in the Early Oil project in Azerbaijan and Georgia. Dependence on petroleum development pointed to evidence of “Dutch disease” in the Azeri economy, and many people in both countries remained below the poverty line and suffered energy shortages. There was also concern that World Bank environmental safeguards were not rigorous enough for the Caspian Sea. In Azerbaijan, NGOs complained of lack of transparency regarding key project documents and the management of the oil fund. World Bank staff explained that they would be working further with the Government and IMF to establish procedures for spending the $600 million so far accumulated in the fund. Bank staff affirmed that environmental monitoring had shown no impediment to the ecology surrounding the offshore facilities, though, on land, conditions had improved but there was a huge legacy of contamination. Another case study reported on an NGO inspection of the area surrounding the 1994 Komi oil spill in Northwest Russia. NGOs questioned the actions of the companies charged with the clean-up: restricted access to contaminated areas, inadequate equipment for clean-up operations and health risks posed to workers. They judged the ecological components of World Bank programs throughout Western Siberia and Komi as unsuccessful and felt the Bank should fund re-cultivation of polluted territories where they were involved in projects. NGOs also called on the World Bank Group to instate an independent panel of international NGOs to monitor projects.

Taking a broader view, the International Association of Oil and Gas Producers (OGP) presented a report, prepared for the World Summit on Sustainable Development, on 70 case studies representing industry best practice in twelve areas identified by UNEP. Preservation of biodiversity was exemplified by projects in Azerbaijan and Kazakhstan, and capacity building in projects in the Caspian Sea where oil firms had promoted small and medium-sized enterprises. In addition to ensuring the availability of affordable, environmentally sound and socially acceptable energy products
to a growing world population, the study foresaw the oil industry further contributing to poverty alleviation by broadening the benefits of the wealth it created.

**Coal Mining**

Case studies on World Bank Group involvement in coal industry reconstruction contrasted failures in Ukraine with relative successes in Russia. In Ukraine, the failure of reforms and endemic corruption led the World Bank to withdraw its support; up to half the funds allocated for the social and environmental mitigation of mine closure was embezzled and none of the Bank’s requirements complied with. It was felt the World Bank was in part to blame for encouraging the closure policy which led to such extreme ecological, social and economic impacts. The government still subsidized the mining sector and its agencies had failed to control disbursements to workers. Other concerns were the lack of dialogue, lack of transparency and lack of active monitoring procedures. World Bank staff agreed the situation was grim and explained that remedial measures had been under discussion with the government at the time. Another study analyzed World Bank coal sector restructuring in Russia. Economic data showed a rise in sector growth and labor productivity, and a decline in state subsidies. On the other hand, only 50 percent of the social component of the project had been fulfilled. Defending the closure program, a Russian research institute added that the decommissioning of loss-making mines was crucial for building new ones required to meet the forecasted demand for coal.

**Mineral Mining**

A presentation by the National Agency for Mineral Resources (NAMR), Romania, underlined the contribution of the agency, which was established by the World Bank Group in advance of petroleum and mining rehabilitation projects, to the mineral resources sector. As an independent regulatory authority, the agency had contributed to development of the new legal framework and the preparation of petroleum and mining laws, including a prospective law obliging mine closure plans to be in place from the start of projects. Among the environmental programs funded, a sectoral environmental assessment study analyzed the past, present and future effects of the mining as the basis of a national plan for mitigating the environmental impacts of the sector.

Two case studies referred to the Ovacik gold mine, and the Cayeli copper and zinc mine, in Turkey. The Cayeli project had introduced high standards to the Turkish mining industry and was recognized as a model mining project: it was the first to use submarine tailings disposal, there were no signs of acid rock drainage, spillage or mishandling of waste materials. The Ovacik gold mine was another example of good industry practice following previous mistakes, such as inadequate community consultations and environmental assessments. The project had since been upgraded and World Bank staff confirmed Ovacik was now a showcase project.

Four other case studies raised issues relating to the cyanide spill at the Kumtor Gold Mine, in Kyrgyzstan. Major concerns regarding the circumstances of the spill included the operating company’s failure to implement an emergency response plan, the low degree of public consultation and transparency, and the effects of cyanide contamination on public health and the local environment. More general concerns related to the long-term impact of the mine, including its inadequate preparations for closure and questionable security of its frozen tailings dam. Due to the mine, local farmers had reduced water supplies for irrigation and communities were concerned that dust particles from the mine explosions would contaminate future water supplies from the glacier above the village. A representative from the local Community and Business Forum (CBF), set-up after the Kumtor spill, documented longer-term social concerns including the communications gap, sustainability of benefits from projects and support for small, local projects. Their work was aimed at improving public access to information, increasing employment opportunities, and supporting for new, local enterprises.
World Bank Role
Presenting some recommendations for the mining sector, but also applicable to oil and gas, UNEP highlighted the need for the continued role of the World Bank Group in the extractive industries. Market forces neglected environmental and social costs, and the World Bank and other organizations, needed to come up a mechanism to internalize these costs. Lessons learnt from major mining accidents in the developed and developing world, since 1975, proved inadequate preparation, poor waste control, insufficient emergency response plans, lack of public consultation, lack of recognition of potential impacts, inadequate monitoring, and poor maintenance. UNEP had four recommendations for consideration: environmental impact assessments should be living documents for the life of a project; emergency response plans in place from the beginning; local and national issues should be considered to ensure both community and government support; and corporate environmental management tools should be assessed in project approval and evaluation.

Sector-Specific Recommendations
The Consultation drew up sector-specific recommendations for the coal, mineral, and oil and gas sectors, grouping them according to three scenarios: (1) the World Bank Group maintaining, or expanding, existing policies; (2) changing, or modifying, them; (3) withdrawing from the extractive industries in the region completely. For all sectors, the majority of recommendations focused on changing, or modifying, current practices rather than simply expanding, or withdrawing, World Bank Group support.

Changing, or Modifying, Existing Policies
The World Bank Group should remain engaged in its financing role as a means of enabling the participation of national industries, setting standards, and promoting good practice, governance and transparency in the extractive industries. The Bank should ensure all stakeholders are involved from the earliest stages of projects, and promote partnerships between all parties. Transparency should be a priority in project design and implementation, and project steering committees established, with real accountability, representing all stakeholder groups. World Bank Group leverage would be used to effectively bring governments into the consultation process. There would also be a mechanism for implementation of all declared ‘good intentions’ of best practice, such as the OECD guidelines and ILO conventions. In Eastern Europe and Central Asia, all projects should be considered as category A, eliminating the less rigorous category B procedures. Bank processes should be simplified, and shortened, without compromising fundamental conditions.

Economic Development
Relating to mine closure, the group suggested that restructuring and financing be synchronized and based on an agreed, comprehensive program drawn up in consultation with all major stakeholders. Projects would be financed with more favorable terms and the Bank would negotiate with governments to channel funds to impacted areas to promote sustainable economic activity after mine closure. Investment, though IFC loans and World Bank guarantees, should also target the development of profitable mines. After project completion, there should be measurement of the impact of project on the macro-economy. In the oil sector, priority should be given to energy efficiency and renewable resource projects; the Bank would favor gas development at the expense of oil. Projects should minimize fiscal incentives and maximize the development of domestic, downstream industry. The Bank should undertake capacity-building, and further develop existing programs for small and medium businesses in the area of the extractive industry, with job creation as a major component of every project. Local governments should receive specific revenue allocations in project agreements, incremental to those normally received from the central government.
Social And Environmental Impacts

The World Bank Group should only invest in projects able to maximize benefits to a country, ensuring poverty eradication and improved living standards for its people. To that end, the Bank would promote broad consultation at the national level with the participation of all stakeholders, particularly local communities and indigenous peoples. The rehabilitation of existing sites would be a priority, including clean-up operations and the mitigation of environmental, and social, problems. Baseline indicators for poverty, health and the environment should be developed and the Human Development Index (HDI) used in preference to GDP to evaluate the benefits of extractive industry developments. The Bank would implement social and environmental monitoring through dynamic coordination with local communities and other stakeholders. Closure plans would be mandatory, and loan agreements would include models of best international practice for mine closure i.e. transparent with public controls, social and environmental mitigation. Sanctions should be taken against companies who fail to deliver on these requirements. The Bank would insist that emergency response plans be developed with concerned communities, in place from the beginning of a project and be periodically reviewed as a condition of financing. The Bank should define, and implement, environmental, safety and technical standards and recognize that its standards are independently valuable for use as ‘generally accepted international standards’ acceptable to host governments and used by companies.

Governance

At all stages of the project cycle, the Bank needed to develop, and maintain, clear procedures for facilitating public partnerships; the role of civil society should be increased in decision-making and project implementation and local governments engaged in community consultations from the start of projects. The Bank would promote transparency regarding information on production sharing agreements and on its own project evaluations. It would insist governments provide details on how royalties and tax revenues were spent, e.g. receipt and expenditure reports, and oil funds would be independently audited. The Bank would look for synergies with other initiatives, such as the Soros Initiative².

Withdrawal from the Extractive Industries

For a scenario in which the World Bank would phase-out their involvement in the extractive industries, it should avoid financing new coal mining capacities, including open pit extraction. In mineral mining, the Bank would observe a ban on all new mines in sensitive areas, such as near mountains, national reserves, indigenous people, and subsistence communities. Its projects would ban the use of cyanide and other toxic technologies, and an objective criteria would be developed to identify ‘no-go zones’, which would be respected.

Final Recommendations: Cross-Cutting Themes

The Consultation formulated final recommendations in the context of nine cross-cutting themes: governance; transition policy; closure policy and cleaning-up the past; standards, guidelines and monitoring; disclosure policy and information sharing; revenue management and distribution; impacts and benefits at community level; institution building and regulatory frameworks; and social mitigation.

Good Governance: the World Bank Group should address this firstly through Country Assistance Strategies by means of legislative frameworks and measures to address human rights issues and to build democracy. Noting that the World Bank Charter presently prohibited it from interfering in political processes, the Bank would also try to change its own charter along the lines the EBRD’s Article 1. The Bank would monitor levels participation and ensure action on issues that arose. It would

² www.publishwhatyoupay.org
strengthen its resident missions so that they could facilitate public participation in countries with undemocratic governments.

**Transition Policy:** the World Bank Group should target the development of effective legal and regulatory frameworks prior to privatizing oil, gas and mining industries. The Bank would help to formulate and finance close-down strategies for non-profitable state companies. Micro-finance schemes, training programs and proper pension schemes would have priority in Country Assistance Strategies. The World Bank Group should promote anti-corruption campaigns and link such action to loan agreements with host governments. This called for strong coordination with the IMF. Price liberalization would be effected in a socially acceptable way and implemented as a partnership between the private sector, governments and communities. The Bank should help develop services and value-added sectors through the promotion of small and medium enterprises. Use of oil funds should be prioritized to sustain services in the affected areas and investment in the municipalities could be facilitated through local tax schemes.

**Closure Policy and Cleaning-Up The Past:** closure plans should be in place from the start of new mining developments and be a condition of World Bank Group financing. For ongoing projects, the Bank should insist on adequate closure plans being developed. Detailed decommissioning plans would be published in the language of the country, costs of closure would be met and the World Bank Group and governments would work together to ensure a social safety net was in place in advance of mine closure. To deal with environmental legacy issues, the World Bank should consider funding clean-up of projects, including old uranium mines. Funding could be in the form of grants, low interest clean-up loans or the mine reclamation funds now being required by law in some countries. There would be full transparency and public control.

**Standards, Guidelines and Monitoring:** The World Bank Group should issue sets of guidelines covering all environmental and social aspects of projects. Borrowers should pre-qualify by demonstrating use of best practice, including OECD guidelines on corporate governance and the ILO conventions on minimal acceptable standards. A project governance board could be established with representatives from each stakeholder groups given accountability for the monitoring of various aspects of projects. For monitoring, general indicators on social, environmental, safety, and financial issues would be developed for all World Bank Group projects. Borrowers not following guidelines or maintaining standards would black-listed.

**Disclosure Policy And Information Sharing:** environmental and social impact assessments should be fully disclosed, as well as annual monitoring reports. Disclosure would also cover environmental action plans, emergency response plans, accident and response reports. Product sharing agreements should also be released to the extent feasible. Disclosure of all government revenues should be incorporated into environmental and social impact assessments and actual payments recorded in annual monitoring reports. Disclosure would also track the impact of revenues flowing to local communities. There would be a base-line from which to track human development indicators at both the local and national level, independently validated by civil society experts.

**Revenue Management and Distribution:** all revenues should be disclosed by companies and governments and dedicated funds, such as oil funds, be established to channel revenues from the extractive industries into development. Oil funds should be subject to regular independent auditing by a steering committee including public representatives. The committee would conduct regular public and parliamentary hearings on the use of the fund’s resources. The Bank was recommended to establish best practice guidelines for oil funds and to take a leading role in ensuring such funds work. The manual would address the amelioration of environmental and social impacts from the extractive industries and black-list what the funds should not finance under any circumstances, such as weapons.
purchases. To support revenue management, the Bank would condition loans on disclosure of revenues by governments and companies, and to that end would amend its own disclosure, and other, policies.

**Impacts and Benefits at the Community Level:** the World Bank Group should consistently take steps to provide advantages to the local population whenever it embarked on a project. The Bank should assess the situation at the local level and, with such knowledge, not fund projects that destroyed traditional ways of life or damaged existing conditions at the local level. Procedures would require all concerned parties, including nomadic populations, to be identified, consulted and brought into agreement on project preparations. The Bank could use its leverage to require governments to guarantee, for example, compensation and insurance (including ecological insurance) to local communities. A jointly agreed plan would minimize the negative impacts of a project on the local community, while providing programs for community development. Preservation and protection would be a distinct component of every project, and continuous public monitoring of social and economic impacts, and benefits, would be ensured with the results evaluated in the context of the community development plan.

**Institution Building and Regulatory Frameworks:** opportunities for local business development would be identified from the start of projects to ensure the sustainability of the local economy after extraction activity came to an end. A strategic plan, aimed at building the capacity of local businesses and developing locals skills, would be reflected in community consultations from an early stage and implemented through cooperation between the government and the community. This would be underpinned by an effective regulatory framework and a methodology would be identified for monitoring the progress of local businesses.

**Social Mitigation:** would commence before, or in parallel, with project development. Early consultation with all stakeholders was required to ensure all sensitive factors were addressed. The World Bank should sponsor training and education programs and increase efforts to involve local governments. In co-ordination with other international financial institutions, a set of guidelines should be created on local economic development and social mitigation. These guidelines should be reflected in country assistance strategies.

**Conclusions**
Closing remarks for the Consultation were made by representatives of the World Bank Group, industry, and civil society, respectively, and the Eminent Person to the EIR, Dr. Emil Salim.

**World Bank Group**
On behalf of the World Bank Group, the Director for Oil, Gas and Mining confirmed that poverty reduction and sustainable development were the *sine qua non* of Bank activities. Many region-specific issues had been raised by the Consultation that presented particular challenges; the region was in transition, and its democracies evolving. The importance of disclosure, transparency, good governance and community development were concerns all stakeholders shared. The Bank were willing to admit shortcomings, to learn from the past and to improve future practices. At the same time, there was a danger of setting standards so high that it would result in two unintended consequences, which should be taken into consideration: first, internally, the World Bank Group felt there were limits to what it, and its partners, could do. There was an increasing aversion to risk, and the Bank may not want to be involved in difficult projects. Second, from an external point of view, if standards were set too high, the World Bank Group would not be seen as a useful partner. However, the Bank would continue to work with all stakeholders in succeeding workshops and assess all recommendations thoroughly.
Industry
An industry representative proposed two additions to the set of recommendations. First, there should be a clear recommendation on how to attract private sector investment for future projects; most of the discussions had focused on how to mitigate the impacts of ongoing projects. Second, was an issue raised in the preparatory workshop in Brussels, and not followed through - namely the energy mix. Promoting a shift from other energy sources to natural gas was a golden chance for the World Bank Group; it could assist countries with the gasification of their energy sectors. This change in the energy mix, which had not been addressed, was extremely important from the point of view of sustainability at the local, national and global level.

Civil Society
A civil society representative proposed the addition of a further recommendation on how various modalities of development should be balanced within the World Bank Group. Bearing in mind its limited capital for loans and guarantees, was it better to use money to promote development through the extractive industries, or promote development through other sectors, such as agriculture? This should at least be a topic for consideration in the following Consultations.

Eminent Person
Sustainable development combined three objectives at once: economic, social and environmental development. If the World Bank Group was to stay engaged in the extractive industries, it should do so along the path of sustainable development, minimizing the negative social, environmental and economic impacts of the past. First, social demands must be met; one such demand was poverty eradication. Second, it was important to recognize the demands placed on the environment; resources in the world were limited yet supported an ever-growing global population. Third, came economic considerations; quality of life should be raised, irrespective of an increasing world population. The triangle of government, industry and civil society, represented by the World Bank, were responsible for the realization of sustainable development. Market and policy failures should be remedied through consultation and consensus building. In Eastern Europe and Central Asia, stakeholders had agreed on the need for good governance, without which development objectives would fail. Could extractive industries be a part of sustainable development, when oil, gas and minerals were non-renewable resources? Only if in the process of exploiting non-renewable resources, an investment was made in renewable resources i.e. education, capacity building, the protection of ecosystems and communities. The question was how to translate this into action; the success of the EIR would depend on the goal of sustainable development being embraced by all - industry, government, civil society, and the World Bank Group itself.
4. Africa Workshop:
Full Report
DRAFT

The Extractive Industries Review (EIR)

Regional Consultation Workshop for Africa

Maputo, Mozambique
January 13-17, 2003

Testimonials and Consultation Report
Notes
The Extractive Industries Review Regional Consultation Workshop for Africa was held in Maputo, Mozambique, 13-17 January, 2003. This report was prepared by the EIR Secretariat to summarize the views of workshop participants, but neither endorsing nor contradicting them.

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

Abbreviations
ASM  Artisanal and small-scale mining
CAO  Compliance Adviser/Ombudsman
CAS  Country Assistance Strategy
CASM  Communities and Small Miners Initiative
EI  Extractive Industries
EIA  Environmental Impact Assessment
EIR  Extractive Industries Review
EITI  Extractive Industries Transparency Initiative
FDI  Foreign Direct Investment
FEX  Foreign Exchange
FY  Financial Year
GDP  Gross Domestic Product
HIPC  Highly Indebted Poor Countries Initiative
IBRD  International Bank for Reconstruction and Development
IDA  International Development Agency
IFC  International Finance Corporation
ILO  International Labor Organization
IMF  International Monetary Fund
IPO  Indigenous Peoples’ Organization
OED  Operations Evaluation Department
OEG  Operations Evaluation Group
OEU  Operations Evaluation Unit
MDG  Millennium Development Goal
MIGA  Multilateral Investment Guarantee Agency
NEPAD  New Partnership for Africa’s Development
NGO  Non-Government Organization
PRSP  Poverty Reduction Strategy Paper
SADC  South African Development Committee
SME  Small and Medium-Sized Enterprise
UN  United Nations
WBG  World Bank Group
Contents

Notes
Abbreviations and Acronyms

1. Introduction

Open Forum
2. Welcome from Eminent Person, Dr. Emil Salim
3. Civil Society Testimonials
   i. Olkaria Geothermal Project, Kenya
   ii. Bulyanhulu Gold Mine, Tanzania
   iii. Oil Developments in Congo-Brazzaville
   iv. Niger Delta Revolving Credit Facility, Nigeria
   v. Church Advocacy on Oil in Africa
   vi. The Chad-Cameroon Petroleum Development and Pipeline Project
   vii. Resource Revenue Transparency for Economic and Social Justice

4. World Bank Voluntary Information Exchange
   i. Introduction
   ii. Working with Governments
   iii. Working with the Private Sector
   iv. Project Environmental and Social Review
   v. Independent Evaluation Process
   vi. The Office of the Compliance Adviser/Ombudsman (CAO)
   vii. World Bank Information Disclosure

5. Global Energy Outlook
   i. Introduction
   ii. Global Energy Scenarios

Closed Consultation
6. Introduction by Dr. Emil Salim
7. Strategy and Policy of the World Bank Group in Africa
   i. IBRD/IDA Program in Sub-Saharan Africa
   ii. IFC and MIGA Activities in Africa
   iii. WBG and the Extractive Industries in Africa
   iv. Case Study of World Bank Group Project in Mining Sector, Mali

8. Case Studies on Oil, Gas and Mining
   i. Case Study One: The Chad-Cameroon Pipeline Project
   ii. Case Study Two: Kahama Gold Mine, Tanzania
   iii. Case Study Three: Small Scale and Artisanal Mining

9. Lessons Learnt from Case Studies

10. Final Recommendations
    i. Small-Scale and Artisanal Mining
ii. Community Development .................................................. 63  
iii. Environment .................................................................... 64  
iv. Conflict Management ...................................................... 65  
v. Revenue Management ....................................................... 66  
vi. Governance ...................................................................... 67  
vii. Trust Building, Disclosure Policy and Transparency .......... 68  
viii. Human Rights ................................................................. 69  
ix. WBG Procedures and Policies ........................................... 69  
x. Capacity Building .............................................................. 70  

11. Final Discussions ............................................................. 71  
12. Closing Remarks ............................................................. 73

Annexes  
Workshop Agenda  
List of Participants

Further information on the EIR website (www.eireview.org)
1. Introduction
The Extractive Industries Review (EIR) Regional Consultation Workshop for Africa took place in Maputo, Mozambique, January 13-17, 2003. This was the third in a series of five multi-stakeholder consultations convened to discuss the role of the World Bank Group (WBG) in the extractive industries (EI). The workshop was to analyze the involvement of the WBG in the oil, gas and mining sectors of the region and whether these activities were compatible with their overall mission of poverty reduction and sustainable development. Over one hundred participants attended the workshop, representing civil society (non-governmental organizations, community-based organizations and labor unions), government, industry, academia, and the WBG itself.

The formal three-day consultation was preceded by a two-day open forum for civil society testimonials, voluntary information exchange with WBG staff, and presentations on global energy by industry. The subsequent workshop sessions were only open to participants who had been invited or ‘self-selected’. These sessions featured presentations from the WBG on its policy and strategy for the extractive industries (EI) in Africa, and discussions on specific cases and lessons learned from Bank-sponsored oil, gas and mining projects in the region. Drawing on discussions, participants identified a set of action-oriented recommendations on key issues of concern if the WBG were to continue actively supporting the extractive sector in Africa.

The process was guided by the EIR’s Eminent Person, Prof. Dr. Emil Salim. Conclusions from the Africa Consultation will be used as inputs for the final EIR report, to be presented to WBG President, James D. Wolfensohn, in December 2003. In line with the EIR’s mandate, note was taken throughout the workshop of dissenting views, which will be taken into account in the final report.

Additional material from the Africa Consultation, including participant’s testimonials, case studies and presentations, is available on the EIR website: www.eireview.org

---

1 ‘Self-Selection’: the self-selection process allows civil society to nominate twenty-five participants from a variety of non-governmental organizations to represent their interests at the formal 3-day sessions of the consultation workshop. For the Africa workshop, this process was coordinated by Abdulai Darimani, of Third World Network-Africa (TWN-Af).
Part One: Open Forum

2. Welcome from Eminent Person, Prof. Dr. Emil Salim
Dr. Salim welcomed participants to the open forum of the consultation by outlining the purpose of the workshop. He said it was, first, important to actively involve the three main stakeholders - government, business, and civil society – on equal terms if development objectives were to be realized. Second, the common focus for all stakeholders was to promote sustainable development and achieve poverty reduction by 2015, as set out in the Millennium Development Goals (MDGs). Understanding this in terms of EI, the task at hand was to analyze the role of the WBG (WBG), and whether its involvement in the sector was consistent with these goals. Stakeholders would identify possible areas of consensus, while significant alternative or dissenting views would be recognized. On the basis of a better understanding, it would be possible for the EIR to improve WBG projects, policies, and procedures to ensure its future role in the extractive sector, be different from the past.

3. Civil Society Testimonials
Testimonials were designed for civil society to share their experiences of extractive industry projects in the region, in a frank and open environment. Topics presented included: the social and environmental impacts of a geothermal plant on local communities in Kenya; disputed human rights violations surrounding the development of a gold mine in an area of small-scale mining (SSM) in Tanzania; the work of the churches in Africa on oil and poverty alleviation; the impact of oil developments in the Niger Delta in Nigeria; and economic, social and environmental concerns relating to the Chad-Cameroon pipeline project.

Olkaria Geothermal Project, Kenya
Testimony from the Centre for Minority Development, in Kenya, outlined the impacts of the Olkaria Geothermal Plant, in Eburu Naivasha, Kenya on surrounding communities. Key findings from research conducted by the organization highlighted environmental, social and legal concerns affecting the Maasai population living in the vicinity of the plant. The World Bank was blamed for indirectly funding the project with no follow-up; initial financing extended by the Kenyan government to the Olkaria plant was sourced from World Bank funds.

Background
The speaker commented that extractive industry developments worldwide have been attributed to economic and social progress, and, particularly for Africa, are seen as a means to achieve poverty alleviation. The development of safe and clean methods of electricity
generation, such as geothermal, has been encouraged for many developing countries. In that context, the largest and longest running geothermal plant in Africa today is the Olkaria I plant, which along with Olkaria II (under construction) and the Olkaria III pilot plant, is located in Eburu Naivasha, Kenya.

**Environmental Impacts**
The main environmental impacts documented by the organization were said to result from the toxic emissions and effluent produced by the plant that was discharged into the surrounding area. Poor maintenance of pipelines had led to frequent noxious gas emissions from burst wells. The community had complained of chronic skin diseases, and reported the mysterious death of livestock, understood to be caused by the seepage of unknown contaminants into feeding grounds. It was concluded that the methods of surface waste disposal employed by the operating company, KenGen (Kenya Generating Company), were to blame for discharging a large quantity of toxic waste into the environment from evaporation and seepage.

**Social Impacts**
Other major concerns related to inadequate social provisions for the local community. According to members of the community living at Olkaria, the company had promised to employ local workers. But with each expansion of the project, this had failed to happen and, out of a KenGen workforce of 428, only 2 are Maasai. While the community has access to water, the area is without roads, schools, health clinics, or electricity, despite being situated in an enclosed area within the plant.

**Legal Concerns**
The third issue highlighted by the organization related to contention over land rights. The land leased to the Longolot company in 1906, and later used for the development of the Olkaria plant, had long been occupied by the Maasai community. The community was never consulted on the expropriation of their land and, in recent years, the demand for additional land, to accommodate expansion of the plant, had come at their further expense. It was argued that this had resulted in the marginalization and widespread unemployment of the Massai, as a loss of pastureland had forced many to abandon their traditional livelihoods. When the land leasehold expires in 2005, and it is unclear who will become custodian of the area. The Maasai community is demanding inclusion in the land ownership based on ancestral land rights, but it was claimed this had caused the company some anxiety, hence constant threats were made to evict the community.

The community lives under constant threat and the organization would like the situation fully investigated. The speaker complained of the difficulties they have encountered accessing information relating to the project, as much of it is undisclosed. Their aim is to engage the new Kenyan government in tackling the issue to ensure it is resolved. The organization concluded that the project was a classic case of ‘development against people’.

**Bulyanhulu Gold Mine, Tanzania**
Testimony by a representative of the Lawyer’s Environmental Action Team (LEAT), from Dar Es Salaam, Tanzania, described the organization’s campaign on behalf of a small-scale
mining community displaced by the development of the Bulyanhulu Gold Mine, in northern Tanzania. The speaker challenged the rationale of the World Bank Group’s support for corporate mining investments in Africa, and elsewhere in the World. Bulyanhulu Gold mine was cited as a premier example of where the involvement of multinational corporations in natural resource development had led to the further impoverishment, marginalization and violation of rural communities living in mineral rich areas.

Background
The speaker testified that in August 1996, security forces of the Government of Tanzania, in cooperation with the Canadian mining company, Barrick Gold (who acquired Sutton Resources, former owners of the mine, in 1999), forcibly removed artisanal miners, farmers, and their families from the area of Bulyanhulu in less than a week. This was the culmination of a two-year struggle between the community, the governments of Tanzania and Canada, and the company, and many artisanal miners were alleged to have been killed.

The Role of the World Bank Group
Since the early 1990s, the WBG have been involved in the mineral policy sector in Tanzania. In 1990, Chilean consultants were hired to work on opening up the country’s mineral sector leading to the 1993 Mineral Sector Development Project, which proposed fiscal reforms (e.g. tax and duty exemptions) and mining law reform (e.g. 3% tax on mineral royalties) to facilitate investment in Tanzania’s mining sector. Barrick Gold acquired the Bulyanhulu Gold Mine through the acquisition of Sutton Resources and its subsidiary, the Kahama Mining Corporation (the company who ran the Bulyanhulu Gold Mine) in 1999. MIGA extended a political risk insurance guarantee to the company in August 2000, amounting to $172 million, the largest guarantee they had ever made.

Contested Mining Rights in the Bulyanhulu Area
Since 1980, the government had legally set aside the Bulyanhulu region as an area for the sole use of artisanal miners, said the speaker. Artisanal mining at Bulyanhulu had been very productive; from 1990-1994, figures suggested that $7 million had been generated in export earnings from gold sold by artisanal miners to the government. The legal status of Bulyanhulu as a preserve for artisanal miners remained intact until 1998, when the old law was replaced by the new Mining Act. Therefore, argued the speaker, the operating license extended to Sutton Resources by the government in 1994, was contrary to the law in force at the time, and therefore illegal. The license did not specifically mention the Bulyanhulu area; rather, the region was described as the Butobela Area in Geita District (Geita District is in Mwanza region while Kahama District, of which Bulyanhulu is a part, is in Shinyanga region). The speaker implied that the government had used this as a way of circumventing the previous legislation to allow the Canadian company to go ahead with the development of the gold mine. Barrick Gold’s license was renewed in 1997, despite the events of August 1996.

3 ‘Robbing the Poor to Give to the Rich: Human Rights Abuses and Impoverishment at the MIGA-backed Bulyanhulu Gold Mine, Tanzania’, Lawyer’s Environmental Action Team (LEAT), Tanzania
Eviction of Local Community
In June 1995, the Canadian company took the miners to court and the government was asked to issue eviction orders to the people living in the area. The High Court of Tanzania did not agree, and issued an injunction stating that the evictions could not go ahead until a special constitutional court was convened to hear the case (September 1995). LEAT contested that official economic assistance to Tanzania was withheld by Canada in December 1995, pending the Tanzanian government’s removal of artisanal miners from the site, in favor of the Canadian company. In July 1996, the Minister for Minerals issued an order for community to move from the area within thirty days. Miners were then immediately evicted. In August 1996, a court injunction, broadcast on national radio, ordered the government and the company to cease the evictions. Despite this, the regional police commander followed the government’s instructions to move the community, and from August 7, 1996, the mine shafts were filled by bulldozers to prevent the miners from returning. The Tanzanian press published a report a few days later stating that dozens of miners had been killed during the mine fill, but despite the existence of photographs of the dead, the government claimed that there had been no casualties for five years. When the government admitted there had indeed been a few deaths, the deceased miners were described as bandits who had been beaten to death by their own community, said the speaker.

Lack of Compensation for Displaced Miners
In the Tanzanian mining law, compensation is required for communities displaced by mining activities. The speaker asserted, however, that there was no evidence to suggest compensation had been forthcoming from the company. The Chairman of Sutton Resources had outlined the development of a $3 million program to assist the displaced miners find new mining grounds, but this program was shut down by the Board of the company, testified the speaker. Barrick Gold will meanwhile enjoy profits of $3 billion from the mine, and the government of Tanzania will receive $5 million a year, for next 15 years, in revenues.

Complaint to the Office of the CAO
In August 2001, LEAT approached the office of the CAO to lodge a complaint. The CAO said it did not have a mandate to investigate the killings themselves, and no reference could therefore be made to them in evidence submitted to their office if they were to investigate. Accordingly, a complaint was submitted, in January 2002, with references to the killings omitted. In March 2002, the CAO sent a two person team to Tanzania to investigate the complaint. For four days, they held meetings with hundreds of villagers. After the visit, no word was received from the CAO for six months and the office did not reply to letters sent by the speaker. In October 2002, the CAO’s report was released, stating that the allegations could not be proved and that licentious accusations had been

4 Complaint by LEAT, on their own behalf and on the behalf of their clients, communities of former small-scale miners and landholders of the Bulyanhulu area organized under the Bulyanhulu Small-Scale Miners’ Committee. Lawyers’ Environmental Action Team (LEAT), January 14, 2002
5 Assessment Report Summary: Complaint Regarding MIGA’s Guarantee of the Bulyanhulu Gold Mine, Tanzania, October 29, 2002
made against a reputable company. The CAO said it had asked for a list of names of the dead miners, but that LEAT had not been forthcoming. The speaker claimed they were blindsided, as they had been prevented from submitting evidence associated with the killings from the outset, and then told they had failed to prove their case. To their knowledge, fifty-four miners had died and they did have a complete list of their names.  

Economics of Bulyanhulu  
Up to 1994, most Tanzanian gold exports originated from the Bulyanhulu area, and the local economy had boomed as a result of small-scale mining activities. Indeed, by the mid 1990s, artisanal mining in Tanzania employed between 500,000-900,000 people, with an estimated three additional jobs for each worker engaged in artisanal mining. According to Barrick Gold, between 30,000 and 400,000 people were moved from the area. The figure shows a huge discrepancy as, in reality, asserted the speaker, 200,000 were driven out of the area, and 300,000-350,000 faced eviction. Settlements were destroyed and livelihoods terminated with no compensation going to affected communities.

The company employs 900 people, of which 300 are South Africans, Canadians, and Australians; very few workers are employed from the local community. In company reports, and reports to MIGA, the company says income rates have soured since the establishment of the gold mine. However, no independent commission has been set up to investigate the allegations of human rights violations, and the Bulyanhulu area is now far poorer than it was before, argued the speaker. While the company say they have built a pipeline from Lake Victoria serving 30,000 villagers, the town closest to the mine has 12,000 resident, yet they have never seen a drop of water. Another community of 5000-7000, near the mine, draw water from the river. The company have built a hospital, but it is within the mine complex, and villagers have to negotiate security checkpoints and pay 300 shillings if they need to see a doctor.

Conclusions  
The conclude, the speaker argued that the World Bank Group’s strategy for creating a climate for foreign investment through reform of a country’s mining sector, while helping foreign investors profit, undermined any possibilities for poverty alleviation by developing internal capacities within a country. Activities, such as artisanal mining, could perhaps make a greater contribution to the social and economic development of local communities and the nation. Through their involvement in reform of Tanzania’s mining sector, the WBG shared responsibility for the egregious example of abuse demonstrated at Bulyanhulu, where violations needed to be investigated in a transparent and thorough manner. As they argued in their complaint to the CAO, it was imperative that the WBG not send the message that possible improprieties during project preparation were acceptable, provided they occurred prior to the Bank’s involvement, or the ownership of the final project sponsor.

Continued with Testaments from Local Communities:

---

6 ‘Names of Persons Alleged to have been killed in the Bulyanhulu Evictions, August 1996’, submitted by LEAT
Zephania Luzama was born in Tanzania in 1926, and later moved to a village in the Shinyanga region to dig for gold. From 1986-1996, he was the owner of eight mine shafts which were very profitable and enabled him to construct four large houses in the Bulyanhulu area. He was Vice-Chair of the Shinyanga Regional Miners Association and a member of the Bulyanhulu Small-Scale Miners’ Committee. In 1996, the Regional Commissioner made a public announcement that all the mine shafts were to be closed, and people had to vacate the area. To his knowledge, his operations were legal as his mining license had been authorized by the previous government, and the local small-scale mining committee facilitated the sale of his gold to the Central Bank of Tanzania. Allegations that this committee was run by crooks exploiting small-scale miners was not true – the committee paid taxes to the government and the sale of gold to the Central Bank was supervised efficiently. He personally witnessed the events of 1996, where he lost two adopted sons, who were buried in mine shafts filled in by the bulldozers. At the time, a journalist was shown around the scene by the villagers, and they counted eleven dead bodies in different localities. His properties were also destroyed by the bulldozers and his mine shafts were filled, leaving him with no income. He has received no compensation and Tundu Lissu is the only person who has ever interviewed him on the events of 1996.

Melania Baesi was born in the Bukoba District of Tanzania, in 1948, moving to the Bulyanhulu area, in 1994, with her husband, who was a gold dealer. In 1996, she opened a mine shaft, which started producing gold in April of the same year. In July 1996, they heard that the Regional Commissioner had issued an order for people to stop their mining operations at Bulyanhulu with immediate effect. A few days later, a radio broadcast stated that the High Court had issued an order against the evictions of the miners, and her two sons returned to the mine shafts to continue mining operations. In August, when the mine areas were bulldozed, she heard that her two sons were among those buried alive in her mine shafts in the Kakola village. Her sons were 20 and 16. The police beat people who tried to prevent the bulldozing of the mine shafts, and after what happened they were too scared to report the incident to the police. They had since received no compensation for the houses they lost and the mine shafts that were destroyed. She wants to give her sons a decent burial, but they have not been able to return to the place where her mine shaft was situated as the area has been fenced off by Kahama Mining. The company claim they have built people houses, provided HIV/AIDS assistance, and provided water and health facilities. But there is no water; they use water from the river or buy cans of water for 100 shillings. There is no electricity in the town; the people who have electricity have their own generators. And, for HIV testing, locals have to pay 1000 shillings - it’s not free.

Maalim Kadau, from Zanzibar, migrated to the Bulyanhulu area, in 1979, to mine gold. Being a costly exercise, many people sold livestock to raise the necessary capital to commence mining operations. They had the official permission of the government to mine, and a committee of small-scale miners was founded, which he was elected to lead, and it was supervised by the Area Commissioner of the Kahama district. The committee organized revenue payments from the mining activities, to the local government, as well as the national government. In 1995, the company tried to sue them, and the case went to court in 1996 (Maalim Kadau, and sixteen others, v. the Kahama Mining Corporation Ltd). A High Court order held that the miners should not be removed, but the mining
corporation, backed up by the police, went ahead, evicting miners from the area, bulldozing their houses and sealing up the mine shafts. Even houses located outside the mine area were demolished. The speaker was not in the village when the events took place in August 1996, but when he returned, people told him what had happened. The original number of people believed to be buried in the mine shafts was 52, but this number has increased as more people have come forward to report missing relatives. He commented that there was another shaft where there were 17 bodies buried; this was known because the miners had left behind their clothes before they went into the mine. He argued against claims that the deaths were caused by unsafe mine shafts; prior to this incident, there were only ten recorded deaths from mining accidents. The speaker maintained that the poverty of the community had increased, despite the company’s claims that the region had benefited from the gold mine. Many people, formerly engaged in artisanal mining, had lost everything; it took 10-15 million Tanzanian shillings to open and operate a mine shaft, and people sank substantial funds into gold mining before they received any returns from their investments. The community are now under the impression that they have no rights to areas of mineral resources. Since the concession area owned by Barrick Gold is so large, local residents would like to be granted access to the land to use for farming and small-scale mining activities.

Oil Developments in Congo-Brazzaville
A priest, and member of the LOEMBE Peace and Justice Commission, gave testimony on the position of the church with regard to oil developments and poverty alleviation in Central Africa.

The Peace and Justice Commission is an Episcopal commission of the bishops and pastors of Congo. The Bishops issued a declaration last year, entitled ‘Le Petrole et La Mission de l’Eglise’, and also wrote a personal letter to the President of the Republic, Denis Sassou Nguesso. They were looking to the future, not the past. Why was Congo-Brazzaville so poor, when it is a small country, of three million people, with abundant riches in the form of oil reserves? The World Bank allows people to dream that, by 2015, poverty reduction and sustainable development will be achieved. It is by entering into this logic that Congo-Brazzaville can be humanized, and it is in that context the position of the Church can also be understood. They commend the World Bank for organizing meetings such as these as it is clear they, too, are looking to the future and have good intentions. But these good intentions must correspond to the realities of putting them into practice in the field.

Oil Development and Poverty
When the WBG financed the N’Kossa oil field in the Congo, it raised high hopes for the development of the country. The speaker emphasized, however, that the main problem was the political environment in which such support was given. The Congolese people do not know much about what the country receives in oil revenues, and know even less about revenue management. What they do know, is that the price of oil is measured, not in barrels or dollars, but in suffering, misery, successive wars, displacement, exile,

---

unemployment, delay of salaries and non-payment of pensions. There are no roads connecting the 500 km distance between the two largest towns in the Congo, Pointe-Noir and Brazzaville. Schools are derelict; the Commission for Justice and Peace just completed a study at Pointe Noir on the numbers of public schools where children have to sit on the floor. Yet, it is well known, said the speaker, that since 2000, the Congo has become the third largest oil producer in the Gulf of Guinea, after Nigeria and Angola. The Church has little power to take a position with regard to oil in Congo Brazzaville, yet they have seen, and experienced, the situation on the ground, and have themselves been victims. Between the oil companies and the government, is the National Petroleum Society of Congo (SNCP). No one understands exactly what they do, which only adds to the ambiguity of the situation. SNCP has four people in charge of managing oil affairs, and is headed by new President of Congo Brazzaville, Denis SassouNguesso. When the Board of the SNCP published their fourth report, it was an accounts statement for 2001, not for 2002. It, therefore, revealed nothing; neither the real figures, the share of oil, nor how much the country receives in revenues.

Participation of Civil Society
The speaker underlined the mission of the World Bank. Its work is not like that of a commercial bank. The World Bank has a global mission for an economy shared by all, consistent with universal rights to the land, social justice and the dignity of man, as in the preamble to the Universal Declaration of Human Rights. The World Bank has a heavy weight to bear and must take note that the Congolese people are dying from hunger. In this context, and partly after looking at the situation in Chad, the Bishops of Congo propose the establishment of a revenue management committee, and law, and would like to see the church involved in this. The bishops of Central Africa also published a declaration, where they highlighted the contrast between the wealth of natural resources in Central Africa, and the extreme poverty of its countries. The church wants the WBG and African governments to work more closely with civil society, to open up a dialogue and ensure its participation in their contracts. Africa states and oil companies must also operate with an ethic that is currently lacking. There is also the question of Congo’s debt burden: the church does not propose annulling the debt, but rather that it be reconverted to allow the government to increase social spending, to develop roads, schools, and hospitals.

Social Impacts and Instability
The speaker went on to outline the negative effects experienced in Congo from oil development. Experts maintain that the exploitation is offshore, with minimal impacts to the mainland. In reality, this is not the case. The large, offshore developments are operated by major oil companies, but inland, various indigenous companies carry out oil exploitations and it is not known whether they comply within acceptable operating norms and regulations. Meanwhile, near Pointe Noir, the air quality has deteriorated; fishing has been affected; and turtles have disappeared from the sea. Local people see fire at sea (from gas flaring) but do not understand what is happening. Congo Brazzaville is extremely unstable: the railway that transports gasoline between Pointe Noir and Brazzaville, has become a center of tension, where bandits reek havoc. There is a feeling that violence in Brazzaville could explode at any time. People disappear – all this in a climate of impunity. This was the reality of Congo Brazzaville, asserted the speaker.
Looking to the Future

The joint declaration, issued by the bishops, was the first of its kind. It accorded with the World Bank’s mission for poverty eradication and sustainable development by 2015, but there is little confidence that this will happen. Regarding the management of Congo’s oil revenues, the SNCP was viewed with great suspicion, and they would like to see it independently audited. It would be difficult to achieve transparency given the lack of public information disclosure, and the World Bank had little leverage over the Congolese State, Parliament, laws and the Board of SNCP, which continued to be an obstacle to transparency and good governance. The church would like to see change: the President judged his predecessors on the mismanagement of Congo’s oil, and they would like to hold the new administration accountable to improving the situation.

Niger Delta Revolving Credit Facility, Nigeria

Giving testimony on the World Bank Group’s involvement in the Niger Delta, a representative from Environmental Rights Action, began with a reference to a conference convened by the World Bank, in 1995, to discuss environmental impacts on the region. Extensive studies had been undertaken by the World Bank, and at the conference, their representatives argued that neither oil spills, nor gas flaring, were a major environmental problem for Nigeria. It was said that the tropical location of the Delta meant that any crude oil spills evaporated quickly, and seasonal flood waters washed away any excess oil that did not evaporate. Bank representatives also argued that the chemicals released from gas flaring in the region, were not toxic to health. The World Bank’s main worry was global warming, but they maintained emissions in Sub-Saharan Africa were low enough not to be of immediate concern. The speaker commented that, fortunately, Nigeria’s own world-class environmental experts contradicted the World Bank’s position, and were able to set the record straight.

Background

During the military regime in Nigeria, the World Bank withdrew its support; but, with the new democratic government in place, there was space for the World Bank to re-engage. With the population of Nigeria totaling over one hundred and twenty million people, a large proportion of whom are estimated to live in extreme poverty, this was seen as an opportunity for the World Bank to fulfill its commitment to poverty eradication and develop programs in Nigeria to achieve this. One of the major projects developed by the World Bank was in partnership with Shell - the Niger Delta Contractor Revolving Credit Facility. This project, for which the IFC invested $30 million, was set up to provide capital financing to small and medium-sized Nigerian contractors, to work with the oil industry.

Oil without development

Firstly, discussing Nigeria’s oil sector, the speaker raised questions regarding the real impacts of the oil industry on Nigeria’s development. The country is the sixth largest exporter of crude oil in the World, producing at least two million barrels every day. They
find this to be a conservative estimate, as the companies controlling the export terminals are believed to export above this figure. Billions of dollars in revenues accrue to the Nigerian government, yet the country remains one of the poorest in Africa; developmental indicators are low and demonstrate that Nigeria has made little progress on health, education, access to water or infrastructure development, despite huge investments in the oil and gas industry. Competition over access to oil, and the rents that accrue from it, are the root cause of Nigeria’s problems, argued the speaker. Indeed, in their view, the whole country has become a victim of the poor management of the oil sector.

**Collapse of agriculture**
Nigeria once had a booming agricultural sector, exporting large quantities of cash crops, such as cocoa, ground nuts and palm oil, as well as fruit. Today, the Nigerian agricultural sector has collapsed, as successive governments, whether military or civilian, have had no incentive to develop it; they do not depend on taxes from farmers, or benefit from large revenues from the sector. The government have, therefore, allowed the economy to become dependent on the oil industry, to the detriment of the Nigerian people, argued the speaker.

In the past, people in his community, in the Niger Delta, were poor, but never hungry, as the fertile wetlands supported many farmers and fishermen, and their families. Children went to school, and many went on to universities in Nigeria, and abroad, in Europe and North America, as their families made enough income from farming and fishing to pay the fees. Today, said the speaker, not one person in his village of four thousand people, relies on fishing for their survival, as the industry has totally collapsed. For the past thirty years, oil spills have contaminated the waters; water channels built by the oil companies have linked freshwater systems to saltwater from the Atlantic, destroying ecosystems on which fishermen depended; and atmospheric toxins from gas flaring have corroded corrugated iron roofs on people’s houses, as well as their vehicles. Despite the apparent plenty, there is still mass poverty in Nigeria. For this reason, people are concerned when the World Bank returns to Nigeria to eradicate poverty in partnership with oil companies, like Shell.

**Questioning the involvement of the IFC**
Referring to the IFC’s investment in the Niger Delta Contractor Revolving Credit Facility, with Shell, the speaker commented that the IFC exists under the mandate of the WBG to relieve poverty. As such, their concern was to see the IFC in partnership with Shell, without addressing the legacy of Shell’s involvement in Nigeria, said the speaker referring to claims of human rights violations and lack of compliance with minimal environmental standards. Nigerian contractors had not benefited, as promised, from the credit facility, and local conflicts were rife, as impoverished communities, whose livelihoods have been destroyed, scrambled for contracts for jobs, he maintained.

**Complaint to the CAO**
They made a formal complaint to the office of the CAO, and took the assessment team on a tour of problem areas in July 2001. They visited Ogbudu to witness a fresh oil spill from Shell, that had contaminated the community’s water supply; they visited Ogoniland to see the impacts of Shell’s activities on the area; and to Nembe to see the destruction caused by
community conflicts. At the time, the CAO, Meg Taylor, told them she was very concerned. But, the report then issued by her office told them how Shell had improved its image; how the company was highly regarded globally; how Shell were a victim of the Nigerian crisis; and the company was just doing business. The organization were not satisfied and asked for a delay, or moratorium, on projects. The CAO, instead, suggested opening up a dialogue process, but have since been inactive on the issue, said the speaker. Considering the difficulties his organization experienced communicating with the office of the CAO, and the CAO’s delay in accessing relevant project information from the IFC, the speaker questioned the general effectiveness of the office. In their view, it implied that the IFC, and WBG in general, were not interested in addressing civil society concerns, but, rather, were more interested in profit-making. According to the speaker, the IFC had acknowledged the reputational risk of partnering in the project with Shell, and had ignored standing social and environmental concerns in extending financing. In conclusion, the speaker contested the validity of the credit facility as a project in the interests of relieving poverty, given the level of suffering experienced by communities from oil developments in the region.

**Church Advocacy on Oil in Africa**

Testimony from the Africa policy adviser for Catholic Relief Services (CRS), based in Washington DC, gave an overview of the campaigns being led by the transnational network of churches in Africa, on the impacts of EI in the region, specifically relating to the environment, human rights, and poverty.

**Background**

CRS is the overseas relief and development agency for the US Catholic Church, with offices in 80 countries around the world, including 30 countries in Africa, and with an annual budget of $800 million. The organization supports the work of local partners in various countries in Africa, including: Sierra Leone, on the management of diamond revenues in a post-conflict climate; Nigeria, with the Centre for Environmental and Social Responsibility, on oil issues; Congo Brazzaville, on advocacy and research; Sudan, on oil and conflict; and Angola, on transparency and corruption issues. This work is an example of the growing transnational church network, working in consultation with organizations in the North.

**The role of the African churches**

The speaker referred to the statement, discussed in previous testimony, released by the bishops in Central Africa on oil developments in the region. It was, he said, an act of bravery given it was issued in Equatorial Guinea, where almost all CRS’s partners are now in prison. He continued that this new awareness was driven by the religious, moral, and social mandate of the churches, and that the concepts of just stewardship of resources, integrity of creation, and preference for the poor played a large part in the churches’ involvement. Their work was explicitly an anti-poverty activity and, therefore, very much

---

in line with the current discussion on the mandate of the World Bank towards poverty reduction.

Extractive industries and the poor
Most statements by the churches in Africa do not state that natural resources should be left in the ground, but rather that they should be developed in a socially and environmentally responsible way. Despite World Bank and IMF proclamations to the contrary, there is increasing evidence that the poor are often worse off in oil and mineral dependent states. The speaker referred to the recent Oxfam study that identifies the link between poverty and natural resource development. This made the advocacy being done by the churches, on EI and poverty, all the more important.

Examples of church advocacy
One example of the churches’ advocacy in Africa was the Chad-Cameroon pipeline project. In 1999, the Catholic and Protestant bishops in Cameroon, issued a joint declaration on the project voicing their concerns over environmental sustainability, community compensation, revenue management, and the meaningful participation of civil society in project planning. The bishops felt the Christian churches could not be indifferent to a project that would impact on the lives of so many, and that promised to generate huge revenues to help relieve poverty. The speaker added that the churches’ objectives echoed those of the World Bank, but it was clear certain requirements had to be fulfilled to ensure poverty reduction was a reality, not an ideal.

The churches called on all major parties involved in the Chad-Cameroon pipeline project, to be guided by the principle of social justice. In 1999, they recommended that an independent commission be created to examine the ethical-legal implications of the project, prior to its approval in 2000. Since the project was approved, CRS has continued to work with local church partners and environmental organizations. In Cameroon, they fund an independent pipeline monitoring project, that works with local communities, their priests and leaders to monitor the effects of the pipeline development and disseminates information on its progress.

The second example given described the issue of oil in the war in Sudan. The message from the churches in Sudan had been very clear; that oil exploitation should cease until there was an end to the war. The same message has been communicated to various members of the international community; most notably the Canadian company, Talisman Energy, who have been a major target of advocacy due to their oil investments in Sudan. The bishops there maintain that oil developments in the country have only increased the suffering of the people, and have led to massive displacement and violence. The speaker commented that private companies, like any other organs of society, are obliged to abide by, and promote respect for the universal declaration of human rights. Church campaigns have been influential on the Sudan issue: in Kenya, they convinced the government to drop plans to import Sudanese oil; and in South Africa, they lobbied the government to question

9 ‘Extractive Sectors and the Poor’, Oxfam America, 2001
planned oil and mining investments in Sudan. In short, there is solidarity both within, and outside, Africa to ensure the responsible development of natural resources.

Conclusions
Concluding with a summary of recommendations put forward in the statement issued by the bishops in Central Africa, the speaker said that due to secrecy in the signing of contracts, revenues drawn from oil exploitation only strengthened state authority to the detriment of their people. Therefore, to contribute to the fight against corruption, oil companies should publish the oil revenues they pay to national governments, and the World Bank needed to develop mechanisms to increase the transparency of oil revenues in the region. If they do not reform their behavior and practices, the World Bank would be complicit in the secrecy and lack of transparency that pervades the oil sector, said the speaker. The Bank has a key and catalytic role in EI in Africa, and the transnational network of churches are watching to see if, and how, its behavior changes and whether the Extractive Industries Review is a sincere effort to contributing to this change.

The Chad-Cameroon Petroleum Development and Pipeline Project
A session dedicated to testimonies on the Chad-Cameroon pipeline project was presented, and facilitated, by the Director of the Chadian Association for the Promotion of Human Rights (ATPDH), and the Director of the Centre for Environment and Development (CED), in Cameroon. Testimonies were given by representatives of communities living near the oil fields in Chad, local NGOs from Chad and Cameroon, and Washington-based NGOs.

Background
In a background brief of the project, the Director of the Chadian Association for the Promotion of Human Rights, said the development would exploit the oil fields of the Doba basin in Southern Chad, with the construction of a pipeline from Doba, passing through villages, fields, and forests, before arriving at the Atlantic coast, near Kribi, in Cameroon. The pipeline would be 1070km in length, with three hundred oil wells planned in Chad; although at times, the number quoted had been between 600 and 2000 - just one example of the confusion surrounding the project, said the speaker. The development was intended to help Chad relieve poverty, in line with the mission of the World Bank Group. Through their testimonies, however, they wanted to demonstrate that this was not the case, and how, rather than alleviating poverty, the project would only succeed in destroying Chad.

Early Concerns
In an overview of some main concerns relating to the project, the Director of the Centre for Environment and Development, Cameroon, highlighted the difficulties that had been experienced accessing project information from the initial planning stages. From early 1997, it was clear the WBG would be financing the project and, consequently, their operational policies and rules relating to information disclosure would apply. Nevertheless, it was not until March 1997, that they gained access to relevant project documentation and financing details from the World Bank. Despite the huge scale of the project, and its
proximity to many sensitive social and ecological areas, the first Environmental Impact Assessment (EIA) was only one hundred pages long. Since then, they have raised further concerns relating to the project, with the World Bank and the governments.

First, there was skepticism that the pipeline project would lead to development and poverty alleviation in Chad and Cameroon. Looking at the history of other oil producing states in Africa, there were no convincing examples of oil successfully leading to development. Cameroon produced oil for many years, yet oil revenues had not alleviated poverty. Therefore, they did not see how royalties generated by the Chad-Cameroon pipeline would produce different results. Corruption was a serious problem in both countries; indeed, while the project was still under discussion, Cameroon was listed by Transparency International as the most corrupt country in the World for two years running. In that context, the World Bank’s assumption that boosting a country’s treasury reserves with oil revenues would lead to increased investment for poverty reduction, was misplaced.

Second, there was pessimism that either the Chad or Cameroon governments had the capacity to effectively monitor the project and ensure the realization of the anticipated benefits. While the Bank is engaged in capacity building programs with both governments, the necessary capacity will be lacking in the short-term, asserted the speaker. There is also doubt that the political will exists in either country to ensure the proper mitigation of social and environmental impacts. For example, in Cameroon, the pipeline crosses a savanna forest that fosters many endangered species, and in another place crosses the land of the Bakola Pygmies. While the World Bank and the government have given assurances that the necessary controls are in place to mitigate damage, it is difficult for people to see how this can be achieved.

**Socio-Political Environment in Chad**

Chad achieved independence in 1960, and has been in a cycle of conflict and war ever since. It was in this environment that the WBG approved the petroleum development. Their organizations have repeatedly argued that no project could lead to poverty reduction in a conflict situation; proof of this is the fact that revenue bonuses given to Chad by the oil consortium were used to buy weapons to fight conflicts in the North of the country. Pockets of rebels exist everywhere, and civil society has been campaigning strongly for peace. Chad is undemocratic, elections are rigged, fraud is rife, and the regime violently represses dissenting voices. There is a total absence of governance, and the country ranks as one of the most corrupt in Africa. The World Bank was implicated in the bad management of the country, having financed other projects, for health, education and infrastructure developments, where funds have vanished. The oil project would only aggravate this situation, in their opinion.

**Community Consultations**

The first problem outlined by the group was the nature of the World Bank’s community consultation process prior to the approval of the project. Testimony from a local woman, representing communities living in the oil producing area at Komi, in Chad, maintained that local people had been unable to openly express their concerns at consultations convened by the World Bank. In the example cited, the circumstances of the consultation
had not been conducive to building trust: villagers were surrounded by government forces and rebels, the village chief had been imprisoned, and an oil company representative arrived accompanied by military police. Most people were too intimidated to speak out against the project, and those who did express their opinions later found themselves alienated by the village chief. The speaker traveled on foot to hear World Bank representatives speak at nearby consultations, where she too was pressured by the authorities. One young member of the community in the oil producing area had previously spoken out against the project, and was imprisoned by authorities on the day the consultations were held. They were thankful when World Bank representatives sent out the authorities from the consultation in order to talk directly with civil society members present. It was soon after this meeting, however, that the decision to approve the project was taken, indicating, in their view, that the Bank had not taken their concerns seriously.

Compensation Payments
Compensation offered to affected communities was another major problem identified by the group. They held that compensation payments were inadequate, due to poor assessments of the true value of people’s property. A representative from FOCARFE\textsuperscript{10}, Cameroon, described a survey, undertaken by his organization, that interviewed over two hundred beneficiaries of compensation payments in Cameroon, revealing a number of interesting facts.

Of the beneficiaries surveyed, 75% were men, and only 25% were women, which was unusual considering the number of women involved in cultivation. This was explained by the fact that their husbands filed the compensation claims, meaning the women had not received the money themselves. Education levels were extremely low, with 72% of beneficiaries lacking formal education beyond primary level. This revealed the difficulty most people had completing the reimbursement documentation distributed by the consortium.

The speaker highlighted the lack of transparency surrounding the consortium’s land valuations, where communities were inadequately informed of the decision-making process. Once the route of the pipeline was decided, land was evaluated by the consortium according to two counts: in some areas, the amount of land lying within a three meter band of the pipeline was assessed, while in other areas, a thirty meter band was considered. The consortium then unilaterally decided how much compensation would be paid to individuals. Due to concerns that compensation payments were inadequate, NGOs insisted on discussions with the consortium, after which the value of land was reconsidered, but it remained unclear how the amount of land to be compensated had been calculated. Many people felt they had been tricked by the consortium given the inconsistency of the land valuations, and believed they had not been adequately reimbursed.

When it came to the actual payments distributed, people chose between receiving cash or payment-in-kind: 60% chose cash compensation, while 30% opted for cash and payment-in-kind. Most peasants viewed cash funds as a positive opportunity giving them the

\textsuperscript{10} Fondation Camerounaise pour une Action Rationalisee des Femmes sur l’Environnement (FOCARFE)
possibility to afford basic social provisions, such as health care and education. 97% of those interviewed said they had used the funds to improve family life, with 60% using the money to renovate houses, or build new ones. Despite compensation being paid to replace lost agricultural land, most of the funds did not go into agricultural production or reinvestment to make provision for the future. Communities were expected to face long-term impacts: funds had no impact in terms of generating new livelihoods for villagers; prices increased due to the shortage of agricultural goods on the market; mobility increased as people used funds to buy cars and motorbikes and moved away from their villages; and there was an increase in family disputes, and conflicts between locals and migrants attracted by the communities’ new found wealth.

In conclusion, the speaker commented that around 70% of people interviewed felt their standard of living had not improved. The money received from compensation was used unproductively as communities received no guidance on spending for income generation. It was suggested the process could have been improved by engaging NGOs to prepare and advise local communities on putting compensation to good use. The speaker argued that World Bank policies relating to compensation had been violated, as they clearly stated that the quality of life of impacted communities should be improved. This was not the case with the Chad-Cameroon pipeline development, as people felt they were worse off now than before the project was implemented.

Flawed Expectations: Economic and Social Impacts
Following the preparation stage, the Bank introduced a number of mitigation measures to improve the design of the project prior to approval by the World Bank Board. First, the environmental impact assessment was expanded to nineteen volumes from the original 150-page document. Second, the Bank set up a number of institutional mechanisms, such as seven layers of monitoring. Third, recognizing the lack of capacity in the Chad and Cameroon governments to manage the project, the Bank set up capacity building programs for both governments, as well as a revenue management plan and law for Chad. Bank staff emphasized the economic benefits that would flow to both countries as soon as project construction commenced: impacted communities would receive generous compensation; up to 10,000 local workers would be employed along the pipeline route; and subcontractors would be employed by the consortium from national companies. In short, the project promised many financial benefits, in addition to the anticipated oil revenues and royalties for Chad and Cameroon, respectively.

How did initial expectations compare to the current situation on the ground? Firstly considering economic impacts experienced, the compensation program, as earlier described, was not as effective as hoped, leading to many disputes over the funds paid. On the issue of local workers employed for the construction of the pipeline, the level of salaries paid by the consortium was lower than the wage level defined by law for the oil sector. Agreements between trade unions and the company had not been honored: workers were recruited without being registered for social security, which was illegal in Chad and Cameroon. Following work accidents, some workers had been sacked as the company did not want to pay their costs, and the families of workers killed during construction had been paid minimal sums of money by the company to cover up for the lack of insurance
provision. Sub-contractors working on the project were all foreign companies. Operating on contracts that were signed abroad, they enjoyed a tax-free status with revenues earned flowing to foreign bank accounts at the economic expense of Chad and Cameroon. In brief, the economic expectations had fallen short.

Referring to social impacts on the ground, the speaker described a proliferation of prostitution, particularly involving underage women, along the pipeline route. The International Advisory Group (IAG) had also highlighted this problem, although nothing had yet been done to tackle it. There had also been a notable increase in the number of HIV/AIDS cases in villages along the pipeline due to the influx of thousands of workers. It was hoped that appropriate control and monitoring programs would be set up to address this problem, but nothing had been done by the Bank, governments or companies involved. They wanted to know what percentage of people had been infected with HIV since the project was implemented to better assess its impacts; in one location along the pipeline route, doctors had informed them that the incidence of HIV was now over 50%. Despite the fact that the World Bank has a separate HIV project underway in Cameroon, there have been no linkages forged between these two projects. An industry participant commented on the usefulness of establishing an HIV/AIDS baseline, but questioned whether there were legal or cultural impediments to gathering such information. Testaments responded that there were such legal-cultural obstacles, but that this was not the main problem. Studies should be undertaken in the context of the project’s impacts to control HIV/AIDS and to better monitor the spread of the disease, and other diseases, during and after the project’s implementation.

*Human Rights Concerns*

Testimony from local, whose village lies along the pipeline route in Chad, described how the project had brought fear, exclusion, expropriation and intimidation to the region. In 1998, when NGOs first became aware of the project, they organized seminars to inform local people. Soon after, local representatives decided to form an organization (EPOZOP), to campaign for the rights of the local population. When representatives of the organization sought legal advice, they were put in jail on the pretext that they were rebelling against the project. People had reported cases of intimidation by sub-contractors, who on occasion had asked villagers to guard their equipment, but then refused to pay. The sub-contractors, added the speaker, were always backed up by the military. In another example, villagers were told their water supply would be affected by the pipeline routing and that new wells would be built. However, the contractors went ahead with the pipeline construction without warning the community. When some locals protested, they were arrested, along with the village chief, and fined. As a result, people were reluctant to voice their concerns, fearing the power of the authorities. Many now felt that oil had brought more problems to the region, and did not trust that the project had the development of the people in mind.

*Environmental Issues*

Testaments went on to outline cases of non-compliance with the environmental management plan (EMP). The plan specified three levels of non-compliance: the first level relating to situations that were not consistent with the EMP, but did not pose an immediate threat to the environment; level 2 identified cases of non-compliance that should be
addressed; and the third, critical, level identified cases where environmental destruction was evident. Reports issued by the consortium in 2001 and 2002, as well as external monitoring reports, claimed there had been no examples of level 3 non-compliance. This was not their opinion, claimed the speaker, referring to evidence of non-compliance: rivers had been polluted, village wells degraded, roads badly maintained, existing infrastructure destroyed and bore pits poorly reclaimed, among other examples. More detailed examples included the disappearance of parts of the Congolo river, in eastern Cameroon, which was cut off by the pipeline in a number of locations. In villages, such as Obukwe, which lies sixty kilometers from Yaoude, wells became totally polluted by soil as the pipeline construction neared. The speaker confirmed they had documented over fifty examples of non-compliance from the limited surveys they had conducted. With such evidence, they were astonished the consortium and the IAG had not reported any examples of level 3 non-compliance.

There were other risks that had not been taken into account in Chad. Lake Chad was at the crossroads of four countries – Chad, Cameroon, Niger and Nigeria. At the South lay the Basin, and the rivers of Lake Chad, the Chari and Logone. The Logone was fed by tributaries now used by the consortium, e.g. for watering the roads to limit dust. The waste and mud from the drilling was spilling into the river and into Lake Chad. No upstream or downstream studies have been done to assess the impacts of the developments.

The construction of the pipeline had led to other impacts on the local environment: fields sequestered for the construction of the pipeline had not been rehabilitated; some quarries had been reclaimed, others had not; mud run-offs from the rains had had a detrimental affect on agriculture in the area; and dust was a great problem – traditional open-air methods of drying flour could no longer be used. The speaker mentioned the secrecy surrounding oil prospecting in the Chad basin. They were monitoring the situation closely, and there was no evidence that local people had been informed of the consortium’s plans. He appealed to the World Bank to be more involved to ensure the consortium disclosed information to local communities on their aims in the Chad basin.

Concluding, the speaker argued that the World Bank Group’s solution to mitigating the impacts of the pipeline development was to implement a regional development plan. However, based on the Bank’s brief missions to the region, its strict guidelines, and the experiences felt on the ground, civil society were not convinced that regional development plans worked. A more flexible, holistic and cross-sectoral approach was needed, starting from the grassroots level.

**Monitoring and Accountability**

A representative from Environmental Defense, USA, drew attention to official reports issued by the World Bank Group’s evaluation and monitoring bodies, documenting the project’s serious failings in putting the necessary conditions for poverty alleviation in place. She specifically referred to reports issued by the World Bank Inspection Panel, its evaluation units, and the International Advisory Group (IAG).
The speaker argued that, just as NGOs had been highlighting in their testimonies, report confirmed that the project was two-speed; construction was almost a year ahead of schedule, while its ‘softer’ components, such as capacity building, environmental protection and regional development, were falling seriously behind. These measures should have been in place prior to, or in conjunction with project construction, yet construction would be complete by July 2003, with the first oil arriving by November 2003.

The speaker outlined observations documented in reports by the World Bank Inspection Panel. The Inspection Panel had investigated claims by Chadian citizens that the consultation process was inadequate, and agreed stating that effective consultations were impossible if those consulted believed they would be penalized for expressing their opinions. This problem persisted today, and the IAG, too, have consistently remarked on the lack of structured dialogue between government, civil society and the consortium in the two countries concerned. Regarding the environmental studies (environmental impact assessment and environmental management plan), undertaken for the project, the Inspection Panel argued that they should have included assessments of the regional cumulative and sectoral impacts of the pipeline development, given its widespread effects on all people living in the region, and in anticipation of further oil developments in the future. They found that the Bank had not complied with its operational directives for environmental assessment. The Bank’s management response said that any environmental issues would be addressed through the regional development plan, which was outlined in the appraisal document on which the Bank’s executive directors approved the project in June 2000. That document claimed that a participatory regional development plan was underway. Yet, on its most recent mission to Chad and Cameroon, the IAG found that the regional development plan had not even commenced, more than two years after approval, and less than one year before oil revenues arrived. The World Bank were employing external consultants to bring the plan up to speed, but this ignored the participatory element of the development plan.

This was typical of the lack of foresight that had gone into project planning, argued the speaker. Another example was the problem of inflation, which had been mentioned in a number of reports; the IAG had specifically questioned the price of grain, as local government officials feared that the entire oil producing region would be plunged into famine if prices rose. Indeed, the IAG found that the price of grain had doubled between January 2000 and January 2002, and there was growing concern among government officials in Mondu that the grain shortage and inflation would result in famine in Chad if drastic action was not taken soon.

The most recent IAG report identified what they saw as the core problem in Chad; that impunity and insecurity were the Achilles heel of good governance. This brought the question of human rights to the center of the debate for projects of this type and was an issue the EIR should consider. The article in the EIR newsletter, on the project visit to the Chad-Cameroon pipeline project, seemed to point to one recommendation: “…it is clear that the WBG needs to treat projects such as these with special attention from the outset and throughout the lifecycle of the project”. Non-governmental organizations, industry
and the WBG would all agree that the project has received enormous attention and scrutiny. The problem, however, lay in the lack of real accountability mechanisms to ensure promises were put into practice. Some major changes were needed in the culture of how the World Bank manages such projects, concluded the speaker.

Revenue Management

A representative from Catholic Relief Services, Washington DC, raised a number of issues relating to revenue management. One of the biggest questions, he said, was how the oil revenues would be used when they started accruing late in 2003. Under pressure from the World Bank, the Chadian government passed a petroleum management law in 1998. It contained several significant provisions and has since been looked at by others as a model for revenue management. The law stipulated the following division of royalties and dividends: ten percent would be invested in the ‘Future Generations’ Fund’, for long-term internal investments to prepare Chad for a post-oil future. The remaining ninety percent would pass through an offshore petroleum revenue account. Eighty percent of this would go to five priority sectors: education, health, rural development, infrastructure, and environmental and water resources. The World Bank said that this level of expenditure would be over and above pre-oil revenue spending on these sectors, possibly using the baseline spending level from 2000 or 2001. Five percent would go to the Doba oil producing region, and during an initial period of five years, the remaining five percent would be used by the Chadian government to tackle pressing operational needs. The law also established a ‘college’ to monitor the revenues, which comprises a management committee involving individuals from the private sector, civil society, and government. Preparations to get the ‘college’ up and running had been slow. They lacked basic office facilities and it was questionable whether they had the capacity, at this stage, to effectively oversee revenue spending, said the speaker.

Other weaknesses in the revenue management law included its lack of regional specificity for revenue allocation, bar the five percent of funds allocated to the Doba region. Regarding sectoral spending, for example in health, the law also did not define whether funds should be allocated to hospitals in the capital, or rural village clinics. The Inspection Panel noted that the five percent allocation to the Doba region was perhaps inadequate. This was of great concern considering the problems experienced by other oil producing states, such as Nigeria; even in Nigeria, thirteen percent of revenues were allocated to the Delta states. Another important aspect was that the allocations contained within the law could be changed by government decree after five years. This meant that just as the first oil revenues flowed into Chad in 2004, the government could reallocate spending priorities.

The law also failed to embrace significant other revenues from oil that were likely to accrue to the Chadian government. While direct revenues generated by royalties and dividends lay within the law, indirect revenues, such as taxes, customs, and duties fell outside the law and flowed to the treasury. According to official analysis, these levies

---

11 More in depth analysis of the law has been undertaken by the Harvard University Human Rights Law Program
could account for forty-five percent of total oil revenues over the lifetime of the project. The law also only covered three oil fields in the Doba region; any oil found outside those three fields would not be covered by the law. Three new fields had already been discovered outside the Bessai basin and there was good evidence that significant commercial reserves would be found that could be channeled through the pipeline too.

Concluding, the speaker commented that no provision had been made for a stabilization fund to protect the country against price shocks, referring to the vulnerability of oil exporters to market fluctuations. Oil prices had fluctuated quite significantly since 2002, rising from $15 a barrel to around $30. Bank documents used a baseline figure of $15 a barrel, but no provision had been made to sterilize potential windfall oil profits in Chad.

Government Perspective from Cameroon
A representative from the Government of Cameroon acknowledged there were negative aspects to the pipeline development, as civil society testimonies had shown. However, the project also had many positive aspects, particularly for Cameroon, he argued. It would have a huge impact on the government budget, bringing 140 billion francs (CFA), just under $1 billion, in direct revenues to Cameroon over thirty years.

In terms of infrastructure, the project had led to the construction of many primary and secondary roads. This would have a crucial developmental impact in terms of opening up markets and communications. The speaker regretted that a road had not been built from Kribi to Doba, paralleling the pipeline. Due to the actions of environmentalists and civil society, the pipeline had been buried rather than cutting through parkland. In his opinion, civil society had been mistaken, as the construction of such a road would have had a greater impact on poverty reduction in the long run.

Beyond infrastructure developments, the project had directly generated 3,500 jobs. The environmental plan was underway, and national parks were being created. With regard to the development of the minerals sector, this project is likely to be linked to other projects, and precipitate further petroleum developments in Chad. The project could have longer term impacts in terms of increasing regional cooperation and integration, through improving Chad’s access to energy using the capacity and infrastructure of Cameroon. This could not be evaluated yet, but had implications for the Central Africa region in general.

Referring to governance problems, the speaker acknowledged that Cameroon was once one of the most corrupt countries in the World. Efforts had since been made to reduce corruption in Cameroon. But, many still feared the government would be unable to manage the significant revenues flowing into the state budget from the oil development. Good governance was obviously crucial; the WBG had great power in this respect in terms of the conditionalities that had been placed on the governments. The speaker suggested the Bank set a conditionality on good governance and use it as a pillar on which everything was based. In doing this, many of the problems experienced would perhaps be resolved.
In conclusion, the speaker commented that, beyond difficulties experienced, the Chad-Cameroon pipeline development was intended to help fight poverty and improve people’s standard of living. The WBG clearly had a role in helping reinforce the authority of the state. However, the government impression was that the Bank played a double game, assisting to assist governments on one hand, while helping civil society to become almost as a government of its own, in conditions of disorder. In such disruptive conditions, he continued, business was not as effective as it could be. He appealed to the World Bank to focus on good governance and building state capacity, and for civil society to not only criticize, but to suggest alternatives to prevent environmental concerns becoming a hindrance to development.

Questions and Answers

One question raised the relationship between the amount of revenues coming into Chad, estimated to be $2.5 billion a year, and Chad’s gross national product (GNP). A civil society participant responded saying that, according to estimations, the Doba oil basin would bring $8 billion in revenues, from which Chad would receive $2 billion a year, over twenty-five to thirty years. Chad’s traditional economy, based on the agro-pastoral sector, generated 120 billion CFA a year. In terms of impacts, the oil project would have a devastating effect on the agro-pastoral sector. A large part of Chad was desert, but oil reserves were being exploited from a basin that constituted some of the only fertile land in the country. This would have a catastrophic effect, not only for agriculture, but also in terms of environmental sensitivity. While civil society were not necessarily against the petroleum development, they felt minimum consideration had been given for environmental protection and it was unclear to what amount ordinary people would benefit, considering 80% of the population currently lived on less than a dollar a day.

Responding to a question regarding Chad and Cameroon’s financial contributions to the total cost of the project, participants clarified their contribution was 5% paid by a loan from the World Bank to the two governments. The loan was not considered as a financial contribution to the project’s cost; a one-thousand kilometer long stretch of land, given by the Chad and Cameroon governments to the project, was not taken into account.

Resource Revenue Transparency for Economic and Social Justice

A representative from Global Witness, an NGO based in London, outlined details of the organization’s work on the role of natural resources in financing conflicts and facilitating corruption. Global Witness has pioneered a campaign on oil and revenue transparency, which led to the ‘Publish What You Pay’ initiative, a coalition of over 70 NGOs calling for mandatory disclosure of net taxes, fees, royalties and other payments made to national governments by international oil, gas and mining companies. Publish What You Pay (PWYP) aims for natural resource revenues to be used more effectively and transparently as a basis for growth and poverty reduction. Companies have a responsibility to disclose the payments they make in order for citizens to hold their governments accountable; by failing to do so, they are complicit in the disempowerment of those citizens, said the speaker. She emphasized the importance of the WBG’s role in prioritizing revenue transparency.
The PWYP coalition is looking at various avenues to implement this idea. One preferred option is to amend the requirements for listings on the securities markets, whereby companies would be required to provide prospectuses revealing financial information. This would override confidentiality agreements seen to be a main inhibitor to revenue transparency. The coalition is also looking at changing company reporting laws and international accounting standards.

The British government has been active in taking these issues onboard, said the speaker, by establishing the ‘Extractive Industries Transparency Initiative’ (EITI), launched by Prime Minister, Tony Blair, at the World Summit for Sustainable Development in Johannesburg, 2002. The initiative encourages governments, extractive industry companies, international agencies and NGOs to commit to working together to develop a framework promoting revenue transparency in the extractive industries. The initiative is grounded in a shared belief that the exploitation of natural resources and prudent use of generated wealth should provide a basis for sustainable growth and development.

The speaker urged the WBG to meaningfully contribute to the two initiatives and consider all recommendations being formulated from various workshops associated with the campaign. The coalition is also promoting ‘Publish What You Earn’, which is focused on governments publicly disclosing all earnings from extractive industry projects. Crucial to the campaign is the effective participation of civil society, said the speaker, and she encouraged civil society organizations to sign up to the initiative and participate in dialogue with the steering committees.

In conclusion, the speaker emphasized that the mission of the WBG for poverty reduction and sustainable economic development was inextricably linked to the objectives of the PWYP campaign. Further, the role of civil society is crucial to the effectiveness and credibility of the Bank’s work. The intention of the coalition is to promote democratic processes whereby civil society can hold their governments accountable; however, they do not want this to be added as an extra layer of conditionality for WBG lending to developing countries. Finally, the speaker pointed to the broad applicability of the transparency issue to developed countries in the West, as well as the Bank working to improve the transparency of its own processes.

4. WBG Voluntary Information Exchange
In a voluntary information exchange with WBG representatives, staff reported on the Group’s global and regional outlays and the changing focus of its projects. Environmental and social standards were now more important, but the Bank wanted to go beyond this to a more holistic approach for sustainable development and poverty reduction. The Bank espoused the MDGs, championed globally important development issues and coordinated the efforts of bilateral and multilateral development institutions and agencies.

Introduction
Introducing an overview of the World Bank Group’s work, the Director of the Oil, Gas, Mining and Chemicals department set the Bank’s involvement in EI in the context of its broader commitment to the MDGs: the eradication of extreme poverty and hunger;
universal primary education; gender equality and the empowerment of women; reducing child mortality; improving maternal health; combating HIV/AIDS, malaria and other diseases; ensuring environmental sustainability; and developing a global partnership for development.

Why support EI?
The WBG supports EI as oil, gas and coal provides affordable energy that is essential for local development; while in Africa these resources are mainly extracted for export markets, in some cases energy is provided for local consumption. The extractive sector is a huge source of direct and indirect employment and trigger for entrepreneurial activity, as well as providing essential infrastructure and services that are often lacking in developing countries. Lastly, resource industries generate huge fiscal revenues, raising government income to enable them to better support the poor.

Minimizing heavy footprints
The Bank’s assistance was also valuable in helping lift the heavy footprint of extractive industry developments. Environmental degradation endangered the livelihoods of the poor; dangerous accidents and toxic spills endangered the health of communities living in the vicinity of projects; land rights had to be protected to guarantee people’s futures; large scale developments caused massive social disruption and cultural changes; large revenue flows were often disruptive to economic development, created corruption and stripped the poor of access to decision-making. Ensuring project revenues alleviated poverty was one of the biggest challenges the Bank faced. In some countries, this had been managed quite successfully - Botswana, Mozambique, Malaysia and Chile being examples - but staff recognized that some countries had performed very badly.

Working with stakeholders
To reduce poverty, resource wealth had to be used wisely and the risks - to which the poor were most exposed - be mitigated. The Bank works closely with governments, civil society and the private sector to achieve this: for instance, equipping governments to effectively manage natural resources, focusing on revenue management and governance issues; and advising governments how they should work with local communities and deal with past legacies. The Bank believes EI are predominantly best operated by the private sector, so try to help governments provide the best framework for companies to operate. In addition, through its lending instruments and guarantees, the Bank provides support for the private sector in high-risk and frontier countries.

Evolving priorities
Over the last ten years, the work of the WBG in EI has evolved greatly. Environmental impact assessments were now a requirement for all projects; the Bank was implementing community development programs, and working hard to combat HIV/AIDS. It was also starting to seriously address revenue management and governance issues.

Working with Governments
World Bank (IBRD/IDA) operations with governments make up more than three quarters of its total financing activities. These activities are three-fold: first, the Bank extends selective financing to governments for hard investments on the ground and programs related to social issues and reform. The Bank also provides ‘technical assistance’ that finances advisory and technical services to governments, commonly involving sector and institutional reform; the development of legal and regulatory frameworks to facilitate competitive markets and private investment; and building government capacity. The Bank also helps governments mobilize finance and private investment through partial risk guarantees.

**Financing options**

Regarding forms of finance available to governments, there is a major distinction between IBRD and IDA funds. From the IBRD perspective, the Bank is self-financing, borrowing from financial markets so it does not have to rely on raising new capital from shareholders. IDA funds are long-term at negligible interest rates so have to be topped up with additional grants from governments every few years; these funds are valuable and in short supply. A number of governments and institutions also make financing available to the Bank to enable it to carry out specific advisory programs in countries; these are general country trust funds. Global programs, such as the Global Environment Fund (GEF) provide specific funds for environmental programs, and there are focused trust funds such as the ESMAP energy program that helps governments with energy research and policy.

**Championing global issues**

The WBG has a special role in championing global development issues and building partnerships with governments and other actors; an example is the recent Gas Flaring Reduction Initiative in partnership with NGOs, governments and industry. The Bank also had a role in guiding governments and other actors through the standards and safeguards it sets for its own operations, particularly relating to the environment, and in the research and dissemination of best practice on development issues, e.g. the ESMAP energy program.

**The World Bank project cycle**

The Country Assistance Strategy (CAS) is at the heart of the Bank’s work in any given country. The Bank works in cooperation with the government of a particular country to determine a framework defining the its program of involvement over several years, taking into account a country’s capacity and needs. The CAS often includes special components, such as a plan for promoting private sector development and the Poverty Reduction Strategy Paper, a targeted process for reducing poverty in the poorest countries of the world. After approval by the Board of the World Bank Group, the CAS defines country priorities for all Bank activities, whether IBRD/IDA, IFC or MIGA.

**Working with governments in EI**

The Bank’s assistance to governments in EI is firstly driven by the belief that natural resource projects can contribute to development when the conditions are right. Second, the management, operation and investment in resource industries is best left to the private sector in competitive markets; but governments are best focused to serve the public interest.
by setting the right policy framework for development, managing access to resources, the regulation and oversight of operations and the fiscal management of revenues.

**Levels of IBRD/IDA financing in EI**
Oil, gas, and mining investments are a small percentage of WBG activities in a country. While the extractive sector may be very important for particular countries, it remains a small share of the Bank’s overall operations. Given the Bank’s emphasis that investment in resource projects should be in the domain of the private sector, the scale of World Bank (IBRD/IDA) investments in EI has steadily fallen over the last decade.

**Working with the Private Sector**
The World Bank’s work with the private sector is governed by the belief that economic growth is a necessity for poverty reduction and that the private sector is a key ingredient in achieving this. In the context of EI, oil, gas and mining developments were generally most productive with private sector investment, provided there was good governance and appropriate environmental and social safeguards.

**Creating an Enabling Environment**
The key to facilitating private sector development in a particular country is the creation of the right enabling environment. The Bank works with governments to create a good framework for competitive private sector development by reinforcing legal and regulatory frameworks, by strengthening government capacity to oversee and manage projects and through sector reform and privatization. Given the importance of EI for many countries, the WBG tries to play a catalytic role, providing financing services to mobilize private investment and ensuring necessary standards are met, e.g. by working on mining sector reform.

**Areas of focus in EI**
There was a role for the Bank in EI in countries where the investment risk is highest, e.g. where companies envisage operating risks due to high levels of corruption. The Bank also has a role where it can add comfort to sponsors and financial creditors engaged in complex projects, e.g. cross-border projects. In addition, the Bank can add development value, promoting small and medium-sized enterprise development, building local skills and working with project sponsors to maximize local benefits by improving the sourcing of local goods and services. There were barriers to achieving this, and the Bank could be instrumental in breaking down the bureaucratic and administrative problems companies often confront when obtaining licenses to work.

Commenting on the need to involve local companies in large scale developments, a participant asked for statistics comparing the level of investment enjoyed by local companies compared to the financial benefits accruing to foreign enterprises. Staff admitted that it was difficult to encourage companies to invest more at the local level, and that companies could not be forced to disclose financial information. Nevertheless, disclosure was a subject of serious internal debate within the Bank, and it was trying to promote voluntary disclosure amongst companies.
Types of private sector financing
The common criteria applied by the WBG to determine whether to extend financing to the private sector was that projects be commercially viable, contribute to sustainable economic development, and meet all environmental safeguards and other Bank criteria. In addition, its involvement was subject to approval by the WBG Board and the relevant governments involved. Given the industry downturn in recent years, the private sector often turned to the WBG for assistance with difficult projects. But, sometimes companies went ahead without Bank involvement to avoid scrutiny, and this was when projects were sometimes badly implemented, commented staff.

The World Bank (IBRD/IDA) provides guarantees to support private investors whose projects depend on government performance. This includes partial risk guarantees (enclave guarantees for IDA countries), and governments must counter-guarantee the Bank. IFC provide a variety of financing including long-term loans, which are issued in US dollars and other currencies, syndicated loans (B loans) raised by commercial banks, and equity investments to assist with capital market development. IFC does not displace private sector involvement, standing aside if private investment is available for a project, and does not manage projects, nor provide more than 25-30% of total financing. In response to a question regarding the level of IFC financing for the Niger Delta loan facility, staff confirmed that funding is limited to 25% of project costs for large projects, but can amount to 35% for small projects. However, a huge amount of IFC investments go to financial intermediaries to fund small and medium-sized enterprises (SMEs). This accounts for 30-40% of all IFC financing, particularly in Nigeria, where the IFC work through local financial institutions, who then should directly fund SMEs. Financial intermediaries lend to local borrowers at the rate of their choosing; IFC lending rates are set near market rates, and on slightly longer terms than the private sector. MIGA coverage was extended for non-commercial risk, i.e. political risk, insuring losses caused by war and civil disturbance, expropriation, transfer risk, and breach of contract. MIGA have been fairly active in the oil, gas and mining sector in recent years, commented staff.

A government participant asked whether the Bank extended financing to groups for empowerment purposes as one way of alleviating poverty. A staff member confirmed that empowerment was an issue in which the World Bank was interested, and confirmed it was participating as an investor in the new Africa Mining Fund, which was specifically created to help provide funding for such opportunities.

Project Environmental and Social Review
In a review of WBG environmental and social procedures, policies and tools, an IFC environmental specialist stated that they had developed significantly since 1992 and varied between different arms of the World Bank Group; for example, IFC policies are designed for the private sector, whereas IBRD policies, while similar, targeted the public sector. Bank staff must follow a set of procedures that dictates the tools that should be used for environmental and social assessment. The scope of these tools had become more sophisticated in response to difficulties the Bank had faced, and not dealt with well, in the past. For example, the environmental impact assessment (EIA) for the Chad-Cameroon pipeline project was originally one hundred pages long, and the IFC version now stood at
nineteen volumes. It had been criticized for being bigger and not better, but implementing such extensive safeguards was a much harder task for the Bank.

**Environmental assessment umbrella**
The Bank’s objective is for all projects to be environmentally sound. Safeguard policies come under the umbrella ‘Environmental Assessment Policy’ that sets the boundaries for the Bank’s day-to-day work; its objective is to ensure that projects proposed for Bank financing are environmentally sound and sustainable, that decision makers are identified and informed of the nature of environmental risks, and provisions are made to ensure compliance, and prevent likely non-compliance. Another set of tools employed are the Bank’s guidelines that set numerical values on a project’s performance, e.g. setting limits for liquid effluent discharges from a mine.

Projects are evaluated according to their potential impacts, depending on type, location, sensitivity and scale. ‘Category A’ projects are likely to have significant adverse environmental impacts, that are sensitive, diverse or unprecedented. ‘Category B’ projects have potentially adverse environmental impacts that are site-specific and mostly reversible; mitigation measures either already exist, or can be designed with greater ease than for ‘Category A’ projects. ‘Category C’ projects are likely to have minimal, or no, adverse environmental impacts. Financial Intermediary (FI) projects involve the investment of funds through financial intermediaries in sub-projects that may result in adverse environmental impacts. Environmental safeguards also apply to FI projects; the Bank expects the parties involved to undertake the necessary due diligence.

**Safeguard Policies**
The Bank’s objective is to ‘do no harm’ and its safeguard policies to ensure this. Safeguards are applicable to natural habitats, forestry, international waterways, involuntary resettlement, indigenous peoples, and child labor, among others. In the context of the Chad-Cameroon pipeline project, the policy on international waterways was followed to limit impacts on tributaries running into Lake Chad. Likewise, referring to prior comments by a Cameroon government representative that they would have liked a road built from Kribi to Doba paralleling the Chad-Cameroon pipeline, the Bank advised against its construction, in line with its natural habitats policy, to prevent opening up environmentally sensitive areas to illegal logging trucks.

**Guidelines**
WBG guidelines are not the same as policies, and are governed by different values. They have evolved over the years and are found in publications such as the Pollution Prevention and Abatement Handbook, produced by the Bank in 1998. This handbook includes project guidelines on coal mining and production, onshore oil and gas development, and lead and zinc smelting. In parallel, IFC Interim Guidelines have been produced since 1995 and it continues to produce guidelines to meet new sector requirements; a recent example are new guidelines for offshore oil and gas development that will be used in the Caspian, and guidelines on underground and opencast mining. There are also occupational health and safety guidelines. In addition, an ‘Exclusion List’ has expanded from five to fifteen
guidelines over the last ten years; pertinent to the Extractive Industries Review is a ban on Bank Group involvement in the production and trade in radioactive materials.

In response to questions regarding the Bank’s policy on mine rehabilitation and closure, staff said that the Bank is also in the process of drafting specific guidelines pertaining to this. The first mining guidelines with closure requirements date from 1995, and the Pollution and Abatement Handbook also has requirements relating to mine closure that are stronger than those drafted in 1995. They are now in the process of drafting precious metals mining guidelines, wherein closure and its financing will be a major consideration. These guidelines will not be finalized until the EIR has reported to Management, both from the perspective of what the requirements are in terms of physical closure and in financial terms also. However, it should not be concluded that staff currently take a minimalist approach to closure, even if the 1998 guideline is not fully comprehensive. Staff are working with clients to develop and apply closure plans that exceed the guideline and go further than just mitigating impacts.

Who is responsible for implementation?
For IBRD/IDA projects, borrowers, i.e. governments, are responsible for implementation. Taking the Chad-Cameroon pipeline as an example, 50% of the environmental requirements and environmental management plan are the responsibility of the governments of Chad and Cameroon. Project monitoring is undertaken by the Quality Assurance Group and Inspection Panel. For IFC projects, there are a number of instruments for monitoring performance; project sponsors are responsible for implementation, in coordination with IFC’s environmental and social development department, with overview monitoring provided by the office of the CAO. Within MIGA, the applicant is responsible for implementation, in coordination with MIGA’s environment staff.

Changes in IFC procedures
Referring to the Environmental Review procedures, the speaker commented that the performance of the IFC on the environment side has improved in last ten years. He added that it would perhaps be preferable for the environmental and social objectives of the Bank and IFC to be mainstreamed by having procedures integrated into operations (i.e. not just for use by environmental and social departments), so that all staff are cognizant of the environmental and social implications of investments and outcomes.

Managing risks and looking to opportunities
In the context of the EIR exercise, the speaker concluded that much has been said about negative impacts and risks. What must be asked is whether the Bank Group has identified the risks and whether it is maximizing opportunities in the investments it is making? Recommendations need to be drawn for the EIR secretariat in terms of how to manage risks and opportunities.

Independent Evaluation Process
In an overview of the Bank’s independent evaluation of their activities in EI, the Principal Evaluations Officer for the Operations Evaluation Group (OEG) highlighted the need for
accountability and learning from experience in order for the Bank to achieve better results in EI and other operations.

The World Bank Group’s independent evaluation units consist of the Operations Evaluation Department (OED) for IBRD/IDA; the Operations Evaluation Group (OEG) for the IFC; and the Operations Evaluation Unit (OEU) for MIGA. These units report directly to the President and Board of the WBG through the Director General of Operations Evaluations.

In response to comments regarding the composition of the Bank Group’s Board and whether developing countries, particularly African states, have a democratic voice, staff clarified that all member governments of the World Bank are represented (181). The voting weight is 20% for US, and 45% for Japan, France, Germany and the UK combined, with the remaining 35% allotted to other countries. There is a West African chair, and the East and South African board representative.

**Evaluation elements and report**
The evaluation units have almost completed their review of all extractive industry projects in the portfolio for IFC and the World Bank, and a large number in MIGA’s portfolio. Project evaluations focused on specific projects and, in many cases, site visits were undertaken. Project evaluations then feed into country studies where they look at the overall contribution of the sector, i.e. has it helped or hurt? Surveys are also being conducted; at the EIR Planning Workshop in Brussels, participants identified the distribution of revenues and environmental and social impacts of projects as the most critical issues. This subsequently guided their evaluations and thematic reviews. Questionnaires have been distributed at all EIR Regional Workshops asking stakeholders how well they think the Bank is doing and what it can do better.

The evaluation work is being guided by NGOs, think tanks and an advisory panel and all elements of the evaluation will be presented to the Board of the WBG in a final report. They do not expect the report to be publicly released; but the Board will ultimately make this decision.

**Evaluation of IFC investments**
Across the board, IFC’s development results for EI are no better, or worse, than other sectors. Africa, however, has performed substantially worse in EI. Typical positive impacts from projects include sufficient returns for investors; the success rate of 55% is slightly higher than for other projects; but for other projects, a 44% success rate is not that high. In addition, EI are substantially riskier than other projects so potential financial losses are higher. In general, the sector generates large revenue flows for host governments and for local communities, projects provided benefits in terms of direct and indirect employment and improved infrastructure. But, it is clear that poor governance and negative environmental and social impacts remain a problem. Clarifying on the measurement of economic costs, staff confirmed that the economic rate of return is calculated taking into account all costs and benefits. Regarding environment and social impacts, the Bank Group requires compliance with its guidelines; when projects are not in
compliance, staff compute the cost of bringing operations into compliance. Nevertheless, some costs and benefits are difficult to quantify.

**Environment and Social Standards**

Staff commented that ten years ago projects would have been done very differently to how they are done today. IFC and the World Bank set standards through their policies, guidelines, and ‘good practice’ notes; companies, even if not IFC investors, are known to follow Bank Group guidelines, for example, on community development. However, some guidelines out of date, incomplete, or inconsistent as they were last reviewed in 1998. The revision of guidelines is therefore important as the Bank Group sets the industry standard.

Environmental and social impacts are large, and can be positive and negative. 40% of extractive industry projects are rated ‘Category A’, while the sector itself remains just a small share of IFC’s portfolio, which is an indication of the large impact such developments have. IFC’s expertise is valued by industry and action is taken when problems are discovered; this does not mean projects are perfectly implemented and there are clear information gaps. However, IFC environmental experts spend more time on EI than any other sector and work hard to make improvements.

**IFC’s effectiveness**

IFC’s effectiveness for extractive industry projects is significantly better than for other projects; this is evaluated at the front end of projects, in terms of IFC’s supervision, role and contribution across the board. Overall, IFC’s investment results were strong and cross-subsidized other activities. However, best performers were generally countries with reasonable governance, and results in Africa remain poor. Criticism that foreign investors are profiting from Africa’s resources is not true for IFC, who have undergone substantial losses. Projects in Africa need to be improved to ensure good development results and good investment results for IFC. In response to queries, staff confirmed that this was true not only for extractive industry investments, but for projects in other sectors in IFC’s portfolio. The reason for failings was manifold: when the sector risk was high and governance poor, projects were more likely to fail. In addition, inadequate environmental regulation hindered the effectiveness of Bank environment specialists to ensure project compliance.

**IBRD/IDA extractive industry projects**

On the IBRD/IDA side, most extractive industry projects had satisfactory outcomes and produced positive economic benefits, with a success rate of 80%. However, there are three main areas of concern for which three thematic reviews are being conducted: fiscal revenue management; governance challenges; and environmental and social impacts. Regarding governance, the Bank’s involvement on the issue appears absent or incomplete in extractive industry interventions, although they are looking at whether poverty reduction strategies, country assistance strategies and other Bank operations address governance sufficiently. On environmental and social impacts, an OED review is underway to assess the extent of safeguards compliance; they hope to identify what elements are and are not in compliance and draw lessons from the experience.
Evaluation of MIGA projects
The independent evaluation of MIGA projects commenced in July 2002, with the establishment of MIGA’s independent evaluation unit, OEU. Their evaluation methodology is similar to IFC’s, and evaluation activities are underway. They are reviewing six extractive industry projects and are looking at safeguards compliance of ten projects. The evaluation started late and MIGA is a smaller institution, therefore the scale of the evaluation is smaller.

Independent Evaluation Final Report
Project portfolio reviews are almost complete, and country case studies and thematic reviews are currently being drafted. Surveys are still being conducted. Participants were encouraged to refer to the evaluation page on OEG’s website, where comments are welcome.

The Office of the Compliance Adviser/Ombudsman (CAO)
A principal specialist from the World Bank Group’s Office of the CAO presented an overview of its main role and functions. The CAO is a part of the Bank Group’s accountability framework and is an independent office reporting directly, and exclusively, to the President of the World Bank Group. The CAO has jurisdiction over IFC and MIGA, i.e. their responsibility falls over the private sector elements of the Bank Group’s work. The office was established in 1999 by the President in response to external pressure for an appropriate mechanism for processing direct complaints relating to IFC and MIGA activities. The office became fully operational in May 2000 and has three main functions; a compliance role, an advisory role, and an ombudsman role.

Compliance Role
The compliance role is an independent auditing function which means the CAO review project compliance with IFC and MIGA policies and objectives. CAO differ from OEG as they look at compliance in a contemporaneous way. An audit can be triggered in two ways: the President or Senior Manager of the Ombudsman may ask the CAO to audit a project, or the CAO may initiate an investigation in response to a complaint. They assess what is taking place on the ground, identify the issues and look at how IFC and MIGA performed. Civil society cannot demand an audit for a project, but through lodging an official complaint, an audit may transpire.

Advisory Role
The CAO’s advisory role is a formal advisory mechanism on policy issues rather than on projects. They cannot specifically advise on projects as this would compromise their independence in the event that they were to receive a complaint about a project. Through its audits, the CAO has an advantage in identifying trends or issues that are apparent institution wide and that need to be addressed by IFC and MIGA in a way they have not to date. A current example is the advice the CAO is providing to the President on the way the IFC does, or does not, relate to international agreements on POPs (persistent organic pollutants).

Ombudsman Role
The ombudsman role brings the CAO into greatest contact with stakeholders outside the Bank Group. It is the independence and integrity of their role as ombudsman that is most important in their work. The CAO manages direct complaints from parties affected, or likely to be affected, by projects and complaints are lodged at project preparation, implementation or even after a project has been divested in cases where it is clear IFC or MIGA may bear some responsibility for outcomes on the ground that are unresolved. The extensive range of this function means it is not universally welcomed within IFC or MIGA. When complaints are received, they are appraised and assessed after which a report is presented to the parties concerned. The CAO attempt to resolve, manage and mediate conflicts, and the office cannot halt a project unless there is a circumstance of probable harm. In some cases, the CAO become involved in substantial mediation, but sometimes they choose to close down their role. Since May 2000, thirteen complaints have been lodged and, to date, two have been mediated, one of which was particularly sizeable. The office has closed out seven complaints, and has another four in the process of assessment.

In response to questions regarding how the CAO assesses the positive and negative aspects of a project when a complaint is lodged against it, staff responded that the office was empowered to make recommendations, or mediate conflict, arising from environmental and social issues in relation to safeguard policies. Its mandate did not cover the economic rationale of the Bank Group itself. She recognized that in the past, staff had not always engaged in debate on the economics of projects, but for large extractive industry developments where economic benefits were a major issue, IFC and MIGA would have to join in the public debate in a more frank and open way in the future.

Advisory role relevant to EI
The CAO will shortly publish three pieces of advisory work: the first is a review of safeguard policies implemented by IFC since 1998, looking at the impact and effectiveness of the entire environmental and social safeguards system; second, the CAO has undertaken work assessing the environmental and social review procedure implemented by MIGA; third, the CAO has undertaken a review of recent IFC investments and MIGA guarantees in EI and to what extent these investments relate to sustainability and value-addition. These publications will be publicly released after being approved by Senior Management.

General Observations
In the CAO’s work as a third party neutral and independent ombudsman, it is well placed to look at trends in EI. First, the environmental and social impacts of investments not surprisingly provoke a large reaction as it is these impacts that affect local communities living in the vicinity of projects. But, this is also a function of environmental and social issues being an area of Bank Group operations where the greatest disclosure exists. Civil society use information disclosed through the environmental impact assessments to glean pertinent facts about the economics and development rationale for projects. The Bank is beginning to realize that a more open dialogue is necessary to clarify who benefits from projects and how, what the overall goal is, and whether or not it has been achieved. Accountability and transparency are issues to be greater addressed by the WBG in the future. As IFC and MIGA move towards a greater commitment to value-added beyond the
objective of ‘do no harm’, they will have to be increasingly explicit about what this means, how it can be measured and how it can be achieved in reality.

Questions
A question was raised by a local villager from the Bulyanhulu area in Tanzania, who had previously given testimony regarding alleged human rights violations to small-scale miners living in the vicinity of the Bulyanhulu gold mine. She commented on the CAO’s official investigation and the delayed report on their complaint and asked why its conclusions did not accord with the facts she had personally presented to the CAO at the time. Responding, the CAO staff member remarked that she well remembered meeting the testament and hearing her story. The report was indeed delayed, mainly due to the necessity of clarifying many issues that remained unclear following the field mission. She emphasized that after reviewing all the evidence and talking to parties involved in the conflict, the CAO were unable to substantiate the claims laid out in the complaint and their report, published in English and Swahili, reflected this conclusion. She regretted that the report had disappointed any hopes or was felt by the parties concerned to be inadequate, but emphasized that while the CAO aimed to satisfy its complainants, it also had to protect the integrity of its office and draw its conclusions from substantiated evidence.

World Bank Information Disclosure
In response to critical questions regarding the Bank’s policies on disclosure, and comments that Bank institutions lack openness and transparency, a staff member highlighted the Bank’s revised disclosure policy. An NGO, the Bank Information Center, led a push on information disclosure that resulted in 18 worldwide consultations in 2000, including several in Africa. The revised policy went into place in 2002, and it includes provisions for country officers to make documentation available in all relevant local languages. Another change includes making all IBRD/IDA Country Assistance Strategies immediately available, and they will be posted on the web. Another demand from civil society was that information be made available about ongoing projects and their implementation; the Operations Policy Vice-Presidency is therefore putting together an electronic source on the web relating to projects and their execution. The new disclosure policy is available on the web and some NGOs, including the Bank Information Center, have been testing it; others are encouraged to do the same. In addition, the Bank is also trying to encourage its partners in countries to disclose information; pilot programs are being established in several countries, including Mozambique and Zambia, to promote information disclosure with the permission of governments.

5. Global Energy Outlook

Introduction
Introducing a session on global energy, a representative from British Petroleum (BP) commented that the EIR does more than focus on the critical role of the WBG in EI; it also exposes some key challenges society will face over the next century with regard to energy supply and demand.
Over the next fifty years, a rise in real income and improvements in income distribution will be required to meet the energy needs of a global population expected to double in size. This increase in energy demand will have to be met without further irreversible damage to the ecosystems upon which economic growth depends. Despite the global trend towards greater wealth and improved quality of life, extreme poverty and instability still exists due to inequitable distribution of resources. Access to clean, affordable and reliable energy is, therefore, at the heart of sustainable economic development and poverty alleviation. At the same time, the energy system raises a set of trans-boundary issues such as climate change, air quality, the local environment, and energy security; and underpinning all of this is the need for good governance.

The debate over the past performance of the WBG in EI should address what leadership role it can provide in finding solutions to these dilemmas in the future.

Global Energy Scenarios
A representative from Shell International presented the company’s work on global energy scenarios over the next fifty years. The energy system is entering a particularly innovative period; the development of renewable energy sources raises the question of how long it will be before fossil fuels are replaced. There is more than one path towards a sustainable energy future and a number of factors will shape long-term energy demand.

Indicators Determining Long-Term Energy Demand
By 2050, world population will have reached 8-10 billion people, with average per capita income amounting to $15-25,000 a year. With increasing urbanization, eighty percent of the population will be living in cities, and markets will become increasingly liberalized expanding consumer possibilities. Energy demand is expected to increase two to threefold over this period. However, major disruptions could happen that are impossible to foresee; one example being the HIV/Aids epidemic.

Climbing the Energy Ladder
There is a sharp increase in energy demand as per capita GDP rises with industrialization. China and India will go through this phase in the next fifty years, as incomes per capita reach $5000 a year. Industrialization is complete when income per capita reaches $10,000 a year, as in Thailand, Mexico, Korea, and Brazil. Services start to dominate growth at $15,000 per capita, and as economies surpass this mark, the energy market becomes saturated and demand flattens out. At this stage, societies and economies are more technologically advanced and more efficient in their energy use, per quantum of energy.

Who will shape the future?
Today, two thirds of energy demand is in the OECD countries, Eastern Europe and the Former Soviet Union (FSU); one third of the energy demand is in Asia and the Middle East. However, in Asia, China and India are both huge countries with fast growing markets, and their energy demands are set to increase. By the middle of the 21st century, energy use patterns will significantly shift, with two thirds of total energy demand in Asia, Latin America, Africa and the Middle East. There are other factors that will shape the long-term energy outlook: will there be enough energy resources to meet demand; will the
appropriate technology exist to use that energy economically and responsibly; and what will be the social priorities that guide citizens to make choices in terms of developing and using energy?

Energy Supply: The Oil and Gas Mountain
From the 1950s to 1970s, there was incredible growth in oil demand, with 7.5% annual growth in usage. This leveled off in the 1970s during the oil crisis, which was a significant push towards greater energy efficiency. Demand increased in the 1980s primarily due to economic development, and will continue to increase at 2% a year until 2025, flattening out by 2050. Ultimate recoverable oil reserves are estimated to be in the region of 3,000 billion barrels and only a quarter of these reserves have been exploited thus far. Demand is likely to move from oil, to liquids, to biofuels, and to unconventional oil, as the cost of extraction increases over the next century. For gas, the picture is similar: growth in natural gas was around 4% per annum from 1950 to 2000, and will increase yearly at 3% for the rest of the century. Undiscovered gas reserves are likely to be huge and present an attractive fuel option; gas burns cleaner than oil and coal, and may represent a bridge to the future for renewables.

Renewables
The most exciting energy options for the future are renewable resources, which are more than adequate to meet total energy needs. In North and South America, the importance of solar power will grow, while remaining minimal in Europe. There are enormous energy reserves in FSU, and huge reserves of solar power in Africa and the Middle East. However, one of the major problems will be getting affordable technology to the raw energy source. The cost of renewable energy technologies such as photovoltaic systems and wind power have reduced over time, but it is possible their cost may have flattened out and not become any cheaper. At the same time, the cost of competing energy systems will increase as oil reserves become increasingly difficult and expensive to extract. The direct competitors to oil will be gas and liquid gas; liquid gas is a very pure energy source and, while it is presently up to four times the cost of oil, its cost is coming down constantly.

Innovation and Competition
Transition points in technology are often revolutionary, representing significant steps forward that move demand from one energy resource to another. An energy revolution in coal and steam gave rise to the industrial revolution, moving demand away from wood, wind, water and animals. The arrival of electricity in the mid 1850s sparked off a new cycle of industrial development and lighter industry. The invention of the internal combustion engine revolutionized the world, developing from an immature to a mature technology between 1940 and 1970. Likewise, nuclear energy was discovered in the 1950s, matured by the 1970s, and by the 1990s was in decline. The combined cycle gas turbine took off in 1999 and is becoming increasingly important for power generation. In the next fifty years, likely jumps will occur from the use of fuel cells, which turn hydrogen directly into electricity; the only by-product of this source is steam making it the cleanest energy source imaginable. Direct electricity generation from solar power is equally attractive. Technology, choice and innovation will dictate energy choices in the future.
Future scenarios: ‘Dynamics as usual’

Shell foresee two scenarios for the future. One is ‘dynamics as usual’, where the underlying dynamics of the energy system remain the same in terms of evolving technology and choice, with people thinking as global citizens for the greater good of the planet for clean, secure and sustainable energy. The alternative scenario is ‘the spirit of the coming age’ where more revolutionary developments allow people to make energy choices as consumers for their direct benefit, rather than the greater good. Taking the concept ‘dynamics as usual’, the push towards renewables will be supported by gas in the medium term; but this will only happen after renewable energy technology matures, and when it does, particularly in terms of energy storage, the energy market will move to a different cost curve. This will not happen for two decades. Meanwhile, the continuing efficiency and utilization of vehicles will prolong the demand for oil. In the US, gasoline demand has been decoupled from income; between 1950 and the present, GDP per capita income has increased threefold, but gasoline sales per capita have leveled off since the late 1970s. It is difficult to estimate oil consumption beyond 2025, and the price of a barrel of oil will remain volatile for some time to come.

Dash for gas

Concerns about the environmental impacts of carbon emissions from fuels such as coal and oil will encourage the use of gas, particularly in Asia where air quality is a concern. Gas is a highly efficient fuel compared to many others, and the likely decommissioning of coal and nuclear plants will further increase demand. In the West, gas and power liberalization will facilitate the use of gas, and combined cycle gas turbines and high efficiency units will remain very attractive energy generation options. With the development of a spot market for liquefied natural gas (LNG), it is increasingly becoming a commodity in the far East and Africa. In addition, countries like China, Saudi Arabia, Russia, and Iran will join the World Trade Organization (WTO) significantly increasing their economic and industrial activity, increasing the demand for gas. Gas reserves in the CIS will provide governments with much needed hard currency and in the Middle East, export diversification will also push the demand for gas over oil. The market for gas in Asia will be significant given the region’s energy demands; LNG from countries with extensive reserves, like Iran, will be shipped to enormous markets developing in Malaysia, China, Korea and Japan. These markets will also be supplied by major pipeline routes being developed from Central Asia. Increased infrastructure in the area will make cheaper energy available, driving industrialization and economic growth very rapidly increasing income per capita in the countries of Eastern Asia and the large economies of China and India.

The branching point in energy use will be in 2025, when there will be a diverse range of energy sources to choose from. Many countries may choose to adopt renewables, which will be more mature; some will follow the gas route; and others may return to nuclear energy. In terms of renewables, there will have been significant improvements in solar technology by 2030. The main difficulty will switch from the generation of power itself, to finding an efficient way of storing large quantities of solar power.

The spirit of the coming age
The alternative scenario for the future, ‘the spirit of the coming age’, will be one driven by revolutionary developments in energy generation, driven by consumer choices. Consumers will look for increased convenience, flexibility and independence, and this could potentially be supported by advanced hydrocarbon technologies. In the long term, there will be a high demand for sustainable hydrogen as the main energy source. The breakthrough would come from using solar electrolyses to separate water into its component parts of hydrogen and oxygen, and moving to use hydrogen as the main energy source. Combined with this, an effective method for storing hydrogen would have to be developed, perhaps using carbon fiber technology or condensing the hydrogen into a solid block. These developments are likely to take another two decades.

Infrastructure is a critical enabler: the World has moved from using canals to railways to pipelines, and now the internet, all of which effect the way business is carried out. In the future, fuel cells could become small enough to run laptops and machines; cars could become mobile power stations that run on hydrogen with zero emissions. Such breakthroughs in the next twenty years would cause oil demand to drop significantly; therefore, valuable reserves today may have limited use or value in the long term when more efficient energy alternatives replace them.

Relevance of energy developments for Africa
Responding to questions on how natural resource developments would benefit Africa, the speaker commented that governance was one of the most important factors. The economic development of countries such as the USA, UK, or Norway was predicated by the exploitation of oil, gas and minerals, but the economic miracles achieved owed more to good governance. Much depends on how well the revenues generated from EI are used; responsible governments have to invest wisely, plan and manage their natural resources.

The potential for Africa to develop alternative energy resources on a large scale is currently limited due to the lack of a significant industrial base. African countries will have to think in terms of developing the resources they have, bearing in mind there will be significant alternatives available in the future.
Part Two: Closed Consultation Session

6. Introduction
Introducing the closed workshop sessions, Dr. Salim highlighted the commitment of the WBG to the Millennium Development Goals and eradication of poverty by 2015. This had to be translated into action for Africa, he said, and the success of the workshop would provide guidance on how EI could play a role in accomplishing this.

He said Africa has been seen as the lost continent and has continued to suffer widespread poverty despite its abundant natural resources. Government, business and civil society share the same goal for a free and prosperous Africa by 2015, but the question is how the three groups can work together to achieve the means for poverty reduction and sustainable development through EI. Dr. Salim encouraged participants to use the workshop as an opportunity to resolve this question. He emphasized the need to go deeper into the conventional formulas proscribed for development to identify not what should be done, but how; for example, how to facilitate knowledge transfers, how to capture investment and how to achieve good governance. The convening power of the WBG is necessary to achieve all these objectives, said Dr. Salim, and discussions should focus on how the Bank Group should do this through its technical assistance and structural adjustment programs, its investments and guarantees.

7. Strategy and Policy of the WBG in Africa
Director of the WBG’s Oil, Gas, Mining and Chemicals department introduced a session on the WBG’s strategy and policy in EI in Africa. Commenting on the Bank Group’s overall perspective of Sub-Saharan Africa, he said the total population of 700 million will rise at a rate of 2.7% per annum, with average gross national income (GNI) per capita amounting to $470. Recent growth rates are only 3% per annum and aid flows have decreased over the last ten years to an average of $19 a head. 22 of 26 countries in the WBG/IMF Heavily Indebted Poor Countries Initiative (HIPIC) are in Africa and the region is battling to recover from conflict and dealing with HIV/AIDS. Private investment flows are highly concentrated in a few countries and in a few sectors, including EI. The key point, he said, was to recognize the great divergences within the region; the Bank Group did not, therefore, have a ‘one size fits all’ strategy.

IBRD/IDA Program in Sub-Saharan Africa
The Bank is concentrating its efforts on accelerating progress towards the MDGs and supporting the NEPAD initiative. Its regional priorities are post-conflict support, capacity building, disease control (particularly HIV, malaria and tuberculosis), debt relief, improving market access for African goods and services, and regional integration. PRSPs are being used as a tool for diagnosis and policy and the Bank is increasingly focusing its assistance on the outcomes and development effectiveness of programs. The Bank is
increasing its activities in Sub-Saharan Africa, with FY02 commitments amounting to just under $4000 million, which accounts for 50% of total IDA lending. The Bank’s total portfolio in the region is around $15 billion.

**IFC and MIGA Activities in Africa**

IFC activities in Africa are focused on infrastructure and communications, and development of the financial sector to boost savings and channel them into the local economy. IFC is supporting SME development, working through financial intermediaries, building capacity and establishing industry associations to support SMEs, and concentrating on high impact sustainability projects. IFC’s total investment portfolio amounts to $2 billion.

For MIGA, Africa is a priority region; its $0.8 billion portfolio represents 50% of the Bank Group’s total guarantees. MIGA’s focus is on power, telecoms, and other infrastructure developments. It provides technical assistance programs in 12 member countries and has a regional office in Johannesburg.

**WBG and the Extractive Industries in Africa**

Most African countries have oil, gas and mineral resources. Some countries have become new producers in recent years, for example Equatorial Guinea, Mozambique, and Mauritania. Others have a long history in EI, like Nigeria. For many countries, EI contribute a large proportion of GDP, tax revenues and FEX earnings, and account a large proportion of foreign investment. Small scale and artisanal mining is a significant activity in a number of countries.

_Governments and extractive industries_

Governments welcome EI developments as a source of revenues, job creation and training, direct and indirect. But, they are increasingly aware of the risks associated with EI, in terms of sustainable development. WBG role aims to improve the performance of the private sector in these activities, and to support governments in capacity building to maximize local benefits and sustainability. In addition, there is a new focus on governance and revenue management.

**WBG Financing and guarantee approvals**

From FY94 to FY02, EI accounted for $1 billion (19%) of total Bank investments, $600 million (28%) for IFC, and $300 million (26%) for MIGA. The Bank is focusing on technical assistance, reform and advisory work, while IFC and MIGA are financing selective investments, oil, gas and mining projects and local service companies.

**Recent IBRD/IDA project in Tanzania**

An example of a recent Bank project is the provision of $13 million in technical assistance to the Government of Tanzania to help develop its private sector strategy for sustainable mining. The main focus of the program was to overhaul the regulatory framework, strengthen the capacity of government institutions (to manage the sector and monitor environmental issues), and provide a strategy for small scale mining. Key outcomes were
the increased capacity of government departments, growth in private investment and output, and better management of small-scale miners.

**Bank advisory work**
Recent Bank advisory work included guidance for the Government of Mozambique on the privatization of its downstream petroleum sector and development of its gas sector, and advise for the Government of Nigeria on a comprehensive gas strategy to provide gas for private consumption and for industry. The Bank is also working to develop HIV/AIDS toolkits focused on the mining sector, and working with others on the CASM (Communities and Small Miners Initiative).

**An IFC project in Côte d'Ivoire**
An IFC project in Côte d'Ivoire provided almost $80 million in debt and equity financing CI-11 oil and gas development over several years from 1993. The investment followed a reform program developed by the Bank. The project provided much needed FEX and produces oil for export and gas for local power and industry. It also helped facilitate major private investment in the power sector, leading to lower costs and prices, and attracted other new investments.

**Promoting local development: Niger Delta Contractor Facility**
The WBG withdrew from Nigeria in 1995 due to the country’s poor governance. IFC re-engaged following the election of a democratic government. Major oil investment programs were continuing in the Niger Delta region, but benefits were not seen as flowing to the poor. The WBG found that a number of local companies were providing services to multinationals for large projects, but lacked access to affordable financing. Local financial institutions found small companies to be high risk, so lent funds at exorbitant rates (25-30%); many companies were forced to borrow from loan sharks. IFC felt they could assist with facilitating a greater involvement of local contractors and talked to a number of local institutions and companies to partner in this effort. Shell was the only company to engage with IFC in trying to help; IFC knew the reputational risk of working with the company due to their poor perception in the region. However, the benefits to the local economy were felt to outweigh the risks. A $30 million partnership between IFC, Shell and the local bank, Diamond Bank, was set up to finance the facility. IFC alone bear the project risk and are very unlikely to make a return on the investment.

IFC faces much criticism for the project, but has followed all necessary rules and safeguards. The project could have been improved by better engaging with civil society and better communicating the project’s purpose. Funds are not being given to Shell, as some believe, but go to local contractors alone. The facility has made between 50-100 small investments, which is a huge challenge for IFC in managing and monitoring the funds; they hope civil society will engage in this effort. The facility will be launched in 2003 and funds will only go to local contractors from the Niger Delta, or companies that employ at least 30% of their employees from the Niger Delta.
IFC is also funding a credit facility (Adamac) to support the development and growth of a successful local service company in Nigeria, and providing $5 million for a mining facility (SAJMF) to help empower local companies in Sub-Saharan Africa.

Recent Mining, Oil and Gas Projects
In terms of the public sector, the Bank has supported the mining sector in a number of countries through technical assistance; a large amount of financing, therefore, goes to governments for reform packages, rather than to EI directly. In oil and gas, the Bank has supported more structural or technical assistance than projects, with the exception of the Chad-Cameroon pipeline project. Recent WB advisory work includes policy dialogue on revenue management, privatization, capacity building, and gas market strategies. Recent investments with the private sector include mine rehabilitation and development, on- and offshore oil developments, and mineral processing.

Case Study of World Bank Group Project in Mining Sector, Mali
A government representative from Mali gave a presentation on a successful gold mining project in Sadiola, Mali, sponsored by the WBG, which integrates social and environment issues, with aspects of mining administration and implementation. Mali’s economy is mainly agricultural and pastoral based, but has a long history of small-scale mining, said the speaker. The country has now become a major gold producer, with six tons of gold produced every hour.

Development of the mining sector
The Government of Mali wanted to develop the mining sector and the development of the Sadiola mine, based in the West of Mali, near Senegalese border, was part of a World Bank Structural Adjustment program. The Environmental Impact Assessment (EIA) was conducted in 1994, using national as well as international expertise and encompassed all the socio-economic impacts and environmental impacts of the mining development, including the social aspects relating to mine closure. The main conclusions of the EIA were that the significant development of the area would lead to the creation of local jobs and move from a subsistence to monetary economy. This assessment also led to the implementation of an environmental monitoring plan.

Creation of environmental awareness
The Government had to draft an environmental policy in compliance with international standards to ensure all socio-economic benefits of the project were maximized; this included a policy on chemical products and cyanide use, as well as waste management. A main intention was to promote awareness of the environment within the Consortium running the mine and local communities. The Government was cognizant of ensuring local communities did not become too dependent on the mine, and the need to promote other income generating activities. The speaker added that the EIA took place in a non-regulatory framework, but because of involvement of IFC, Mali benefited from its first EIA. The Government has since used the report as a basis for drafting environmental decrees.
Relocation of affected communities
The development of the mine was based on a number of considerations, including the relocation of villages, which was managed through a development fund integrating economic and ecological aspects, and undertaken according to WBG guidelines. Community consultations were held prior to moving around 6000 people, facilitated with the help of a local NGO who conducted the necessary research. Infrastructure improvements were part of the relocation program, and included improvements to roads and water provision.

Mitigating environmental and social impacts
Environmental and social monitoring was based on affordable technologies. Parameters were put in place to monitor subterranean waters, dust generation, and potential social conflicts arising from the development of the mine. Improved equipment was put in place to monitor water quality and dust, and to manage solid waste. Encapsulating Acid Rock Drainage (ARD) was a priority and trees were replanted to stabilize the slopes of the mine tailings. Mud was impounded by laying down straw to encourage plant growth.

As part of the social closure plan, $5000 is set aside each month, which is managed by the community. The Sediola community is now the richest in Mali in terms of infrastructure development, access to education and local facilities, such as storehouses and shops that are managed by the local community. The mine has led to the development of other activities in the area such as improved agriculture, beekeeping, and small-scale mining, due to increased access to equipment, irrigation, and the development of commerce and trade. Old mining sites have been reclaimed and a ‘green belt’ has been developed. The mining fund has given assistance to a national broadcasting station to advertise what has happened in Sadiola. Literacy programs have been implemented around the area of the mine, a vaccination program has been established, and school attendance has increased to 75%.

Concluding comments
The speaker concluded saying that the intelligent approach adopted to develop Mali’s mineral resources and political commitment of the Government has enabled the country to fight poverty. He emphasized the importance of stakeholder involvement, where civil society works together with the Government to facilitate sustainable development through intelligent dynamics. Whether natural resources were in the form of gold or oil, he said they should not be viewed as a ‘curse’, but as a blessing to improve the capacity of a country.

8. Case Studies on Oil, Gas and Mining
This session was designed for further elaboration on pertinent issues relevant to the WBG’s involvement in oil, gas and mining developments in Africa, with the purpose of identifying lessons learnt. Discussions were based on three case studies: the Chad-Cameroon Pipeline Project (oil and gas); the Bulyanulu Gold Mine, Tanzania (large scale mining); and a general discussion on small-scale and artisanal mining in Africa. Each case study comprised presentations by World Bank Group, civil society, industry and government participants, followed by plenary discussions.
Case Study One: The Chad-Cameroon Pipeline Project

World Bank Group

Staff presented the WBG perspective of the Chad-Cameroon pipeline project. The project consists of the development of three oil fields in landlocked Chad and the construction of a pipeline system/export terminal to transport oil from Chad to offshore Cameroon.

Why was the project approved?

Outlining reasons for the WBG’s approval of the project, staff referred to Chad’s huge landmass, sparse population of 8 million, 200 ethnic groups and 120 different languages. According to a wide range of indicators, Chad is one of the poorest countries in the world, with a GDP per capita of $200, 60% of the population living below the poverty line, and only 20,000 people with access to electricity.

Chad’s economy is highly dependent on cotton and cattle, and the country experienced a decline in real income in the 1990s. The country has suffered three decades of civil war and sporadic conflicts continue. Oil was discovered in 1975 following exploration since the 1960s. According to conservative WBG estimates, Chad’s oil reserves could more than double government revenues, amounting to US$2 billion over the 25-year life of the project.

Key stakeholder issues

Key issues identified by the WBG were providing fair access to project benefits in Chad and Cameroon; ensuring large revenue flows to Chad were used wisely; mitigating environmental aspects along the pipeline route, and social impacts on local communities in the construction and operation of the pipeline; and managing investor perceptions due to cross-border risk of a large capital investment in an area with no track record of oil development.

Conditions applied to the project

There were a number of key stakeholder agreements for the pipeline development, which took years of negotiation and inputs from civil society. Exxon valued what the Bank could offer in terms of environmental and social expertise. It was essential to build the capacity of the Chad Government to manage revenue flows and oversee the project; the revenue management law sets aside 10% of revenues for future generations, 80% for key development spending, and 5% to the Doba oil producing region. Independent oversight was key, and includes: a local committee, comprising civil society, government and judiciary representatives, for the control and supervision of revenues; an independent environmental monitoring group (ECMG), which reports quarterly; and the Independent Advisory Group (IAG) – WBG Board approval for the project was conditional on the establishment of IAG.

Staff referred to comments that the WBG should have been better prepared and waited longer before implementing the project. They emphasized that Shell and Texaco initially pulled out of the project and Exxon had to find new partners – Petronas and Chevron. Delays to the project continued for two years, but the Bank felt they had the right
ingredients to go ahead with the project, even if plans were not perfect. The Inspection Panel review recommended some improvements, which they are working on.

Local Economic Development
IFC has been focusing on local economic development. An SME development specialist is located in Chad, and there is micro-credit facility up and running. It is working to develop markets for local farmers and is working with local chamber of commerce to help entrepreneurs.

Financing
IFC provided $100 million of financing for its own account, and a $100 million B loan through commercial banks. IBRD provided $39 million to help finance Chad’s equity interest in the pipeline. IDA provided $18 million to assist with the revenue management, and $24 million to assist with capacity building. The Bank loaned $53 million to the Government of Cameroon to help finance its share in the pipeline.

Current progress
Construction of the pipeline is ahead of schedule. Local benefits include the creation of 12,000 jobs; while many of these are not permanent, ongoing training will increase workers’ chances of finding employment in other construction projects. Other benefits include $400 million in local contracts, and long-term training facilities. First oil is expected as soon as August 2003, with revenues arriving by the end of 2003.

In terms of oversight, IAG have made 4 formal visits to the project, as well as conducting regular public environmental monitoring. ECMG have conducted 5 environmental inspections, and the WB Inspection Panel reported on the project in July 2002.

Immediate Issues
There are concerns about the lag in government capacity building, and high expectations regarding local employment and project impacts. The WBG is working with the consortium and the Chad government to manage these issues. Progress needs to be made on improving infrastructure and getting social spending underway. Other concerns are the impact of inflation on the economy, not just because of the project, but due to drought, and security concerns that are typical of large projects anywhere in the world.

Concluding comments
The WBG believe the pipeline development has tremendous potential to alleviate poverty, particularly in Chad; they hope Cameroon will similarly benefit. The project is a good example of regional integration, with both countries working closely together. Enormous revenues will flow to both governments, especially to Chad; the WBG hope appropriate mechanisms are in place to ensure revenues are used properly. Income from oil will double Chad’s net government revenues, but in relation to the country’s population and needs, this amount will be relatively small.

In terms of lessons learnt, staff said that one of hardest issues the WBG currently faces is on what conditions to remain engaged in a country. There are a number of countries where
the WBG is not comfortable working, including a few countries in Africa. One question is whether the WBG should just ensure projects ‘do no harm,’ or accept some risk to do good. Another issue is climate change and whether the WBG should support oil projects. However, with developing countries taking the largest incremental increase in energy demand in the next few decades, prices will increase without such projects, and the poorest countries of the world will be those that suffer most. These are the difficult choices the WBG faces, but they remain committed to poverty alleviation, concluded staff.

Questions
In response to queries regarding why IBRD funds were used to finance the Chad and Cameroon governments rather than IDA funds, which have lower interest rates, staff confirmed that the financing for the project was very complex. IDA funds are limited and are set aside for specific programs, rather than projects. Staff added that debt servicing is a requirement for all loans made; the WBG applies good commercial practices even if it is not a commercial bank.

A participant from Chad questioned exactly what improvements had been made to Chad’s infrastructure, and asked what type of contracts had been offered to workers. She also referred to a list of suggestions drawn up by the Chamber of Commerce in September 2002, as well as the various monitoring mechanisms in place for the project, and asked how many of the recommendations made, thus far, have been taken into consideration by the WBG.

Staff responded that the most immediate improvement to Chad’s infrastructure was in terms of roads in Southern Chad, greatly improving mobility and communications. Other significant improvements include the bridge across the Chari River that facilitates trade from Chad to Cameroon, and vice-versa. Roads from the Chari bridge and Komi basin have been upgraded considerably, and use of the main roads from Jamina down to Southern Chad necessitated the improvement of bridges. Such improvements will continue as the project progresses. Staff added that by improving roads, the volume of traffic increases and impacts on communities. Ensuring the safety of affected communities has been a significant issue, particularly in northern Cameroon and Southern Chad.

In terms of workers’ contracts, staff responded that many of the jobs were temporary, due to the nature of the construction. Regarding the Chamber of Commerce, staff confirmed that there is an agreement for IFC to work with them on capacity building. They added that the involvement of the Chamber of Commerce came too late to involve local entrepreneurs in the construction of the pipeline, but over the life of the project, there will be plenty of time for this.

Regarding recommendations made by other monitoring bodies, staff pointed to ECMG’s 5 visits to the project, for which reports are publicly available. From these 5 reports, the number of outstanding issues has been considerably reduced, and technical, social and environmental considerations have been integrated into the project.
A participant from IAG asked why the WBG put all conditionalities on the Chad government and not on the company, Exxon. He went on to ask how many of IAG’s recommendations had been followed up; they had a number of recommendations and IAG received answers for each one from the WBG. But, he continued, explanations usually implied non-action. Bank staff responded that the burden of conditionalities was not put on the Chad government alone, but also on Exxon, who are required to work through subcontractors, for example. Nevertheless, staff emphasized the importance of putting the responsibility on governments to ensure they take ownership of projects. Building government capacity made projects more successful, and the Bank ensures projects meet appropriate safeguards regardless of the government’s role.

A trade union representative commented on the low quality of jobs being created and how technology transfers would generate longer-term benefits around projects. He asked how the overall focus of the project relates to regulatory frameworks and whether projects may interfere with the sovereignty of a country. He also asked whether WBG policies for labor follow ILO conventions. Regarding sovereignty, staff responded that it is an important issue, particularly in terms of revenue management; Chad’s revenue management law has been criticized as being too defined, but it is the governments that ultimately decide what to do with their revenues, argued staff. On ILO conventions, staff confirmed that the CAO has been looking at this issue with respect to IFC; IFC ask that all its contracts abide by national laws, as well as by WBG standards. If a country is a signatory to ILO conventions, they have to submit to this also. In a broader context, labor issues often get built into the ‘value added’ in projects; IFC have been known to go beyond the four walls of the workplace in countries with inadequate labor laws, which are not signatories to ILO.

A participant from Cameroon questioned whether the WBG could effectively draw lessons from the field when there were inconsistencies in information received. As an example, the participant referred to ECMG’s recommendation for the WBG to put in place a social closure plan. He questioned how the effectiveness of a closure plan would be evaluated, and whether the WBG responds to information received through informal channels, such as reports from local communities, or whether it just considers information received in formal evaluations.

In response, staff commented on the additionality brought to the project by ECMG. The Chad and Cameroon governments wanted to use access roads for other purposes, for example, in North Cameroon, there were more quarries than planned and people’s lands were being dug up beyond the normal impacts expected. ECMG recommended to the WBG that social closure was necessary, beyond physical closure, to create a mechanism to ensure individuals were satisfied.

**Industry perspective**

A representative from Exxon gave an industry perspective of the Chad-Cameroon pipeline project, focusing on work of being undertaken by the consortium, and by Exxon in Chad and Cameroon.
**WBG conditions**
Two key conditions for the WBG’s participation in the project were the implementation of an environmental management plan and a revenue management law. The commitments taken on by the consortium are included in these comprehensive plans. The WBG also made a specific request for external monitoring, and the consortium have met with IAG during their inspections in Chad.

**Infrastructure improvements**
The speaker first outlined improvements made to Chad’s infrastructure as a result of the project. Exxon has repaired 400 miles of roads and built new bridges from the terminal in Cameroon to southern Chad; these roads will facilitate exports of cotton from Chad to international markets, he said. The total cost of construction is $3.4 billion; $2.7 billion of this amount has been paid for by the consortium, consisting of Exxon-Mobil, Petronas and Chevron Texaco.

**Other positive impacts**
US building codes were applied to the project for construction, and the company is setting high safety standards for the project; accident rates are low, with a 0.5 injury rate per 200,000 work hours compared to the average rate of 8.2 in the US and Canada. There has been a net positive impact on biodiversity in Cameroon with the establishment of two new national parks in cooperation with the WBG and Government of Cameroon. The consortium is funding park expenditures and the World Wildlife Center and Wildlife Conservation Society are going to run the parks. Where the pipeline was constructed and buried, land has been effectively reclaimed for agriculture.

**Working with communities**
The consultation process is ongoing: in the first three quarters of 2002, 1800 meetings were held with more than 63,000 people, in the largest consultation effort ever to take place in Africa. Regarding compensation, the consortium complied with WBG directives, going beyond the directives to offer individuals cash compensation or ‘payment in kind’. In Cameroon, they worked with local banks to open savings accounts for those who received cash compensation. The level of compensation was agreed with land users and local NGOs. The speaker said the company is working closely with international and local NGOs as they are better equipped to deal with the issues; for example, local NGOs have helped Exxon build houses for some resettled communities. He maintained that the compensation process was fair, transparent and efficient, and the Inspection Panel did not find any cases of improper, or inadequate compensation for land, houses or trees.

**Health initiatives**
Exxon is participating in health initiatives in Chad and Cameroon, supporting national programs against malaria and HIV/AIDS. They also have an immunization program to vaccinate against diseases such as meningitis, which has been rife in Chad.

**Local jobs and contracts**
The pipeline has had a positive impact on local employment and local business opportunities, said the speaker. At the end of the third quarter of 2002, 12,000 workers
were employed and 80% of workers were from Chad or Cameroon. In addition, training is providing workers with additional skills. Responding to comments regarding the short duration of the work in Cameroon, he said this was due to the movement of pipeline construction from southwest Cameroon to northeast of Cameroon. This means employment is short term, but equitably distributed amongst villages along the pipeline route. The jobs and local contracts have had a major impact on the economy of Chad; since construction began, growth in Chad was 9% by 2001, and 11% by 2002. The country is estimated to have the largest, relative economic growth in 2003.

**Transparency of payments**

On the issue of revenue management, while Chad’s revenue management plan is the responsibility of the government, with assistance from the WBG, the speaker said the consortium’s major contribution would be in terms of revenue transparency. All payments going into the government budget, such as royalties, taxes, dividends, fees and custom duties, will be fully disclosed.

**Concluding comments**

The speaker concluded that the development of Chad’s natural resources was the only opportunity the country had to alleviate its deep poverty and should be grasped.

**Government viewpoint from Chad**

The National Coordinator for the Petroleum Development presented the viewpoint from the Chad government. Introducing some background on the country’s petroleum sector, he said Chad gave a permit for oil exploration to an American consortium in 1969. When oil was discovered and found to be commercially viable, there was no doubt that Chad should exploit the reserves; it was a unique opportunity for the country to improve the quality of life of its citizens. With an economy based on agriculture and cattle, the government felt it would also be able to improve the management of the agriculture sector as oil revenues came into the country. To exploit the reserves, the construction of a pipeline was necessary as Chad is a landlocked country. Two companies were asked to develop the oil, TOTCO (Chad’s national oil company), and COTCO (Cameroon’s national company), who were responsible for the construction and management of the pipeline in Chad and Cameroon, respectively. The cost of the pipeline was $2.2 billion and the WBG came in as concession partners at this point. Chad and Cameroon contributed $140 million, amounting to 3% of the total cost.

**Why the need for the WBG?**

Chad accepted, and has fulfilled, all the conditions laid out by the WBG if it was to engage in the project. The speaker said the process of engaging and consulting with the WBG, NGOs and the Consortium has been an enriching experience for the Chadian government. He said the project had the support not only of the government, but of many people in Chad; consequently, they can improve environmental management, ensure the emergence of a responsible civil society - who can become a counter-weight to the public sector – and promote human rights. Government capacity to manage the project has been developed through a credit line set up by the Bank with IDA funds.
The Government’s role in the project
Follow-up on the project is being conducted by the CNPP (Coordination Nationale du Projet Pétrole). A technical committee works closely with the Consortium and is charged with reinforcing environmental management capacities, taking action to reduce impacts on the ground, and developing action plans for local initiatives. In addition, the government has set up a social fund whose objective is to assess the impacts of the project and assist the sustainable development of people living in the oil producing zone. The Ministry of Petroleum follows technical aspects of the project and works with the consortium on the ground, reporting its findings to CNPP. A communication unit manages the flow of information between the state, NGOs and all partners in the project. Another unit is assisting the government with capacity building, increasing resources at the local level to help manage the project. This unit is also helping reinforce all government ministries, setting up management structure to manage expenditures. Hence, the project has had a big impact on enhancing government institutions.

Revenue management
Regarding revenue management, a ‘college’ comprising all stakeholders is responsible for applying the revenue management law to mobilize funds. The funds are put in an offshore account which is divided into several small accounts: one to repay loans to the European Investment Bank; one to repay WBG loans; one for debt servicing; one to set aside 10% of funds for future generations; and lastly, one for 90% of the funds dedicated for priority projects being implemented by government ministries.

Concluding comments
The project has been demanding for the Chad government, but they firmly believe it has been worthwhile not only for Chad, but for African countries in general in disseminating knowledge on revenue and environmental management. The project has brought about civil society in Chad, ensuring the project is multi-dimensional, with government, civil society, the private sector and WBG working together. The Government hopes that with the arrival of revenues later in 2003, they will be able to present even more positive conclusions on the project.

Civil society: lessons learnt
Civil society participants presented 8 lessons they had learnt during the implementation phase of the project.

Lesson one: Oil for development
The speaker firstly commented on the WBG’s presentation, saying civil society were not convinced that oil revenues would be used to fight poverty. Bank staff admitted that ‘only time will tell’; the project involved risks and while it was not perfect, lessons had been learnt. The project was approved because the WBG assured that oil revenues would be used for development. The speaker questioned why more time was not taken in the preparation phase if staff were not sure of the project’s success in this regard.
Lesson Two: Investing funds for poverty reduction
The mechanisms set up to manage project revenues are based on the clear supposition that the governments will use the increase in revenues to invest in projects to reduce poverty. The speaker questioned whether this was realistic and suggested the WBG may be well aware of this fact.

Lesson three: A poor deal for Chad
The speaker said the WBG did not allow the Chad government to make a good commercial deal on the oil produced. He cited the example of Congo, where the government recoups 33% of the price of a barrel; in comparison, Chad only receives 25%. He argued that the Chad government bears the greatest burden of financial costs, leaving little to fight against poverty, while the main beneficiary, Exxon maximize their profits due to beneficial tax exemptions.

Lesson four: Environmental and social concerns
The project has a number of major environmental and social problems that the monitoring mechanisms put in place by the WBG are aware of, said the speaker. While 12,000 jobs were created, many of these were three-week contracts; workers are underpaid and some have not been paid social security, which is required by law in Chad. There is a lack of capacity to respond to nascent conflicts, many of which relate to compensation and workers’ grievances. In Chad there is no arbiter for redress of grievances; the only recourse for grievances is the Inspection Panel, he continued. Food security has not been addressed, prices have increased, and there are health issues few are aware of and that remain unchecked on the ground. Despite compensation, many people have lost their means of production and subsistence. The WBG assured people they would benefit from revenues and job creation, but this does not seem certain, said the speaker.

Lesson five: Monitoring mechanisms
Monitoring mechanisms are seen as ineffective and powerless, and civil society do not see the various recommendations being taken into consideration by the WBG, argued the speaker. She commented that the Inspection Panel’s economic evaluation of the project did not even include any quantitative data. Despite clear examples of non-compliance, no remedies have been found for the problems on the ground. The WBG continues to state that it is making efforts to find solutions, but many believe these solutions will come too late.

Lesson six: Project expansion
The speaker expressed concerns regarding the apparent expansion of the project; Exxon are exploring other basins beyond Doba. The WBG insist the company is in compliance with its safeguards, but civil society has seen no evidence of an environmental impact assessment being conducted; installations are in place, roads are being constructed and people’s land has been expropriated.

Lesson seven: Public consultations
Lessons learnt from public consultations are that they must be better organized to be effective.
Lesson eight: Good governance
The speaker concluded emphasizing the importance of good governance. Referring to the case study on Mali, she said the country was one of the few in Africa where good governance had helped ensure the success of a project. The WBG should insist on minimum conditions of good governance and democracy before engaging in projects.

Case Study Two: Kahama Gold Mine, Tanzania
Civil society perspective
The speaker focused on five volumes of evidence submitted by Barrick Gold and the Kahama Mining Corporation to MIGA and the Development Corporation of Canada. He said this would establish whether the gold mine was achieving poverty alleviation in line with the mission of the WBG.

Economic benefits of SSM
The speaker commented that the Government of Tanzania legalized artisanal mining in the 1979 mining law, and since 1980, Bulyanhulu had been the sole preserve of SSM. The Kahama Mining Corporation never had a license to operate in the Bulyanhulu region, he argued. Prior to the 1996 evictions, there were approximately 20,000 people employed in SSM activities. Many more were involved in auxiliary activities associated with artisanal mining; including dependents, this increased the total number of affected people to hundreds of thousands, argued the speaker. Per capita income was highest in the area of SSM greatly stimulating the local economy, and there has been a significant decline in income since the departure of the small-scale miners. He referred to EIA reports that quoted the positive social and economic effects of SSM activities in generating local income and improving services. The document acknowledges the negative effects of the closure of SSM on the economic and social development of the region. He said these were the conclusions Barrick Gold presented to MIGA, and the governments of Tanzania and Canada. Yet, on these conclusions, MIGA approved a political risk guarantee for the gold mine, which was the biggest single contract in the organization’s history. The speaker questioned whether this was consistent with the poverty alleviation objectives of the WBG, considering the destruction of thousands of people’s livelihoods.

Economic injustice
The people of Bulyanhulu have not yet received compensation for their losses; the CEO of Kahama Mining Corporation prepared a $3 million compensation program for local communities, which was shut down by the Board of Sutton Resources, said the speaker. Yet, Sutton Resources were paid $280 million by Barrick Gold for the Bulyanhulu Gold Mine, and Barrick Gold will benefit from $3 billion in revenues over the life of the mine. He concluded that this type of corporate investment in the mining sector in a country like Tanzania was synonymous with plunder. He urged the CAO to reconsider the unambiguous complaint that was submitted on the basis of evidence given by affected communities.
MIGA’s involvement

A staff member briefly outlined MIGA activities in Africa, before describing its role in the Bulyanhulu project. He said that because of what MIGA does not do - in terms of loans, grants, equity positions and debt lending - they are the most misunderstood arm of the WBG; MIGA’s work does not only consist of political risk guarantees, but includes investment marketing services and mediation. The scope of MIGA’s activity in Africa is broad: they have projects in Mali, Togo, Mozambique, Ghana, Senegal and Tanzania. MIGA’s portfolio in the extractive sector only consists of three projects, of which one is the Bulyanhulu Gold Mine, in Tanzania.

Positive impacts

The speaker said MIGA would review testimony presented at the workshop, but added that in a recent review of the Bulyanhulu mine, he had found a world-class operation on the technical and social side. The project’s community development program includes a housing, healthcare and education projects, water supply and electrification, and a malaria control campaign. He added that the most impressive achievements are the provision of water to 30,000 people and extension of electricity over a 150 km area. Discussions with the Tanzanian government and other authorities demonstrate a high level of satisfaction with the benefits the project has brought to the country.

Lessons from the case

The speaker said that the WBG tries to fairly evaluate the costs and benefits associated with its work, whether in terms of individuals or governments. The key question is who gets what benefits, when, where and how, and what decision-making mechanisms should be used, and what principles followed. He questioned to what extent the WBG should get involved in the internal decision-making processes of a country – should the WBG assess whether or not to support projects after a government decides to choose conventional mining over SSM, or should the WBG be more involved in formulating those decisions, raising the issue of sovereignty. Finally, he noted that MIGA, like IFC, works exclusively with the private sector, and that time is an important factor in terms of lost opportunities, lost incomes and lost lives; not doing something while waiting for perfection carries with it tremendous costs.

A participant questioned whether MIGA undertook necessary due diligence before engaging in Bulyanhulu, by following relevant safeguards relating to displacement and compensation. MIGA staff responded saying they did believe they had undertaken due diligence and followed appropriate safeguards, but acknowledged that they were constantly improving on their work.

CAO’s viewpoint

A staff member confirmed that the CAO had reviewed the complaint submitted on the Bulyanhulu mine, and the office had provided a summary assessment report to the complainant, as well as Barrick Gold and MIGA. The report identifies what the CAO considers to be serious shortcomings in MIGA’s approach to the guarantee at the time it was made. The CAO discussed the report with MIGA and with the President of the WBG in the context of reviewing MIGA’s procedures. These shortcomings include the way in
which MIGA carried out its due diligence, MIGA’s supervision of the project to date, and the way MIGA communicates with the company and broader community. The CAO urged MIGA to disseminate the wide spectrum of best practices and experiences that exist in all parts of the WBG to enable the company, Barrick Gold, learn lessons from a responsible guarantor and partner. She said the CAO concluded that the project is in line with MIGA policies not due to rigid supervision by MIGA, but mainly because Barrick Gold seems to be operating at the best practice level.

Maximizing benefits, minimizing losses
In a summary of lessons learnt, she said the biggest issue in this case was how to take a state of the art gold mine, with a large FDI, into the poorest area of one of the poorest countries in the world, and help it contribute to the transformation of an economy based on SSM. The challenge was in maximizing the benefits and the number of winners, while diminishing the negative impacts and limiting potential losses in the short-term. It is this question that lies at the root of most complaints to the CAO.

Increasing cooperation within the WBG
Another lesson was how to systematically increase cooperation within the WBG, where different operating roles, different management traditions, and different perspectives and analysis exist. She questioned whether the World Bank country office in Tanzania saw MIGA’s work in the country as an important part of what the institution was doing more broadly in the region, and whether MIGA are able to guide the Government of Tanzania and Barrick Gold to the other opportunities and resources at their disposal within the WBG to help them achieve their goals. The key question was how to manage for excellence across the whole WBG.

What kind of partnerships?
Lesson can also be learnt on the nature of partnerships. In the case of Bulyanhulu, she said the Tanzanian NGO, LEAT, had presented their perspective on the project; but there were other local, national and international NGOs who are engaged in partnership with Barrick Gold, including AMFAR and CARE. Barrick’s partnerships also involve different government ministries to help build up basic infrastructure and services that are lacking in the area. Nevertheless, there are pros and cons to the different ways of building partnerships. She recommended that the EIR should analyze what kind of partnerships work, and what are the triggers and incentives. There are many best practice examples of successful partnerships in Africa that can provide lessons to the rest of the world.

HIV/AIDS
This is a crucial issue, but the ways in which oil, gas and mining companies approach this with regard to their own staff and communities varies greatly. Barrick are innovating on this with their workforce and local community, and lessons could be learnt from this for other projects that lack the same quality of work.

Safeguard policy review of IFC
One conclusion drawn by the CAO from their review of IFC safeguard policies, and relevant to the WBG generally, is that the environmental and social outcomes of projects
are dependent on the quality of the partnership between the project sponsor, or company, the government responsible for enforcing regulations, and the quality of the input by IFC. Each of the three pillars must be strong in order to get good outcomes. It is not enough for the WB to have an excellent set of policies; inputs are also needed from civil society. How this can be achieved on a consistent basis is a major challenge facing the WB.

Concluding comments
She concluded saying that the CAO stands by their report on Bulyanhulu, and suggested it was now better to concentrate on the future of the gold mine and how to improve the quality of life for the poor living in the vicinity of great riches and ensure their development.

Case Study Three: Small Scale and Artisanal Mining

Recommendations from Mining Industry
A representative from the Mining Industry Association of South Africa (MIASA) opened the discussion on small-scale and artisanal mining. MIASA had six members, which are the Chamber of Mines of Botswana, Namibia, South Africa, Tanzania, Zambia and Zimbabwe. MIASA represents large-scale mining, and to a lesser extent, junior mining; nevertheless, the importance and extent of SSM in Africa, and the effect it can have on the development of larger mining operations, has resulted in MIASA spending considerable time trying to define the nature of SSM and assessing how its member organizations can better interact with the sector. Through this process, MIASA developed a position on SSM that was submitted to the South African Development Committee (SADC) of mining ministers in July 2000, and this now forms a part of policy making in the region.

Harare Declaration on SSM
The speaker said SSM is difficult to define and there is no universal definition; at its most basic, the sector can be classified into formal small-scale mining and informal artisanal mining. In the past, informal artisanal mining was viewed as undesirable or as one means of lifting people out of poverty. The latter view is gaining favor with organizations such as the WBG, ILO and UN. But while differences in opinion exist, the speaker highlighted the importance of the UN Inter-regional Seminar on the Development of Small and Medium Scale Mining in 1989. This resulted in the Harare Declaration, which consisted of guidelines to provide a framework encouraging the development of the SSM sector as a legal, sustainable activity and to optimize its contribution to social and economic development. MIASA believe this is an excellent guideline and suggest the WB adopt it.

Differences between SSM and artisanal mining
Formal SSM implies that miners have a legal right to mine their sites, which means governments can exercise control over the activities of miners. As a private sector activity, the policies that will promote investment in the mineral sector will also promote investment in SSM. The problems encountered by SSM are the same as those affecting large-scale mines; however, in the case of small-scale miners, problems are exacerbated by a lack of expertise and resources, metallurgical skills and access to markets. The WB could, and does, play a major role in this regard.
The artisanal mining sector is far more complex, and although it provides a livelihood for innumerous communities throughout Africa, it engenders many undesirable effects. Mining is executed in a rudimentary fashion, where products are disposed of in formal markets at discounted prices. Due to the lack of controls, artisanal mining is unsafe and unhealthy, and has significant, adverse environmental and social impacts. As only the richest parts of the mine are exploited, the sites are not generally desirable for large-scale development.

**Formalizing the SSM sector**

In MIASA’s view, uncontrolled artisanal mining is undesirable since any benefits it brings are outweighed by its damaging social and environmental consequences. In contrast, a formal SSM sector can play an important developmental role, and help maximize the mineral potential of countries, create employment, support communities, and provide additional demand for goods and services, thereby boosting the development of a secondary sector.

**Building the capacity of SSM sector**

Small-scale mines often grow into large-scale operations. To develop SSM sectors in countries in the first instance, suitable deposits need to be identified and made accessible to small-scale miners. This issue can be jointly addressed by mining companies, geological surveys, and relevant government departments, and the WBG is in a position to make a significant input by providing financial, material and administrative assistance. Second, for small-scale miners to mine effectively, necessary knowledge and skills are required. This should be provided through formal assistance, with large mining companies voluntarily becoming involved in the SSM sector at a practical level, with a particular training focus on marketing and financial aspects. The WBG could also assist in this regard. Third, large mining companies should make their equipment, expertise and services available to assist in the establishment of an effective SSM sector.

**Facilitating cooperation between SSM and large-scale mining**

The main objective would be to make formal SSM an attractive option, not only to entrepreneurs, but also to informal miners by giving them the incentives to operate legally. This transformation should not occur by depriving artisanal miners of their livelihood; rather, the establishment of SSM cooperatives and joint ventures, in conjunction with existing mining companies, would be one option. The possibility of such cooperation is being explored in Tanzania, through a project being funded by USAID, managed by the Tanzanian government and executed, in part, by the Chamber of Mines in Tanzania. The project is fostering value-added, up-and downstream activities. There is a role of the WBG in this regard, and the speaker recommended that it investigate these initiatives.

**Importance of legal titles to mineral rights**

In considering the formalization of the artisanal mining sector, it is vital that miners are empowered by government to acquire legal titles to their mineral rights, without infringing on established mineral rights. Such ownership will permit artisanal miners to trade their rights, or use them as collateral to obtain financing. The WBG can also contribute in this regard.
Civil society: Contribution and significance of SSM for development

A civil society participant outlined the contribution of, and challenges to the SSM sector in Africa. He said SSM had long been regarded as an economic activity, which co-existed with other activities within the local economy, such as hunting and fishing. It remained an enclave activity until colonization, and reached its peak when the structural adjustment program was inserted in Africa. Since then, he said, there has been a growing number of small-scale miners and areas of SSM activities, also due to the increased large-scale mining investment in areas that were known for small-scale and artisanal mining.

The contribution of SSM can be looked at in two ways: first, for its economic contribution - for instance, in Ghana where small-scale miners dominate the diamond industry. In Tanzania, the economic contribution of SSM amounted to $37 million per annum. Second, SSM contributes to engaging the labor force; in Ghana, 200,000 people work as small-scale miners, in Sierra Leone, over 400,000, and in Zimbabwe, over 600,000.

Challenges to the SSM sector

The SSM sector faces certain challenges, and this includes the extent to which the sector can engage in public sector policy dialogue. The small-scale mining sector lacks an equivalent of the Chamber of Mines, which represents the interests of large-scale mining. The speaker said a major challenge was the disconnect that exists between SSM activities conducted on the ground and policy-making at the national level. Another problem is the legal status of small-scale miners; many do not have legal mineral titles for their operations. In countries, such as Ghana where a small-scale mining law was enacted in 1989, the processes required for obtaining a license are often cumbersome. In relation to environmental degradation, he said SSM was viewed as one of the worst culprits; yet, this could not compare to the scale of environmental impacts caused by large-scale mining operations, in his opinion.

Summary

In conclusion, the speaker said the SSM sector could be seen as an alternative catalyst for mineral resource-led development. Any intervention by the WBG or other actors should be directly linked to the evolution of policies, which must facilitate the access of information to all stakeholders regarding SSM.

9. Lessons Learnt from Case Studies

Participants divided into three groups to further examine major issues raised by the discussion of the three case studies, with the purpose of formulating recommendations for the WBG based on ‘lessons learnt’ that could be applied to future WBG activities in the extractive industries in Africa.

Lessons for Petroleum Developments

Revenue Management

The group encouraged the WBG should use its leverage to ensure good revenue management in the countries in which it works, and build on the high-level of political support for revenue management initiatives at the international level, perhaps working
more closely with the IMF on the issue. Companies particularly have a role to play in revenue disclosure, and the WBG should help establish a level playing field to facilitate revenue disclosure for the sector internationally. They emphasized the importance of good revenue management emerging as an output of projects, with a focus on country-led priorities identified by a range of stakeholders, to ensure ownership over revenue management plans by the countries concerned. Outcomes should be strictly monitored.

Implementation
The group advised the WBG to prepare simple, measurable ‘best practice’ guidelines for project implementation and establish a convention for contractual engagement. Projects should be considered in a regional context, and lead to the implementation of a regional development plan. Participants highlighted the danger of two-speed development, where fast project construction was contrasted by a lag in capacity building; capacity building programs should be in place from the outset of projects. They advised the WBG to implement community development plans from the start of projects and ensure a proper determination of the value of compensation for resettlement. The income diversities that exist within countries should be considered, and effects of inflation guarded against. Local communities should have greater access to work opportunities and be guaranteed proper health insurance.

Environment
The group commented on the lack of baseline measures and recommended that the WBG gather solid baseline data to anticipate the cumulative regional and sectoral impacts of large projects. Each impact factor should be mitigated through measures set in place to target specific problems. The WBG could develop studies in collaboration with relevant experts. Corrective measures in environmental plans should be implemented and followed up by the WBG.

Human Rights
The WBG should ensure appropriate legislation exists to ensure an adequate level of respect for human rights. The group highlighted the link between human rights and the private sector, which should be fostered by the WBG; the private sector creates economic growth and opportunities, and this growth provides favorable conditions for human rights improvement. Business should condemn human rights violations and makes its views known to governments.

Project pre-conditions
The WBG should define precise, public eligibility criteria for states. Pre-conditions should include government transparency and free political life, including freedom of speech, and press. The WBG should guarantee the capacity of the sector to alleviate poverty, and create conditions to enable ‘value-added’ at the local level.

Lessons for Large-Scale Mining Projects
Community issues
Involuntary resettlement is a key issue, and the WBG should ensure that a clear and agreed upon compensation strategy is in place at project implementation. Adequate time should
be dedicated for resolution of compensation issues and related community concerns. The group also recommended community development programs be in place from the outset and implemented simultaneously with projects. Expectations should be better managed.

**Governance and accountability**
The group pointed to the lack of trust that exists between impacted communities, and the government and companies concerned. Multinationals and national governments are seen to lack accountability. They highlighted the fact that WBG procedures are not generally understood and the nature of decision-making processes surrounding foreign investment are opaque. The WBG should help build trust by ensuring a transparent flow of information between all stakeholders, and should also disseminate information on its own practices and procedures to help build understanding. The WBG should manage the risks of (poor) governance, promote transparency, and ensure project revenues are captured to equitably benefit all in the country concerned.

**Implementation and Monitoring**
Project implementation needs to be better monitored and reviewed, and the credibility of those implementing projects be guaranteed, whether from the company, government or WBG. Procedures should be defined for no-go zones.

**Conflict Resolution**
The group highlighted the problem of polarized positions in disputes generated by projects and pointed to failures in dispute resolution. They recommended that conflict resolution and management mechanisms should be a necessity for large-scale developments and all parties should be engaged. Equally important were the existence of mechanisms for complaints management and redress.

**Law and Order**
The WBG should help prevent illegality and impunity relating to its projects by helping countries to develop adequate institutions for law and order. The countries in which the WBG works should respect existing human rights conventions to help prevent grievous abuses.

**Small-scale miners**
Equal incentives should be ensured for small-scale miners. The group highlighted the constraints that exist on SSM in development priorities, due to the lack of mechanisms for inclusion of the SSM sector.

**Lessons for Small-Scale and Artisanal Mining**
**WBG policy on SSM**
The group questioned whether the WBG has a coherent policy on SSM and if so, it should be disseminated more widely. A WB project on small-scale and artisanal mining in Burkina Faso was cited as an excellent example of the kind of assistance the WBG can extend to the sector, to reinforce and legal frameworks; capacity building and training; socio-economic aspects; geological mapping; environment; health and safety; improved monitoring; financing; marketing; education; and access to appropriate equipment.
**Legal and Institutional Framework**

The WBG should help countries revise fiscal regimes and mining laws to ensure they adequately protect and represent the interests of the SSM sector. Participants pointed to the uncertainty regarding to land tenure and confusion over the ownership of mineral rights. The WBG should build the knowledge and capacity of relevant authorities to deal with SSM in an effective way. This could include assisting governments with geological mapping to identify and track the type of deposits to be mined, and promoting effective monitoring of SSM operations.

**Socio-economic considerations**

Poor health and safety practices in the SSM are major concerns. The living standards of small-scale miners should be improved, and vulnerable groups working in the sector, such as women and children, should be recognized. The WBG should assist governments to improve the sustainability of SSM as a livelihood.

**Marketing and Production**

Marketing and production are key; the WBG should consider how value can be added to raw material extraction. Small-scale miners should have access to financial support and formal organizations should be established to represent their interests.

**Best practice code**

The WBG should help develop a code of best practice for the SSM sector, to be ratified by states; the group referred to the Compendium of Best Practices issued by the UN at the Yaounde Seminar, November 19-22, 2002. The group questioned why prior recommendations for the sector have not been implemented and recommended the WBG to be fully involved in the implementation of recommendations.

**Partnerships for capacity building**

The WBG should take more of a lead role in facilitating partnerships between stakeholders on small-scale and artisanal mining issues. In particular, large-scale mining companies should be persuaded to assist the SSM sector through technical support, facilitating access to new technology and practices and training. Civil society organizations could be involved in building this relationship.

**10. Final Recommendations**

Based on stakeholder presentations, case studies on WBG oil, gas and mining projects, and the discussion of major issues relevant to the extractive sectors in the region, Dr. Salim called on participants to formulate recommendations to guide future WBG involvement in EI in Africa. Ten areas were identified from the workshop discussions, where stakeholders raised significant issues regarding the role of the World Bank Group: artisanal and small-scale mining; community development; the environment; conflict management; revenue management; governance; disclosure, transparency and trust-building; human rights; WBG policies, procedures and guidelines; and capacity building. In the context of the ten topics, participants were asked to consider how Bank policies, projects and procedures could be
improved to ensure EI contributed to poverty eradication and sustainable development in Africa by 2015, in line with the Millennium Development Goals.

Commenting on the topics identified for discussion, participants proposed that a deeper analysis of the issues was necessary in order to address the reasons behind the development lag in Africa, despite the continent’s abundant mineral resources and long history of EI. Recommendations needed to be formulated in a way that would close the gap between theory and practice, ensuring effective implementation on the ground, and bearing in mind who should own, and have control over, the process of development in Africa.

1. Small-Scale and Artisanal Mining

(i) **Small-scale and Artisanal Mining Policy:** while the Bank funds some projects relating to small-scale and artisanal mining, it lacks a clear policy for the sector. The Bank could address this by convening a meeting with specialists to develop a policy paper specifically outlining a strategic approach.

(ii) **Legislation:** national legal frameworks should incorporate laws for small-scale and artisanal mining. The Bank could play an advocacy role at the governmental level to promote the drafting of appropriate legislation.

(iii) **Mineral Titles:** the legal transferability of mineral titles should be strongly encouraged by the World Bank.

(iv) **Fiscal Regimes:** the Bank should assist in the development of appropriate and progressive fiscal regimes that often do not exist with regard to small-scale and artisanal mining.

(v) **Capacity Building:** the Bank could play an important role in the development of an effective institutional framework for the sector, bringing funding to capacity building programs to train private operators and institutions.

(vi) **Investment:** to address the shortage of financing for small-scale and artisanal mining, the Bank could be active in enhancing allocation of funds to CASM\(^{12}\) and encourage action at the country level to mobilize local investment. Burkina Faso was cited as an example where this had been successfully achieved with assistance from the World Bank.

(vii) **Marketing and Value Addition:** the Bank could help improve the commercial success of the sector by assisting in the establishment of a ‘buying, marketing and value-added center’. It could also encourage the creation of a market for additional mining products i.e. the promotion of other minerals beyond precious commodities, such as gold and diamonds.

(viii) **Infrastructure and Social Services:** the Bank should encourage the provision of infrastructure and social services to areas of mining activity.

(ix) **Sustainability:** to ensure the sustainability of small-scale and artisanal mining as a livelihood, the Bank should encourage the reinvestment of profits back into mining areas. To improve the viability of mining, the Bank should look at the applicability of HIDC funds to the development of mining areas.

---

\(^{12}\) The Collaborative Group on Artisinal and Small-Scale Mining (CASM) is a multi-donor technical assistance facility aimed at poverty reduction by improving the environmental, social and economic performance of artisanal and small-scale mining in developing countries.
(x) **Best Practice:** the Bank should develop a compendium of best practices for the small-scale and artisanal mining sector, that would become a working document for the World Bank.

(xi) **Child Labor:** given the large number of children living, and working, on small-scale and artisanal mining sites, the Bank should give due attention to this issue when intervening in projects.

(xii) **HIV/AIDS:** in addition to national initiatives to combat HIV/AIDS, the Bank should fund separate initiatives focused on mining sites where many artisanal miners are affected by the disease.

(xiii) **Harare Declaration:** the 1994 Harare Declaration\(^\text{13}\) should be used by the World Bank as the basis for its consideration of all small-scale and artisanal mining issues in Africa. Its main proposition was the formalization of small and medium-scale mining, operating under full mineral titles, to facilitate its integration with the large-scale mining sector. This transformation would be achieved by increasing government support for the sector, with the assistance of international development agencies.

2. **Community Development**

(i) **Consultation Process:** consultations should be improved through several identifiable steps: (a) consultations should be mandatory for all WBG projects and sufficient time allocated for effective consultations to take place; (b) codification should be used to ensure that the consultation process is inclusive of all groups in the community hierarchy; (c) project information must be communicated to a non-technical audience in the relevant local language, with the information stage, itself, adding to capacity building efforts; (d) consultation should include negotiation with communities on the alternatives presented to them in community development programs; (e) an independent adviser should be employed, paid out of project costs, to work with local communities and act on their behalf.

(ii) **Poverty Alleviation:** poverty alleviation aspect must be foremost in project planning, and measured in terms of addressing health and education issues, infrastructure development, and building local capacity to maintain projects after they are completed.

(iii) **Development Plan:** (a) the Bank should address community development as a specific activity, not as a bi-product of other projects; (b) proper baseline surveys should be fundamental to any activity, to assess community needs; (c) allocated funds should be non-divertible and administered transparently; (d) a maintenance capability should be created within the community to ensure development programs are sustainable.

(iv) **Services to Communities:** (a) the Bank should make a greater commitment to facilitating rural communities’ access to healthcare, education, and water, and to reinforcing existing infrastructure; (b) the Bank should help develop the capacity of NGOs to assist governments deliver essential services to communities; (c) as a part of projects, campaigns should be devised to educate communities on tropical disease and nutrition, and support be extended to local medical institutions to help build their

\(^\text{13}\) Harare Declaration on Small-Scale and Artisanal Mining, United Nations, 1989
knowledge and management of disease; (d) survey and monitoring stages should be established to enable communities to assess the local impact of projects.

(v) **Capacity Building:** the Bank should target illiteracy in Africa, focusing on building individual, as well as community and group capacity. In partnership with other bodies, the Bank could achieve this through campaigns and programs for free basic education; training; information and capacity building workshops; and by identifying credible delivery bodies. Capacity building should also focus on empowering African women, who are currently lagging behind.

(vi) **Conflict Resolution:** the Bank should develop an effective conflict resolution mechanism

(vii) **Community Development Funds:** community development funds should be structured to better address local needs, rather than being ad-hoc arrangements

(viii) **Leveraging Resources:** leveraging available resources is an important factor for community development projects. Involving other companies or organizations, such as UNDP, increases funding opportunities and provides more leverage to utilize available resources beyond the bounds of a specific project.

(ix) **Role of Local Government:** tax regimes should allow local governments to tax projects run by companies. This would leave them better placed to run development programs for communities in the area of projects, working closely with local communities to identify priorities.

### 3. Environment

(i) **Bank Policies and Guidelines:** the Bank should address the disconnect between its safeguard policies, in theory, and their application, in practice. Procedures and guidelines, particularly relating to environmental assessment, should be better communicated to those working in the field.

(ii) **Legislation:** the Bank should assist governments with the formulation of environmental policy and legislative frameworks, and address the perennial problem of implementation and enforcement through training. Outdated legislation in many African countries is a hindrance to good environmental management, and a major problem for companies operating in the region.

(iii) **Government Capacity Building:** the Bank should help build capacity in environmental ministries, which are usually the weakest in government, and establish support programs to build capacity to manage and monitor large-scale projects.

(iv) **Environmental Management:** in Africa, where the environment is not generally recognized as a sector in itself, a more holistic approach to environmental management is needed to understand the many socio-economic linkages that exist beyond the bio-physical interpretation of the environment.

(v) **Strategic Environmental Assessment:** environmental assessment should be elevated to a strategic level, using such tools as strategic environmental assessment and sustainability impact assessment to reflect a comprehensive, multi-dimensional approach to the environment. This would help identify the cumulative impacts of projects, and provide a broader range of policy choices that would streamline the eventual Environmental Impact Assessment (EIA) process applied at the project level.
(vi) Poverty-Environment Interface: poverty is recognized as a cause of environmental degradation, while mismanagement of the environment and natural resources has a detrimental effect on the poor. Both sides of the dynamic need to be addressed through improved environmental management of the poor.

(vii) Managing Impacts: the Bank should better assist with the management of local impacts: training and assistance should be given to improve the quality of Environmental Management Plans (EMPs) and EIAs, to improve monitoring procedures, and train local professionals to replace expatriates.

(viii) No-Go Zones: the Bank should protect and manage biodiversity, identifying and protecting no-go areas.

(ix) Access to Information: the Bank must improve access to information (such as baseline studies used in EMPs) and increase the transparency of its environmental assessment process.

(x) Climate Change: the Bank should assist in policy formulation at international level, and provide guidance on standards for e.g. emissions.

(xi) Site Closure: the Bank should address the physical and socio-economic aspects of site closure. Appropriate exit strategies should be devised, including acceptable guidelines on land use post-closure. Directives on closure plans should be incorporated into project planning, and dedicated funds be set-up to manage site closure. The temporary closure and re-opening of small mines, due to fluctuations in commodity prices, was cited as a problem lying outside the bounds of regular mine closure regimes.

(xii) Legacy of the Past: the Bank should address the legacy of past operations, in particular: physical rehabilitation of orphaned mines; land regeneration; water quality; community welfare; and access issues. The Bank should develop programs to assist government ministries address these issues and to identify sources of funding for site rehabilitation. Compensation funds should be established for people impacted by past developments.

(xiii) Artisanal and Small-Scale Mining: in recognition of the cumulative environmental impacts of artisanal mining, the Bank should increase available resources for the CASM program and increase technical assistance to the sector. It could also encourage mentoring by larger operators with technical expertise, in skills training for small scale miners.

(xiv) Junior Mining and State-Owned Companies: the Bank should bring junior and state-owned enterprises ‘up to speed’ on environmental issues, through increased technical assistance; capacity building; information dissemination; and best practice case studies.

4. Conflict Management

(i) Sources of Conflict: in the context of extractive industry development, typical sources of conflict are resettlement; compensation; unclear land and mineral rights; alternative visions of development; distribution of benefits; lack of information; unkept promises; and failures in expectations.

(ii) Pre-existing and Potential Conflict: the World Bank should assess pre-existing and potential conflict prior to making an initial investment. Due diligence on conflict
should be incorporated into Country Assistance Strategies, and project risk assessment in a given country should include conflict areas.

(iii) **Consultation:** conflict should be managed through early consultation to find agreement or consensus before a project is implemented. The Bank should enhance the consultation process by identifying affected and interested parties, and by making consultations more participatory, rather than just representative. Consultation should be an ongoing process, throughout the life of a project, to manage changing expectations and ensure a common understanding in reached between relevant parties.

(iv) **Conflict Resolution Mechanisms:** the Bank should build conflict resolution mechanisms into its projects, using traditional methods where possible. If conflict is resolved, procedures should be put in place for managing similar, future scenarios.

(v) **Legal and Regulatory Frameworks:** the Bank should assist countries to develop the necessary legal and regulatory framework for conflict resolution mechanisms, and promote judicial reform to ensure adequate recourse measures are in place.

(vi) **WBG Bodies:** the WBG should strengthen its internal mechanisms for dealing with conflict arising from projects, such as the CAO and Inspection Panel. The transparency, efficiency and independence of relevant internal bodies should also be improved.

(vii) **External Mechanisms:** the Bank should employ external dispute resolution mechanisms and retain the option of an independent commission for.

### 5. Revenue Management

(i) **Revenue Management Plan:** revenue management plans should be agreed through multi-stakeholder dialogue, with principles of disclosure and transparency applicable to all actors. Governments should be fully accountable for reporting on spending and deliverables, so the onus for disclosure does not lie solely with the private sector, and equitable allocation of revenues would be guaranteed between local and national government, and government and the private sector.

(ii) **Role of the World Bank Group:** the WBG should take action on the three main issues: disclosure and transparency of revenues and their use; equitable allocation of revenues; and optimum fiscal policy in host countries.

(iii) **Disclosure and Transparency:** the World Bank should support minimum standards for revenue disclosure by companies and governments. This assumes a mechanism can be found to ‘level the playing field’ to ensure all companies are compliant, e.g. disclosure as a requirement for stock exchange listing, or supported by institutions such as the Securities and Exchange Commission (SEC). The World Bank should facilitate this process: (a) through stronger linkages to other initiatives, namely ‘Publish What You Pay’ (Soros/Global Witness), and the Extractive Industries Transparency Initiative (Department for International Development (DFID), UK; (b) working as an information clearing house, aggregating financial data from individual companies to take into account confidentiality clauses; (c) improving the synergy between various components of the World Bank Group, (and linking to the IMF), to lever conditionalities on countries (even if the Bank is not supporting the extractive sector in that country).
(iv) Allocation of Revenues: the WBG should provide guidance to governments on optimizing the allocation of revenues at the local and national level – state objectives need to be clearly upfront at the start of a project. The Bank should: (a) support baseline assessments and devise consultation mechanisms to ensure the ‘buy-in’ of all stakeholders on spending priorities; (b) identify a variety of best practice examples from other countries on effective revenue allocation; (c) balance the needs of present and future generations, taking into account changing development priorities over time; (d) act as an honest broker, building consensus, perhaps with the help of independent panels and using conflict resolution tools where necessary; (e) help build capacity of local authorities to manage spending prudently.

(v) Optimum Fiscal Policy: the WBG should proactively advise governments on optimum fiscal policy to help host countries capture valuable tax revenues generated by natural resource developments. Concerns focused on limiting losses from the repatriation of funds to the company’s home country in the form of top-up taxes. The Bank should use its capacity and expertise to advise governments on fiscal policy options. It should take an holistic approach, assessing the complexities of tax regimes in both host and home countries when helping devise appropriate policies, and should advise governments on models for decentralization to local and state governments.

6. Governance
   i. Promoting Good Governance: the WBG should promote models and principles of good governance through its consultation processes and improved information exchange. The Bank should establish eligibility criteria, amounting to ‘governance conditionalities’ that countries should adhere to in order to gain Bank support. This would include non-involvement with violators. Further, the Bank could frame good governance as a value proposition, in terms of preferential loan rates and debt relief for countries its works with. The Bank should also look at its internal governance measures and accept some liability for potential project failures by establishing an appropriate accountability mechanism.
   ii. Anti-Corruption: the Bank should help combat corruption by encouraging countries to adopt explicit legal mechanisms to improve implementation and enforcement. The Bank should assist governments minimize legal loopholes to improve accountability, and strengthen their civil services, with adequate remuneration for government employees. Assistance should be suspended where corruption is rife, nor support given for projects where mining licenses were not transparently and competitively acquired. Companies who fall short of minimum acceptable standards should be blacklisted. The Bank could also make efforts to support the work of anti-corruption organizations working in host countries, such as disseminating their findings to send a strong message to governments.
   iii. Institution Building: the WBG should provide information and advice on various institutional models of good governance, and extend financial, legal and technical assistance to help set up institutions according to best international standards.
   iv. Regulatory Framework: regulatory frameworks should be adequate, integrated and transparent, effective at both the national and local level, and with competitive and equal regulations for large and small-scale enterprises. In countries where regulation
is poor, the WBG should provide assistance, advising on ‘best’ examples of regulatory frameworks and standards.

v. **Rule of Law:** the WBG should use its expertise to promote effective, fair and consistent implementation and enforcement of the rule of law, and assist countries to draft appropriate legislation. To help the swift resolution of disputes, the Bank could assist countries to streamline cumbersome processes of redress and to set up arbitration tribunals. Adequate legal protection should be ensured for small-scale and artisanal miners, and access to information and levels of public participation improved.

vi. **Land and Mineral Rights:** the Bank should assist governments to review land rights and mineral laws to ensure customary rights are protected. This should include clear mapping of mineral areas.

7. **Trust Building, Disclosure Policy and Transparency**

   (i) **Trust Building:** a communications plan should be devised from the conceptual stage of projects to build trust between stakeholders. It should identify and involve all interested parties, and address the issue of accountability by clearly defining stakeholder roles and responsibilities, including those of the Bank itself. Participatory mechanisms should be incorporated to facilitate an effective flow of information between all groups, many of whom may be located in remote regions.

   (ii) **Project Information:** the Bank should develop clear, understandable project information to disseminate to non-technical audiences, taking into account illiteracy levels, linguistic differences and the remote location of some affected communities. This could be achieved using alternative media and training.

   (iii) **Best Practices:** the Bank should spread experience to countries by transparently promoting its success stories, as well as failures. When engaged in a country, the Bank should establish ‘best practice’ projects and then work with governments to develop this approach to the entire sector (including non-Bank projects). The dissemination of ‘best practices’ to governments would multiply the benefits stemming from specific projects themselves.

   (iv) **Conditionality:** the Bank should perhaps attach conditions to governments to encourage transparency and disclosure, and ensure the participation of civil society.

   (v) **Information Exchange:** the Bank should facilitate cross-country exchange of project experience to illuminate governments on how disclosure and transparency from an early stage, benefits outcomes.

   (vi) **Industry Guidelines:** the Bank should develop clear, concise rules and guidelines for industry that apply overall. The Bank should define how such rules should be measured, and define different stakeholder roles, so no matter whether it is involved in a project, the proponent has the responsibility to communicate alternatives to others and conduct necessary due diligence (such as environmental impacts assessments).

   (vii) **Bank Influence:** in recognition of the fact that WBG have an influence beyond the sphere of transactions in which they are involved, it should take a responsibility for the kind of business development taking place in Africa, or other parts of the world by using its power to influence governments and companies to ensure elements of human development and sustainability are built into all projects.
8. Human Rights

i. Human Rights and Sustainable Development: human rights (defined as political, civil, social, economic and cultural rights) are fundamental to sustainable development. Any framework of implementation must take all these dimensions of human rights into account.

ii. Progressive Realization of Human Rights: the WBG should ensure human rights are progressively realized through its work with governments and the private sector. Bank operating policies, procedures, contracts and technical assistance should explicitly contain conditions for the respect of human rights.

iii. Human Rights Climate: the WBG should assess whether human rights are respected at the national level, the local level of the project, and by the operating companies themselves. Where there is a proven record of human rights violations, it was suggested that the Bank should not engage. Should violations occur subsequent to Bank involvement, it should consider suspending or withholding support until allegations are investigated and resolved in accordance with national laws and international conventions.

iv. Partnerships and Independent Monitoring: the Bank should build strong partnerships with international groups working on human rights issues, such as Transparency International, and actively engage the human rights community (organizations, activists and lawyers) working in the local context of projects. The Bank should give access to independent groups who can monitor projects objectively and provide information that ensures human rights abuses are documented to help bring about necessary change.

v. Legal Framework: before engaging in projects, the Bank should consider whether national legal frameworks provide effective protection of human rights, and whether citizens have access to independent redress mechanisms.

9. WBG Procedures and Policies

i. Monitoring and Supervision: the WBG should enforce its procedures for compliance monitoring and respond to cases of non-compliance with balance. The Bank should be cognizant of the costs of multi-layer monitoring and improve the coordination between the various, independent monitoring groups. The methodology of monitoring should be revised, such the short timeframes in which monitoring groups operate, and their mandate, composition and powers. Recommendations should be enforced by the Bank, but with limits of power.

ii. Conflict Management: the WBG should conduct conflict impact assessments, in line with social impact assessments (SIAs), to assess the potential for conflict around artisanal and large scale mines, within host and resettled communities, or from inter-intra group tensions, for example, due to distribution of payments, or employment issues.

iii. Good Governance: governments should respect minimum requirements for good governance and compliance prior to project implementation. Such requirements should also be applicable to the WBG which should improve the consistency and transparency of its decision-making processes.
iv. *Improving Implementation:* the Bank should work to build institutional capacity at the government level, particularly within ministries responsible for implementing extractive industry projects. Greater flexibility should be employed in the application of Bank guidelines by adapting them to prevailing conditions in the host country to ensure projects are successfully implemented. The synergy between various departments of WBG should also be improved.

v. *Safeguards for Workers:* the Bank should adopt and commit to ILO conventions safeguarding worker’s rights, and promote technology transfer and capacity building programs to benefit large numbers of local workers. A ‘reinsertion plan’ should be prepared to safeguard workers post-closure.

vi. *Project Approval Stage:* prior to project approval, compliance should be observed at the level of WBG procedures and policies. Environmental impact assessments should be consistent with Bank guidelines and developed with inputs from national experts, and a code of conduct should be established to ensure multinational companies adhere to Bank standards through the life of the project. A framework should be put in place to verify the level of consensus between all stakeholders prior to project approval.

vii. *Indigenous Peoples:* the Bank should better define the concept of indigenous people to ensure the interests of all marginalized groups are adequately protected by its safeguard policies. This should take into account the diversity of ethnic groups in certain regions and of migrant communities that may have settled over generations in mineral rich areas.

viii. *Closure Planning:* the Bank should develop guidelines for closure planning to address retrenchment and social issues.

ix. *Voting Rights:* the Bank should address the perception that the national interests of host countries are subordinated to Western industrial interests. The Bank should guarantee equality for developing countries in its decision-making processes.

10. *Capacity Building*

i. *Policy Development:* the Bank should address the lack of expertise governments have in policy development, not only in EI, but in related fields such as taxation, investment or privatization. The Bank should provide technical assistance, and help governments to develop an integrated policy and related human resource capacity (e.g. mandatory training of local workers).

ii. *Training and Skills Retention:* a) the lack of technical expertise and lack of skills retention (or ‘brain drain’) was highlighted as a major problem. At the broadest level, it was acknowledged that the poor macroeconomic climate of many African countries accounted for the flight of experts abroad and lack of capacity at home. The Bank should work with development partners to help governments capture, and draw back, African experts by establishing preferential training schemes, secondments (e.g. sending representatives to successful, modern projects in other countries) and formal learning programs.; b) governments should enforce capacity at the local level by promoting the patrate workforce in all sectors of the economy; c) the Bank should help governments develop a database of African expertise to reduce reliance on ex-patrate consultants undertaking technical and policy work.
iii. **Geological Mapping:** the Bank should assist governments to develop natural resource databases to address the lack of adequate geological information.

iv. **Support for Small and Junior Enterprises:** recognizing the importance of supporting small enterprise development through EI, the WBG should work with banks to develop a mechanism to provide grants, loans and guarantees to small enterprises who lack access to affordable financing. The Bank can also help develop and promote fora for knowledge sharing in recognition of the difficulty small enterprises have accessing the new technology and information critical for growth.

v. **Strengthening Civil Society:** civil society lack sufficient expertise to be an effective development partner and are often excluded from participating in the early stages of project planning. The Bank should better orientate civil society organizations and local communities to potential projects by raising awareness through basic training and information transfer. It should also facilitate periodic international fora to encourage the sharing of experiences and practices between governments, civil society, industry and other parties.

vi. **Private Sector:** the private sector is over dependent on expatriate manpower, failing to capture the technical expertise that exists in Africa, but is underused. The World Bank should assist governments to earmark revenues for formal technical training to ensure Africans are involved at a technical level and to improve the sustainability of projects in the long-term.

vii. **International Partnerships:** the Bank could remedy the lack of coordination on capacity building initiatives underway in many countries. The Bank should combine its own efforts with those of its partners.

11. Final Discussions

During final discussions, participants commented on the main issues raised by the suggested recommendations and on the major themes that emerged during the course of the workshop.

Participants saw the efforts of the WBG to review its work on poverty reduction and sustainable development in relation to EI in Africa as positive. However, many remained skeptical that real change would be realized unless the Bank was cognizant of its past and present mistakes; concrete steps should be taken to build the capacity of all stakeholders if Africa was to achieve its potential for long-term development through the exploitation of its natural resources.

Presenting a position paper on the role of the WBG in EI in Africa, representatives from African civil society organizations called on the Bank to set a moratorium on oil, gas and mining investments until past and present social and environmental damages were addressed. Outlining a set of conditions that should govern any future WBG involvement in EI in the region, the group called for the Bank to meet their demands through effective consultations.

A participant from Zambia commented on the value instilled in the EIR process to examine the World Bank Group’s involvement in EI in Africa. They welcomed that the Bank had made a commitment to engage all interested stakeholders in the future, and welcomed an
opportunity to improve its performance. Suggestions made that Africans were responsible for mismanaging their resources and finances was misplaced. $1.3 trillion in foreign aid/investment may have been wasted in Africa, but the overriding impression of many Africans was that their countries had been robbed of their resources over many years.

A civil society participant from Sierra Leone commented on the tremendous resource outflows suffered by the country during three decades of a civil war, in which many multinational companies were implicated. The instigation of the Kimberley Process\textsuperscript{14} was due to actions taken by civil society who recognized the need to stop the carnage on the Africa continent. Likewise, the EIR was prompted neither by the World Bank nor industry, but by civil society concerns regarding the role of the WBG in the region. Therefore, asserted the speaker, a consensus view from all stakeholders was not necessary; rather, the priority should be on those who were victims of circumstance. Civil society called upon the EIR to consider the conditions laid out in the position paper as the only terms in which African civil society would be willing to work with the WBG and extractive industry companies in the future.

One participant remarked that civil society was just one emerging group in Africa, hence the importance of taking their ethical concerns into consideration. Civil society organizations have taken creative action in fighting poverty in Africa, and continue to question how countries can develop when revenues are used to wage war and facilitate corruption. Governments were not the only ones responsible; all stakeholders interested in development were responsible for allowing Africa to live, rather than merely survive, said the speaker. Other participants also recognized the importance of engaging civil society as partners in the process of development. The WBG, and others involved in extractive industry developments, should readjust to criticisms to ensure development objectives are realized.

Participants commented on the constructive discussions on WBG guidelines, procedures and policies and on how the Bank should engage in Africa. A notable exchange of ideas stemmed from group discussions on the subject of small-scale and artisanal mining. The Bank’s support for small-scale mining projects in Burkina Faso and Zambia were of particular interest, and participants viewed them as model examples of the type of work the Bank should repeat throughout Africa.

Capacity building was viewed as a key factor. Some African nations had successfully developed their capacity in certain areas, for example in social relations and community development, particularly in Mali and Tanzania. However, there was little specialist expertise in areas where there could be profound impacts, such as acid rock drainage (ACD), tailings and cyanide, among other concerns. The WBG was advised to play a greater role in building capacity for countries to better manage these aspects of the extractive sector.

\textsuperscript{14} Kimberley Process: this process aims to create a certification system for rough diamonds which will exclude conflict diamonds from legitimate trade.
While acknowledging the problems discussed concerning the Bank’s involvement in EI in Africa, a government representative from Chad personally viewed the participation of the Bank, in Chad, as positive. Referring to compensation payments for the Chad-Cameroon oil pipeline, the Bank had insisted they be paid according to its guidelines rather than Chad’s outdated land laws, doubling or tripling the amounts paid. He pointed out that ceasing WBG financing did not necessarily stop projects being implemented, and its involvement often bore more positive results were felt by those who were impacted.

A government representative from Burkina Faso emphasized that problems were experienced not only in EI but in other sectors financed by the World Bank Group, whether infrastructure developments, dams or agriculture projects, but this was not a good reason for the Bank to withdraw its support. While there were unfortunate examples of Bank-sponsored extractive industry projects, there were also many positive examples, as presentations on mining projects in Mali and Burkina Faso demonstrated.

A government representative from Zimbabwe commented that the mining industry had benefited communities in Africa for a long period of time. After a meaningful discussion of the issues, critical points should be identified in order to find a way forward. WBG assistance to EI was crucial in Africa, where governments do not have the funds to develop the sectors on their own. Small-scale mining was especially important and the Bank needed to find a way off getting these issues raised.

The WBG was encouraged by other participants to do everything in its power to assist small and medium-sized companies. Gold panning and small-scale mining were important sectors, generating substantial incomes for local people. The Bank should assist the sector to access more financing.

From a government perspective, the participation of the WBG was welcomed to help governments develop sectors in which they have little expertise. The Bank can provide the sort of knowledge transfer and assistance that will help countries new to extractive sectors develop their industries. Examples include Nigeria’s attempts to develop its solid minerals industry, and Mali, and Niger, who are new to the oil sector.

12. Closing Remarks
Closing remarks for the Consultation were made by the Director of the World Bank Group’s, Rashad Kaldany, and the EIR’s Eminent Person, Dr. Emil Salim.

Speaking on behalf of the World Bank Group, the Director for the Oil, Gas, Mining and Chemicals department thanked all participants. The dialogue had been frank, constructive, and informative. Comparable issues had been raised at two prior consultations convened by the EIR for Latin America and the Caribbean, and Eastern Europe and Central Asia, but Bank staff had been struck by the depth and passion of discussions in Africa, where participants had brought regional variations sharply into focus. There was further progress to be made, and WBG was now be tasked with analyzing the recommendations and assessing how they could be put into action.
The quality of consultations was crucial for effecting good communication between stakeholders, and demanded a level playing field, he said. Evidence of this was apparent in the quality of discussions at the Africa workshop. Stakeholders had formulated excellent recommendations on governance and revenue management, and deep discussions on artisanal and small-scale mining had shown how the Bank must pay greater attention to the sector in the future. Recommendations on capacity building had covered all stakeholders but the World Bank Group; building the capacity of the Bank was also important to ensure it effectively delivered on its mission for poverty reduction. He commented that the WBG had greatly changed its practices over the past ten years, improving its response to the difficulties and challenges presented by the extractive sector, but it still had much to learn and would continue to do so. Problems not only existed in EI; there were other areas for improvement also. Nevertheless, the Bank was not omnipotent and could not be expected to solve everything, he reminded participants. They believed in empowerment and needed local partners to work more effectively.

The EIR’s Eminent Person closed the workshop sessions thanking participants for their efforts in formulating the recommendations. Appreciation was extended to members of civil society for participating in the workshop, acknowledging prior doubts expressed regarding the effectiveness of consultations. Civil society concerns had been clearly put on the table for government, industry and the WBG to see, said Dr. Salim, and such dialogue should continue to ensure their voices were heard.

Dr. Salim went on to recognize the frustrations felt by all stakeholders in Africa. Civil society pointed to Africa’s suffering under colonization and remained skeptical whether development objectives had the interests of Africans in mind. They saw the WBG as dominated by rich, western nations, and the involvement of multinational companies in Africa was viewed as a form of neo-colonialism. Governments, too, were frustrated and challenged by rigid structural adjustment programs, the requirement to use foreign consultants, and the many strings attached to securing foreign aid. The private sector were frustrated by government failures to effectively manage large revenues flowing from projects and highly sensitive to civil society criticisms that companies reneged on their responsibilities. Lastly, the WBG was frustrated at project failures, despite years of preparation and planning. The infinite complexities of difficult extractive industry projects demanded their best efforts, yet criticisms from all sides were pushing many in the Bank to be risk averse.

These frustrations had fostered serious debate and discussion during the consultation and stakeholders had agreed on ten recommendations for the World Bank Group. Many would question whether the recommendations would now be implemented. But, commented Dr. Salim, it was in the interests of all actors interested in Africa’s development to build partnerships to work towards a common goal. Africa lacked the enabling environment to allow it to make use of its creativity and grow. Key to this was building trust between government, civil society and business to create an environment conducive to development. Poverty eradication would not solely be realized through the development of natural resources, but by developing human resources, building capacity and skills, with
decentralization to put development in the hands of the people. Such a shared vision would help Africa prosper by 2025.
Executive Summary
DRAFT

The Extractive Industries Review (EIR)

Regional Consultation Workshop for Africa

Maputo, Mozambique
January 13-17, 2003

Executive Summary
Notes
The Extractive Industries Review Regional Consultation Workshop for Africa was held in Maputo, Mozambique, January 13-17, 2003. This Executive Summary was prepared by the EIR Secretariat and it summarizes the views of workshop participants, neither endorsing nor contradicting them.

As in common usage, unless otherwise indicated, use of the terms ‘World Bank’ or ‘the Bank’ refers to the entire World Bank Group. This comprises the International Bank for Reconstruction and Development (IBRD), International Development Agency (IDA), the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA).

Abbreviations
ASM Artisanal and Small-scale Mining
CAO Compliance Advisor/Ombudsman
CAS Country Assistance Strategy
CASM Communities and Small-scale Mining Initiative
CAO Compliance Adviser and Ombudsman
EBRD European Bank for Reconstruction and Development
ECMG External Compliance Monitoring Group
EIR Extractive Industries Review
EI Extractive Industries
GDP Gross Domestic Product
HIPC Highly Indebted Poor Country Initiative
IAG Independent Advisory Group
IBRD International Bank for Reconstruction and Development
IDA International Development Agency
IFC International Finance Corporation
ILO International Labour Organization
IMF International Monetary Fund
MDG Millennium Development Goals
MIGA Multilateral Investment Guarantee Agency
NGO Non-Government Organization
OED Operation Evaluation Department
OEG Operation Evaluation Group
OEU Operations Evaluation Unit
PWYP ‘Publish-What-You-Pay’
SME Small and Medium-sized Enterprise
PRSP Poverty Reduction Strategy Paper
SSM Small-Scale Mining
WBG World Bank Group
Executive Summary

Overview

The Extractive Industries Review (EIR) Regional Consultation Workshop for Africa took place in Maputo, Mozambique, January 13-17, 2003. This was the third in a series of five multi-stakeholder consultations convened to discuss the role of the World Bank Group (WBG) in the extractive industries. The first one for Latin America region took place in Rio de Janeiro, Brazil, April 2002, and the second took place in Budapest, Hungary, June 2002 for the East and Central Europe region. Over one hundred participants attended the workshop, representing civil society (non-governmental organizations, community-based organizations and labor unions), government, industry, academia, and the WBG itself. The objective workshop was to analyze the involvement of the WBG in the oil, gas and mining sectors of Africa and whether these activities were compatible with their overall mission of poverty reduction and sustainable development. Conclusions from the Africa Consultation will be used as inputs for the final EIR report, to be presented to WBG President in December 2003.

Africa has been seen as the lost continent and has continued to suffer widespread poverty despite its abundant natural resources. Government, business and civil society share the same goal for a free and prosperous Africa by 2015, but it was not clear how the various stakeholders can work together to achieve the means for poverty alleviation and sustainable development through extractive industries. The participants were asked to go deeper into the conventional formulas proscribed for development and identify ways to facilitate knowledge transfers, capture investment and to achieve good governance.

The process was guided by the EIR’s Eminent Person, Dr. Emil Salim and conducted in two parts: a two-day open forum for civil society testimonials, voluntary information exchange with WBG staff, and presentations on global energy by industry, followed by a three-day closed consultation sessions open only to participants who had been invited or ‘self-selected’. These sessions featured presentations from the WBG on its policy and strategy for the extractive industries (EI) in Africa, discussions on specific case studies, and lessons learned from Bank-sponsored oil, gas and mining projects in the region. Work group discussions were based on three case studies identifying the key socio-economic and environmental issues in the Chad-Cameroon Pipeline Project, Kahama Gold Mine in Tanzania and the small-scale mining that provides a livelihood to numerous communities throughout Africa.

Consensus and dissenting views were revealed during the closed sessions. Representatives of civil society called on the Bank to set a moratorium on oil, gas and mining investment until past and present social and environmental damages were assessed. The private sector believes that sustainable development can be achieved by transparency and consultative relationships between mining industry and its stakeholders. Governments generally welcome WBG involvement in developing their extractive industries sector.
Drawing on the working group discussions, participants identified a set of action-oriented recommendations on ten thematic areas if the WBG was to continue actively supporting the extractive sector in Africa. The recommendations focused on: artisanal and small-scale mining; community development; the environment; conflict management; revenue management; governance; disclosure, transparency and trust-building; human rights; WBG policies, procedures and guidelines; and capacity-building.

**Open Forum**

**Civil Society Testimonials**

Representatives from civil society shared their experience of extractive industry projects in the region during testimonials at the open forum. Topics presented included: the social and environmental impacts of a geothermal plant on local communities in Kenya; disputed human rights violations surrounding the development of a gold mine in an area of small-scale mining (SSM) in Tanzania; the work of the churches in Africa on oil and poverty alleviation; the impact of oil developments in the Niger Delta in Nigeria; and economic, social and environmental concerns relating to the Chad-Cameroon pipeline project. In addition, a London-based NGO presented the campaign on oil and revenue transparency as a basis for growth and poverty reduction.

**Social and Environmental Impacts of a Geothermal Plant on the Local Community in Kenya**

Olkaria Geothermal Plant located in Eburu, Naivasha is the largest and longest running geothermal plant in Africa. The major adverse environmental impact is caused by the toxic emissions and effluent discharged into the surrounding area. Poor maintenance of pipelines has led to frequent noxious gas emissions from burst wells. Inadequate social provisions for the local community have been the major social concern. Kenyan Generating Company, the local operating company, had promised but failed to employ local workers. While the community has access to water, the area is without roads, schools, health clinics, or electricity, despite being situated in an enclosed area within the plant. Contention over land rights with the operating company has created fear and anxiety in the Masaai community. Constant threats were made to evict the community since their demand for land ownership based on ancestral land rights.

Lastly, the speaker complained of the difficulties encountered in accessing information related to the project, as much of it is undisclosed. The World Bank was blamed for indirectly funding the project with no follow-up; initial financing extended by the Kenyan government to the Olkaria plant was sourced from World Bank funds.

**Disputed Human Rights Violation of a Small-Scale Mining Community displaced by a Large Gold Mining Company in Tanzania.**

Representatives from the small-scale mining communities in Tanzania presented their case to the forum. One speaker challenged the rationale of the World Bank Group’s support for corporate mining investments in Africa and elsewhere in the World. Bulyanhulu Gold mine was cited as a premier example of where the involvement of multinational
corporations in natural resource development had led to the further impoverishment, marginalization and violation of rural communities living in mineral rich areas.

Prior to the arrival of a foreign mining company, the economy of Bulyanhulu was thriving from gold generated by the artisanal and small-scale operators. The new mining law attracted foreign investment and changed the status of Bulyanhulu. Controversy over the legal status of the area was intense when the Tanzanian Minister for Minerals issued an eviction order for the community to give way to the foreign mining company. Mine shafts were filled by bulldozers to prevent miners from returning. Allegation over human rights abuse was reported and according to the speakers had not been investigated thoroughly. The displaced miners and community members believe that the compensation was not adequately provided. Thousands have lost their investments and source of income from the small-scale mining operations.

A complaint submitted to CAO, prompted a field investigation by the CAO office. After a fact-finding mission and meetings with hundreds of villagers, CAO has released a report stating that allegations could not be proven and defamatory accusations had been made against a reputable company. Record of the casualties reported could not be confirmed. There was a disagreement over human rights violation.

In the end, it was concluded that the World Bank Group’s strategy of creating a climate for foreign investment through reform of a country’s mining sector, while helping foreign investors’ profit, undermined any possibilities for achieving poverty alleviation by developing a country’s internal capacities. Activities, such as artisanal mining, could perhaps make a greater contribution to the social and economic development of local communities and the nation.

**The Chad-Cameroon Petroleum Development and Pipeline Project**

A session was dedicated to testimonials on the Chad-Cameroon pipeline project by representatives of communities living near the oil fields in Chad, local NGOs from Chad and Cameroon, and Washington-based NGOs. The project was intended to help Chad alleviate poverty, in line with the mission of the World Bank Group, however, the testimonies provided a different picture. According to them, rather than alleviating poverty the project would only succeed in destroying Chad. As an example, the speaker highlighted the fact that revenue bonuses given to Chad by the oil consortium were used to buy weapons to fight conflicts in the north of the country.

Social economic problems exposed in the testimonials included: intimidation people felt when speaking out against company at the community consultation phase; disputes over funds paid for compensation; proliferation of prostitution along the pipeline route; and a notable increase of HIV/AIDS cases due to the influx of workers. The majority of people living in the vicinity of the oil field and along the pipelines feel that their standard of living has not improved. Environmental issues raised included cases of non-compliance with the environmental management plan, such as polluting the river, degrading water quality, and poor reclamation of the bore pits. The Bank’s solution to mitigating impacts from the pipeline development was to implement a regional development plan.
Reports issued by the World Bank Inspection Panel, its evaluation units, and the International Advisory Group (IAG) have documented the project’s serious failing in putting the necessary conditions for poverty alleviation in place. The testimonies confirmed NGO findings that the project was two-speed; construction was almost a year ahead of schedule, while its ‘softer’ components, such as capacity-building, environmental protection and regional development, were falling seriously behind. These measures should have been in place prior to, or in conjunction with project construction. A representative from the Government of Cameroon acknowledged there were negative aspects to the pipeline development, as civil society testimonies had shown, however, the project also had many positive aspects, particularly for Cameroon. It would bring in huge revenues, provide much needed infrastructure, and generate employment.

‘Publish-What-You-Pay’
An NGO has pioneered a campaign on oil and revenue transparency that led to the ‘Publish-What-You-Pay’ (PWYP) Initiative. Over seventy NGOs are calling for mandatory disclosure of net taxes, fees, royalties and other payments made to national governments by international oil, gas and mining companies. PWYP aims for natural resource revenues to be used more effectively and transparently as a basis for growth and poverty reduction. Companies have a responsibility to disclose the payments in order for citizens to hold their governments accountable. The WBG has an important role in prioritizing revenue transparency.

World Bank Voluntary Information Exchange
WBG staff presented an overview of the Group’s structure and its stated purpose of poverty alleviation and sustainable development. Environmental and social standards have became increasingly important as the focus of projects has shifted, but the Bank wanted to go beyond this to a more holistic approach for sustainable development and poverty reduction. The Bank adopted the Millennium Development Goals (MDGs), championed globally important development issues, coordinating with the efforts of bilateral and multilateral development institutions and agencies. Each arm of the WBG institution was described briefly, including its activities in EI.

Working with Governments
The Country Assistance Strategy (CAS) is at the heart of the Bank’s work in any given country. The Bank works in cooperation with the government of a particular country to determine a framework defining its program of involvement over several years, taking into account a country’s capacity and needs. The CAS often includes special components, such as a plan for promoting private sector development and the Poverty Reduction Strategy Paper (PRSP), a targeted process for reducing poverty in the poorest countries of the world. After approval by the Board of the World Bank Group, the CAS defines country priorities for all Bank activities, whether IBRD/IDA, IFC or MIGA.

Working with the Private Sector
The World Bank’s work with the private sector is governed by the belief that economic growth is a necessity for poverty reduction and that the private sector is a key ingredient in
achieving this. In the context of EI, oil, gas and mining developments were generally most productive with private sector investment, provided there was good governance and appropriate environmental and social safeguards. The Bank has a role in EI in countries where the investment risk is highest, due to high levels of corruption; it can add comfort to sponsors and financial creditors engaged in complex projects. The Bank could be instrumental in breaking down the bureaucratic and administrative problems companies often confront when obtaining licenses to work.

**Environmental and Social Review**
The Bank’s objective is to ‘do no harm’ and its safeguard policies are designed to ensure this. Safeguards are applicable to natural habitats, forestry, international waterways, involuntary resettlement, indigenous peoples, and child labor, among others. Each arm of the WBG uses different safeguard policies. The projects proposed for Bank financing should be environmentally sound and sustainable; and the decision makers are identified and informed of the nature of the environmental risks. Provisions are made to ensure compliance and prevent likely non-compliance. ‘Category A’ projects are likely to have significant adverse environmental impacts, that are sensitive, diverse or unprecedented.

**Independent Evaluation Process**
The joint study conducted during 2001-2003 of the Operations Evaluation Department (OED) of the Bank, the Operations Evaluation Group (OEG) of IFC and the Operations Evaluation Unit (OEU) of MIGA, was designed to evaluate how effective the WBG had been in assisting its clients to enhance the contribution of EI to sustainable development. The evaluation units have almost completed their review of all extractive industry projects in the portfolios of IFC, the World Bank, and MIGA. The process is being guided by NGOs, think tanks and an advisory panel; all elements of the evaluation will be presented to the Board of the WBG in a final report. EIR will also use the OED/OEG report for consideration in developing final recommendations to the WBG.

**Compliance Advisor/Ombudsman (CAO)**
The CAO is a part of the Bank Group’s accountability framework and is an independent office reporting directly, and exclusively, to the President of the World Bank Group. It has three main functions; a compliance role, an advisory role, and an ombudsman role. In its role as ombudsman, the CAO manages direct complaints from parties affected, or likely to be affected, by projects. Complaints can be lodged at project preparation, implementation or even after a project has been divested in cases where it is clear IFC or MIGA may bear some responsibility for outcomes on the ground that are unresolved. When complaints are received, they are appraised and assessed, after which a report is presented to the parties concerned. The CAO attempts to resolve, manage and mediate conflicts, and the office cannot halt a project unless there is a circumstance of probable harm.

**World Bank Information Disclosure**
A revised information disclosure policy went into place in 2002 that includes provisions for country officers to make documentation available in all relevant local languages. All IBRD/IDA Country Assistance Strategies are now immediately available, and posted on the web. In addition, the Bank is also trying to encourage its partners in countries to
disclose information; pilot programs are being established in several countries, including Mozambique and Zambia, to promote information disclosure with the permission of governments.

**Strategy and Policy of the World Bank Group in Africa**

Twenty-two out of 26 countries in the WBG/IMF Heavily Indebted Poor Countries Initiative (HIPIC) are in Africa, and the region is battling to recover from conflict and dealing with HIV/AIDS. The total population is 700 million, increasing at 2.7% per annum, with average gross national income (GNI) per capita amounting to $470. Recent growth rates are only 3% per annum and aid flows have decreased over the last ten years to an average of $19/ head. Private investment flows are highly concentrated in a few countries and in a few sectors, including EI. Recognizing the great divergences within the region; the Bank Group does not have a ‘one size fits all’ strategy.

IBRD/IDA use the PRSP as a tool by to diagnose and formulate policy to focus its assistance on the outcomes and development effectiveness of programs. The Bank is increasing its activities in Sub-Saharan Africa, with FY02 commitments amounting to just under $4000 million, which accounts for 50% of total IDA lending. The Bank’s total portfolio in the region is around $15 billion.

IFC activities are focused on infrastructure and communications, and development of the financial sector to boost savings and channel funding into the local economy. IFC is supporting Small and Medium Enterprise (SME) development, working through financial intermediaries, building capacity and establishing industry associations to support SMEs, and concentrating on high impact, sustainable projects. IFC’s total investment portfolio amounts to $2 billion.

**Global Energy Outlook**

Oil industry representatives presented the global energy outlook for the next 50 years. The increase in energy demand will have to be met without further irreversible damage to the ecosystems upon which economic growth depends. Access to clean, affordable and reliable energy is, therefore, critical to sustainable economic development and poverty alleviation. At the same time, the energy system raises a set of trans-boundary issues such as climate change, air quality, the local environment, and energy security; underpinning all of this is the need for good governance.

The energy system is entering a particularly innovative period; the development of renewable energy sources raises the question of how long it will be before fossil fuels are replaced. There is more than one path towards a sustainable energy future and a number of factors will shape long-term energy demand. Concerns about the environmental impacts of carbon emissions from fuels such as coal and oil will encourage the use of gas, particularly in Asia where air quality is a concern. Gas is a highly efficient fuel compared to many others, and the likely decommissioning of coal and nuclear plants will further increase demand. Breakthroughs in innovation and infrastructure availability would cause oil demand to drop sharply. Valuable reserves today may have limited use or value in the long term, when more efficient energy alternatives may replace them.
Closed Consultation
In his introduction to the closed consultation, Dr. Salim encouraged government, business and civil society who share the same goal for a free and prosperous Africa by 2015, to work together and achieve the means for poverty alleviation and sustainable development through EI. Africa has been seen as the lost continent and has continued to suffer widespread poverty despite its abundant natural resources. The WBG has the convening power necessary to assist in achieving these objectives. Discussions in the working groups focused on three case studies from the region; further elaboration took place on pertinent issues relevant to the WBG’s involvement in oil, gas and mining developments. The group then formulated recommendations based on ‘lessons learned’ that could be applied to future WBG activities in Africa.

IFC, IBRD and IDA -- Chad-Cameroon Pipeline Project
The Chad-Cameroon Pipeline Project is an enormous and complex oil development project in two countries, made possible by the financial support of IFC, IBRD and IDA. Oil from the Doba basin in southern Chad will be pumped through a 1,070 km pipeline passing through villages, fields and forest before arriving at the Atlantic Coast near Kribi in Cameroon. Pipeline construction is nearly completed, with the first oil expected as soon as August 2003. Enormous revenues will flow to both governments, starting around the end of 2003. These revenues will have tremendous potential to alleviate poverty, especially for Chad where 60% of the population is living below the poverty line.

Prior to the WBG’s participation in the project, two key conditions were imposed: implementation of an environmental management plan and a revenue management law. The WBG has also developed appropriate monitoring mechanisms such as the local committee, independent environmental monitoring group (External Compliance Monitoring Group-ECMG), and the Independent Advisory Group (IAG) to ensure revenues are used properly. However it remains to be seen when the first revenue will be distributed. The past history of civil war and rampant corruption has not convinced civil society that the oil revenue will be used to fight poverty. Other key issues raised by the working group include: mitigating environmental aspects along the pipeline route; social impacts on local communities in the construction and operation of the pipeline; and the lack of government capacity.

Some positive impacts from the oil development project have been noted, but perhaps the major contribution from the consortium would be in revenue transparency. The project’s managing company will disclose fully all payments going into the government budget, such as royalties, taxes, dividends, fees and custom duties. With revenue transparency in place, potential misuse of oil revenue should be reduced.

MIGA -- Kahama Gold Mine, Bulyanhulu, Tanzania
This is a case where displaced small-scale miners felt that their legal right to mine in the Bulyanhulu region was taken away in favor of a large foreign company, following a reform in the mining law of Tanzania in the 1990’s. Human rights violation allegedly occurred
and displaced miners believe they have not been adequately compensated following the eviction of thousands of small-scale miners from the area.

In Tanzania, the WBG had an indirect role in supporting mineral sector policy reform that resulted in the new mining law. However, MIGA’s political risk guarantee amounting to $172 million in 2000 was crucial in getting the project off the ground. The project’s EIA reported that negative impacts from closure of small-scale mining on the economic and social development of the area, occurred prior to MIGA’s involvement. MIGA was informed of this, but went ahead and approved the risk insurance. Although MIGA staff believed that they had undertaken due diligence and followed appropriate safeguards relating to displacement and compensation, there is room for improvement for future engagement. Questions were raised whether this was consistent with the poverty alleviation objectives of the WBG, considering the destruction of thousands of peoples’ livelihoods caused by development of a large mining operation.

**Small-Scale and Artisanal Mining in Africa**

Discussion on the SSM case study did not focus on any WB-funded project, instead it focused on a set of common issues confronted by this informal sector in Africa. SSM has contributed to the local economy and employment, but it also engendered undesirable social and environmental impacts. The industry understands the importance and extent of SSM activities in Africa, its potential impact on the development of larger mining operations and is looking for ways to interact better with this sector.

The problems encountered by SSM are the same as those affecting large-scale mines; however, in the case of small-scale miners, problems are exacerbated by a lack of expertise and resources, metallurgical skills and access to markets. The WBG could, and does, play a major role in this regard. It is crucial to formalize this sector by empowering the miners to acquire legal title to their mineral rights, without infringing on the established mineral rights. The WB could also contribute in this regard.

Industry believes that the WBG is in a position to make a significant input by providing financial, material and administrative assistance to small-scale miners. It has been suggested that the large mining companies voluntarily become involved in the SSM sector at a practical level, with a particular training focus on marketing and financial aspects, to improve the technical knowledge and skills required to mine effectively. Companies should make their equipment, expertise and services available to assist in the establishment of an effective SSM sector.

The WBG should take more of a lead role in facilitating partnerships between large mining companies, governments and the small scale miners on SSM issues. In particular, large-scale mining companies should be persuaded to assist the SSM sector through technical support, facilitating access to new technology and practices, and training. Civil society organizations could be involved in building this relationship.
Final Recommendations

Following the presentations and discussion, Dr. Salim invited the participants to consider how the WBG policies, projects and procedures could be improved to ensure EI will contribute to poverty eradication and sustainable development in Africa by 2015, in line with the Millennium Development Goals. Ten thematic areas where the WBG has a significant role were identified for recommendations: artisanal and small-scale mining; community development; the environment; conflict management; revenue management; governance; disclosure, transparency and trust-building; human rights; WBG policies, procedures and guidelines; and capacity-building. Participants remarked that these recommendations needed to be formulated in a way that would close the gap between theory and practice, ensuring effective implementation on the ground, and bearing in mind who should own and have control over the process of development in Africa.

Artisanal and Small-Scale Mining

The 1994 Harare Declaration should be used by the WB as a basis for its consideration of all SSM/ASM issues in Africa. Its main proposition was the need for a strategic policy and approach by the WBG, formalization of small- and medium-scale mining operating under legal mineral title, development of fiscal regimes, capacity building, and to ensure the sustainability of small-scale and artisanal mining as a livelihood for marginalized communities.

Community Development

Recommendations for Community Development were outlined in nine points. Strong and inclusive engagement from individuals and community groups should be mandatory for all WBG supported projects, this means sufficient time must be allowed to build understanding and capacity to engage effectively. Information must be provided in appropriate forms and negotiating skills nurtured. All initiatives have to focus on poverty alleviation.

Environment

The environment received a lot of attention during the discussion. It prompted 14 points of recommendation; a few issues overlapped with other thematic areas. A multi-dimensional approach has to be taken to achieve effective environmental management. This means moving beyond the biophysical, understanding the critical socio-economic linkages, especially the interface with conditions of poverty. The disconnection between theory and practice in the Bank’s safeguard policies should be addressed. The WBG should protect and manage biodiversity by identifying and protecting ‘No Go Zones’. Other recommendations include: improving access to information; assisting the international community in policy formulation for emission standards in relation to climate change; addressing the legacy of past operations; and providing technical assistance to ASM/SSM.

Conflict Management

Areas of conflict must be identified and acted upon early before projects begin. When conflicts arise afterwards, they must be managed through effective conflict resolution mechanisms already built into management systems and the regulatory framework. Internal mechanisms for dealing with conflict such as CAO and the Inspection Panel should be
strengthened. Transparency, efficiency and independence of relevant internal bodies should also be improved.

**Revenue Management**
Revenue management plans should be developed and agreed via multi stakeholder dialogue. Principles of disclosure and transparency must be applicable to both government and business. The Bank can support disclosure and transparency of revenues and their use; equitable allocation of revenues; and optimum fiscal policies.

**Governance**
The Bank is expected to promote models and institute conditionalities of good governance, which would exclude non-compliant clients from Bank funding. Support would be provided to build appropriate legal and enforcement mechanisms to ensure the rule of law is implemented effectively, fairly and consistently.

**Trust-Building, Disclosure Policy and Transparency**
A communication plan should be devised from the conceptual stage of the project to build trust between all stakeholders. It should identify and involve all interested parties, and address the issue of accountability. Participatory mechanisms should be incorporated for an effective flow of information between all groups, many of whom are located in remote regions. Project information should be disseminated in forms that can be easily understood by non-technical audiences. It was suggested that the Bank develop clear concise rules and guidelines for industry that apply overall.

**Human Rights**
The World Bank Group should ensure human rights are progressively realized through its work with governments and the private sector. Bank operating policies, procedures, contracts and technical assistance should explicitly contain conditions for the respect of human rights. Where there is a proven record of human rights violations, it was suggested that the Bank should not engage. Should violation occur subsequent to the Bank’s involvement, it should consider suspending or withholding support until allegations are investigated and resolved in accordance with national laws and international conventions.

**World Bank Group Procedures and Policies**
Bank procedures and policies have to be adjusted to incorporate all of the preceding recommendations. Greater flexibility should be employed in the application of Bank guidelines by adapting them to prevailing conditions in the host country, to ensure projects are successfully implemented.

**Capacity-Building**
Capacity development is needed in government, small and junior enterprises, civil society, and the private sector. Two major concerns are the over-reliance on external expertise and the loss of talent to other countries. The Bank could ensure coordination on capacity-building initiatives with international partners.
Post-Consultation Statement from Civil Society

In a post-consultation statement, representatives from African civil society organizations called on the Bank to set a moratorium on oil, gas and mining investments until past and present social and environmental damages were addressed. Outlining a set of conditions that should govern any future WBG involvement in EI in the region, the group called for the Bank to meet their demands through effective consultations.

Final Discussion

Although civil society remained skeptical that real change would be realized unless the Bank recognized its past and present mistakes, concrete steps should be taken to build the capacity of all stakeholders, if Africa is to achieve its potential for long term sustainable development through the exploitation of its natural resources.

Some government participants commented that efforts of the WBG to review its work on poverty alleviation and sustainable development in relation to EI in Africa, was generally positive. They viewed the assistance to EI as crucial in Africa, where governments do not have the funds and expertise to develop the sectors on their own. Countries new to extractive sectors, such as Mali and Niger, particularly need this assistance from the Bank to develop their industries.

A notable exchange of ideas stemmed from group discussions on the subject of small-scale and artisanal mining. The Bank’s support for small-scale mining projects in Burkina Faso and Zambia were of particular interest, and participants viewed them as model examples of the type of work the Bank should repeat throughout Africa. The WBG was encouraged to do everything in its power to assist small and medium-sized companies. Artisanal and small-scale mining were important informal sectors, generating substantial incomes for local people.

Concluding Remarks

In the concluding remarks, the Director of the World Bank Group’s Oil, Gas, Mining & Chemicals Department, Rashad Kaldany, thanked the participants for constructive and informative dialogue. He was pleased that the participants had highlighted contrasting views, and formulated excellent recommendations on governance and revenue management, artisanal and small-scale mining and capacity-building. The Bank has improved its practices over the past ten years but still had much to learn and would continue to do so. He also commented on the need for local partners to be empowered to work more effectively.

Dr. Salim thanked participants for their efforts in formulating the ten recommendations. The effectiveness of consultation was due to excellent communication between stakeholders, even though civil society was reluctant to participate in the review initially. Dr. Salim recognized the frustrations felt by all stakeholders in Africa. Civil society viewed the involvement of multinational companies in Africa as a form of neo-colonialism, and many remained skeptical about whether development objectives had the interests of Africans in mind. Governments were frustrated by rigid structural adjustment programs and other strings attached to securing foreign aids. The private sector was
frustrated by government failures to develop effective revenue management, and by civil society criticisms that companies do not fulfill their responsibilities. The WBG was also frustrated at project failures, despite years of preparation and planning. Criticisms of EI projects from all sides were pushing many in the Bank to be risk averse.

The participants produced recommendations in ten thematic areas. Although some had doubts that the recommendations would be implemented, Dr. Salim believed that all stakeholders interested in Africa’s development should build partnerships to work towards a common goal. It is essential to build up trust between government, civil society and the private sector to create an enabling environment conducive for development. Poverty alleviation in Africa will have to include developing natural resources together with developing human resources, by putting development in the hands of the people.
5. Asia Pacific Workshop:
Full Report
Draft
The Extractive Industries Review (EIR)

Asia and Pacific
Regional Workshop
Bali, Indonesia
26-30 April 2003

TESTIMONIALS AND CONSULTATION REPORT
Notes
The following report on the Extractive Industries Review’s Asia and Pacific Regional Workshop, held in Bali from April 26-30, 2003, was prepared by the EIR Secretariat. It summarizes the views expressed by workshop participants, neither endorsing nor contradicting them.

As in common usage, unless otherwise indicated, use of the terms ‘World Bank’ or ‘the Bank’ refers to the entire World Bank Group. The Bank components principally concerned with extractive industries (the oil, gas and mining sectors) are the International Bank for Reconstruction and Development (IBRD), International Development Agency (IDA), the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA).

Abbreviations
ASM  Artisanal and Small-scale Mining
CAO  Compliance Adviser and Ombudsman
CASM  Communities and Small-scale Mining Initiative
CSIRO  Commonwealth Scientific and Industrial Research Organisation
EIA  Environmental Impact Assessment
EIR  Extractive Industries Review
FDI  Foreign Direct Investment
GDP  Gross Domestic Product
IBRD  International Bank for Reconstruction and Development
IDA  International Development Agency
IFC  International Finance Corporation
IFI  International Financial Institution
ILO  International Labour Organization
IPO  Indigenous Peoples’ Organization
MMSD  Mining, Minerals and Sustainable Development
MIGA  Multilateral Investment Guarantee Agency
NGO  Non-Government Organization
PRI  Political Risk Insurance
PRSP  Poverty Reduction Strategy Papers
SOE  State Owned Enterprise
SME  Small and Medium Enterprise
SSM  Small-Scale Mining
WBG  World Bank Group
Executive summary

Overview
The Extractive Industries Review (EIR) Consultation Workshop for the countries of Asia and Pacific was convened in Bali, Indonesia, April 26-30, 2003. This was the fourth in a series of regional multi-stakeholder consultations: the first, for Latin America and the Caribbean, took place in Rio de Janeiro, Brazil, April 2002; the second, for Eastern Europe and Central Asia, took place in Budapest, Hungary, June 2002; and the third, for Africa, took place in Maputo, Mozambique, January 2003.

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

The workshop attracted over 100 participants from civil society (non-government organizations, community-based organizations and labor unions), government, the oil, gas and mining industry, academia, and the World Bank Group itself. The workshop was organized into two parts: the first comprising a two-day open forum for civil society and other testimonials, and a voluntary information session by the World Bank Group; and the second comprising a formal three-day consultation with a limited number of invited or ‘self-selected’ representatives from each stakeholder group. Participants presented case studies relating to regional projects, followed by focused group discussions on selected thematic issues on environmental, social and economic impacts of the extractive industries.

The Consultation identified a number of cross-cutting themes where change was deemed necessary if the World Bank Group is to continue its involvement in the extractive industries in Asia and the Pacific. The themes reflected recent experiences of Bank-supported policies and projects, particularly social and environmental impacts in mining and gas projects. The main issues of concern were poor governance – corruption, conflict resolution, disclosure policy, revenue management and human rights; the environment – global warming from continuing use of fossil fuels and deep sea disposal of tailings; and uncontrolled artisanal and small-scale mining. There was general agreement on finding a way to legitimize artisanal and small-scale mining, and to bring it under the broad umbrella of community development; the critical importance of having all the components of good governance in place before starting new projects; the need for tailor-made solutions that fit the specific needs and conditions of each country, location and situation; and the essential importance of taking sufficient time to make sure that all stakeholders are on-board and up-to-speed before starting projects or setting policy.

---

1 ‘Self-Selection’: the selection of civil society representatives attending the formal 3-day session of the consultation workshop was coordinated with the help of Mr. Longgena Ginting, Executive Director of WALHI (Friends of the Earth, Indonesia). The self-selection process gave civil society the responsibility of nominating 25 suitable participants from a variety of non-governmental organizations to represent their interests at the workshop.
Participants urged the World Bank Group to include extractive industries in the Country Assistance Strategy and related Poverty Reduction Strategy Papers, and to be more cognizant of links and conflicts between policies in different sectors, and the actual impact of policies on what happens on the ground in terms of poverty alleviation and sustainable development. Concern was expressed regarding the lack of follow through over the entire project cycle, due to the short term involvement from WBG institutions. The disconnect between Bank rhetoric and practice in reality was noted as especially worrying. Participants pressed the Bank to embrace international human rights conventions and instruments. Factors of good governance, such as transparent revenue disclosure, an equitable revenue distribution plan and the elimination of corrupt practices, should be a standard requirement for borrowers. The use of unproven waste disposal methods, such as submarine tailing disposal, should follow the ‘precautionary principle’ and not be used until proven fully safe.

**Open Forum Testimonials**

Open forum testimonials were made by representatives from civil society, government and industry, addressing three sectors: large-scale mining, small-scale mining and gas. The civil society presentations raised issues and concerns about the environment - submarine tailing disposal, a gas field blow out, and sustainable energy; small- and large-scale mining; and processes of community empowerment and conflict resolution. A government representative looked at sustainability issues. Industry spokespersons discussed examples of small-scale mining, working with community development in the exploration phase, and integrated social development, as well as the benefits and value of mining.

**Large-Scale Mining**

*Submarine Tailing Disposal (STD)*

A major concern in the region is the potential for submarine tailing disposal to cause serious environmental and socio-economic impacts in areas rich with marine biodiversity and dependent on aquatic resources for livelihoods. This is especially so in the waters surrounding Indonesia, which are the breeding and migratory areas for large numbers and varieties of marine life, including large mammals. Because there are very strong ocean flows, the widespread transport of waste materials is another potential problem. A number of speakers urged using the ‘precautionary principle’, until more is known and understood about the actual impacts of this practice.

*Newmont, Sumbawa*

Views expressed by community NGOs and local government in the open forum were very positive about the contribution of this project to the local communities, and the way they were working with local people. The company has invested in roads, telecommunication, health and educational facilities and programs, as well as improving livelihoods in agriculture and business. Concerns were raised about the impact of tailing disposal, how to spread the benefits more widely, and how to involve women more deeply. Strong concern was expressed about negative information from NGOs and the media that was deemed inaccurate and counter-productive.
Small-Scale Mining
North Sulawesi, Indonesia
Small-scale miners overran a company’s gold mining operation, causing widespread mercury pollution in local soils and waterways. Local people were eventually able to regulate mining activities and enlisted help from local NGOs in curbing polluting practices. Some of the technologies being used were questioned by experts because they combine both mercury and cyanide in extracting the gold.

International Survey on Artisanal Small-scale Mining
The preliminary results of an international survey on ASM (artisanal and small-scale mining) indicate that respondents would like to see ASM ‘legitimatized’ and integrated within poverty reduction strategies and policies, so that working and living conditions can be substantially improved, and livelihoods will be enhanced and diversified in a way that miners receive better earnings and have wider opportunities to generate income. There is a strong wish to see regional pilot projects established to explore and demonstrate the viability and benefits of this approach, and the Bank should be directly involved in promoting and supporting this initiative at both grass-roots and country levels.

Gas
Gas Field Blowout
In 1997 in Bangladesh the Magurcha gas field blowout devastated humans, animals, plants and soils over a wide area, affecting the health and livelihoods of indigenous people. So far no compensation has been provided from the involved companies, which are supported by the Bank. In addition, the country has a lot of pressure to export the gas, instead of using it domestically to reduce poverty and improve the lives of the local populations. A comprehensive and coordinated approach should be instigated to utilize this resource to alleviate poverty, primarily using local resources and expertise.

Community Empowerment
An NGO in West Papua, Indonesia, where BP has a LNG project raised the issue of the balance between services provided by government vs. services provided by companies or NGOs, which in the case of diminished government involvement, weakens their relationship with the local people and their ability to properly supervise and regulate industrial activities. This can have a long term destabilizing influence on the ability of government to function and the quality of governance. Building responsible relationships between local people and the company requires some capacity-building. Most communities normally do not have the resources or capability to hire in services, so this is when there is a role for a third party (eg, NGO) to step into this breech.

Closed Forum Testimonials

Civil Society Self-Select Group
The civil society self-select group had a closed door session with the Eminent Person, because some participants feared reprisals for speaking out in a public forum. This group
later chose to completely withdraw from the process because they felt the EIR was biased against their point of view.

In a closed session with the Dr. Salim, indigenous people and civil society representatives from various countries in the region presented personal testimonies about the negative impacts of extractive industries upon their lives and livelihoods.

**World Bank Group Voluntary Information Exchange**

*Introduction*

Representatives from the Bank presented an overview on the structure of the World Bank Group (WBG) and its stated purpose of poverty alleviation and sustainable development, as well as its commitment to the Millennium Development Goals. Each of the main WBG institutions was introduced and briefly described – IBRD, IDA, IFC and MIGA.

Emphasis was placed on the variability of conditions in the region and the importance of the Asia-Pacific region for future growth in extractive industries. The Bank believes that extractive industries have an important contribution to make for achieving the Millennium Development Goals, in terms of energy, materials, employment, income generation and social development. Furthermore the Bank is committed to working with governments, companies and NGOs in making sure that industrial development enhances environmental quality and socio-economic development, and that poverty in all its dimensions is truly alleviated.

In closing the introduction it was emphasized that the proportion of the Bank’s overall annual budget that goes to extractive industries is relatively small – only about 5%. In Asia-Pacific, 60% of IBRD/IDA’s budget goes to the gas sector, 40% to coal and 3% to technical assistance and structural reform. With IFC/MIGA a similar higher proportion goes to gas – 73%, and the rest to mining.

*Working with Governments*

In working with governments, the focal point is the Country Assistance Strategy. The trend in providing financing in the region is falling, and the relative importance of oil, gas and mining in each country is highly variable. The Bank has been providing funding to extractive industries specific to particular needs and circumstances in each country. For cleaner fuels, support has been provided to Bangladesh, Thailand and China to improve natural gas production. For winter heating in Mongolia and power generation in India, more reliable coal supplies have been promoted. The Bank also has been providing technical and policy advice to governments and others in the region.

*Working with the Private Sector*

IFC and MIGA have been supporting private sector investments in the region, such as the Bhit gas field in Pakistan. One concern is to avoid ‘enclave’ projects, where the enterprise operates in isolation from the local business community. Any project investment includes provision for building local capacity to provide materials and services, and for community development support.
Environmental and Social Review

All Category “A” projects require environmental and social assessments, because they are likely to have significant adverse impacts on the environment. Most extractive industry projects fall into this category. The Bank has moved to a ‘vulnerable people’ focus, considering the requirements of indigenous people, as well as those of the elderly and refugees.

In concluding this section, it was emphasized that the WBG tries to work as an integrated entity. It also is questioning its role, if it should get involved, and if so, how to improve its involvement. Feedback is always welcomed.

Compliance Advisor/Ombudsman (CAO)

The purpose of the Compliance Advisor/Ombudsman (CAO) was described, which mainly is to help address complaints from anyone adversely affected by an IFC/MIGA project. The CAO also looks after audits on compliance and advises the President and management on strategic trends, issues and policies. Complaints are processed quickly and parties complaining are notified at each stage in the process.

Questions arising

A fairly lengthy and dynamic question and answer session followed the presentations. One recurring question is to do with the limited duration of involvement of the Bank in projects and the likely slackening in compliance with guidelines and safeguards that will occur. This is particularly important in extractive industry projects where there are likely to be serious requirements for maintaining environmental and social investments, and where at closure there is most often some continuing support for clean up and social mitigation. There was concern over the Bank’s support to structural adjustment policies and the unwitting consequences on supporting one ministry instead of another. There is a movement within the Bank to adopt a more holistic approach in supporting governments, which is why there now is a strong focus on governance.

The CAO was questioned on their ability to respond to complaints and the relative unlikelihood for most people to use the facility, mainly due to lack of awareness of the mechanism, let alone having the resources or capability to file a complaint. It appears to be a very ‘remote’ facility in terms of access.

The issue of the Bank’s policies and support to renewable energy sources over non-renewables was raised. Although the Bank supports the Kyoto Protocol and has a position paper on climate change and fossil fuels, it could be much more proactive, particularly in promoting accessible and affordable energy resources for the poor.

A number of questions arose regarding the Bank supporting province level governments, to which the response was that the Bank deals directly with national governments. A cautionary note arose not to standardize or simplify too much as there usually is plenty of variation within, as well as, between countries.
Perspectives from the Region

Small-Scale Mining in PNG

A presentation on small-scale mining (SSM) in PNG provided a detailed example of how SSM could be run legitimately, totally integrated into the formal mining sector. A number of factors enabled this to happen. First, there is a history of strong custodial ownership rights to land – 97% of the land is owned by indigenous people. Second, the legal framework to regulate mining was set in place 80 years ago. Third, there is an open and competitive market for gold. Fourth, SSM is well-supported by the mining industry and international aid agencies.

SSM is a major economic component in the economy. Salaries are well above the average. Governance is very strong – there is financial transparency and multi-stakeholder participation and support. There is good integration between and continuity within development programs.

Development during Exploration

A junior exploration company working in Central Kalimantan, Indonesia advocated starting development activities, both at community and provincial level, during the exploration phase, well before construction of a mine begins. The advantage of doing so is to have all the groundwork in place by the time a mining operation is ready for construction, so the capacity, awareness and relationships are already developed. By working at community level, strong relationships are established with local people, some of whom can find employment within the exploration team. By introducing development activities, such as health care, education and training, and diversification of livelihoods, solidarity is built within and between involved communities, and communities are better prepared for the impact of a major industrial development in their backyard. By working with government at district and province, the policy and regulatory frameworks can be put in place, and the capacity to manage the demands that a large industrial operation generates can be built up within the various staff cadres.

The company further advocated building a broad coalition of partners between the government, donor community, NGOs, local communities and companies, and jointly creating an integrated ‘development framework’ for the province, so that everyone had a common foundation for their involvement in helping to develop the province. It was suggested that the Bank join such a partnership and become much more holistic in their engagement, focusing more on the overall development setting rather than individual projects. On a final note, the importance of allowing sufficient time for all of this essential preparation was strongly emphasized.

Extractive Industries for Sustainable Development in Indonesia

The Representative of The Ministry of Energy and Mineral Resources from Indonesia stressed the importance of overall good governance for development to proceed smoothly and sustainably. He emphasized the need for good governance in 3 domains – public sector, private sector and civil society – and that these sectors have to work together to reduce poverty, generate employment and protect the environment. The speaker noted
that poverty is the greatest enemy in achieving social development and environmental husbandry; that poverty forces people to do illegal and unsafe practices such as unregulated logging and mining. Because natural resource exploitation is the basis for development in many countries, it is essential that it is managed sustainably.

**Extractive Industries for Sustainable Development in India**
The former Director of Mining and Geology in the state of Orissa in India presented the case that mining is essential for meeting the Bank’s goals of poverty reduction and sustainable development. In India, if mining development were curtailed, there would be a decline in employment, GDP, export earnings, economic activity and a sharp decline in revenue earnings of the Government, thereby reducing spending on education, infrastructure development, health care and exploration. He argued further that mining has a very small physical impact on the environment, occupying only 0.23% of the total land mass, and that sufficient environmental controls were in place. There is however a need to increase economic efficiency through better management and improved technologies.

**Energy and Global Warming**
A presentation on prospects for sustainable energy, advocated a stronger commitment from the WBG to promote the use of renewables instead of fossil fuels. Global warming is projected to have a significant impact on vulnerable areas such as food and water security, incomes and livelihoods, health and infrastructure, all of which will impact the poor in developing countries the hardest, as they are most vulnerable and have the least capacity to adapt to significant changes.

Renewable energy is experiencing relatively high growth and there is a very large potential global market, particularly in developing nations. The speaker advocated that the WBG should be supporting investments in clean energy and not be promoting high carbon emission options. Also, big is not always the best, so the Bank should also promote small, localized approaches and take on reform of the energy market.

**Conflict Resolution**
This presentation stressed that negotiation between company and the local people facilitated by an NGO can provide solution to conflict. For some years the PT. Kelian Equatorial Mine Company, a subsidiary of Rio Tinto in Indonesia, caused local people to suffer loss of land and human rights abuses, using divide and rule tactics to avoid corporate responsibilities. The company went through a long process of negotiation to resolve the conflicts, involving both national and international NGOs. This process could provide a useful model for other, similar conflicts, although the Ministry of Energy and Minerals Resources was not willing to endorse it.

**Integrated Social Strategy**
A spokesperson for BP described how they are using an ‘Integrated Social Strategy’ approach in developing a LNG project in a remote and isolated location in Papua, Indonesia, in order to minimize any negative impacts on local communities and the environment. In order to discourage immigration, the local transportation infrastructure is
not being enlarged. Access to the site will be only by water, and ‘outsiders’ will be hired only in a distant location. Security will be provided by locals, and other measures will ensure high involvement of local people in overseeing a balanced development approach. A ‘diversified growth strategy’ will bring development benefits to local communities, as well as to the broader region and the province, avoiding the ‘honey pot’ scenario. The project intends to be a catalyst for community-driven development in the area.

Consultations

Three regional case studies, in which the WBG has been involved, were presented by representatives from industry, civil society and government.

MIGA – Lihir Gold Limited - PNG

This gold mine is run by Rio Tinto on a small island in PNG in a challenging environment - physically, socially and institutionally. MIGA provided initial political risk insurance, but is no longer involved. Although the operations provide substantial inputs to the economy, the overall impact raises a number of questions about working in remote and culturally isolated locations. MIGA’s involvement in the beginning was useful in getting the project off the ground, but did not contribute very much for developing good social and environmental governance, both of which are badly needed to support balanced development. The company does not see its role as building capacity for the government or for the community; it would seem a more appropriate responsibility for the WBG.

This project demonstrates what happens when planning is short-sighted and far too narrow in scope. Insufficient attention was paid to the special local social and gender dynamics, the potential consequences of poor governance, anticipating the impact of cash incomes on a cashless society, involving all stakeholders from the beginning in planning discussions, having poor monitoring mechanisms, and the consequences of mine closure.

IFC – Sepon Gold Mining - Laos

In this case study from Laos, IFC was going to provide financing, so all of the IFC requirements were followed in preparing the project documents for funding. A five volume Environmental and Social Impact Analysis (ESIA) was prepared, plus 16 special studies, supported by IFC technical assistance and expertise. IFC did parallel studies on the mining sector and legal framework. It is clear that IFC helped strengthen the acceptability of the company to the Laos government, and broaden the focus and scope of engagement beyond mineral extraction.

The institutional setting in Laos is fairly weak: the government has very little experience in handling this type of project, so their capacity to manage and to engage knowingly in the preparation process is very limited. The experience of the company in managing such a rigorous preparation process is also limited. As a result, there are a lot of misunderstandings on all sides. Moreover the ESIA and other studies have been strongly criticized by one NGO as being very limited, if not somewhat superficial. As the company was able to secure its own financing, the IFC is no longer involved and the question is: given the weak experience level and capacity of both government and the
company, how well will be compliance with the requirements for social and environmental mitigation? In such a situation, what is the best mechanism to improve the capacity of those involved – ie, the government and the company?

**IBRD/IDA – Technical Assistance - PNG**  
In late 2000 the Department of Mining and Internal Revenue Commission of the Government of PNG received a technical assistance loan from the World Bank to strengthen the institutional capacity of both units in administering and regulating the mining and exploration sector. The government considers mining to be a major contributor to the national economy. There are, however, other concerns that, while mining may be generating revenue, it also has serious negative impacts on both the environment and society. The main environmental issues are waste disposal and weak monitoring mechanisms; the main social concerns are increasing poverty and the breakdown of society and the family – there have been a lot of disputes over mining, including a civil war at one point.

There is a clear call from civil society to slow down development and take a hard look at the complete reality of mining, not simply the income side. The Bank should ensure that all aspects of society are represented in discussions before granting loans like this one. There needs to be transparency of information and more use of local resources and expertise in working on solving the problems. Most importantly, much more time is needed to review, research, discuss and decide upon the issues, making sure all stakeholders are adequately represented.

**Social Issues**

**Governance, Poverty Alleviation and Sustainable Development**
Small groups looked at the question: “What are the main governance issues concerning extractive industries preventing poverty reduction and sustainable development?” and came up with a list of issues and obstacles.

Government being the most active proponent in governance has the most to answer for: it provides poor leadership and lacks the capacity and resources for policy formulation, legislation, regulation, enforcement, planning, monitoring, evaluation and fiscal management in the sector. Its knowledge and understanding is also very weak, and the allocation of human resources is generally insufficient and inappropriate. Government often is not transparent or accountable. Coordination between ministries and levels of government is generally poor.

Industry also needs to be more ethical, transparent and accountable; and needs to be consistent with social and environmental values. The accountability and representation of NGOs is sometimes problematic. Financial institutions, like the WBG, lack the capacity to assist small projects. The Bank and aid agencies have conflicting policies on institutional reform. The WBG takes a non-holistic approach to governance issues.
Finally, the current paradigm for community development is inappropriate; approaches and methods are often not participatory, and do not lead to empowerment and self-sufficiency. Planning for rural communities should be much more holistic. Overall, there is a lack of clear and qualitative information and communication.

**Human Rights – Use of Military and Policy**

Government security forces have often been employed to provide security to extractive industries. There have been incidents involving these security forces, in which people have been abused, incarcerated, tortured, killed or suffered some other denial of their basic human rights. The army and police are often severely underpaid and see an opportunity in providing paid services to extractive industries.

The Freeport situation was presented as an example in which, because of the enormous rapid growth in the workforce and operation, the military provided security services to protect a ‘national asset’. After some abusive incidents involving the military, the company took human rights very seriously, developing and implementing a company-wide policy. They also adopted the ‘publish-what-you-pay’ principle in order to promote transparency.

If at all possible it is better to train and employ local people as security personnel. They should have a clear sense of the company’s human rights policy and not be armed. It was suggested that the Bank can help promote some of these principles in its country and project negotiations.

**Social and Environmental Impacts and Issues**

**Presentations**

Four thematic groups examined issues related to: energy and global warming, submarine tailing disposal, artisanal and small-scale mining, and corruption.

**Energy and Global Warming**

**Carbon Risk, Renewable Energy and the WBG**

This presentation stressed that only so much carbon can be absorbed by the atmosphere, and the maximum capacity will be reached within 30 years. Therefore long term sustainability requires a shift to renewable energy production. The World Bank can be a key player in this shift by: promoting policy and market conditions that support the development and use of renewables; encouraging investment in low carbon and renewable energy resources, technologies and infrastructure; avoiding long term technology lock-in that would be financially burdensome to reverse; and requiring ‘carbon liability’ accounting in project feasibility.

**Climate Change and Renewable Energy**

As energy is decisive in both economic growth and climate change, and as the greatest increase in energy consumption is expected in the Asia-Pacific region, it becomes imperative to promote both energy conservation and renewables in the region. The region has a large potential for renewable energy production from biomass, micro-hydro, wind,
geothermal, solar and marine power sources. Any promotion of these sources should be linked to the Kyoto Protocol mechanisms, as well as to other markets such as the WBG Community Development Carbon Fund and the BioCarbon Fund. The Bank can provide technical assistance for capacity-building of appropriate institutional and regulatory frameworks, and by actively supporting and promoting the use of renewables over fossil fuels.

Submarine Tailing Disposal (STD)

*Implications of the PNG Experience*

In PNG, river tailings discharge is no longer acceptable because of the high risk from tailings dam rupture, and the severe impact on the environment and livelihoods. Submarine tailing discharge (STD) has emerged as an alternative, offering prospects of less cost and lower environmental impact. The rationale for using STD is premised on there being no upwelling of discharge particles; proof of this premise is not always clear. Pipe breaks have happened in most STD systems, so risk mitigation is essential. Research is still needed to evaluate the total impact of STD, especially in tropical zones, and until more is known, STD should not be promoted automatically without very careful site specific evaluation. WBG financial support should be conditional on appropriate risk analysis of all options.

Artisanal and Small-scale Mining (ASM)

*Social and Environmental Problems (UNIDO)*

This presentation looked at the reality that ASM generates the main environmental and social problems in mining. Worldwide, up to 100 million people are directly or indirectly dependent on ASM; 30% of workers are women. UNIDO is running a GEF-funded global project to examine the true impact of the use of mercury in gold extraction, and to create some demonstration projects to promote better practices. As ASM is a ‘temporary’ measure for poor people - they prefer other productive activities – it is imperative to place it within the context of rural development and create long term, sustainable livelihood alternatives.

Small Mines, Big Issues (ILO)

In this presentation from ILO, the human condition in ASM was examined. There are now more people involved in ASM than in the formal mining industry. Much more attention has to be paid to working conditions because there is absolutely no support of any kind for artisanal mine workers - no resources, no infrastructure or equipment, no training, no health care, no protection or safety measures, etc. There is also very little data about occupational health and safety, but it is known that miners are subject to very high risks. Everyone, especially NGOs, governments, companies and trade unions, needs to help make small-scale mining a source of decent work in a sustainable environment. Child labour is widespread and has to be eliminated. Given the right approach, small-scale mines can be profitable, productive, safe and healthy, but resources have to be mobilized. The Bank can include ASM as part of overall poverty reduction programs, and can support micro-finance, diversified livelihoods, community development grants, information exchange, capacity-building, adding value, market access, and legal and
policy reform. To do these things the Bank needs to collaborate on the ground with other organizations in a practical way.

**Small-scale Mining Legislation**
In a general review of small-scale mining (SSM) legislation, the rationale and the steps that have been taken for SSM legislation were presented. Legislation for SSM is designed to cover environmental protection measures, health and safety features, marketing mechanisms, penalties and incentives. Various types of licensing arrangements are possible, from informal to formal, and from individual to group. While it is widely recognized that SSM is important and needs a legal setting, a collaborative process between miners and legislation writers is required to identify and codify the key issues. The World Bank can assist governments in preparing SSM legislation, and in developing their institutional capacity.

**Corruption**

*Access to Information and Transparency of Revenue Flows*
This presentation outlined the key ingredients for open and transparent governance, namely: access to information; access to participation; access to justice; freedom of the press; and the right of the whistle blower to be protected. The scope of access to information, and the link between access to information, transparency and good governance were described in some detail. The ‘Publish-what-you-pay Principle’ is an essential component in access to information, and has to be made mandatory through legislation driven by public pressure and demand.

*Transparency of Revenue Management*
Countries depending heavily on extractive industries are very often poor and corrupt. The lack of transparency in rent collection and revenue distribution perpetrates these conditions. Without transparency, corruption penetrates deeply within all levels of society and its governing institutions. The World Bank needs to be vigilant in its relations with projects and countries to ensure that the principle of transparency is enshrined in the policies, regulatory frameworks, enforcement mechanisms, agreements and conditions of WBG involvement.

**Working Group Recommendations**
Six topics were selected for in-depth analysis by working groups – small-scale mining, corruption, disclosure policy and access to information, revenue management, human rights in the community, and appropriateness of size and speed of projects.

**Artisanal Small-scale Mining (ASM)**
In looking at the question: “How can artisanal small-scale mining (ASM) be practiced with minimum impact to the environment and maximum impact on poverty reduction in the Asia-Pacific region?” and “What role can the WBG take to improve the situation?” the working group identified six key areas to focus on – legalization of ASM and enforcement of the law; capacity-building entrepreneurship and good technical practices; establishing good relationships with other stakeholders; enabling access to markets;
integrating ASM into a holistic community development approach; and appropriate clean and safe technology development. The Bank needs to become ‘facilitators for development’ by supporting the above initiatives through direct funding and technical provision, and by forming creative, collaborative partnerships to provide services and support.

**Renewable Energy and Climate Change**
The working group discussed: “How can the region mitigate climate change problems related to projections of its energy consumption?” and “What role can the WBG play?”, and came up with some recommendations. The World Bank Group should leverage policy frameworks to encourage low carbon growth and a move away from carbon intensive energy sources. The Bank should promote rational energy policies, including tax policies which include a gradual move towards fully inclusive pricing. Subsidies should be kept only for off-grid services to the poorest population groups.

In addition the Bank should support other measures including: introducing regulatory standards and strong monitoring to force movement towards lower emissions; helping to create a market for carbon; appropriate financing to fast-track low carbon technologies; and introducing standards for energy efficiency in sectoral planning, such as for public transport or town planning.

**Submarine Tailing Disposal**
The working group examined the question of “How can the main risks of STD/STP be reduced for Asia and the Pacific?” and “What role can the WBG play?”, and recommended that a code of best practice is required for STD, but first there needs to be solid research to determine if there are situations in which the technology is safe, viable and acceptable. The role of the Bank would be to actively support development of the code and the process, so that there will be a rigorous mechanism to use in evaluating future use of STD. IFC could use its financial leverage to promote best practice in assessing STD in projects.

**Governance – Conflict Resolution**
The working group on governance looked at “How can fair and satisfying conflict resolution between EI companies and local communities be supported?” and “What role the WBG can play?”. The group divided their recommendation into four areas: before starting a project; a new project; an existing project; and overlaps between new projects and existing ones. Doing things to avoid conflict was stressed, such as building relationships, understanding and genuine ownership before getting started. Open information and communication is essential in all situations, as well as having a readily accessible mechanism for redress, if needed. There was no consensus about the Bank getting directly involved in conflicts, but the group did recommend three things: in order to inform policy advice, the Bank should do analysis to understand the causes of conflict; the Bank needs to bring its own policies into line with international human rights agreements; and for projects the Bank should make sure there is ‘voluntary consent’ by all affected parties.
Policy Challenges and Barriers
A group looking at “Policy challenges and barriers in the creation of sustainable development in oil, mining and gas” found that trade and tax policies can create barriers to sustainable development by limiting development of domestic industries and by encouraging offshore expenditures. ‘One-size-fits-all’ approaches like that of the IMF can be very detrimental in forcing countries to take actions such as selling off state assets, which may not produce long term benefits. In its negotiations with countries on policies, the WBG needs to be more flexible, balanced, holistic and responsive to country-specific realities; and in developing the CAS, the Bank needs to make sure there are not policy conflicts between sectors. It is also important to find the right balance between investments in capacity-building and in industrial development.

Final Recommendations

Opening Remarks from the Eminent Person
Dr. Emil Salim opened the concluding session by highlighting the main issues that remain for discussion and recommendation. The first is the question of appropriateness of size and speed: should projects be large or small, and should they proceed slowly or quickly? The second question is to do with gender and how to ensure that the roles of women and men are treated equitably, and who is responsible? Third is human rights: how to avoid human rights abuses, and if they happen, how to make sure there is a grievance mechanism available for complaints? Fourth, in revenue management how to ensure that local people get their fair share, and how to soften the impact on cashless societies? The fifth question is disclosure policy and access to information: how to ensure people are well-informed on revenue payment and distribution arrangements? The sixth point is corruption: what can be done about this? The final question is regarding artisanal and small-scale mining: how can we integrate it within a community development approach?

The Eminent Person asked participants to look not only at what to do, but also at how to do it. The role of the World Bank is the main focus, so each question has to be answered from their perspective, examining their role both in projects and in policy development.

In summing up, the Eminent Person stressed the potential of the World Bank to become a leader in alleviating poverty through sustainable development, with the aim of achieving the Millennium Development Goals. He reminded everyone that 2 billion people are subsisting on less than two dollar a day, and that it is imperative for the World Bank to change its corporate culture and become a world force for poverty alleviation through sustainable development.

Artisanal and Small-scale Mining (ASM)
The Bank should strengthen CASM by adding rural development specialists, who have hands-on knowledge from the regions. CASM has to create on-the-ground models to explore and demonstrate how best to organize a formalized ASM sector. Assistance from other WBG specialists will be needed to help change the policy, legal and regulatory frameworks and mechanisms that are currently working against ASM.
Corruption
The WBG must strengthen civil society, press freedom, and legal reform and legislation; it must address collusion, judicial reform and corporate ethics. In order to achieve these things, the Bank has to support advocates of transparency, freedom of assembly, a free press, financial disclosure, the ‘voluntary principles’, community property rights, and judicial disclosure.

Disclosure Policy and Access to Information
WBG policy should insist on the ‘Publish-what-you-pay’ principle and assist its clients, through partnerships with NGOs, to ensure that transparency is incorporated in government and industry transactions. The Bank can achieve this by a variety of mechanisms including working directly with governments on policy change and enforcement, collaborating with other stakeholders, and using its financial leverage to bring about positive change. The Bank should also insist on full public consultation and disclosure in its projects, through its contractual agreements. Communities should have full access to information on disbursement and expert advice on future options.

Revenue Management
The WBG should make sure codes and specific provisions are in place for revenue distribution in Bank supported projects, and that transparent reporting mechanisms are in place and used. The bank can help countries develop revenue distribution codes and guidelines.

Human Rights and Gender in the Community
Regarding human rights, the Bank should ensure compliance with international conventions and promote development of a grievance mechanism. This will require education, impact assessment and monitoring; loans should be conditional with compliance. To achieve gender equity, participatory baseline studies should lead into integrating gender concerns in socially and culturally acceptable ways in all project activities.

Appropriateness of Size and Speed of Projects
The Bank should support development of sectoral planning at national and regional levels, including establishing policies and strategies for developing extractive industries that are area specific, taking into account variations in social, cultural and environmental conditions. Capacity-building must be identified early on and has to take place well in advance of any industrial development.

Closing Remarks by the Eminent Person
The Eminent Person thanked all the participants for their contributions and made a few concluding remarks. He stressed the main dilemma which keeps coming up - if mining and other extractive industries are so beneficial in terms of employment, income, taxation and development – why are there so many negative voices raised against it? It appears that local people are very much unprepared for the impact, when a large project suddenly
arises in their midst. So there is something in the scale and in the speed at which these developments take place, let alone the ensuing problems of revenue distribution, corruption and human rights abuses.

In conclusion, the Eminent Person urged everyone to continue to contribute ideas, suggestions and criticism via e-mails, the website or other means. Secondly, Dr. Salim mentioned that there is not always agreement in the groups, and that is expected and good; but how to tackle these disagreements? The inputs from everyone are very helpful in getting to the substance of each issue, even though the solutions may not be quite clear. Through this process, with everyone’s inputs, the EIR can get a perspective on what direction to go in to find the appropriate answers, so sensible recommendations can be presented to the World Bank. The objective is to change the course of the Bank into the direction of poverty alleviation and sustainable development, so that a different type of development takes place, one in which local people will be happy and satisfied. The crux of the issue is if the extractive industries can fit into this different type of development approach or not.
## Contents

### Notes
- Abbreviations and acronyms
- Executive summary

### 1. Introduction

*Open Forum*

### 2. Welcome from Eminent Person Dr. Emil Salim

### 3. Testimonial Presentations
- **Mining**
  - Submarine Tailing Disposal (STD)
  - Newmont Sumbawa
  - China Mining Association

- **Small-Scale Mining**
  - Minahasa District, North Sulawesi
  - Small Mining International Survey

- **Gas**
  - Magurchhara Gas Field Blowout, Bangladesh
  - Community Empowerment Process, West Papua, Indonesia

- **Civil Society Self-select Group**
  - Statement of Withdrawal
  - Closed Session with Eminent Person

### 4. World Bank Voluntary Information Exchange
- **Introduction to The World Bank**
- **Working with governments**
- **Working with the private sector**
- **Project environmental and social review**
- **Compliance Advisor/Ombudsman (CAO)**
- **Questions and answers**

### 5. Perspectives from the Region
- **Small-scale mining, PNG**
- **Exploration, Kalimantan, Indonesia**
- **Extractive industries for sustainable development**
  - Indonesia
  - India
- **Energy and global warming**
- **Conflict resolution**
Integrated social strategy

Consultation

6. Keynote Speech by Dr. Emil Salim

7. Case Studies: World Bank Group in Asia-Pacific Region
   MIGA – Lihir Gold Limited, PNG
   IFC – Sepon Gold Mining, Laos
   IBRD/IDA – Technical assistance, PNG

8. Social Issues
   Governance, poverty alleviation and sustainable development
   Human rights – military and police

9. Social and Environmental Impacts and Issues
   Fiji labour union
   Presentations in Parallel Session
   Energy and global warming
      Carbon risk, renewable energy and the WBG
      Climate change and renewable energy
   Submarine tailing disposal
      Implications of the PNG experience
   Artisanal and small-scale mining
      Social and environmental problems
      Small mines, big issues
      Small-scale mining legislation
   Corruption
      Access to information and transparency of revenue flows
      Transparency of revenue management
   Recommendations
   Small-scale mining
   Renewable energy – climate change
   Submarine tailing disposal
   Governance – conflict resolution
   Policy challenges and barriers

10. Final Recommendations
    Opening remarks from Eminent Person
    Artisanal and small-scale mining in community development
    Corruption
    Disclosure policy and access to information
    Revenue management
    Human rights and gender in the community
Appropriateness of size and speed of projects

11. Closing Remarks by Dr. Emil Salim

Annexes (www.eireview.org)
1. Statement from Civil Society
2. Eminent Person’s reply to Civil Society
3. Statement from Indigenous Peoples
4. Workshop agenda
5. List of participants

Further information on the EIR website (www.eireview.org)
1. Transcript of Dr. Salim’s welcoming address
2. Transcripts of testimonies of civil society group
3. Transcripts WBG voluntary information presentations
4. Transcripts of environmental, social and economic impact case studies
5. Transcript of Dr. Emil Salim’s keynote speech
6. Transcript of WBG plenary presentations
1. Introduction

The Extractive Industries Review (EIR) Regional Consultation Workshop for Asia and the Pacific took place in Bali, Indonesia, April 26-30, 2003. This was the fourth in a series of five multi-stakeholder consultations convened to discuss the role of the World Bank Group (WBG) in the extractive industries (EI). The purpose of the workshop was to analyze the involvement of the WBG in the oil, gas and mining sectors of the region, and to see whether or not this involvement was compatible with the WBG’s overall mission of poverty reduction and sustainable development. Over one hundred participants attended the workshop, representing civil society (non-governmental organizations, community-based organizations and labor unions), government, industry, academia, and the WBG itself.

The formal three-day consultation was preceded by a two-day open forum for civil society testimonials, voluntary information exchange with WBG staff, and presentations by industry and non-governmental organisations. The subsequent workshop sessions were only open to participants who had been invited or ‘self-selected’. These sessions featured presentations from WBG-supported projects in the region, as well as thematic issues of importance in the Asia-Pacific area. Based on the discussions, participants identified a series of recommendations on key issues of concern if the WBG were to continue actively supporting the extractive sector in Asia and the Pacific.

The process was guided by the EIR’s Eminent Person, Dr. Emil Salim. Conclusions from the Asia-Pacific Consultation will be used as inputs for the final EIR report, to be presented to WBG President, James D. Wolfensohn, in December 2003. In line with the EIR’s mandate, note was taken throughout the workshop of both consensual and dissenting views, which will be taken into account in the final report.

Additional material from the Asia-Pacific Consultation, including participant’s testimonials, case studies and presentations, is available on the EIR website: www.eireview.org.

Open Forum
2. Welcome from Eminent Person, Dr. Emil Salim

The Eminent Person, Dr. Emil Salim welcomed everyone to the first day of open sessions of the consultation. He described the twofold purpose of the sessions: first to listen, hear and understand what stakeholders have to say about the role of the World Bank (WB) in extractive industries in eradicating poverty through sustainable development; and second to identify to what degree there is consensus or dissenting views, and to make recommendations to the World Bank Group (WBG). What should be the future role of the WBG in the Extractive Industries (EI) in order to eradicate poverty through sustainable development? Do WB policies have the correct focus in programs, projects and processes?
Dr. Salim emphasized that this was to be the thrust and the direction of the consultations for today, and that the task of the EIR team was to listen, to hear and to understand. The Eminent Person stressed that the participants should be frank, not be intimidated in any way, and express openly what they feel, what they think and what they have found in the field.

The Eminent Person went on to describe the various components that make up the WBG – IBRD, IDA, MIGA and IFC – and stated that discussions would include them all. The Extractive Industries are oil, gas and mining: mining includes gold, metals and minerals. In pursuing the goal of the consultation, it should be based on real experience. The role of the WBG in oil, gas, metal and minerals is to promote poverty alleviation through sustainable development. Poverty alleviation is understood within the framework of the Johannesburg World Summit. It is not just limited to income: it is also means lack of access to education, health, energy, safe drinking water and rights to natural resources. Sustainable development means economic sustainability, social sustainability, and environmental sustainability.

Dr. Salim invited stakeholders from government, industry and civil society (NGOs, indigenous people, academicians, workers, etc) to make their testimonials, with the assurance that anyone who wishes to speak can do so freely and independently. He mentioned that there are some testimonies that will be given privately in a separate closed meeting, because some of the speakers are concerned about reprisals when they return home. The Eminent Person then introduced all the members of the EIR Secretariat team, and the facilitation and support teams.

3. Testimonial Presentations

Minning

*Submarine Tailing Disposal (STD)*

The Director of APEX stressed that this region is different from other areas: it is an area of exceptional high biodiversity – the ‘bull’s eye’ of marine biodiversity conservation and the ‘crossroads’ for north and south large species migration. As such the risks are high for potential impact on biological life, and the resulting economic impact that is likely to occur in terms of fisheries and tourism.

There are very strong and dynamic ocean flows in the area, which present concerns about transport of waste materials. There are also biological movements, from ocean depths to the surface and back again. These are diurnal flows, so it is very dynamic. Overall, there is an economic risk simply from the perception that there is contamination in fisheries, especially in Indonesian waters. The economic risk extends to marine-based tourism as well.

Marine biodiversity is found to extend to deep waters as well as into the open ocean, especially for large mammals like whale species. The knowledge of critical marine
habitats is still growing: one factor is that this can be very seasonal – there can be specific
times of the year when it is more critical.

The main concern is that not much is known about the impact of STD on tropical marine
ecosystems, and that Environmental Impact Assessments do not include an evaluation of
the potential impacts of STDs. As STD is a preferred waste disposal procedure in large
scale mining operations, and as a significant increase in STD in the region is anticipated,
action is required to address the lack of knowledge and the potential biological and
economic threat.

Newmont Sumbawa
Three persons spoke positively about this large scale gold mining project in Sumbawa,
Indonesia – two from community NGOs and one civil servant. The company engages
directly with the community and supports new infrastructure for communication and
transportation, health and education facilities and programs, agriculture and small
business development. Meetings are held every month and relationships between the
company and the community are good. The speakers were concerned about negative
misinformation about the company from some NGOs and the news media, and urged
them to check their facts before making negative publicity, as it disrupts the stability of
the community.

Concerns were expressed about insufficient wider distribution of benefits to other
communities, the real impact of marine tailings disposal, and the tendency to not include
sufficient representation from women in decision-making because of customary practices.

China Mining Association
China is the second largest mineral producer in the world – having nearly 89,000 mining
projects, with very many people involved in Artisanal and Small-scale Mining (ASM).
Although ASM generates local incomes, there are problems with safety, health, pollution
and environmental damage. ASM is not considered sustainable, and the government shuts
down sites that do not comply with safety and environmental standards. Remote areas
have experienced positive impacts from ASM. Large companies follow government
regulations.

Small Scale Mining
Minahasa District, North Sulawesi
A documentary film presented a ‘gold rush’ scenario, in which the operation of an
Australian mining company, Aurora Mining, was overrun by both outside and local
people. Large amounts of mercury were used and much of it ended up in the local river
system. The local people are now regulating mining activities, although there still is no
legal basis. They have instituted measures with the help of local NGOs to reduce the use
of mercury, using a cyanide process, which they maintain is a clean technology. They
also collect fees to offset the costs, and there is a noticeable improvement in the
economic well-being of local people. Studies are planned to assess the impact on health
of the mercury use. A question was raised about the appropriateness of some of the
technologies used to mitigate the use of mercury and the importance of having proper management.

**Small Mining International Survey**

The preliminary results of a global survey on small-scale mining was presented. Participants were asked three questions:

1. What has the WBG done in small-scale mining? - any examples of projects including the corresponding positive and/or negative results/impacts?
2. What should be the policy and role of the WBG in the development of the small-scale mining sectors/industries in developing countries?
3. What types of projects, programmes and activities should the WBG be doing in the field of small-scale mining?

There appears to be a rising frustration over the ‘step child’ syndrome regarding ASM. Many would like to see ASM given top priority by the Bank, and have it integrated into poverty reduction strategies and policies, as well as seeing something real implemented on the ground. Governments seem incapable of addressing ASM in a sensitive and comprehensive way. But there have been some positive engagements on a small scale between companies and ASMs (in South Africa).

**On the first question:** CASM holds some promise but is under-funded and relatively dormant. In Ghana, there have been little benefits and more problems from the WB-GTZ project. ASMs are excluded from mining legislation and are manipulated by authorities. Knock-on effects from Bank policies that promote cash crops have driven farmers into ASM.

**On the second question:** The bank should promote coherent country-specific policies for ASM, with a clear link between macro- and micro-policies, and links with other sectors, particularly agriculture. ASM should be integrated into country Poverty Reduction Strategy Papers (PRSPs), in order to become a regular part of rural development programs, with concomitant rights and obligations. Current mining laws trap miners into illegality: ASMs should have full, tradable mineral rights on their discoveries.

**On the third question:** At micro-level, the Bank should support ASM projects at grass roots and community level that are exploring “what” and “how” to do things right, including working on issues and practicalities of poverty reduction, land use, entitlement, governance, small mine closure, conflict management and capacity development. At macro-level the Bank has to link and mainstream ASM into PRSPs, and promote appropriate and supportive legal and regulatory environments that reverse current trends of exclusion and marginalization. The new approach has to broaden to include the full spectrum of ASM, including the extraction of industrial materials, as well as the entire mining cycle from exploration to closure.
Gas

**Magurchhara Gas Field Blowout - Bangladesh**

In 1997 the Magurcha gas blowout resulted in widespread devastation to plant, animal and human populations, as well as to settlements and infrastructure. Long term impacts continue to affect soil fertility and the health and livelihoods of indigenous peoples. The operating company, Occidental Petroleum, paid no compensation and left after selling their interest to Unocal, who refuse to recognize any claims. The World Bank Group was fully involved, but remained silent throughout. Whereas the project was supposed to reduce poverty, it has had the opposite effect – poverty is increasing.

Bangladesh has large underground gas reserves. This resource could be used for many purposes within the country, especially for poverty alleviation, but there is strong political and financial pressure from the US government and International Financial Institutions on the Bangladesh government to export to India. The speaker called for a comprehensive and coordinated initiative to enable the gas sector to alleviate poverty, utilizing local knowledge, expertise and companies.

Community Empowerment Processes – West Papua, Indonesia

The Papua Community Development Foundation (YPMD) presented their work in Beraur Bintuni Bay where BP has a LNG project. A fundamental problem is government turning over responsibility for local development to the company, one consequence of which is that government weakens itself and its relationship with the people. It tries to satisfy investors and only pays lip service to things like EIAs, providing no monitoring and no dialogue with local people.

YPMD does mediation and advocacy to help build responsible relations between communities and companies; it supports capacity-building through mentoring, and community empowerment through conflict mediation. Accurate data on natural resources is essential in the mediation process. Now local institutions know and understand BP’s profile and business mission and the compromise process with BP has been clarified. Participatory planning activities are underway with directly-affected villages, and there is community participation in planning and implementing empowerment activities.

BP has opened space for communication with local communities, and has become the target for community interests, aspirations and increasing expectations. In the light of changes in the economic status of communities, YPMD recommends that:

1. Existing community economic activities must be kept intact, with sufficient potential to improve through viable markets.
2. Sustainable development can take place—if environmental impacts are managed.
3. To manage environmental impacts, technologies for resource exploitation must adhere to high standards.
4. Funding institutions must actively monitor the planning, implementation and results—using economic, social and environmental indicators.
5. Local government must pro-actively consult communities—to respond to and accommodate their aspirations.
6. In preparatory planning, social processes are vital in preparing for commercial operations.

A participant from PNG suggested that to ensure direct consultation between government and the people, the Indonesia mining department has to have project coordinators who continuously monitor the situation, as they do in PNG.

**Civil Society Self-select Group**

*Statement of Withdrawal*

Representatives from the Civil Society self-select process chose to withdraw from direct involvement in the Bali consultation, citing irreconcilable differences with the EIR process. They did however have a closed session with the Eminent Person on the afternoon of the first day. Their main complaints were that evidence showing that the Bank’s involvement in extractive industries failed to achieve poverty reduction, and sustainable development was not being given sufficient attention; that decisions had already been taken on the outcome of the review prior to the completion of the process; that important issues to civil society had been left off the agenda; that a balancing perspective from civil society was not accommodated in some of the presentations; that basic framework questions from civil society were not included; there was a lack of transparency in selecting some academics and experts for the consultation; and that certain documents requested were not provided.

The self-selected civil society group concluded “that the ongoing EIR process will not reflect the magnitude of civil society concerns over the Bank’s role in extractive industries”; and challenged the Eminent Person to “move forward in this process in a way that truly reflects the extensive input and basic requirements for engagement provided by civil society”. ²

The Eminent Person responded with a written reply (Annex 2)

*Closed Session with Eminent Person*

In a closed session with the Dr. Salim, indigenous people and civil society representatives from various countries in the region presented personal testimonies about the negative impacts of extractive industries upon their lives and livelihoods, including the loss of traditional lands and the destruction of sources of livelihood due to pollution and damage to forests, farmlands, streams and coastal fishing areas. People had also suffered human rights abuses from security forces and company employees, such as physical and sexual abuse, harassment and intimidation.

A more comprehensive account will be included in the report after receiving additional inputs from civil society representatives

---

² Written Statement from Civil Society (Annex 1)
4. World Bank Voluntary Information Exchange

Introduction to the World Bank
The structure of the World Bank Group was introduced – 5 institutions with a common goal of sustainable economic development and poverty reduction. The Group is committed to the Millennium Development Goals.

Asia has some of the world’s largest countries – China, India, Indonesia, Pakistan, Bangladesh; and the fastest growing economies – average 6.5% pa. While there are major reductions in numbers of people in poverty, large differences exist between countries and sub-regions and even within countries. The region will be the most important source of growth in demand for minerals and fuels over the next few decades.

IBRD/IDA’s strategies in South Asia are for sound policies to promote growth: institutional development; good governance and policies to address poverty; a broad-based holistic approach – with the guiding focus the Millennium Development Goals. In Asia-Pacific the strategy is for revitalizing the business sector; supporting public sector performance; addressing social risks; and preventing environmental neglect – with the overall objective of poverty reduction. The total investment program in 2002 represented 27% of the Group’s portfolio.

IFC, in addition to its regular portfolio, is supporting SME business development in the South Pacific, China and Mekong basin; working on corporate governance and securities institutions; and providing support for development of financial institutions. MIGA, apart from its guarantee operations, is giving workshops and training on investment promotion.

The Group believes that economic growth is essential to reduce poverty and help meet the Millennium Development Goals. Within this context, extractive industries (oil, gas, coal and minerals) are expected to provide: energy and materials for local, regional and national development; jobs and entrepreneurial activity – directly and indirectly; essential services - through project related infrastructure; and income for governments – who can then support the poor and finance social and other developmental investment.

The Bank can also help out with: environmental degradation - which can cost the poor their livelihoods; accidents and spills - which can cost the poor their health; land rights issue - which can cost the poor their future; cultural changes - which can cause social disruption to the poor; and revenue flows - which can disrupt economic development, create corruption and cost the poor their access to decision-making.

In seeking to reduce poverty, the Bank can ensure that resource wealth is used wisely and risks, to which the poor are most exposed, are mitigated. By working on the relationships between governments, the private sector and civil society, the Bank wants to: equip government to manage benefits, work with communities, and deal with past legacies; create a responsive interface between government and the private sector; and support responsible private sector development in high-risk and frontier countries.
Oil, gas and mining are only a small part of WBG annual financing, and IFC/MIGA financing accounts for about 5% of the total. In the Asia-Pacific region there are relatively low levels of project investment from IBRD/IDA: mainly focused on gas development - 57% of lending; coal investment - 40%; and technical assistance and reform - 3%. In IFC/MIGA there is limited demand from investors, as there are concerns about governance and restricted private access. IFC/MIGA does very selective investment financing of gas - 73% of transactions, and mining projects - 27%.

**Working with governments**
The World Bank assists governments by lending: for investments - to finance specific projects; for structural adjustment - to support policy and institutional reforms; for technical assistance - to help develop regulatory frameworks and institutions; for trust funds – to assist with planning and capacity-building; and for advisory services and partnerships - that provide information, advice and share experience, at the macro-economic level and for specific sectors.

In working with governments, the focal point is the three year Country Assistance Strategy, and the accompanying Poverty Reduction Strategy Paper and Private Sector Development Paper. For extractive industries the trend for financing is falling.

Assistance to governments is driven by three key beliefs. First, with the right macroeconomic and sectoral conditions, resource projects can contribute to development. Second, in competitive markets, investment and enterprise management are generally best left to the private sector. Third, governments are best focused on protecting the public interest and creating a good legal and regulatory framework for competitive private sector development by:
- setting macroeconomic and sector policy and framework for development;
- providing access to minerals, regulation and oversight of private sector;
- proper fiscal management of revenues; and
- sharing the benefits of development.

In the Asia-Pacific region the Bank believes that resource developments can contribute to economic growth and poverty reduction, but risks need to be managed. Gas developments are deemed a “clean fuel” priority. Private sector investment has to take place within an appropriate regulatory framework.

Within the region, the importance of oil, gas and mining varies widely. China and India have huge coal industries focused on meeting local demand, but they are relatively small compared to the rest of the economy. Indonesia is an important petroleum producer and mineral exporter. Pakistan, Bangladesh and Thailand have important local gas industries. In PNG, oil and mining play a dominant role in exports; there is also a possibility of gas exports. Mongolia is very dependant on coal. All countries face many competing priorities in agreeing to programs with the WBG.

Some examples of the benefits for sustainable development from WBG support to extractive industries are:
increased supply of “cleaner fuels” - natural gas in Bangladesh, Thailand, and China;
more reliable coal supplies - critical for winter heating in Mongolia and power generation in India;
bringing international experience to environmental and social issues - India Coal Sector;
supporting government design of a sustainable mining development policy - examining where the monetary benefits have gone in PNG; and
mining and community development – good practice in action - Madang conferences in PNG; the next step is “Women in Mining” August 2003.

The World Bank supports governments by providing other types of global advice. It champions development issues and partnerships with governments and others - e.g. a gas flaring reduction initiative with Governments and industry; and the Communities and Small-Scale Mining (CASM) initiative with the UK Department for International Development and others for artisanal and small-scale mining. The Bank sets standards and safeguards for its own operations that can also help guide governments and others. It also provides research and dissemination of best practice on energy development issues - e.g. the Energy Sector Management Assistance Program (ESMAP).

**Working with the private sector**
Because economic growth is deemed essential for development and poverty reduction, IFC and MIGA help finance private investment in certain circumstances. For instance, if local investors cannot get the right sort of financing, or foreign investors and banks will not invest because of political risks. In such cases, IFC/MIGA will invest and attract other financing and thereby allow good projects to go ahead. In addition, IFC tries to bring added value in terms of sustainable development impact to the projects it supports. IFC is like an investment bank that is focused on development.

Projects have to be commercially viable and must contribute to sustainable economic development. Commercial finance/investors (market rates) must not be displaced. All environmental safeguards and other WBG criteria must be met before going for WBG Board and Government approval. MIGA provides insurance for private investors for losses caused by “political risks” – e.g., for war and civil disturbance, expropriation, transfer risk and breach of contract.

An example of a small IFC project is development of the Bhit gas field in Sindh Province, Pakistan. The project involves 9 wells, 24km of gas pipeline and a gas processing plant for about 600bn cubic feet of gas in total. IFC’s role is to provide up to $30m of long term US$ finance and to provide comfort to first time investor in Pakistan. The development benefits are expected to include a supply of low cost, high quality fuel; generation of taxes and profits for Pakistan; and jobs and training for local employees.

When possible, IFC works with investors to broaden project impacts, such as in the Mozel Al smelter, a $1.4bn+ investment that is helping Mozambique recover from years of war. To avoid risks of “enclave project” syndrome, the project includes extensive local
training; a broad community development program that includes education, agriculture and infrastructure; a regular consultation program; SME linkage programs for local contractors; training (including trainers); access to financing; and an HIV/AIDS program.

**Project environmental and social review**

The Bank has environmental, legal and social policies, and guidelines for pollution prevention and occupational health and safety that underpin the environmental and social review procedures. The purpose of environmental assessments is to ensure that projects proposed for Bank financing are environmentally sound and sustainable, and to identify and inform decision makers on the nature of environmental risks (e.g. provisions to ensure compliance and prevent likely non-compliance). Considerable changes in policies and guidelines have occurred over time. The guidelines provide measurable ‘numbers’ for quantifying compliance.

Projects are categorized according to the degree of impact they are likely to have on the environment. **Category A projects** are likely to have significant adverse environmental impacts that are sensitive, diverse, or unprecedented. **Category B projects** are likely to have potentially adverse environmental impacts that are site specific and mostly reversible; mitigation measures already exist or can be designed with greater ease than for Category A projects. **Category C projects** are likely to have minimal or no adverse environmental impacts. **Projects in Category FI** involve the investment of funds through a financial intermediary, in sub-projects that may result in adverse environmental impacts.

The Bank’s Indigenous Peoples Policy (OP 4.20) is designed to ensure that indigenous peoples: are afforded full respect for their dignity, human rights and cultural uniqueness in the development process; do not suffer adverse effects; receive culturally-compatible social and economic benefits; and benefit from provision of informed participation in the project. There now is a ‘vulnerable people’ focus – eg, the elderly and refugees – rather than strictly indigenous peoples.

The responsibility for implementation depends on which Group member is involved. For IBRD/IDA projects it is the borrowers, the Quality Assurance Group and the Inspection Panel. For IFC, the sponsors, Environment and Social Development Department and the Compliance Advisor/Ombudsman are responsible. And for MIGA it is the applicant and Environment Department staff.

In summing up it was stated that the WBG tries to work as one integrated group. The WBG always has questions: *When to be involved? How to improve the way we work? Can or should we be working differently? With different skills and other processes? Are there new, more effective, more efficient interventions? Can we help countries, communities, firms better? Should we develop new clients and products?* The WBG asks their clients around the world what role they should play in the future with communities, firms and governments, towards new products.
Compliance Advisor/Ombudsman (CAO)

The purpose of the CAO is to advise and assist IFC/MIGA to address complaints by people affected by projects in a manner that is fair, objective and constructive; to enhance the social and environmental outcomes of projects in which IFC/MIGA play a role; to oversee compliance audits of IFC/MIGA’s overall environmental and social performance, and on specific projects; and to provide independent advice to the President and management in relation to specific projects, and in relation to broader environmental and social policies, guidelines, procedures and resources.

The CAO has three roles: ombudsman, advisory and compliance. The Ombudsman role is the central role of the CAO and is the most innovative of the three roles. It is aimed at resolving issues by providing a context and process for parties to find mutually satisfactory solutions. The CAO identifies problems, recommends action and addresses systemic issues. It is not aimed at finding fault or apportioning responsibility.

Complaints may be lodged by an individual or community affected or likely to be affected by a project. They can be sent in any language, by mail, fax or e-mail to the office of the CAO. Complainants may be represented by another party, but the representative must show their authority to represent. Complaints can relate to any aspect of the process in a project, but where there is a need to change behavior of an external party, IFC/MIGA leverage decreases as monies are drawn down, or when IFC is a minority shareholder. Confidentiality can be requested, but anonymous complaints will not be accepted.

Complaints are acknowledged within 5 working days, and appraised within 15 working days of receipt, based on if it is a genuine complaint and if it meets the CAO criteria. The complainant is notified if the complaint is accepted or rejected. If accepted, it is assessed and management has 20 working days to respond to the request from the CAO. The CAO Assessment is a preliminary investigation, which is shared with the complainant, sponsor and IFC or MIGA. The decision to proceed could involve facilitation, mediation or further investigation.

Once the complaint is concluded, a report goes to the President, the parties are notified, the boards of IFC/MIGA are briefed upon request, and conclusions are made public. There is always monitoring and follow-up. Where policy issues arise, there is room for advice or further work under the advisor role. Where compliance issues are raised, CAO may elect to undertake an audit.

The office has been operational now for 3 years. Five complaints have been accepted and are ongoing. Two complaints have been rejected. Six complaints are closed or resolved. The CAO has 64 pre-advisory files – tracking issues around projects.

The Advisor Role was requested by the President and IFC/MIGA management. Advice is given in the form of summaries, reports and memoranda to the President. Advice is strategically applied to trends, issues and policy concerns across IFC/MIGA;
concentrating on acting as an early warning system. CAO does not give project specific advice, and all CAO advice is independent.

Compliance Audits may be triggered as the result of investigation undertaken in response to an Ombudsman complaint; and at the request of Senior Management or the President. Audits will run sequentially to Ombudsman investigations, and information disclosed in investigation will be privileged. Audit findings will go to the President, and after discussion with him, to the Board for information. Audit findings will be posted on the CAO website. CAO is bound by IFC and MIGA disclosure policies, with a strong presumption in favor of disclosure, which generates public accountability.

Amongst other things, CAO is making a review of IFC’s Safeguard Policies, reviewing MIGA, establishing an internal monitoring and evaluation system, and looking at how to extract a sustainable advantage – eg, its contribution to EIR.

Questions and answers
A participant from Indonesia asked about the involvement and responsibility of government, and then about the reason for the WBG withdrawal from a gas project. The response was that governments have to be informed and have to give a “non objection”. The government’s responsibility is in IBRD/IDA projects, not in IFC/MIGA ones. In Indonesia, after energy sector studies by the Bank, there was a mutual understanding to discontinue with the gas project.

A question arose regarding to what extent the bank is willing to encourage or insist on the use of existing international conventions, e.g. on safety, health or indigenous peoples. There has been a lively debate within the WBG over this. Safeguard policies are restricted to specific sectors – eg, shipping of crude oil. Project-based labour standards may not be covered. The Bank refers to international standards where the issue is not covered by safeguards. Should the WBG set standards when international standards are already there? This question cannot be answered right now, as it is under internal discussion.

Regarding mine closure – after the mine is closed, there usually is very little left for the community. Is this concern part of WBG policy? EIR has highlighted the issue of mining companies and limited IFC involvement in a project. What happens thereafter? Sustainable economic activities should evolve during the term of the project. Projects can provide funds for this purpose, and work with government so that investments are made into the community for sustainable livelihoods after the project is over.

Ten years ago this issue came to the attention of the Bank, after the post-communist transition in eastern Europe. The Bank looked at the overall social adjustments that were needed in these economies. The Bank has made loans to post-communist countries for this purpose, mainly for social mitigation effects – eg, unemployed coal miners - and to a lesser extent for environmental effects. It addressed both social and physical sides - regional recovery and regional development, generation of jobs outside of the industry. Looking ahead, mine closure should be considered from the beginning. Governments
need to consider a Conceptual Mining Plan, including both environmental and social concerns, as part of the licensing requirements. Minimize the ‘footprint’ of a project, including development of large social structures – eg, towns, which may not be viable post closure. A post-closure policy is needed with monitoring and protection for many years.

One participant commented that the right framework is important, as is the policy advisory role of the Bank. For instance, structural adjustment programs have a specific objective to speed up investments by streamlining procedures, lessening the time and the number of agencies involved. This can result in bypassing the main environmental organisation in the countries, and strengthen the rights of land owners, but not those of local people. Is it possible that there is a danger from these policies in the case of poor governance conditions? Does the bank recognise this as a danger? The response from the Bank was: yes, this at the core of the EIR. We very much recognise the dangers that exist in countries with poor governance. Technical assistance projects are aimed at building capacity of governments to improve governance. Independently, we have to ensure that sponsors have the capacity to implement projects according to WBG standards. We use the Country Assistance Strategy (CAS) for this.

Another Bank representative agreed that this issue is a major pre-occupation – eg, SOEs are very inefficient, so the Bank promoted governments to shed their ownership role for a regulatory role. Another danger is to rely too much on specialists; it requires a holistic approach to bring everything together. The result is most important, but how to achieve it? CAS is the main instrument, but in resource-rich countries it is not thought out sufficiently. This is why in PNG the big emphasis is on governance (lending has diminished because it did not produce growth and development). Mining countries have poor statistics for overall development. How to take a holistic approach? Technical assistance to mining countries is now on institution building and to support environmental safeguards, previously it was focused just on mining. This is an internal debate in which the Bank is making progress, and the EIR will feed into this process.

A question arose regarding the CAO – is it difficult to make a complaint? The project cycle may not be working. How does the community come up with a complaint and how is it assisted? Maybe the process isn’t working. In response the CAO spokesperson stated that projects do go through environmental staff within the bank, assuring that safeguards are applied. Prior to Board approval CAO findings are requested by the Board. Not all communities know CAO exists, but CAO has an aggressive information program. People do file complaints, but it can be frustrating by the time the complaint reaches the CAO office. It was pointed out that making a complaint is difficult, and that somehow it must be sustained. Many communities don’t have the resources to complain – is the WBG supporting this? It is possible to go through the organisational channels of the WBG?

Many interest groups in the community can get marginalized – is there an appropriate mechanism to help local people? It essentially is up to the community to decide. CAO provides support during the process – eg, in mediation – to help people engage and raise issues or problems.
A question about increased borrowing for India brought the response that India and China are amongst the largest borrowers. In China the Bank has already reached its maximum level, and India is getting close. It is difficult to increase this. A lot has to do with the governments themselves – eg, if they want to borrow or not. IFC has Trust Funds to assist sponsors in preparing projects for financing – eg, technical assistance for small scale entrepreneurs for all sorts of skills.

One participant asked: does the WBG have some kind of road map when entering the energy sector of a country? The Bank has a long term impact on the development trajectory for a sector, and could be influential in providing renewable energy policy advice for industrializing nations, especially in respect to mitigating factors contributing to climate change. In response the Bank stated it is concerned about global climate change and it does have a broad policy, which is elaborated in its “Fuel for Thought” paper. It uses the Kyoto Protocol as the basis. It could approach individual countries with a more strategic perspective. It does energy studies and is providing as much assistance as possible to renewables, but there is scope for a lot more. The Bank tries to assure that a country has energy resources to fulfil its energy needs. Global climate change is an issue, but many developing countries will use fossil fuels for a while in the transition. Fuel costs are subsidised in many countries, and the Bank is likely to advise governments to reduce those subsidies. In looking at the relationship between fuel supply and poverty, the Bank would like to leverage resources, by looking at alternative energy sources that would be a better alternative than traditional sources.

A participant from Sulawesi asked: why is the financing not there for small-scale mining (SSM)? There is a risk of closing SSMs if funding is not available for environmental friendly gold mining. The Bank spokesperson responded that WBG loans to the Indonesian government. If the government considered this a high priority, then money could go to SSM. In Indonesia, under the decentralization process, in the near future individual provinces will be able to approach the Bank for loans or grants.

One of the Fijian representatives asked: with so much going to Asian countries and so little to the Pacific Islands, does the WBG have specific plans for the Pacific Islands? The answer was that the IFC finances very large projects, which are not found on the Pacific Islands. There is a very focused program in the region for SMEs, mainly for technical assistance. There have been no requests for assistance in the extractive industries sector.

A speaker from Papua asked why there were no loans to the agriculture sector as it is badly needed to stem the migration of farmers to Jakarta. He was also worried about their ability to repay soft loans. In reply it was stated that the Bank has broad programs in Papua, but their ability to fund is restricted by the Ministry of Finance (in Jakarta). The central government still continues to make repayments.

A series of questions from the Indonesian Department of Energy and Mineral Resources: does the WBG conduct in-depth studies to ensure natural resources and the welfare of
people is sustainable? The image of the Bank is as a provider of money not assistance to empower nations - has the Bank conducted analysis of its image? Many Indonesian projects once they’re finished are not sustainable – has the bank conducted research on its own failures? WBG does not approach things holistically, development has to be considered in an integrated manner. In response the Bank stated that it was aware of studies showing a negative correlation for growth in countries with extractive industries, but some countries have done well – Botswana, Chile and Malaysia. The question is how to improve the prospects? The Bank has ongoing evaluations: there is an independent internal evaluation on extractive industries coming out in the next few months. The Mining Group has been restructured 3 times over the past 20 years, responding to external views. The Bank believes in a holistic approach. This is embodied in the CAS, which now includes civil society and other donors in its making.

From the Indonesian Mining Association came the comment: Indonesia is as big as Europe, therefore there can be no one standard policy for natural resources development. Some regions are very dependent on natural resources, but nationwide it is only 3% of the economy. We must not simplify or standardize. It is not just big companies, we also have to look at subsistent livelihoods. The failure of national welfare is the fault of the government not the private sector. There is a lot of competition for loans: perhaps MIGA can support development of remote areas and support efforts for FDI.

5. Perspectives from the Region

**Small-scale mining - PNG**

Small-scale mining in PNG is unique in the region, because it is well regulated and self-managed. This is a consequence of the country’s mining history, development of its mining law and very strong customary ownership rights to land. Indigenous land rights were first recognized in 1884, and today 97% of the land is owned by indigenous people. The legislative framework was put in place during the 1920’s to regulate mining by Europeans. That remains the basis of the present Mining Act, covering small, medium and large scale mining. The Act grew from a framework to regulate small scale mining to accommodate large-scale mining.

The export of gold is controlled by the Central Bank: buying and selling within the country is unregulated. The market is very competitive and miners receive a good price. The Gold Refinery in Port Moresby offers international prices. It services large and small mines and has an active SSM program. Miners have an income 4 times as high as the average population. 50,000 miners are benefiting 400,000 people.

Small Scale Mining is well supported by international aid agencies and industry. Since 1993, industry has supported an education program - readers for schools, career books and information booklets. Aid agencies – AusAid, World Bank, Japanese Social Development Fund, Asian Development Bank, EU – have provided support for information and communication materials, outreach programs, and technical assistance.
for capacity-building, governance, health and safety, mining law and legislation, microfinance and environmental awareness.

SSM is increasingly important to PNG as a growing sector of the economy. Export earnings exceed most agricultural commodities. It is an important component in sustaining communities after closure of large mines. It is important in alleviating poverty and unemployment in rural areas. Outreach programs are improving health and safety, environmental performance and productivity.

There are some very clear reasons for the success of SSM in PNG. First, SSM is well regulated. It has multi-stakeholder participation and broad mining industry support and participation. SSM provides clearly defined and demonstrable outputs, which add long term value. There is strong governance and transparency with programs and funds supported by agencies such as the World Bank. Personnel from implementing agencies have a genuine interest in small scale mining and are not after personal gain. Programs are integrated into an overall plan and do not operate in isolation. Each new program builds on the outputs of the previous one.

Some comments in response to questions: We just stopped using mercury. One problem was the price, which was lower because the colour was altered by the mercury. Most of the mining is alluvial; there is a little hard rock mining. Most of the gold is fairly coarse. No cyanide is used as it is considered too dangerous.

**Exploration – Kalimantan, Indonesia**

The chief geologist for Kalimantan Gold Corporation, a junior exploration company looking for minerals in Central Kalimantan, presented their experience in introducing community development activities early on in the exploration phase. Being a small company, they worked from the beginning very closely with the local Dayak people, training them to be part of the exploration team. At the same time they started providing on-the-spot health services and sponsoring local children to continue their education. In 1997, together with local people, they established a foundation to do more intensive community development work – providing health services and clean water supply, extension services in agriculture and aquaculture, setting up cooperatives, and strengthening local governance.

The objective of the foundation is to help diversify livelihoods and build up local skills and capacity, so that in the advent of a large mine, local people will be better prepared to manage the impacts and gain some of the benefits. There has also been some preliminary work in ASM, and one of the hopes is that revenues from ASM could help fund some of the community development activities, thus making it self-sustainable.

The company is also concerned with having the right governance and institutional setting at district and province levels, so they have engaged in a tripartite arrangement with the Provincial Government and UNCTAD, the United Nations Conference for Trade and Development. UNCTAD has been active globally with the mining industry and sees a unique opportunity to build a GIS-based mechanism for planning regional development
in Central Kalimantan. UNCTAD is currently fund-raising for this initiative. This would be part of a wider program aimed at building up the capacity at all levels in the government to provide quality services, underpinned by an environment of good governance. This objective is considered essential if a large scale mine is to start up in the province. The company would like to form a wider collaborative partnership with other donors and development agencies, with NGOs, civil society organisations and interested parties from the private sector in order to create an integrated ‘development framework’. This framework would then provide a common foundation for orderly and coherent development in the province.

Among the lessons learned so far is the need to build solid, trusting relationships with all interested parties. This has to start from the beginning, at the time of receiving exploration rights, and means involving local people actively as partners in all stages of the activities. Building local capacity is also essential: this has to take place within local communities as well as within the government services. Good two-way communication is another must: people have to be kept well-informed about what is going on and have a mechanism to interact with. Overall, in relationships, there should be an atmosphere of care and enjoyment.

It was suggested that the Bank adopt a broader, ‘development’ approach, moving away from a strictly ‘project’ focus, and help create a coherent, integrated development framework on a regional level. The Bank needs to cultivate an in-depth understanding of the context in which projects are set, and foster cross-sectoral linkages and relationships between government, civil society and the private sector. Development planning and investment at both community and regional level should start during the exploration phase, well in advance of establishing an actual mine. The Bank should take a leading role in building capacity for good governance.

In conclusion the speaker suggested that mining should be at forefront of sustainable livelihood development and poverty alleviation, because it taps new wealth that if well-managed can provide the motor for healthy regional development. In order for this to happen properly, there has to be broad, collaborative partnerships, a shared common vision, and a holistic approach. Most importantly, there are no shortcuts, it is long term and human in nature. It starts for everyone from day one of exploration with relationship-building which will underpin orderly, future development. Evaluation of social, environmental and economic impacts, and essential planning must be in place well before mining commences. Demonstration projects are needed to work out how mining can contribute to sustainable development and poverty alleviation.

Questions and Answers
Q: For a big mine to go ahead would you bring in a big company? Is it assured that they will continue your approach? Would you be willing to wait until everything is in place?
A: The reason for working with UNCTAD is to prepare for this. The more important issues are the social and environmental ones. A mine will require one of a handful of specialised big miners in the world. Everyone is realising the changes that are necessary,
big companies are making efforts to work in this way. Once the ground rules are laid, any incoming company will have to play by the rules.

Q: Your success could be your downfall. The area will become a magnet for people from all over the country. How will you deal with the expectations of the locals, in comparison with the skilled people a mine will need?
A: At this point there is high unemployment. We need partnerships: to build training schools and to start the training process now. The whole district has only 21,000 people. The mine development would have to wait for this kind of thing before going ahead.

Q: How to go ahead with extracting gold in a forest full of biodiversity? What kind of methods?
A: It can be handled in a responsible and scientific manner. We have to take the time to do it well. A feasibility study needs more than 2 years, maybe 5 years is required. These issues should be considered as part of the economics of the mine.

Q: In my area a large company provides inputs for community and government reforestation at closure. The company is committed to the environment. Afterwards the area can be used for tourism, so perhaps people can continue with businesses and other activities.
A: How can mining develop an example of good practice? The issues are wealth distribution, the community and environmental concerns.

**Extractive industries for sustainable development**

*Indonesia*

The Representative of The Ministry of Energy and Mineral Resources of Indonesia spoke about investment in natural resources – forestry, oil, gold and other resources – being the basis of development potential. He also commented on the recent history of economic and social unrest.

Many policies related to sustainable development have not advanced. Government staff used to have much more knowledge than those in the private sector. Now they are very weak and have very low salaries. This breeds corruption, which impedes development. Economic, political and administrative governance need to be addressed. The challenge to Indonesian society is to create a system of governance that promotes, supports and sustains development. The institution of governance in the three domains - state, civil society and the private sector - must be designed to contribute to sustainable development by establishing the political, legal, economic and social circumstances for poverty reduction, job creation and environmental protection.

The biggest enemy to the Indonesian people and their environment is poverty. It is poverty that moves people into illegal and unregulated logging, forcing a large proportion of the population to go back to more traditional forms of survival, such as ‘traditional’ mining methods, using mercury to extract gold with high degradation to the surrounding environment, the unregulated forms of coal mining that leave lands unreclaimed and devastated.
Our only potential is forestry, oil and mining. Other industries have collapsed. Our main problems are policy problems. We would like the WBG to conduct a study on the core of the problem. Without sustainable development we will have instability in our country.

**Questions and Answers**

Q: The existing system is still very centralised – when can the regions regulate and manage mines in their territory?

A: The Mining Law is in the State Parliament. Licenses for mining are already delegated to the regions.

**India**

The former Director of Mining and Geology in Orissa presented the view that the World Bank should not divest itself from Extractive Industries, as that would not be compatible with the Bank’s mission of eradicating poverty and achieving sustainable development. To do so would result in social problems and environmental degradation. In India there would be a decline in employment, GDP, export earnings, economic activity and a sharp decline in revenue earnings of the Government, thereby reducing spending on education, infrastructure development, health care and exploration.

Mineral extraction activities do affect the environment, but only to a small extent because the area of land occupied by mining is only around 0.23% of the total land area, and this is not likely to reach even 0.3% in the next 20-30 years. National Parks, Wild Life Sanctuaries, Biosphere Reserves are out of bound for any extractive industry activity. Mining is being carried out with adequate environmental safeguards. Most of the forests in the country where mining takes place have been protected from encroachments because a mining unit is already functioning there. There are several instances where mining has led to improvement in the environment through surfacing and increase in vegetative cover.

Artisanal and small-scale mines are widespread and important to India's economy as they provide employment to large numbers of people in the countryside. Large deposits also may be worked on a small scale. One major constraint in the development of the granite and ornamental stones industry is the disposal of large volumes of waste, amounting to 75-80% of the total volume of rock extracted.

In 1993 the New Mineral Policy introduced significant changes in the sector, with the main goal being sustainable development. Private participation was encouraged, and State Governments were delegated more powers. FDI was made more attractive by amending the Acts and Rules. Emphasis was made on planned mine closure and reclamation of mined out areas. Nevertheless, there still are many encumbrances to smooth development in the industry.

Significant results can be obtained by intensifying exploration activities, and substantial improvement can be brought about in productivity and reduction in product cost,
environment management and social infrastructure. Cost-effective technology should be adopted, and collaboration with world class firms.

The economics of mining and sound environment management depend to a large extent on efficient handling and disposal of overburden/waste, slimes and effluents, and the recovery of mineral values from them. Many other aspects need to be taken care of from more efficient management and recycling of water to better labor productivity. Some of these cost money, but more important is a will to do. The Extractive Industry has to play a pro-active role in this, and The World Bank and associated agencies like ADB, UNEP and UNDP have an important role to play in providing expertise, technical and financial support.

Mine development in a remote location brings with it a wide range of infrastructure and social services development. In addition it provides direct employment, as well as indirect employment and financial returns through ancillary and support activities. The importance and contribution of the mining industry should be appreciated in this context. With restrictive legislative measures and controls, better extraction techniques and judicious handling of rejects, adverse impact of mining on the environment can be significantly reduced and in many cases, the environment status can be improved. Mining thus is not a cause of concern in ensuring sustainable development. World Bank and its associated agencies would do well to sustain, aid and promote the mining industry in the developing and under-developed countries.

**Energy and global warming**

A representative from the Australian Business Council for Sustainable Energy (BCSE) made a presentation on sustainable energy prospects and the role of the WBG. Human-induced global climate change has a direct impact on ‘sensitive systems’ such as water resources; agriculture, forestry and fisheries; human settlements; and industry, energy and financial services. Specific areas are particularly vulnerable: food and water security; incomes and livelihoods; human health; and infrastructure.

Global warming has a particularly significant impact for developing countries, because those with least resources have the least capacity to adapt and are most vulnerable. Adaptation, sustainable development, and enhancement of equity can be mutually reinforcing.

The Kyoto Protocol is likely to come into force this year. It is only the first step. US, Australia and others are demanding that developing countries play a larger role. It is only a matter of time before developing countries will be expected to reduce their emissions.

Renewable energy sources are experiencing high growth in comparison with traditional ones. There is a very large potential global market as 2.5 billion people are without electricity. The wind industry is experiencing massive growth, with enough installed generating capacity to power 16 million average European homes. However, 90% is installed in Europe and North America. Solar power capacity is also rapidly increasing, with costs reducing substantially as installed capacity increases.
Developing countries need new technologies for the 21st Century – not old ones. Low carbon emission options are needed to position them for Kyoto II. They need projects that will deliver sustainable jobs, ensure self-sufficiency and have export potential. Appropriately-sized projects are important – big is not always best.

The World Bank Group should be supporting investment in clean energy and not burden developing countries with projects that will increase emissions for many years. The Bank can help position developing countries’ economies so they are well positioned for a low carbon economy. The Bank can look for opportunities for clean energy to provide added benefits, and can push for energy efficiency requirements. The Bank should promote more small projects and energy market reform. It can help develop benchmarks for measuring and evaluating performance.

Questions and Answers
Q: Is hydro included in renewable energy? If so, what is its role?
A: In Australia 10% comes from hydro. Small-scale hydro is OK, but not large-scale because of its environmental impact. Similarly, wind farms are not appropriate everywhere.

Q: Is solar energy a solution for the poor; it is too expensive. Are oil companies the biggest producers of solar energy? Why is it so expensive?
A: Costs are coming down considerably, but there is still a long way to go. Transmission costs are greatly reduced or eliminated. BP is moving into solar energy as a business strategy.

Conflict resolution
The Secretary General of Transparency International Indonesia spoke about her experience in conflict resolution in her previous engagement as chairman of WALHI, a coalition of Indonesian NGOs.

The conflict was between PT. Kelian Equatorial Mining (PT. KEM) a gold mining company subsidiary of Rio Tinto, operating in East Kalimantan since 1988, and the local community of about 7,500 person affected by PT. KEM gold mining operation.

The claims and grievance against PT. KEM were loss of land, building and houses, loss of crash crops and fruit trees, human rights abuse and sex abuses lost of opportunities for alluvial miners and environmental destruction.

The local people had organized themselves under the “Lembaga Ketahanan Masyarakat Korban Tambang dan Lingkungan” (LKMKTL) or “Mining and Environmental Victims Society” who then selected their representatives as negotiators. They were assisted and facilitated by WALHI and JATAM (Mining Network) in pursuing their struggle.

After 3 years of negotiation, an agreement was reached with settlement of Rp 64 billions payment (approximately US$ 8 millions), human right abuses were settled through the
National Commission on Human Rights, including sex abuses, and the local people also obtained benefit from projects such as clean water, electricity, and better road quality.

Some problems however still exist and not everybody were happy especially those people who wanted more. The overall situation was however better than before.

The key supporting factors that contribute to this conflict resolution are strong commitments from the CEO of Rio Tinto (Indonesia) to resolve this conflict through negotiation. This commitment included replacing PT. KEM President Director when he failed to uphold previous negotiation commitments.

There was no interference by the government due to changing political situation since President Suharto’s step down in 1998. When negotiation broke down and resulted in 40 days of blockade by the people, the company invited a former Federal Judge of Australia as mediator, while the Indonesian side invited the Secretary General of Indonesian Human Right Commission. The LKMTL had a vast network with NGO’s nationally and internationally, especially in UK and Australia. This network was pivotal in getting attention from top management of Rio Tinto in London and Sydney.

Weaknesses in this settlement were the inability to control staffs that are trying to wreck the negotiation process with NGO’s and establishing splinter group aimed at undermining LKMTL, which is supported by NGO’s.

There still is a low level of trust between the community and the company. There remains some disagreement and dissatisfaction, but the situation has improved and compensation has been paid. Communities lack strong leadership, which some companies take advantage of. It was a huge task for the community to manage the settlement—a large amount of money, plus they have other duties. NGOs did not fully trust the negotiation process—e.g., WALHI was accused of being too soft with Rio Tinto, while being tough with Freeport and Newmont.

WALHI could not fully assist the community. The negotiation focus was only on financial compensation, the environmental damage and mine closure is being dealt with in a different process, which is less participatory and less transparent.

This process should be a precedent for conflict resolution in Indonesia, but the Ministry of Energy and Mineral Resources did not take it as an example for the country. A lot of people could learn from this, that Indonesians can sit down and have a dialogue, they are not always fighting each other. It should be publicized widely.

Questions and Answers
Q: What was the role of regional government at the time? Put this in a good paper—it can become a case study.
A: Local government’s role was as a witness, but they supported the splinter groups, so it was very difficult. In the end they functioned as a witness for the negotiations.
Q: Any suggestions for the WBG’s role to avoid these kinds of situations?
A: Local government should play the major role, with the WBG assisting. The principle of ‘prior informed consent’ should apply, where projects only go ahead when they have given the consent of the community. Most communities do not have the full picture of what would happen.

Q: Do you think the community is better off with or without the mine?
A: How to do it is important. Alluvial miners were rich before and then were deprived. Before they worked for themselves, now they work for the company. The government did not do much – there was no improvement in roads, schools or hospitals. Where are the services to the community from government? How can we extract our mineral resources with the intention to provide the local community the biggest benefit. Corruption is very high. Where does the money go?

Q: Who in the company took the initiative to have the dialogue? Locally? Jakarta? London?
A: NGOs started the process. The company in Australia, supported by London, instructed the Jakarta office. The local office did not want to negotiate.

Integrated social strategy
The Vice President for the Integrated Social Strategy for Tangguh LNG, spoke about this BP project being developed in Papua. Once the project is running it will help Indonesia sustain its global leadership position in LNG exporting, and will generate substantial revenues for Indonesia and Papua. Since the advent of Papuan autonomy, provincial revenue has increased six-fold. Tangguh's contribution could increase this further by approximately 25% within the next 10-15 years. The project is committed to build capacity for local governments to manage the fiscal impact.

The context is complex and planning integrates social, environmental and economic factors. Operations will have a relatively small physical ‘footprint’ of approximately 800 hectares; no roads are planned. The area is sparsely populated with 5000 people in 9 villages in the immediate area. There are 20,000 people living in the surrounding area. During construction the company expects to employ 5,000 workers, so training and workforce management will be a major task. For security, they intend to form a local company, recruit and train 85 local people, and avoid direct use of government security forces. Only 500 people will be needed for operating the facility, so there will be a lot of layoffs. They would like to see micro-enterprises absorb some of these people.

There are a number of local tribal groups in the bay area, and a forum and foundation will be established as a platform for discussing issues and planning community development. There will be a trust fund to support these and other initiatives. The objective is to have balanced development. They would like to avoid the ‘honey pot’ scenario that attracts outside people and creates social imbalance. A ‘diversified growth strategy’ will ensure that project area development benefits local communities, while promoting diversified and sustainable economic growth in the broader region and Papua. The strategy
promotes project activities in towns where capacity exists to accommodate growth— rather than attracting settlers to the project area.

With regard to the social setting, the Tangguh project intends to be a catalyst for community-driven development in the project area. The project’s community development activities seek to promote the following basic values: consultation, empowerment, participation, partnership, sustainability, transparency, and respect for human rights. The project will conduct annual participatory planning activities with villages directly affected by the project. This will enable communities to drive their own development, assisted by project resources and partnerships with other stakeholders.

Questions and Answers
Q: A potential influx from outside is very sensitive and very difficult to control?
A: Intend to recruit single people only and to do the recruiting outside the area. Salaries will be transferred to the employee’s home city. The project intends to avoid road development, so access is only by boat.

Q: Sounds too good to be true, relations with the company are too smooth, are there no hidden conflicts?
A: The company has a set of principles – eg, justice for all. Will continuously monitor the situation. BP promised no social conflicts.

Q: You appear to be trying to isolate yourself – what about the surrounding community?
A: The local community will pass through the area only by boat. We will try to channel local transportation flows. We want to preserve the mangrove forest.

Consultation
6. Keynote Speech by Dr. Emil Salim
In his opening address to the closed sessions, Dr. Salim emphasized that the essence of the sessions is to understand all the various stakeholders’ viewpoints on the possible future role of the WBG in extractive industries, so that poverty alleviation and sustainable development really are achieved. What do stakeholders want? Once we are clear about this, then what are the areas of consensus and what are the areas of dissent regarding the role of the Bank? And what is the reality in practice? Why is the reality often different from what is intended and what can be done to improve it? So we need to make recommendations that describe clearly what to do.

The Eminent Person urged participants to focus on the WBG and redesign its future role in policies, programs and processes, so that things will really improve. He emphasized that so much is being done, but poverty continues to increase.

Dr. Salim spelled out the four key principles in the EIR terms of reference: transparency, inclusiveness, independence and relevance. All information is available on the website; all stakeholders are included; the EIR is completely independent of all stakeholders and the WBG; and the inputs and outputs must be relevant to poverty alleviation and
sustainable development in all their dimensions. Inputs to the EIR come from these consultations, documents submitted from all quarters, specially commissioned research and field visits to project sites.

Dr. Salim described the final report writing process and the efforts that will be made to make the process transparent and open to everyone. Report writing will be guided by an advisory group selected from key stakeholder groups, and will not be finalized until after a final consultative workshop in Brussels. The website will be used to post drafts and gather comments.

In closing his address, the Eminent Person stressed the importance of being frank, open and tough. And not to follow the traditional Asian way of avoiding conflict by not raising contentious issues. For the benefit or the poor, give me beef, give me solution but not dreams without realities. Thank you.”

7. **Case Studies: World Bank Group in Asia-Pacific Region**

**MIGA – Lihir Gold Limited, PNG**

Lihir Gold Limited (LGL) operates in PNG on Niolam, the largest island in the Lihir Group. The rugged topography provides no available land for mineral waste storage. The operations are managed by Rio Tinto according to Rio Tinto policies and procedures (health, safety, community and environment). Production is technically challenging, requiring continuous pumping and geothermal depressurization. All mineral waste is discharged offshore into the deep ocean.

The Lihirian community is a matrilineal society, although province-wide this is changing in response to outside influences. The local population increased from 5800 to 12000 people: mostly returning Lihirians living in other parts of PNG. The community owns nearly 7% of the billion dollar company, and is represented on the Board of Directors. The company employs 978 persons, plus an equal number of contractors - 90% are Lihirians or PNG nationals. It makes a substantial contribution to the local economy. Improvements have also occurred in health and education levels, as well as in permanent housing, roads and health facilities. The Community and Environment Department has 93 staff and an annual budget of USD 7 M. They are moving to community-based project funding instead of payments to individuals, and have created the Lihir Sustainable Community Development Plan. The intention is to break the cycle of corporate dependence and compensation in favour of long term planning.

On the negative side, women’s representation in community decisions is low. There is domestic violence, abuse of alcohol and drugs, and problems related to youth and in-migration. Poor governance is evident at all levels, including lack of transparency in the distribution of benefits, the inability of the State to deliver on previous commitments, and ineffective mechanisms for dialogue and for dispute resolution.
Together with two other agencies, MIGA provided Political Risk Insurance (PRI) in 1995 to the Union Bank of Switzerland, the coordinating bank for project financing. MIGA’s involvement in Lihir ceased in 2000, following loan restructuring. At the time of providing PRI there was no requirement related to poverty alleviation or sustainable development. One of the other agencies, EFIC, commissioned from an anthropologist an annual independent report: “Lihir Social and Economic Review” and independent environmental compliance reviews by Dames and Moore (URS). There is no indication that this material was shared with MIGA.

During MIGA’s involvement, social and environmental issues were dealt with in an ad hoc and informal fashion, which made it very easy to avoid critical issues. There was too much reliance on the company to provide proper due diligence. There was a lack of rigor regarding transparency, which raised suspicions from the local community.

Providing PRI was a crucial requirement for developing the project. The need for PRI in PNG is likely to increase, given current financial and governance conditions. Therefore there is a role for organizations like MIGA to support projects that can demonstrate tangible benefits to all participants in development.

The World Bank needs to develop closer ties with those companies that are at the ‘coal face’ in terms of current programs, issues and strategies in the countries where WBG country strategies are being developed. The Bank must look beyond the project proponent and involve the local community in reviewing the WBG’s stated objectives. Another challenge is how to get all prospective developers to accept and implement WBG guidelines consistently, in a way that is not financially prohibitive. Regulation and control must be manageable, affordable, equitable and produce tangible benefits. It is beneficial for industry to have an “independent umpire” that brings credibility through well-structured and timely policies. These policies and their implementation must be continually and vigilantly reviewed. Human resources to do this should come from the WBG, together with local project review groups which would include project developers, government and civil society.

The WBG does have a valuable contribution to make to extractive industries, especially regarding technical assistance in capacity-building for governance and to help developing nations find their place in the global economy and social development programs. It should not be left to a company such as LGL to develop capacity in isolation – the WBG can provide a consistency of approach, and in regulations concerning governance, social matters and the environment.

The EIR process is worthwhile: it is much easier to be critical than develop ways of fixing the problems. There is an apparent inconsistency in the perception of the WBG, between what’s happening on the ground and the Bank’s stated objectives of developing sound environmental and social improvements. TA assistance to the Department of Mining (DOM) has had beneficial outcomes. Whereas the perception that the Department of Environment and Conservation (DEC) is being adequately catered for by other donor agencies is not the reality. DEC is completely ineffectual, therefore the DoM technical
assistance package appears out of step with the wider WBG objective of ensuring community and environmental improvements from WBG involvement. DEC has no technical capacity to review projects, policy implications and implementation, and no enforcement capacity. Inadequate funding leads to poor staff morale and therefore no implementation of core functions. When WBG objectives are transferred to an alternate agency is there a mechanism for checking that the objectives are being enforced and protected?

In conclusion, the WBG’s involvement in the project was beneficial in getting the project started, but not so much in ensuring good social and environmental governance for the project. For situations like Lihir, where government is not able to address sustainable development or poverty alleviation, the WBG can play a much needed support role in helping projects contribute to these objectives.

**Women and the Lihir Mining Project**

“In this age and moment of time, a woman is meant for housewife and child-bearing material and not a partner in development, and sharing the family unit. The norm of being a woman is still treated as second fiddle even though women are partners in the family, clan and tribe”.

Before construction of the large gold mine in 1995, Lihir was very isolated from the rest of PNG and the world. Since then, the lives of Lihirian people have changed greatly.

Lihir is a matrilineal society, whereby land or wealth is inherited through the mothers. Traditionally, this gave women some influence in land use, although political decisions were mainly made by men. This meant that at the time of negotiations women were marginalized. Women leaders stressed the need to ensure that women were joint block executives and had some control over how compensation and royalties were distributed. Men did not support this; with the result that very few women have their names recorded as executives and all money is paid to men. There has been a shift in economic power to a relatively small group of men that has taken away from women the little power they had as recognized providers of food. No women have benefited in the ways that men have from the moneys paid as a result of the mine development. Men were given much more access in setting up businesses. The block executives do not appear to share their compensation payments and royalties with their sisters and their sister’ children. Their failure to transform wealth into any form of business that can sustain the lineage may well provide the fuel for future conflicts.

The change in family life-style is most notable in the mine-affected areas. There is an increased dependency on cash for food and recreational activities. In most villages, men’s involvement in gardening has declined dramatically.

A group of women on the island formed an organisation in 1991, to represent the interests of women as a result of the development. The objective of the group is to build a strong women’s network for free expression and to empower women to become productive and
self-reliant in order to improve conditions within their communities. The group encourages equal participation to ensure that women are included in decision-making processes at all levels – community, church and government. They identify ways women can improve their economic status by improving subsistence agriculture, acquiring business skills, and identifying income-generating activities.

In terms of benefits, the island now enjoys improved facilities – land and sea transport, access ring road, medical facility, bank, post office, communication, airport services – before the mine, Lihir was isolated and neglected by all vital government services. However, there has been a notable increase in social problems, such as squatters, alcohol related problems, criminal activities, marriage breakdown and single mothers. Women have been greatly affected by these changes.

The mine has had a huge environmental impact on Lihir. There is much fear about the negative effects from dumping waste into the ocean, and from air pollution. There is inadequate sanitation in some villages, so beaches and reefs are becoming polluted with rubbish and human waste. The biggest concern is long-term sustainability of food production. The island is small and it will not be able to support such a large population after wages and other benefits cease with mine closure. Gardening needs a lot of land, as fallow times should be about 5 – 7 years. There is not enough land to grow large areas of cash crops, and with land clearing, the forest is shrinking. When the population was smaller, people could catch large fish in the reefs close to their villages.

So far no women have been consulted about the planned Trust Fund for post-mine closure, and no women are on the negotiating committee.

The following actions are recommended to improve the quality of project implementation:
- all stakeholder groups, including women, should be involved and consulted throughout the project cycle;
- an independent monitoring group, funded by the World Bank, should assess the environment and social impact of projects;
- government should not grant approval for resource projects to go ahead unless control mechanisms for sustainable development are in place;
- establish control mechanisms for equitable distribution of compensation and other benefits;
- there should be an alternative solution to sub-marine tailing disposal, regardless of the cost; and
- Lihir Gold should set aside 10% of total earnings in a Trust Fund for use after mine closure for environmental clean up.

There is a price to pay for any extractive industries development, however as input to the EIR, we suggest that an international body of women recommends workable solutions to protect and guide women and families in project-affected areas in their struggle to live a sustainable and healthy life.
What went well?
Community: Improvement of health, infrastructure and education and training
Company: MIGA provided much-needed PRI to a project that has resulted in tangible benefits both locally and nationally.

What went not so well?
Community: Unequal income distribution, environmental impact and social problems
Company: Lack of rigorous monitoring resulting in lack of transparency and suspicion by local community of yet another meaningless review.

What could have been done to achieve a better impact?
Community: Establish control mechanisms for equitable distribution of compensation and other benefits; an independent monitoring group funded by the WBG to be engaged to assess the environment and social impact of the project; and increase involvement of women throughout the development process.
Company: More local dialogue about the role of the WBG both in providing PRI and environment and community stewardship, and better more transparent assessment of the findings.

Questions and Answers
Q: Governance issues appear to be a real problem. Could the WBG play a role in assuring good governance? We share this problem in Indonesia.

Q: MIGA support was essential. STD is an unproven technology, so the precautionary principle should be applied. Why did MIGA not continue their involvement? The project has not promoted women’s rights and empowerment of women for achieving sustainable development and poverty reduction. Can WBG demonstrate sustainable development?

Q: It is unlikely there was a CAS in PNG when this project was conceived. What are the criteria for MIGA to support the project? How does MIGA coordinate with WBG? Why did MIGA support this given the social impact? When should the WBG not move in? Where governance is not assured? Is this not a clear example? My impression is that the environmental component and the rule of law also are weak – there is environmental risk, and also social risk. How are these negative environmental and social aspects considered?

Q: Is STD safe and tested?
A: We believe STD is the right technique here, as it has all the attributes of a good site, and we are not having massive impacts. There is ongoing rigorous monitoring by CSIRO, and bioaccumulation testing in fish and flora. As it is a contentious issue for many people, we have recently started work on a 3-5 year research program to identify the unknowns and answer questions from civil society. There will be an international steering committee and a technical advisory group guiding the research program. In balance it has brought benefits; you cannot put a project like this in an island and have no impacts. The company should not be responsible for everything.
A: (WBG spokesman) I’m not directly involved in MIGA, so these are personal views. Why support this type of project? Economic growth can contribute to poverty alleviation.
The project was designed by the company, and approved by the government in a fair and rigorous process. There are different degrees of scrutiny depending on the type of project. Lihir, with that background, broadly fits the type of criteria the WBG looks for. The WBG draws a distinction between the degree of scrutiny, depending on whether the Bank is the main lender, minority investor, or guarantor. Regarding STD – Lihir is a small island, if this project is to go ahead, a large amount of waste will be there. The choice to put it on the land, taking away from gardens, would have a direct and immediate effect. STD needs more scientific study. Regarding social risks, mining does create some have and have-nots. Monetary flows going into the community have consequences. On mine closure: local agriculture is no longer there, but some measures have been taken. Women’s issues have to be addressed; they were not in the past.

Q: Women are often excluded because of micro-politics at community level, what might Lihir have done from the beginning?
A: Traditional local structure is the biggest issue. Men were ‘blindfolded’ by the benefits, and women were excluded. We are still struggling. We are being kept aside, but we are trying our best.

**IFC – Sepon Gold Mining, Laos**

Sepon Gold NL, owned by Oxiana Resources, with a 20% interest from Rio Tinto, started gold production in January 2003. It is projected to have an initial life of 7.5 years; however a detailed design for copper development is underway. The mine is located in Laos PDR, which has a population of 5.4 million, with very high unemployment (80%) and low GDP. The country is encouraging foreign investment.

A conventional cyanidation circuit is used to recover gold from the oxide ore. Waste rock is dumped next to the pits and tailing is permanently stored in the valley. The area was heavily bombed and defoliated during the Vietnam war, so already it is environmentally very degraded.

A multi-jurisdictional project assessment was needed to meet the requirements of the Laos and Australian governments and IFC/World Bank. The EIA procedure was new for the Ministry responsible but the WBG provided institutional strengthening. The project is classified as ‘Category A’ by IFC – ie, ‘… expected to have adverse impacts that may be sensitive, irreversible, and diverse.’ The project complied with all of the IFC/WBG policies and directives regarding environmental and social conditions. IFC/WBG priorities were protection of biodiversity, minimising adverse social impact, requirements for resettlement, protection of ethnic minorities, consultation and transparency.

In addition to the 5 volume ESIA, 16 targeted studies were commissioned on sensitive issues such as water quality, biodiversity conservation, land use and resource use, archaeology and cultural heritage. Three detailed plans were prepared in parallel to the ESIA: a Public Consultation and Disclosure Plan; a Resettlement Action Plan; and a Community/Indigenous Peoples Development Plan. Meetings were conducted with government and communities, and with NGOs such as IUCN and Handicap International.
Agreement was reached on resettling 126 people in 2 villages; the resettlement was completed in 2002.

The Government is the primary initiator and implementer for the Community/Indigenous Peoples Development Plan. Detailed plans were developed with stakeholders, with a focus on agriculture (food security), health and education. US$8,000/month goes into a Trust Fund for community development.

IFC participation commenced at the outset. The IFC assessment team included an environmental expert, social experts and an investment officer. Numerous missions, exchanges of communiques and round table discussions took place in drafting the ESIA. Costs were shared between Oxiana and IFC. Parallel IFC activities took place to review the existing legal and institutional framework in the mining sector, and to conduct a national mining and sustainable development workshop. A Biodiversity Conservation Development Plan was drafted for the Phou Xang He National Biodiversity Conservation Area, environmental management know-how was transferred, and capacity-building was provided to local staff.

The positive aspects of IFC participation were greater stakeholder participation, formal documentation of the consultation process, a widely-accepted assessment framework (i.e. WBG safeguard policies), expert advice and increased stakeholder confidence in Oxiana. The negative aspects of IFC participation were increased ESIA scope and costs for the proponent, increased complexity of the ESIA process, occasional conflict between IFC’s broad focus and the proponent’s project-specific focus, and the process was influenced by North American issues and approach.

One of the outcomes was that the project gave IFC a ‘foot in the door’ to this part of Laos. IFC participation strengthened the project’s commitment to community development: US$96,000 per year to a Trust Fund; focus on education, health and agriculture; other contributors to the Trust Fund sought; and use of local NGOs for program implementation.

A spokesperson from the Laos PDR Department of Domestic and Foreign Investment addressed their experience with the Sepon Gold project. Laos PDR has only recently started transforming from a centrally planned to a market economy. The legislation for mining and environmental protection is quite new.

It is too early to say what went well, as the project is at the beginning stages. There have been no significant environmental impacts so far, as no serious amounts of chemicals have been used. There is a big concern about potential environmental impacts. Lack of fresh water for daily life is one of these concerns. There are no serious social issues, apart from complaints by villages about inadequate compensation for resource loss.

The relevant legislation is relatively recent, apart from the investment law which has been in place since 1994. The mining law was issued in 1997, the environmental protection law in 1999, and EIA regulations in 2000. One limitation of the ESIA was the
consultation process of Oxiana, which mainly consisted of providing information and not having discussions. People could not understand very well technical terminology. Concerns about harmful chemicals were not addressed: the government was not fully aware of the danger from cyanide. The EIA did not include pre- and post-closure plans, and a related financial plan. The EIA did not mention clearly how to sustain the downstream environmental impacts, especially on the river.

There was a lack of transparency in the financial analysis; the use of projected cash flows was not a good measure. So far only financial analysis has been submitted, not social analysis. The company had two types of analysis, one for the government, and the other for the WBG. The one given to the government showed a negative economic outcome, whereas the one to the WBG showed a better picture. A small % of equity was offered to the Laos government (10%). Similarly, compensation for land was lower than the customary rates. Oxiana is a large company in Laos, but junior in the world. What they offered to the government is less than what a small company would normally offer. It is likely that Oxiana does not really want the government to be part of this project.

To achieve better impact, related legislation should be improved and enforced. There needs to be increased monitoring, and capacity-building for the central and provincial governments should be increased. The consultation should be widened by inviting more people into the EIA process, and the EIA should also look at long term sustainable development and not just short term programs. Invite the help of international organisations, NGOs and the WBG. Transparency and assurance that development is for the benefit of the country is needed.

A paper submitted by the NGO AIDWATCH reviewed and commented on the ESIA procedures and organisational structure, on social and community issues, and on environmental management issues. It reveals a serious number of anomalies and shortcomings in the application of the ESIA. In many cases there has not been sufficient in-depth study and analysis, and mitigation planning often has been superficial, alluding to further studies and further elaboration of details later. Involvement of the public and NGOs working in the area has been very weak, and even the government itself is not well-informed regarding potential consequences of many social and environmental impacts. The main contention of the author is that many of these details should have been elaborated and addressed in the proposals before approval to go ahead was given. This is particularly important in an environment of such weak governance and administrative control as in Laos PDR at this time. The IFC should have exercised their influence to ensure that all details regarding economic, environmental and social conditions were fully addressed.

Questions, Answers and Comments
A: The focus was on discharge quality not on issues. Discharge guidelines were not specifically useful, impacts are what is important.
C: Public involvement was both formal and informal, including consultations with women and other groups. At the time it was considered comprehensive.

C: The closure plan was only conceptual; the government wanted it more specific, which the company is now working on.

C: The question of the WBG providing funding or guarantee: the choice depends on the host country, and that depends on social and economic issues. The level of development in countries varies. A poor country may bargain on social issues, concentrating on economic issues. How will WBG use their power and push for social issues?

Q: The community development fund: how was the figure arrived at?
A: It was negotiated between the company and IFC. For the Trust Fund, IFC is looking for other donors for this.

Q: Why is IFC no longer part of the financing of this project? What will the company do about poor information?
A: The company chose to raise their own funds.

Q: Who contacted the WBG - the company or the government?
A (government): The company approached the Bank.
A (company): Oxiana raised funds themselves, a commercial decision by the company. IFC is not involved. The benefits brought in by the IFC are the broader focus and the Trust Fund.
A (WBG): IFC is not involved for commercial reasons. Gold prices went up, the shares of Oxiana increased and they were able to equity finance the whole project. The difference between MIGA and IFC is that MIGA only deals with private companies. It comes in at a later stage - financing has to be in place. IFC becomes involved at the request of a private company, not the government. But because of its involvement as a lender, it becomes involved at a much earlier stage. IFC made a significant contribution, but is not involved in the financing, this happens at times.

Q: Will you still use the same IFC conditions?
A: I would like to think so.

Q: IFC has pulled out for commercial conditions – why is this decision made on commercial grounds? Not development grounds?
A: It was a company decision, not an IFC decision. It also shows a point of changing policy. This project, 2001-2002 in Laos, shows the changed emphasis of the WBG - IFC is evolving and putting more emphasis on social issues. A: The Bank does not manage projects. When IFC came in, there were social shortcomings. IFC accessed Trust Funds to address biodiversity issues.

**IBRD/IDA Technical Assistance – PNG**

In October 2000, the World Bank granted PNG a 5 year technical assistance loan of US$10 million for institutional strengthening in the mining sector. The sector believes it
can contribute to sustainable economic and social development by generating financial capital and by distributing it fairly. It is acknowledged that some environmental damage does occur, but this is well offset by the other benefits. Mining exports in 2002 - mostly gold and copper - represented 52% of the total value, however production is tailing off and will decline rapidly around 2009.

On the national level the sector was facing a series of problems: from decreasing judicial capacity, law enforcement capability and revenue, to increasing political interference and corruption. On the department level the problems were: decreasing budget and public awareness of the sector; increasing complexity of issues; and inability to hire, retain or fire staff.

The Technical Assistance project is with the Department of Mining (DoM) and the Internal Revenue Commission (IRC). The main objectives are to strengthen the institutional capacity of DoM and IRC to: administer and regulate mining and exploration projects; achieve technically, environmentally and socially sustainable private sector investment in mining and exploration in PNG; and recommend an alternative to existing departmental structure. The project has 6 main components:

1. Policy and Regulation: clearer and up-to-date guidelines.
2. Exploration and Mining Technical Audits: better corporate compliance through monitoring.
4. Sustainable Development: reduce landowner discontent and provide better financial governance.
5. Geological Survey: new data and better customer access to data.
6. Internal Revenue Commission: improved understanding of the mining sector and increased revenue collection.

It is anticipated that the project will improve the regulatory capacity of the DoM to effectively manage the industry and related issues. As a result, more exploration and development investment will be attracted. Tax collection will improve, and through pursuing a sustainable development agenda of employment and skills transfer, regional development and orderly planned mine closure, benefits will flow to the nation and affected peoples. There will be improved levels of stakeholder consultation and integration of stakeholder concerns, as well as improved environmental performance and safer operations.

Environment Watch Group – PNG
The NGO, Environment Watch Group, from Port Moresby presented the results of a study and their comments on the WB TA project. Out of 30 persons contacted in a
survey, only 4 persons were aware of the project.

PNG is characterized by a highly diverse landscape, a high biological diversity of wildlife and a very diverse culture with over 800 indigenous tribes. Two thirds of the population live in rural areas and relies on subsistence livelihoods.

Mining began in PNG in the early 60’s on a small scale, until the first large scale copper mine at Bougainville began in the 70’s using more sophisticated technology. Other mines that followed soon after all used modern technology. Environmental concerns were enforced under newly developed environmental laws.

Papua New Guinea is almost 100% indigenous, with 95-97% of the land traditionally owned. Regardless of ownership rights, common resources such as minerals and water, by law are state-owned. There has been a lot of controversy and dispute over mining and other extractive industries in PNG, including a civil war at Bougainville in 1989. Industry is concerned with high taxes, government with the falling value of local currency, and civil society with land tenure issues.

There is concern over direct disposal of waste into the environment, such as submarine tailing disposal, riverine tailing disposal, barge dumping of waste rock at sea, and erodeable dumps for overburden or waste rocks. Direct waste disposal is advised as the best option for waste management in PNG. There is no independent monitoring mechanism for verification of what companies report they are doing and environment plans are voluntary. Science is always used by the companies to challenge indigenous people's concerns about the environment.

There are a lot of social issues, from marginalisation and cultural destruction to alcoholism, family and marital problems. If all of this is in the name of development, what is development anyway?

As the NGO movement becomes stronger, transparency is tightened. There is a reluctance to provide information upon request from affected people. There is also a reluctance to engage civil society participation in many fora, which end up being dominated by government agencies and industry.

Most extractive developments are located in remote rural areas, imposing unexpected burdens on local subsistent farmers who have no other alternative means of support. Communities have lost confidence in their own government and are approaching NGOs and other civil society organisations for help. Can NGOs act as catalysts?

The World Bank, through its Mining Sector Institutional Assistance Project, although not directly engaged in funding oil, gas and mining projects, is providing support for all these extractive industries indirectly through this IDA technical assistance loan (TAL) project.

This legal framework which has been referred to as the smallest portion of the whole project is the biggest concern for PNG civil society. This is the backbone on which the
country’s mineral resources will be exploited. This is evident through a few outcomes so far – extractive industries exemption from tax payment, 6 exploration licences issued in the 1st quarter of this year in comparison with 6 issued throughout 2002, about 4 mining projects to operate soon, and it is understood that 3 investors have shown interest in supporting extractive industries in PNG.

Civil society’s key concerns are environmental pollution, social problems and increased poverty. It is a mistake to promote extractive industries because they cause impoverishment, particularly amongst those in the way of the developer. Promoting extractive industries seems only to benefit a few already rich people. By promoting mining, this IDA TAL loan will not assist the vast majority of PNG citizens.

This project involves 80% expatriate consultants. The review of the current Mining Act is done by consultants who have limited knowledge of the Melanesian (PNG) system that indigenous peoples would like see tied into the new law. Who is the law for anyway? A steering committee consisting of organisational heads of the Department of Mines, Environment and Internal Revenue Commission is not a fair representation of the PNG people. This is purely one-sided and should not be allowed if the Bank sees poverty alleviation as an outcome of this project. There seems to be a lack of transparency as far as information dissemination in concerned.

Environmental Watch Group recommends that for this project civil society should have equal participation in any high level discussions. Mechanisms must be developed to allow transparency in the implementation process of the project. There must be ample time provided to review major policy documents, and provincial workshops should be conducted to educate at least 70% of the PNG populace on this major legislative review. Regarding environmental concerns, the Bank should fund independent environmental research on all projects involving extractive industries. There should be no riverine and submarine tailings disposal, and no new developments if people's rights are deprived. Most importantly, there should be no new mines; there have been too many problems, people need time to reconsider and evaluate.

“The company visits our villages sometimes to tell us about the environment. They give us flashy reports, which many people cannot read. They tell us that there is no problem with the environment. They try to explain the science that no body on this island really understand or believe. We grew up here and we believe that we know the environment better. When there is a change, we can tell straight away. We don’t necessarily need scientific explanation. We have been zoned as affected communities and we believe this has been done for a reason. We in Malie, would like a very independent monitoring of the environment by an independent institution. This system of waste management is only hiding the truth about the reality that occurs on the ocean floor beneath the sea. It is the cheapest means that causes environmental destruction that is we cannot see but we can feel (like less fish catches). As you can see our entire livelihood depends on the sea. The mine will come and go but we will remain here. We are very concerned about our children’s future.”

Words of an elderly man on Malie Island, Lihir
Questions and Answers
Q: TA loans for strengthening environmental protection all fall under the Department of Mines. They are not the primary protection agency, so there is a conflict of interest - need a better check and balance system. Why is this?
A: A narrowly-focused TA is likely to be more successful than a widespread one; and there are many other support programs to the government for governance and public administrative reform. Often the Ministry of Environment is not strong. Already the Department of Environment is getting aid from AusAid.

Q: Can private countries get loans from the WB?
A: Yes, in most countries mining is not a priority.

Q: Dispute link between extractive industries and poverty alleviation. Look at the recent WB report. Why is the Bank still involved and not pursuing its real objectives?
A: The TA loan to PNG represents only 2% of the total, the rest is focused on governance.

Q: How much does mining contribute to GDP? What would be the alternative?
A: 52% of GDP. PNGers are happy with what they have.

Q: Regarding compensation to landowners displaced by the mine, in Indonesia we have ‘invaders’ claiming land title, is this a problem in PNG?
A: There is no good answer to this. We tried tracing ‘bloodlines’. In the future we will make a land user study. No land in PNG is free. People have lost lives over land. It is a big and complex issue that has affected the decline in mining. Compensation is a very difficult issue. People don’t want to register land.

Q: It is disturbing to hear of the PNG situation: need to take the issue of corruption by the horns, and need a watchdog function.
A: This came up only 6 years ago in the WB. Capacity-building means a lot of things. The Bank also does capacity-building through sector adjustment loans – eg, by improving fiscal management, corruption is reduced.

Comment: Land tenure in PNG is well organized – the clan system dictates tenure. Village populations are geneology-based. The petroleum industry is managed by cooperative land groups.
Comment: Social mapping is done during early exploration. The group defines the situation, identifies clans and their relationship to the land blocks, but it doesn’t always fit. The distribution of benefits has some problems. Need to have a diversified and integrated economy to carry things when copper prices are low. Should not be an either/or situation.
8. Social Issues

**Governance, poverty alleviation and sustainable development**
Small working groups tackled the question: “What are the main governance issues concerning extractive industries preventing poverty reduction and sustainable development?” (obstacles), and came up with the following list:

1. Government lacks vision, political will and leadership, as well as the knowledge and understanding of both industry and the community. Planning capacity is weak.

2. Overall there is a shortage of good legislation, electoral accountability, democratic institutions and transparency in the working of government. There is a lack of strong, relevant legal and regulatory frameworks, and mechanisms for implementation, monitoring and enforcement, as well as clear and transparent policies, guidelines, procedures and implementation plans. Regulations for projects based on non-renewable resources, and the commitment and means to enforce them are lacking.

3. Government lacks fiscal management capability to distribute revenues equitably and efficiently. Corruption is widespread and transparency is lacking.

4. There is insufficient sectoral capacity-building, and inappropriate and insufficient allocation of human resources.

5. Government lacks resources.

6. Coordination between ministries and levels of government is poor.

7. The current paradigm for community development is inappropriate, lacking in participatory approach and methods, and not leading to empowerment and building self-sufficiency. Overall there is a lack of clear and qualitative information and communication. Planning for rural communities should be holistic.

8. Both industry and government need to be more ethical, transparent and accountable – eg, no collusion or bribery. Social and environmental values should be consistent.

9. Financial institutions, like the WBG, lack capacity to assist small projects. WB, IMF and aid agencies have conflicting policies on institutional reform. The WBG takes a non-holistic approach to governance issues.

10. The accountability and representation of NGOs is sometimes problematic.
Human rights – military and police
In Evening Session, the Eminent Person introduced the topic of the relationship between extractive industries and security forces from the military and police, and the serious charges of human rights abuses at the hands of these security forces. The WB is being accused of indirectly supporting this problem. What should the WB do about this?

The situation at Freeport was described: the operation suddenly grew from 200 people to 16,000. There was an enormous in-migration of people, only 30% of whom were Papuan. There were religious differences and social tensions arose, especially between Papuans. Before there was no military, now there is a very large military presence, which gets enormous financial benefits from the relationship – facilities and revenue. The military has a reputation for human rights abuses. After some incidents in 1996, the company developed a human rights policy. There is a human rights compliance officer and one of the company’s board members, a judge, is a human rights specialist. All staff have to sign statements honoring the policy. If they had to do it again they would reduce the size of their ‘footprint’ to minimize social conflicts.

In Indonesia a ‘national asset’ has to have military protection. Therefore, in these circumstances, it is necessary to learn how to work with the army. Need to have a strong human rights policy and be transparent – ie, ‘publish-what-you-pay’ to the government and military. What BP is doing is better – discouraging an influx of outsiders by recruiting outside and having a very small footprint on the ground (fly in, fly out). There is an initiative in Indonesia to get the military to be strictly defensive. Police are now responsible for security. Formerly there was a military shadow government right down to the village level. Up to 1997 all senior people in the administration were military. Civilians now have responsibility for the military, but it is still in transition; there is lots of disorder.

It is much better to train and use local people to provide security, but still necessary to build trust and confidence with the military. The WB can play a role here – eg, the IFC can demand a letter of intent for transparency when they negotiate. In the move to regional autonomy, regional governments need a lot of help in building good governance. Perhaps the Bank can help here. It is much easier with ‘green field’ projects; existing operations need a different strategy. All of this takes time. It is best not to push too hard, not to try to go ahead too quickly. Prepare the ground slowly and carefully. Perhaps the pattern of development adopted by the WB is not suitable for very underdeveloped countries like Papua.

The Bank has to find the best way – there are lots of outside influences at play: political, social, economic. Start building capacity in countries identified as needing it. A more systematic approach is needed for overall development, so that capacity is developed in preparation for industrial development. Be creative, try things out. The Bank should be more proactive in identifying situations and act to build up good governance in poor situations. Who is development for? The government has to make their own plan involving their own citizens. The WB is only a development bank.
In Pakistan there are similar problems with the police – eg, intimidation, planting evidence. Mine owners collude with the police to withhold wages. The trade unions are working on this. In North East India state the region has become militarized under the Armed Forces Special Powers Act. The area is 85% indigenous peoples and is very rich in natural resources. There is no access to government information and there is no avenue to speak out through. Military occupy senior posts in government and administration. In Fiji, the army is problematic: they are sent in whenever there is any labour unrest.

9. Social and Environmental Impacts and Issues

Fiji labour union
A representative of the Fiji Trade Union, Fiji Mining Worker Unions, spoke on the plenary session of the 3rd day about mining from the perspective of the workers. The company mining gold in Fiji is called Emperor Mining Company, which is registered in the Isle of Man or Cayman Island. At one stage the manager said: “in my right pocket there is the Prime Minister, in my left pocket is the President, and in the back pocket all the Ministers”. We agree that there is evidence of corruption in the extractive industries, mostly in the governments of Asia-Pacific. Most of our governments are weak. Fiji is a democratic republic like the republic of Indonesia, but in the last 10 years we have had three military coups. And with that comes problems of suppression of labour and unfair practices.

Most of the workers in Fiji are underpaid. The basic wage in Fiji in the mining sector runs about 1.50 Fiji dollars; in Australian mines, I think the average miner gets about 30 Australian dollars an hour. That is the junior miner, but in Fiji it is $1.50.

Women are discriminated against in the mines also - they are not allowed to get pregnant. The very moment they ask for maternity leave, then That the end of their employment. Wages for women are also discriminatory.

Housing in the mine is very poor. We had a commission of inquiry in 1995, and the Commissioner in his report admitted that housing in Fiji’s only gold mine is unfit for human habitation. He said that even some animals would feel ashamed inside some of those buildings.

Pollution is very common - gases emanate from the tunnels and from the factory. Gases like cyanide, nitric oxide and sulfur dioxide, mostly noxious gases. The water also is not treated, drinking water in particular. Cows and horses bathe up river, and down below is a reservoir where the water is piped to the mining town. Workers are drinking this polluted water with no filter, no chlorination, nothing whatsoever to take care of the bacteria. The colour is muddy - that is the kind of water provided by the company for the miners.

Children very commonly have malnutrition. There are occupational diseases like deafness, asthma, bronchitis, tuberculosis and scabies. These are the common diseases endured by the mining workers and thousands of their family members.
In my term, as an Industrial Relations Consultant and General Secretary, I tried very hard. I went to Parliament to raise the issue of the inhumane and undignified labour practices in the mine. I succeeded in modifying and changing some of the mining regulations and acts. But plenty of work still has to be done to improve the working conditions of those who work in the mines.

I’d like to request the World Bank to please think twice about funding the company in the future, because first you have to consider the people, then the profits. If funds do not filter down to the mining workers, think twice about giving the money directly to the company. Because we want to eradicate poverty, from the union point of view world over, we always regard the World Bank with suspicion. The World Bank is an institution which only survives, only exists, for the benefit of the wealthy and not the poor.

**Presentations in Parallel Session**

Four groups looked at presentations in four thematic areas – energy and global warming, submarine tailing disposal, artisanal and small-scale mining and corruption.

**Energy and global warming**

*Carbon risk, renewable energy and the WBG*

The Transition Institute presented their perspective on the need to make a shift out of high carbon fossil fuels and move to renewable energy sources and technologies. Their concern is the inability of ecosystems to adapt to changes in temperature brought about by global warming. At the current rate of carbon emissions, maximum capacity of the atmosphere will be reached in about 30 years. Given the current reserves of fossil fuels, the sooner we shift to alternative sources, the more choices we will have later. Renewable energy is a viable, non-polluting alternative and there are plenty of resources and technologies available – e.g., wind power employs 70,000 people and 5 million more homes were powered by wind last year.

Energy demand will double in the next 20 years, much of it coming from Asia. To achieve long term sustainability, we have to shift to renewable energy production. The World Bank has a leveraging function in bringing about this change: the Bank can send a strong message either way – e.g., coal could become ‘untouchable’ like nuclear energy. The Bank needs to consider some options:

- whether or not to continue to support distorted market pricing of fossil fuels or support competitive pricing;
- to facilitate infrastructure development that favors fossil fuel generation over renewable energy;
- to cause long term technology lock-in that would be financially burdensome to reverse; and
- to adversely affect sustainable technology transfer - by undermining markets.

Furthermore the Bank should look at its impact on carbon risk – e.g., fossil fuels are now very exposed to carbon costs, which means investors are becoming exposed to increase project risk - ie, carbon risk. Is the WBG protecting these investors through policy
guarantees and risk insurance; and is it creating or leveraging security in the wider market by not requiring Carbon Liability accounting in project feasibility? The speaker outlined a series of characteristics to facilitate the move to renewables, ranging from supporting favorable policy frameworks to reforming the market for electricity.

In summing up, five points were emphasized:

- the ecological limits of climate change require immediate action;
- Asian energy growth means the region should be a focus of attention;
- fuel switching and demand management are not enough;
- interventions by the WBG can have the effect of locking-out renewables, unless market and policy consequences are understood and corrections made; and
- WBG action should engender the creation of favorable market and policy conditions for renewable energy development and technology transfer.

Questions and Answers

Q: Is renewable energy included in concerns about extractive industries?
A: The issue is about the integration of decision making within the WBG – e.g., oil and gas investments prejudice other alternatives downstream.
A: The WBG has a separate group looking at this, but the key issue is pricing because renewables are often not economically competitive. There is a trade off between poverty impact and climate impact. The Bank wants countries to get the most efficient energy source – eg, Afghanistan has a large source of soft coal and the Bank is considering supporting coal-generated energy there.

Q: Are these two contradictory issues? What are priorities for the Bank – oil and gas or renewable energy?
C: Cost competitiveness can’t be the only determining factor if the goal is sustainable development.

Q: A major impact of extractive industries is carbon emissions; Indonesia doesn’t have policy on poverty and energy consumption; how to get policy for ‘green’ energy?
A: Sustainable development implies environmental consequences have to be included; developing countries will suffer the most if they’re not included.

Q: External costs of oil and gas are not internalized; so the current cost does not reveal the actual cost, hence there is a distorted price structure.
A: The World Bank supports renewable energy projects, and also sees a role for coal, oil and gas.
A: The important point is that the Bank is the starting point for the subsidy chain, because it provides cheap financing. Renewable energy runs up against this. There won’t be change if we continue to do the same things, therefore how do we get to where we want to be? If the Bank continues the same, it may undermine the trajectory of getting there.

Climate change and renewable energy
A presentation from the Bogor Agricultural University put the climate-energy debate in the context of economic growth, environmental issues (climate change) and social capital,
exploring the links between renewable energy technology and climate change. Energy, of which 80% comes from fossil fuels, is decisive in both economic growth and climate change. Energy use is rising quickly in the region, and there are possibilities to conserve energy and promote renewables such as biomass, micro-hydro, wind, geothermal, solar and marine. This can be linked to the Kyoto Protocol, specifically the Clean Development Mechanism for the fast-tracking of small-scale and community-based projects. In Indonesia there have been some pilot projects experimenting with renewable energy and energy efficiency.

In preparing to host carbon projects, countries need to build capacity while institutional and regulatory frameworks are being established. The existing regulatory frameworks favor the use of fossil fuels – eg, investments for fossil fuels are subsidized – so it is very difficult for renewables to compete. In addition, countries have financed their energy sector with loans from the international lending agencies, and because fossil fuels and large hydropower were favored, they now face a heavily subsidized sector, a large debt burden, and significant social and environmental impacts.

The potential for renewables in the region is high – eg, solar heating, biomass and micro-hydro are currently very competitive, and there are many possibilities for wind energy – however the financial and institutional arrangements do not encourage the development of renewables in the region. The difference in costs is mainly due to investment costs, as the generating costs are not significantly different. To facilitate the shift to renewables, investment regulation and multilateral investment policy need to be made more favorable.

The World Bank has created the Community Development Carbon Fund to provide carbon finance to small-scale projects in small and least-developed countries. This fund links small-scale projects with companies, governments, foundations and NGOs trying to improve the livelihoods of local communities via verified emission reduction. The BioCarbon Fund finances carbon projects that sequester greenhouse gases in forests and agro-ecosystems, while ensuring biodiversity conservation and sustainable development. Through the GEF, the Bank could support capacity-building and technology transfer for climate change adaptation. As a leading lending agency, the Bank can play a pivotal role by working to remove policy and financial barriers restricting the uptake of renewable energy, and through capacity-building and technology transfer.

Questions and Answers
Q: Will Indonesia sign the Protocol?
A: Yes, the government supports climate change initiatives, and the bill is in parliament right now.

Q: This is more of a dilemma for poor countries that are dependent on fossil fuels; if extractive industries are discouraged, it will be difficult to provide sufficient energy.
A: It is more of an advantage to sign than not, because there is no obligation to reduce emissions (that is the responsibility of developed countries). The point is not necessarily to discourage extractive industries, but to encourage renewable energy.
Submarine tailing disposal (STD)
Implications of the PNG experience

A speaker from the University of Papua New Guinea (PNG) provided some background information on Submarine Tailing Disposal (STD) and the history of its use in PNG. Due to the severely damaging impacts from riverine tailing discharge, the steep terrain and the high risk of tailing dam breakage, STD has emerged as a major technology option in PNG.

The theoretical aim of submarine tailing discharge is to deposit mine wastes in deep waters, where it is likely they will be trapped below the surface mixed layers and the surface euphotic zones, as a dense deposition on the deep ocean floor. The premise is that the tailings will remain on the deep ocean floor and will cause no harm to marine ecosystems. In comparison to onland tailings retention, it is arguably safer to local people and the environment, especially in places like PNG, with its rugged topography, high rainfall and seismic activity. As tailing dams require continuous monitoring of post-mine remediation, STD is also significantly cheaper in the long term, resulting in considerable savings.

STD can only be considered in areas that have no history of upwelling. Consideration needs to be given to other forms of resource use in those sites, so that the negative environmental consequences of STD don’t impact significantly upon other people’s ability to use those resources. In general, and in practice, it is inevitable that STDs will have some environmental affects on the receiving environment. The controversial areas are plume shearing, thermoclines, upwelling and pipe breaks – all of which can result in the inadvertent mixing of discharge particles in waters in sensitive ecological zones. Pipe breaks have characterized most STD systems, which means that risk mitigation has to be factored into any consideration that STD is a safe disposal method.

Misima Gold and Silver Mine, located on Misima Island on the eastern part of Papua New Guinea, is an example of very deep STD. The environmental assessments, prediction and monitoring in Misima are being used widely as role models for other mines in the Pacific region. The marine monitoring program has largely been limited to assessing impact in shallow water, and some evidence collected shows higher elevated levels of lead, cadmium and zinc in rock crabs and some forms of shellfish. These levels exceed those at which human consumption is not recommended, however this is probably largely attributable to overburden dumping at the shoreline.

In general it is safe to say that there is little understanding of the impact on the deep-sea ecology of the area, as there is no baseline study to determine what was there before the mine. The impact of Misima on fish populations has not been quantified, and until that work is done, it will continue to be used by both proponents and antagonists of the industry to claim their respective positions.

One of the long standing contributors to the work on STD has stated that “decisions should be made site-specifically and not on the basis of generalized regulations,
prohibiting one or the other tailings management options”. STDs should not be promoted as a safe system, per se, without recourse to the site itself. While STD is probably the most logical disposal method of choice in small islands with favorable conditions, the industry needs to avoid the temptation to promote it in other sites where conditions are sub-optimal, or where feasible on-land tailings retention options exist. Due to the uncertainty inherent in marine disposal, STD should be considered as a last option rather than the default technology of choice, especially in mainland sites.

And this principle needs to remain in force until the science around STD is far better documented. Therefore, the promotion of STD as a solution for tailings management in the Asia-Pacific needs to be balanced with an investment in additional research undertaken by impartial institutions. Parameters need to be defined for defensible risk assessments prior to an STD system being proposed. It also is essential to recognize that many governments in the region possess very little capacity to review EIA work.

Controversy over STD is the result of a heavy mix of agendas, the lack of a peer-reviewed body of literature about STD as a practice, poorly developed risk assessments from industry, and a distinct focus on ‘facilitative science’. This lack of good information has allowed the issue to be hijacked by NGO groups who wish to use the uncertainty to promote their own interests, and has also been used by some in the industry to promote STD systems in sites which have been highly unsuitable. The proposal to conduct a review of the available literature is commendable, as is further applied research directed towards creating an industry code of practice of STD. It may be prudent for the World Bank or the EIR to consider involvement in this process.

The final recommendations are that:

- World Bank financial support for mining developments must include appropriate risk analysis of all physically practical, tailing management systems, not just STD;
- defensible risk assessments have to be developed so that governments can take a measured and informed decision on the efficiency of other tailing disposal options; and
- the Bank should be overseeing any initiative to improve knowledge of STD in existing sites and to work towards a code of practice for the industry.

Questions and Answers

Q: If the tailing is discharged below the thermocline the risk to the environment is probably minimal. But in practice, it is difficult to ensure that the discharge point is 100 m below the surface. People will accept this technology if they know that the point of discharge is below the thermocline. The different temperature, salinity and pressure will force the tailing to settle at the bottom. But if it is at or close to the thermocline, the environmental impact is tremendous. Large mining companies that are going to use this technology have to do what they have proposed - ie, the point of discharge should be below the thermocline.
A: I generally agree with what you’re saying, but I also think that the concept that the thermocline in many areas provides an impervious barrier to the mobilization of those tailings is not necessarily true. In some cases it is, in some cases it isn’t.

Q: Some tailings disposal systems use salt water, some use freshwater: is there any significant difference in deep-sea disposals from either of these treatments.
A: I don’t think it really matters. What’s important is that seawater mixes with the tailings, to achieve a density that is greater than the seawater into which they’re put so that they flow downhill.

C: Regarding the question about the thermocline, the thermocline is an advantage, but you don’t have to have one for this to work. By discharging into deep water, the density is such that it will not rise back up to the surface; the important aspect is that there is no upwelling. On the topic of choosing STD there are a number of considerations besides cost: in Lahir, the complex social issues, the land shortage, and the environmental benefits were important. Regarding plume shearing, subsurface plumes occur but they don’t come back up to the surface, and their concentrations are 1000 to 10,000 times lower than what’s in the main tepidity current.

C: At Misima we have collected a lot of data on STD over the years that can be shared. I also think that we all share the same belief that STD is not the answer for every location, nor are tailing dams always right. The technology has to be site-specific.

Q: How in the future are we going to combat marine pollution?
A: STD operations, even in the worst case scenario, are not going to contaminate massive quantities of ocean. They will remain relatively discrete, even if they are subject to upwelling or remobilization of suspended particles. They would affect an area larger than the equivalent on land, but there is a far greater demand for clean soil. It is difficult to make a generalization about this, as it depends largely upon the site in question and the materials in question.

**Artisanal and small-scale mining**

*Social and environmental problems*
This presentation covered UNIDO’s Global Mercury Project, which is aimed primarily at finding ways to mitigate the environmental impacts of mercury use in small-scale gold mining. Worldwide there are approximately 13 million miners in 55 countries, including 2.5 million women and 250,000 children. It is believed that up to 100 million people are dependent on artisanal small-scale mining (ASM). Apart from a few places, ASM is largely uncontrolled and unregulated.

Artisanal mining creates the main environmental and social problems in mining. On the environmental side there are problems with water siltation, landscape degradation, deforestation, destruction of aquatic habitat, and widespread mercury pollution. Artisanal gold miners are responsible for half of the mercury emissions in the world. Their practice of volatilizing mercury is potentially extremely dangerous for human health, as mercury accumulates in the lungs and kidneys. Very simple technologies can be introduced to
eliminate this danger by recycling the mercury using an inexpensive retort. The other
danger is eating carnivorous fish, because they are bio-accumulators of mercury. In many
artisanal mining sites, children are showing symptoms of learning problems, because
mothers transfer mercury to their fetus.

The GEF-funded UNIDO project is working in 6 countries with the purpose of reducing
mercury pollution by introducing cleaner technology, environmental health, monitoring,
and capacity-building. One of the main targets is women, because 4 million women are
working directly in artisanal mining. Mercury is only the tip of the iceberg; an integrated
approach is required to deal fully with the situation, because poverty is what drives most
people into artisanal mining. The key is developing sustainable livelihoods within a
poverty alleviation and community development framework, so that people have
alternatives before the minerals are depleted. This requires a supportive policy and legal
framework, technical assistance, access to capital and markets, and investment in
education and health care.

Questions and Answers
Q: Could you elaborate on your comment that for small-scale mining to be sustainable,
some of the obstacles in policy and legislation had to be removed.
A: The mining legislation is based on what is being mined, not on if it is artisanal or
mainstream mining, so the human dimension is ignored.

Q: It seems to me the problem here is economic, not technical. The problem is poverty
which drives people into illegal activities like mining and logging. And the legal system
doesn’t work – there is no law and order. We have to move beyond the project approach
because it requires long term, in-depth solutions.
A: I agree: mercury is just one point, but the overall problem is enormous and it needs
more than studies to bring about change. It requires action.

Q: Mercury must be contaminating ground water around all these places; have there been
any studies on this?
A: No one has ever analyzed water for mercury contamination, because the greater
danger from these waters is the sedimentation.

Small mines, big issues
ILO is looking at working conditions in small-scale mining (SSM). Half the people
involved in SSM are based in the Asia-Pacific region. Globally there are more people
working in SSM, than are employed in large formal mining operations. Small-scale
miners lack nearly everything – they have no resources, no training, no infrastructure, no
suitable equipment, no literacy and no awareness of the depth of their problems. There is
also no legal framework for their activities, so they are largely ignored by governments
and others.

Most mining accidents occur in small-scale mines, because of poor management and poor
equipment. Mining can be risky work – working in very cramped and dangerous quarters
with no safety or protective gear, people are exposed to heat and dust with no escape
options should something happen. Most of the poor health is due to noise, dust, vibration, over-exertion, poor ventilation, exposure to mercury, cramped workspace and inadequate equipment. Outside the workplace they are also exposed to poor sanitation, dirty water, diseases (malaria, typhoid, dysentery, TB), malnutrition, substance abuse and HIV/AIDS.

Having the right equipment is important, but it needs to provide fairly immediate benefits. Finding the appropriate solution is essential, as needs and circumstances vary from place to place. ILO has produced some safety handbooks, and has developed a convention on occupational safety and health for miners. But for things to change substantially there has to be much better cooperation between companies and trade unions, NGOs and government officials, and the donor community. SSM can become a source of ‘decent work’ – work that is freely chosen, where rights are respected, where there is some social protection, where there is no child labour, where there are reasonable earnings and a reasonable degree of safety and health.

Child labor is common throughout small-scale mining, and is considered one of the worst forms of child labor. ILO is working to remove children completely from mining operations, to send them to school or provide apprenticeships, and to reintegrate them back into the community so they don’t return to mining. If the community is profitable and sustainable then there are likely to be alternative employment opportunities.

With the right approach, small-scale mines can be profitable, productive, safe and healthy. They can contribute to sustainable development and be a source of decent work, and even not destroy the environment. In order to achieve this a consolidated approach is required, taking everything into account and providing real incentives for people to change. The World Bank could consider ASM as a part of an overall poverty reduction activity. The focus could be on building sustainable communities, exploring a range of livelihood options in the community, which could complement or replace ASM. It has to be based on the local situation and needs, with employment opportunities available for women and children who were former mine workers. The Bank could provide micro-finance for ASM and SME activities, and support institution-building for community development. CASM should be made more effective as an information resource, by providing it with funds for community development and separating it away from the Bank.

The Bank must work more closely and more practically on the ground, collaborating with other organizations like the ILO and UNIDO. It must also help bring about changes in legislation that constrains the small-scale mining sector.

Questions and Answers
Q: There are lots of good labor laws but the implementation is poor: how to improve implementation? How can child labor be eliminated?
A: There is a lack of capacity for enforcement in many countries. Mining inspectors could become much more effective. Regarding child labor, it is unacceptable for children to work in mining. It requires support from within the community as well as from the
donors, and it will take a strong commitment because it also requires persistence and will take a long time to change.

Q: Have you come across a location where small-scale mining is integrated into a community and is working with the agriculture sector, receiving supplies, etc?
A: First I want to mention that the bad image of mining is coming from small-scale miners, so it is incumbent on everyone to keep the public well-informed about the positive practices and benefits in the formal mining sector. Regarding the question, such situations do exist, for example in Mali where the mining company provided an area for small-scale miners to work and supported them with technical advice and equipment. But once the large-scale mine was operational most people left the small mine site and provided services to the big mine. Unfortunately there are not too many good examples of integration with agriculture activities.

Q: What role does ILO play regarding enforcing your own conventions and human rights issues?
A: We have to wait for governments to ask us to help, then we prepare a comprehensive program based on local conditions. Our priority area is removing children from work in underground mines.

Q: What is the Bank doing about supporting financing for SMEs, and are you involved in the new mining law in Indonesia?
A: There are funds available for SMEs under the private sector component of World Bank participation, but we are not involved in the new mining law.

Small-scale mining legislation
This presentation from Small Mining International is based on a review of the legislation on small-scale mining (SSM) from various countries. The motivation to enact legislation is basically to control and manage illegal mining so that small mineral deposits can be exploited in a safe, equitable and environmentally more friendly way. In some countries like Ghana and Zimbabwe there are specific laws for small-scale gold mining.

Artisanal and small-scale mining can be defined in various ways, with the most common elements being: that participation is limited to the citizens of the country; sophisticated equipment is not allowed; and there are limits on production levels and investment capital. In terms of general features: legislation distinguishes between extracting minerals for commercial purposes and for personal use; transforming or upgrading from small-scale to large-scale operations is approved in some countries but not in others; and technology development is limited in most countries.

Legislation covers environmental protection, health and safety, market, penalties and incentives. For environmental protection the legislation varies: there have to be environmental protection plans and programs; posting surety bonds is required to ensure compliance with environmental protection and pollution control plans; and there can be an environmental tax to ensure rehabilitation afterwards. Health and safety legislation is covered by the overall health and safety regulations for the industry. For marketing, there
is no common approach: there may be individual licenses for mineral traders, or it may be controlled by a government agency. There are penalties such as fines, imprisonment, and cancellation of licenses or permits. Incentives may also be provided, such as tax exemptions, exemption from royalty fees and grants for prospecting.

Licenses come in different forms. There are informal licenses, such as in Papua New Guinea and Suriname, where if you own the land, you can pan for gold without any bureaucracy. Formal licenses cover variations in physical or social arrangements, sometimes with a separate license for each stage of the operation – i.e., mining, processing and marketing. The most common limit is restricting licenses to nationals of the country. Most licenses last for 10 years, which doesn’t allow for proper planning or long-term activity. Licenses are transferable and the area permitted is, at the most, 20 hectares, depending on the type of mineral or legal entity applying. Restrictions cover the type of equipment, production limits, and the amount of capital.

It is widely recognized that small-scale mining is important and needs the appropriate regulatory framework in each country. Small-scale mining is also a national industry that should remain in the hands of nationals. However, the motivation of governments in legislating small-scale mining does not always match the priorities of the miners. One reason for this is that promoting the mining sector in developing countries is biased towards large-scale mining, with the aim of attracting foreign investment. There is a need to balance this trend by adopting policies on small-scale mining that promote locally initiated and owned mining enterprises.

Large numbers of small-scale miners continue to operate outside the law, mainly because there is no land legally available. Most concessions are awarded to large mining companies. The perception of small-scale miners is that:

- the legislation is not advantageous to them, so why bother with due process;
- provisions in the legislation are inappropriate, so better not to apply for a permit;
- there is a lack of institutional and administrative capacity and capability to implement the legislation.

Because existing licenses are so restrictive and unsupportive, it naturally leads to illegal activities. When legislation is in line with small miners’ needs, the license must be tradable and long term, to promote entrepreneurship and to allow for proper mine planning and closure.

A short case study was presented, based on a recent review of the legislation on small-scale mining in Mozambique. SSM in Mozambique is a means of livelihood, jobs, and business opportunities for nearly half a million people. SSM is viewed as a poverty alleviation process initiated by local people; the government incurs no cost and sees it as an indirect process of grassroots exploration. It was proposed to create two institutional bodies to overseas small-scale mining - one a regulatory body and the other a technical service extension agency. Three licenses were defined: a mining certificate - an improved version of the existing one - for mining within segregated areas in large concessions; a free license, for non-commercial small-scale mining; and a commercial, small-scale mining license for businesses and commercial operations.
Many countries have already enacted small-scale mining legislation, but they are seen to be inappropriate. Perhaps the World Bank Group could help governments to develop appropriate or enabling legislations, as well as the institutional capacity to implement it. The ‘how’ is still a question. When asked, small-scale miners often say that they can help themselves, but they need the right mechanisms to do so. So the key is institutional capacity-building, and it should be directed towards sustainability, so that people can look after themselves in the long run. Artisanal miners need access to information, services and capital, and somehow the system to do this should be self-funding and self-sustaining.

Questions and Answers
Q: I find that restrictions on capital investment and on production quantities do not encourage small-scale operations. The health education components are excellent but how are they applied and supervised?
A: I also find that those restrictions are not very helpful, although, in some cases, the limit is 3 million US dollars. So, it is basically a useless provision. Having a permit term of two years discourages planning and long term operations.

C: (directed at the ILO rep) Because most SSM is unlicensed, and very little information is available about employment in this sector, how do we find out about what is going on? It is a very large unorganized sector that ILO must take note of.

Q: Are there places where there is legislation outside of the mining law that affects small-scale miners?
A: The legislation I’ve seen is part of the general mining law. However, in some countries they created a separate act or law, purposely for small-scale mining. Therefore, it would be easy for the Bank to intervene on this because they don’t have to look at the whole law.

Q: Legalization of small-scale mining in the developing countries is facing several major challenges. The central and regional governments are almost always on the side of large mining companies. Meanwhile the illegal small-scale operation has been largely ignored, without any assistance to facilitate its development. From this Bali meeting, it is obvious that the WB should have a role. It is known that small-scale mining has contributed directly to poverty alleviation, although it is relatively small, but it is a direct contribution and has impacted the poor. Mineral rights are only given to large companies, where the direct impact on poverty alleviation is slow and not so obvious.
A: It is easier to help legalized operations than illegal activities, because for example, if you work in government, you cannot intervene with illegal activities, as you would be seen as condoning illegal activities. It is the same for the World Bank or other multilateral agencies. Even NGOs tend to shun activities that are illegal. So, the importance of having appropriate or legal operations cannot be overstated.

Q: If the negative impacts of small-scale mining are manageable and SSM is made legal, would small-scale mining still be effective in terms of income distribution and poverty
reduction? What is the proportion of small mining production in national income? How can government collect revenues from these small mining activities?

A: The national income from small-scale mining varies from country to country. For government to collect revenues, first we have to have a law to allow them to do that. So you need a legal framework as a basis for collecting taxes. Each country has its own procedures and methods for doing this. It is not all the same.

A: My experience in Brazil has shown that legislation never works for artisanal mining. The legislation started in 1945 and was changed in 1967 and 1988, but no one respected it. For instance in the Amazon, the artisanal miners discovered 2000 mines sites, but now less than 10% are with the artisanal miners. They are in the hands of the big companies - the rights of the real discoverers were not respected. So, you have to establish law from bottom to top, respecting the rights of the miners, too.

C: Governments can in fact get dollars directly or even indirectly by allowing the products to be sold at the full market price, by licensing buyers or by buying it themselves. This keeps the product in the country and the money flows into the economy, and the government will get revenues as a result of the follow-on economic activity. In one country in Africa, a year after gold buying was sanctioned, the reported gold production from small-scale miners rose by a factor of ten. They produced the same amount, but it no longer was smuggled out of the country. So, to buy the material at the full market price is going to stop smuggling and the government will gain revenue on the way.

C: There are some very effective laws in small-scale mining. The alluvial mining law in Zimbabwe is an example. The law enabled local councils to obtain permits from the national government, and to receive something from the process. When the local councils realized there was something in it for them, they created a local set of regulations. A similar thing happened in the Philippines regarding illegal sand and gravel extraction; when control was given to the local level, the activity became well contained.

**Corruption**

*Access to information and transparency of revenue flows*

Within the context of good governance, a representative from the Indonesian Centre for Environmental Law spoke about the need for and the mechanisms to ensure access to information and transparency of revenue flows. For open and transparent governance, five key elements are required:

- access to information
- access to participation - effective public notice, adequate information, proper procedures, and the appropriate taking-into-account of the outcome of public participation
- access to justice – the right to appeal, a public complaint mechanism, independence, and a professional dispute settlement body
- freedom of the press - the prime vehicle for taking information to the public
- the right of the whistle-blower to be protected
The full scope of access to information includes five rights: the right to know; the right to observe and to attend public meetings; the right to obtain copies of documents (passive access); the right to be informed (active access); and the right to disseminate. There are a number of links between access to information, transparency and good governance. The three pillars of democratic governance - access to information, access to participation, and access to justice - are required for openness and transparency in public resources management. Openness and transparency are effective tools to prevent the mismanagement and abuse of public resources (including mismanagement and embezzlement of national oil revenues). The three pillars will strengthen civil society to perform its role of public control. Having access to information will help citizens call their governments to account over the management of public resources.

There are two types of information access – passive and active. Active access is when citizens are informed without making a request. This can include basic information about the private wealth of public officials and financial reports from listed companies; and non-basic information, such as public safety notices. Passive access is based on making a request for information, some of which is available at anytime without formalities, as well as non-exempted public information. For countries in transition, there are a number of crucial issues, for instance how to make the laws related to state security and secrecy synchronized and consistent with the freedom of information law; and how secrecy can be applied as an exemption. How to define which public institutions are obliged to provide access; how to define public information as passive or active; and how to settle disputes over denying or refusing access?

There are a number of qualifications that are applied to disclosure exemptions, including balancing public interest and potential harm, and having no permanent exemptions. Institutions and agencies that are obliged to provide information access include state institutions – eg, executive, legislative and judicative; institutions established by the state – eg, state auxiliary institutions and regulatory agencies; state enterprises (central and local); contracting-out private companies; and NGOs that received public funds.

The ‘publish-what-you-pay’ (PWYP) principle is an important component in access to information. It provides for disclosure of payments by natural resources companies to governments. The rationale is that natural resources are held in trust by the state for the ordinary citizen, so citizens have a clear right to information about the management of revenues associated with their resources. PWYP must be mandatory, provided and guaranteed in a variety of laws and reporting requirements. By making it mandatory it will eliminate concerns about confidentiality clauses gagging companies publishing payment data, and will eliminate a major international double standard between levels of transparency in the North and South. PWYP will create a level playing field between competitors, preventing more principled and transparent companies from being undercut by their less scrupulous competitors.

National legislation must require extraction companies to disclose payments to, and relevant contractual arrangements with, governments and companies in all countries where they operate. It is important to create public demand and public pressure to
motivate governments in countries in transition to promote open and transparent governance. The World Bank should promote PWYP in any revisions to Company Law.

**Transparency of revenue management**
The Indonesian representative of Transparency International presented a paper on revenue transparency in extractive industries, and suggested that extractive industries should be viewed only as an intermediary means to build wealth and social welfare, and not as a major factor in economic development. Future generations have to be accommodated in how non-renewable resources are exploited. By giving society, especially vulnerable parties, decision-making power over resource use, future needs can be provided for. Benefits should be enjoyed by the most needy and invested for future generations. Revenues, therefore, should be spent transparently.

Many countries that are dependent on oil, gas and mining are poor and corrupt. In this region, most communities living around oil, gas and mining operations are living below the poverty line. Resource rich countries suffer from a variety of corrupt practices, such as illicit payments to the military, kickbacks to government officials, special perks to officials, opaque financial transactions, bribes to community leaders, manipulating production figures and costs, and embezzlement by government officials.

There have been many conflicts over oil, gas and mining operations – in Aceh, West Papua and PNG – some have involved the military and cost many civilian lives. The increase in military expenditures is suspected to be funded by illicit payments from oil, gas and mining. There also has been loss of land and livelihood due to environmental degradation caused by these industries. The need for transparency from both the government and the industry is urgent in order to benefit the poor and future generations. The Extractive Industry Transparency Initiative, endorsed by the UK Prime Minister, has produced a template that requires companies and government to disclose what they receive and what they pay.

The World Bank at country level should ensure that:
- extraction of oil, gas and mining is an intermediate and temporary means, and not the ultimate objective for economic development; revenues should be invested in strategic areas for future development schemes;
- there are ‘no go’ areas for oil, gas and mining activities; these areas are important to the earth's ecosystems, are rich in biodiversity, including world heritage sites, national parks and conservation areas;
- indigenous peoples’ rights are respected and prior informed consent is enforced;
- resource-rich and highly-indebted countries are not using these revenues directly for debt payment; debt payments should come out of secondary economic activities resulting from extractive industries;
- WB loans will not make the country indebted, due to mismanagement of economic development; and
- maximum transparency in revenue management, and no embezzlement of revenues by officials.
At industry level, the investment should be aimed at:

- maximum transparency in payments and costs of extraction, with compliance to the OECD convention on anti-bribery;
- companies respecting indigenous peoples and community rights, implementing good corporate governance and social responsibility; and
- stimulating companies to invest in green energy and environmentally-friendly technology for mining.

The need for transparency in extractive industry does not outweigh the danger to the ecosystem. Climate change and other severe environmental damage in the region are the consequences of extractive industries. Consequently, the World Bank should invest more in green energy than in oil and gas, and should aggressively help the poor of the developing world to get access to cheap energy. The World Bank should stimulate country policies to create markets for green energy such as solar cells, so that this kind of energy is affordable to the poor. Green energy investment should be a major Bank policy, especially in the most populated areas of the world. The World Bank should phase completely out of the extractive industry sector by 2010.

Questions and Answers
Q: Are International Lending Organisations responsible for the current situation of poor governance?
A: No, but they have some responsibility in that they supported Suharto and ignored corruption. The World Bank should help people move forward, not prevent change. We tried to change the Contract of Work, but faced strong opposition from industry.
A: Don’t be too pessimistic, civil society groups have developed, and legislation is being worked to bring about changes.

Q: What if the public doesn’t make use of published information?
A: There is a lack of demand in Indonesia, but there are ‘information access officers’ to demand information. It requires some public awareness building.
C: Corruption is endemic in the region. Communities that have access to civil society organisations are ahead, but there also is a need for human rights and justice - the World Bank should pay attention to this.
C: Need to track payments.
C: Corruption is related to the attitude of the people not the type of energy.
C: The World Bank lacks a strategic approach regarding impacting poverty alleviation; the requirement for poverty alleviation is not imbedded in projects, and there is a lack of clarity on who is accountable.
A: Transparency and a strong enforcement system is required, an independent mechanism. Need to strengthen the capacity of the public.
C: Green energy has less concentration of funds, and therefore may have less corruption.
A: Government has to develop a strong policy about corruption.

Q: How can we solve the problem of corruption? We need to separate the rat from the warehouse, not just raise criticism without concrete action.
C: Mining is a ‘honey pot’ industry – corruption will not go away. It has to do with the quality of human beings in a culture. We need to map out how we get to where we want to go and who’s involved.

Q: What about other countries?
A: in PNG we have Transparency International but company contributions are still secret. Is there another way to get access to information?
C: Evidence shows a link between the presence of extractive industries and the quality of governance. Transparency is one thing but respect for human rights is needed. Honey pots are not enough, need access to information.
C: Corruption is a big problem in Timor Leste. Corruption is also in international organisations in our country – the amount of funds received is not the same as was provided. Money often goes back to donor countries.
A: Our civil society coalition has four strategies – advocacy – ie, watch the laws, change the culture of the bureaucracy, encourage state institutions to develop information management systems and public services, and strengthen public demand.

Recommendations

Small scale mining

The working group was asked to address: “How can artisanal/small-scale mining be practiced with minimum impact to the environment and maximum impact on poverty reduction in the Asia-Pacific region?” and “What role can the WBG take to improve the situation?”

Discussion

Legal Issues:
It is essential for governments to enforce existing laws. This will require more government inspectors and inputs from NGOs who are on the ground. At the same time existing laws have to be relaxed to acknowledge ASM – develop mechanisms to regulate laws and regulations. Governments have to demonstrate good will for legalizing ASM, and there must be a highly pragmatic legal framework to accommodate different contexts. The law has to acknowledge customary land rights, and provide clear regulations on environment standards and how the law is enforced. Create advantages to be legal by providing micro-financing, technological assistance and negotiable permits.

Capacity-building Issues:
Some of the tax paid on minerals should go back to increase the quality of human resources through training and education (capacity-building), with an initial investment in training trainers. Management and business skills must be developed through entrepreneurship training on management, financial, and other related matters. Communities have to increase their awareness of the negative environment impacts of certain practices. A pilot project on good mining practices and waste management must be created to demonstrate how it can be done.
Relations:
Good relations have to be established with other stakeholders, including partnerships and alliances with established mining companies. Real ASM communities with deep roots must be established and integrated with other local resources. An institution (association) of small scale mines should be established, as well as the creation of business insurance.

Economic Promotion:
Easy access to markets is essential, as well as linkages with other rural economic activities. Local resources, including employment, should be optimized.

An Integrated Development Approach
Community development, rather than handouts, should be financed directly. This means creating jobs and business opportunities. The approach has to be integrated and holistic in all aspects - finance, technology, markets, etc. People have to be the subject of development – ie, people-centered development – through rural community development.

Technology and Development:
Appropriate operational and management systems for mining have to be in place, including the use of clean, effective technologies and practices. Technological support must be provided for this. Mercury use would be avoided, environmentally friendly technologies and appropriate waste treatment systems would be implemented. Safety and health protection must be provided for workers and for people living in the surrounding community. Child labour has to be avoided.

Possible Role of the WBG (loan, grant, technical assistance):
First there has to be capacity-building in the WB itself. The role of the Bank should expand beyond simply providers of money to become facilitators for development. As part of this change, the Bank has to make a commitment to ASMs, and consider them as fully-fledged businesses. The rules of financing must change to enable the Bank to fund ASM, and appropriate recipient groups have to be identified or created. Institutional capacity-building has to be provided to mining associations, community-based mining organisations and NGOs, covering for example, training, technology, management and finance. The Bank also must help identify relevant organisations to provide assistance to ASM/SSM in capacity-building and long term service provision.

Questions and Answers
Q: Could you say more about ‘changing the rules’, so they should become more flexible, more ‘tropical’ as you called it?
A: We have to create a specific mechanism to provide money or financing or assistance to artisanal mining. And within the rules that we currently have in the World Bank, this mechanism doesn’t exist. Is this the role of CASM? Perhaps the World Bank should try to finance a mining association that is community-based.
A: The Bank has never financed a small project like this. So, they have to find a mechanism within the system to deal with these projects. There has to be some fundamental change in rules or in attitude.
Renewable energy – climate change
The questioned posed to the renewable energy-climate change group was: “How can the region mitigate climate change problems related to projections of its energy consumption?” and “What role can the WBG play?”

In looking at how to address mitigation of the climate impacts in the region, as it moves forward, the group looked at where the region is now, where the region is headed and what was a desirable endpoint or intermediate point for the region.

Current Situation:
Currently there are tradeoffs between sustainability, supply of energy, and poverty alleviation. There is relatively high population growth and incomes are low. There is vulnerability to climate change and low adaptive capacity to the impact of climate change – eg, coastal populations. Emissions are rising both per capita and aggregated, and there is high coal use in the region. At the moment there isn’t much automobile use, but there are strong trends towards higher usage. Mobility is reasonably low, but this is expected to rise with wealth. A lot of infrastructure is yet to come - for power, transport and housing, and it is coming fairly quickly. At the moment there is limited access to modern energy services.

Future Prospect:
It is assumed that the demand for energy services will increase per capita. Access to energy services has to rise in the region, and energy services as a total is going to be high. In order for the impacts of the increase to be mitigated, the carbon intensity of energy services has to be low. This means that emission profiles of transport, housing or energy production have to be low. Therefore there will be high growth, but with low carbon use.

WBG Recommendations:
The basic recommendation is that the World Bank Group should leverage policy frameworks to encourage low carbon growth. There needs to be a move towards fully inclusive pricing, to move away from carbon subsidies towards an energy sector that internalizes all external costs – ie, life-cycle costs, impacts. This needs to be a gradual process, not a hard intervention. There needs to be rational energy policies, including tax policies. Subsidies could be kept for off-grid services to the poorest population groups. The move away from carbon-intensive energy sources has to be pushed.

Regulatory standards, coupled with strong monitoring and clear sustainable development objectives, must be introduced to force movement towards lower emissions. There is a need to create a market for carbon. A market price for carbon will create a lot of flexibility in terms of reaching the goals. This could be achieved at a regional level by joining the Kyoto Protocol, or at a national level through a carbon tax. Flexibility is needed country-by-country and region-by-region. There is also the need for appropriate financing to fast-track low carbon technologies, by expanding their scale of application and by reducing their costs. The nature of the financing needs to be quite different, and it needs to be leveraged. Standards should be introduced in sectoral planning, such as for public transport or town planning in terms of energy efficiency.
Questions and Answers

Q: Yesterday, you proposed the approach of decoupling energy emissions which gives possibilities for renewable energy growth. Is that still in? Also, we are suffering price distortion, so the issue for the World Bank is to get the price right for projects in which fossil fuel pollution is affecting climate change. These externalities are not being internalized. In assessing projects, should not the World Bank work with shadow pricing?

A: The move towards fully inclusive pricing was an attempt to capture that, but also allowing some ability to interpret it. The WBG might fully include the pricing, but the country itself might chose to act differently. There should be a pathway to move from deep subsidies to no subsidies, and then moving forward to full internalization of the cost of externalities. We see a strong need for growth and that growth requires energy. We want to see growth and energy demand delivered without significant environmental consequences – ie, with a low carbon signature and a low carbon growth.

A: It is important to recognize that the World Bank is an institution and not a world government. Therefore, where is its power of intervention? Regarding low carbon growth, there are only certain things the World Bank can do. So how to move forward those things that are important to lower carbon growth? This impacts national policy frameworks – eg, energy security drives some of these decisions. Economic development, climate change and the local environment, all impact at a national level, and a country is not going to relinquish its decision around that. So where’s the leverage for the World Bank? It can to some extent play within the formulation of longer term national policy frameworks, but it cannot intervene in global pricing or in similar issues. It has to work through a set of intermediaries and it has to have leverage with those intermediaries.

Q: I have several reservations on that particular point. The World Bank is setting standards for the developing countries affecting policy-making, mining law and so on. And that is why the World Bank is more than just a bank. It is a development bank for the world. In Africa, 90% of the mining law changed due to the intervention of the World Bank. Price is very important. Why is renewal energy not growing? It cannot compete with fossil fuels, because fossil fuels are not properly priced. So is it not possible for the World Bank in assessing projects to work internally with the shadow price? If there is a choice in project between fossil fuel or renewable or gas, then they should internalize any externalities in their calculations.

A: I understand your point, but I honestly believe that the leverage the Bank has over projects is going to be much smaller than what it can have over the development direction of a country. I can’t see many projects that wouldn’t go ahead in one form or another anyway. The integrated development within a country of its infrastructure, mobility and a whole set of things, has more potential for high leverage, than a bit of shadow pricing on a project.

Q: Did your group have any insights about when WBG involvement in coal would make sense? For example, suppose the government of Vietnam were to come to the World Bank and say: Quang Ninh province, which produces 90% of the coal in Vietnam, currently does it very badly, with old fashioned equipment and a rotten environment. We
want to streamline, but we also want to increase production. Can you help us? Under what conditions should or should not the WBG engage in such a request?

A: These are big policy decisions. We didn’t get to this question in the group because we were looking at these bigger trends. The important thing is leveraging policy frameworks. What’s important is the signals coming out of the Bank, not the money. And the signals can best be manifested through policy change. If those signals are all consistent with the idea of low carbon growth and growth with low carbon, and it manifests in policies, then that will have an affect on the whole sector. It is the idea that is very hard to push the oil tanker around, but it is a lot easier to just kick the rudder.

A: In the transition of the energy system globally and nationally, a whole set of tradeoffs are critical - between things to do with growth, poverty, climate change, energy security and local environmental impact. These don’t really occur at the project level. The real tradeoffs occur in national development and there is more scope for understanding and addressing them at the national level. So the issue is recognizing tradeoffs and the level at which they can be resolved meaningfully in terms of short-term, mid-term and long-term.

Submarine tailing disposal (STD)
The working group examined the question: “How can the main risks of STD/STP be reduced for Asia and the Pacific?”

The following sequence should be used in preparing for the application of STD. As part of the planning process, the local community must be involved from the very earliest stage in order to evaluate all the options and to provide their agreement if the use of STD is recommended. Public education is essential to engender a full understanding about what is actually involved. This is followed by a full baseline study, which leads into conducting a thorough risk assessment on the proposed technology. Depending on site specifics, this may include a marine biodiversity review of that particular site.

Regular monitoring of the results of STD programs is essential in checking the viability of the technology, as well as to provide feedback into public education and biodiversity review. What all of this is leading to is the development of an industry or technical standard for identifying all the risks associated with the use of STD. A further refinement would be to develop a comprehensive code for evaluating, designing, constructing, managing and continuous monitoring of STD programs. The code would include key elements: protocols for appropriate mixing models; risk assessment methodology; conducting a biodiversity review; a code of conduct; a code of management for the design, construction, management and monitoring of STD.

A small group of people from the industry and NGO community are working with the Australian Center for Mining and Environmental Research on developing a code of practice. An interim steering committee will establish a technical advisory group composed of world-renowned independent specialists in the areas of chemistry, biology, physical sciences and oceanic modeling. The technical advisory group would start to address some of the uncertainties that exist about STD. The deliberations of that research will be fed back to the steering committee. This is a two or three year process, maybe
more, which will identify what we know and what we don’t know. Specific research will target the unknowns and come up with a multi-stakeholder position on whether or not to support STD in the future. If the answer is “yes, STD will be supported under these caveats”, work on developing the code will proceed. The code will show how appropriate STD is at particular sites compared to other tailings management options. Programs can be designed so there will be no pipe breakages, leakages, etc. Guidelines for construction, day-to-day management, monitoring, continuous review and community participation will be included. The terms of reference and the proposed operating structure for an international steering committee is now available.

What can the World Bank do in relation to mitigating the risks associated with STD? The Bank can actively support development of the code or the process, so it can be used as a basis for future STD projects. There would then be a code, a set of guidelines or criteria, which the Bank and governments would use in assessing when it is appropriate to use STD and under what conditions it can be used. IFC could use its financing leverage to promote best practice for assessment of STD projects.

Q: Two years ago there was a conference in Vancouver which discussed STD and one of the conclusions was that STD was one of the best waste management practices for certain sites. There are a lot of lessons to be learned from the Canadian experience and over here as well. From 35 years of work from two operations in Canada, we can say, from the Canadian perspective, that this is a good practice. Sometimes we are afraid just to affirm this.
A: It comes back to public education and public information. We contracted Canmet, Canada and CSIRO, Australia to do a comprehensive literature review, including all of the grey literature, especially material from the NGO community on STD. That review, due by the end of May, will form the basis of the future research programs.

Q: During the testimonials, Benjamin Kahn warned us that Asia-Pacific has very rich marine resources. He also mentioned that the US has prohibited STD. If the Asia-Pacific seas are so diverse, is it not appropriate, instead of assuming that STD can be applied, to first have a “no go” zone for STD, the same as we have a terrestrial “no go” zone for protected forest.
A: Yes, if there is a protected area or conservation zone, the whole risk assessment would be tied around issues of both “no go” zones and other biodiversity reviews of a particular site. The effects from the STD are not often localized, but that doesn’t mean that the whole of the Asia-Pacific region cannot support a STD project. We need to make sure those beneficial conservation values are managed appropriately. We don’t yet have a unified set of guiding principals that will enable every player in this industry to manage a STD project according to both the need for conservation areas, thorough biodiversity reviews and good governance, or good management of the project.

Q: Regarding handling the tailings, do you have a disaster management plan in case of any mishap?
A: That would come under the code development, in the basic principals under which a STD project has to be managed. An essential component would be a disaster or
emergency response management plan. The idea of the code is to prevent disasters and accidents happening in the first instance.

Q: Yang menjadi pertanyaan saya, dalam penanganan tailing ini, sebelum dilepas kelaut, apakah itu dieperlakukan atau dilakukan detoksifikasi sebelumnya?

A: The form of STD that is used is dependent on what is being mined. At present, there is a range of pre-treatment options available for tailings. For example, in some of the mines in Indonesia, they have a double tank system. They make sure the tailing is adequately detoxified before it is discharged down the STD system. In our system we complex the cyanide into a ferrocyanide stable complex before it goes down the STD system. So there is a total cyanide residual associated with our STD system, but it is locked up in tight complexes. That would be one of the considerations of the code. What level of detoxification should be carried out before things go down the pipeline.

C: I respect the work of the group, but I think the results would have been very different if the civil society self-selection participants who walked out had been here. So I want to support what that person said about the need for ‘no-go’ zones in respect to this technology, particularly when it is around marine biodiversity. I’d also like to state that because this technology is so uncertain, the precautionary principle should apply and this technology should not be used.

Q: Regarding the tailings disposal systems used in Canada, does Canada still allow this to happen? Also, which developed countries still use tailings disposal systems for disposal of their mine wastes? Regarding marine “no-go” zones, how can we control what happens under water? How can we stop fish from swimming from one place to another?

A: There are about 19 STD systems around the world, in both developing and developed nations. There are STD systems in Europe, in Wales, in Canada and around the Asia-Pacific. Regarding fish populations, the intention is to make sure the tailings outfall isn’t toxic to organisms and results in bioaccumulation. A lot of the work that has been done demonstrates that. It is company information and company reports, but it is based on credible independent scientific evaluations. By involving the public, developing this code, and insuring reputable world class scientists sign off on the testing protocols and the science behind it, we are hoping to alleviate some of the uncertainties.

Q: Clearly this is a terribly complex issue. Much of the judgments here are scientific judgments. The Bank is fundamentally an economic institution, with perhaps 3 scientists out of 7000-8000 people. So what’s the process by which we should take these competing claims, this competing information, and come to a decision? It is not quite as simple or straightforward, as some would suggest.

A: There is a continental shelf in the US, so STD is not banned per se, there simply is nowhere within the 48 continental states where it is appropriate. The very purpose of the STD project is trying to reach consensus on these opposing views. Get everyone around the table and reach a multi-stakeholder opinion on whether or not to continue supporting STD. If the group agrees it is appropriate under certain conditions, and develops an operational management plan for STD, then we are suggesting that the Bank could adopt that in reviewing future projects they might be involved in.
Governance – conflict resolution
“How can fair and satisfying conflict resolution between EI companies and local communities be supported?” In exploring this question the group focused specifically on conflict resolution as it relates to extractive industries and local communities. Four levels need to be addressed – before starting, new areas, existing areas and overlaps between new and existing areas.

Before Starting:
Before a project starts, there are a number of issues. There has to be a clear understanding of titles and entitlements. We have to know what the situation is on the ground even before the intervention begins. So baseline studies must be conducted in a culturally sensitive manner, allowing sufficient time and involvement by local people. Clear laws and regulations should already be in place. Previous conflicts must be settled. It is virtually impossible to resolve conflict if there are underlying conflicts that have never been resolved.

In New Areas:
In new areas, develop policies intended to prevent conflict before it arises. Identify potential areas for conflict. Clarify the roles and responsibilities of the various stakeholders, including government at all levels. Involve government in processes whenever appropriate. Systematic public disclosure has to take place, even before contracts are awarded or firms enter into activities. Stakeholders, especially land owners, must be identified by an independent, credible institution before the activity begins. All interest groups have to be identified, not just the elite. The capacity of local people and their community has to be strengthened through empowerment and development programs. Open and transparent communication is essential.

In both Existing and New Areas:
Develop community-based security in the area before the project begins. Do not involve the military. Get local communities involved in monitoring, controlling and securing their own areas. Maintain communication fora, for regular, open and transparent communication with all stakeholders. Provide communities with comprehensive information in a form and language they can easily understand. To manage long term revenue flows, establish trust funds so rightful land owners know they can expect benefits before, during and after operations. Avoid ‘facilitation’ payments at national and local levels. Focus on matching benefits with costs. Respect and uphold human rights.

Existing Areas:
Establish a common interest between the company and local communities, with the possibility of entering into partnership relationships. Local ownership is essential. Keep each other well-informed, and if conflicts should arise, engage independent, credible and professional mediators. Establish mechanisms for redress. Establish and independent complaints mechanism so issues can be raised easily and adequately discussed.
Strengthen local government capacity, which can make a big difference in resolving conflict.

Recommendations to WBG:
1. The role of the World Bank is to make social analysis to determine the root causes of conflict. This analysis has to underpin policy advice. Good policy can help avoid, prevent or certainly minimize conflict.

2. The World Bank should recognize its obligations under the international human rights system as an international organization and develop policies accordingly - policies that will be consistent with existing policies.

3. The World Bank Group could make sure that there is a basic understanding about the project and its consequences, what’s referred to as ‘voluntary consent’.

There was no consensus on whether or not the World Bank Group should get directly involved in conflict resolution. There are two options: no direct involvement or strengthen the CAO unit to get involved. Finally, the World Bank really should have clear prerequisites, processes and mechanisms for monitoring. This should be an ongoing process, which will be important for dealing with conflict.

Questions and Answers
Q: I understand that the social analysis done by the Bank is for internal Bank purposes.
A: This is an external analysis, not an internal analysis. There needs to be more definition in terms of good governance when the Bank is involved or not.

Closing remarks
In winding up, the Eminent Person commented on several points:

1. The clash of ideas was missing - between black and white - because the hard core NGOs who are very critical were not there. Although the discussions went well, there was no clear polarization of opinion. That was particularly clear in the STD discussion group. That is the consequence when dissenting voices choose not to be involved. It would have been preferable to see different ideas confronting each other face to face, so that when two ideas collide a new truth comes out. This is what happened in the other consultations.

2. There is a new element in which small-scale mining is put into the context of community development. It is not only small-scale mining, but is part of community development. Should CASM not move away from the Oil and Gas Division to another division related to community development? The work should not be limited to studies and seminars, but should look into effective community development in which the small-scale mining is one aspect. Statistics show that when the economy moves up, small-scale mining goes down. But when the economy goes down, the small-scale mining goes up.
3. Conflict resolution was not discussed in the other consultations. Governance was always discussed, but now it goes deeper to look at conflict resolution. Last night, the discussion went much deeper looking at the involvement of the military. In comparison with the other consultations, this is a step forward.

4. Why is the discussion on climate change and renewable energy relevant? The issue is what kind of world do we want? This was not raised in the previous regional consultations. We have to look forward and see how the World Bank can be geared towards these points. “Fuel for Thought” talks about energy, but it plays down the goal of accounting for impact of CO2 on climate change. It is important because Asia-Pacific will be the locomotive of global development over the next 25 years. China, India and East Asia, all are at a lower level of energy use, so it will inevitably go up. But how? Energy decoupled from emissions is crucial for Asia. If Asia develops disregarding pollution and the impact on climate change, then sustainable development will never be globally successful. Asia will dictate whether sustainable development will be globally effective or not.

One of the reasons that the terms of reference of the EIR puts extractive industry in the context of sustainable development, is to address issues like energy use. If the concentration of CO2 in the atmosphere goes too high, as we discussed in London with BP and Shell, Asia will suffer and parts of Pacific Islands like Fiji will sink. The World Bank should take initiatives and be pro-active in determining what to do in this context.

5. Another significant point is to properly ‘ground’ projects of the World Bank to avoid the disconnection between what’s followed and what’s assigned. The job of the EIR is how to connect all of this. The World Bank Group is improving, but it is slow. It was stated that in the early 1980’s, demands were made to the World Bank to support environmentally sound economic development in Indonesia. It was not accepted. Environment sound economic development became an issue for the World Bank only starting in the early 1990’s- ten years later. The same applies on dealing with issues of transparency and good governance as promoted ten years ago by civil society groups. But only recently recognized as a priority issue. So there seems to be a 10 years inertia in the World Bank towards making efforts to change and embrace new ideas.

There is a gap between needs and how effectively they are addressed in the World Bank. That is why it is important to start right away in getting these ideas to the World Bank. We should start now! The World Bank group should start today in using their leverage. This message was not in the other regional consultations. So in spite of not having the hard-core civil society groups with us, it proves that good ideas are not the monopoly of civil society. They are also in the minds of academics, industry people and government representatives.

Policy challenges and barriers
An evening session discussed “Policy challenges and barriers in the creation of sustainable development in oil, mining and gas.”
One of the reasons people don’t see benefits coming back has to do with trade barriers created by countries. For instance for the Newmont operation on Sumbawa, it was necessary to purchase equipment through a company that was based in Singapore, so most of the benefits flowed out of the country. Another example is with the power plant, which if amortized over 40 years would provide more taxes, but the government insisted on a 20 year period. Trade policies and tax policies can create barriers to sustainable development.

How can we move away from the ‘one size fits all’ mentality driven by the ‘Washington Consensus’. What should be the variables – level of income? size of country? speed of development? What dictates the difference? Policies are needed for ‘added value’ – eg, Mozambique ships ore to Australia for processing and loses the opportunity to add value in-country because of the global trade regime.

Another example is in Peru where the IMF imposed a strict structural adjustment program, which meant natural gas had to be auctioned off at a cheap price. A more holistic approach is needed for policy setting. Refining nickel in Indonesia at current prices doesn’t make sense. Policies have to be country specific, but there is no mechanism to create a holistic approach.

In the CAS policy matrix, inconsistencies are only checked across a sector, not between sectors, which makes it possible to have policies at cross-purposes in different sectors. One of the purposes of the CGI is to pick out these inconsistencies.

Regarding trade liberalization, the question was raised about why the EI doesn’t go into high value-added exports. The main reason is that many countries have a tariff on importing refined product but not on the ore. One problem with refining is finding markets for by-products such as sulfuric acid. It might be better to look into how best to deal with imports rather than exports, much of which is decided in other countries.

Another issue is the forced sale of domestic assets. Peru had to break up its national petroleum company into separate assets and sell them off. A SOE from another country bought some of these assets. Does that make sense? Why not make such domestic companies more efficient? The reason IFC supports this is that after it was sold there no longer is pressure on the company from nepotism and other negative influences. There is an efficiency benefit from this type of action. A locally-owned company has a lot of pressures that creates inefficiency. It is much cheaper to sell off a company to the private sector than trying to make it more efficient while it still remains in the public sector. It didn’t work that way in Peru – now all strategic assets are foreign-owned.

Another example from Peru regarding tax incentives – the oil and gas industry get tax incentives to explore in the Amazon, whereas there is taxes on environmental control equipment. This creates an imperfect market. This is very common with extractive industries, where in order to take the risk and go into remote and difficult areas, governments provide tax incentives to offset the high risk. This type of investment can create a stabilizing effect in a country, such as in Mozambique which was experiencing a
civil war. An aluminum smelter was successfully built and it created stable growth in the country. It depends on the quality of the company as well.

A lot of policies cause social conflict – can’t take a cookie cutter approach. Economic policy shouldn’t be solely based upon a wish list from industry. For instance having the Mining Ministry enact environmental law opens the door to biases. Bhutan is the only country that has been successful in isolating itself from global influence, but the situation in the country is like 2 centuries ago. Is this what people want? What does it mean to wait? What is needed to move on?

In some places such as in PNG, the people want a slower process of change. In such cases it would be better to take the risk and go ahead with capacity-building first. It would ensure that conditions were better prepared for any major development. In North Sumatra the World Bank will invest in capacity-building at the regional level for 1 year, to take things to the level of a scoping study.

In Laos, industrial development needs to be balanced with capacity-building for government, plus a trust fund for community development. It is not easy to change people in a short period of time. The country is not prepared to follow the IMF and open the economy up to the outside. The national strategic plan has a very unrealistic industrialization component. Agriculture should be the first priority. The Laotians are not competitive people and they lack business skills. They are under a lot of pressure from their ASEAN neighbours.

10. Final Recommendations

Opening remarks from the Eminent Person
The Eminent Person provided some comments at the start of the final day’s session to guide the discussions. Dr. Salim reiterated the importance of getting new ideas to inform the EIR process, and highlighted 7 points or issues that have been raised in this consultation:

• The first is the appropriateness of size and speed of projects so that the intensity of impact on local communities is gentle and in accordance with the capacity of the community to absorb without disrupting cultural and social cohesion. However, what normally happens is the opposite, where extractive industries projects create a large impact that happens quickly and severely disrupts local society and culture

• Second is the issue of gender, especially in matrilineal societies, where suddenly the prevailing decision-making system led by women is completely turned around with men making the decisions and controlling resources.

• Third is the issue of abuse of human rights, especially by security forces acting on behalf of the company, where there is no mechanism for individuals to complain or achieve redress for their mistreatment.
• Fourth is the problem of revenue management. How to equitably manage and distribute benefits flowing from the large revenues generated by oil, gas and mining projects, in order to foster sustainability?

• Fifth is disclosure policy and access to information, so that everyone knows how much money is going to the government and to the company, and how much is flowing back to local communities, fostering greater accountability.

• Sixth is the problem with corruption, which seems so widespread throughout the region. What can be done about it in such poor countries when there are such large temptations?

• Seventh is artisanal and small-scale mining and the idea of putting it within the context of community development, so it becomes just one component in a diversified local economy, thereby avoiding the typical uncontrolled boom and bust scenario.

After identifying these key issues, the Eminent Person stressed that it is not enough to simply identify what needs to be done, but the participants have to address how to go about providing realistic solutions that the World Bank can take on board and implement, always being mindful that the Bank is like a very large tanker whose route and destination will need a long time to shift before a real change can effectively take place. The Eminent Person asked for everyone’s help in bringing about this change.

Finally Dr. Salim responded to concerns by few representatives from the mining about his comments, as quoted in the Indonesian newspaper on STD practices in Indonesian waters, emphasizing that very little is known about the real impact of this technology, and that this region has a rich legacy of marine biodiversity that has to be carefully protected and tended. Therefore it is imperative to apply the precautionary principle when assessing applications of STD technology. Also, this issue has to be considered in the context of the role of the Eminent Person in having to maneuver between the interests of government, industry and civil society, always keeping in mind the interests of ordinary people in terms of economic, social and environmental sustainable development.

Discussion
A WBG spokesperson cautioned everyone not to look upon the World Bank as some form of world government that is able to bring about sweeping changes. It is better to concentrate on what the World Bank can do rather than how to change the world. In this regard it was suggested to look at two questions: How can the World Bank help with the seven issues in World Bank-funded projects? And, how can the Bank help in its policy development areas?

Dr. Salim responded that he wants the World Bank to become a major force in helping developing countries, similar to what it did previously in Europe to uplift the European economy after the Second World War and thereby change the globe. What’s needed now is a ‘second wave’ revolution for developing countries that will change the globe into a
world with significantly less poverty, in line with the Millennium Development Goals. The Eminent Person urged everyone to commit to reaching the Millennium Development Goals, together with the World Bank, the most powerful financial institution in the globe.

“What is at stake is more than just STD problems; and more than just mining issues. What is at stake is the survival of billions of poor people who live on less than one dollar a day. Look at the people in Chad, in Papua, and ask yourselves why in a world that is so rich are these people so poor? So if the World Bank wants to call itself the International Bank for Reconstruction and Development, then for God's sake, change your corporate culture and become a world force of change.”

Recommendations
The working groups made recommendations on each of the seven topics.

Artisanal and small-scale mining in community development
The ASM working group made 3 major recommendations:
1. Reinforce CASM by hiring rural community development specialists from each of the 5 regions - Latin America, Asia-Pacific, Africa, etc.

2. CASM should find mechanism not just to fund, but also to implement solutions for ASM rural communities.

3. Establish a clear set of priorities for action, based on the size of population engaged in ASM; the severity of the social and environmental impact; if there are child labor issues; and the number of mines in the region.

The mechanism for action should be based on: establishing ‘model’ (pilot) projects in each of the six main regions to show how this can be done; getting WBG specialists to provide advice to regional governments to create or amend regulations to allow legal ASM operations; getting CASM to work with NGOs, the UN and companies interested in working with ASM; and having an independent organization facilitate access of ASMs to CASM.

Corruption
The Corruption working group recommended that the World Bank needs to: strengthen civil society; support press freedom; address collusion; bring about legal reform and legislation and judicial reform; and promote corporate ethics.

To strengthen civil society the Bank should support advocating for transparency in the legal system – ie, “sunlight is the best disinfectant”. A plan for this should underpin the development strategy for Bank policy lending and investment projects. The plan should have a ‘freedom of assembly’ clause, include indicators to measure progress, and have strong linkages to Bank operations.
In promoting press freedom the Bank should provide support for training journalists and support press independence. The Bank can also facilitate press access to extractive industries sectoral activities.

To address collusion, the Bank should ensure there is full financial asset disclosure from government officials. All WBG contracts and agreements must be transparent. The Bank can provide technical expertise to scrutinize contracts, thereby protecting the public interest. The Bank also can support watchdog agencies and NGOs, as well as providing an ombudsman for EI, linked to lending and guarantees. Governments have to disclose details of project planning at all stages. Any lending must be linked to a time-bound plan in which governments commit to funding the military completely from the government budget, and that the military focuses solely on defense. A set if indicators will be required to monitor the transition. Policy advice from the WBG should mandate adoption and application of the ‘voluntary principles on security and human rights’ in EI.

On legal reform and legislation, the WBG should ensure that community property rights and appropriate compensation are included. Regulations and management measures for social and environmental impact must also be incorporated. To achieve judicial reform, the Bank should support provision of coaching and education for judges, and require judges to disclose their opinions in writing.

To promote corporate ethics, the WBG should ratify a new act of ‘voluntary principles’ in a code of ethics for corporations that would be an international version of the US Foreign Corrupt Practices Act (FCPA). Any investment lending would be conditional on meeting these principles and standards. Any advice to countries on reform of their contract system should incorporate principles of the new international FCPA.

**Disclosure policy and access to information**

In pursuing the objective of getting governments to incorporate a disclosure policy and provide good access to information, the Bank should encourage in its projects the ‘publish-what-you-pay’ principle and the exclusion of tax confidentiality from any agreements. To achieve this, the WBG has to encourage, persuade and insist on governments not including confidential provisions about government payments in their contracts and agreements.

The Bank must also include the above in its work with governments on policy development. They can help make this happen by setting up mechanisms for ‘publish-what-you-pay’ in development projects, and in their support for technical assistance and capacity-building. Critical success factors to achieve the above have to be identified, and there must be a level playing field for all key actors, including big and small companies, NGOs and SOEs.

The Bank has to develop partnership with appropriate civil society organisations, both local and international, such as Transparency International. To convene the various players a ‘hub’ should be established, that among other things will be an information focal point and run workshops. The Bank should use its leverage to encourage
governments to believe this is important. The WBG should also apply this principle to other revenue sources, not just extractive industries.

World Bank projects should require the use of WBG processes for public consultation and disclosure. In influencing policy, the Bank can encourage similar processes or adapt their model for public consultation and disclosure. Due regard to safeguards must also be incorporated - eg, confidential information as necessary for employee rights, human rights, competitor sensitive information, and stock exchange audits for information accuracy. These provisions can be built into contractual requirements. Processes for public disclosure can be included in development projects, technical assistance and capacity-building packages, and in development of the law. In doing so, due regard must be given to international protocols on privacy, collection and use of data, etc. Also care must be given to the timing of release of information.

Revenue management
The Bank should assist in developing codes that will ensure that revenue from extractive industries will be distributed equitably to provincial and local governments (ie, autonomous regions), and to affected communities. The WBG also should assist countries improve revenue management, particularly in areas of revenue leakage. WBG should convene a conference that includes central government, provincial government, local bodies, industry and civil society, to decide if the revenue would be distributed and if so, what is the distribution pattern.

In order to achieve the above, the WBG should produce a document that shows practices followed in both underdeveloped and developing countries. Transparency in revenue collections, distribution and spending at all levels - by governments and companies - should be made known and ensured. There also must be better linkages between individual investments supported by IFC and MIGA, and national development strategy – ie, the CAS.

Human rights and gender in the community
The working group on human rights and gender identified 5 key points they would like the Bank to address:

1. Regarding human rights, the WBG should ensure compliance with international human rights conventions and instruments. In implementing projects, the Bank should seek advice from international organisations with expertise on human rights and legislation – eg, the UN Human Rights Commission and the ILO. Within the Bank there should be a Human Rights Department, and the CAO must have responsibility for grievances and accountability on human rights issues.

In achieving these objectives, the Bank must conduct a ‘Human Rights Impact Assessment and Audit’ for their projects, and provide as a loan condition, appropriate education and monitoring for company staff, government security personnel and local communities. In preparing projects, the Bank must also review existing conditions and problems with human rights at other sites and on the national level. Another loan
condition would be to incorporate the Bank’s human rights policy into a system that includes education, enforcement, monitoring and in-depth verification. The Bank will provide advice, technical assistance, policy development and overall monitoring.

2. To address gender concerns, the Bank must ensure empowerment of gender equity, and ensure gender mainstreaming. If the Bank has a gender department it needs to have solid linkages to projects.

   To achieve the above gender objectives the Bank first has to make conditional for loan granting, a gender impact assessment that includes a baseline study on the social and cultural status of gender. This study must be conducted in a culturally-appropriate fashion, with the active involvement and participation of women. Women also must be involved in all negotiation processes. In mainstreaming gender, a separate mechanism for consultation may have to be established; corporate governance in the Bank should have a gender policy.

3. The Bank has to ensure appropriate and reduced security in its projects. One of the goals will be that security forces at project sites do not carry guns.

   To alleviate concerns about security forces, the Bank should make conditional that the company adopts the ‘voluntary principles’ for human rights and that there is no involvement of the military. All security forces must have human rights training, as must the country of operation. There must also be prior consultation with communities and their input on security measures.

4. The WBG should facilitate and promote development and strengthening of human rights grievance mechanisms.

   In order to achieve this, the Bank has to strengthen and develop national and international mechanisms for human rights, and ensure power of enforcement. Fair labour standards must also be ensured. The Bank must make conditional for loan approval a fair and transparent policy on labour. Requirements must be consistent with the 8 core ILO conventions?

5. The WBG should ensure more equitable land acquisition processes.

   To facilitate this objective, the Bank should ensure that companies and governments recognize indigenous land rights and provide fair compensation for resettlement or use of peoples land. All affected community members will have full access to information on company and government disbursements, and will receive expert advice on future options. Indigenous people will have the right to say yes or no to use of their land, based on prior informed consent. No involuntary resettlement will be allowed. Trust or endowment funds will be established for the long term management of resource income revenues.
Appropriateness of size and speed of projects
In looking at the issue of project size and speed of implementation, the working group identified 3 key issues:

1. There should be a long term national development plan with clearly identified priorities, based on national conditions; the Bank can assist in developing the extractive industries policies and strategies components, working in collaboration with other key players.

The WBG should work with the National Development Plan in policy development.

2. Regional development planning and capacity-building should start well before an EI project takes place – ie, during the period of advanced exploration.

Capacity-building by the WBG should assist at the regional level in a country by helping with the Regional Development Plan, including the development of regional infrastructure.

3. To finance these ‘pre-cursor’ activities, funds may be advanced based on future potential income.

WBG management should work with a ‘National Planner Group’ and ensure that the local community viewpoint is ‘heard’ within a ‘participatory’ and consultative process, at an early stage. WBG finance for projects should be conditional on maintaining high standards throughout the process.

11. Closing Remarks by Dr. Emil Salim

In closing, Dr. Salim thanked all of the participants for their contributions to the consultation process - there was a lot of food for thought, especially regarding the example from Papua, where mining could be seen both as a blessing and a curse. One big question is what lies behind the assessment that mining is a curse? Why are some people so very much against mining? The civil society group pressed the Eminent Person very strongly to recommend for the World Bank Group to go out of mining. What is going on in mining? Why do some people feel it is good for employment, for income, for taxation, for development, and others feel the opposite? The answer has to do with its impact on local people. Suddenly there is a big splash in a small lake or pond, and it creates a big disturbance. Is size the problem, or is speed the problem? Then there are issues such as revenue management, the security aspect, the role of the military, corruption, and so on. Although problems have been identified, there are still no clear conclusions.

On a second point Dr. Salim expressed his appreciation that everyone spelled out their disagreements, as well as where they agreed. But the question remains: how to tackle areas of disagreement, such as on human rights, which arose in one of the groups. The process that is going on is helpful in trying to get to the substance of the main issue;
which is the future of the World Bank Group role in extractive industries. Even though it is not possible to answer all the questions, everything will go onto the website for wider exchange. People should continue to provide their ideas, responses, criticisms, or whatever. Through this process, there should arise some ideas on how to move forward, and in which direction to look for the answers, in order to come up with sensible recommendation for the World Bank.

The idea is not to find something that is good for the scientists but bad for the policy makers. What’s needed is something that can be used to change the course of the World Bank in the direction of poverty alleviation and sustainable development. The ingredients for the sustainable development model include more than just economic development. People want a different type of development, a different type of welfare creation. The big question is: do extractive industries fit within that different type of development?

The Eminent Person then asked everyone to continue with the discussion and with the exchange of ideas after the consultation, using e-mail and the website. Dr. Salim expressed his hope that government, industry and civil society would become the constituency for new ideas, having proven that they can work together and agree on some things and disagree on others. Now, based on a common understanding, is the time to generate recommendations for the World Bank Group.

In concluding, Dr. Salim expressed his appreciation to everyone involved in organizing the consultation – facilitators, translators and transcribers, and the EIR secretariat staff from Jakarta and Washington.
Executive Summary
Draft
The Extractive Industries Review (EIR)

Asia and Pacific
Regional Workshop
Executive Summary
Bali, Indonesia
26-30 April 2003

TESTIMONIALS AND CONSULTATION REPORT
Notes
The following report on the Extractive Industries Review’s Asia and Pacific Regional Workshop, held in Bali from April 26-30, 2003, was prepared by the EIR Secretariat. It summarizes the views expressed by workshop participants, neither endorsing nor contradicting them.

As in common usage, unless otherwise indicated, use of the terms ‘World Bank’ or ‘the Bank’ refers to the entire World Bank Group. The Bank components principally concerned with extractive industries (the oil, gas and mining sectors) are the International Bank for Reconstruction and Development (IBRD), International Development Agency (IDA), the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA).

Abbreviations
ASM  Artisanal and Small-scale Mining  
CAO  Compliance Adviser and Ombudsman  
CASM  Communities and Small-scale Mining Initiative  
CSIRO  Commonwealth Scientific and Industrial Research Organisation  
EIA  Environmental Impact Assessment  
EIR  Extractive Industries Review  
FDI  Foreign Direct Investment  
GDP  Gross Domestic Product  
IBRD  International Bank for Reconstruction and Development  
IDA  International Development Agency  
IFC  International Finance Corporation  
IFI  International Financial Institution  
ILO  International Labour Organization  
IPO  Indigenous Peoples’ Organization  
MMSD  Mining, Minerals and Sustainable Development  
MIGA  Multilateral Investment Guarantee Agency  
NGO  Non-Government Organization  
PRI  Political Risk Insurance  
PRSP  Poverty Reduction Strategy Papers  
SOE  State Owned Enterprise  
SME  Small and Medium Enterprise  
SSM  Small-Scale Mining  
WBG  World Bank Group
Executive summary

Overview
The Extractive Industries Review (EIR) Consultation Workshop for the countries of Asia and Pacific was convened in Bali, Indonesia, April 26-30, 2003. This was the fourth in a series of regional multi-stakeholder consultations: the first, for Latin America and the Caribbean, took place in Rio de Janeiro, Brazil, April 2002; the second, for Eastern Europe and Central Asia, took place in Budapest, Hungary, June 2002; and the third, for Africa, took place in Maputo, Mozambique, January 2003.

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

The workshop attracted over 100 participants from civil society (non-government organizations, community-based organizations and labor unions), government, the oil, gas and mining industry, academia, and the World Bank Group itself. The workshop was organized into two parts: the first comprising a two-day open forum for civil society and other testimonials, and a voluntary information session by the World Bank Group; and the second comprising a formal three-day consultation with a limited number of invited or ‘self-selected’ representatives from each stakeholder group. Participants presented case studies relating to regional projects, followed by focused group discussions on selected thematic issues on environmental, social and economic impacts of the extractive industries.

The Consultation identified a number of cross-cutting themes where change was deemed necessary if the World Bank Group is to continue its involvement in the extractive industries in Asia and the Pacific. The themes reflected recent experiences of Bank-supported policies and projects, particularly social and environmental impacts in mining and gas projects. The main issues of concern were poor governance – corruption, conflict resolution, disclosure policy, revenue management and human rights; the environment – global warming from continuing use of fossil fuels and deep sea disposal of tailings; and uncontrolled artisanal and small-scale mining. There was general agreement on finding a way to legitimatize artisanal and small-scale mining, and to bring it under the broad umbrella of community development; the critical importance of having all the components of good governance in place before starting new projects; the need for tailor-made solutions that fit the specific needs and conditions of each country, location and situation; and the essential importance of taking sufficient time to make sure that all stakeholders are on-board and up-to-speed before starting projects or setting policy.

1 ‘Self-Selection’: the selection of civil society representatives attending the formal 3-day session of the consultation workshop was coordinated with the help of Mr. Longgena Ginting, Executive Director of WALHI (Friends of the Earth, Indonesia). The self-selection process gave civil society the responsibility of nominating 25 suitable participants from a variety of non-governmental organizations to represent their interests at the workshop.
Participants urged the World Bank Group to include extractive industries in the Country Assistance Strategy and related Poverty Reduction Strategy Papers, and to be more cognizant of links and conflicts between policies in different sectors, and the actual impact of policies on what happens on the ground in terms of poverty alleviation and sustainable development. Concern was expressed regarding the lack of follow through over the entire project cycle, due to the short term involvement from WBG institutions. The disconnect between Bank rhetoric and practice in reality was noted as especially worrying. Participants pressed the Bank to embrace international human rights conventions and instruments. Factors of good governance, such as transparent revenue disclosure, an equitable revenue distribution plan and the elimination of corrupt practices, should be a standard requirement for borrowers. The use of unproven waste disposal methods, such as submarine tailing disposal, should follow the ‘precautionary principle’ and not be used until proven fully safe.

Open Forum Testimonials
Open forum testimonials were made by representatives from civil society, government and industry, addressing three sectors: large-scale mining, small-scale mining and gas. The civil society presentations raised issues and concerns about the environment - submarine tailing disposal, a gas field blow out, and sustainable energy; small- and large-scale mining; and processes of community empowerment and conflict resolution. A government representative looked at sustainability issues. Industry spokespersons discussed examples of small-scale mining, working with community development in the exploration phase, and integrated social development, as well as the benefits and value of mining.

Large-Scale Mining
Submarine Tailing Disposal (STD)
A major concern in the region is the potential for submarine tailing disposal to cause serious environmental and socio-economic impacts in areas rich with marine biodiversity and dependent on aquatic resources for livelihoods. This is especially so in the waters surrounding Indonesia, which are the breeding and migratory areas for large numbers and varieties of marine life, including large mammals. Because there are very strong ocean flows, the widespread transport of waste materials is another potential problem. A number of speakers urged using the ‘precautionary principle’, until more is known and understood about the actual impacts of this practice.

Newmont, Sumbawa
Views expressed by community NGOs and local government in the open forum were very positive about the contribution of this project to the local communities, and the way they were working with local people. The company has invested in roads, telecommunication, health and educational facilities and programs, as well as improving livelihoods in agriculture and business. Concerns were raised about the impact of tailing disposal, how to spread the benefits more widely, and how to involve women more deeply. Strong concern was expressed about negative information from NGOs and the media that was deemed inaccurate and counter-productive.
**Small-Scale Mining**  
*North Sulawesi, Indonesia*

Small-scale miners overran a company’s gold mining operation, causing widespread mercury pollution in local soils and waterways. Local people were eventually able to regulate mining activities and enlisted help from local NGOs in curbing polluting practices. Some of the technologies being used were questioned by experts because they combine both mercury and cyanide in extracting the gold.

**International Survey on Artisanal Small-scale Mining**

The preliminary results of an international survey on ASM (artisanal and small-scale mining) indicate that respondents would like to see ASM ‘legitimatized’ and integrated within poverty reduction strategies and policies, so that working and living conditions can be substantially improved, and livelihoods will be enhanced and diversified in a way that miners receive better earnings and have wider opportunities to generate income. There is a strong wish to see regional pilot projects established to explore and demonstrate the viability and benefits of this approach, and the Bank should be directly involved in promoting and supporting this initiative at both grass-roots and country levels.

**Gas**  
*Gas Field Blowout*

In 1997 in Bangladesh the Magurcha gas field blowout devastated humans, animals, plants and soils over a wide area, affecting the health and livelihoods of indigenous people. So far no compensation has been provided from the involved companies, which are supported by the Bank. In addition, the country has a lot of pressure to export the gas, instead of using it domestically to reduce poverty and improve the lives of the local populations. A comprehensive and coordinated approach should be instigated to utilize this resource to alleviate poverty, primarily using local resources and expertise.

**Community Empowerment**

An NGO in West Papua, Indonesia, where BP has a LNG project raised the issue of the balance between services provided by government vs. services provided by companies or NGOs, which in the case of diminished government involvement, weakens their relationship with the local people and their ability to properly supervise and regulate industrial activities. This can have a long term destabilizing influence on the ability of government to function and the quality of governance. Building responsible relationships between local people and the company requires some capacity-building. Most communities normally do not have the resources or capability to hire in services, so this is when there is a role for a third party (eg, NGO) to step into this breech.
6. Middle East and North Africa Workshop:
The Extractive Industries Review (EIR)

Regional Consultation Workshop
for
Middle East and North Africa

Marrakech, Morocco
June 29-July 2, 2003

Testimonials and Consultation Report
(Draft)
Notes
The Extractive Industries Review Regional Consultation Workshop for the Middle East and North Africa was held in Marrakech, Morocco, 29 June-2 July, 2003. This report was prepared by the EIR Secretariat to summarize the views of workshop participants, neither endorsing nor contradicting them.

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

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

Notes............................................................................................................................................i  
Abbreviations.............................................................................................................................i  
Table of Contents.......................................................................................................................i  

1. Introduction ......................................................................................................................1  

Part One: Open Forum.............................................................................................................2  

2. Welcome from Eminent Person, Prof. Dr. Emil Salim .................................................2  

3. WBG Voluntary Information Exchange ........................................................................2  
   Introduction .......................................................................................................................2  
   Working with Governments ..............................................................................................3  
   Working with the Private Sector .......................................................................................6  
   Project Environmental and Social Review ........................................................................7  
   MENA Program ...............................................................................................................10  
   Independent Evaluation Process ......................................................................................13  

4. Civil Society Testimonials ..............................................................................................16  
   Jordan Society for Sustainable Development ...............................................................16  
   Water and Development Organization, Palestine .........................................................17  
   Association for the Protection of Nature and the Environment, Tunisia .....................19  
   National Association of Human Rights, Egypt .............................................................20  
   Final Statement on Behalf of Civil Society .....................................................................23  

Part Two: Closed Consultation Session................................................................................25  

5. Introduction ....................................................................................................................25  
   Introduction by the Eminent Person ................................................................................25  
   Opening Speech by the Minister of Energy and Mining of Morocco ...........................26  

6. Case Studies ....................................................................................................................27  
   Poverty Alleviation .........................................................................................................27  
   Governance .....................................................................................................................29  
   Environmental Issues .......................................................................................................35
1. Introduction

The Extractive Industries Review (EIR) Regional Consultation Workshop for the Middle East and North Africa took place in Marrakech, Morocco, June 29 - July 02, 2003. This was the fifth and final workshop in a series of five multi-stakeholder consultations convened to discuss the role of the World Bank Group (WBG) in the extractive industries (EI). The purpose of the workshop was to analyze the involvement of the WBG in the oil, gas and mining sectors in the region and to see whether these activities were compatible with the overall WBG mission of poverty reduction and sustainable development. Over sixty participants attended the workshop, representing civil society (non-governmental organizations, community-based organizations and labor unions), government, industry, academia, and the WBG itself.

The formal three-day consultation was preceded by a half-day open forum for civil society testimonials and voluntary information exchange with WBG staff. The subsequent workshop sessions were only open to participants who had been invited or ‘self-selected’\(^1\). These sessions featured presentations and discussions in plenary on specific cases, and small group discussions on thematic issues of importance in the region. Drawing on the discussions, participants identified a set of recommendations on key issues of concern if the WBG were to continue actively supporting the extractive sector in the Middle East and North Africa (MENA).

The process was guided by the EIR’s Eminent Person, Prof. Dr. Emil Salim. Conclusions from the MENA Consultation will be used as inputs for the final EIR report, to be presented to WBG President, James D. Wolfensohn, in December 2003. In line with the EIR’s mandate, careful note was taken throughout the workshop of dissenting views, which will be taken into account in the final report.

Additional material from the MENA Consultation, including participant’s testimonials, case studies and presentations, is available on the EIR website: [www.eireview.org](http://www.eireview.org).

\(^1\) ‘Self-Selection’: the self-selection process allows civil society to nominate 12 participants from a variety of non-governmental organizations to represent their interests at the formal 3-day sessions of the consultation workshop. For the Middle East and North Africa workshop, this process was coordinated by Abdel Rahman Sultan (Friends of the Earth Middle East).
Part One: Open Forum

2. Welcome from Eminent Person, Prof. Dr. Emil Salim

The Eminent Person, Prof. Dr. Emil Salim, welcomed the participants and reminded them that it was an open session, so everyone was free to speak out and make a contribution.

3. WBG Voluntary Information Exchange

In a voluntary information exchange with WBG representatives, staff reported on the Group’s global and regional outlays, and the changing focus of its projects. Environmental and social standards are now more important, but the Bank wants to go beyond this to a more holistic approach for poverty reduction and sustainable development. The Bank espouses the Millennium Development Goals, champions globally important development issues, and coordinates with the efforts of bilateral and multilateral development institutions and agencies.

Introduction

The WBG Structure

A senior advisor from the World Bank Group provided an introduction to the WBG structure – five organisations with a common goal of sustainable development and poverty alleviation:

- IBRD - the International Bank for Reconstruction and Development, works primarily with governments.
- IDA - the International Development Agency, works with governments of the poorest countries.
- IFC – the International Finance Corporation, works with private sector partners.
- MIGA – the Multilateral Investment Guarantee Agency, provides political risk insurance aid to help the private sector.
- ICSID – the International Centre for Settlement of Investment Disputes, arbitrates in disputes between investors and governments.

The WBG subscribes to the Millennium Development Goals (MDGs), which provides concrete substance to their more general goals. The link with Extractive Industries (EIs) is in the belief that revenues from EIs can be directed by governments towards achieving the MDGs. Therefore, the management of EI revenues is an important factor.
Who is involved?

The WBG never works in isolation: it partners with governments, civil society and the private sector, working in a variety of ways to catalyze the potential synergies between the separate domains.

The Country Assistance Strategy (CAS) is at the core of how the WBG works in a country context, and how it develops a country program. Discussions on the country strategy and program normally involve, in addition to the government, other development agencies including the IMF, bilaterals, and NGOs. The engagement with civil society is a highly critical component, as is the Poverty Reduction Strategy Paper. The Private Sector Strategy Paper maps out how to work with the private sector in order to achieve economic growth objectives and poverty reduction. Taken together, the two sets of strategy papers are highly instrumental in guiding the Bank jointly with the IMF in deciding what specific country programs to put in place.

Because extractive industries have the potential to bring about substantial growth and development in a country, it is important that they are addressed and reflected in the CAS.

What does the WBG do in the Extractive Industries?

The WBG believes that the economic growth generated by extractive industries has amply demonstrated that EIs are a means of reducing poverty and addressing the MDGs, for instance, by providing jobs and entrepreneurial activity, directly or indirectly. The oil and gas sectors are much less labour-intensive than mining, but the spin-offs can be very substantial, either from people who provide goods and services directly to these industries or from those employed in the small, medium and large enterprises that develop through the government’s application of revenues obtained from these sectors. There are many ways in which a country can capitalize on the presence of extractive industries in order to generate other businesses.

A final point is the importance of knowing how the government is going to use revenues from EIs, especially how they intend to ensure that the revenues have a developmental impact in supporting the poor and in financing social and other developmental investments. The portion of the WBG portfolio devoted to oil, gas and mining is very small, and has decreased significantly in recent years, so in general, the Bank does not have a lot of leverage in these sectors. But it can assist in other ways, such as with environmental degradation, accidents and spills, land rights issues, cultural changes, and revenue flows, all of which can have a direct impact upon the poor.

Working with Governments

Ways of working

The World Bank Group (IBRD/IDA) works with governments in various ways:

- Investment lending to finance specific projects, such as building roads and mine closure;
- Adjustment lending supports policy and institutional reforms (SALs);
- Technical assistance lending to help develop regulatory frameworks and institutional capacity;
- Trust funds, usually in the form of grants, assist with planning and capacity-building; and
- Advisory services and partnerships that provide information, advice, and share experience, such as on how to run the oil and gas sector or a mine; often civil society is involved very closely in helping generate ideas.

**Key beliefs**

Assistance to governments is driven by a set of key beliefs. The first is that resource projects can contribute to development with the right macroeconomic and sector conditions. Second, investment and enterprise management are generally best left to the private sector in competitive markets. Third is that governments are best focused on protecting the public interest and creating a good legal and regulatory framework for the development of a competitive private sector by:
- setting the macroeconomic and sector policy, and the framework for development
- providing access to minerals, regulation, and oversight of the private sector
- ensuring good fiscal management of revenues
- sharing the benefits of development

**Championing global issues**

The WBG has a broad global perspective which it uses in championing development issues and creating partnerships with governments and other parties. A good example is the gas flaring reduction initiative with governments and industry, and the ‘Communities and Small-Scale Mining (CASM) Initiative’ with the UK Department for International Development (DFID) and others, for artisanal and small-scale mining. The Bank sets standards and safeguards for its own operations that can also help guide others. For example, the standards set for mining been adopted by the International Council of Mining and Minerals (ICMM) in guiding the activities of their members.

At the request of countries, a lot of research takes place both at local and country level on best practice regarding energy development issues. The Energy Sector Management Assistance Program (ESMAP), enables countries to request assistance on how to manage the sector better, to see examples of how other countries are managing, and then to develop their own program.
The Global Gas Flaring Reduction (GGFR) initiative

One of the Bank’s most successful endeavors is the Global Gas Flaring Reduction partnership which aims to support governments and industry in their efforts to reduce flaring and venting of gas by improving the framework for private sector investments. Gas flaring and venting represents a huge economic loss, as well as having a heavy impact on the environment through global warming, and damage to the local environment and poor people’s livelihoods and well-being. Captured and used properly, gas can be used as fuel by local communities and as a source of power for the small-medium enterprise (SME) sector.

The main outputs from the GGFR are: an inventory of best practices; financing mechanisms for gas flaring reduction projects; an international set of standards; an improved framework for investments; assistance in developing local markets and access to international markets; and disseminating best practices. The main benefits from joining up are to get access to the best practice internationally for protecting the environment and recovering maximum value. There are funds for capacity building and advice on market development, legislation and regulations. Funding is also available for specific studies and surveys. The WBG wants to foster public-private partnerships. So far 7 countries, 4 companies, and one NGO are involved.

Discussion

In response to a question about the difference between EI sectors and agriculture and power, the response was that agriculture and power are in different lending categories. Another participant asked about the consultation process in the CAS, specifically what was the civil society consultation process for the economic policy, reform program component of the CAS, and how does it underpin an actual individual structural adjustment loan? There appears to be no formally structured mechanism for engaging specifically with civil society, instead views are solicited from a very wide range of interested parties and stakeholders, and these get fed into the final document.

The next question was about why there was such an emphasis on the GGFR partnership. In response, there are several reasons why gas is so important: one is that it exists in large quantities in many WBG client countries and has been neglected for a long time. The reason for this neglect is that often gas is used only domestically, so it is hard to attract investors into a country because they are worried about the financial and political risks. The economic potential and the environmental benefits are what underscore the Bank’s initiative in gas. Also, because markets are developing at a dramatic rate, and with the introduction of new technology, it is more viable for developing countries to export gas.

A participant from Egypt asked if the Bank worked directly with the private sector or within the framework of a treaty with the government. The presenter responded that what usually happens is within the context of a technical assistance loan or a structural adjustment loan. A relationship is established between the WB and the government, part of which includes a framework that will make it attractive for the private sector to invest, while at the same time protecting public sector interests. It’s not a treaty - it’s a framework that is attractive for all
parties. Similar to the CAS, in putting the framework together, government, industry and civil society are all involved in the discussions.

**Working with the Private Sector**

**Precipitating private investment**

The lead economist from the Oil, Gas, Mining & Chemicals Department explained how the WBG can assist private sector development and why it does so. As the Bank believes that economic growth is essential to reduce poverty, it also sees that where economic growth has taken place in a successful and sustained way, the private sector has played a significant part. However, sometimes there may be situations where there are good private sector investment opportunities, and local or foreign investors are interested in investing, but because of political risks the banks are too nervous to lend. IFC and MIGA were set up to fill that gap in the market, to provide finance and security to help precipitate private investment. In addition, IFC tries to bring added value in terms of sustainable development impact to the projects it supports.

**Key criteria**

IFC is still a relatively small institution compared to the Bank, but in some countries it can be quite important. When IFC invests in a project, it looks at several key criteria. First of all, the projects must be commercially viable; if the project fails, IFC loses its money, so it looks carefully at the viability. Also, IFC is not trying to displace private investment. If the private investor is willing to invest without IFC, then IFC steps back, which is one of the reasons in this region why in some sectors IFC is not very strong. Thirdly, to fit within the overall WBG country program, the investment has to be consistent with the Country Assistance Strategy. All of IFC investments have to meet WBG environmental and social guidelines, as well as the guidelines of the country concerned. In addition, every single investment goes to the WBG Board for approval, and the final say rests with the government - governments can say “no, we choose not to have IFC involved in this sector”.

**Areas of focus**

IFC reacts to needs as they arise, seeking to fill market gaps, so in the extractive industries IFC operates in countries where:

- perceived risks are highest, and private investors are reluctant to invest on their own;
- there are complex intergovernmental relationships, such as cross-border projects like pipelines; and
- the project output is for local use, and smaller companies are involved as suppliers, such as providing services to oil and gas production companies.
The main IFC product is long term US dollar loans, not exceeding more than 20-30% of the required investment. Commercial banks often will come in with IFC as equity investment partners. IFC operates under normal commercial guidelines – it does not accept government guarantees and it must not displace private investors.

MIGA, the Multilateral Insurance Guarantee Association, provides specific guarantees to investors against particular political risks, such as war, civil disturbance, expropriation, capital transfer risk or breach of contract. The role of MIGA can be quite complementary to IFC’s role.

Discussion

An NGO participant asked first if IFC assesses how the current policies and institutions function in a country, against whether or not a project would contribute to sustainable development? Secondly, does MIGA offer the same guarantees to domestic investors against political unrest and other things? The reply was that, although MIGA is designed to promote foreign investment, it could help local investors by providing guarantees to foreign banks, which in turn could invest with a local company. It won't, however, provide the same guarantees to a local company. IFC does check the conditions in a country to see if an investment would have a sustainable impact; this happens through the CAS and through the WB Board.

A participant from Jordan asked if the World Bank is not satisfied with a certain country, would it deprive the country of help from the World Bank, or are there certain objective measures that are used. In response, it was suggested that the Bank does stay engaged with the government to help countries as much as possible, unless conditions in the country become non-conducive to development. But more often it graduates its program according to the progress that is being made with the country.

Project Environmental and Social Review

Safeguard policies are evolving

An IFC environmental specialist stressed that safeguard policies have been evolving constantly and that the application of safeguards is fairly complex. Safeguard policies can be broken down into three categories: the first is environmental and social policies that are intended to ‘do no harm’ and are subject to interpretation and professional judgement of Bank staff. There is considerable pressure to add safeguard policies on human rights, on labour, on transparency, or simply to embrace the international standards that already exists, such as ILO’s international transparency requirements. There is a lot of ongoing internal discussion about these options.

The second component is guidelines for safeguard policies which are more numerical in nature and sector specific. An example is the guidelines on pollution prevention produced in 1999. More recently, guidelines were developed on health care facilities and education; and there are occupation and safety guidelines, and exclusion lists.
**Adding value**

Overall, the objectives of safeguard policies are to ensure that all projects proposed for investment are environmentally sound and sustainable; and to keep decision makers informed about environmental risks. There is a movement from ‘do no harm’ to ‘adding value’ to projects.

**Categories of risk**

There are four categories of risk, with Category A projects having the highest risk of significant adverse environmental impacts; and Category B having potentially adverse environmental impacts that could be managed using prevailing mitigation instruments. There is a lively debate within the Bank Group and within the multilateral financial institution community to get rid of categorization, because it was based on the ‘do no harm’ principle. Approximately 50% of IFC lending is in the ‘FI’ or ‘Financial Intermediary’ Category, where funds are loaned to intermediary financial institutions, who have to apply the Bank’s safeguard policies and do due diligence for the projects they lend to.

**Indigenous peoples policy**

The indigenous people policy was developed in the early 90s with the idea to ‘do no harm’ to indigenous peoples worldwide through Bank lending. Since that time practice has been evolving so that today the consideration is towards the broader concept of ‘vulnerable groups’, such as the elderly, who may or may not be part of an indigenous group. One way certain kinds of vulnerability is being addressed is through the involuntary re-settlement policy which uses community development programs to find opportunities for adding value to the Bank’s investment. This procedure is not without controversy.

**Safety of dams**

Similarly on the guidelines side, application principles have changed. When the safety of dams guidelines were first developed, they were developed solely for the purpose of ensuring that hydropower and irrigation dams were safe and would not break; thereby ensuring there would be no loss of human life and economic dislocation downstream. In 1999, the guidelines were broadened to include tailings dams, and other types of dams in the thermo power sector.

**Guidelines for the extractive sectors**

Guidelines have been developed specific to extractive industries – eg, the pollution prevention handbook, the core mining and production guidelines, and onshore gas development. IFC has interim guidelines for all of offshore gas development, underground mining, and open cast mining. A set of guidelines for mining precious metals is under preparation, but is awaiting the outcome of the EIR process. The question is: should the guidelines reflect ‘best practice’ or should they follow the traditional Bank approach, which accommodates various
requirements making it relatively easy for a country to embrace as a standard. It would be interesting if the EIR could make a recommendation on the role of the Bank Group.

The Bank’s ‘exclusion list’ excludes, for instance, any involvement in the production and trade of radioactive materials, so there never has been any involvement in a uranium mine. The suggestion came up in Bali to exclude all mines.

In the World Bank Group, MIGA and IFC apply the safeguard policies; and they are applied differently, depending upon who is the client is. For the most part, Bank staff has determined safeguard requirements, interpretation, and application, on a project-by-project basis. That practice in itself has been controversial for several reasons: one is the subjectivity of the safeguard policies; and secondly, a number of projects didn't turn out the way they were expected to. Within the Bank there are internal instruments for dealing with controversy: the Inspection Panel, a kind of a legalistic mechanism, deals almost entirely with the projects and staff compliance with provisions within the safeguard policies. IFC and MIGA use a different instrument - the CAO Compliance Advisor and Ombudsman Office. The ombudsman component deals with problems on the ground, so that if somebody feels impaired by a bank investment, then there is recourse through the CAO Office.

In concluding the presentation, the presenter stressed that there are different requirements within the Bank regarding how a safeguard policy is complied with, whether it's a guideline or not, and whether it might remain in the future. Safeguard policies are evolving, and opinions vary on how they should be applied and if they should be broader or collapsed.

Discussion

From the Mining Industry Federation in Morocco there was a question about if more stringent environmental and social guidelines resulted in IFC reducing its involvement in the oil, gas and mining sectors. The response was a categorical ‘no’, that borrowers have not been put off as IFC has increased its requirements.

From Tunisian civil society a question arose about the ongoing debate within the Bank regarding the application of social and environmental guidelines, and how projects are categorized. The response was that there is no set of rules in the Bank Group on how you arrive at the categorization of A, B or C. There is a threshold, where if impacts are significant and irreversible, then the project falls into category ‘A’, and that generates studies on the environmental and social front to ensure that proper avoidance and mitigation are put in place. There may or may not be site visits; it varies from project to project, and there’s no standard ‘cookie cutter’ approach. The key social issue is how do investments in the extractive industries trickle down to alleviate poverty. Good practice is focusing on developing baseline indicators on poverty and working with these throughout the life of the project.

A question was raised about safeguard policies concerning coal mining projects, and if IFC has plans to phase out the use of coal within the next 5 to 10 years. The Bank does have a guideline on coal mining, but it doesn’t include CO2 emissions. Perhaps the Bank should
have a carbon strategy, which might alter the current perspective on coal mining. It is likely that a recommendation will come out of the EI Review.

**MENA Program**

The World Bank Group Sector Manager for Water and Energy in MENA spoke about the challenges for development in the region. Overall, the lending program for extractive industries is very limited in the MENA region. So the Bank is involved in extractive industries through other dimensions of economic impact. The general economic challenge that the region currently is facing is very serious and the extractive sector plays a very important role in the changes that are taking place.

GDP per capita growth in the MENA region is projected to be only around 1%. This is in contrast to the actual demographic trends in the region and the need for creating new jobs to absorb a very large and young population, which is far greater in the MENA region than in other regions. The rate of unemployment is 15%; for young people it is 53%. In addition, the region is still going through a demographic transition; the fairly high fertility rate means that the problem is likely to continue for 15 to 20 years. In the next 10 years, the region would have to create 50 million new jobs just to absorb new-comers to the labour market, which doesn’t include those currently unemployed. This challenge is the single highest sustained labor pressure that any region has ever met in history. So, it is a very substantial problem.

Worker productivity in the region has also declined over the past 15 years. And the capital investment per worker has decreased drastically. So, what is happening is more workers looking for jobs, low productivity, and low investment per worker.

Most countries are struggling with some level of fiscal imbalance - between 5 and 10% for most of them - which is considered very difficult to sustain. The region needs more foreign direct investment and the international aid frame has been decreasing as well. The proportion of government employment in the overall labor force is highest in this region - 1 in 5 jobs is in the public sector. The MENA region is highly exposed to political conflicts, with the highest level of violent conflicts in the world.

**Paradox of plenty**

The region is characterized by paradoxes related to the extractive sector:

- the region is extremely resource rich but this wealth has not been converted into growth, employment and security for most people;

- the energy needs of the poorest are not always met, yet the system of subsidy flows mostly benefits the rich;

- sector reform is essential to mobilize future investments, but the region is lagging behind on sector reform; and
- governance structure is central to ensure that extractive industry revenues trickle down to the poorest, but there is a serious gap in governance in the MENA region in comparison with the rest of the world.

Four major reports are being prepared to substantiate the reality of the above assertions, by finding measurable indicators to create benchmarks and compare the performance of this region with other regions. One report is on trade and growth, another is on employment, another is on gender and the role of women in the economy, and one is on governance.

The region is resource-rich. It has 2/3 of the reserves of oil and gas and 1/3 of the production. Countries could use that wealth to diversify their economies, to increase their industrial strength, and to move into the service sector. In practice, if you look at non-oil exports it is clear that the economy is not sufficiently diversified; oil and gas wealth is not being used to move to other forms of income generation, and oil and gas revenues per capita are falling sharply in the region.

In comparing regional budget deficits, MENA’s is the highest showing that the more oil, the higher the budget deficit, which means that if you have an easy oil windfall, you have poor fiscal and macro policies. Sector reform is essential to attract investment and generate wealth. Taking the example of both the energy and power sectors, oil and gas, upstream and downstream, most countries, with the exception of Jordan, are only in preliminary stages of reform.

Access to power reaches 90% of the population, but the 10% not connected are the poorest. Energy subsidies are high, running at 10% of GDP in some countries, which means that the better off are benefiting most. Tariff structures mean that large users benefit more from subsidies.

It’s obvious that there is a massive challenge and an urgent need for reform. The current growth model is clearly unsustainable, as it will be unable to respond to the demographic pressure and the need for additional labour and jobs. MENA needs a new model for development, increased integration into the world economy, economic diversification, 50 million new jobs over the next 10 years, increased flows of investments, better macro and fiscal management, sustainable resource management, and better governance to make sure that the sharing process over these resources happens in a way which is beneficial to most.

**A new strategy in the region**

The new strategy of the World Bank in the MENA region since a year ago is based on 5 key pillars – the priorities of all Bank interventions in the region:

- Private sector development and employment creation;
- Public sector efficiency and governance;
- Education for a global world;
- Gender; and
- Sustainable development of water resources.

There are 12 countries that potentially are borrowers and 6 that are potential users of advisory services. Extractive industries receive only $84 million out of a total budget of $5.5 billion annually.

In Algeria there is an energy and mining project which focuses on institutional and policy dimensions in power, mining, and oil and gas. In Saudi Arabia, the Bank has a technical assistance and partnership initiative for gas flaring and mining. In Morocco, MIGA is providing workshops and technical assistance. The overall thrust of involvement is in activities more related to policy, knowledge, information exchange, than providing financial services. The quality of the investment climate is an important element – i.e., revenue management, and macro, fiscal and trade policies. Environmental management is a cross-cutting theme that the Bank sees as important at the sector level, as well as at the macro level.

The speaker concluded by inviting comments and suggestions on what the Bank currently is doing and what may be missing from its portfolio.

Discussion

A spokesperson from the Secretary of State for Energy and Industry from Tunisia expressed concern over the lack of recent statistics in the presentation, and felt that the Bank was not in touch with the current situation in countries in the region. In Tunisia, they have diversified their economy, completed their reforms, and are now starting to work on institutional aspects. The Bank is invited to come and see where things stand today.

The Director General of the Ministry of Energy and Water in Lebanon complemented the Bank for their support for institutional reforms in the water and energy sector.

A speaker from a civil society organization in Jordan asked how the Bank can ensure poverty alleviation in the region. GDP statistics do not show the actual impacts of projects the Bank is involved in. The Bank spokesperson responded by agreeing with the comment and mentioning that every 3 years the Bank does a poverty assessment in every country they work in. From this they gain a very good, detailed understanding of the nature and reality of poverty on the ground.

A comment was made that there was no mention of the political factors which have influenced conditions in the region – the Iran-Iraq war, the Israeli-Arab conflict, the Gulf War, etc. Another participant (Jordan) agreed and added that the image of the Bank was not good and wondered what was being done to improve it. A participant from Egypt, from the National Association of Human Rights and Human Development, asked what solutions the Bank is proposing to combat the various problems, beyond the list of 5 strategies. Another participant asked if the Bank had analyzed its own performance and assessed why it had been unable to achieve its goals for various countries.
The Bank representative emphasized that the data presented were regional averages, and it is in the country studies that individual typologies come out. It is very difficult to provide standard solutions for the very broad issues that were presented. Also the Bank is limited in its engagement by what countries ask it to do. Moreover, it is up to the country to set and drive its own policies and strategies. The Bank can be a partner with government in exchanging knowledge and in conducting research.

**Independent Evaluation Process**

*The Office of the Compliance Advisor/Ombudsman (CAO)*

The Senior Specialist Compliance from the office of Compliance Advisor/Ombudsman (CAO) started his presentation with a brief overview of a recent report which looks at the extent to which IFC and MIGA have started to consider the broader relevance of sustainability to the extractive sectors in their investment projects. The report was requested by the management of IFC as a contribution to the EIR.

The CAO Senior Specialist next described the CAO office as the independent accountability mechanism for the two private sector arms of the World Bank Group, IFC and MIGA. Communities in the vicinity of IFC or MIGA field projects that have been affected either socially or environmentally as a consequence of a project, have the opportunity to register their concerns to the CAO office in the form of a complaint, which we will be considered and taken forward. CAO is accountable to those communities, as well as to the President of the WBG. The office is focused on finding solutions and solving problems on the ground: it is not interested in finding scapegoats.

The office has three functions: compliance, advisory, and ombudsman. Activities are transparent, participatory, and when necessary, also confidential. On the first function, the ombudsman, there could be different grounds for complaint, such as: project planning or implementation may be questionable; the social or environmental impact of the project may not be adequately mitigated; or affected communities may not have been properly involved during project preparation.

Once a complaint is lodged with the office, its legitimacy is determined - do the people who launched the complaint have a legitimate interest in the project, are they directly affected. Having done that, there would be an assessment, which might involve one of several processes:

- it might lead to dialogue towards mutually acceptable solutions; or
- it might lead to mediation or some form of arrangements on remedial action.

The second function, the compliance role, concerns material compliance. The social and environmental outcome on the ground must be consistent with the Bank’s safeguard policy provisions and guidelines. CAO only responds to situations where there is evidence of adverse social and environmental outcomes.
The third role is the advisory function. Advice is derived from the lessons drawn from the ombudsman and compliance functions, although the office does undertake some specific assignments, like the EIR or the review of IFC. The intention behind all the advice is to try to improve performance systematically across IFC and MIGA. A very crucial point is that CAO does not give project-specific advice, the logic being that it might potentially undermine objectivity and impartiality if we were later to receive a complaint on that project.

The report on IFC and MIGA was a snapshot look at projects, with a balance between oil and gas and mining, and a very broad geographic spread. In addition, the office only looked at projects that started after IFC adopted its safeguard policies and guidelines, and after MIGA adopted its environmental assessment policy and procedures – ie, projects started after July 1999.

The focus was on broad sustainability issues of relevance to the extractive sectors - to what extent were those dealt with during project planning and implementation. The methodology that was adopted holds all the projects to very high standards. Many of the criteria are considered to be at the leading edge of the sustainability debate, and quite a few went beyond the safeguard policies of IFC and MIGA. Just as the EIR is not constrained by the policy framework within the World Bank Group, the CAO wanted to look a little bit beyond that as well.

The basic approach looked at a total of 52 sustainability issues, grouped under the three broad pillars of sustainability: environmental responsibility, social responsibility, and the economic and governance dimensions. Both mandatory and non-mandatory criteria were looked at. On balance, the performance for the mandatory criteria was pretty good, while the score for the non-mandatory criteria was remarkably lower.

The environmental dimension included: natural habitat, air quality, water and hydrology, hazardous materials. The social dimension included issues on resettlement, land rights and indigenous people, public involvement, community development and conflicts in human rights. The economic and governance dimension included: revenue management, corruption and political instability, and economic aspects like links to the local economy through procurement, employment and basic infrastructure close to the project.

Based on the assessment, IFC, and to a lesser extent MIGA, are set to go beyond the basic requirements associated with the policies and guidelines for sustainability. The basic findings were:

- There still is some scope for improvement on environmental and social dimensions of sustainability.
- Encouragingly, some non-mandatory criteria were treated fairly comprehensively in each sustainability dimension.
- Recommend IFC & MIGA to reinforce existing guidance to encompass a wider set of sustainability concerns.
- As the sustainability agenda is evolving, a flexible approach to introducing revisions should be adopted.

- Sustainability innovations are emerging, but ad hoc. Recommend IFC/MIGA develop mechanisms to buy down incremental cost of ‘higher risk’ innovations.

The speaker made the following comments on the economic and governance aspects:

- Economic and governance aspects scored lowest, but all these criteria are non-mandatory: there is significant scope for improvement.

- Recommend IFC reports on steps taken to mitigate adverse impacts and enhance revenue management and distribution for high-impact projects.

- Recommend higher level of disclosure by IFC/MIGA on rationale for supporting other projects, and closer collaboration with World Bank on operational instruments.

Discussion

The first question came from an industry participant about how to mainstream safeguard policies into a value-added approach, and within the Bank to systematize it without getting bogged down in bureaucracy and procedures. The CAO representative commented that the Bank Group as a whole is very capable of dealing with complexity. But when dealing with value-added activities, one must be very careful not to go down the compliance route, as it runs the risk of undermining creativity and the ability to do very good work. The compliance side of the CAO Office is very careful to not stray into looking at value-added activities. Some of the issues in the non-mandatory basket do lend themselves to systematization, to a more rigorous and consistent approach across all projects, and those could be integrated into safeguard policies and environmental guidelines.

A professor from King Fahd University of Petroleum and Minerals expressed his appreciation for the CAO office, but would like to see some analysis or evaluation of MENA countries regarding environmental and social dimensions, and governance issues. He also asked if the evaluation and advice they provide is binding. The CAO representative replied that there were no projects from their study in the MENA region, and there’s no sector specific information on the region. Regarding the second question, the advice can be accepted or ignored, it’s not binding. However, experience has proven that the institution has been willing to respond to CAO’s advice. In particular, MIGA clients generally have welcomed intervention and participation in follow-up processes. On the ombudsman function, if there has been a clear breach of compliance with policies or guidelines, then there is an institutional responsibility to respond and to put things right. However, some of the guidelines are very specific, and others are open to interpretation, so it will be a judgement call for the institution. There is a further check which is that the CAO office is obliged to provide full disclosure, so if the institution chooses not to follow the recommendation, civil society could goad them into accountability.

In response to a query about how to contact the CAO office, they are working on building much broader awareness of the facility, with MIGA and IFC providing upfront information so that communities will be aware of the CAO at an early stage. The office only accepts
complaints from people who are directly affected and who have a material interest in the project. So complaints are accepted from communities, but could also come from an NGO acting on behalf of the community.

A Jordanian participant raised the question if the CAO gets involved in ranking projects that apply for loans or grants from the World Bank. The response was that they don't get involved when a project is being considered for approval – that’s the work of the Environment and Social Department. The World Bank has the Inspection Panel to provide a similar service. Another Jordanian participant had tried to raise a complaint with the CAO but was refused because they did not represent the community at the project site. He asked if IFC and other institutions could make a point of informing local communities about the CAO. The CAO office is working to get better acknowledgement of their existence and function. Apparently the complaint mentioned that was initially turned down was accepted later, when the connection with the community was made clear.

4. Civil Society Testimonials

**Jordan Society for Sustainable Development**

*Background*

The Executive Director of the Jordan Society for Sustainable Development described the experience of phosphate extraction in Jordan, a technical assistance project of the World Bank. Phosphate extraction started in the early 50s in Rossayfa, a small Jordanian town 20 km northeast of the capital, Amman. Rossayfa was a recreational park for the 2 biggest towns, Amman and Zarka. The extraction operation now has expanded to completely occupy the entire eastern part of the town. The government expects that reserves to be depleted in 2006.

Until the early 60s Rossayfa was the biggest phosphate mine in Jordan. After that, a huge deposit was discovered in the south in the eastern desert in Wadi Lhassa (Lhassa Valley) which is a unique desert ecosystem. A rare species, the Syrian ostrich, was found there but became extinct after the early 60s. Another phosphate deposit close to the Saudi border was opened in the early 80s in an area called Alshidya Mines - the area became heavily devastated by the mining.

*World Bank becomes Involved*

The World Bank first became involved in the phosphate mining at Lhassa in the 80s. In 1988, the Bank provided a loan for the phosphate mining company to start extracting in the area of Alshidya, and within 10 years, the mining company had a loss of $128 million. During this time phosphate mining did not exceed 5% of GDP.

In 2000, the World Bank started to reform the structure of the phosphate mining company. The expectation was that the loss will be decreased within a few years. In the process 1300 workers were forced to take early retirement.
The key question is: why hasn’t the World Bank involvement resulted in sustainable development and poverty alleviation? Why is there such a large loss and why are 1300 families now without a source of regular income? As well there has been widespread environmental devastation. This is the result of World Bank policies. Why not support development of the IT sector which is less than 10 years old and now contributes 20% to total government revenues? There are other sectors that are being neglected that could also bring about more sustainable economic development and decrease poverty.

Additional comment

A Jordanian participant added that the value-added from the mining sector is negligible. There is no significant processing industry, which means that mining depletes resources without improving economic development and the structure of the country. There now is another project in Jordan called Silica, sponsored by IFC, which exports silica from Jordan without any significant processing of silica that could contribute to helping the country overcome its financial problems.

Water and Development Organization, Palestine

The Director of the Water and Environment Development Organization spoke about his experience with the World Bank and other lending institutions.

After 1993, development assistance came to Palestine, much of it as loans, which is looked upon as another form of occupation. Today, everything has collapsed in Palestine, and there is no way to pay the interest or to get the intended benefits. It is astonishing to hear that the World Bank does not support local investors. It supports outside investors, a type of colonization that is much worse, because it is very difficult to get rid of, and it makes future generations suffer the consequences of the loans.

Governments may not actually represent the people in developing countries, so the public is often not aware of what obligations the government may take on. Some loans may be used to enable the government or the regime to stay in power as long as possible. After World Bank intervention there appears to be no improvement, and sometimes things are worse off. The currency becomes devaluated, taxes are increased, and the public is unaware of the arrangements between their government, the World Bank and other lenders. These actions may increases instability in these countries.

Another problem specific to Palestine is the consequences of Intifada, where loans were taken out and the project work ceases, but interest on the loans continues to be calculated. Recently, gas was discovered in Gaza; there are hopes that there also will be oil, and that the standard of living will become like that in developed countries. The concern is that the people will suffer and all the money will go mainly to the investors.

The Palestinians hope for a better future, but suddenly everything can just disappear. Instead of getting the benefits, bulldozers destroy the infrastructure. Who is going to pay for this? It’s
the coming generation, whereas the lenders remain unaffected. Most of the developing countries have paid larger amounts than the loans they receive, and they are struggling to pay the interest for these loans. And there is no way to get out of it.

It would be good to see just one developing country, with loans from the WB or other lenders, that managed to change from a developing to a developed country. All the time it is the opposite.

Where do oil, gas and mining industries stand with sustainable development? Mining has a dramatic impact on the environment: natural resources, land, forests, water resources, to the oceans, to the fish, to everything.

However, this does not mean we should not try to get loans if it really serves the public interests. But the public should be approached from the earliest stages, because they are going to pay the taxes. So the government has to be made accountable for their actions and decisions. People should be able to take their government to task for their unfulfilled promises.

The World Bank and developed countries are fighting for human rights in developing countries. But when they give these loans, where does the human rights issue stand? There are many countries in the MENA region that do not allow NGO’s – how can you support such a country when no one can express their beliefs about essential issues?

All projects have environmental impact assessment, but who does the assessment? It's the government and the WB. And the results are well known. Even if it was a really deep study and reflects all the consequences and the recommendations of mitigation measures, who is going to ensure its implementation? It's just a good report that is put on the shelf in a certain ministry. When it comes to implementation, the driving force is how much revenue the investor will get out of the project.

It would be better to work very closely with civil society groups that are working with the government, because these are the people who will pay for the loans. Third parties should be involved in preparing for and overseeing the environmental impact assessment. If the government is not using the loans for the right purpose, they can inform the World Bank if there is any mismanagement.

The World Bank should give more money toward renewable energy resources. The MENA region is well known for its solar energy, which is a sustainable resource that can serve the interests of the people, rather than a group of investors. Palestine with its small geographic area, and with a lot of communities scattered here and there, should not always consider a centralized system. There are other systems that can better serve these communities, and the people can feel the benefits rather than the burden of taxes and the loans to be repaid.

When the Bank gives loans, they should insist that that the loans are invested in the best possible way. If the Bank has the power to interfere with government policy to devaluate currency and increase taxes, then they can use the same power to ensure that the resources they provide are used for the right purpose as planned.
Discussion

A participant from Jordan asked why renewable energy projects are funded through the GEF, and why the level of funds is only sufficient for an experiment. Would it not be better to have more money to invest up front, so that the results can be used by the public as an alternative energy source and not remain just at the experimental level? In the long run, because it’s renewable energy, it would cost much less than using fossil fuel or gas.

Another participant from Jordan recommended that the World Bank should not work directly with civic organizations, because in the Third World, when civil societies and civic organizations work directly with international or foreign organizations, it is not very welcomed politically. An EIR researcher suggested it was important to strengthen civil society so they could function without outside influence.

A clarification was made regarding funds for Palestine; the Bank is not lending money in Palestine, everything is provided on a grant basis. This is the only exception in the region, as all other countries receive loans. The standards for lending are high; the Bank takes very seriously issues such as impact, financial management, and appropriate use to benefit the poor and the public.

Association for the Protection of Nature and the Environment, Tunisia

The President of the Association for the Protection of Nature and the Environment from Tunisia spoke about an oil extraction project in Tunisia. The association has been interested in the environmental impacts of oil activity in the country and conducted a small GEF-funded study that provided some insight into offshore oil operations, and enabled them to draw up a set of guidelines for government legislation on offshore drilling. Although there is legislation requiring impact studies for all aspects of oil exploitation, company operations, some of which were encouraged or financed by the World Bank, do not meet the real needs for environmental protection.

The company AMINEX is operating in a highly sensitive area where 90% of Tunisia’s shrimp production takes place. In this area the waters are only 5 to 10 meters deep and there is very little current flowing, so any pollution is likely to remain in the area and not settle further offshore. The Mediterranean provides nearly 30% of Tunisia’s protein resources, therefore it’s quite critical that oil operations exercise extreme precaution. One of the concerns is the type of drilling mud being used, which contains locally-produced barite that is high in lead. The impact study suggests that when the used mud is dumped into the ocean it will not create any problems. This type of conclusion raises questions about the reliability of the study, and makes it appear as if the World Bank accepts these impact studies without question to justify its compliance with the project. It seems that the classification process is more subjective than objective, and is not carried out very carefully.

There were also plans to build a pipeline, and it was stated that the pipeline would not pose an obstacle to fishing stocks. Marathon, an American company, was said to have the expertise to
deal with an eventual oil spill. However, in the contingency plan it only proposed a technical solution, whereas in reality if an oil spill should take place, it requires substantial public involvement. NGOs could play a significant role in organizing local people. But it seems there are no NGOs involved in this contingency plan.

The World Bank needs to be more critical with environmental practice, and more straight with civil society. It should follow a code of practice, based on well-established scientific criteria, and make environmental protection a daily reality observed by all components of the World Bank. Are the problems in the region solely the responsibility of our governments, or does the World Bank have some responsibility? For example, Tunisia has complied with all the IMF's recommendations, but still is in a bad situation. Is it the only one at fault or were the World Bank’s recommendations wrong? We would like to suggest the World Bank revises its methodology, and works hand-in-hand with civil society, because that way can guarantee success. NGOs can succeed where others did not.

The World Bank should set up an institution where complaints against the World Bank can be filed, and create its own ombudsman which you can go to when you have something to reproach the World Bank for.

Discussion
From Morocco came a suggestion that if a World Bank-supported project fails, then the loan should be cancelled. The Bank should be congratulated for projects that have led to the well-being of citizens, but it should be reprimanded for projects that did not achieve their predetermined objectives.

National Association of Human Rights, Egypt

This speaker from the National Association of Human Rights in Egypt expressed his concern that Arab citizens in the region are besieged by two gods – the greater one of the World Bank that dictates the fates of people by deciding who should get grants and who shouldn’t, and the lesser one of national governments that exploit and extinguish the wealth and resources of their countries, and govern by controlling or terrorizing their people.

Natural resources are the legitimate property of the people, but where do the people stand in the equation between the World Bank, governments and the private business sector. Do Palestinian people have a say in what are the best projects for them? What projects will insure a fair realization of their needs? Were people consulted in the agreements between the World Bank and the government of Jordan, regarding projects for phosphate exploitation?

The people are ruled by governments which allow no room for real elections. Final decisions about any agreements or contracts should be made by the elected members of parliament. But are there real parliaments? Are there real elections? Is there any legislation that protects citizens and guarantees rights? Indeed, we are undergoing a very bad situation. Are there any real unions able to voice their opinions about various decisions? Are there real political parties in each country? Existing legislation binds political parties and controls the existence of organizations that may act as a representative of the people. Most NGOs in the region are
virtual entities, subject to threats of disappearance. The most prevalent kind of organization is the governmental non-governmental organization.

What criteria does the World Bank use in deciding the extent to which a given project or contract is the result of popular consultation or a consensus between civil society, the private sector and government, and how does it decide that a project really is beneficial to the country concerned?

A number of governments have set up corruption mechanisms with business people in the region and have developed a trade in corruption. States are able to produce investors and businessmen in the same way they fabricate associations and NGOs. Donations are allocated to fabricated names, behind which are government people who benefit from these operations and projects. This is the real problem. Is the World Bank concerned with these issues, and is it ready to confront these problems and the corrupt and dictatorial regimes responsible?

The key questions to ask are:

- Do the loans and grants given by the World Bank really get to the people who are supposed to benefit from them?
- Do they really serve the purpose of poverty alleviation and eradication?
- Do they promote resource development or will future generations pay the price of a corrupt organisation and decisions made by those that rule and initiate policies made by people in the World Bank, who fail to understand our real interests?
- Is the problem only because of studies carried out by technocrats and employees who get lavish salaries from the Bank, and who decide what projects are good for countries?

How reliable are all the academic studies, and the data and models that are presented? People are denied simple, essential information, and are deprived of their right to be informed. Governments often provide lies and false information to deceive the people. Information is not readily available from institutions like the World Bank; they do not practice transparency with the very people they claim to serve. Why, then, should people trust the World Bank? They don’t even trust their own governments. Therefore, there is not enough emphasis on human rights, or on the role of democracy in preserving these rights, nor on popular participation in decision-making, nor on providing information to the people concerned. However genuine your purposes may be, you and our governments are on one side, and the people are on the other.

Discussion

A Saudi participant asked the World Bank to share the feedback they have so far from different regions on their future role in extractive industries, and what they could do to enhance economic and sustainable development and poverty eradication. What are the Bank’s strengths, weaknesses, the opportunities and risks? People are very aware of the problems in the region, but they need solutions and would like the World Bank’s help. The major issue is mismanagement of resources. The World Bank has a lot of experience in this, and should
share their expertise. The Bank did very well in Chad, by establishing trust funds for the oil industry. Why not establish trust funds in this region? Why not help governments hedge their revenues against oil price fluctuations, to protect future generations? Why don’t oil companies publicly announce their transactions so people know how much revenue their governments receive?

Why is there a problem with resource management? There are lots of resources, lots of money comes from oil, and yet it’s a lousy job. There is a high correlation between backwardness and how much money comes from oil and gas. Why is this so? Are Arabs or people from the Middle East programmed differently from other races? Solutions are needed for these problems, and it’s part of the World Bank’s responsibility to help.

A participant from Palestine asked two questions: What is the process of lending? What will happen if a country refuses to pay back their outstanding loans?

A participant from Tunisia stressed the importance of involving civil society at all stages of project definition and execution in Bank-financed projects. Also, women should be taking part in these projects. Renewable energy use should be explored as it can enable economic development to take place, and reduce the cost of energy.

Another comment was that it is essential that international corporations abide by international law and assume responsibility towards people. They should act in a transparent way and abide by international requirements concerning the environment, natural resource use, civil society and indigenous people.

On the question of the process of lending, there is agreement between the Bank and the government on the ‘Country Assistance Strategy’ (CAS) - a strategy document updated every three years through consultation with civil society and the government. The strategy states what the Bank will be involved in and what it won’t be involved in. The consultation for the CAS provides civil society a chance to express their views on what is most important in the eyes of the citizens. The Bank can only work in areas where the government makes a decision that it wants the Bank’s assistance. So, requests for lending come from the government, usually either the Ministry of Finance or the Ministry of Planning. They decide if the country will borrow for primary education or for renewable energy or if it will enter into agreement on sectoral reforms. Government sets the priorities. The Bank’s role is in terms of advocacy. Where there is a lot of evidence that something will have a development impact, the Bank brings it into the dialogue – eg, the gender dimension, primary education, renewable energy.

If a country does not pay its arrears to the Bank, an extremely rare occurrence because it is very costly for a country to take that step, the Bank will not get involved again in the country concerned. If it comes back ten or twenty years later, the first thing it has to do is pay arrears. The Bank does not write off arrears, unless there is a process like the one that cancelled debt in the poor countries of sub-Saharan Africa.

Concerning the issue of governance, there is nothing inherent to the people in the region. The difficulties relating to oil and gas are the same all over the world. There is an unfortunate
correlation between major oil and gas and mining wealth and the performance of the economy. It’s very difficult to maintain good governance because revenue flows are very erratic, making government expenditure programs very volatile. This makes it extremely difficult to run the economy.

Corruption is another problem. The very large amounts earned in the oil and gas sector are an enormous temptation to people who don’t have the interest of society in mind. There are also technical problems, such as the ‘Dutch disease’: when major revenues come in, you may have a rapid depreciation of the exchange rate, which tends to make non-oil businesses non-competitive. Having started out dependant on oil, gas and mining, the country becomes increasingly dependent on that one resource, and diversification is threatened. For example, the kind of diversification being sought after in Morocco and Tunisia, are encouraging but very difficult to maintain.

Those are the main problems. In order to deal with them, one thing that helps is having transparency. How much money is actually coming in so that civil society and other interested parties can look at how it is used and see if it is responsibly managed? The Bank can help with capacity-building in the government sectors, and in managing and building reasonable expenditure programs. The Bank also has helped with anti-corruption campaigns at local and global levels.

Although the Bank can’t interfere in the development of democratic processes in the country concerned, it at least can make a very clear statement on issues such as transparency and the inclusion of civil society. These are important elements in the Country Assistance Strategy and are a core part of the Bank’s dialogue with different countries. The Bank supports the ‘Extractive Industries Transparency Initiative’ which takes a much clearer stance on many of these issues.

Regarding transparency in the Bank, and making information available to countries in the region, a lot of material on what the Bank is doing with other countries in different areas is available through the Public Information Centers of the Bank. Very detailed descriptions of different projects or programs are all made public.

To make companies act in a more transparent way, there is a campaign largely led by civil society called ‘Publish What You Pay’ that asks companies to make public what they pay to government. A level playing field is needed for this initiative to work – to be fair, all companies have to disclose their payments. To begin with it may mean publishing an aggregate figure.

**Final Statement on Behalf of Civil Society**

The representative for civil society organisations expressed appreciation for the opportunity to speak on behalf of the other civil society participants. Civil society felt frustrated and unhappy about the current situation their people live in. Hopefully the Bank can address some of the issues on improving the environmental situation and alleviating poverty. The presence of private sector and government representatives is a good opportunity to have some
confrontation, some openness and transparency towards solving the energy problems and poverty problems that prevail in our countries.

Achieving transparency is an essential goal for everyone, and it should be a permanent condition. It is important for civil society, the private sector, governments and the World Bank to work together, and, in particular, to listen carefully to what civil society would like to accomplish in the future, because its ambition is to solve environmental problems, as well as to alleviate poverty in the region.

It would be helpful if governments would disclose their plans and their agendas, so that we could then begin to cooperate and work together. The EIR process should lead us toward a higher degree of cooperation and achievement. The representative thanked the EIR secretariat for the opportunity to speak, and the government representatives for listening to their requests.
Part Two: Closed Consultation Session

5. Introduction

Introduction by the Eminent Person

Dr. Salim introduced the closed workshop sessions by reminding the participants of the origins of the Extractive Industries Review, arising from a request by civil society to the President of the World Bank to review the contribution that extractive industries make towards poverty alleviation through sustainable development, and in particular, assessing the role of the World Bank in supporting extractive industries. Sustainable development contains three major components – economic sustainability, environmental sustainability and social sustainability.

The Extractive Industries Review is not doing a scientific analysis, but instead is consulting with all stakeholders – civil society, business, government, academics, the World Bank Group - in all regions to review and discuss the activities of the World Bank in the field. The Bank has a clear set of goals, including the Millennium Development Goals, but what is the reality in achieving the goals through project implementation in each country. Have 20% of the poor been lifted out of poverty? How is the Country Assistance Strategy? How is the coordination between the different parts of the Bank – IBRD, IFC, MIGA and IDA?

The MENA region has not been able to alleviate itself out of the poverty trap, yet it has rich extractive resources. There are not many Bank-supported projects in extractive industries in the 20 countries in the region. The consultation will look at 5 key issues in the region: governance, poverty alleviation and employment generation, economic diversification through value-added initiatives, the environment – renewable energy, pollution and climate change, and private-public sector led development. Structural adjustment questions will also be addressed.

Dr. Salim suggested that the selected topics are not exhaustive; participants should use them as a tool to come up with new issues specific to MENA. The EIR wants to find out the special niche for this region. What are the new, unique or specific problems that the World Bank should be involved in, and does the Bank need a different approach for this region? Recommendations should be realistic and practical; development should benefit the people, but specifically how, where, when and how. What can the World Bank do in the Middle East and North Africa that generates action and solves problems? How should it change the way it works – internally and externally?

Dr. Salim urged the participants to speak frankly and feel free to openly criticize the Bank, because the objective is to get to the bottom of the issues and to finish this consultation with a clear set of recommendations for what the Bank needs to do to improve the situation in the Middle East and North Africa.
Opening Speech by the Minister of Energy and Mining of Morocco

After welcoming the participants and thanking the EIR, the Moroccan Minister of Energy and Mining expressed his belief that the event would give new impetus to sustainable development in the region and spotlight investment opportunities in energy and mining.

The Minister then described the key steps the government is taking to meet development objectives. These include strengthening institutional capacity, promoting access to water and energy resources, and integrating environmental issues in national planning. One of their greatest challenges is to help the most deprived social classes achieve economic growth and poverty reduction, within a framework of environmental protection and conservation.

The government has taken steps to establish a favorable climate for private investment, including optimizing market consolidation within the region. An example of this is the extensive system of oil and gas pipelines, and expansion of the regional electrical grid. In addition North African countries have implemented major reforms that are intended to increase competition and promote the flow of investments within the energy sector.

Morocco’s energy strategy contains six major elements:
- security of procurement under all circumstances;
- energy at the best cost;
- making energy accessible to the whole population;
- protecting the environment, control, and technical security;
- developing energy observation and energy prospecting; and
- liberalizing markets and restructuring energy industries.

The government has made studies on upgrading the refining industry, procurement, and how to configure the electricity sector to service both industry and households. Oil exploration policy is focusing on promoting investments and developing sedimentary basins with international oil companies along the 3,500 km coastline. The country currently is expanding its gas pipeline to Europe, and in 2005 will start exploiting its natural gas resources for power generation.

Morocco has a long tradition of mining, and today the sector contributes 7% to the GDP and 19% to the value of exports. Mining also has an impact on regional development, particularly in terms of employment as well as economic and socio-educational infrastructure. At regional level the mining sector creates basic infrastructure - roads, drinking water systems, expansion of electricity and communication networks, mining towns and socio-educational centers.

It holds three quarters of the world's phosphate resources, and is the third largest global producer, as well as its leading exporter.
The country is implementing a new, more consistent minerals strategy that balances the roles of the private and public sectors, and gives new impetus to developing and promoting the sector. The new strategy focuses on the following:

- optimizing mining exploration through greater involvement of the private sector;
- adapting the legislative and regulatory framework to the new requirements of integrated development and globalization by providing incentives, easing administrative procedures, and improving the quality of government services;
- transforming mining know-how into a source of growth through the exchange of experts and strategists; and
- improving industry profitability by providing incentives to spur research and development.

Other initiatives include ongoing drafting of the national geological map, public administrative and enterprise reform, and modernizing the mining code. The country continues to pursue more open markets and seeks opportunities for regional integration and complementary relationships.

Discussion

A Jordanian participant asked about revenue management in the mining sector, if there is a fund or a mechanism to collect and distribute some of the resource revenues directly to poverty alleviation, for small-scale economic projects, to improve health conditions, etc. Also, could part of the revenue be used for restoring ecosystems damaged by mining activities? The Minister replied that part of the revenues collected, does benefit the population, and that there are codes in effect since 1951 governing the rehabilitation of soils. They are currently updating the code, and each operator has to have an environmental impact assessment and an environmental management plan.

6. Case Studies

Over the course of the consultation a series of regional case studies was presented by different speakers.

Poverty Alleviation

Saudi Arabia government perspective

A representative from the Saudi government, Ministry of Petroleum and Mineral Resources, spoke about how to use oil revenues to reduce the poverty phenomenon in Saudi Arabia. The speaker described the Kingdom of Saudi Arabia as one of the largest of the Arab countries, having about 2.2 million square kilometers of land and 22 million inhabitants. Most of Saudi Arabia is desert, inappropriate for agriculture and with scarce water resources. Arable land is also very limited. The economy of the country largely depends on oil, which accounts for 75% of the annual budget and for 40% of the GDP.
Two factors underpin poverty in Saudi Arabia:

- People with low or no qualifications at all, migrate from desert and rural areas on a massive scale yearly; and

- After the annual pilgrimage is over, some people stay illegally in Mecca and Medina, resulting in poverty pockets.

In general, the Saudi government has managed this problem by utilizing its oil income to fund a five-year program to upgrade and enhance the level of basic infrastructure and social services in the country. Education is free up to and including university. Under this program 226,000 schools were built, and the number of students rose from 30,000 to 4 million. 8 universities were built, 83 faculties opened, and various other specialized health and business training institutes established.

Social services include free medical care and medicine. 298 hospitals were built having 41,000 beds, and 3,254 health centers were opened in various urban and rural parts of the Kingdom. A 36,000 mile road network was built, with highways linking different regions of the country. 25 airports were established. Electrical stations and generators were installed, and desalination stations were built in the west and in Djeddah. All these services and infrastructure contributed to a better quality of life for the people and for greater prosperity. The government also set up several funds for poverty alleviation. The social security fund is one of these funds. Plots of lands were developed and given to needy people, along with free loans for housing. A number of settlements were built to house poorer people. Overall, a substantial proportion of oil revenues was devoted to developing basic infrastructure, and for building hospitals, schools and housing, to enhance people's quality of life.

**Discussion**

One of the participants commented that it was difficult to understand the reality of poverty in the richest country in the region. A participant from Jordan asked if the presence of NGOs in Saudi Arabia would encourage the government to improve the situation in terms of poverty alleviation.

A civil society participant from Egypt commented that if the royal family applied the Islamic principle of ‘zakat’ and donated one tenth of its wealth to the poor, poverty would be eradicated not only in Saudi Arabia but also in all Arab countries. This speaker recommended setting up joint projects which would greatly help the countries of the region and promote cooperation, instead of relying on imports of services and goods from western companies.

Another participant commented that the immigration situation in Saudi Arabia is a result of poverty, and that unequal distribution of wealth is one of the essential causes of poverty. The speaker requested information on the proportion of the population below the poverty line and the Saudi definition of ‘poverty line’.

A Jordanian participant asked if there are any development projects aiming specifically at alleviating poverty, and if there are any development projects linked to extractive industries.
which teach people how to rely on themselves to generate revenue? What is the contribution of the oil industry in development projects, excluding infrastructure projects?

The Saudi representative responded that regarding ‘zakat’ contributions, some people apply the principle literally and others do not. There is no specific measurement of the poverty line in Saudi Arabia, although there are poor people. The five year plan gives priority to ‘development’ aspects, emphasizing skill development, basic education, etc. In addition, there are development funds for the provision of loans to various small-scale industries. Poor areas are developed, particularly in urban centers, through welfare assistance.

The participant from Papua New Guinea asked if there were plans to privatize the mining sector, so that the development of these resources can be faster and bring more economic benefits, especially to alleviate poverty. The response was that the government is proceeding with privatization and mining projects are included.

From Bahrain a participant asked if there was any specific information that shows the percentage of industries in the GDP, as well as the proportion of religious tourism (pilgrimage) in relation to the country’s GDP. (These figures were not available.)

Another participant raised the question of what the reasons are behind poverty, and then asked about what important mineral resources are being developed for extraction. The Saudi representative reiterated that non-returnee pilgrims and internal immigration were the prime causes for poverty. Regarding mineral exploitation, no specific information was provided, although there are some projects undergoing study and development for exploitation.

**Governance**

**Algerian Technical Assistance Loan**

**Sonatrach overview**

The spokesperson from SONATRACH provided an overview of this 40 year old integrated Algerian oil and gas company which has production, transport, petrochemistry and marketing operations. SONATRACH is a national company with an annual turnover of $18 billion, which makes it an important component for Algeria’s economic development. It occupies a strategic geographical position close to African and European markets.

SONATRACH’s objectives are to provide raw materials for the country’s energy and industrial requirements, to develop local technological capabilities, and to contribute to the development of other related industries. The company brings in 90% of the country’s foreign exchange and provides raw materials for domestic needs. During the period 2003-2007, it plans to make investments in Algeria amounting to 23 billion dollars. As part of its contribution to national development, SONATRACH is involved in financing public infrastructure, such as an airport, a power station, etc.
Human resources at SONATRACH are highly qualified: the group has approximately 120,000 employees; 50,000 work directly for SONATRACH. It also has training centers and its own institute. It has substantial financial resources, expertise and recognized know-how for developing gas reservoirs, liquefaction, intercontinental transport structures, and upgrading its products. SONATRACH operates 86 fields through a large industrial infrastructure and has a 13,000 km transport network. It also has a portfolio of subsidiaries and shareholdings covering engineering, construction and oil and gas services.

Partnerships

SONATRACH has embarked on a policy of partnership with international oil and gas companies to respond to the changes affecting the world's hydrocarbon industry - the more difficult competition between the principal oil provinces; the need for more advanced and expensive technologies; the need to share financial and technical risks; and the significant capital needed to develop the upstream oil sector in Algeria. After implementing a law that defines the role of foreign oil companies in Algeria, over 60 production-sharing contracts have been signed between SONATRACH and 26 first-rank foreign partners. Since this move, Algeria has increased the number of strikes and has rebuilt its oil reserves. Over the last decade, the partnership extracted over $3 billion worth of reserves and made 56 strikes, including some giant deposits. This development trend will continue over the next five years (2002-2007).

SONATRACH also has launched a policy of international development to obtain further reserves abroad and to diversify sources of supply and marketing, while getting closer to large world markets. The 40 years experience and 15 years in partnerships will enable it to work on joint international projects. SONATRACH’s goal is to rise in the ranks of international oil and gas companies.

Social services

SONATRACH aims to provide all of its employees and their families with medical protection, to improve their living conditions, and to get them involved in cultural and sporting activities. As well, there is an educational program for children. To implement this program, SONATRACH’s social work division manages a multitude of medical centers in the north and the south of the country, in each industrial center. The centers perform consultations and provide other healthcare services. They also run 32 nursery schools for 2500 children. Following the May 21, 2003 earthquake, the company and its subsidiaries organized heavy equipment and personnel to rescue victims and help survivors. Tens of thousands of meals were distributed, and tents made available to the disaster victims.

Environmental protection

As part of the national energy policy, SONATRACH set up a program for recovering and upgrading associated gases, prior to the 1992 Rio Conference. The ratio of flared gas to associated gas has been lowered from 62% in 1980 to 12% in 2001. Any new facility has to install anti-pollution systems to minimize atmospheric emissions. Processing, mud pit,
drilling, and well abandonment procedures have also been put in place. The SONATRACH group also contributes to developing less polluting fuels, such as LPG, natural gas, and unleaded petrol. At central level there is a health, safety and environmental unit that covers all the company's operational activities.

**WBG technical assistance project**

A representative from the WBG’s regional office described the Technical Assistance project, which is aimed at supporting implementation of a new government policy in the energy and mining sectors. The Bank provided an energy and mining assistance loan of $80 million, which was approved in 2001.

The Bank supports the objectives of the government’s reform program in energy and mining, which are to: improve efficiency in the energy and mining sectors; secure adequate supplies; introduce competition; increase government revenues by developing the resources; address environmental concerns; promote efficient use of public resources; and protect public interests, alleviating the financial burden of energy and mining enterprises on public finance.

The Bank has agreed with the government on the principles that would apply in putting the policies into place, most of which has to do with good governance. Governance in this context means putting in place a legal and regulatory framework that promotes transparency, public accountability, and governance in the wider sense. The separation of the policy, regulatory and commercial functions is essential. At the moment, SONATRACH combines a number of these functions, and the distinction between what is government and what is SONATRACH is not always clear.

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

The government approved a new mining law in 2001, and an electricity law in 2002. A new hydrocarbon law has been drafted and made public on the website of the ministry; but at the moment, there does not appear to be a political consensus to get it passed, and it likely will be presented to parliament only after the 2004 elections. The Ministry has conducted a very public process, with many consultations amongst various stakeholders throughout the country. The regulatory agencies for electricity distribution and mining are being established, and the restructuring of the electricity and gas distribution utility, SONAGAZ, as well as the mining companies, is in progress.

The first independent power project, combined with some desalination projects, has just started construction. The government also recently adopted a national environmental action plan, and new environmental legislation is being prepared.
On the hydrocarbon side, the government is waiting for approval of the new law, but a lot of the technical preparation for new secondary legislation has already been completed. Conceptual design studies are in place for the new agencies: a contract management agency which will govern the whole process of attracting investments, especially on the upstream side; and a regulatory agency which will regulate a number of downstream activities. Further studies are well advanced on opening up the downstream sector of the hydrocarbon sector, including refining, transport, storage, and retail distribution of products.

**Mining sector**

A second speaker for the WBG explained that the main goal of the mining component of the technical assistance loan is to generate employment in remote rural areas by developing the sector. The sector will be opened up to national and foreign private investment, which the government believes will speed up the process of sector development. The public sector would mostly work on regulations, definition of regulations and implementation of these regulations, while production responsibilities and operations would be given more and more to the private sector.

The first task was to establish an appropriate legal and regulatory framework, and to define responsibilities clearly. Now, the main thrust is to develop and strengthen the government’s capacity to implement all the regulations and to monitor the sector. Transparent procedures will be established for some of the most important aspects of mining: one cornerstone is how to administer mining rights. A mining cadastre is being developed that is simple, transparent, and efficient. Another cornerstone is environmental licensing, which will be determined by an environmental impact assessment. It will stipulate guidelines on appropriate production methods, procedures for permitting and evaluation, etc. The government’s information sharing function is being worked on, and the project is supporting restructuring the state-owned mining companies.

**Results so far**

The mining code was approved by the National Assembly and passed by the government in July 2001. All the regulations have been prepared, developed and about 95% of them approved by the various government bodies. The institutional framework is in place. The Ministry of Energy and Mining has been divided into a general mining directorate, which is still in charge of designing policies and the regulatory framework, and two new autonomous agencies for sector management. Sufficient human and financial resources have been mobilized for the new agencies. One agency looks after mining rights, and the second one is responsible for monitoring sector performance: environmental monitoring, a mining inspectorate for health and safety, etc. A separate agency has been brought under the national umbrella - the Agence Nationale de la Géologie et du Contrôle Minier. A data base compilation and information sharing mechanism will be developed over the next two years.

The new procedures have established approximately 300 new mining titles - about 130 are new titles with new operators, and 170 are prospects that have been auctioned. They all are now in production. Most of the response has come from many small- and medium-scale
national enterprises, which are expected to have a strong effect on generating employment in the rural areas.

Investment promotion has resulted in foreign partners committing in the areas of iron, phosphate, and gold.

Discussion

A question was posed about the impact of sector reform on SONATRACH, to which the reply was that the State would take over the public power functions the company used to provide.

The Bank spokesperson mentioned that reform of the mining sector is relatively straightforward because it is a small sector and not politically interesting, whereas the hydrocarbon sector is politically more complex, so it will take some time before reforms will penetrate the oil sector.

An EIR researcher asked the two WB presenters to clarify what they meant by ‘a new law’. What exactly are the elements of those laws regarding size of projects, incentives, royalties and tax structures, contract models, etc?

From Jordan a participant asked for more details on the targets and achievements regarding governance, poverty alleviation, the economy, international debt. How was the public affected?

The Bank person responded that the focus is policy reform, so the targets are broadly defined. In the hydrocarbon sector, for example, a ‘framework’ law has been drafted, and the details will be spelled out in secondary legislation which in part depends on how the parliament is going to pass the law. So it’s really a process that has been put in motion: starting with a lot of technical preparation for the legal text; followed by discussion within the government and with various other stakeholders; and now it has gone to parliament where it will be debated.

The EIR researcher rephrased the question, asking what was the advice from the World Bank to the government? The Bank representative replied that their general advice is to separate the three functions of policy, regulation and business. The contract management function will be a public bidding process, so it will be more clear how it is governed. The regulatory agency will lift out these functions from SONATRACH – currently they are partly policy maker, partly regulator, and partly commercial operator. The same principles apply to the electricity and mining sectors, where similar processes are underway. It will take a few years to make them operational and functional.

A participant from Egypt asked about the impact in Algeria of the violence on development and growth, the relationship between violence and corruption, and how these elements affect the projects under discussion. An Algerian academic responded by stating that the three problems are not related: the reasons for the violence are complex, perhaps one reason is the slow pace of development; the corruption in Algeria is the same problem as everywhere else; and the pace of reform is slow, but so it is in most countries.
A Moroccan participant raised the question about what is new about or what is the problem with the hydrocarbon law?

From Jordan came a question about the commitment of the WB to correct past mistakes in the mining industry, especially as new mining is likely to cause more environmental damage.

A Palestinian participant asked why Algeria needs loans from the WB for the mining and oil and gas industries; why can’t SONATRACH provide the financial resources, given its size and positive performance? This is not a very good indicator.

A WB representative replied that the lengthy and divided discussion on the hydrocarbon law is a healthy indicator of an open and transparent process. No one knows what the outcome will be. The loan is not to SONATRACH, it’s to the government of Algeria. The Bank representative was unable to comment on past environmental damage, but the loan, which is forward looking, does include a proper environmental framework and will improve environmental legislation, so that in the future, environmental problems can be avoided.

The other Bank regional representative commented that the environmental component was a process that had to be developed. Within the framework of this project, the law for the mining sector includes articles on how to prepare an environmental impact assessment, how to present it, what are the norms and standards, etc. mostly for the future. The government will be able to assess environmental impact, in cooperation with other ministries such as the Ministry of the Environment, and will have the regulatory framework. What is most important is to develop awareness about the importance of the environment; it’s more than laws and regulations, as it must be a daily preoccupation of everybody in the country. Also, in each of the components - mining and hydrocarbons – there is a sector environmental evaluation, which will provide a detailed inventory of past impacts.

A Jordanian speaker suggested that all current extractive projects should include an environmental impact assessment to avoid creating future problems. Another Jordanian asked if the new law will open the market to competition in down-stream refining and distribution or will there be concessions for a limited number of operations? The Bank representative replied that the government’s objective is to have a competitive, market-based system. The current legislation requires environmental impact assessment before new investments are approved. The legal framework and the capacity to monitor are being strengthened; the loan will provide for capacity-building – eg, training programs for staff in the new agencies.

The other World Bank spokesperson pointed out that the current technical assistance project is incorrectly classified as ‘C’, which means there’s no environmental impact. It should have a ‘B’ rating, which requires an environmental impact assessment before it gets Bank board approval. It’s necessary to demonstrate ability to control the effects induced by the project – eg, a development within the mining sector will be dealt with how? Are the laws and regulations ok? Do the agencies have the capacity to monitor? etc. This has since been corrected; the government, with Bank support, is carrying out a sector environmental assessment which includes analysis of potential induced impacts from the project.
A participant questioned the ability of outsiders to assess the environmental impact on local biodiversity and the social life of people and communities. The Bank regional representative clarified that projects are initially classified by a non-governmental quality assurance group. The Bank then evaluates this and gives a classification. Afterwards, the environmental assessment process takes place, which involves a detailed and careful consultation with all stakeholders. During this process, if there appears to be potentially serious impact on the ecosystems or social impact, the project might be upgraded to category ‘A’. Bank thinking on these issues has been evolving, and today much more up-front environmental assessment is regularly required.

Environmental Issues

Mining and the environment

Mohamed Ali Abrougui, President of the Association Tunisienne pour la Protection de la Nature et de l’Environment, spoke about mining extraction and the environment. He suggested that a new approach was needed to solve the conflict between mining extraction and environmental activities, an approach that would bring all the key stakeholders together - the ecologists, NGOs, civil society, people working with the environment, those directly involved in mining extraction, and those institutions that finance such activities.

There also has to be a platform for the communities that are either beneficiaries or victims of this activity. NGOs and governments in the MENA region have to work out a dialogue and a real consultation process with all the key stakeholders. It’s essential to find a balance between, on the one hand the environment, the ecosystem, and the communities that benefit or who are victims, and on the other hand the mining industry, which plays such an extremely important role in the economy. The approach, therefore, is not to condemn this industry, but to try and find solutions enabling it to play an active role in terms of sustainable development.

This could be an excellent task for the World Bank to undertake with its partners and its clients to safeguard and ensure a sustainable environment, the longevity of the ecosystem, and the interests of communities, with the purpose of combating poverty and introducing sustainable industrial development.

This partnership could provide an example of good practice, putting an end conflicting relations between mining activity and those who wish to protect the environment and ensure sustainable development. It's really about identifying and managing risks, strengthening relationships, and creating added-value in the long-term within the industry, within a framework of sustainable development.

Yesterday, governments, operating companies, the World Bank, and NGOs were all unanimous in saying that the environment needs to be taken into consideration, so these opportunities should be followed to reinforce protection and to promote the sector, by developing and promoting good scientific practices which would integrate effectively conservation approaches with mining activity.
The World Bank could become a positive force in environmental protection and serve as an example to similar institutions, such as the African Development Bank or the European Investment Bank. There currently is an initiative on environmental protection underway between several NGOs like IUCN and Flora and Fauna International, and some of the oil companies like Shell and BP. The World Bank should support this initiative and foster a similar multi-stakeholder approach in the mining sector, ensuring due respect to communities. It is likely that there would be widespread interest and support for this effort.

Yesterday, it was pointed out that there were conflicts in the process of the mining project in south Tunisia. This demonstrated that there were many risks in undertaking this project. The Moroccan Minister talked about their approach of integrating mining activity into the overall process of national development. It was a good example of the importance of detailed and holistic planning, in which the design and management of a sectoral activity like mining is integrated into a regional planning process. The Moroccan example should be followed in other countries, and along with other good examples, could be used by the World Bank to resolve the conflict between the environmental protection lobby and those that want to pursue mining and other economic activities.

**Extractive industries and community development**

Ms Layla Baghi, President of the Association Tunisienne Femme et Environnement, spoke about the relationship between extractive industries and community development. Extractive industry projects impact communities adversely in a variety of ways: on health – respiratory system, skin disease; loss of biodiversity; pollution of air and water; soil degradation – causing population movement; and loss of traditional skills, capabilities and know-how. Therefore mining can have a negative impact on local communities, and contribute to exacerbating poverty. Women particularly can be strongly affected, as they are responsible for providing for their families. Their access to water and fuel is already limited, basic infrastructure is lacking, the birth rate is high, and literacy levels are low. The population as a whole has a strong attachment to its traditions and way of life, which can easily become disrupted by an extractive project.

Yesterday, there was an attempt to identify a set of proposals that would enable the industry to create projects that would fit well into an overall plan for sustainable development. It was proposed that the community should become involved at management level, in the evaluation of projects, and in preventing health problems. Before the WB agrees to this project, the measures should be clear for mitigating the negative impacts on the local community and workers. Health and medical facilities should be provided, preventative measures should be in place to avoid disease or damage caused by industrial activities, and equipment used in industrial processes should be inspected and certified.

If populations must be resettled, then they must be provided proper housing and basic infrastructure. Benefits must be clearly evident, and this will require transparency at management level, good governance, and guarantees that commitments will be implemented. In this way extractive industries can contribute towards the alleviation of poverty.
For all of these initiatives to succeed, it will take a great deal of time and investment. A fundamental question for the Bank is why attempt to reduce poverty through extractive industries when it would be easier and more effective to intervene directly in other poverty alleviation activities, which fall within the priorities of economic and social programs, such as increasing the capabilities of poor people, education, the development of renewable energy, or energy efficiency. When there are lots of large companies already interested in investing in these industries – the involvement of international institutions and Bank financing are not needed.

Therefore, if there are other alternatives that are much simpler and more direct in combating poverty, such as investing directly in education, infrastructure, and access to water, why does the Bank not support these instead, especially as they are very important priorities in economic and social programs in the region. It would be very useful to develop photovoltaics to give the rural population access to electricity, solar energy for heating water, biogas for small farmers to utilize waste to create energy, and wind power for pumping or for generating electricity. It is also very important to improve energy efficiency, as this will help make industry more competitive and thereby improve the economy, as well as aid in environmental protection.

Therefore, the World Bank should intervene to support the additional costs that are needed to develop clean technologies, such as wind power or solar energy. The Bank should help countries introduce a legal framework that favors private investment for developing renewable energy and energy efficiency. The Bank can also help countries take advantage of the Kyoto Protocol ‘Clean Development Mechanism’ to benefit economic and social development, and to contribute to reducing greenhouse gases.

Discussion

A spokesperson from the Moroccan Mining Industry Federation felt that the picture painted was very dark and somber, and that the speaker wants to close down all mines. Mining operations can have a negative impact if the operator doesn't take the necessary precautions. However, it is not true that mining towns have no access to basic infrastructure. This is quite a contrast to what the Minister for Energy and Mines described specifically of the situation in Morocco. Mining towns do have basic facilities that provide the population, not just those involved in mining but also the surrounding population, with water, energy, hospitals, doctors, and nurses.

The participant from Papua New Guinea asked the Tunisian delegate about their experience with environmental issues after privatization, and if there was more interest from international business people after privatization. The response from the delegate was that Tunisia has not yet privatized all its industries related to mining extraction. It has just started privatizing certain sectors, such as cement plants. This move is likely to bring many problems for the environment, because the multinationals that bought the cement plants now want to replace the use of gas with coal. There's no privatization in the rest of the sector; the Tunisian Government still runs everything, except for unprofitable, abandoned mines. These have been
left to local communities to work for their own benefit, in accordance with criteria from the Ministry for Energy.

A representative from the Saudi Ministry of Petroleum commented on the proposal for energy substitutes such as wind and solar energy, which he contended were in the early stage of introduction and therefore required a lot of investment and huge efforts before they could satisfy the needs of energy consumption. He also wondered about the degree of risk to the environment when using other energy sources, such as nuclear power. The Tunisian speaker felt fortunate that there was no nuclear power in Morocco, Algeria, or Tunisia. No single country would be able to support either the installation or operation of this type of industry on its own. Wind power would be a better option for the three ‘Maghreb’ countries of North Africa. Furthermore, the presentation regarding mining did not condemn it, but did point out the negative impacts which really do exist. The Moroccan example should be followed because it associates mining with the broader notion of environmental management, and with regional planning and control. Everything should correspond to the needs of each country. For example in Tunisia, mining resources are not sufficiently developed, therefore the World Bank should look into the alternative energy sector, such as wind power, renewable energies, solar energies, and so on. That would also be same for Morocco.

A representative from a multinational company asked the Tunisian speaker about the fuel used in the cement plants before privatization. Previously, they used gas in the cement industry, so the problem is not with industry, it is with the new owners who want to import coal. This is a consequence of globalization.

A representative from the Ministry for Infrastructure and Housing, in the department that runs the quarries, commented that there are always negative effects from quarries. It’s impossible to eliminate all of the impacts, but there are regulations to minimize environmental impacts. Both the authorities and the operator try to collaborate together in order to respect the environment.

A speaker from the Saudi Ministry of Petroleum and Mines noted that there is a tendency to blame the World Bank and not assume any responsibility for projects within a given country. Governments through their 5 year plans are responsible for designing and launching projects. The World Bank should come in later and provide assistance when requested. The Bank should also be involved in assessing the project after it is running.

The presenter from Tunisia added that everything in the presentation was part of the government's own strategy, i.e., the development of energy efficiency and of renewable energies. The strategy has been defined by the government already, so why can't the World Bank help achieve these goals.

The World Bank regional representative clarified that renewable energy is one of the pillars of the Bank’s strategy, and that they are involved with a number of countries through the Global Environment Fund (GEF) to support the development of renewables. In Morocco only, the Bank is collaborating in 3 projects involving renewable energy and energy efficiency. The signing ceremony of an energy efficiency project in the industrial zone of Sidi Bernoussi
takes place tomorrow morning in Casablanca. Another project in Tangier will be supported by the Prototype Common Fund. The third project is a solar thermal plant. There are a plenty of mechanisms like the GEF which can provide subsidies to offset the cost of renewable energy while the technologies are reaching maturity.

An individual from Palestine raised the problem of cross-border pollution and the impacts on human health and the environment. A Jordanian participant asked the Bank to provide the percent invested in renewables vs non-renewable energy extraction. He also wondered if there is a plan to move the source of funds allocated for renewable energy projects from the GEF to IFC or IBRD. The Bank spokesperson did not have the number available, but did mention the very limited investments in the extractive sectors. It is likely that the renewable energy portfolio will increase.

**Public vs Private Sector Led Development**

**Aramco, Saudi Arabia**

The representative of Saudi Aramco provided a detailed picture of the Saudi Arabian national oil company. He started off with a historical review of the growth rate in oil consumption from 1974 (8%) to today (1.5%). Today’s rate is expected to continue over the next 20 years, and OPEC is expected to supply 70%. Saudi Arabia will provide 1/3 of this, with 95% from Saudi Aramco. The company is completely nationalized, there are no foreign partners. The company employs 55,000 people; only 5,000 are expatriates.

The transportation sector is also expected to take the lion’s share of future growth; this sector supports continued growth in oil consumption, as there are no alternatives to oil currently on the horizon. Globally, Saudi Arabia has the lowest costs per barrel for production, mainly because of the enormous reserves – ¼ of the world’s oil and the largest gas reserves - and the high production level. Saudi Aramco refines approximately 20% to 25% of its production, mostly for domestic consumption. Exploration, development and production costs are also very low.

The company is a fully integrated international petroleum company, handling all aspects of oil and gas industry, from exploration to producing, processing, transporting, storage, refining, distribution mainly within the Kingdom, shipping overseas, and marketing.

The company started in 1933, with international partners, and in 1980, the Saudi Government took 100% control. It provides 10% of the oil consumed in the world today, producing 10 million barrels a day. They also have the largest and the most modern crude and product shipping fleet in the world, with more than 70 owned and chartered supertankers. They ship 1/3 of the daily production that's exported - about 2 million barrels per day.

Exploration data is analyzed at the Exploration and Petroleum Engineering Center, or EXPEC, one of the largest and most sophisticated centers of its kind in the world, providing super computer capabilities and advanced technologies. To maintain their high production levels, they operate a vast network of facilities, both offshore and onshore buildings and
pipelines. The company's main onshore oil processing facilities have a capacity of more than 7 million barrels a day, very close to the average total daily production of the United States. They also have about 70 million barrels of storage tank capacity at the major terminals.

During the 70s, the government developed the Master Gas System, which completely eliminated gas flaring in Saudi Arabia, and was the beginning of the petrochemical industry in Saudi Arabia. This all occurred after the nationalizing the oil company. They currently process about 6 billion cubic feet per day of gas, mainly for power generation purposes in Saudi Arabia.

For marketing crude the company has offices all over the world - in New York, Houston, London, The Netherlands, Tokyo, and Singapore. The 3 major markets are Europe, the US, and the Far East. They also have several downstream international joint ventures.

For environmental protection, they have a network of air and water quality monitoring stations, and work with Saudi universities and other institutes on research programs, such as the environmental sensitivity mapping of delicate coastal areas. They also conduct environmental education and outreach efforts for the general public.

On the social side the company has a school building program: they’ve built 130 schools serving about 80,000 children. There’s also a mobile library which travels throughout the Kingdom, introducing children to reading. They support a home ownership program - a home-loan program for Saudi Arabians who work for the company in the Eastern Province - that has helped to construct about 50,000 homes.

Saudi Aramco has played a major role in the country’s industrialization process, supporting indigenous industries and helping them gain technology and understanding of markets. It still continues to play that role.

Employees receive health, social, recreational, and educational services, in addition to their training. Human resources development focuses mainly on developing Saudi employees, with on-the-job, vocational, instructional, computer classes, and special engineering courses. Some students are sent to advanced degree programs. On average about 1000 employees attend company training every day.

The Aramco representative completed his presentation by describing some things about the current economic outlook and future challenges for the Saudi economy.

Discussion

The first question asked was if this model should be followed by other countries. The presenter replied that the important thing is the balance between the state and private enterprise. Saudi Aramco was fortunate because previously it was a private oil company, and that legacy is very beneficial for a state enterprise.
A question was put about the fact that the competitiveness of their industrial products is based mainly on subsidies from their natural gas activities. In negotiating their entry into the WTO how are they going to solve the problem of subsidies for petrochemicals? Aramco’s understanding about the subsidy issue is that as long as both the domestic and the foreign investor are treated the same, the WTO allows the government to price its natural gas as it likes. No one will force the country to increase the price, as long as there’s no differentiation between foreign and domestic manufacturers.

The next questions were: what is the contribution of the mining sector to the national income; and does Saudi Aramco think that it will go out of Saudi Arabia in the future? The company did some studies on foreign activities, but it is now preoccupied with its domestic ventures, exploration, and production; it’s a big job, especially with the increase in production that is forecast. The value of foreign direct investment in mining was about 40 million dollars. It is not significant yet, but there are big projects coming on-stream, including a phosphate plant in the north of the country.

A Jordanian participant wondered why other non-oil sources didn't increase or didn't contribute much to growth, when oil prices impacted government revenues. Also how to evaluate the contribution of Aramco to poverty alleviation in the whole Kingdom, not just the local area? What percent of revenues goes to environmental activities that are not related to company activities? The first reply was that the environmental unit does projects for the government, such as investigating pollution or other issues not related to oil. Secondly, as an operational company, they do not get directly involved in contributing to poverty or doing studies about poverty in the other parts of the Kingdom. The government, however, does contribute to local charities in their area - approximately 70 million Saudi Riyals per year. Thirdly, regarding the non-oil sectors, the main industry is petrochemicals, which is directly related to oil prices, so petrochemical prices decline severely when oil prices decline. So that's the problem.

The next question was: What does ARAMCO see as the potential value for bringing in private sector partners to invest in large infrastructure projects? Apparently the company was not questioned about this; it was a decision made by the government in order to increase employment in other parts of the Kingdom. Attracting foreign direct investment is another consideration. The Kingdom doesn't want to keep spending on Saudi Aramco, so by giving these contracts out to foreign companies they can reduce their overall capital spending. The competitive environment will be healthier for the company and it will help improve overall efficiency.

A participant from Jordan asked about how production policy is related to prices. There is a certain nominal price, optimal price, or fair price for crude oil. What is your opinion about this fair, optimal price and how do you control your production around that? The reply was that it’s a very complicated issue, because it involves the Kingdom's income needs and budgetary requirements for growth and spending, as well as the needs of other OPEC members, because it isn’t decided alone. It's a very complex arrangement within OPEC to achieve the final price and volume. Governments have to look at the next twenty years, and not just react to short-term changes.
The presenter from Tunisia hoped that the company would invest even more in the future in environmental protection and poverty alleviation. It should also work on alternative forms of energy like Shell and BP, who are very actively investing in the non-oil energy sector. What does the company plan to do when the US gets its hands on Iraqi oil; what will your role in OPEC be? The reply was that they don't forecast that Iraq will increase its production beyond its previous levels of 2.5 million barrels a day, for at least the next two to four years, before it's able to attract significant foreign direct investment to go beyond that. OPEC can handle Iraqi oil up to three, three and a half million barrels a day. Beyond that there will be problems. If the country is forced to lower production, it might try to increase prices in order to maintain the same level of income. So, that is the danger for the world's oil consumers. Regarding alternative energies, Saudi Aramco is in a very good position to develop alternative energy resources, especially solar energy. However, at this time, the company is very involved in developing gas-powered electricity generation in the country. Also, oil production is ramping up quickly, with billions invested in new production facilities. So both budgets and expertise are tied up with these initiatives.

A participant from Egypt expressed pride over the accomplishments of Aramco, but was unable to distinguish between the company and the state, and wondered to which extent did Saudi Arabia contribute to developing economic and commercial relations with its Arab neighbours. Its neighbours have plenty of problems that may have an impact on Saudi Arabia, inasmuch that Saudi Arabia relies on a considerable labor force from those countries. Also there seemed to be an absence of women in the presentation – this needs to be remedied. The response was that Saudi Aramco is the leading employer of women in the Kingdom, mainly as teachers. The company employs women at all levels in the medical, nursing, secretarial, and engineering fields, it’s really a trend setter. Regarding the other question, Saudi Aramco is an operational company, and the government has maintained a hands-off policy towards the company, allowing it to maintain and run its business in a very independent manner. There are no government officials, friends, or nephews of anybody working in the company. It maintains a very professional environment, and that's part of the ability of the company to continue to be so successful. Regarding the question about helping other countries, as part of OPEC Saudi Arabia contributes significantly to the OPEC Fund, and it is part of OAPEC, which also has a Fund. These funds are helping some of the poorer countries. Although the country tends to treat labour from around the world the same, there are preferences towards labour coming from neighbouring countries like Egypt. There are no specific development projects with other countries because the mechanism for implementing development projects does not exist within the Arab League.

A Jordanian asked if some of the national oil companies in the region which are facing problems, could benefit from the expertise of the company. In reply the Aramco spokesperson declared that the lack of cooperation is reflective of the overall level of cooperation in the region. It would be helpful if it could be improved, but unfortunately it sometimes is tied to political issues.
Structural Adjustment

Heike Meinhardt-Gibbs, Senior Program Officer from the Macroeconomics Program Office of WWF-US presented the results of her commissioned research on the interaction between structural adjustment programs and extractive industries. The presentation was titled “Sustainable Development Impacts of Policy and Institutional Reforms”. The common mission of the World Bank is sustainable economic development and poverty reduction. Sustainable economic development includes three elements: economic sustainability, social sustainability, and environmental sustainability. And in order to produce sustainable development outcomes, the policy and institutional frameworks within which the extractive industries are developed also must contain those three principles: the economic, the social, and the environment. The Bank’s development policy lending programmes are often in the form of structural or sectoral adjustments, and also technical assistance and advisory services. Those are the main three lending mechanisms that were looked into.

The research is focused on three main objectives:

- Determining the sustainable development consequences: Are the World Bank structural adjustment prescriptions and related effects in the extractive industries having positive or negative impacts on poverty, national local economies, and the environment? In other words, are there sustainable development consequences?

- Identifying the determining factors: What factors will well-intended policy and institutional reforms have unintended negative economic, social, and environmental consequences?

- Improving World Bank development outcomes: What is the best future function for the World Bank Group in relation to structural adjustments and the extractive industries in promoting more environmentally and socially beneficial development?

The research is based on three country-case studies: Peru, Tanzania and Indonesia. Although there wasn’t one from this region, the Peru case links quite well with the Algerian project on energy and mining technical assistance. The Algeria project implementation is in the early stages, but the Peru case is quite far along.

The IMF is included because stabilization loans often have conditionalities for a longer term structural adjustment program that is often overseen by both the IFM and the World Bank. Secondly, the IMS does not receive nearly as much scrutiny as the World Bank, and does not have the environmental and social safeguards that the Bank does. And thirdly, the World Bank typically requires a country to have a sound macro-economic program; usually an IMF program is a prerequisite for a bank loan.

There are three main conclusions from the research:

1. Despite well intended efforts by the Bank to improve the social and environmental performance of the extractive industries, expansion of these sectors driven and shaped by structural reforms has:
   i. increased environmental degradation
ii not reduced poverty
iii produced harmful macro-economic imbalances and capital flows

Thus structural reforms linked to expansion of the extractive industries have not contributed to sustainable development.

2. Market policy and institutional failures are responsible for market distortions, corruption, and negative social and environmental impacts.

3. In some cases, structural adjustments have corrected some of these failures, however, in other cases significant failures persist, and even new ones are created by the reforms themselves.

Thus, when development of the extractive industry sectors moves forward, prior to addressing some of these important failures, it leads to poor development outcomes. Unfortunately, it is under these important market, policy, and institutional failures that, in some cases, a majority of a country's core mineral and hydrocarbon assets have been sold; often this is coupled with weakened environmental and social standards. And in many cases, it has been contractually locked in for ten or twenty years.

The last general conclusion is that the IMF and World Bank policy lending programs are significantly concentrated on providing opportunities for private business, mainly foreign investors, and they give little attention to strengthening the rights of the poor and improving environmental management. Improving the economy of the poor, and the security of the poor, as well as sustainable natural resource management, are three priorities commonly found in the Poverty Reduction Strategy Papers.

The case study on Peru starts from 1991, when Peru was considered to be in an economic crisis. The IMF and the World Bank stepped in to try to assist Peru, and remained involved throughout the 1990s. In the early 90s, two thirds of the World Bank's lending to Peru was structural adjustment lending, through a structural loan, institutional reforms, privatization specific to the extractive industries, and technical assistance for energy and mining.

Up until 1998, the World Bank took the lead on a lot of structural adjustment, especially privatization, but after 1998 the Bank stepped back and was only involved in social programs. At that point the IMF took over from where the Bank left off.

**Structural reforms**

Under structural reforms the state-owned enterprises were dismantled and privatized; the state-owned petroleum enterprise was downsized. The role of the state was changed, taking them out of business and making them a regulatory agent. Under the liberalization of investment there were no restrictions on remittance of profits or royalties; no performance requirements; and no authorization of prior registry. Labour contracts were liberalized: firing costs were sharply diminished, temporary labor contracts were introduced, and restrictions on hiring foreign technical and managerial personnel was waived. Under trade liberalization
tariffs were unified at 12%, and extractive businesses were exempted the 18% value added tax.

**Extractive industry sector reforms**

Policy and institutional reforms in both the hydrocarbon and mining sectors were aimed at improving the investment climate, specifically to complement the structural adjustment programme processes. To begin with, there was a new contract arrangement in the hydrocarbon sector, which gave longer contract terms - it went from 7 years to 30 years for oil and 40 years for gas. The contract area had no specific maximum size, and contract procedures were shortened and simplified so that it takes only one month now for a new company to get registered, which gives little time for community conflicts and environmental concerns.

The mining contract contained a ‘stabilization agreement’, which guaranteed current taxes, labour, environmental, and other regulations for ten years. When investments in the sector dropped in 1998-2000, the term was boosted with a guaranteed 80% tax free status for 15 years. Under the new hydrocarbon law environmental impact assessment was brought under the Ministry of Energy and Mines, the same Ministry that is responsible for attracting investments into the sector. It was not allowed to be under the main environmental agency, and later was shifted to the Ministry of Finance. Environmental penalties were reduced or repealed. All of these things are supported by the Bank in their mining strategy for Latin America.

The public mining registry established mining rights and reduced the number of unresolved mining claims. A team of lawyers and engineers worked on reducing the backlog, and a computerized system was installed to expedite new requests. Royalties for hydrocarbons were reduced from a scale of 15-35% to 5-20%; mining royalties and production taxes were completely eliminated. The Amazon Tax Exemption exempted or reduced income and sales tax on natural gas and petroleum taxes in the region.

**Market failures**

Market failures corrected by structural adjustments included reduced political interference in price setting, and dismantling the state monopoly. What persisted was: the lack of access of Peruvian companies to long-term finance; the lack of market and land access for small-scale miners; export diversification is constrained by developed countries subsidies and non-tariff barriers, they would like to diversify into the garment and textiles industry; and the consolidated global gold market supply chain, which is dominated by the major companies like Newmont and Anglo Gold.

The newly created market barriers were: large foreign corporate price interference in the hydrocarbon sector; a lack of competition in the natural gas privatization process, the natural gas supply chain is somewhat monopolized; and the majority of the natural gas and petroleum production now is controlled by the same company.
Policy failures

Policy was corrected to establish some environmental admission levels. Some policy failures persisted such as the overlapping property claims between mining, oil, and gas, and indigenous communities and protected areas; and the lack of property rights for the poor. Environmental regulations are inadequate – there are no regulations for transportation, only for distribution. New policy failures were created, including preferential tax treatments for extractive industries, and permission to enter into environmentally and socially sensitive areas. Environmentally-friendly technologies, like water treatment equipment, get no tax incentives. Environmental and social costs are not internalized, there is no mandatory environmental and social protection in the new contract model, and labour laws were weakened.

Institutional failures

There were negligible improvements in institutional development. The overall weak institutional capacity persisted, especially in the agencies responsible for environment, social affairs and competition. In one of its follow up missions, the Bank listed a lot of things that needed to be done, but the government didn't want to borrow for that. This is very typical and happens very often in other countries. Lack of transparency and accountability on the distribution of extractive revenues continued to persist as well. There were a number of newly-created institutional failures, starting with the consolidation of authority over extractive industry investment and environmental and social requirements within the ministry that is responsible for investment. The environmental management plans have too few requirements, and the roles and responsibilities of senior actors in the sector are unclear.

Effects

Ownership in the sector has become significantly concentrated, as large foreign enterprises now own the strategically important Peruvian mineral and hydrocarbon assets. This is a complete shift from previous Peruvian-based ownership. The concentration of foreign investment and ownership has created new, powerful extractive industries, foreign-based economic agents that a weak state has trouble controlling. This has very important social and economic implications for Peru, with much of the wealth generated not staying in the country.

Production and investment in mining have increased significantly, whereas petroleum production has not increased, but exploration and investment have. Natural gas production and investment has also increased significantly. Extractive industries are capital intensive so the ratio of employment to investment is low – eg, mining accounts for 50% of total export value, but less than 1% of employment. There has been an overall decrease in employment in the petroleum industry, and in mining, payrolled employment has decreased 27%, but contractors have increased 320%, mainly short term construction jobs. Unemployment levels have only slightly decreased compared with 1991.
The reforms tend to favor large-scale operations, other than the labour intensive small-scale mining which employ 45,000 people, including dependent families. Through the reforms, small-scale miners in one region were able to get 1300 concessions granted to them. But in the other region, few concessions were granted to small-scale miners; most were given to new, large, foreign companies or to those with connections to foreign investors.

**Economic outcomes**

The economic outcomes that resulted were: short term economic stabilization, short term increase in foreign direct investment, short term financing of the fiscal deficit, and positive impact on the balance of payments. GDP average growth was 3.8% between 1991 and 2000, which is not enough to sustain poverty reduction. Prices for petroleum producers did decrease, but the savings were not passed on to consumers. Consumer energy prices have increased, and there’s a 255% increase in fuel and energy imports, which creates a negative pressure on the balance of payments.

Government revenues have decreased by about 12% of GDP; tax exemptions account for 2% of GDP. There’s been an outflow of capital from the country, and now there’s further dependency on natural resource-based commodities. The country is more vulnerable to external economic shocks, mainly from mineral and hydrocarbon price fluctuations. There’s been an overall decrease in the value-added share of the economy. Core natural resource assets have been quickly sold off for short-term fiscal deficit financing.

**Poverty outcomes**

GDP growth was below the rate to sustain an increase in employment or to reduce poverty. The 2000 poverty rate is 54.1%; in 1991 it was 55%. It had dropped in the middle of the 90s, but went right back up again. Rural and indigenous populations are lagging behind because most industrial development is in urban areas. There have been mixed results on impacts for local communities. Revenue is not making it back to the communities or to regional and local governments, and government is not engaged in local community development. There has been an increase in social antagonism and unrest, which is not good for the investment climate.

**Environmental outcomes**

Overall, there was a net increase in environmental degradation because of the significant expansion in these sectors. Exploration and production have moved to more socially and environmentally sensitive areas. This is due to a combination of new technology and economic and tax incentives; trade investment mobilization also makes it more attractive to export credit agency financing. Protected areas are now open to extractive industry development, including a few Bank supported projects.

Regarding climate change and air pollution, there has been a significant increase in thermal generation uses of diesel, fuel oil and coal in the mining industry. Greenhouse gas emissions
have increased because of increased production and combustion of fossil fuels. There may eventually be some fuel switching benefits if natural gas is used.

The Bank’s support for the social program loan was contingent on Peru performing satisfactorily on the IMF program benchmarks. In 2000, the country halted privatization because of concerns over competition. As a result, the Bank suspended the loan for the social program.

**Main conclusions**

The following are the main conclusions of the research study:

1. Expansion of EIs driven by structural adjustment does not produce sustainable development outcomes.

2. Policy-lending programs correct some market, policy, and institutional failures, but many still persist and the reforms themselves create new failures. Thus, when EI development proceeds before adequately addressing important failures, it leads to poor development outcomes.

3. IMF and WB policy-lending programs are significantly concentrated on providing opportunities to private business, while given little attention to strengthening the rights of the poor or environmental management.

**Recommendations**

A final set of recommendations was presented:

1. Poverty and environmental degradation are structural problems. Therefore, they require central importance in structural adjustment – policy and institutional reforms.

2. The current World Bank approach of *ex-post*, ‘complementary’ environmental and social projects is inadequate. It is the IMF- and World Bank-supported economic policies themselves that must provide the correct incentives for more sustainable development outcomes.

3. World Bank lending should concentrate on improving the social and environmental performance of the extractive industries sectors.

4. Governance that strengthens the rights of the poor and environmental management (strengthen civil society).

5. Bank policy-lending should concentrate on diversifying economies away from natural resource intensive sectors.
6. Mandatory upstream environmental and social analysis of all policy lending. (revision OD 8.60)

7. Provide clear poverty and environmental output performance criteria for policy programs and government budgetary allocation.

8. Bank should not link lending to IMF programs.

Discussion

The first comment came from a participant from Jordan, who felt that corruption and lack of democracy were the main drivers behind the choices taken by the Peruvian government to make such a severe adjustment. However, it was not understandable why the World Bank and IMF were part of such an adjustment program. The speaker said that the World Bank has received a lot of advice from the private sector, on what private investors need in order to come into a country.

A private sector representative pointed out that structural adjustment has changed over the years, and how important it is to understand the context of pre-existing conditions. He cautioned against over-generalizing and to understand the context and relationships. The final point was a question about how many detailed case studies were done and how much peer review was there for the study. The presenter agreed with the comments and said that these points were included in the paper. There were 3 specific case studies, but her regular work involves the same focus on structural adjustment in other countries. The study was peer reviewed by 3 senior people with bank experience, as well as country experts.

The next question came from the PNG participant who felt that there wasn’t a balance between environmental affects and economic benefits coming to the community. In his second question he asked if WWF would like indigenous communities to remain in the jungle as they are. The presenter replied that there is a tension between the environmental movement and social development movement, but the program from her office is absolutely linked to poverty. All their projects have poverty and environmental linkages – there are forward and backward linkages because the rural poor depends significantly on natural resources for their livelihood. They are directly affected if anything happens to natural resources. There are tradeoffs, such as in small-scale mining which benefits the poor but damages the environment, but what tradeoffs are acceptable? In many projects the poor are not being helped and the environment is being ruined.

Another participant from Jordan commented that the World Bank support to extractive industries didn't enhance sustainable development. Any plan to integrate social development with industries must have social equity, and be economically viable and environmentally safe.
7. Working Groups

Day One

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

Governance and Revenue Management

The first working group discussed the question “What are the main obstacles in terms of Governance and Revenue Management for Extractive Industries that prevent sustainable development?” and listed the following obstacles:

1. No democracy: no public participation in decision-making (autocracy).
2. Corruption caused by lack of transparency and accountability.
3. Excessive military and security expenditure, compared to other programs.
4. Lack of capacity for long term planning, monitoring, and inefficient allocation of natural resources.
5. Insensitivity of multi-national corporations, IFIs, and donors to specific needs and circumstances of host country.
6. Lack of good, overall fiscal and macro-framework, and capacity to deal with revenues in a consistent way.
7. Lack of access for the local community to get benefits from revenues – eg, education, health, infrastructure, etc.
8. Foreign investment dominance and lack of local domestic enterprises.
9. Weak legal system, regulatory framework, and mechanisms for enforcing compliance with standards and regulations.
10. Insufficient technical capability, training and education, standards, procedures, and manuals.
11. Poor communication capacity and resources.

In addition, the group raised the problem of political pressure on spending; the need to invest in production, rather than consumption; and the need for social and economic performance measures.
Discussion

An American researcher mentioned that in previous consultations a government official from Sub-Saharan Africa suggested that the private sector doesn’t like democracy because the environment is more unpredictable. Therefore, how does this affect the approach of the Bank towards funding? In response, a company representative countered that over the long term democracy gives companies a greater connection with the government, and without it regime changes can be quite radical. It simply isn’t true that industry dislikes democracy. A participant from Jordan agreed that most companies who want to make real business prefer transparency and the democratic system, because they know it is competitive and fair. If they take shortcuts or have influential people on their side then they don’t want democracy. A Tunisian speaker stated that multi-national corporations are often the source of corruption in developing countries. An Egyptian participant contended that there are groups of business people who operate like parasites in the private sector, and prefer to work in autocracies. The private sector contains both those who are interested in sustainable development, and those who are Mafiosi.

Poverty Alleviation

The second working group discussed: “What are the main obstacles for Extractive Industries to contribute to Poverty Alleviation in your region?” and came up with the following list of major obstacles:

1. Government attitude is not conducive towards private sector involvement.
2. Poor government revenue management and distribution.
3. Extractive industries are capital intensive which excludes local private sector involvement.
4. Extractive industries create economic and social issues.
5. Price fluctuations are beyond government control.
6. Governmental subsidies do not help the poor; they benefit the rich.
7. Local communities and NGOs are ignorant of the decision-making process.
8. The Arab-Israeli conflict.
9. Projects lack continuity and long term planning for mine closure and job security.
10. Unfair distribution of wealth and allocation of revenue for community development.
11. Domination of foreign investment means that revenues go abroad.
12. Lack of added-value processing means that local jobs and revenues are lost.

The group identified several positive impacts on poverty alleviation: employment is generated in disadvantaged communities; remote areas are helped; high revenues are generated for governments; a competitive advantage is created; and small, spin-off businesses are created.

Discussion

The first speaker suggested that subsidies do help the poor but some are more beneficial than others. Giving cash to the poor is best, but if the financial system doesn’t allow it, then subsidies are needed. A participant from Papua New Guinea noted that most of the mining industry is government controlled with very little private involvement, and that if the sector was opened up there would be greater possibilities for growth of the industry as well as government revenues. An American academic was surprised that some people considered FDI an obstacle to poverty alleviation; most governments are trying to attract FDI to help the poor. The UN used to be suspicious of FDI, but now they are advising on how best to attract it.

A speaker from Jordan asserted that the industry was created in the 30s by British and US companies and they still dominate. The accumulative extraction of billions of dollars of natural resources has seriously affected the region. A spokesman for a foreign company clarified that the vast majority of production in the MENA region comes from national companies not from multi-nationals. Another company representative stated that the first 8 or 9 largest oil and gas companies are national oil companies – Aramco and the Iranian oil corporation are the largest. The difference is even greater in terms of reserves. Another Jordanian commented that foreign investment is suspect because people remember when the ‘Seven Sisters’ controlled their wealth, and the struggle during the 60s and 70s to nationalize their wealth. Now they smell that ‘the rat is back in the house’.

A participant from Jordan added that foreign direct investment, in most cases, doesn’t help countries overcome their problems. In the long term, these companies are looking for profit, so they take money out of the country; and they hire internationally for their senior management staff. He didn’t think transnational corporations were the best solution or the best model for poverty alleviation in MENA countries.

A Tunisian participant contended that there's always a difference of opinion between those in favor of private companies and those against them. Therefore, it isn’t clear if privatization of the sector will help combat poverty. The World Bank encourages privatization, but it should provide evidence proving economic and social gains after privatization. Otherwise they should be careful issuing a recommendation that encouraging privatization can help combat poverty. A professor of finance from Saudi Arabia urged caution in talking about foreign investment: “Don’t shoot yourself in the foot.” Countries have to be careful in dealing with multinational corporations to ensure it’s to their advantage. Be suspicious of international financial institutions. If democratic systems are in place in the country, and there are skillful negotiators who represent the country’s interests, then one needn’t worry. The speaker described a situation where the foreign minister, who was not an expert on oil and gas, was
negotiating a natural gas initiative, and nothing materialized at the end of two years. Afterwards, the oil minister renegotiated the deal with the companies and unbundled the contracts. The speaker stressed the importance of foreign investment.

A Jordanian participant wanted to know the numbers of national and international companies in mining in the region, and how much transfer of know-how there is between them. Another individual mentioned that there still is some suspicion among the populace towards multinational companies because of bad history. A further comment was made about the lack of trust prevalent in society and even among the governments, which leads people to underestimate the importance of investment that may serve their needs. The problem is that often investments don’t really serve the needs of local people. An Egyptian participant commented that the main issue is independence of will and in decision-making. People live under governments and regimes which are subjected to foreign hegemony of the great powers, whether governments or institutions such as the World Bank. People are in a situation of dependence in which politics is very important, such as the case with Iraq and its oil. Political will and decision-making are in the hands of puppets. The speaker asked if the talk about democracy and popular participation in decision-making means independent decision-making and national control over those who govern us, or does it mean corruption and bribes given to the rulers by international institutions so that decisions are dictated from abroad, not following the national will or the needs of development.

Another participant suggested that countries in their eagerness to get foreign investment compromise their environment in pursuit of revenue-generating activities. An example is the case of a national cement industry that was privatized a few years ago, in which the foreign company insists on using coal, against the wishes of local people. This was supported by the government, ignoring environmental regulations. Similarly in Palestine all the hazardous industries have moved from Israel, which has badly affected the health situation. Most of the quarries in Israel have shut down and moved to the West Bank bringing their dust and pollution. So if foreign investment is not carefully managed and monitored, it possibly may destroy the environment.

**Economic Diversification**

The third working group discussed the question of “What are the main requirements for Economic Diversification in resource dependent countries in your region?” and first identified the need for having: the right political will; a good investment climate; basic infrastructure - physical, education, health; a functional banking system; easy market access; and value-added industries if there is foreign investment.

The major obstacles to economic diversification are:

1. Bad governance: lack of transparency and poor administrative procedures;

2. Subsidies;
3. Standardization of education, research, and development activities: there will be no new technologies and no new products;

4. Trade barriers: should they be removed in general or only at the regional level? Protectionism by developed countries prevents exports to these countries; and

5. Finance issue: availability of long term loans for small businesses, financial incentives, and loans for SMEs.

Discussion

A participant from Jordan mentioned the phenomenon of globalization, and asked how economic diversification can accommodate the adverse effects of globalization on local communities and national industry. Another participant saw no problem in signing international trade agreements while protecting local markets – eg, the US blocked steel imports from Europe and vice-versa, so there is nothing wrong with setting barriers to protect the economy. The high quality of foreign produced goods was identified as another problem. The group rapporteur made a comment concerning added value, that foreign investment is needed to create economic diversification, with the condition that there should be some value-added to the national economy.

Day Two

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

Environmental Issues

The environmental working group wanted the World Bank to do the following:

- Assist the governments in building environmental capacity, including institutional, human, and technical resources.

- Have a new and appropriate approach for government and enterprises, providing financing and technical assistance.

- Work out a communication strategy through capacity-building for NGOs, local government, and professional groups.

- Ensure consultation with civil society and other partners during project design.

- Strengthen the participatory process during evaluation and implementation.

- Work on rehabilitation of mines.

- Encourage transfer of clean technologies.
- All Bank lending should include environmental and social considerations.

- All project financing should comply with guidelines appropriate for the country and the region.

- Equivalent share for renewable energy projects, as compared to the share for extractive energy projects.

- Focus on renewable energy.

- Ensure application of the consultations throughout Environmental Impact Assessments and convey information to civil society.

- Facilitate relationships between civil society and the countries of the region.

- The Bank should stick closer to its stated objectives.

The working group felt that the World Bank should not do the following:

- Ignore civil society.

- Ignore mechanisms for implementation and follow up.

- Bring in experts who are not from the country.

- Should not ask for repayments from projects that are not profitable.

- Be complacent towards government if the project lacks transparency and positive affects on the population and environment.

Discussion

One of the working group members commented that there are priorities regarding local, regional, and global environment concerns. For him the local environment is absolutely a priority, and went onto suggest that regulations and standards for environmental matters should be specific to the country, not imported from elsewhere. The World Bank should take this into account when working with different governments. He also suggested that renewables were not feasible at this time because they are not competitive. When the Clean Development Mechanism becomes operational it will be a golden opportunity for renewables, and the World Bank should have a major role in it.

Another working group participant commented that by taking care of the national environment, it contributed to regional and global well-being. Secondly, renewables have to be examined from more than an economic perspective, their contribution to environmental and social welfare also have value.

A third member of the group was concerned about the rising up of a parallel ‘government’ to act as a third party in ensuring the terms of a World Bank loan are implemented properly. It is
unlikely any government would accept this, so the recommendations should be made more practical.

A participant from Jordan, who wasn’t in the working group, commented on the expression “the stone age did not end because we ran out of stones” regarding renewables. There may be plenty of coal and oil, but there are undesirable consequences for the environment and human health that should make us change to renewables because they don’t have these side effects. Also he felt it is important to have NGO ‘watchdogs’ because governments do make mistakes; and they are much stronger than NGOs and shouldn’t feel threatened by them.

**Private vs Public Sector Led Development**

This working group made the following recommendations on what the World Bank should do about the issue of private vs public sector led development:

The overall objective is sustainable development and poverty alleviation.

- Support privatization gradually.
- Help small business to boost job creation.
- Support local development projects including small industries.
- Support developing laws and legislation that suit sustainable development.
- Assist in contract negotiations with foreign investors.
- Assist in regulation of extractive industry.
- Assist in institutional and political reform.
- Assist in lending and advisory services.
- Support third party monitoring institutions.
- Support capacity-building for planning, management, and monitoring.
- Coordinate with other international organizations – Regional Development Banks, UN agencies, etc.

The group recommended the World Bank should not do any of this unless:

- Capacity is built.
- They consult with grassroots constituents.
- They always take into account the social structure of individual countries.

The group recommended that the World Bank should not do the following:

- Support state-owned extractive industries – eg, mining.
- Support projects where the final product does not reflect real value – not subsidized.
- Support projects that do not fulfill sustainable development goals.
- Support EIA studies carried out by governments.

Discussion

The first speaker asked for clarification about the need for subsidies for renewable energy. The group representative clarified that the recommendation was restricted to the oil, gas, and mining sectors, and was not about renewable energy. If research or something new is needed, they would support subsidizing that.

The next question was if the group was in favor of the private sector or the public sector. The response was that there are certain things that can be privatized and other things that cannot. Everything has to serve the interests of the country as a whole. Also, the decision has to be linked to sustainable development, which has its own requirements. The group does not want to see the whole country either subsidized or privatized.

The following comment expressed surprised that the group prefers to see foreign investors investing in extractive industries, rather than seeing their own governments invest. Why is that? The second question and comment was if the group thinks we can live without subsidies? Are subsidies totally evil? Should do away with subsidies? The person asking felt it was impossible to do without subsidies, and gave the example of Jordan, where 60% of the consumers of electricity consume below 160 kilowatt-hours per month, which means they have one lamp and one appliance only. The speaker contended that these people do need subsidies, and there likely always will be people who will need subsidies. He suggested that a subsidy is not bad by itself - if you have the right mechanisms you can make a subsidy go to the people who deserve it.

In response to this, the group representative provided another example from Jordan where the government terminated a subsidy for bread and wheat because people were feeding bread to their animals because it was cheaper than animal feed. If this happens with outside investors it is like exporting government money. Subsidies that don’t serve the poor should be avoided. For example, subsidies for electricity or diesel mainly benefit the rich. The poor have no car and only one lamp, whereas rich people and big industries are the biggest consumers.

The final speaker commented that the impact assessment study has to be properly conducted to avoid the example sited.

Structural Adjustment

The working group recommended the following things that the World Bank should do:

- Have a coherent strategy in which poverty and the environment should be of central importance when designing the Structural Adjustment Loans.
- Upstream do mandatory core poverty and environmental diagnostic analysis as a prerequisite at the Country Assistance Strategy level, so that the analysis underpins the design of the policy lending program.

- At the individual Structural Adjustment Loan level or other policy lending level make mandatory social and environmental assessments.

- The Structural Adjustment Loan should include specific poverty and environmental structural benchmarks.

- Provide Structural Adjustment loans, with these conditions:
  - Give unemployment benefits
  - Promote democracy
  - Privatize energy and extractive industries
  - Reduce military budget
  - Reduce corruption
  - Support good revenue management
  - Include a environmental and social support program

Another viewpoint in one of the sub-groups was that countries in MENA do not need loans for structural adjustment, because they will not make a positive contribution and the countries already have sufficient resources, but they are not used efficiently.

**Discussion**

A number of group members pointed out that there were lots of differences in this group, and the final list of recommendations reflects the majority view of the group. One of the concerns about structural adjustment loans is the conditions that accompany the loans, because they mostly mirror conditions in the western world. The World Bank and IMF try to dump a western model onto developing countries, where the infrastructure is not similar to the western world. For instance, there is no social security therefore there is a lot of corruption. There is no true democracy and all the things that go with it. So, it is like cooking a meal in a very good modern kitchen and putting it on a table which has no legs. So, these models don’t work in the developing countries. When giving these loans, the Bank groups should look into the conditions in the developing countries, and try to support the poorest of the poor.

Another comment was that for those people who have lost faith in their governments, the World Bank is not the answer. If they don’t trust their government, they should go back home and change it. The World Bank will not do it for them.

An issue was raised about the lack of financial scrutiny in loans provided to state-owned companies from the government. A suggestion was made that the Bank does not monitor what happens inside a company. The rejoinder was that most state-owned enterprises are very large, so there are micro-economic implications. If the Bank is involved in lending to a state-owned enterprise, a great deal of attention is paid to the financial records and the degree of transparency in the company’s financial transactions.
8. Perspectives of the Region

Resource Blessings, Resource Curses, and the Bank

Professor Robert Weiner, Chairman of George Washington University’s Department of International Business, spoke about ‘Resource Blessings, Resource Curses, and the Bank’. He mentioned that a lot has been heard about the difficulties and the problems of oil and gas and minerals, but that people take for granted a lot of the blessings. The MENA region was a very poor one before the advent of oil, and a lot of the wealth of the region is associated with the mineral industries. Much of the education and health systems and the basic systems for social services in these countries are a direct result of wealth from these industries.

It has been pointed out that in natural resource rich countries, the development record has not been very good; and it is a challenge to transform the non-sustainable, depletable resource wealth of a country into sustainable wealth by converting it through investment into human capital and physical capital. That is the challenge that the region faces, and that is where the curse can be a blessing if things are done right.

So, what can the Bank do?

There are three potential areas where the Bank can make a difference: the first area is capital for projects, the second is technical assistance, and the third is income stabilization, as related to revenue management. Income stabilization differs from revenue management in that it refers to the stabilization of the revenues themselves, and not just how the revenues are spent.

Capital investment

Capital is helpful if the private sector is not willing to invest or is not willing to invest enough. When the Bank started lending in this area, official capital flows to developing countries, greatly exceeded private capital flows. Now the reverse is true. The private sector has been very willing to invest in extractive industries, despite the political risk and corruptive practices in some undemocratic systems.

Historically, most development of hydrocarbons was originally funded by foreign capital, whether by the Rothschilds, Nobel in Russia at the beginning of the 20th Century, or Saudi Aramco in this region. The types of risks that the private sector faces in the extractive industries in terms of expropriation or taxes are not much different now than in 1900 or the 1950s. Many of the multinational companies are still looking for opportunities.

Given the interest of the private sector in investing and the limited capital available to the Bank, the onus is on the Bank to explain why it should lend for extractive industries at all. There are cases for investment based on market failure: a good example is the Chad-Cameroon pipeline where the political risk and the complexity of dealing with multiple countries and environmental issues made it really impossible for the private sector to participate without the Bank. Given the development needs of Chad, this constitutes a good
example of appropriate use of the World Bank’s capital. Some bad examples are the IFC-MENA projects in the 1990s, because there was no reason for the IFC to put its capital into these projects. The private sector easily could have funded these projects without assistance from the IFC.

**Technical assistance**

The WBG has tremendous resources for technical assistance. It is in a unique position to take lessons learned in one country and apply them in other countries. No private sector organisation can do this. In addition, where there’s a market failure the private sector can’t credibly provide unbiased advice, as actions based on advice are likely to affect profitability. That’s an advantage the WBG has in overcoming market failure through technical assistance.

The WBG can make loans for technical assistance; most private banks will not make loans for information gathering or technical assistance, because of the difficulty in paying back. A good example of a technical assistance project is the Algeria Technical Assistance Loan, because it is geared at increasing the efficiency of the sector, and contends with complex issues of learning from other countries. This type of loan from the Bank can make the most difference, by using only a small amount of capital and leaving more capital for direct poverty alleviation.

Another area for technical assistance that could make a difference to the region is the operational governance of state-owned enterprises. Some state-owned enterprises are run very poorly, and can squander a lot of national wealth. The Algerian case contains all the important components for avoiding unfavourable arrangements with multinationals – eg, environmental regulations, regulations on pipeline access, etc.

Revenue management is critical for getting the capital and the wealth to the country from the extractive industries sector. The management of revenues for development and fiscal decentralization are all areas where the Bank provides aid and technical assistance. But the Bank could do better in this area if it was better organized. It’s difficult to get all the expertise together to collaborate – the oil, gas and mining group, the micro- economists, and the fiscal people.

**Income stabilization**

Regarding income stabilization, the extractive industries are subject to booms and busts, and the poor are particularly vulnerable to these fluctuations. When there’s a bust, usually the poor lose their jobs first and are first to struggle; this is seen in countries that have tremendous economic problems, such as Argentina. Booms and busts are very difficult in terms of governance. Booms can encourage corruption and rent-seeking, as well as the build up of uneconomic projects. Because of political pressure, it’s difficult to save money. Investment in economic diversification also can be simply a waste of money.

The Bank has been giving technical advice on booms and busts since the late 1980s. They started giving advice on risk management, providing both technical assistance and numerous
policy working papers, recommending countries to hedge their oil, metal, or coffee revenues, but the advice was essentially ignored. In the late 1990s, there was another initiative in income stabilization, but this is now moribund. Last year there were two well-attended conferences but the follow up was not evident outside of the Bank. So it’s very difficult to conclude that either the WBG or IMF has made any progress at all in helping countries in this area, and that countries have been able to smooth out their booms or busts, including the negative aspects of the boom.

On a final note the speaker raised a point about the difficulty of forecasting in the oil and gas sector, which is fairly essential for planning the budget, for social spending, for helping the poor, for hospitals, for schools, etc. Although the cycle for forecasting is only 12 to 18 months, forecasting results are terrible. For example, for Saudi Arabia the average error is about 20%. So when revenues are unexpectedly high, then spending is unexpectedly high, and when revenues are unexpectedly low, the government has to cut social programs or industrial programs. That translates into tremendous dislocation in certain sectors on an annual basis.

Discussion

A question was posed about economic diversification, asking for clarification on examples of good and bad economic diversification. The presenter replied that it doesn’t make sense investing in uneconomical businesses simply because they add value to extracted natural resources. In diversification it’s best to look for an industry in which the country has an advantage. The first thing to invest in is education and health care. The way to transform depletable capital into sustainable capital is to make investments in infrastructure and in human capital.

A Jordanian participant asked how can foreign enterprises that started the oil industry in the MENA region in the beginning of this century still have the risk today they had then. The response from the speaker was that a lot of risks that the oil industry faces are not necessarily related to governments or regime changes, but to whether or not the infrastructure is operating in the jungle or in the desert or in the North Sea. Places where the infrastructure is very difficult or can be destroyed by a storm or by guerillas are typical risks for the industry and the industry has found ways to cope with them. There is always political risk, but that is not a reason not to invest. The real point is: Should the WB use its capital?

There may be some exceptional cases, but in most cases, the best use of World Bank capital in this industry is for technical assistance, where with a relatively small amount of money, it can make a tremendous difference.

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

Professor Surek Borida, Head of the Department of Mining Engineering at Papua New Guinea University of Technology spoke about opportunities for employment generation and poverty alleviation in extractive industries in MENA countries. The presentation is based on a study carried out on mineral resources in the MENA region, looking into how they can help
the economies of countries in the region. Although the petroleum industry is the backbone of regional economies, there are many large undeveloped metal and mineral resources, which if developed and turned into operating mines, would generate huge employment opportunities and could also assist with poverty alleviation.

The speaker first provided an inventory of mineral resources and mining. There are many large deposits throughout the region, and many investment opportunities to transform these resources into producing mines. The mining industry is highly capital intensive; it requires large investments to create physical facilities for mining and processing; and most mineral deposits are located in remote and undeveloped areas. Through these investments, infrastructure development - roads, transport facilities, airport, schools, hospitals and townships – will come to remote areas. Foreign capital can join with local capital to create joint venture companies. Large employment opportunities are then created which will help alleviate poverty among local communities living near the mines.

The mines generate spin-off businesses to service the mining facilities, and act like a catalyst for overall industrial development in surrounding areas. New mines increase tax revenues for the government, and efficient use of the capital will make the whole economy cheaper.

Foreign direct investment (FDI) is available from many diverse sources – bilateral and multilateral agencies, development banks, corporations, and commercial banks. To access these funds a positive investment climate and environment is needed, with appropriate laws and regulations, property rights and tenure, a transparent tax regime, and a capacity to repatriate profits. Efficient financial institutions – banks, insurance companies – must also be available.

FDI moves only to countries where most of the economy is in the private sector and free from the risk of nationalization in the near and long term future. Existing government owned mining companies, steel plants, and smelters and refineries should be privatized by floating the shares to local and foreign investors. The joint-venture concept is appropriate to attract FDI. A tax credit scheme for infrastructure development can increase local benefits.

The ‘Development Forum Concept’ involves all the stakeholders getting together to discuss the project before the mining license is granted. Mining investment conferences can help in getting funds from different banks. MIGA can help with risk reduction. They have a website where Arab countries can feed data on mineral resources to attract FDI.

In summarizing the presentation, it was emphasized that there is an urgent need to attract FDI in the mining-metals sector to the mineral-rich countries in the region – ie, Iran, Oman, Qatar, Kuwait, Sudan, Egypt, Algeria, Tunisia, Morocco and Libya. Large investments will come to those countries only when appropriate legislative and fiscal changes are made. The potential is large to increase economic activity and to bring many important benefits to the local population, namely to:

- Strengthen the overall economic base.
- Create large employment opportunities.
- Create more local businessmen and stakeholders in the construction industries.
- Increase the purchasing power and income base of the population.
- Generate infrastructure development in remote areas.

Discussion

A participant from Palestine asked for clarification if investors are demanding fiscal and legislative changes in some of the MENA countries. The presenter provided some details on the two components: legislative changes are mainly to do with how mining licences are granted; and fiscal changes are to do with tax regimes and repatriation of profits. A transparent system is needed for both. A Jordanian participant suggested there was also a problem in marketing opportunities to potential investors, not only simply making the suggested changes. A question arose from a participant from Tunisia that the legislation allows a five year tax holiday for investors, but still investment has not increased. The presenter suggested there could be other factors than the tax regime inhibiting foreign investment.

9. Opening Remarks to Final Session

The Eminent Person, Prof. Dr. Emil Salim, opened the final session with some guiding remarks. He reminded the participants that the purpose of the workshop was to give the EIR team ideas and recommendations to pass on to the World Bank Group. The terms of reference for the EIR specify that team must listen and understand the views of the various stakeholders - government, business, and civil society – in order to identify areas of consensus and areas of dissenion on the possible future role of the World Bank in extractive industries that would promote poverty alleviation through sustainable development. Sustainable development means assuring economic sustainability, environmental sustainability, and social sustainability. Based on that, understanding, based on our knowledge of the diverging and converging views, the EIR team then will make recommendations to the Bank, which must be feasible, practical, and forward-looking. That is the focus of the workshop.

The list of projects that have been financed by the World Bank since 1992 in MENA is unfortunately rather limited, and gives only a glimpse of how the WB operates in this region. Our discussions about the role of the World Bank should be realistic, with our feet on the ground. We have looked at a number of cases studies, from which we have identified some of the possible crucial questions for extractive industries in the MENA region. That should be the basis for what should be done and how things should be done in the recommendations to the World Bank.

Economic diversification

So what has come up from discussions during the last three days? One issue clearly is the need for economic diversification. MENA is a region rich in natural resources, but most of these resources are not renewable - they will be exhausted at a given point of time because of
physical reasons or because of technological change. One may now be importing oil or gas, but what will happen in 15 or 20 years when the technology has moved forward? So, oil being a non-renewable resource implies risks.

Secondly, the globe suffers from what is referred to as global warming due to climate change. This is a global issue and, even if it is not considered important for national governments, if the climate goes on changing in the next 20 years, it will hit the developing countries very hard. Developing countries which have low coastal areas - such as Ecuador, Bangladesh with its frequent floods, the Philippines, and the Pacific Islands - will sink under water.

Climate change will also endanger the production of water-based agriculture. Those that will suffer from climate change are not really the rich countries. So, for the sake of the developing countries which already are poor, how can we prevent this negative impact of fossil fuel on the climate of developing countries? In order not to contribute to the suffering of developing countries, we need to think about diversification. This is where we can ask what the World Bank should be doing and how to do it. What should the Bank do in the developing countries which are in the majority? Question number one, therefore, has to do with economic diversification.

**Revenue management**

The second issue is that of revenue management. MENA, unlike other regions, is rich in natural resources, with a large revenue intake. The question here is how can this revenue contribute to promoting the income of people (men, women and youth), their welfare, and their quality of life? So that in a twenty-year perspective, using the natural resources with good revenue management, this region will have enhanced people’s quality of life and will have contributed to global development.

**Poverty alleviation**

The third issue is poverty. This region consists of rich countries and rather poor ones. Poverty here is not only in terms of income, but also is accessibility to education, to health, to electricity, to a decent life, to the quality of life, to a human type of life. How can we achieve poverty alleviation in this region? All these issues need to be addressed – i.e., poverty alleviation and economic diversification - because the huge capital that this region has is not so much material capital. It’s the people, the human beings that are here. These human beings consume but also they represent human and social capital. If this region is to reduce poverty levels, achieve higher incomes, and economic diversification, the key is public participation and basic democratic rights. It’s not democracy in terms of capitalism, not democracy that is advocated by the U.S. It’s democracy like the Koran tells us how we should democratize our life. It’s democracy that is in line with our own culture, with the rural Middle Eastern and African culture, a democracy that allows people to rise up, to have their life in their own hands, in order to improve their standard of living.
Strengthen local capacities

Fourth and fifth is an element, which I don’t see in other regions, is this strong nationalism. This is a region with an old history that dates back centuries. This is a proud region that knows that it is different from others. This is a region with culture and an old, established identity. During the discussion yesterday this was emphasized, and we need to agree on this and keep in mind the identity of the region. So, national ownership is essential in development. What I feel exists here is not necessarily globalization but localization. Let’s give people here an opportunity to develop, to meet the competition of globalization by strengthening the local capacities of this region.

These are the five most important issues that we are here to discuss; do not theorize about them, instead ask what to do and how to do it. We are not asking you to go over the history of things, or what experts to call, or what professors to consult. What is needed from you is concrete suggestions about what the EIR team should propose to the World Bank. How should the Bank behave in setting up programs, in projects, in processes, in policies, in order for the MENA countries to diversify their economy, improve their revenue management, alleviate poverty in a broad sense, introduce public participation, and build up local capacities? This also reinforces the idea that these countries are not homogeneous – it’s moving towards a diversified world in the MENA countries. They will retain their own identity, so they are not a mere imitation of the US, like what’s happening to Europe. That identity, that character, and that history need to be maintained – it’s a long and rich history.

The concrete proposals you are supposed to come up with have to state what is to be done and how it ought to be done. The stronger your voice is, the more meaningful your recommendations will be. The EIR can then tell the World Bank that the material being presented to them has come from the people of the MENA region. We then can count on the support of the Executive Director of the Bank for the MENA region to join together with us in pushing the World Bank to change the course of development to a better way, compared with the past.

10. Final Recommendations

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

Economic Diversification

The working group summarized the issues they discussed in seven main topics:

i. Evaluate and share past experience: Evaluate the past experience of projects implemented by the World Bank in the region and share the knowledge between the countries in the MENA region. Some projects have succeeded and others have failed, so past experience is
essential to set a strategic plan for the future and to know how to proceed. This topic is linked to number ‘vii’ which is also very important, that is to draw up an inventory of the resources for future needs. ‘Resources’ means not only natural resources but also human resources. The plan for the future is also meant to promote diversification of the economy.

ii **Develop specialized professional skills, research, and social evaluation:** Professional skills, research, and social evaluation are very important to diversify the economy and to prepare future generations for other skills in mining and extractive industries. This will be made possible first by creating a national and regional network for the exchange of ideas between countries, and by establishing focal points in each country. These focal points will be responsible for exchanging experiences. Second, by coordinating between UN agencies and local governments, because within the UN structure there are a lot of programs – eg, by UNESCO and the UNDP - aimed at promoting professional skills. The Bank could coordinate with these agencies in order to deal with this issue.

iii **Promote social development in all different sectors of society:** The Bank should advise governments on equitable revenue expenditure. For example, expenditures should be made in health care and education, not only to promote the technologies of extractive industries. Countries have to diversify because these industries are not renewable.

iv **Relate lending policy to reform:** In lending to governments to develop some projects, regulations need to be applied to and by governments. Carry out some reforms in the lending process, and link them to performance standards in order to improve lending procedures. The WB should put in some benchmarks to ensure that governments introduce institutional reforms and legislation that will enhance flexibility. There should be some international or European standards or framework.

v **Scrutinize loans against project viability:** The Bank can help to make better, impartial feasibility studies and independent reviews.

vi **Promote removal of barriers between countries:** Promote removing barriers between the MENA countries, and between MENA countries and other countries. This is a way to promote exports from the MENA countries to other countries. There are a lot of things to export from these countries to the world. The Bank should defend the interests of developing countries in terms of industry and development.

vii **Make an inventory of resources:** The Bank can help establish a data base and regional network that could be used to foster diversification of the economy.

**Discussion**

The first question was about what the role of the World Bank was in ‘creating a regional and national network’ - should the Bank create the network? The answer was: Yes, they should create the network in order to share knowledge between countries concerning projects which have been financed by the Bank. Another participant suggested that the Bank should not establish the national networks, or even the regional one, because this is the business of civil
society or the private sector. There is a risk that the Bank will parachute in ideas again and establish from above networks which are supposed to come from bottom to top. Another comment on this issue was that this idea is derived from our past experience with the European Union, which has created some national and regional networks in order to exchange data and evaluate projects. Another group member commented that the discussion was about sharing experiences and learning from different parts of the world. Countries need to learn from what happened before and try to relate the learning to the local context.

A question was raised about the group’s attitude towards privatization of education and health care, and if they think the World Bank should encourage privatization projects in education and health? A group member replied that their discussions were strategic, so they didn’t address that level of detail, but the group did recommend that the Bank should liaise with the UN agencies, such as UNESCO, UNDP and WHO, that promote similar programs.

Another participant noted that a lot of the recommendations are things that should be done regardless of whether there’s an extractive industry or not. It’s just good management and sound economics. There is a link to extractive industries with revenue management, but unless the economy is protected against the shocks and the abuses of investment in extractive industries, the chances of achieving the recommendations are greatly reduced.

A final comment was that there is a link between this topic and revenue management.

**Governance and Revenue Management**

i  *Make engagement of the Bank conditional:* The engagement of the World Bank should be conditional and subject to a timetable decided on in consultation with respective governments. Conditionalities are: progress on achieving democracy; protection of human rights; and reduction in military and security expenditures, and extravagant expenses like palaces.

ii  *Transparency:* Transparency is a very important topic, and to achieve transparency in the MENA region an institution is needed. A code of conduct or a convention on transparency should be drafted and negotiated with the assistance of the World Bank through international and regional partnerships. Governments should provide voluntary transparency of extractive industry’s revenues. Local people, grass roots institutions, and NGOs should be consulted on the allocation of extractive industry revenues to social and environmental programs. The ICMM code of conduct was cited as a good example to follow.

iii  *Technical assistance:* The Bank should continue carrying out studies for governments on public expenditure programs. The Bank can provide advice and studies on stabilization investment in collaboration with local partners and regional institutions. The Bank should actively collaborate with organizations that represent the region and already have valuable information about all the issues being discussed. This should include UN agencies and regional financial institutions like the OPEC Fund, the AFAD, the Asian and African Development Banks, or the Arab Petroleum Investment Corporation.
iv **Training:** Training should be aimed at capacity-building. When the Bank provides financial or technical assistance, training should be a prerequisite so that appropriate know-how and expertise are shared.

v **Monitoring group:** The World Bank should advise some of the governments to establish a monitoring system, with a monitoring group that ensures that Bank projects comply with revenue management regulations in order to help the country achieve its own technical and financial aims. This is the case in Chad.

**Discussion**

The first comments was that there are some Western countries that cause instability in the region, so that they can sell weapons against oil and thus save their dollars. Governments should not deal with these countries. A representative from the International Council for Minerals and Mining (ICMM) briefly described the structure and purpose of the organization, in which 15 mining companies have joined together to improve industry performance. The principles that have just been signed cover ten aspects of performance, including transparency and promoting community and social development. ICMM is about to sign an agreement with the Global Reporting Initiative (GRI), and is about to develop reporting standards through a multi-stakeholder process, because all companies will be required to report based on the principles. Next they will go into independent verification systems. This is the way that mining companies around the world are looking at the issues that have been outlined, and they want to carry this work forward.

A participant commented on the concept of the monitoring group, and that the presence of NGOs and civil society within this group is essential to ensure transparency and fairness in the distribution of revenues. The next speaker questioned the inclusion of NGOs in the monitoring group as there already are elected monitoring agencies within the countries, such as the parliament, for example. The speaker questioned the need to have a ‘state-within-a-state’. NGOs think they are more reliable and more trustworthy than the people at the parliament. They should remember their real role - they can monitor everything, but their role is not to decide what’s right and what’s wrong. If they see that there is something wrong, they can go to the courts. They should not have the power to tell the government what to do and what not to do. That’s the function of parliament and the executive branch of the government. NGOs should have a more realistic role.

Another participant commented that the ‘Code of Conduct’ and ‘Convention on Transparency’ are two completely different concepts. This speaker did not like the voluntary nature of the Code of Conduct. This is particularly important where there are large loans that have to be paid by the people themselves and future generations. This requires very serious accountability and disclosure, like a prescriptive law and not a moral choice on the part of contractees. The idea that governments should be involved in moral contracts is not effective at all because nobody abides by ethics and morals anymore. Business is business. The Bank is not bound by ethics; it gets involved in business from a purely professional perspective, which aims at making a profit. The same goes for governments that do not believe in
democracy and often claim that there is no corruption. They continue to build palaces and make expenditures for policing and military purposes.

A participant from Jordan agreed with his colleague that there are many ways for NGOs to get involved in monitoring. But there are cases in MENA where there aren’t environmental laws or legislation, or there’s poor enforcement. The speaker felt that conditions should be made better for NGOs or civil society to monitor projects that are implemented.

One of the working group members clarified that the intention of the Code of Conduct was to have certain activities to insure transparency, environmental and social sustainability, and other objectives, that it was not intended as an ethical choice.

A participant from Egypt asked for clarification on the proposal concerning cutting military expenditure. He wondered what the basis for this was – is it considered a social cost or a private cost? Have they evaluated the peace settlement in the area with an economic basis to cut down on military expenditure? Would it be advisable, within certain conditions, to propose a reduction in military expenditure?

Another participant commented on how easy it is to get stuck in an attitude of compliance; what’s missing for him is the need to talk about compliance audit and meeting standards. He suggested that there are some issues no one knows anything about, such as collective participation, collective wisdom, and creative and constructive values.

The final comment was that there are a lot of problems, and the main problem is not the World Bank, it’s their own people. He suggested to try solving their own problems first, before seeking help from the Bank.

**Poverty Alleviation**

After much contentious discussion, the poverty alleviation working group came up with a set of recommendations. There was a lot of disagreement in the group, but they did raise some key issues, such as: What is involved in poverty alleviation? What to do about it? How to do it? The group felt that the questions needed careful phrasing so that it would be possible for the WB to help. Perhaps some aspects of poverty alleviation are not the concern of the WB. The group did talk about the need to redesign and reform policies implemented by the WB, and they tried to come up with recommendations to introduce some ideas concerning poverty alleviation. So far nothing has been done up to now in the area of extractive industries that are funded by the WB.

1. **Capacity-building at local level:** The Bank should help with capacity-building for local people who are affected by the activities of extractive industries. These people often lack educational opportunities. They lack a suitable environment and basic living needs, such as electricity. A given percentage of the revenues of extractive industries should be allocated to building schools and vocational training centers, with the emphasis on knowledge-sharing and disseminating information.
ii **Satisfying local people’s minimal needs:** The revenues and benefits of extractive industries do not go directly or indirectly to the poor. The Bank should ensure that minimal needs are identified, and programs are designed that effectively address these needs. Part of the revenues generated by extractive industries should be allocated to finance programs on basic needs.

iii **Enhance small-scale enterprises:** The Bank should assist in creating an environment conducive to enhancing small-scale enterprises, through providing advice, technical assistance, and training.

iv **Compensation:** Most extractive industries resources are in marginal areas or areas limited in natural resources; people living in areas surrounding extractive industries are often poor. Extractive industries introduce changes in people’s lifestyle. These industries plunder existing wealth, and ignore the living conditions of local people, who then have to leave their land and look for employment, changing from producers to employees. Therefore the Bank should help develop a mechanism to compensate for these people’s losses. They will need alternatives for the after-project period.

v **Gender equity:** The World Bank should ensure that a gender perspective is incorporated in the design and different phases of projects.

vi **Fair revenue distribution:** The Bank can help in setting up a mechanism that provides fair distribution of revenues, as well as by helping develop programs and policies that ensure that equitable distribution happens.

vii **Community participation:** The Bank should facilitate the involvement of local communities in poverty alleviation programs, ensuring that a bottom-up approach is adopted that takes into account the needs of local people. For local people to really benefit from the programs they must be actively involved - they know their needs best and how a program can best satisfy of those needs.

viii **Participation of civil society organisations:** The Bank should also facilitate the participation of civil society organizations and NGOs. Civil society organizations can be trusted, they are accepted by local communities, and their work is credible. Very few governments can boast of this.

The group provided some additional comments for the Bank. One concern is the image of the World Bank among the public. In Jordan, people associate the World Bank with taxes or raising electricity prices, so when they hear about a World Bank-funded project, they refuse to cooperate or implement the project. There is a misunderstanding about the World Bank and its aims. There are other people who refuse to cooperate in World Bank projects for religious or ethical reasons. The bad image of the Bank can be a problem when trying to alleviate poverty, because it involves dealing directly with local communities.
Discussion

A speaker who spoke previously on the involvement of civil society contended that he did not say that the civil society has no role and that the government should do everything. He agrees there is a certain role for civil society, whether the system is democratic or not. Civil society organizations should be the watchdog; they should watch the government and even the representatives of the people. If you cannot change anything by law, you can write about it or go out in the streets and demonstrate. Civil society organizations have a very important role, but the roles should not be mixed with that of government. Countries have a parliament; they have political parties with their own roles. NGO’s should not take the role of parliament and political parties. If you don’t trust your government, you should not try to change it through the World Bank.

The next speaker wanted to see a big emphasis on small and medium enterprises. He felt that, in the Arab world, there is a cultural bias against small businesses; when dealing with extractive industries, people expect investment from multinationals and governments. They don’t expect small businesses. He would like the World Bank to use its accumulated experience to promote the provision of technical assistance and training, and highlight the importance of small and medium enterprises, by providing support more proactively. Commercial banks also need to be proactive; they normally don’t lend to small businesses because of the risks. The speaker would like to see more emphasis on small businesses.

Another speaker from Jordan noted that international lending or donor agencies are involving civil society organizations as a third party to complement small-scale enterprises. The banks in Jordan are not lending for this purpose, so the third party, civil society organizations use the money from the Bank to contribute to developing small-scale enterprises, aiming to alleviate poverty by raising the living standards of local communities.

A speaker from Saudi Arabia felt there was a direct relationship between growth and poverty alleviation. He believed that if they achieved economic growth from extractive industries, then they would be able to contribute to poverty alleviation. If the growth is managed efficiently, it can contribute to education and health. He looks forward to support from the World Bank in the MENA area because of the potential contribution of extractive industries to poverty reduction.

A speaker from Morocco contended that it’s not just the World Bank that can help reduce poverty. It's a matter for all the international authorities, because the task is so large. A request was made for the World Bank to be the voice for all these countries to help reduce poverty by reducing the proliferation of nuclear weapons and weapons of mass destruction, and working to stop wars.

A participant from Egypt commented that he is not asking the Bank to do anything, and he doesn’t want anything from it. Moreover, there is a danger in believing that the World Bank is going to play a role in poverty alleviation.
The next speaker suggested that the World Bank committed a serious crime in relation to civil society in the 90s, when it started working on projects purportedly for development and growth through the private sector in cooperation with civil society organizations. One consequence was that large organizations developed, especially those that worked closely with the Bank. These organizations mobilized entrepreneurial groups which benefited from loans. New issues arose related to corruption and abuse of power, and the idea that civil society organizations must emulate the private sector in its management procedures. The result is that the work of civil society in a number of countries has been destroyed. These organizations turned into mechanisms working for the private sector, whereas previously they had been a militant component of society, fighting for social causes such as unemployment and poverty. Civil society basically is not a mechanism that works with money. Even in the West, civil society has always been connected with charity work. In Islam also, the concept is one that is based on ‘helping’ and ‘giving’. So, when the World Bank introduced and implemented the notion of privatization, this constituted a real blow to the very idea of civil society.

A participant from Saudi Arabia spoke on behalf of the tragic situation in Iraq, where there is a lot of poverty and hunger. He would like to see the World Bank provide technical assistance to assess the oil and gas sector in Iraq and its implications for sustainable development, peace, security, and poverty eradication in the region. The situation in Iraq is certainly going to affect the whole region economically and politically. The speaker called on the group to help include this item in the final report: Iraq should be given special consideration in the technical assistance that the WB might be providing.

The next speaker disagreed with the previous one because there was not yet an independent, democratically-elected Iraqi state to invite the World Bank to come and provide its services. Unless Iraq is liberated and is a sovereign state, no international organization should get involved there, except for humanitarian assistance; otherwise it will be an act of colonization.

A participant from the World Bank, who is part of a task team working in Iraq, clarified the current activity of the Bank in Iraq. Following a UN resolution, they are participating with a fairly large team of UN staff and Bank consultants in carrying out a needs assessment, depending on the security situation. No firm decision has been taken so far about the form of intervention, but the same point has been made that there should be a legitimate Iraq government before the assistance will flow, except for the humanitarian aid which is going to be provided. So, for the moment the Bank’s only role is in assessing needs; no decision has been taken on the form of intervention and what the World Bank could actually do.

The next comment was regarding poverty alleviation: Not all countries in the region are in a situation of crisis. Some countries like Saudi Arabia are rich, and some are poor. The rich have surplus resources and can help the neighboring countries in poverty alleviation. Is poverty alleviation limited to the Bank or can these countries help each other at the regional level in contributing to poverty alleviation? Some of these countries are in a position to help without imposing conditions of for example, structural adjustment. The speaker felt it would be much easier if this was done at the regional level.
The last speaker referred to the heated debate that took place among civil society organizations about poverty alleviation. The talk now is about ‘wealth alleviation’, which should be considered since this is the argument written in the memorandum from Johannesburg by civil society organizations.

Public Participation and Basic Democratic Rights

This working group presented the following set of recommendations:

i  **Governance contract:** The World Bank should draw up a standard contract with terms of reference stipulating all the clauses that refer to the fight against poverty, freedom of expression, good governance, etc, and where non-compliance with these stipulations will be denounced.

ii **Distribute contract:** The Bank should make this contract available to all parties concerned: government, local authorities, and civil society.

iii **Complaints committee:** The World Bank should set up a complaints committee within the World Bank to receive complaints from all interested parties and to provide the required explanations.

iv **Prior informed consent:** The Bank should include an article in the contract stipulating that any legal text relating to the project in question should be discussed beforehand between the various parties so that it can be properly observed.

v **Compliance with international conventions:** The Bank should ensure compliance with international conventions signed, in particular, within the framework of the ILO. The World Bank should refer to these international conventions.

To achieve the above, the Bank should draft a periodic report on the state of the country in question regarding good governance, democracy, transparency, freedom of expression, the fight against corruption, etc, with a scoring system like that for other evaluation reports drawn up by international authorities. Furthermore, the group suggested that this information be published, using appropriate communication media, and in particular the Country Policy and Institutional Analysis (CPIA). It also is important to have access to information through accessible and usable communication media.

**Discussion**

One of the working group members raised a point that he felt was not emphasized enough, which was that the World Bank should publish periodically an evaluation grid adopting a certain grading procedure for transparency, the fight against poverty, etc. The countries with the highest number of points would be at the top of the list and would be awarded favorable conditions of financing by the Bank. Those countries at the bottom of the list should be dealt with in a strict way. The World Bank cannot enforce but it can encourage countries to try and
move from the bottom of the list to the top, hence the need for this periodic country assessment.

Another member of the group commented that they focused on the importance of having contracts between the various parties, the Bank, and the government, with specific conditions of respect for human rights, environment, etc. The second point he emphasized was the importance of the power of information: it is essential to publish these contracts, using different media, and inform civil society about the contracts. The last point he made was that the Bank should establish a committee dealing with civil society that takes into consideration principles like democracy, participation, environment, and human rights. It would be important to have open sessions with this committee, attended by civil society and NGO’s.

The next speaker first supported the recommendation for the country level status assessment, referring to the work being done in the World Bank called the CPIA, the Country Policy and Institutional Analysis. He suggested publishing this report so that civil society and others, including the private sector, could use it as a basis both for decision-making and for monitoring.

A World Bank representative clarified that the World Bank Institute currently does something similar and that the information is publicly disclosed through its web site. The work aggregates a lot of indicators from a lot of different organizations – eg, there is one on corruption. It brings in a lot of information sources and very cleverly gives the option of looking at not only the level of governance, corruption, civil society participation in a single country, but also you can compare it to its peers in a given region or within regions. It’s potentially a very powerful piece of information. It isn’t currently used for any form of preferential lending, but it’s there as an instrument that people can look at to get a sense of where their government stands in terms of those kinds of issues.

The next comment was that information on contracts is not published or available. The records of the World Bank are published, but they are extremely expensive - one book costs about $400. They can be bought in Egypt.

The World Bank representative responded that all the reports on the projects are in the Public Information Centers, and is readily available on the website. Information is easily available, not only about a project, but also about its context, what’s happening in the country, what’s happening in the sector, etc. These are very useful and widely used by civil society. Some reports are sold; they usually are deep research reports on particular issues. Very often, these reports are made available free for people who have a special interest in them, but other people can buy them from bookstores.

The next speaker said he had problems downloading some of the World Bank studies. He also questioned the payment for publications that were funded by representative governments; he felt they should be available to all people concerned.

The last comment reiterated the high cost for World Bank items, and suggested it was a clever device to prevent NGOs from participating.
Foreign and National Ownership

The working group on foreign and national ownership concluded that the Bank could contribute the following:

i  **Investment for added-value:** Attract investment into a country to process primary materials. Add value for extractive industries in the MENA region, because one problem is that most materials are extracted and exported as raw materials, so the benefit is minimal.

The mechanism: First, the World Bank should provide an advisory mechanism to develop a competitive law in the region. Second, there is a need for sustainable resources development, which can be part of national policies and practices. The Bank could have an advisory role in this. Transparency is required to benefit from the secondary and tertiary sectors. Transparency is needed because the aims are not always clear, nor is the mechanism for implementation in the country.

ii  **Encourage SMEs:** Encourage the development of small- and medium-scale enterprises and activities at the micro-level because these sectors are neglected. In the MENA region, the big projects usually attract foreign investment. The Bank can make this possible through the guarantee of transfer of technology for these sectors.

iii  **Develop local industries:** Remove regional trade barriers, develop local industries, and guarantee that there is a real benefit for the local industries and economy, particularly as there is a risk of one economy dominating over another. The Bank can help achieve this by through helping to harmonize and unify customs and administrative processes. This has always constituted one of the most important obstacles in the region so far. Another way is to design incentives that encourage regional investment. Such incentives are lacking in the MENA region, even at regional level. For example, there is room to encourage partnerships in economic development by setting up projects.

iv  **Balanced domestic and foreign ownership:** Insure an appropriate mix of local and foreign ownership to keep value-added in the country. In order to promote national and foreign ownership and attract investment, try to guarantee equilibrium in the economy in general, which means trying to promote investment in all sectors of the economy in a country. That is often a problem because there usually are sectors which are stronger than others in attracting foreign investment, which may lead to no profit for the country, as the investors may only be looking for what is the total growth of the economy, neglecting how that growth is achieved. Sometimes you may have economic growth but at the same time a total loss of some sectors. The aim then here is to achieve equity in economic development.

The mechanism advocated is to improve the image of the country through investment promotion. First, promote the image of the country itself, because sometimes the countries of the MENA region are promoted in the wrong way. For example, most of them have a reputation of being hotspots where there are regional conflicts, terrorism, etc. So, in order...
to attract investment, it’s essential to improve the country’s image. There is an advisory role here for institutions like the World Bank.

Another way of achieving this is not just focusing on profitability, but also using local capabilities to promote sustainable development for local communities. In addition, there is the need to broaden the base of investment and make a better use of local potential.

**v Blacklist offenders:** Make a black list of foreign and local enterprises which do not respect the appropriate environmental and social legislation. This may be one of the roles assigned to the World Bank which, through its monitoring mechanisms, is able to follow up which countries violate environmental and social regulations. This is possible through access to information on past environmental and social performance.

**vi Information transparency:** It’s important to guarantee transparency in environmental reporting. A problem in MENA is that often, even if the WB asks for EIAs, and there are scoping sessions arranged for this process, there is no access to project information, particularly those which constitute a priority for the country, whatever the environmental and social consequences.

The World Bank has a role in improving legislation and enforcing access to environmental reporting. Such improvements will provide incentives for economic development, and FDI can contribute to protecting the environment. Another mechanism is to internalize social and environmental costs, by having an environmental tax on extractive industries, which could be imposed when contracts that lead to granting licenses for extraction are drafted with the government. This is different from taxes which are allocated for environmental and social work, whether there is a present need for these taxes or not, as they may be used in the future (‘ear-marked’ taxes). There also could be some kind of tax-exemption and related incentives for environmental-friendly industries.

**Discussion**

The first commentator expressed concern over the seemingly intensive role of the World Bank in the affairs of countries in the region, including such things as legislation and projects. His fear was that a measure of control would result from this level of involvement, and felt that shouldn’t be the role of the Bank, as it is an investor and no investor has the right to interfere in the internal affairs of countries. The group rapporteur replied that the role of the Bank was to act as an advisor or consultant, not one of enforcement. This is especially relevant for environmental and social issues, and to ensure there is compliance with international standards in legislative improvement.

The second speaker asked if the group took into consideration the depletable nature of the extractive industries, and the consideration of future generations. In response the rapporteur said that is was only briefly mentioned, but they did discuss the issue of sustainability and the need for extractive industries to offer incentives and implement environmental measures like the EMS systems or the ISO 14000, or adopt measures to make their industry as clean as possible.
The next speaker commented that when negotiating extraction contracts there is some provision for either a production-sharing agreement or a set of royalty and tax regimes. Within that framework, you can take into account the fact that oil is depletable. If you have a good government it will set aside money, like Kuwait is doing, in the form of a future generation fund (as you have in Alaska, Norway and Chad), just in case something goes wrong in the future and the oil is depleted.

11. Closing Remarks

World Bank

Charles McPherson, Senior Advisor with the International Finance Corporation, expressed his appreciation to the participants for their active involvement in the workshop process. He emphasized the relevance of the discussions to the World Bank, the importance of the issues raised, and the value of the multi-stakeholder approach. He was particularly happy that the groups had gone beyond simply identifying the issues, and had made recommendations on what to do to address them. He was confident that the results would get attention at a very senior level within the Bank.

EIR Eminent Person

The EIR’s Eminent Person, Dr. Emil Salim commented that he was pleased with the accomplishments of this consultation, and was grateful that it could be held in a region that was rich both in history and resources. The purpose of the EIR is to find out how to correct the imbalance in the extractive industries sector that leaves civil society disempowered and vulnerable in relation to government and industry. The World Bank historically has strongly supported both government and the private sector in the extractives sector, but now it is time to strengthen civil society in order for the Bank to begin to address its main objective of poverty alleviation through sustainable development.

The Bank must take a different approach and emphasize more strongly both environmental development and social development on an equal footing with economic development. Dr. Salim concluded by thanking everyone for their contributions, and he urged the participants to push the World Bank to implement the recommendations that finally come out of the EIR.
Executive Summary
The Extractive Industries Review (EIR)

Regional Consultation Workshop for Middle East and North Africa

Marrakech, Morocco
June 29-July 2, 2003

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

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

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

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

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

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

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

Open Forum Testimonials

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

---

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

Introduction

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

Working with Governments

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

Working with the Private Sector

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

Project Environmental and Social Review

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

MENA Program

In the Middle East and North Africa region the lending program for extractive industries is very limited; and it is overshadowed by the wider economic challenges of high unemployment and a low growth rate. The region is expected to have the single highest sustained labour pressure ever experienced globally – 50 million jobs will be needed over the next 10 years. In addition, worker productivity has declined, capital investment per worker has decreased drastically, and it has the highest level of violent conflicts in the world.
The region suffers from the ‘paradox of plenty’. Not surprising, there is a serious governance gap in the region. Studies are underway to substantiate and understand these realities. With two thirds of the world’s oil and gas reserves, and one third of its production, there is a deep lack of economic diversification, and oil and gas revenues are falling sharply. Sector reform is essential to attract investors.

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

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


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

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

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

**Questions Arising from WBG Presentations**

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

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

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

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

Water and Development Organization, Palestine

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

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

Association for the Protection of Nature and the Environment, Tunisia

Bank supported oil projects were the focus of attention for this Tunisian environmental NGO, including offshore activities and a proposed pipeline. The concern is marine impacts, especially as 90% of Tunisia’s shrimp production takes place in the same waters. The results of World Bank studies showing minimum environmental impacts were questioned. It was recommended that the Bank should follow a code of practice, and that good environmental practice be mainstreamed within the Bank.

When the consequences of following IMF and WBG advice are poor, who is responsible? It would be better for the Bank to work more closely with civil society groups, as this will make success more likely.

National Association of Human Rights, Egypt

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

In the discussion that followed, one participant emphasized that the Bank’s expertise was badly needed, as there were substantial problems to solve in the region, particularly regarding resource and
revenue management. The low level of women’s involvement was highlighted, as well as the need to explore renewable energy possibilities. A Bank representative pointed out the role of the CAS in providing opportunities for civil society participation; and that government chooses in what areas they want the Bank’s involvement. Government sets the priorities and the Bank’s role is advocacy and advice. The Bank spokesperson commented on the universal problem of resource revenue management, transparency, corruption, and the ‘Dutch disease’ phenomenon. The Bank has a role in capacity building for better governance and in anti-corruption campaigns. The Bank also has a lot of information materials available through its information centres.

Final Statement on Behalf of Civil Society

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

Closed Consultation Sessions

Introduction from the Eminent Person

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

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

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

Opening Speech by the Minister of Energy and Mining of Morocco

The Minister of Energy and Mining from Morocco spoke about their efforts to address development objectives – for example, strengthening institutional capacity, promoting access to water and energy resources, and integrating environmental issues in national planning. A major challenge is to achieve economic growth and poverty reduction, within a framework of environmental protection and conservation. The government would like to ensure a favourable climate for private investment, and it has implemented major reforms to increase competition and promote investment flows. Maintaining the extensive system of oil and gas pipelines, and expanding the regional electrical grid is complementary to this.
Morocco has a six point energy strategy which includes security of procurement, best cost energy, wider accessibility, environmental protection, energy prospecting, and liberalization and restructuring. The want to upgrade infrastructure, promote exploration along their coastline, and expand their gas pipeline to Europe.

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

Case Studies

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

Poverty Alleviation

Saudi Arabia government perspective

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

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

Governance

Algerian Technical Assistance Loan

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

The company has invested substantially in social services and facilities for its employees. It has an environmental program for protecting sensitive areas, and is developing less polluting products.
The technical assistance loan is aimed at supporting the government in implementing a new energy and mining policy. The policies are focused mostly on good governance – putting in place a legal and regulatory framework that promotes transparency, public accountability, and governance in the wider sense. The separation of the policy, regulatory, and commercial functions is essential. At the moment, SONATRACH combines a number of these functions, and the distinction between what is government and what is SONATRACH is not always clear.

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

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

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

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

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

Environmental Issues

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

Extractive industries and community development
The President of the Association Tunisienne Femme et Environnement, spoke about the relationship between extractive industries and community development. Extractive industries can impact
communities adversely in a variety of ways by affecting health, loss of biodiversity, pollution of air and water, and soil degradation. Women in particular can be strongly affected. Measure must be in place before a project begins, to avoid or minimize these impacts. Benefits must clearly be visible, backed up by institutions that practice good governance.

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

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

Public vs Private Sector Led Development

Aramco, Saudi Arabia

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

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

Structural Adjustment

Sustainable Development Impacts of Policy and Institutional Reforms

A Senior Program Officer from the Macroeconomics Program Office of WWF-US presented the results of commissioned research on the interaction between structural adjustment programs and extractive industries. As the goal of the World Bank is sustainable development and poverty reduction, social, environmental, and economic factors were looked at. The research examined three of the
Bank’s lending mechanisms: structural or sectoral adjustments, technical assistance, and advisory services.

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

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

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

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

**Working Groups**

**DAY ONE**

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

**Governance and Revenue Management**

The first working group discussed the question “What are the main obstacles in terms of Governance and Revenue Management for Extractive Industries that prevent sustainable development? The group identified 11 obstacles: (1) lack of participatory democracy; (2) corruption, lack of transparency and accountability; (3) excessive military and security expenditure; (4) lack of capacity for long term planning and monitoring; (5) insensitivity to in-country context; (6) lack of good fiscal and macro-framework, poor revenue management; (7) lack of community access to benefits; (8) foreign investment dominance and lack of local domestic enterprises; (9) weak legal system; (10) insufficient technical capability; and (11) poor communication capacity and resources.
In the discussion there was a suggestion that the private sector doesn’t like democracy because the environment is more unpredictable. This was refuted by a company representative. Another participant agreed that most companies prefer transparency and the democratic system, because it is competitive and fair. Several others supported the view that companies are often the source of corruption in developing countries.

**Poverty Alleviation**

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

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

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

**Economic Diversification**

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

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

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

**Environmental Issues**

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

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

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

**Private vs Public Sector Led Development**

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

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

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

**Structural Adjustment**

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

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

**Perspectives of the Region**

**Resource Blessings, Resource Curses, and the Bank**

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

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

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

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

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

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

The Head of the Department of Mining Engineering at Papua New Guinea University of Technology spoke about opportunities for employment generation and poverty alleviation in the region. There are
many large undeveloped metal and mineral resources, which could generate huge employment opportunities and assist with poverty alleviation in communities adjacent to extractive operations.

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

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

**Opening Remarks to Final Session**

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

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

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

**Final Recommendations**

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

**Economic Diversification**

The working group summarized the issues they discussed: (1) evaluate and share past experience; (2) develop specialized professional skills, research, and social evaluation; (3) promote social
development in all different sectors of society; (4) relate lending policy to reform; (5) scrutinize loans against project viability; (6) promote removal of barriers between countries; (7) and make an inventory of resources:

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

**Governance and Revenue Management**

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

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

**Poverty Alleviation**

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

In the plenary discussion, it was mentioned that the World Bank has a negative image among the public, and this can be a problem when trying to implement WBG programs. It was suggested that the important role of civil society organisations should not be mixed with that of government. The World Bank should provide support more proactively for small and medium enterprises. One speaker believed there was a direct relationship between growth and poverty alleviation. Another warned there was a danger in believing that the World Bank is going to play a role in poverty alleviation. There was a suggestion that civil society organizations had been compromised by receiving direct funding from the Bank.
Support for Iraq was discussed. At the moment the Bank’s only role in Iraq is in assessing needs; no decision has been taken on the form of intervention and what the World Bank could actually do. There was a suggestion that poverty alleviation in the region should not be limited to the Bank, and that rich countries can help out the poorer ones.

**Public Participation and Basic Democratic Rights**

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

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

**Foreign and National Ownership**

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

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

**Closing Remarks**

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

Lihir Gold Mine, Kubutu Petroleum Development Project, Misima Gold Mine, and Port Moresby, Papua New Guinea

August 2-11, 2002
OBJECTIVES AND APPROACH

The Extractive Industries Review project visit to Papua New Guinea from August 2-11, 2002, was conducted by the Eminent Person to the Extractive Industries Review (EIR), Dr. Emil Salim, and two EIR consultants, Ms. Mardi Minangsari and Ms. Rini Ariani Sulaiman. The team visited two gold mines, at Lihir and Misima, and one petroleum production project, at Kutubu, with the objective to observe and understand the environmental and social impacts of extractive industry projects in Papua New Guinea and use the information gathered as inputs to the EIR process.

The team visited the project sites on Lihir Island, the Kutubu Oil Field and Misima Island, respectively, where tours of the field operations and processing facilities were provided by the companies involved. The EIR team spent, approximately, forty hours on Lihir Island and the Kutubu Highland, and less than twenty-four hours on Misima Island. The team also visited Port Moresby, the capital of Papua New Guinea, to meet and interview representatives from industry, government agencies, donor agencies, impacted communities, business associations and civil society.

Unfortunately, the team spent limited time on each site, and were not able to interview independent members of the communities, other than the few selected by the relevant companies. The team had little information regarding the main environmental and social issues relating to each project prior to the visit; for example, no prior independent data or monitoring reports were available to verify the impact of the mining and petroleum companies reviewed. Internet research provided additional information, such as documents compiled by civil society organizations. Detailed reports and pertinent data were requested while preparing the report, but were not available.

Currently, the World Bank Group (WBG) is not supporting or funding any mining projects in Papua New Guinea. However, the Lihir Gold Mine received a MIGA insurance guarantee in 1995, which was cancelled in 2001. The Kutubu and Misima projects have never benefited directly from WBG funding, but were selected for the project visit based on ‘Best International Practice’ in project planning and implementation in mitigating social impacts. The Lihir Gold Mine commenced production in 1997, and is expected to continue until 2014. By contrast, mining activity has ceased at Misima and the mine is undergoing closure, due to be completed in two years.

This report presents some background information on each project and describes the environmental and social issues encountered at each site. This is followed by concluding comments and recommendations for future field trips. Details on activities conducted during the trip, and the main contacts from the project sites visited, are listed in the appendices.
LIHIR

Background

Lihir Gold Mine is located on Lihir Island, approximately 900 km north east of Port Moresby, in Papua New Guinea. The Lihir Management Company (LMC), a wholly-owned, subsidiary of Rio Tinto, are responsible for the day-to-day operation of the mine. Exploration in the area began in 1985, with construction commencing in 1995, and the first gold produced in 1997. Lihir Island is 22 km long and 15 km at its widest points, covering a total area of 200 km$^2$. The mine, and its related infrastructure, occupy approximately 3.6% (about 7 km$^2$) of the total land area of the island. Operational areas, including the plant and stockpiles, are located along the Luise Harbour shoreline.

Annual rainfall averages around 3.7 m/y and the topography is a rugged terrace system rising from sea level to its highest point, at 600m above sea level. Flat land comprises only 15% of the landmass. Lihir Island is situated within an area of intensive earthquake activity (the Pacific Rim of Fire), and is surrounded by narrow, fringing coral reef, less than 100m wide, beyond which steep submarine slopes descend to a depth of 2,000m, between five and fifteen km offshore.

The operation is an open-cut mine located entirely within an ancient volcano, the Luise Caldera, on the east coast of Lihir Island. It supplies high-grade ore for immediate processing, as well as the low-grade ore that is being stockpiled for future use. The gold is extracted using cyanide, through the carbon-in-pulp process whereby the cyanide/gold mix is precipitated on carbon columns. Mining activity will generate, approximately, 84 million tons of tailings and 300 million tons of waste rock over the seventeen year life of the mine. Open-pit mining is anticipated to continue until 2014.

Waste rock is discharged at least 1km from the shore from bottom opening barges into steep submarine canyons, where the material descends onto the sea floor at a depth ranging from 900m to 2km. The leftover material, tailings, comprises of crushed rock particles, residual solution, cyanide and dissolved metals, and is discharged into the ocean via Deep Sea Tailing Placement (DSTP), or Submarine Tailing Discharge (STD), through an underwater pipeline with a diameter of 1.2m at a depth of 125m. From the outlet of the pipeline, the tailing flows as a dense slurry, mixing with the sediment dumped from the barges as it descends to the ocean floor.

Based on the Environmental Impact Assessment, or Environmental Plan, developed prior to the mining operation, the company implemented an Environmental Management and Monitoring Program (EMMP) covering a range of environmental requirements. The monitoring program is conducted regularly to assess the impact of mine on the marine environment (e.g. water chemistry, biota, coral reefs) and on the island’s flora and fauna (e.g. local scrub fowls known as megapodes, turtles and fauna biodiversity) as well as assessing noise levels at various locations close to the mine. LMC asserted they have always remained in compliance with all legal limits imposed on the project.
Prior to the mine operation, the island was relatively isolated from the rest of PNG. Infrastructure and public services to Lihir, and the neighboring islands, were limited. The only source of education was provided by missionaries. Only a few roads were constructed around the island and a small airstrip connected Lihir to the mainland. Presently, the island has a major airport and a ring road connecting villages on the islands, built jointly by LMC and the PNG government. A township outfitted with school and health care services was built for the expatriate staff at Londolovit, formerly a government-owned coconut plantation.

The population of Lihir Island numbered 6,000 before the mining operation, and 11,100 by 2001. This large increase was a result of internal migration as Lihirians returned home, from other parts of PNG, to work in the mine and benefit from the improved infrastructure and services surrounding it. The surrounding villages are located within the narrow coastal terrace, where agricultural activities are conducted. Traditionally, the inhabitants lived on subsistence farming; commercial fishing does not exist, although there is an abundant fish supply. As in other parts of PNG, the land in Lihir is owned by family members belonging to several clan groups. The current processing plant is located to the South of the caldera in an area formerly occupied by villagers from a few hamlets. Prior to construction, LMC relocated 48 landowner families from the designated Special Mining Lease Area to Putput, and other villages around the island. New houses were built at the selected locations.

**Observations and Findings at Lihir**

**Environmental Impacts**
Potential negative environmental impacts relating to a mine operation would commonly result from the inappropriate disposal of waste materials that contaminate water, soil and air. The most significant waste issues at the Lihir mine are the stockpiling of lower-grade ore over a long period of time, the ocean disposal of waste rock and contaminated tailings, and the visible sub-surface plumes (suspended sediment).

During the tour of the mine and its operating facilities, the team was able to identify visible harbor plumes for several kilometers within the Luise Harbor, which were a significant environmental and social aesthetic issue. The sub-surface plumes are produced from waste rock dumping and discharges from the outlet of the settling pond which was constructed by the shoreline of Luise Harbor. Monitoring data from 2001 showed elevated sedimentation rates on the reefs close to the mine due to surface run-off from the mining activities, but these were within the limits predicted in the Environmental Plan. LMC’s environmental superintendent informed the EIR team that they would be redesigning the settling ponds to reduce, and control, the surface plumes.

The team also saw stockpiles of low-grade ore along the road and shoreline. These are a potential source of acid rock drainage (ARD) and subsequent leaching of heavy metals into the soil, as it will take at least 10 years before gold is recovered from the stockpile, following the closure of the open-pit mine. To prevent ARD from contaminating the soil
and water, the company has covered the stockpiles with polypropylene sheets in addition to covering the settling ponds constructed close to the shoreline. However, without access to any data relating to the stockpile, the team was not able to assess the effectiveness of the cover in reducing ARD, or sediment discharges.

Ocean disposal of mine tailings via Deep Sea Tailing Placement (DSTP) will undoubtedly have short and long-term impacts on the ecology of Luise Harbor. The key environmental issues of unavoidable marine tailings placement being the physical smothering of the ocean floor and development of dilute sub-surface tailing plumes. The marine tailings may also produce other adverse environmental impacts, such as the bio-accumulation of metals and soluble contaminants having a toxic effect on marine biota and fishing resources. The company acknowledged that the ocean disposal system has been smothering organisms living on the deep ocean floor. This issue will be investigated by LMC’s environmental section, in consultation with deep-sea experts from the Museum of Victoria, Melbourne, Australia. LMC claims the tailings are deposited on the sea bed at depth between 900 meters and 2 km, well below the productive upper layer of the ocean (known as the euphotic zone). They concluded that the chances of affecting marine life living at that depth was extremely remote.

LMC claimed the decision to use the ocean, rather than land, disposal method took several factors into consideration, based on their social, environmental and economic assessments. These included the shortage of available land for agriculture and housing for the Lihirian community, habitat destruction which would affect plants and animals, the seismic activity of the area, high rainfall, water quality management issues and other economic considerations.

Data on water quality was available in the company literature. According to LMC, the concentrations of silver, aluminum, arsenic, cadmium, copper, chromium, iron, manganese, nickel, lead, zinc, mercury and cyanide, found within the marine mixing zone of Luise Harbour, were monitored periodically and levels found to be so low they could not be quantified. Only arsenic was found at 1.4 parts per billion (ppb), well below the 50 ppb standard imposed by authorities in PNG and the Australian and New Zealand Environmental and Conservation Council (ANZECC). The team was informed that monitoring programs are conducted by external, independent third parties, such as the Australian Commonwealth Industry Research Organization (CSIRO), the James Cook University and Deakin Universities in Australia, and that such studies would be completed sometime in 2002. The PNG Office of the Environment and Conservation (OEC) has been assigned the task of administering and monitoring the EMMP program, but the EIR team did not have an opportunity to meet any officials from the OEC office to verify their role, and responsibility, in monitoring Lihir Mine operations.

**Social Impacts**

During the site visit, the team visited Putput Village and the town of Londolovit. Interviews with representatives of the landowners association, business associations, the Nimamar Development Authority and LMC’s community relations staff, were conducted at LMC’s office, in Londolovit.
Prior to the commencement of the mining operation, all community compensation agreements were written in a single document called the Integrated Benefit Package (IBP) which was signed between the National Government, New Ireland Provincial Government, Nimamar Local Government (NLLG), the Lihir Mining Area Landowner’s Association (LMALA) and LMC. LMC agreed to provide funds worth US$22 million for the development of the social and technical infrastructure on Lihir Island, with an average annual compensation package, including other payments, of approximately $1 million per year. The compensation agreement is based on four main concerns throughout the life of the mine: destruction, development, security and rehabilitation. The implementation and effectiveness of the agreement is currently being reviewed. The IBP includes compensation for the damage to, and loss of, land, village relocation, royalties for landowners and trust funds, mine closure and funds for future generations for Lihirians. Under the IBP, 20% of the royalties go to landowners in the Special Mining Area, 30% goes towards Lihirian community development (supposedly administered by Nimamar Development Authority (NDA), a local government body) and 50% goes to the provincial government.

It is apparent that the mine has brought significant contributions to the economic development of Lihir Island. The community of Lihir enjoy better infrastructure, health facilities, and educational opportunities since the development of the mine. The company has contributed over US$10 million over the last five years toward village infrastructures including new housing, provision of water and power supplies, and meeting halls and churches.

The majority of landowners have benefited from rental fees on their lands; indeed, by the end of 2000, a total of US $1.7 million in royalties was paid to landowners. However, “benefit sharing” among members of the clans has not been satisfactory. Some landowners who received proceeds from the compensation fund have failed to share them equitably with their clansmen, therefore failing to improve the collective living standard of the community. As a result, social tensions prevail on the island as major conflicts occasionally occur between the haves and have-nots. There has been a notable increase in alcohol consumption within the community, which has led to an increase in alcohol-related crime and other problems, such as an increase in the breakdown of marriages and traditional relationships. Indeed, reports suggest the erosion of traditional community values, demonstrated by a loss of respect for elders and changes in the customary patterns of mutual support and exchange. The majority of landowners have abandoned farming and their children have lost interest in subsistence farming.

The arrival of workers and job seekers from other regions of PNG has added to the social tensions, placing further demands on the infrastructure, public services and natural resources of the small island. LMC claims it has enforced a strict local hire policy giving preference to suitably qualified Lihirians, followed by the people from New Ireland Province, other Papuans, and expatriates respectively. However, many Lihirians are still not satisfied that this has been fully enforced and claim they should be the primary beneficiary of all mining revenues, infrastructure benefits and employment opportunities.
In 2001, Lihirians accounted for 38% of the total workforce (962), followed by 52% of Papuans from other provinces, and 10% of expatriate workers. Unemployment remains prevalent among locals and newcomers.

Some community members have voiced their concerns over the long-term environmental impact of the mine and the prospects for the sustainable development of the island beyond the life of the mine. In response, LMC has conducted some social monitoring and research to understand the basis of the community’s environmental concerns and to develop a culturally appropriate, environmental education program for the community. The current review of the IBP will set the framework for Lihir’s sustainable development during, and after, the mine’s life. LMC has worked with the community elders, local government (NLLG), the police, and PNG judiciary to address the alcohol-related law and order issues. However, there is a need to break the cycle of corporate dependency since Lihirians have come to expect the company to provide for all their needs.

Landowners have created an umbrella firm, with local shareholders and outside parties, called the Lakaka Group of Companies (LGL) to provide goods and services with the mining company. Members of the small business associations under the umbrella company have been given preference over non-Lihirians firms. Sixty formally, structured businesses, owned and operated by locals, were awarded construction contracts totaling US$50 million by the end of 1996, but this has declined since the construction phase was completed. Contracts issued to the local businesses by LGL in 2001 amounted to $5.4 million.

LMC has set up the Business Development Office (BDO) who support the local SMEs in developing sustainable commercial opportunities by providing interest-free loans. It has assisted 120 local businesses since its introduction. Other businesses, outside the Lakaka Group, have not been satisfied with the limited opportunities provided by LMC.

B. KUTUBU

Background

Papua New Guinea’s first oil production commenced in 1992, based on the development of the Kutubu, Moran and Gobe oilfields, located in the vicinity of Lake Kutubu, 2,000m above sea level, in the Southern Highland Province. From the central processing facility in the highlands, the oil is transported via a 266 km pipeline along the Kikori river watershed to the Marine Terminal platform and single point mooring buoy, located in the Gulf of Papua. Crude oil is then transported abroad by supertankers. In the 1990s, Kutubu’s production averaged around 100,000 barrels of oil per day, declining to 58,000 barrels per day by 2001. When oil production ceases in 2012, the operator is expected to switch to gas production, provided there is a market for it. Most of the liquid gas coming up from the well is returned to the reservoir via re-injection for future harvest, but a small quantity is used in power generation for the plant and the campsites.
Chevron Niugini Limited (CNGL) manages the operation of the Kutubu Petroleum Project on behalf of a joint venture of several oil companies including: Chevron Niugini, Ampolex PNG, Merlin Pacific Oil, Merlin Mitsubishi, Oilsearch, Orogen Minerals, Merlin Pacific Oil, Southern Highlands Petroleum; Barracuda, Cue PNG Oil, Mountain West Exploration, and the PNG government–owned, Petroleum Resources of Gobe and Esso Highlands.

Prior to production, the joint venture built roads, laid pipeline and installed an industrial infrastructure that includes a base camp for approximately 450 personnel, two other camps for 50 each, and a hospital along the length of the pipeline corridor. Presently, the project employs a total of 539 personnel of which 83% are PNG nationals, 0.9 % American citizens and 19% are from other countries. Employees are flown in and out by chartered flights through the Moro airport located at the north shore of the Lake Kutubu.

The petroleum production and exploration area is surrounded by 2.3 million hectares of the Kikori River Basin, which stretches from the alpine grass highlands and the mangrove wetlands on the coast. With rainfall averages of more than 5000 mm/year, the area encompasses one of the largest remaining tracts of undisturbed tropical rainforest in the Southern Hemisphere. The biodiversity of flora and fauna is impressive, with more than 700 species of birds, 15,000 species of flowering plants, and 300 species of fish found in the area, some of which are endemic species. As required by PNG law, the Environmental Management and Monitoring Plan of the Kutubu Project, was aimed at protecting the sensitive biodiversity of the area.

The Kikori Basin is a home to, approximately, 16,000 inhabitants from 13 language groups living in 88 villages scattered between the two provinces. It was a relatively isolated area, with limited contact from missionaries and the government prior to the oil development. The members of the Foe, Fasoe and Kikori language groups make up the majority of the impacted communities. The cash economy is a recent trend for these rural communities who previously relied on subsistence farming, supplemented by hunting and gathering activities.

**Observation and Findings at Kutubu**

**Environmental Impacts**

In 1992, the Kutubu Wildlife Management Authority was founded in collaboration with the Department of Environment and Conservation, landowners and the joint venture company, who, at the time, also declared Kutubu a protected area. The plan stipulated several environmental and social conditions including: the need for a policy of minimal disturbance to the tropical rainforest; the prevention of accidental spills into Lake Kutubu; burial of the pipeline to protect flora and fauna; the re-injection of all produced water into the reservoir; and a 24 hour emergency response plan for oil spills. In addition, the joint venture agreed to conduct regular assessments on the socio-economic, cultural and archaeological impacts of the project.

In 1994, Chevron Niugini initiated an agreement with the World Wildlife Fund for Nature United States of America (WWF-US) and the Office of Environment and Conservation to
develop the Kikori Integrated Development Project (KICDP). This is a collaborative biodiversity protection effort aimed at preserving Papua New Guinea's unique ecology and wildlife while increasing the long-term social and economic benefits through the sustainable development of natural resources. To achieve these goals, KICDP developed programs that encompass biodiversity surveys, raising community awareness through educational activities, management of natural resources, promotion of ecological and socially sensitive community-based enterprises, and eco-tourism. The results of the surveys have confirmed the impressive biodiversity of the area. It has helped identify specific areas of significance and developed community-managed conservation areas. It also helped the landowners to respect and appreciate the environment and manage their natural resources sustainably.

The project was developed in a previously pristine environment with a high biodiversity. Relatively intact tropical rainforest, along Kikori River watershed, has been dissected by 266 km pipeline that pumps oil from the wells to the marine terminal in the Gulf of Papua. However, based on previous biodiversity surveys, the WWF and the joint venture claim no negative impacts were observed of the oil development project. On the contrary, the major environmental threat to the ecosystem is posed by illegal logging activities. Infrastructure roads developed by the joint venture have opened the area to large scale illegal logging activities that will cause extensive damage to the environment and dependent local communities. The joint venture and WWF are collaborating under the Kikori Integrated Conservation and Community Development Project (KICDP) to reduce the threat of this ‘open access’ by working with local communities on conservation efforts. KICDP is the first collaborative effort. It is a unique and significant attempt at biodiversity protection undertaken by a petroleum consortium and an environmental NGO.

**Social Impacts**

To mitigate the social impacts of the project, the joint venture established a Community Affairs (CA) section which aims to work with the community on a variety of social issues, including landowner relations, government relations, local business development, land access management and industrial relations. From 2002, all community development initiatives, originally carried out by the CA in the Southern Highland and Gulf Provinces of PNG, are managed by the Community Development Initiatives (CDI) Foundation. Its objective is to facilitate long-term social development beyond the life of petroleum production and to integrate social development with the community outreach efforts of KICDP. CDI envisions fostering communities with a strong sense of self-reliance, who actively participate in the development planning process at the local government level.

Support for capacity building will be provided to all stakeholders through assessments of critical needs and skill training. Although CDI is funded by the joint venture, it is a separate organization with its own staff and facilities to manage programs in health, education, agriculture, rural development, sustainable use of natural resources, and capacity building. CDI’s programs are initially targeting rural communities impacted by the petroleum development in the two provinces. It is assisting approximately 115,000 people living in more than 80 villages from the linguo-cultural groups of Faso, Foe,
Sambergi, Kairi (Damu), Ikobi (Kasere, Ikobi Kairi), Prorome (Kibiri), Kerewa (Goaibari) and Hulis.

Since production first started at Kutubu, PNG national, provincial and local governments have received benefits from the project in the form of income tax, duty, equity dividends, royalties, and a special support grant (SSG). Landowners have also benefited directly from land rental compensation, equity dividends and royalties. As in the case of the Lihir project, the benefits of the Kutubu development have not been equally shared amongst locals. Traditional ways of sharing wealth have not been followed and the resulting social divides have created a sharp conflict between the have and have-nots. There are major disagreements between locals on how the payment of royalties should be shared which has resulted in conflicts between members of different clans in the vicinity of the Kutubu project.

Prior to the petroleum development, access to the area was limited and government services were almost absent. Following the Kutubu development, the government’s presence was still not significant due to limited budget and resources. As a result, the government has imparted its role and responsibility for community development to the company.

In general, the communities have reaped some benefits from the new development in the form of improved services and infrastructure, while landowners have benefited directly from cash and non-cash compensations. The community in Kutubu now has access to better water and a power supply, health facilities, roads, and schools. From 1991 to 2001, direct cash benefits to landowners amounted to Kina 158 million and non-cash benefits to Kina 415 million. At the same time, the project has attracted people from other provinces in search of employment and better health and educational facilities. As with the Lihir mine, these newcomers seeking jobs with the company and the benefits of local development, are not welcomed by local communities.

C. MISIMA

Background

Misima Mine is located on Misima Island, within the Louisiade Archipelago, in Milne Bay Province, approximately 600 km east of PNG’s capital Port Moresby. The island is 40 km long and 10 km wide at its widest point. The topography varies from rolling hills to steep slopes, with a dividing mountain range that rises to 1,035m above sea level. The Misima mine occupies the South-East end of the island, 7km from Bwagaoia, the District Headquarters. The climate is tropical, with an annual rainfall ranging from 2.6 to 3.1 m and the area is a relatively active seismic zone, with frequent earthquakes.

Placer Dome Asia Pacific manages the mining operation on behalf of Misima Mines Limited (MML). Eighty percent of the company is owned by Placer Dome Incorporated, and the remaining twenty percent by Orogens Limited. The mining operation commenced
in 1989 and has produced 3.37 million ozs of gold and 16.95 oz of silver during the twelve years of the mine’s life. Since mining activity ceased, in mid-2001, the plant has been processing stockpiled low-grade ore. It is expected this processing will continue until the last quarter of 2004 and that the final deconstruction of facilities will be completed mid-2005. In the meantime, MML’s operation focuses on implementing the approved Mine Closure Plan (2002) in an attempt to achieve the goal of ‘leaving behind a better future’ for the Misimans.

The mine employed conventional truck and shovel mining methods, supplying high-grade ore to the processing plant and stockpiling low-grade ore for later use. Similar to the Lihir Gold Mine, a conventional carbon in pulp process is used in Misima, whereby the cyanide/gold mix is precipitated on carbon columns. MML is also using the ocean disposal method of Deep Sea Tailing Placement (DSTP) whereby the tailings are treated before being dischaged into the sea via a submarine pipeline to an outfall at a depth of 112 m. From the outfall, the tailings travel further down the submarine slope, to be deposited at depths of up to 1,500m within Bwagaoia basin.

A large volume of waste rock has been used to backfill the open pits formed by the mining operation. Only a few remaining pits are currently left as open voids. During the initial mine development, some oxide mine waste was reportedly dumped offshore, although this practice was discontinued in 1994. Waste rock, that could potentially lead to acid rock drainage and leaching of heavy metals into the soil, was selectively placed and encapsulated within engineered land waste rock dumps. Topsoil and oxidized waste rock was either placed directly over as a cover, or placed in stockpiles for future use. The rehabilitation of various open pits and waste dumps began in the mid-1990s.

There were approximately 14,000 inhabitants on Misima in 2001, living in 16 villages located on the coastal areas of the island. Prior to the mining activity, the majority of Misimans were dependent on subsistence farming and trade with neighboring islands. The bulk of their food was home grown, supplemented by occasional game. Some pelagic and reef fishing was practiced by the local community, but no deep-sea or commercial fishing was prevalent. Mining has transformed the community into a consumer economy and many people have discontinued farming as a result.

**Observations and Findings at Misima**

**Environmental Impacts**

Misima is the first gold mine to utilize Deep Sea Tailing Placement (DSTP) outside Canada, where the exploration of DSTP as a tailing disposal option was first documented. Environmental assessments and monitoring at Misima are being widely used as role models for other mines in PNG, and the region in general. Over the twelve years of the mining operation, extensive assessments and monitoring have been conducted on water quality, ocean floor sedimentation and marine biota. Sediments measuring less than 1.5m thick are evident in a 20km² area on the slope floor of the basin. A small area of 0.1 km² has tailings 30 to 75m thick and a larger area is covered with thinner deposits (less than
(0.1m thick) on the floor of the basin. The deposition has physically smothered the deep ocean benthic biota.

During the tour of the mine, and its operating facilities, the team examined two existing mine pits filled with run-off water, a sediment pond, stockpiles of low-grade ore, rehabilitated dumpsites and a mixing/de-aeration tank where the tailings are diluted prior to being disposed in the ocean. Sub-surface plumes were not visible at the time. The results of independent monitoring reports were not available for the team to review. The PNG government has no specific policy or regulation on DSTP. MML was granted the water-use permit that specifies ambient seawater standards are met at the boundary of the ‘mixing zone’ (the sub-surface water body at the tailing outfall). This is 1.2 km distant from the mixing/de-aeration tank, to a depth of 70m below the surface of the sea. Within the mixing zone, the concentrations of potential contaminants may exceed the ambient water quality criteria.

Two environmental incidents involving the DSTP have been reported. The first occurred in July 1997 and was caused by a submarine landslide, which broke the pipeline at a depth of 55m. Operations were stopped briefly before the system was replaced in 1998. When they resumed with the approval of the PNG government, a new outfall was used at a depth of 55m. MML stated that there were no significant environmental impacts when the tailings were discharged at this depth. Based on monitoring results, they moved down the slope as a bottom-attached density current and did not rise to the surface of the ocean.

In December 2001, a second incident took place. The mill operators discovered a spilt in the outlet pipe approximately 10m long, at the depth of 14m, around 90m from the shoreline. The escaped tailing formed a density current that flowed along the ocean bottom down into the depths. MML claimed the water quality for cyanide and other metals was within acceptable standards, and the surrounding coral reef and fish life were largely unaffected. After another temporary shut down, the operation continued in the short-term with the tailings system operating in ‘reverse’. This meant the tailings were disposed via the seawater inlet line at a depth of 60m instead of 100m. It took three months to repair the damage and the system has since returned to normal operation. MML’s water monitoring program found no evidence of significant levels of cyanide in the water column.

As predicted in the environmental plan, the dumping of soft rock wastes into the ocean have elevated turbidity and physically impacted on the fringing coral reef on the South coast of Misima Island. Monitoring results showed three zones impacted by MML’s activities: the severe zone, the transitional zones, and the minor zone, that cover 1, 3 and 5 km, respectively, on either side of the mine. A high mortality rate of corals and associated fauna, and a high mortality rate and/or migration of reef-fish, was observed in the severe zone. Impacts on the deep water fish around Misima Island are unknown, since no studies have been conducted to confirm the theory of ‘avoidance behavior’, the ability of fish to detect and avoid potential contaminants in the water column.
MML adoption of a submarine tailings disposal method can be seen as environmentally responsible considering the physical and social conditions on Misima Island. As seen in the submarine tailings disposal of other mining operations, the re-colonization of the ocean floor, at depths of 1,000 to 1,500m, is expected to occur at slower rate due to the lower temperatures that exist at those depths. Monitoring results have confirmed that the thickest tailing deposits are already colonized by microscopic organisms.

As a part of the mine closure process, MML conducted a semi-quantitative risk assessment to quantify potential hazards, and analyze the possible risk treatment control measures relating to the biophysical and socio-economic components of mine closure. The exercise was directed towards identifying and ranking the high and extreme risks using worst case scenario planning.

Regarding biophysical aspects, the main hazards identified included the physical instability of the dump sites, erosion and sedimentation, geo-chemical stability (acid rock drainage and leaching of heavy metals) and contaminated sites. Regarding socio-economic aspects, the main concerns were associated with the sustainability of utilities (electricity, water, communications), social progress (health, education, law and order), infrastructure (wharf, roads, airstrip), business development, food and sanitation, and the management of trust funds following the closure of the mine.

In preparation for mine closure, MML consulted the local community on the preferred options for final land use, with the aim of establishing a stable, biologically diverse and resilient ecosystem, productive for future generations, either as forest or garden land. As of December 2001, the re-vegetation program of the disturbed area covered approximately 52% of the operational area of the mine.

Social Impacts
MML has undertaken several biophysical and socio-economic studies towards the development and implementation of a sustainable mine closure plan. In 1999, the Sustainable Plan Advisory Committee (SPAC) was formed, followed by the development and publication of a consultation document, Sustainability (Mine Closure) Plan 2000. This document was widely circulated, with inputs from stakeholders, including landowners, community groups, private sector, government, NGOs and aid agencies, being incorporated into the final Mine Closure Plan. Misima Mines Closure Committee (MMCC) was formed in 2001, in partnership with various levels of government and landowner representatives, to integrate the sustainability plan into a comprehensive action plan acceptable to all stakeholders.

During the site visit, the EIR team spent very little time with community representatives. Brief discussions were held with the officials of the Louisiade Local Level Government and with representatives from the landowners association, EMEL Limited, in Bwagaoia. A visit to the Bwagaoia hospital concluded the tour of the Misima community.

Over the years, MML provided Misimans with better infrastructure, health services and educational opportunities. For example, a company-sponsored vaccination program has
been successful in eradicating filariasis, improving life expectancy and the health of babies on Misima and the neighboring islands. All major economic activities on the island were supported and dependent on the mines. Small businesses developed to provide catering services, transport, construction and other services to MML. Additional business development activities, such as the investments of the Kalopu Trust Fund by the landowners association (EMEL Limited), and the Samarai Muruai Agriculture Rehabilitation Center Training (SMART), were established to stimulate economic activity beyond the presence of the mines. In line with the mine closure plan, the workforce was reduced from 800 to 344 employees in 2001. By the end of that year, 86% percent of the workforce were Misimans, 4% other PNG citizens, and 10% expatriates.

From discussions with community representatives, it was apparent to the EIR team that the main concern to the community was the potential decline in the quality and quantity of public services following closure of the mine. Since beginning its operations on the island, MML took responsibility for providing these basic services to the community and a failure to maintain them, for example electricity lines, would cause major disruptions to the water supply, health services, educational facilities, and communications. The cost of diesel generator maintenance would have to be paid for from the limited, or non-existent, local government budget. Alternative sources of funding have been identified, such as the Kalopu and Future Generation Trust Funds, currently valued at K16 million. However, it was reported that the funds are currently held by a court, pending decision on a legal challenge mounted by a group of non-landowners who claim they are entitled to part of the Kalopu trust funds.

The community has considered returning to traditional subsistence farming, in addition to cash crops, to sustain the island’s economy. In response to the food security issue on Misima, and other islands in the Samarai Murua District, MML has established the SMART Center for sustainable agriculture and business development, close to Lagua. The program includes training and research into the development of planting materials, such as a hybrid coconut seed garden, cocoa for budwood production, and vanilla. In addition, it is also producing cold-pressed coconut oil and developing the market for various other products. A few Misimans have expressed concern that these sustainable agriculture activities should have been initiated some time ago so the crops would have been ready for harvest by the time the mining company left.
CONCLUSION AND RECOMMENDATIONS

The first EIR project visit to Papua New Guinea identified some of the main environmental, social and economic issues relevant to extractive industry developments. The team was not able to assess the projects in the context of the particular role of the World Bank Group (WBG) in the mining and petroleum sector of Papua New Guinea; none of the projects benefited from direct WBG investment, bar the Lihir gold mine, where MIGA extended an insurance guarantee early in the project cycle, from 1995-2001. Nevertheless, the project visit highlighted the challenges of extracting natural resources in a country of limited governance, of high biodiversity and environmental interest, and with an agrarian-based, largely ‘cashless society’ at the community level. The Lihir, Kutubu and Misima areas were all relatively isolated and underdeveloped prior to the arrival of the extractive industries. These three sites have since experienced sudden economic growth. Mining and oil projects have had significant social and economic impacts on the national, provincial and local government of Papua New Guinea, however, local communities often felt that they have not benefited from these projects and that they have to put up with the adverse environmental and socio-economic impacts.

Environment

The main environmental issues identified at Lihir and Misima mines were the impacts of ocean disposed rock waste and tailings that, respectively, have damaged the fringing coral reefs and smothered benthic organisms deep on the ocean floor. Environmental and social impacts were taken into consideration when the companies operating the Lihir and Misima mines evaluated the disposal options, on land or in the ocean. For small islands, with limited land resources, ocean disposal was potentially the best option allowing land productivity to be maintained throughout the life of the mine. However, there is uncertainty on the impact to the benthic community on the ocean floor.

In the short term, it is likely that biological production has been significantly reduced due to massive sedimentation on the ocean floor. What is not known, is the extent to which these deposits pose a threat to marine biodiversity in the long-term. Case studies of mining operations utilizing this method, have shown re-colonization of benthic communities following closure. However, the rate of re-colonization is site specific and, therefore, difficult to assess. Long-term monitoring after mine closure is necessary to investigate the recovery of the benthic community on the ocean floor. This disposal method should only be considered if some strict criteria are met. Currently, PNG is lacking specific policy, or regulation, regarding the ocean disposal of mine wastes. All ocean discharges are regulated by water use permit only.

The dumping of soft rock waste into the ocean has elevated turbidity and physically impacted the fringing coral reef on Misima Island. Mild to severe damage to the corals, and associated fauna and flora have been reported as a result. Because of the length of time it takes for coral to recover, a study of the impact of the sedimentation on the reefs is essential post-mine closure. Regulations have to be developed for long-term impacts and acceptable limits of damage to the marine environment. This is especially important in the South-East Asia region, where there is such high coral biodiversity.
At Kutubu, the main environmental issue relating to the petroleum development was the ‘open access’ the project had generated to a region of pristine tropical rainforest with high biodiversity. Infrastructure roads developed by the joint venture company have opened the area up to large scale illegal logging that will caused extensive damage to the environment and dependent local communities. However, the joint venture has made a positive contribution to conservation by collaborating with the World Wildlife Fund, in an effort to reduce this threat to the environment. They have also established the unique Kikori Integrated Development Project (KICDP) to protect the biodiversity of the area by working with the local communities.

**Socio-economic**

The sudden shift from a cashless to a consumer economy have had significant impacts on the communities of Lihir, Kutubu and Misima. Several main socio-economic issues, common to the three projects, have been identified during this visit. The benefits of oil and mining projects have not been equitably shared amongst individuals in the local community. Traditional ways of sharing wealth have been ignored and the resulting social disparities have created a sharp conflict amongst the haves and have-nots. Major disagreements have erupted on how royalty payments should be shared and utilized. While compensation funds have led to an increase in consumption, individuals have made little provision for the future, such as investing in their children’s education, and collective living standards have not improved.

Huge cash-flows into a cashless economy have also transformed the lifestyle and traditions of the community. Increased in alcohol consumption has exacerbated alcohol-related crime on Lihir, but this problem was not identified in Kutubu or Misima. The three projects have naturally attracted migrants from other provinces in search for employment and better health and education services. The consequent increase in the local population has put additional pressure on the infrastructure and public services. This is especially significant for small islands such as Lihir and Misima, where there is limited land availability. Newcomers are not welcomed by the community, especially if they are better qualified for employment with the extractive industry projects.

Decisions regarding the utilization of project revenues are not transparent. Government funds, which should have been allocated for the development of infrastructure and social services, are often not available for the impacted communities. At all three projects visited by the EIR team, the company has taken over the role and responsibility of the government in providing public services to the communities in these remote areas. This cycle of corporate dependency will be difficult to break once the projects come to a close.

The communities of Lihir, Kutubu and Misima appeared to be very dependent on the extractive industries surrounding them. Since the opening of the mine at Misima, the local community have enjoyed improved infrastructure, health services and educational opportunities as the mine company invested at the local level. If the government does not step in after mine closure, the community will suffer considerably due to the rapid decline in basic services. Misimans are likely to face this difficult issue in the coming years as the
mining operation closes down. The crucial question is, therefore, how the quality of life of local communities can be sustained after mine closure. Presently, communities are bracing themselves for a return to farming for food production and are growing cash crops in anticipation of mine closure. Training on innovative farming techniques, and the cultivation of new cash crops supported by MML, may have come a little too late to benefit Misimans in the short-term. There is a need to encourage alternative sources of income in the early phase of the project cycle to limit the dependency on the mine and sustain the economy post-mine closure.

The closure phase of the Misima mine could provide many valuable lessons in the development of other mining projects, for example, at Lihir. It is essential mine closure is addressed in the project planning stage, along with baseline surveys, and all stakeholders should be clearly identified, and involved. Provincial, district and local level government is necessary to integrate the sustainable development of the area, with the regional development plan.

The EIR team had certain information on the main environmental and social issues regarding each project prior to the site visit. However, independent reports from third parties were not available to verify information presented to the team by the mining and oil companies. Due to limited time at each site in Papua New Guinea, it was not possible to conduct independent interviews with members of the community impacted by the project. For subsequent project visits, the EIR will undertake a more extensive literature review of the projects prior to the trip, including reviewing independent monitoring reports. If possible, more time will be spent at each project site in order to conduct independent interviews with members of the community.
APPENDICES

CONTACTS

Lihir Gold Mine
Mr. Geoff Day
Manager Community & Environment
Lihir Management Company Ltd.
P.O. Box 789
7th Floor Pacific Place
Port Moresby,
Papua New Guinea
Ph: (675) 986-5291
Fax: (675) 986-5293
Email: gmd@lihir.com.pg

KUTUBU Petroleum Development Project
Mr. Dennis Flemming
Manager of Sustainable Development
Chevron Niugini Ltd.
P.O. Box 842
Port Moresby
Papua New Guinea
Ph: 675 322 5513
Fax: 675 322 5566
Email: dflm@chevronexaco.com

Misima Gold Mine
Mr. Noel Foley
General Manager
Misima Mines Limited
P.O.Box 38
Bwagaoia
Misima Island MBP
Papua New Guinea
Ph: 675-323-1366
Fax: 675-323-1526
Email: noel_foley@placerdome.com
Friday 02 August

Minangsari Mardi and Ariani Sulaiman traveled from Jakarta to Port Moresby via Singapore and Brisbane.

Saturday 03 August

Arrived in Port Moresby in the afternoon. Overnight at Crowne Plaza Hotel.

Sunday 04 August

Dr. Salim arrived and joined the EIR team in Port Moresby from Tokyo in the morning. The team visited Lihir Gold Ltd. Mine on Lihir Island, New Ireland Province accompanied by Dr. Graeme Hancock, Project Director of World Bank Technical Assistance in Mining Sector for the Department of Mining. The team departed Port Moresby on a scheduled Air Niugini flight at 15:40 and arrived in Lihir at 17:50. Lihir Gold Ltd (LGL) provided accommodation.

Monday 05 August

Visited the mining pit, ore processing, stockpile, drainage system, and disposal sites in the morning accompanied by LMC’s project engineer and safety officer. At Putput Environmental Office, Mr. Blair Sands, the Environmental Superintendent presented environmental impact of the mining operation and disposal methods. It was followed by a series of meetings with several LMC managers and local stakeholders. Mr. Geoff Day, Superintendent for Environment, Community and Health Division, and his staff presented their overview of the Community and Environment Dept. We also met with the local stakeholders in the afternoon. Mr. Samison Rapis (Sianios Village) represented the landowner association (the Lihir Mining Area Landowners Association or LMALA). Some members of the Lihir Small Business Association came to discuss their issues and concerns, followed by elected members of the local government authority (Nimamar Local Level Government (NLLG)). Mr. Agustine Tukas the chairman of the Nimamar was also the spokesperson for the group.

Tuesday 06 August

The team departed Lihir for Port Moresby in the morning and met with Mr. Kuma Aua, Secretary for Mining, and Mr Steve Nion, Deputy Secretary, at Crowne Plaza Hotel for lunch. It was followed by a separate meeting with the Secretary for Petroleum and Energy, Mr. Joseph Gabut and senior staff at the Department of Petroleum and Energy office.
During lunch, the team held discussions with Professor Ross Garnaut, Chairman of LMC and professor at the Asia Pacific School of Economics and Management, Australia National University.

At 15:30, the team departed for Kutubu Oil Project (Moro airport). At the airport, Mr. Dennis Flemming, manager of Sustainable Development for Chevron Niugini Ltd, arrived and accompanied the team throughout the site visit. Accommodation was provided at the Ridge Camp, approx. 35 minutes from the airport by bus.

**Wednesday 07 August**

In the morning, the team visited the Central Production Facility (CPF) which is at the start of a 265km pipeline linking the oilfields and export terminal in the Gulf of Papua. The team was accompanied by Ms. Prima Kapi and James Dawson from Chevron’s Community Affairs Department during a visit to Sisibia Village, located in the vicinity of an oil well. Following lunch, Mr. Max Kuduk, Program Director of WWF Kikori Integrated Conservation Development Project, and his staff presented their overview of conservation activities in the region. Subsequently, Mr. Dennis Flemming and his staff presented the Community Development Initiative (CDI) activities that focus on capacity building for the local community and government agencies.

**Thursday 08 August**

At 07:00, the team departed Kutubu for Port Moresby. On arrival, the team were met by Dr. Graeme Hancock, Mr. Arthur Hood (Vice President of Business and Sustainable Development, Placer Dome Asia Pacific/ Misima Mines Limited (MML) and his staff from the Community Affairs Department. A representative from the Mining Department, who monitors the Mining Closure activity, was also present. The entire party of seven departed on a Placer Niugini charter flight to Misima before noon.

After lunch, Mr. Noel Foley, the General Manager of MML, presented an introduction of the mining operation. Mr. Laurie Martin followed with an overview of the mine closure plan and activities. Dr. Billy Selve preceded with a presentation on Filariasis reasearch and the MML’s Mass Drug Administration Program funded by MML. Ms. Tanya Zeriga gave the last presentation on activities related to mine closure and land rehabilitation.

Since mining has ceased, the operation is currently geared towards processing low-grade stockpiles and mine rehabilitation. The team went to see the reconstructed terraces and areas sown with pasture and native trees, and the site of two dams (formerly excavated mine pits).

**Friday 09 August**

In the morning, the team toured SMART (Samarai-Murua District Agricultural Training Center) in Lagua and the community hospital in Bwagaia. This was followed by meetings with members of the District Administration (LLG) authority in Bwagaia and
Landowers Association (Emel)/MSPAC in a church at ----Village. At noon the team departed for Port Moresby.

In Port Moresby, the team met with Mr. Andrew Parker, World Bank Liaison Office and the new Country Manager for PNG, and Mr. Mahesh Sharma at Holiday Inn Hotel where the World Bank activities in PNG were briefly discussed. The new Country Assistance Strategy is being prepared and will be available shortly.

At 15:30, the team met with AusAID Counselors, Mr. Steve Hogg and Dr. Robert Christie, at the Australian High Commissioner’s office. They presented an overview of AusAID activities and the donor community in PNG. Australia focuses on funding educational and health programs.

This was followed by a meeting with PNG’s NGO representatives at the Indonesian Embassy’s meeting room. Ms. Matilda Koma and Philip Ugu from NGO Environmental Watch Group and Mr. Jaru Bisa from PNG Eco Forestry Forum presented a strong letter critical of the field visit conducted by the team.

In the evening, a dinner was organized by Mr. Greg Anderson, Executive Director of PNG Chamber of Mines and Petroleum Council, at the Crowne Plaza Hotel. Twelve members of the chamber, representing industry and the Department of Petroleum, attended the function.

**Saturday 10 August**

Cancelled departure on Air New Guinea. Overnight stay at the Holiday Inn hotel in Port Moresby

**Sunday 11 August**

Departed for Jakarta, via Singapore, with Air Niu Guinea and Garuda.
8. Report of the Project Visit to Chad-Cameroon
Dr. Emil Salim, Eminent Person of the Extractive Industries Review visited Chad and Cameroon from October 10 to 21, 2002, accompanied by Julia Grutzner (EIR Program Officer) and Mardi Minangsari (EIR consultant, video documentation).

**SUMMARY**

The Chad Cameroon Oil Pipeline Project presents a unique development opportunity for Chad and an important revenue flow for Cameroon. Benefits from this project will include increased government revenues, employment creation, local business opportunities, infrastructure creation, and capacity building, if it is well managed and supported by good governance.

The World Bank Group (WBG) combines IFC financing with IBRD loans to the governments of Chad and Cameroon to take equity in the project, and IDA loans for building the capacity of the two governments to monitor and manage a project of this scale, and addresses the difficulties implied in managing revenues of this size.

With all these efforts in place, a positive development outcome of the project is still not guaranteed and there are real risks present. Stakeholders in the two countries are concerned about environmental and social impacts at the local level, and wonder whether Chad will be prepared in time to handle large influxes of money into the economy, both in terms of managing this inflow, as well as using it effectively for poverty reduction. Stakeholders also expressed doubt that revenues accruing to Cameroon will be used to make a significant contribution to poverty reduction.

If future projects of this kind are to draw lessons from the experiences of the Chad-Cameroon Pipeline Project, more efforts need to be made to inform and engage all sectors of society. Further analysis should be undertaken to ensure revenue management mechanisms are effective and have a lasting effect, strengthening governance beyond the life of a project. The World Bank Group would need to treat projects of this kind, with its various levels of risk stemming from the country context as well as the nature of the project, with special attention from the outset and throughout the life cycle of the project.
BACKGROUND

THE EXTRACTIVE INDUSTRIES REVIEW
The Extractive Industries Review (EIR) is a multi-stakeholder consultation process with the aim to produce recommendations to the World Bank Group (WBG), which will guide its future involvement in the oil, gas and mining sector. The particular focus of the EIR is if and how these sectors can contribute to poverty reduction through sustainable development.

EIR VISIT RATIONALE
The EIR undertakes project visits in order to complement its consultation and research activities with first hand experiences and discussions with people at and near the project site, with the aim to understand stakeholder perspectives on the project. This visit was not intended to be a scientific enquiry, and equally this report does not present scientific evidence: rather, it reflects the opinions voiced by the various stakeholder representatives which the team met during its visit, and reflections of the EIR team. Our schedule focused more heavily on Chad, and as a consequence so will this report.

Further, the EIR team acknowledges the work done by the International Advisory Group (IAG), the External Compliance Monitoring Group (ECMG), the Consortium and its contractors, NGOs, the governments of Chad and Cameroon, and the World Bank Group itself who are all monitoring and evaluating this project as it proceeds. The EIR benefited greatly from these efforts, and does not intend to duplicate this work, since it is noted that this project seems to be over-monitored.

PROJECT BASICS
The Chad Cameroon Oil Pipeline Project is the largest capital project in Sub-Saharan Africa. An oil consortium consisting of ExxonMobil (40%), Petronas of Malaysia (35%) and ChevronTexaco (25%)\(^1\) is implementing this US$3.5bn project, which consists of developing the Doba oil fields in Southern Chad, and constructing a 1,070 km long underground pipeline to transport crude oil from Chad to the Atlantic Coast of Cameroon, as well as the installation of an off-shore marine export terminal facility in Cameroon. The oil fields are expected to be active over a 25-30 year period.

The World Bank Group is involved in this project through IFC loan agreements and IBRD loans to the governments of Chad and Cameroon to take equity in the project, as well as three accompanying loans for capacity building projects, two in Chad and one in Cameroon. Without World Bank Group intervention this project would have difficulties taking place, a reality that gave the World Bank Group significant leverage when negotiating its participation. This leverage is specifically reflected in the establishment of a revenue management law in Chad which determines the use of funds generated by oil exploitation from the Doba Basin, and sets up of an Oil Revenues Control and Monitoring Board – *collège* - to monitor the use of oil funds.

\(^1\) formerly Exxon, Shell and Elf
The Chad Capacity Building Project of the World Bank (IDA) is aimed at strengthening the government’s capacity to manage the oil sector through reform of public administration, strengthening of procurement and oversight functions, surveillance of the general budget, and poverty reduction strategy formulation. A second leg of the capacity building program aims to strengthen institutional development, reinforce government, strengthen civil society, as well as small and medium size enterprise development.

The Cameroon Capacity Building Project (IDA) assists the government in establishing national environmental standards and norms in the oil sector and in ensuring that pipeline development takes place in compliance with these norms. It also aims to strengthen the government’s capacity to monitor and mitigate impacts. Further, it requires that information about the implementation of environmental and social safeguards be effectively transmitted to all relevant stakeholders.

**PROJECT VISIT ACTIVITIES**

The EIR team held meetings with representatives of government, civil society, the Consortium, and the World Bank in Chad (N’Djamena) and in Cameroon (Yaounde, Douala). The team spent one day at the Kome project site in Chad, where it also visited a neighbouring village. On October 22-23, after Dr. Salim’s departure, Ms. Grutzner and Ms. Minangsari visited the project site and local Bakola/Bakyeli “pygmy” settlements near Kribi, Cameroon, accompanied by staff from COTCO and representatives from the Center for Development (CED), a local NGO. The EIR visit to Chad and Cameroon overlapped with that of the International Advisory Group (IAG), and the EIR benefited greatly from participating in IAG organized meetings and discussions with IAG members.

**EIR FOCUS: SUSTAINABLE DEVELOPMENT POTENTIAL**

The EIR viewed the Chad Cameroon Oil Pipeline Project through the lens of how the project can contribute, directly or indirectly, to poverty reduction and sustainable development. This was the main focus of discussions with stakeholders led by Dr. Emil Salim in the two countries. Given the project is still in the construction phase, with first receipts from oil estimated to arrive in late-2003, it is impossible to say with any certainty what development impact this project will have. However, some observations can nevertheless be recorded here.

The impacts discussed in this report, positive and negative, do not represent a complete list. For instance, relatively little attention was paid to environmental impacts of this project during Dr. Salim’s ten day visit. The EIR considers environmental impacts as very important, but was in no position to add substantively to evaluations of others who
have visited and comprehensively written about the project\textsuperscript{2}, nor would this reflect our terms of reference. Rather this report reflects some of the main ideas and discussions with stakeholders in Chad and Cameroon during the visit of the review’s Eminent Person.

**REVENUES**

A very concrete impact of the project consists of revenue flows which will accrue to Chad and Cameroon over the coming 25-30 years.

Chad will receive over US$2.5 bn\textsuperscript{3} in royalties, dividends and taxes from the project. This represents a significant increase in government revenues -- approximately 100%. Nevertheless, these revenues are fairly limited, amounting to approximately US$12 per capita per year over 25 years, and require prudent spending on effective programs if this project is to contribute significantly to poverty reduction. (Chad is currently among the poorest countries in the world, and the Government cannot even provide the most basic public services; see also annex 2, country background Chad.)

**REVENUE MANAGEMENT AND DISTRIBUTION IN CHAD**

In Chad, the management of oil revenues is regulated by a revenue management law\textsuperscript{4}, which foresees that royalties and dividends from the project be transferred to an off-shore escrow account. The revenue management law pre-determines the use and distribution of this income: ten percent is to be set aside for future generations, and of the remaining funds, eighty percent are earmarked for investments in four priority sectors: education, health, infrastructure, and agriculture. Five percent of the funds is to benefit the oil producing region and the remaining thirteen percent will be available to support administrative activities associated with the project.

The revenue management law also ensures audit and control functions for the oil revenues. Control is to be exercised by the Comptroller of the Ministry of Finance and Economy, by a nine-person Oil Revenues Control and Monitoring Board - the collège\textsuperscript{5}, by the Audit Office of the Supreme Court, and by Parliament. The collège comprises two parliamentarians, a supreme court judge, four representatives of civil society, the director of the Treasury, and it is headed by the director of the central bank. While the Revenue Management Law allows for separate or joint monitoring by the various revenue monitoring bodies, it is yet unclear how the newly established collège will relate to the other monitoring bodies.

---

\textsuperscript{2} For many sources of information and discussion of this project and its impacts, please refer to the World Bank’s web page for this project (www.worldbank.org/afr/ccproj/), which list many reports, including those of the ECMG and the IAG, as well as the company’s project website www.essochad.com. There is equally a lot of information available from NGOs, see bibliography.

\textsuperscript{3} Profit calculations are based on a projected price of Brent crude oil of approximately US$15.25 per barrel

\textsuperscript{4} Act No. 001/PR/99 concerning Oil Revenue Management

\textsuperscript{5} Collège de Contrôle et de Surveillance des ressources pétrolières (C.C.S.R.P.)
Representatives of civil society in Chad expressed their concern that Chad’s government is not sufficiently prepared to oversee a project of this profile and complexity, and to manage its revenues effectively. While NGOs in Chad acknowledged that civil society is now granted fairly generous representation in the collège, there is still concern about the government’s commitment to sound management and use of revenues for poverty reduction. These concerns were heightened by the government’s use of a part of a first signing bonus of US$25 million, received in June 2000 and before the effective set-up of the control functions, for the purchase of arms (and infrastructure maintenance).

REVENUES FOR CAMEROON
Cameroon earns revenue from the pipeline through transit fees, at a rate of US$0.41 per transported barrel. Its projected earnings will add up to over US$500 million over the project life of 25-30 years. In Cameroon, which is relatively better off than Chad, revenues from the pipeline project will amount to less than three percent of government revenue. Unlike Chad, no special revenue management regime was set up for the project. Revenue will be paid into the income tax division of the government and regularly audited by the IMF. Only in the past two years have revenues from oil projects been made public.

Civil society representatives in Cameroon were doubtful that project revenues accruing to the government from this project would be used for poverty reduction, despite the fact that half of Cameroon’s population lives below the poverty line (see also annex 2, country background Cameroon). While the World Bank Group did not have the same leverage here as it did in Chad to impose sound revenue management and distribution within the framework of the project itself, the entire assistance package of the World Bank Group to the country may possibly be seen as one and can be used as leverage in similar situations in the future.

OTHER DEVELOPMENT IMPACTS

EMPLOYMENT / SKILLS CREATION
Employment is another concrete impact which the project has brought, although not permanently. In October 2002, the pipeline project employed a total of approximately 4,000 Chadian Nationals, and 6,000 citizens of Cameroon, in unskilled, semi-skilled, skilled and professional positions. Unskilled workers were exclusively recruited from the

---

6 Much international attention has recently been paid to the dangers that substantial inflows of capital into developing economies can entail. This is reflected in the substantial literature available which discusses the so-called “resource curse”.
7 The government had committed a portion ($4.5 M) of a entry fee of $25 M paid by Petronas and ChevronTexaco in May 2000 for military purpose. Later, the government ceded to pressure from World Bank and IMF and committed to using the remaining funds from the payment for priority sectors under the supervision of the collège. Technically, these monies were not required to be part of the Revenue Management Plan.
8 This was a conditionality for receiving HIPC debt relief.
9 2002 World Development Indicators CD-ROM, World Bank
villages along the easement as construction of the pipeline progressed, whereas semi-skilled and skilled Chadian and Cameroonian workers were recruited nationally, with priority given to qualified workers from villages near to project work sites. There was a policy not to recruit workers at the gate. Approximately twenty percent of the project’s workers are skilled expatriates.

All unskilled workers received training in basic skills. Choosing between recruiting as many people as possible, or fewer people and keeping them employed for longer, the company opted for the former solution, for a limited term. During the construction of the pipeline, workers lived in their villages and were collected and transported to work sites each day.

It is at this point unclear what the development impact of this employment has been, and whether unskilled workers will be able to find other jobs in the foreseeable future. The skilled workers are more likely to benefit substantially through their employment with the project. Meanwhile, NGO representatives expressed concern about the disruption of traditional livelihoods caused by the pipeline construction.

Again, people’s expectations vis-à-vis the pipeline project were high both in Chad and in Cameroon. One mayor in Cameroon was re-elected after he promised all men in the village a job with the project. Employing fewer for a longer period of time may have increased their income and skill level, but would probably have equally led to a higher number of disappointed people who did not hold a job with the project. Some civil Society representatives in Chad perceived it as unfair that many workers in Cameroon got paid higher wages than in Chad. (Wages were adjusted to local market conditions, which are lower in Chad.)

INFRASTRUCTURE
A total of 450 km of roads have been upgraded or constructed in Cameroon as part of the pipeline construction project. Similarly, approximately 200 km of roads were upgraded or constructed in Chad. Further, locomotives and railcars were upgraded as part of the project. In order to address dust problems caused by roads in Cameroon, 60 km were treated with a oil-based amendment to limit dust. As well speed bumps were added regularly for safety. Consortium representatives pointed out that these measures were a good example of the IFC environment department’s type of impact on the project.

On the other hand, civil society representatives alarmed us that roads near the Kome project site were also causing harm to local populations due to dust pollution. We were assured by the project manager that plans to treat these roads were going ahead. An area of concern remains however the continued maintenance of these roads, which will be the responsibility of the government starting in the Summer of 2004.

---

10 A promise he of course could not make good on. Disappointed villagers protested and temporarily erected a road block.
11 For instance, four locomotives and over 200 railcars in Cameroon.
A by-product of the project is the installation of a fiber-optics cable and telecommunications system, which will run parallel to the buried pipeline. This may turn out to hold a major positive development impact on both Cameroon and Chad: 18 fibers have been installed, six for use by the Consortium, and six each for the Republics of Cameroon and Chad. This cable could eventually be connected to a fiber-optics sub-sea cable surrounding the African continent, which Chad and internal parts of Cameroon would normally have no means of accessing. Specifically for Chad this will one day mean a great opportunity to overcome some of the disadvantages of its land-locked geographical situation. The countries pay for the added capacity of the cable, while COTCO and TOTCO have installed it at no charge.

LOCAL AND REGIONAL IMPACTS

COMPENSATION

Three types of compensation\textsuperscript{12} are being paid by the project: individual compensation, supplemental land/damages compensation, and regional/community compensation.

Individual compensation was paid to people for their loss of opportunity to use their land\textsuperscript{13} during the construction period, or for loss of a tree on the easement that would be cut down because of construction. Following construction, people are allowed to use the land again; only the planting of trees directly above the pipeline is prohibited. Further, compensation was also given for supplemental use of land not foreseen during initial planning.

Local communities receive community compensation for impacts to common resources such as non-timber forest products which are typically shared among a group of people. While individual compensation was restricted to people living within two kilometers of the pipeline route, communities farther away qualify for community compensation. The disbursement of individual compensation was nearly completed in Cameroon in October of 2002, while consultations on regional/community compensations are still ongoing for some communities, and about to start for local Bakola/Bagyeli\textsuperscript{14} settlements.

In Cameroon, 266 villages are eligible for regional/community compensation, and this compensation is yielding approximately 650 micro-projects\textsuperscript{15}. Many communities requested access to electricity as their community compensation. The sustainability of this infrastructure is of concern, since most households may not be able to pay their

\textsuperscript{12} A total amount of US$6 million has been paid in individual compensation in Cameroon.

\textsuperscript{13} Local communities hold customary rights to the land, though it is legally property of the state.

\textsuperscript{14} These indigenous communities were not eligible for individual compensation, the pipeline having been re-routed specifically to be away from their homes.

\textsuperscript{15} Of the monies to be spent about 35% is for education projects, 21% for water projects, 21% for infrastructure, 10% for community equipment, 8% for medical supplies and equipment, and 5% for agricultural equipment.
electricity bills, and thus access to electricity may benefit only few members of the community. At the time of our visit this issue was not finally resolved.\textsuperscript{16}

**Community Consultations**

Communities go through a process of consultation to determine what to use their allotted compensation for: this could for instance be for building a community market, or a communal water well. In Cameroon, COTCO staff oversaw the process of consultations themselves, working with local NGOs.

In Chad, the Consortium hired the German Development organization GTZ to oversee this process, which is currently underway. It is difficult for the EIR to assess whether a local NGO could have been hired for this job, however, a component of the GTZ’s work in Chad will include training local NGO partners to be able to perform the lead role in this type of work in the future. This on-the-job training could be a direct positive developmental effect. This type of cooperation should be encouraged by the World Bank in this type of project.

The project has launched a pilot of a “social closure” process with the aim to consult systematically with all affected villages at the end of the construction period, establishing that the compensations were considered “fair” or “understood” (but not ruling out any future claims). Communication with local communities will continue throughout the project live with “grievance teams” addressing any concerns raised. To what extent these have been effective is not known.

Compensation may in many cases have resulted in good investments of individual households and communities, improving people’s lives. As a positive side-effect, the process of consultations may build critical skills of deliberating common goals and making joint decisions, building a community’s social capital. On the other hand, representatives from civil society in Chad and Cameroon expressed a number of concerns regarding the social distress that local communities were subjected to because of the project and its payment of compensation, through changes in the local hierarchy due to earnings of some community members for instance, and were concerned that communities were not prepared enough for these changes.

A representative of a women’s rights organization in Chad explained that many women suffer from the fact that compensation is given to heads of households: men\textsuperscript{17}. Their husbands then use the new “wealth” to marry another wife, leaving his present wife or wives at best no better off than before. Also, many people with homes along the pipeline route live in cash-less communities, and while compensation was given mainly in-kind, some people preferred to receive compensation in cash.

\textsuperscript{16} Also, in many cases electrification would cost substantially more than the negotiated compensation allowance. COTCO recommended that communities find co-financing from other development agencies or government development funds for this expense.

\textsuperscript{17} Many women did receive compensation as a result of being the owners of assets
An evaluation of the compensation scheme has been requested by both ECMG and IAG and may yield important insights and lessons for future projects of this nature.

LOCAL IMPACTS:
Impacts at the local level took many forms, and the EIR team was told about a number of different issues:

IN-MIGRATION
In-migration is an obvious phenomenon in the oil field, and many spontaneous settlements\textsuperscript{18} are springing up surrounding the construction/operations camp at Kome. While the project strictly does not recruit workers at the gate, the project site nevertheless attracts many new settlers daily, which appear to live off workers from the project site spending their time off and wages in these settlements.

Special concerns for people living in these settlements include housing shortages and bad hygienic conditions, health impacts such as sexually transmitted diseases including HIV/AIDS, and social ills such as prostitution, also of minors. For a more complete discussion of these concerns please consult reports of the IAG and ECMG, we did not have the opportunity to visit a settlement and talk to the people, but were told about these concerns. The project’s Regional Development Plan (RDP) is designed to address these and other potential local and regional impacts.

HEALTH IMPACTS
Health impacts are not only a concern regarding spontaneous settlements. A representative from a N’Djamena based research institute said she and her colleagues found a high incidence of respiratory diseases in communities near the project site, probably caused by dust from the roads. HIV/AIDS is increasingly a problem in both Chad and Cameroon, and the Consortium has responded with awareness campaigns. Baseline data on HIV/AIDS in the area is not available, a fact for which the Consortium is being criticized by NGOs.

SOCIAL CHANGE
NGOs have further expressed their worry that communities may not be prepared for the changes that the pipeline project brings. The World Bank Group shares these concerns. Reintegration of local project workers into their communities once they have completed their jobs during the pipeline construction is a specific concern. Their altered social status (through training and income) may erode traditional and stable systems of hierarchy. Further, NGOs raised the question what will happen to those who were at some point employed by the project, and return to their homes without jobs. Moreover, many who wanted jobs were not employed by the project and are discontent. A satisfactory solution to this problem has not been identified.

\textsuperscript{18} One large settlement here is named Atan, and locally referred to as “Satan”.
Disruptions can also be caused by the introduction of cash into cash-less communities, and the economic impacts such as inflation caused by the influx of money into small markets. The Consortium monitors the level of prices for a number of goods in the local markets, and in some locations has established so-called commissaries. These are local warehouses stocking basic supplies, which their workers are encouraged to shop for certain inflation-sensitive staples and other items. The idea is to maximize the use of local suppliers without causing inflation in local markets which hurts local communities. Some local inflation has nevertheless occurred.

ENVIRONMENTAL IMPACTS
Environmental impacts are also feared, for instance the possibility of an oil spill. NGOs in Cameroon asked what would happen to local fishermen in the Kribi area in case of an oil spill at the off-shore marine export terminal. A spill could destroy traditional livelihoods and leave fishermen without alternative income. From the Consortium perspective, oil spills are not inevitable, and the Consortium is confident that no spills will occur from this pipeline which is constructed and operated using state of the art technology.

Further, Consortium representatives explained that wherever the project caused economic losses, affected people would be compensated. A certain level of mutual distrust appears to remain a feature of the relationship between the Consortium and NGOs, despite ongoing discussions and consultations between these actors. Perhaps the format and degree of intensity of such discussions ought to be improved, especially in Cameroon.

REGIONAL DEVELOPMENT PLAN
Given local impacts such as in-migration, re-integration of workers etc sound regional planning is essential. A Regional Development Plan is required by the project’s Environmental Management Plan.

Recently, the Inspection Panel of the World Bank found the “lack of capacity within the Government [of Chad] to prepare this document in step with the rapid pace of Project development […] clearly evident”.19 The management of the World Bank responded that it will “intensify its efforts to work with the relevant Hadrian agencies to prepare and implement the Regional Development Plan and will pay particular attention to the capacity-building issues.20"

An ongoing dialogue with civil society representatives in Chad appears to be a crucial factor in achieving the objectives laid out in the management response. NGO representatives in Chad signaled that they were interested in being involved in this effort.

---

19 Inspection Panel Investigation Report on the Chad Cameroon Petroleum and Pipeline Project; Chad – Petroleum Sector Management Capacity-Building Project; and Chad – Management of the Petroleum Economy Project, sent to the World Bank Group Board on July 17, 2002.
20 Management Report and Recommendation in response to the Inspection Panel Investigation Report on the Chad Cameroon Petroleum and Pipeline Project; Chad – Petroleum Sector Management Capacity-Building Project; and Chad – Management of the Petroleum Economy Project, August 21, 2002
Many NGO representatives are however still thinking about the refusal of a moratorium on the project, which they had requested in the interest of gaining time for preparing local communities, as well as giving government more time to prepare for the project. A World Bank representative argued that the project would not have gone through pending a further waiting period. Another perspective was that capacity building has little effect if it is not applied to real situations, such as an ongoing project. However, project construction has moved faster than expected while capacity building is lagging seriously behind.

Regional development is also an integral part of Chad’s revenue management law, which provides for five percent of oil royalties to be allocated to the oil producing region. There appears to be ongoing uncertainty about the delineation of this “oil producing region”. Greater clarity is needed regarding who will have access to the funds in the interest of avoiding future conflict. Meanwhile regional planning in Kome had not taken place at the time of our visit, although the International Advisory Group has raised their concern on the absence of this activity a year previously.

**Great Expectations and a Reality of Limitations - Chad**

During discussions with stakeholders, it was evident that people in Chad have great expectations vis-à-vis the project and the income that the country will accrue. (Could Chad become the new Switzerland of Africa?) At the same time, there appeared to be widespread lack of knowledge about project specifics, as well as lack of commitment, including among members of government ministries and parliament.

The government of Chad, a young multi-party democracy, makes do with very limited resources. Government income amounts to approximately eight percent of GNP, mainly from customs duty. (footnote). Limitations can easily be observed, for instance with regard to office space that ministries occupy and the number of staff they employ. Limitations are equally exposed in anecdotal evidence: for instance, the one person which negotiated all legal texts concerning the oil pipeline project for Chad has passed away since and not been replaced, and thus nobody in the government is fully familiar with all signed legal agreements.

Capacity limitations appear to be worsened by cumbersome procedures, and a lack of willingness to delegate on the part of government officials. Contracts for furniture, office equipment and the like take many months to pass administrative bottlenecks. The WBG capacity building program addresses these impediments, and assists government expenditure planning according to absorptive capacity. *Great efforts in a broader range*

---

21 This was evident for example in the procedures the EIR team had to go through to obtain a license to take pictures while in country, which required the personal signature of both the Head of Police Forces and the Minister of Information.
of institutions are yet required to ensure Chad’s administration will be prepared in time for the receipt of first oil revenues later this year.

Motivated to take on their role as auditors of government spending, parliamentarians also showed themselves frustrated by having no means to verify stories, positive or negative, about the project site, which none of them had visited. While efforts to train relevant government representatives in required techniques and systems for revenue management are underway by the World Bank, these appeared focused on few key people. Project related education may need to comprise all three arms of government to a larger extent, as well as civil society at large.

Government limitations are likely to be more severe away from the capital. We heard about a prison in the Doba region with approximately eighty prisoners and only one prison guard, or teachers from all over the country that have to travel to the capital N’Djamena to collect their wages.

As a consequence of limited government means, and the importance of good governance for poverty reduction and development, “governance” ought to be considered a priority sector in itself. Chad is a young democracy and its democratic institutions are in much need of strengthening yet. As a priority sector, governance could comprise training of staff, hiring of consultants, the organisation of seminars, but also strengthening of the rule of law, improvements in prisons, the situation of the police force, sustainable financing of political parties, etc.

PROJECT MONITORING

One measure of the project’s success is how well it is designed to respond to complaints regarding the project’s impacts and mitigation efforts up front, as well as throughout the life of the project.

The project has many layers of monitoring: monitoring by the government of Chad and of Cameroon, by local NGOs, by the Consortium and its contractors, by the External Compliance Monitoring Group (ECMG), whose task it is to monitor the application of the project’s Environmental Management Plan, by the International Advisory Group (IAG) which monitors the project’s achievements of its social, environmental and poverty reduction objectives in an advisory function to the World Bank and the governments of Chad and Cameroon, and finally monitoring by the World Bank Group (IBRD/IDA and IFC) itself.

---

22 Parliament had recently been elected and reconvened at the time of our visit, however, there is no reason to believe that this frustration and lack of information will not last without intervention.

23 Government representatives expressed their concern that their newly qualified staff might be attracted away to neighboring countries offering higher wages.
Some of these mechanisms appear more functional than others. The project will benefit if all efforts are undertaken in the realm of the possible to inform and train the members of all bodies involved in the monitoring of the project, and of the use of oil revenues. As an example, it could be beneficial to organise tours for the recently reassembled parliament in Chad to the project site, and to organise seminars discussing the potential risks and benefits of the project.

It appears useful to review this monitoring mechanism some time into the operational life of the project, to assess whether the considerable cost to the project that such complex monitoring requirements cause, are effective and in its form justified. The EIR team was impressed by the work of the International Advisory Group, specifically regarding their interactions with local stakeholders in Chad, which appeared frank and useful. There will be many lessons to be learnt for potential future projects of this kind to streamline monitoring efforts, for instance minimizing any overlap of the mandates bodies such as the ECMG and the IAG regarding social and environmental impacts, and shifting monitoring gradually to the country and the local stakeholders themselves.

FOREIGN ATTENTION

The Chad Cameroon Pipeline Project also represents a window of foreign involvement and attention, particularly for Chad. This attention comes from sources as varied as the World Bank Group, the international media and non-governmental organizations, importing international norms and practices.

Foreign attention has the effect of a large spotlight shining on the country, and it raises the stakes of human rights abuses, and encourages “good” behavior by all actors, and protects local civil rights advocates to a certain extent. This influence and attention may prove to be an important impact of the project, in light of Chad’s only very recent history of relative political stability. It is important however to bear in mind that such foreign influence creates sensitivity in a country, touching sovereignty concerns.

Further, exposure to external experts, be it technical experts through the project, international NGOs linking local NGOs to international networks, or interactions with the members of the International Advisory Group can have a lasting impact on local actors. It equally is an element of the path of modernization which Chad has taken, and which some local NGOs remain uncertain. A process that replaces foreign with local actors should reduce the uncertainty.

SOME CONCLUSIONS AND REFLECTIONS FROM THE EIR

Involving all actors of society in making this project a success

24 A review of the work conducted by the ECMG is to take place after the completion of construction.
The Chad Cameroon Oil Pipeline Project is a complex project which has the potential to deliver a high poverty reduction and development impact. However, the success of this complex and risky project depends critically on the best efforts of all actors involved: the governments of Chad and Cameroon, the Consortium and other involved companies, the World Bank Group, as well as civil society at large.

Consequently, information and training programs ought to have as far a reach as possible. More efforts may need to be put into place by both governments and the World Bank Group to better inform all sectors of society about the project. Capacity building projects ought to be encouraged and financing sought also for other sectors such as the press, professional associations such as lawyers, various parts of the government, even where they are not at the front lines of managing the project.

If problems and risks associated with a project of this type are fairly well known and understood by many, this may impose a certain discipline on all actors from the government, industry and civil society, while keeping everyone’s expectations from the project more realistic.

**Assuring sound revenue management**

The project is unique in its provisions for revenue management for Chad. The establishment of such a regime can be a step in the right direction of assuring effective poverty reduction and sustainable development, provided the political support prevails to commit revenues to this purpose.

The revenue management regime, and the college in particular would be particularly effective in improving overall governance if it both sets up a system of monitoring oil funds, which is entirely separate from the regular budgetary discipline, and co-ordinates its efforts with regular monitoring bodies such as parliament and the attorney general (Chambre de Comptes), while of course safeguarding its independence. This may enhance the quality of budgetary discipline in general, and with a lasting effect beyond the life of the project.

It would also prove useful for the government of Chad to include governance as a priority sector in its own right, in addition to its existing priority sectors.

**A complex project needs special attention from the World Bank Group**

Prior to our visit to the project, acting upon a recommendation of the International Advisory Group, more staff were added to the team working within the WBG on the capacity building component of this complex project, one experienced WBG manager in charge of projects related to the pipeline is based in N’Djamena, with a counterpart and
It appears that this special attention is necessary and useful in the context of a project of this profile and complexity, and the WBG ought to consider giving projects of this type special attention throughout and automatically in terms of staffing.

Equally for the countries involved, government employees require special priority, capacities are to be prepared preferably prior to project construction. In low income countries like Chad and Cameroon, a US $3.5 billion project will create significant impact beyond the boundary of the project area. Such an investment brings changes, but with very real risks that the poor and powerless can be made worse rather than better off.

Environmental and social values are at risk because of the sheer size of the project. The project investment will bring big changes. Vulnerable groups in society are not well-positioned to protect themselves from its negative impacts when environmental, social and cultural values are shifting. This justifies the rationale of continued consultations between government, industry and civil society, which are crucial to protect the vulnerable groups in society.

The EIR team feels that future investments in Africa at large - not just by the World Bank Group, but by all in particular the extractive industries - depend critically on the success of the Chad Cameroon Pipeline Project. Its success is critical in demonstrating that the African context does not preclude successful private and public ventures in the future, if thoughtfully carried out. In the WBG context this means it ought to be preceded by a comprehensive Country Assistance Strategy: this strategy needs to consider all sectors, both extractive and non-extractive industry developments, in the case of Chad this means a special focus on agriculture and cattle raising, in addition to the implementation of the oil pipeline project.

Further, the Country Assistance Strategy should be aimed at dealing with the wide impacts that a project of this immense scope has on the country’s development, with a special focus on the poor and the powerless.

This requires the use of facilities that the World Bank Group has at its disposal such as in financing, risk insurance, standard setting, capacity building and convening the global, regional, national as well as local corporations, along with consultation among donor-countries, government agencies and industries. By implementing such a role, this project may provide valuable lessons on how it can be instrumental in poverty alleviation through sustainable development.

---

25 It is a question worth raising why retired staff had to be called back to duty by the WBG for these important functions. Does the WBG incentive system not recognize the efforts of staff who take on challenging tasks of this type?
ANNEX 1: PROJECT VISIT AGENDA

OCTOBER 11 TO 18, 2002: CHAD

Friday October 11 – N’Djamena

08:00 am  Meeting with Mr. Jerome Chevalier, Manager, oil-related projects, Chad and Cameroon, The World Bank

09:00 am  Meeting with Mr. Ousmane Mahamat Nour Elimi, Minister of Petroleum

10:00 am  Meeting with Mr. Djimrangar Dadnadji, Minister of Planning, Development and Cooperation

12:00 pm  Meeting with Mr. Dolotan Noudjalbaye, President, Chambre des Comptes, and Mr. Ahmed Bartchiret, President of the Supreme Court

02:00 pm  Meeting with Esso Exploration and Production Chad Inc. (Esso): Mr. Ron Royal, Director General, Ms. Ellen Brown, Socio-Economic Consultant

Saturday October 12 – Kome

All day:  Visit to the project site at Kome, presented by Esso. This site visit included a visit of Kome 5, of the drilling centre including presentations on workers safety by Esso, Schlumberger and Pride International, and safety education, as well as information on employment practices and worker. These presentations were given by staff of Esso, and its sub-contractors Pride and Schlumberger. The group visited the market of a nearby village.

Monday October 14th– N’Djamena

09:00 am  Meeting with Ms. Therese Mekombe, President of the Cellule de Liaison et d’Information des Associations Féminines (CELIAF), and member of the C.C.S.R.P. (college)

10:00 am  Meeting with representatives from Civil Society:
– 12:00 pm  Mr. Boukinebe Peugonba Garka, President, Union des Syndicats du Tchad Labour Union Association); … NGOs, Human Rights Organisations, Labour Unions
06:00 pm  Meeting with Mr. Tawfik Ramtoolah, US Department of Treasury, Office of Technical Assistance, Resident Budget Advisor Ministry of Finance, Chad

07:00 pm  Meeting with Mme Delphine Djiraibe, Président, Association tchadienne pour la promotion et la défense des droits de l’homme (A.T.P.D.H.), (Human Rights Association)

**Tuesday October 15 – N’Djamena**

Joining – and – for the IAG project visit (meetings assigned a star * are meetings organised by the IAG which the EIR joined.)

02:00 pm  Meeting with M. Adoum Hassan Bakhit, Coordinator, Economic Cell

03.00 pm  Meeting with M. Tom Erdimi, National Coordinator, Petroleum Project

08:30 am  Meeting with the Coordination Nationale du Pétrole, DP, CTNSC , World Bank to discuss the use of oil revenues*

11:00 am  Meeting with Ministry of Finance, Institute of Statistics, Cellule Economique, management and use of oil revenues*

07:00 pm  Meeting with Mr. Gregor Binkert, Resident Representative of the World Bank in Chad

**Wednesday October 16 - N’Djamena**

10:30 am  Meeting with delegates of the ministry of the Interior, of Security, of the armed forces, and of decentralisation, about security, justice and human rights*

02:40 pm  Meeting with Lawyers association about security and justice*

04:00 pm  Meeting with the Minister of Justice*

05:00 pm  Meeting with M. Abraham Ousmane, Africare
Thursday October 17 – N’Djamena

08:30 am  Meeting with President Nassour of the National Assembly, and subsequently with deputies representing the main parties, to discuss the assembly’s role in revenue management*

04:00 pm  Meeting with the Collège*

October 18 to 22, 2002: Cameroon

Friday October 18

Travel to Yaounde, Cameroon

Saturday October 19 - Yaounde

10:30 am  Meeting with Civil Society members of Cameroon, meeting organised by and at CRS Cameroon

Sunday October 20 - Douala

Travel to Douala, Cameroon

07.00 pm  Meeting with the International Advisory Group (IAG)

Monday October 21 – Douala

All day meeting with COTCO and the International Advisory Group (IAG)

Departure of Dr. Emil Salim

Tuesday October 22 – Wednesday October 23 - Kribi

Visit to project sites around Kribi, as well as local Bakola/Bakyeli “pygmy” settlements with representatives from COTCO and CED, a local NGO

Departure of Mardi Minangsari and Julia Grutzner
ANNEX 2: THE COUNTRY CONTEXT

CHAD

Social Indicators
Chad is one of the poorest countries in the world. Its per capita GNP of US$20027 lies well below the regional average per capita income of sub-Saharan countries (US$ 470). Its social indicators reflect difficult living conditions: approximately 64% of Chad’s 7.7 million strong population live under the national poverty line, infant mortality is at 10%, 39% of children under 5 are malnourished, and 57% of the population is illiterate. Chad ranks in the lowest 10% of the UNDP’s Human Development index.

Economic situation
Chad’s land-locked economy is based on livestock and agriculture, of which cotton is the largest component. Agriculture generates approximately forty percent of Chad’s GDP in the form of subsistence farming, husbandry and fishing, which support 85% of its population. Cotton is the country's major cash crop, accounting for at least half of its exports28. The remaining GDP is generated by industry (13%) and services (47%). Chad is party to the Communauté Financière Africaine, whose currency, the XAF29, is pegged to the euro. Chad enjoys a stable macroeconomic situation with inflation at 3.8 % in 2000.

Political situation
Chad has experienced relative political stability for a little over ten years, following over thirty years of civil war. The newly found peace led to a democratic constitution, and multiparty presidential and National Assembly elections were held in 1996 and 1997 respectively. In practice, however, fraud, widespread vote-rigging, and local irregularities were reported for both elections. Northerners, in particular members of President Deby's Zaghawa ethnic minority, continue to dominate key positions in the public sector30. In 1998, a new rebellion broke out in northern Chad and escalated throughout 2000. Despite relative stability over the last few years, the political situation remains fragile. The human rights record of the government remains very poor.

---

26 Most of the EIR team’s meetings with stakeholders took place in Chad.
28 Chad’s cotton exports suffer severely from international subsidies. “Cotton subsidies paid by just eight countries amounted to $5.4 billion in 1998/99 crop season, with the U.S. accounting for more than $2.0 billion of this total. By supporting uneconomic cotton production, subsidies have driven down world cotton prices to nearly one-third of their peak level of the mid-1990s”. World Bank Group News Release No: 2002/273/S “Making Monterrey Work For Africa - New study highlights dwindling aid flows, mounting challenges”
29 Communauté Financière Africaine francs (XAF), responsible authority is the Bank of the Central African States
CAMEROON

Social indicators
Cameroon enjoys a relatively higher standard of living than Chad, with a per capita GNP of about US$580, above the regional average of US$470. Growth in per capita GDP has been moderate but stable in the 1990s at approximately 2% per year. Cameroon is richly endowed with tropical forests, mineral resources (petroleum, natural gas) and fertile agricultural land. About 44% of its GDP accrues from agriculture, 20% from industry (of which 10% manufacturing), and 35% from services. Like Chad, Cameroon’s currency is the XAF.

Economic indicators
Despite this much broader economic base, some 51% of Cameroon’s population of 14.9 million live below the poverty line (1996 survey). About 23% percent of the population lives in extreme poverty. Social indicators rank above average in the region, but are weak nonetheless: infant mortality is at 7.6% (compared to 9.1% average in sub-Saharan Africa), one in five children under the age of five are malnourished. HIV/Aids is a serious problem. Approximately 7.7% of the population is infected with HIV.

Political frame
Cameroon has been governed by a single party since independence in 1961, now called the Cameroon People's Democratic Movement (CPDM). In 1997, President Biya was elected President in an election which was boycotted by the three main opposition parties. The government has a weak human rights record and is considered corrupt by the World Bank Group.

32 Country Assistance Strategy Cameroon
FURTHER READING

Amnesty International Report (2002). Cameroon

Amnesty International Report (2002). Chad

Center for Environment and Development (CED), Friends of the Earth International (FoEI). (2001). Broken Promises The Chad Cameroon Oil and Pipeline Project; Profit at any Cost? Promesses Bafouées Exploitation Pétrolière et Oléoduc Tchad-Cameroun Qui payera la Facture?

Center for Environment and Development (CED). (2002). Traversing Peoples Lives how the world bank finances community disruption in cameroon

Center for International Environmental Law (CIEL) The Chad-Cameroon Pipeline Project Summary of Concerns www.ciel.org/if/i/chadcam_summary.html

Chad Export Project. (1999). Environmental Management Plan


COTCO. (2002). Briefing Book International Advisory Group #4 Visit 17-26 October 2002 Cameroon


CRS Catholic Relief Services and the Chad-Cameroon Pipeline Project, www.catholicrelief.com

Economist Intelligence Unit (2002) Country Profile Chad

Economist Intelligence Unit (2002) Country Profile Cameroon

Encyclopedia Britannica Online History of Chad, History of Cameroon

Environmental Defense, Horta, K. (1997). Questions concerning The World Bank and Chad/Cameroon Oil and Pipeline Project – Makings of a New Ogoniland? Corporate Welfare Disguised as Aid to the Poor?


Friends of the Earth Chad Cameroon Oil Pipeline www.foe.org/international/worldbank/chadcameroon.html

Friends of the Earth (2001) ‘If this is development you can keep it!’ The broken promises of the Chad-Cameroon Oil and Pipeline Project CD-ROM


International Advisory Group (IAG). (2002). *Report of Visit to Chad - June 3 to 17, 2002*

International Advisory Group (IAG). (2002). *Report of Visit to Cameroon - April 7 to 18, 2002*


International Advisory Group (IAG). (2002). *International Advisory Group (IAG) Communiqué re visit to Cameroon and Chad*


International Monetary Fund. (2002). *Chad Statistical Appendix*

International Monetary Fund. (2000). *Cameroon Statistical Appendix*


Laird, S. (2000). *Summary of Valuation Study on Non Timber Forest Products on the Pipeline Easement in Cameroon*

Ministere de l’Economie et des Finances, Direction Generale, Republique du Tchad. (2002). *Cadrage Budgetaire et Programme de Depense a Moyen-terme*

Mokom, O. (2002) *Current Issues related to the Chad-Cameroon Pipeline Project*

Project underground. (2001). *Action Alert World Bank: Stop political violence in Chad*

Pipeline Journal Regular Account on the Progress of the Chad-Cameroon Pipeline Project No 005 September 2002


SAARA Solidarity and Aids Research Association/COTCO *Together lets say no! to AIDS*

Tchad Cameroon Development Project, Clarke, R. (2002) *Presentation: Chad Field Facilities Status*

World Bank Group Inspection Panel. (2002). *Inspection Panel Investigation Report on the Chad Cameroon Petroleum and Pipeline Project; Chad – Petroleum Sector Management Capacity-Building Project; and Chad – Management of the Petroleum Economy Project*


World Bank Group. (2000). *Project Appraisal Document on a proposed credit in the amount of SDR 17.4 million (US$ 23.7 million equivalent) to the Republic of Chad for a Petroleum Sector Management Capacity-Building Project*

World Bank Group. (2000). *Project Appraisal Document on a proposed credit in the amount of SDR 17.4 million (US$ 23.7 million equivalent) to the Republic of Chad for a Petroleum Sector Management Capacity-Building Project*


World Development Indicators, World Bank Group (2002)