Volume V: Final Workshop Report
STRIKING A BETTER BALANCE

VOLUME V

FINAL WORKSHOP REPORT
AND STAKEHOLDER SUBMISSIONS OR COMMENTS

THE FINAL REPORT OF THE EXTRACTIVE INDUSTRIES REVIEW

December 2003
The Extractive Industries Review (EIR)

Final Workshop Report

Lisbon, Portugal
December 11-13, 2003
Notes
The Extractive Industries Review Final Workshop was held in Lisbon, Portugal, 11-13 December 2003. This report was prepared by the EIR Secretariat to summarize the workshop discussions and outputs.

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). 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 and Acronyms
ASM  Artisanal and small-scale mining  
CAS  Country Assistance Strategy  
CPIA  Country Performance Institutional Assessment  
EIR  Extractive Industries Review  
EITI  Extractive Industries Transparency Initiative  
FPIC  Free Prior Informed Consent  
IBRD  International Bank for Reconstruction and Development  
IFC  International Finance Corporation  
ILO  International Labor Organization  
IMF  International Monetary Fund  
MIGA  Multilateral Investment Guarantee Agency  
NGO  Non-Government Organization  
UN  United Nations  
WBG  World Bank Group
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Further information on the EIR Web site (http://www.eireview.org)
1. Introduction

The Extractive Industries Review (EIR) Final Workshop took place in Lisbon, Portugal, December 11-13, 2003. This was the final multistakeholder event in a consultative process that started with a workshop in Brussels, Belgium, in October 2001. The purpose of the workshop was to discuss the EIR recommendations with stakeholders, to solicit input on how to best implement them, and to build coalitions for future action. Approximately 80 participants attended, representing civil society (nongovernmental organizations (NGOs), community-based and indigenous peoples organizations, and labor unions), government, industry, academia, and the World Bank Group (WBG) itself.

The main issues discussed were information disclosure, sustainable energy, governance, human rights, accountability, artisanal and small-scale mining (ASM), transparency, and WBG accountability. There was general agreement with the recommendations on such issues as good governance, human rights, transparency, revenue management, and local participation. And it was agreed that the WBG should remain involved with extractive industries provided conditions of governance were suitable. However, there was a major disagreement over the recommendation for the WBG to phase out of oil by 2008 and to continue to disengage from investing in coal, as well as confusion over what is meant by free and prior informed consent.

The workshop process was guided by the EIR’s Eminent Person, Prof. Dr. Emil Salim. The final EIR report will be presented to WBG President, James D. Wolfensohn, in January 2004. A response from the Management Board of the WBG is expected within three months, and the Eminent Person will add his final remarks before the WBG Directors make their decision about the report.
Day One

2. Welcome by the Eminent Person

Introducing the final workshop, Dr. Salim welcomed all participants and provided some background on the rationale behind the EIR process. The main motivating thread is the changing development trend from economic growth to sustainable development. Dr. Salim emphasized three points: (1) environmental, social, and economic concerns need to be integrated within the mainstream of sustainable development, which brings with it an added cost that someone has to pay; (2) development must involve more than just government and business—to move forward it must also involve civil society, in a triangle of partnership; and (3) not only the outcome but also the process of development is important, and this needs to be based upon human rights.

Dr. Salim explained that a double standard prevails in today’s global development. Developing countries are being pressured to open up their markets for foreign competition, yet they face tariffs and other market barriers when they attempt to compete in foreign markets in industrial countries. Dr. Salim cited the example of the import duties in industrial countries, which are high for processed mining products but low for mining raw material, and a $2/day subsidy in Europe for cows while billions of people worldwide are subsisting on less than $2/day. There is a terrible imbalance in the world and millions of people are suffering because of it. And there is no international grievance mechanism for people to go to seek justice. Why doesn’t the World Bank Group take this on? The speech by the President of the WBG in Dubai in September this year highlighted these inequities and injustices.

The final report is a reflection of a deeply concerned protest that stems from our conscience over fundamental inequities between industrial and developing countries. What has been stated in the report will not change after this meeting. The Eminent Person takes full responsibility for the content, and requested everyone to accept it as it is because it is written from the voice of conscience. What is needed now is collective action, so that together the various stakeholders can bring about change in the world. In seeking change, don’t expect satisfactory achievements in one year. By 2020, however, things must change; otherwise, if left as they are, countries will sink under the rising waters from global warming due to carbon dioxide (CO₂) emissions.

Dr. Salim asked everyone for their help in identifying what can be done together to move ahead. If there are areas of disagreement, that’s OK, and let us continue the discussion to find a solution. But where there is agreement everyone needs to work together to bring about change in the World Bank Group and the way it works.
3. Presentation of EIR Process and Recommendations

Prior to the presentation of the final report, the Eminent Person clarified some questions about the report. Some participants wanted to make changes to the report, but it was made clear that the existing text would remain unchanged apart from a few minor factual corrections regarding accidents in the oil industry (and copies of the corrected text would be made available to the participants). However, individuals and groups could submit comments that would be included in an annex to the report.

The EIR Secretariat then presented a PowerPoint summary of the consultation process, the views of the main stakeholders, and the main recommendations from the report.

4. Questions for Clarification

The Eminent Person responded to selected questions from the participants.

Industry stated that the report does not fully reflect the content from regional workshops, and they would like a mechanism put in place to correct erroneous data. Dr. Salim replied that the report summary does not necessarily include everything, since the report must be brief, as recommended by the advisory group. Industry should look at Volume III, which reflects the regional workshops, and send any comments for corrections. These comments will be included in the appendix to the report.

The next questioner wanted to know to what extent the recommendations were directed to the WBG for implementation or to other stakeholders. Dr. Salim made it clear that recommendations were directed to the World Bank Group, but that he would like other stakeholders to actively push for implementation, and to do this in partnerships with the WBG and with other parties.

To another question, Dr. Salim responded that a list of participants from the workshop will be included, but there will be no attribution in the report of the proceedings.

On a question of the difference between recommendations that represent broad consensus or a minority viewpoint, Dr. Salim suggested that consensual issues will be followed up, and where there are issues of dissent, it will be up to the World Bank Group to determine a possible course of action.

One participant asked that if the report represents the Eminent Person’s personal view, then this does not reflect a balanced perspective of stakeholders, and why has this happened. Dr. Salim clarified that his opening statement was to describe frankly his personal motivation in taking on the task, so that everyone knows where he stands; and that he takes full responsibility for the report, which he feels is an accurate reflection of all stakeholder perspectives that were revealed in the numerous submissions, either from workshops or written submissions through the Web site or from direct discussions with various stakeholders. In accordance with the terms of reference, the Eminent Person is not expected to write a consensus report.
On the question of how free and prior informed consent (FPIC) was defined by the Secretariat, Dr. Salim stated that it follows the UN definition as agreed under international law.

Regarding a concern if WBG involvement with stakeholders now ends, Dr. Salim assured everyone that the “triangle of cooperation” between industry, civil society, and government was a signal to the WBG that there has to be continuous involvement from all parties. However, it also is the obligation of all stakeholders to make the WBG feel the need to involve all stakeholders.

A final question was that the recommendation to phase out of WBG support for oil development by 2008 seems to have emerged out of thin air and not from the consultation process with stakeholders. Where did it come from? Dr. Salim responded that it is based on discussions with industry in London, plus industry’s strategy to move toward renewables, inputs from civil society and people from the Pacific Islands, and his own personal commitment to the Kyoto Protocol, which targets reduction of CO₂ emissions by 2008.

It is also important to note that the Communist Party of China in its October 2003 plenum proposed a new philosophy of development for China, based on balanced and sustainable development, in which there will be a balance between urban and rural development, between regions, between social and economic development, between humanity and nature, and between domestic and foreign economic development. In this context the concept of a “green gross domestic product” is to be developed to prevent the negative impacts on the environment. Dr. Salim stressed that it’s time to do things differently. Today there are ideas about new forms of development that will increase overall welfare by 2020, but to do so in a different way along a sustainable path.

5. Statements to Plenary

The plenum was opened for comments on the report.

Labor representatives expressed support for the recommendations in the report and wanted to confirm their solidarity with other stakeholders. There is a need to continue to struggle to find solutions and safe, productive, and humane industries for workers.

A number of voices from industry expressed some concerns about the report. Several speakers stressed that the phaseout of oil investment removes an important instrument in the toolbox to combat world poverty, and that there will be a much greater risk that better revenue management, environmental management, and transparency will not happen without WBG influence. The Chad-Cameroon pipeline was cited as an example of where oil development can lead to poverty alleviation. It was further suggested that there will be no impact on greenhouse gas emissions from pulling out. Several other individuals felt that the report does not fully reflect the views of industry and government; that the recommendations are restrictive; and that the report missed the opportunity to distill good practices and carry them forward. Another speaker commended the WBG for its good work in helping mining companies with environmental management and social development in Zambia.
Civil society was largely supportive of the report. One speaker felt that the 2008 phaseout date for funding oil projects was reasonable, and although the Chad-Cameroon pipeline project looked good on paper, it has not yet demonstrated its value. Another person stated that although the report was not perfect, it did attempt to right injustice from the long legacy of basic human rights violations. One other participant urged the World Bank Group to change its focus from promoting fossil fuels to helping developing countries change their use and management of energy. If badly managed, gas could be worse than coal.

From indigenous peoples, one speaker commented that the report suggests equity and justice, and the importance of sustainable development. He begged industry to try to implement the recommendations, otherwise history could repeat itself.

6. Working Groups

Seven working groups were formed to answer three questions: (1) What is the major message you heard from the report? (2) What parts can you support wholeheartedly? (3) What concerns you the most? The groups were asked to report back on the last two questions.

Areas of Support

Although there was no attempt to achieve consensus in the selection of elements from the report, two items received universal support: good governance and recognition of human rights. The majority of groups identified the need for transparency and good revenue management, as well as deeper participation by locals and indigenous peoples in project planning, development, and implementation. A majority also indicated that there still was a role for the WBG in extractive industries, provided that the EIR recommendations were implemented.

Just under a majority of groups identified the need for a level playing field for all actors in the sector, especially in the “triangle of cooperation” between civil society, government, and industry. The same number of groups indicated the need for improved and full implementation of WBG Safeguard Policies and that assessment mechanisms that integrate social, environmental, and economic considerations should be used to measure compliance with policy guidelines.

Other key areas identified were no involuntary resettlement; early disclosure and open access to information about projects; the adoption of core labor standards; establishing bridges to renewable energy; and mine closure pre-planning.

A series of points highlighted the importance of reform within the WBG itself, to ensure that it was achieving its goal of poverty alleviation through sustainable development, and that this should be a continuous process. Greater transparency and accountability was also needed from the WBG.

Some other points raised were the need to add value in the country of origin; “no-go” zones and technologies; better dispute resolution mechanisms; and artisanal and small-scale mining.
Areas of Concern

There was much less convergence in the expression of concerns from the working groups than there was in finding areas of support. A number of voices commented on the EIR process itself, mainly that it was not fully transparent and representative. The general report was criticized for being overly negative and polarizing, and that it would be better to separate recommendations with wide consensus from those without it. Some felt the report did not reflect all positions and interests expressed during the process. Concerns were raised about the lack of detail on implementation, although some others felt the report was too prescriptive in places.

The 2008 phaseout from oil investment received the most comment. Some felt that this recommendation created unnecessary conflict between stakeholders, that it was an unrealistic deadline, and that it conflicted with the aim of poverty alleviation and the rights of the poor to have access to energy. Coupled with this was some concern about the details for achieving a transition to renewables.

Implementation issues received some attention, especially whether or not the WBG had the political will and capacity to implement all of the recommendations and who would be responsible for monitoring. Another concern was that the cost of implementation seemed to have been ignored in the report.

Quite a few concerns were directed to the World Bank Group. Some participants felt that in order for the WBG to maintain its influence and leadership role it was important for it to remain engaged in difficult areas where governance was not strong or where there was a danger of mismanagement of extractive industries and their revenues. The WBG must also demonstrate its leadership in areas such as climate change and the transition to renewables. The limitations of the WBG were noted: it is not a world government and it can’t do everything on its own. It needs partnerships with civil society, industry, and government to achieve the aims of the report, and mechanisms have to be defined that will enable positive on-going engagement. The internal conflict of interest within the WBG was of some concern: on the one hand, it has an interest in lending money to projects, and on the other hand it is obliged to implement objective and comprehensive impact assessments and to maintain stringent Safeguard Policies before projects are approved.

Many other concerns were raised, including the lack of involvement and representation of developing-country governments in the process, given their pivotal role in implementing change. Some of the remaining concerns were a mechanism for implementing free prior and informed consent; public health issues; the handling of toxic materials; resource conflicts; corporate accountability and institutional learning; support and regulation of artisanal and small-scale mining; and promoting value-adding processes.
7. Concerns and Clarifications: Part I

Dr. Salim responded to three main concerns about the report:

- The tone of the report was too negative and didn't reflect the regional workshops.
- Governance: the WBG should not be involved in extractive industries where there is not good governance.
- The WBG should phase out of coal and oil financing by 2008.

The Tone of the Report

Dr. Salim explained that the main message of the report was to tell the WBG that, in supporting extractive industries, it wasn't doing well in achieving its aims of poverty alleviation through sustainable development. The report had to be concise and frank, and in order to get the attention of the WBG President and motivate him to make changes, the good things were moved to the Annexes and the bad things were kept. For the sake of brevity, the report concentrated on the needs for improvement.

On being representative of all stakeholders, Dr. Salim felt it was important to make sure that the views of civil society were well represented, because in the past their voices were not often heard. Moreover, even though there were converging views on issues, there was divergence in the details. Because of this divergence, choices had to be made between the different perspectives. Usually, the choice was for views that made poverty alleviation through sustainable development more likely.

In response to the criticism that there were not enough examples of good practice, Dr. Salim stressed that there is a broad consensus that extractive industries are not contributing well to poverty alleviation, and this is mainly due to poor governance. The good examples are still there, however, but they are found in the Annexes.

A suggestion was made to package the report for presentation to the WBG in such a way as to acknowledge the good work that it has achieved, as this would be more motivating for WBG employees. Dr. Salim commented that communication psychology has taught us that “bad news sells better than good news.” To motivate WBG employees properly, the report recommends WBG management to reward those employees who are committed to achieving poverty alleviation through sustainable development.

Governance

Dr. Salim countered that the report does not recommend the WBG to leave countries with poor governance, but that first it should invest in improving governance in those countries before investing in their extractive industries. The problem is that IFC and IBRD are not working closely together, whereas through an integrated Country Assistance Strategy (CAS) they could identify the best way for the WBG to optimize its investment in a country’s development program, taking into account the Country Performance Institutional Assessment (CPIA) Report.
Some additional comments were made that some minimum criteria for governance need to be defined and that there were some specific recommendations from the regional workshops on how to deliver specific outcomes, such as how revenues should be shared and what was needed for capacity building. Also, the WBG is not working in a vacuum of information, as it usually has a CPIA report that provides a measure for the quality of governance it faces in the country.

Phaseout of Coal and Oil

Dr. Salim’s response was that the WBG needs to have a sustainable energy strategy and policy and that it should adjust its investments in energy to favor renewables because that would be more in line with the WBG’s aim of sustainable development. Also, poor people and poor countries are more likely to suffer the consequences of climate change. It therefore is important to internalize externalities in costing fossil fuel projects by using carbon shadow pricing analysis across the WBG. At the present time, renewables appear less attractive because of the hidden subsidies for fossil fuels. This recommendation is also in line with the Kyoto Protocol to reduce the levels of CO₂ emissions starting from 2008, which is why this year was chosen. The intention is for the WBG to use its scarce resources in the most effective way to achieve its objectives of poverty alleviation through sustainable development.

In the discussion that followed Dr. Salim’s explanation, the first comment was that carbon shadow pricing only can be applied at the point where the fuel is burned, not at the point of extraction, so there could potentially be a perverse effect if at was applied otherwise. Another comment was that there is a strong economic argument for the WBG to focus on hydrocarbon resources and find an effective way to reduce emissions, as well as finding the most cost-effective solutions for renewables. One commentator noted that the use of renewables was growing in industrial countries, but not yet in developing ones.

Dr. Salim commented that the goal of the WBG is poverty alleviation through sustainable development. Asia is expected to be the next major growth area, and once an energy development path is chosen, a country is locked into it because of the high investment in infrastructure. It therefore is imperative to develop a more energy-friendly approach for developing countries in Asia and elsewhere that are in the early stages of development. As the WBG has limited funds, it is essential to shift the composition of IFC’s investment portfolio from fossil-fuel-based investment, currently 94 percent, to renewable energy, currently 4 percent. As a global development bank, the WBG must lead the way for sustainable energy development.

One further comment on the 2008 pull out date was that it is based on an assumption that is extremely complex, given the rising demand for energy. Developing countries need access to cheap and reliable energy resources, and there will be a role for all forms of energy in the near future. Renewables alone will not be able to meet this demand, as current technologies are not competitive with fossil fuels. A major technological breakthrough is needed, and many companies are engaged in the search. Until it is found, the world will be dependent on oil. It therefore is not right for the WBG to withdraw at this point. There is not sufficient evidence to support this recommendation.
Dr. Salim’s response was that the current price structure discriminates against renewable energy, and that the WBG should help with research and other efforts to discover better renewables. In the same way that the WBG promoted growth of extractive industries in developing countries by changing their legal and policy framework, the WBG is expected to play a similar role in promoting renewable energy within the framework of sustainable energy development.
**Day Two**

8. **Concerns and Clarifications: Part II**

The discussion on concerns extended into the second day, with a continuation of the debate for and against phasing out of investment in oil by 2008.

**Phaseout of Coal and Oil**

*In Favor:*

An indigenous person spoke about the painful experience of living in the middle of conflict and destruction, and how difficult it is for outsiders to understand their culture and reality. The issue is the rights of indigenous peoples to their culture and way of life. Consultation does not work: the reality is force and repression, and the World Bank Group is an accomplice. There must be mutual respect for other alternatives.

A labor representative did not want to speak for or against the issue; he stressed that access to energy is a fundamental human right. From the labor perspective, energy for the poor must be safe, affordable, and accessible. Many poor people are dependent on traditional energy resources to keep warm and to put food on the table. Therefore the emphasis for the WBG must be on using its limited resources to achieve energy access for the 2 billion poor people who are currently denied it.

The next speaker reminded everyone that the purpose of the WBG is to reduce poverty through sustainable development, not to improve bad extractive industries. The WBG needs to invest in other sectors, and renewables could be a good pathway. There has to be a discussion on how to finance renewables, and there must be just treatment for workers in the oil industry in the transition to renewables.

Another comment was about the concern that developing countries would be badly affected by a WBG phaseout. The reality is that this will affect northern countries by removing subsidies and stopping the export of jobs and development to the north; these industries only provide debt repayment and feed increased consumption.

*Against:*

The first speaker felt that the process was not creating a constructive dialogue. The recommendation appears to work against the aspirations of the WBG and the larger issues in the report. WBG withdrawal will not make a difference to industry, but it will remove the WBG from involvement in important issues, as well as its leadership in moving players away from past bad practices. The WBG would no longer have a seat at the table on issues like revenue management. The phaseout will have no impact on climate change; it will only make oil development less regulated.
The next speaker suggested that switching from coal to natural gas in some developing countries would increase costs and make the economy less competitive.

The next comment was that the full-cost explanation provided by Dr. Salim was incorrect and unsubstantiated. The WBG involvement makes a difference at the margin with small, select projects, such as with the Chad-Cameroon pipeline. Small African states will be penalized by this. It is incorrect to say the revenues are going to pay debt; in Chad-Cameroon they are earmarked for the poor through investment in health and education. This recommendation forgets the poor people who can benefit from oil extraction.

Another speaker stated that oil companies support the WBG use of carbon shadow pricing, however there’s no such thing as a pure oil or gas project. The impression is incorrect that all oil projects would fail and all gas ones would pass if shadow pricing were applied. The conclusion is very untransparent in the report. The analysis should be made available, as it is needed to fully understand the assumptions and calculations.

A final statement was that developing countries benefit from the involvement of the WBG and that this should continue. The speaker felt it was unfortunate that there were not more voices from government to comment on this issue.

The Eminent Person’s Response:
Dr. Salim responded by stating that he also comes from a developing country and is definitely not anti-development. Shadow pricing is based on WBG documents, and there is no attempt to hide the truth. The reason this comes up is because the WBG is supposed to be reducing poverty through sustainable development. It is not business as usual; it’s a new ball game. Dr. Salim stressed that the WBG should be finding a new road to development in the twenty-first century. The climate change convention was adopted by 120 countries in 1992. The WBG should have its eyes on 2020 or 2030, where the impact of CO₂ emissions on global warming and climate change will be felt. The main victims will be developing countries in the equatorial regions, not industrial countries, and the poor will suffer more than the rich.

If developing countries want to live like the United States now does, it will take three globes to fulfill that desire. That’s why the demand is for a new approach, and to use the scarce resources of the WBG to change the energy ratio in order to foster sustainable development, not to follow the development path of the first world. The key, as in Chad, is to solve the governance problem, and not just invest in extractive industries. Let developing countries find a new way of development that is more sustainable for the twenty-first century, with a correct balance between all the elements. The WBG as a global institution has a moral obligation to play a more active role in curbing the negative impact of fossil-fuel-based development and in promoting global efforts for sustainable energy development as a new pathway for poverty alleviation through sustainable development.

Additional comments:
A speaker asked the participants to listen to their own conscience on this matter. The reality in Chad is that certain benefits, such as cheap electricity and telecommunications, have not come to
people living close to the project, whereas there is a potential danger of environmental damage and health problems. Why not encourage herding and agriculture? Will extractive industries really contribute to poverty alleviation or is it just a way for industrial countries to get their money back?

A labor spokesperson remarked that this issue is too complex to agree or not agree with. The WBG does not have much credibility with the labor movement, and if it pulls out of fossil fuels it could be seen as another example of the WBG abandoning its responsibilities toward workers. The WBG should convince the United States, Australia, and Russia to sign the Kyoto Protocol.

Another comment was that in Georgia, local people benefit little from oil and gas projects. Instead, oil spills pollute rivers and villages around pipelines and railways and affect the drinking water. Corrupt governments will not do the right thing with oil investments and revenues.

A speaker from Brazil stated that it is important for the WBG to continue to participate in and give guidelines to the fossil fuel industries in his country. People don’t want to be denied the use and benefits of their natural resources. Any suggestion of phasing out should be evaluated locally.

One participant applauded Dr. Salim for his leadership on redressing an outrageous imbalance, and offered to work to make sure the recommendations get through the executive board and top management of the WBG. The WBG’s goal is poverty alleviation; it is not a merchant bank. The World Bank Group has to start investing in renewable energy and advanced technologies to make the world a better place.

Another speaker supported the goal of sustainable development and poverty alleviation, and called for action to achieve this.

The next comment was that the debate was getting overblown, that there’s nothing in the report suggesting that countries should not exploit their resources. This recommendation is only directed at the WBG, that they should not support these projects in unstable countries. Oil-based development can only contribute to poverty alleviation when governance is strong, and countries that have strong governance do not need investments for this industry from the WBG. This recommendation only prevents the WBG from investing in places where it shouldn’t.

A final commentator was impressed by the plea for a new development model, but felt there was a need to build a bridge between today and the future. He suggested that the UN provides the framework and mechanism for this, in Clause 15 on sustainable consumption from the Johannesburg 2002 plan for implementation. The EIR report should be interpreted against Clause 15, to see if it is going in the same direction or not.
9. World Bank Group Response

The Director of the WBG's Oil, Gas, Mining, and Chemicals Department thanked the Eminent Person for facilitating dialogue and then explained that the intention of the EIR process was to help the WBG learn how to do things better. He felt that good things had come out of the process.

Apart from the external EIR, there were two sets of internal reviews, one by the Compliance Adviser/Ombudsman and the other by the Operations Evaluation Department. Overall, the results of the internal reviews showed that extractive industry projects were performing largely above average and were complying well with the safeguards. There was room for improvement, but most activities were in line with activities in other sectors.

The Director did not comment on all of the many recommendations in the EIR report, but he did select four points. The first was that they needed to listen better, to include local people and affected communities during all phases, and to improve communications. Second, they needed to pay better attention to governance, and last week they signed on to the Extractive Industry Transparency Initiative (EITI). Third, they have to improve their Safeguard Policies, and they have an internal review that is updating and simplifying these in order to make them broader and more user-friendly. Fourth, they intend to go further with incorporating human rights and hope to make an announcement on this by the end of the process. They do subscribe to “free prior informed consent” but have to understand better how to make it operational.

The Director was happy to see broad agreement on the report and is concerned not to lose sight of this over other differences. The WBG always works in partnership, and one example is its agreement to work with Transparency International on issues of common interest. The WBG is committed to the ongoing process of concern over extractive industry investments. On reflection, it is clear that there is little trust in the WBG and in governments. Governments are the WBG's shareholders and have an important role in the collective interest of the WBG; it therefore is important to develop a more trusting relationship in the triangle between civil society, business, and government.

In concluding, the Director mentioned that the WBG is not all-powerful, however some people would like the WBG to use its convening power to take a strong stand on issues. The WBG is owned by its member countries and if they want to get out of coal and oil, they will take that decision. The WBG supports Kyoto and will work within it. The Oil, Gas, Mining and Chemicals Department is committed to getting a management response on the report within three months, which together with Dr. Salim's response will be sent to the Board. Beforehand, there will be some initiatives to test and get feedback on what is being proposed and to discuss how to carry the process forward.

Comments:

The first comment was that the EITI is only a framework for discussion, and it would be better to see a commitment to implement revenue management as part of a vigorous and comprehensive action across all of the WBG. There are lots of other mechanisms outside of the WBG that can
be acted upon as well. Industrial countries and industry can also act, so don’t just leave it to the WBG and developing countries to take action.

The next speaker expressed concern over the small number of government representatives in attendance. This was followed by a comment on corporate social responsibility and the double standard practiced by industry in Papua New Guinea, where wastes are being dumped into the rivers and ocean. It is unlikely that these same practices would be allowed in the home countries of these companies. The report should promote better corporate social responsibility.

The next statement was in support of local community involvement in development. Human rights, as well as environment and gender issues, are at the foundation of all projects. Civil society needs to push the WBG to observe the rules it has helped set up, such as those regarding “free prior informed consent.”

Another speaker highlighted the importance of the recommendations for artisanal and small-scale mining. She felt the time had come for action and for finance to support the recommendations, and that everyone from the North who is concerned with poverty alleviation should take a stand and act to support small-scale mining in developing countries.

Response from WBG: EITI does have an action plan, which is to work on a pilot basis with some countries. This is just a beginning, and major countries are interested in participating. The WBG representative agreed with working on multiple fronts; he shared the concerns about double standards and would like to hear more about corporate governance. The reason for taking part in this process is to learn and improve. There have been a lot of improvement over the previous 10 years, with the addition of impact assessments, human rights, the environment, and women’s issues to their agenda.

The representative assured the participants that the WBG will continue to pay attention to these issues and intends to keep moving forward in a balanced, practical, and efficient way. On “free prior informed consent,” the indigenous peoples policy is under review, and greater definition of the issue is expected as a result of that process. The message about artisanal and small-scale mining is clear, and the WBG has already started supporting it.

Comments: A government representative commented that extractive industry projects are often the most problematic, especially where governance conditions are inadequate. The private sector can move at a faster pace than government. How to sequence these to get better results?

Another speaker felt that the mining project in Kyrgyzstan was not a good example, given the record of accidents, one of which poisoned 800 people.

Response from WBG: Sequencing needs to be given careful thought and will be included in the final response to the report. The WBG is needed where conditions are difficult. Financial involvement can bring more leverage to a situation than technical assistance alone. The Chad-Cameroon project would not have happened without the WBG’s financial involvement. Big projects are the exception:
typically, the WBG gets involved with local and regional players in smaller projects to demonstrate impact, most often with local companies.

The involvement in Kyrgyzstan would be very different today; there would be much greater participation from the community, as well as application of more comprehensive safeguards. However, the WBG was able to raise the level of governance through its investment there.

Comments:
A participant from Peru maintained that the WBG has increased the indebtedness of the country through its interventions in the mining sector, and the poor have not benefited. Very few jobs have been generated, and salaries and tax revenues are very low. It would be better to support agriculture, as it contributes much more to the GDP.

A participant from part of the former Soviet Union commented that the investments made by the WBG were stolen by the government; 130 mines were shut down and there were large strikes by protesting miners. In the aftermath, 3,000 illegal mines were created that employed thousands of slave labor workers, including women and children. The government is totalitarian and corrupt, but the WBG continues to negotiate only with the government and not with the trade unions, which represent the people most affected.

Response from WBG:
In Peru, the country benefits much more than only from taxes. The WBG has had a difficult time trying to improve relations with civil society, but today the CAS is the basis for consultation. Mining companies now see the value of training and employing local people. In the Ukraine, the WBG has learned to be more inclusive of unions and NGOs.

Another WBG spokesperson commented further on the situation in the former Soviet Union. In Russia, the WBG funded wage arrears of workers leaving failing industries. In the Ukraine, where the economy has essentially collapsed and there are high levels of corruption, the WBG has not been able to do much. In Poland and Romania, the WBG was able to help reduce levels of employment in the coal industry and facilitate re-employment of workers in other industries.

Comments:
An industry spokesperson stated that in Peru 77,000 mining workers pay taxes. In South Africa, 10 percent of the labor force is employed in mining. In Venezuela, 99 percent of mine workers are locals.

Another participant stated that he recently chaired a task force on renewable energy that made 19 recommendations, with the prospect of bringing renewable energy to 1 billion people.

10. Working Groups

Working groups were convened around five topics: sustainable energy, access to information, governance, human rights accountability, and artisanal and small-scale mining. Industry
participants were largely absent for most of this group work because of a meeting with the Eminent Person.

Sustainable Energy

The sustainable energy group focused on how to increase renewable energy use and the targets recommended in the report. The group recommended that because the WBG can only help facilitate target setting within nations, it should provide an enabling environment and incentives for meeting the targets. The sustainable energy focus should cut across all WBG programs, and there should be a unit in the WBG that specializes in renewable energy. Research will be needed on sustainable and renewable technologies, but it must be appropriate for each country: for example, biogas in Thailand, geothermal in India, hydro in Kazakhstan, and solar panels in Mongolia.

The WBG can facilitate inter-state and inter-regional projects in renewable resources, and should help set up pilot projects for demonstration. It can also provide a level of security for investors and can partner with industry associations in transferring technologies from large companies to developing countries. WBG projects should be screened for potential to achieve efficient energy use and to ensure they comply with standards set by the WBG.

Transparency and Disclosure

The group working on transparency and disclosure came up with recommendations on information disclosure and access to grievance mechanisms. The first recommendation was regarding the WBG’s disclosure policy, which is currently under review and revision. This recommendation should apply to all branches of the WBG and should be integrated into the current revision of the policy. The second major recommendation was regarding making culturally appropriate grievance mechanisms available.

Recommendation 1: Revise and broaden the disclosure policy

(1) Need public scoping phase for impact assessments – guidelines on this are needed for the WBG.

(2) IFC and MIGA should make public any early approaches from project sponsors and should alert communities and other concerned parties.

(3) IFC should require project sponsors to make contact with local multistakeholder groups at the earliest possible stage in order to communicate details of the project and its scope.

(4) Any mechanisms for information and communication at the local level must be acceptable to local stakeholders.
(5) Any baseline studies on health, social, and environmental issues should be made available at the earliest possible stage.

(6) Require selection of “independent” advisers to help affected communities understand, negotiate, and work with projects; the same holds for governments in the case of Structural Adjustment Loans or project proposals.

(7) Local stakeholders should be able to express informed opinions on disclosure policy revisions through legitimate consultation processes and should have access to relevant documents and information.

(8) Publish and make locally available independent monitoring and audits of consultations, implementation, and project outcomes; avoid duplicating this if already done by others.

**Recommendation 2: Ensure availability of agreed local dispute resolution mechanism for projects.**

IFC and MIGA, at project initiation, should require that a process is established, agreed to by the parties involved, to identify expected positive development outcomes and should establish indicators to measure their achievement throughout project implementation. The local grievance mechanism should be included in IFC and MIGA guidelines for the first stage of a project, and should be incorporated into the current IFC and MIGA safeguard policy revision process.

**Governance**

The working group on governance identified five action points.

(1) Establish an independent organization, led by civil society, to facilitate adequate communication and participation of all stakeholders regarding potential and established WBG projects.

(2) Conduct and make public independent and integrated environmental and social impact assessments, audits, and monitoring for all WBG activities.

(3) Require companies to disclose payments made to governments on all WBG-funded projects.

(4) EIR stakeholders to conduct independent and periodic reviews of WBG implementation of EIR recommendations.

(5) Identify and execute pilot projects with governments and companies willing to apply EIR criteria for good governance, and report back on lessons learned.
WBG Accountability, Human Rights, Indigenous Peoples, and FPIC

The accountability group reported on five main actions.

(1) The WBG should implement EIR recommendations on human rights by establishing a human rights unit; conducting human rights training, including WBG staff; making human rights central to WBG policies and operations; incorporate human rights into safeguard policies; taking a General Council opinion on the status of human rights in WBG programs; assisting countries to adopt human rights in national legislation; and working with human rights organizations on all of these items.

(2) Further develop rights and risks framework in assessing WBG interventions.

(3) Vigorously pursue adoption of OP4.10 on indigenous peoples with their full participation, in order to address outstanding issues on an adequate Safeguard Policy.

(4) Accept the principle of “free prior and informed consent” and work in partnership with appropriate UN bodies and other partners to elaborate its implementation.

(5) Partner with ILO, unions, and other organizations to implement ILO Core Labour Standards in WBG programs and safeguards.

Artisanal and Small-Scale Mining

The ASM group felt that the EIR report covered the topic well and that it gave clear recognition to the importance of the artisanal and small-scale mining sector and the need to legalize and regulate it. The WBG’s role should not be direct capacity building but encouraging government ownership through the Country Assistance Strategy, the Poverty Reduction Strategy Papers, and other national strategy instruments. The WBG should help countries develop national policies for ASM that would include priority rights for community-based miners over itinerant miners. Special attention should be paid to child labor and women’s rights. Given that ASM addresses all of the Millennium Development Goals, the WBG should establish a properly resourced, specialized unit and improve its internal capacity by building on its experience with Communities and Small-Scale Mining initiative. IBRD can look at strategies to improve economic returns, to address the legal status, and to improve access to markets for small-scale miners.

The WBG could also provide financing for the sector, support pilot projects through micro-financing, and help in establishing alternative livelihoods. The group felt that ASM offers the greatest potential to make the biggest impact on poverty reduction and sustainable development, but because of the enormous demand for technical assistance, the WBG needs to look at the sector strategically and identify the big levers to pull. Partnerships are essential with other agencies, governments, businesses, and civil society groups, as well as with regional initiatives such as the New Partnership for Africa’s Development. Harmonization of approaches is also important. Government-to-government exchange visits can help accelerate learning about
effective ways to govern the sector, but the essential heterogeneity of ASM should be taken into account.

**Responses to Group Work**

One participant noted that ASM can have negative impacts on indigenous peoples. Another speaker recommended that cultural impact studies should be added to the impact assessment package, but that it be separate from the social impact assessment. The next comment was that the impact studies have to happen at the very beginning of the project.

One of the participants emphasized that the recommendations on governance are very important and should be included in the CAS; also that the WBG should exercise equality and cultural sensitivity in choosing who to provide funds to and that there should be broad participation in processes involving revision of mining policies.

A member of the working group on transparency and disclosure mentioned that the recommendations in the report are good but there was not enough time to discuss how to implement them properly. A final comment was that indicators of success and performance should also be applied to how well the recommendations of the report are implemented.
**Day Three**

11. Address of Eminent Person

On the last day of the workshop, Dr. Salim emphasized that today would determine if the report is a success or a failure. Although the content of the report is the responsibility of the Eminent Person, it needs the support of everyone to send a positive signal to the WBG. Dr. Salim pointed out that industry is not happy with the recommendation to phase out coal and oil by 2008. They interpret this as not having a social license to operate, whereas the intention is to get the WBG to change the balance in its investment portfolio so that it is more directed toward achieving poverty alleviation and sustainable development. The intention is not to kill the coal and oil industries or to withdraw their social license to operate, but rather to help advance the agenda for renewables, as this is linked to the reduction of greenhouse gases. Only an influential development agency like the World Bank Group can make this happen.

The role of industrial countries is to provide the money to developing countries so they can achieve sustainable energy through the use of renewables. Industry is already on this track, and so is the Communist Party of China. The whole world wants to move in this direction, and the leadership of the WBG is needed to help bring this about.

Dr. Salim emphasized that he doesn’t expect the EIR report to be fully accepted by everyone, but he does want everyone to work on the areas where there is agreement in order to bring about change in the World Bank Group. To achieve this he would like everyone to work together and fight for the recommendations in the report.

12. Plenary Discussion

The participants chose to work in plenary instead of returning to their working groups because the feeling was that it was important to hear what each person had to say in order to move forward and build coalitions. A question was posed to help focus the discussions: “How to participate in implementation of recommendations through partnerships?”

The Director of the World Bank’s Oil, Gas, Mining, and Chemicals Department led off with some comments. He pointed out that there is a lack of consensus on several issues: sequencing, free prior informed consent, and fossil fuels. The Safeguard Policies are currently under review, and there should be a full response from the WBG on the EIR report in a relatively short order. Sequencing is a complex issue that they think about all the time. The Director would also like to hear more about fossil fuels and the link with Kyoto.
A representative from government described a new initiative to form a voluntary partnership of national sovereign governments. The purpose is to provide for a global dialogue to address sustainable development issues relevant to the mining, minerals, and metals sector—for example, how governments can create the conditions to make extractive industries beneficial to local communities, how to improve the contribution of small-scale mining, and how to enhance the capacity of governments to manage their natural resource wealth more effectively. The WBG attended the preparatory meeting as an observer.

**Governance**

A discussion on governance began with the comment that there are two organizations working on clean government: Transparency International, which is devoted to rooting out corruption, and the EITI, which is focused on clean revenue streams. Industry supports both of these, and wants a predictable framework to work in. The second speaker supported this and suggested that the next step is look at the disbursement of funds by government. He also suggested forming a coalition at project level in countries that have poor governance, to work on a pilot basis to move things forward.

The next speaker emphasized that revenue management is the key and that the initiatives mentioned are good, but that surpluses are difficult for governments to manage. However, corporations are very good at this and have developed a range of tools to manage fluctuating revenue streams. Perhaps experience from the private sector could be used to help governments manage their revenues better.

A participant from Africa mentioned that the WBG had been involved for a long time in the mining sector in the region, but that there had been little progress because there had been insufficient investment in capacity building. A participant from South America stated that the government is untransparent and therefore it was the responsibility of industry to make sure that benefits went to local communities. To bring about change in governance would require a long-term investment in educating schoolchildren about democracy.

In Peru, they have a mining dialogue group started by Canada's International Development Research Centre that involves NGOs, companies, and government. This group has agreed on fundamental issues of governance, such as revenue distribution to local communities. Through group lobbying, this is now supported by legislation.

A labor spokesperson requested that WBG draw on the work of ILO on artisanal and small-scale mining and on mine closure, and not reinvent the wheel. Another speaker urged the WBG not to invest in the oil sector in countries with high corruption. It should first make sure that capacity building works.

The next comment was that indigenous peoples live on lands that are rich in resources. In some countries most of the government's revenues come from resource industries, and indigenous peoples do not want to stop that. However, there needs to be a reliable tool for negotiating between all parties and for implementing policies at national and local levels.
A final comment was for the WBG to take part in UN processes on human rights and indigenous peoples.

**Transparency**

The first speaker on transparency recommended supporting Dr. Salim and the EIR report. The speaker plans to rewrite a recent report on a mine in Mali in order to incorporate some of the recommendations from the EIR. Another recommendation was that where the WBG is involved in mining code revisions, it should incorporate recommendations from the EIR in the revised codes.

A request was made to companies and governments to take up the recommendations on information disclosure. The WBG should incorporate these recommendations in their policies and make sure all projects contain those elements. In response, an industry representative said that industry was in agreement with the proposal, and added that at the project planning stage, simple and meaningful indicators should be identified, such as quality of water and numbers of children educated, that could be tracked throughout the life of the project.

Another suggestion was to establish a pilot project involving all stakeholder groups that would test the recommendations in the report. Different approaches could be tried out and evaluated.

An indigenous representative commented that indigenous peoples have their own networks for communication, and they have their own processes and time frames for reviewing information. Indigenous peoples have specific information interests and needs; project information has to be presented so that it is understandable and meaningful to them. A comment was made that companies in Papua New Guinea are not being transparent about reporting on submarine tailings disposal, and there is no independent monitoring group.

A representative from industry mentioned that “triple bottom line” reporting, incorporating social, environment, and financial information, is the norm with good corporations. The WBG tends to pull good companies into projects, and this is less likely to happen if it withdraws from a sector. Someone from the International Council on Mining and Metals mentioned its involvement in the Global Reporting Initiative, which is another multistakeholder group working on transparency of information.

The final recommendation was to incorporate the use of social and environmental impact assessments in structural adjustment loans, because appropriate policy and institutional reform has the potential to lead to long-lasting poverty alleviation. Some funding has been received to develop a set of guidelines on this for the WBG.
World Bank Group Accountability

The first comment on accountability was that although a follow-up meeting on the EIR is suggested for 2005, it would be good to identify some interim steps. This suggestion was welcomed by the WBG spokesperson, who would like to see a process to deal with the WBG response and the Eminent Person’s comments.

The WBG was asked to publish a twice-yearly report on how they are implementing the EIR recommendations.

Another speaker urged everyone to rally around Dr. Salim to ensure that the WBG management adopts the recommendations. This was followed by a series of speakers from all sectors endorsing the report and pledging their individual support to carry the initiative forward.

13. Closing

Dr. Salim expressed his gratitude for the solid support from everyone. He expected that it would help strengthen his position with the WBG, and he made it clear that stakeholder support is necessary to make it possible for the WBG and the “triangle of partnership” – government, business, and civil society – to follow up the report with action. He reiterated his message that the WBG must change so that it becomes an agency that really is committed to achieving poverty alleviation through sustainable development, and doesn’t just talk about it.

Dr. Salim thanked his Advisory Group, which he felt was strong, supportive, and represented the full range of perspectives. In making his decision about what to support in the report in order to alleviate poverty through sustainable development, he decided to support those who are weak and vulnerable and to empower them in order to obtain an equal level playing field with those who already are strong. His great hope is that the World Bank Group will change its course and that it will implement the recommendations so that extractive industries can become a powerful engine for poverty alleviation and sustainable development.

In closing, Dr. Salim thanked all of the participants and the members of the Secretariat team. The meeting ended with a prayer led by a representative of indigenous peoples.
Purpose of the workshop:
- To discuss the content of the Report with special emphasis on its recommendations;
- To explore its follow-up and possible partnership arrangements between various interested stakeholders.

Wednesday, December 10th

Welcoming Cocktail and Dinner for all participants starting at 19:00 hours in the Lobby Area in front of the Beatriz Costa Restaurant

Thursday, December 11, 2003

8:30 – 10:30
- Registration
- Welcome, desired outcomes for the project and workshop, Dr. Emil Salim
- Introductions and introductory exercise
- The EIR preparation process and overview of the recommendations – presentation, Q&A

10:30 – 11:00 Coffee Break

11:45
- Reactions and discussion

1:00 – 2:00 Lunch

2:30 – 5:30
- Reactions and discussion
- Feedback on the day and preview of tomorrow's agenda

7:00 Cocktails

8:00 Dinner
Friday, December 12, 2003

9:00 – 10:30
➢ Summary of major messages from yesterday, and overview of today’s agenda – Dr. Emil Salim
➢ Dialogue on issues raised on Thursday, with Dr. Salim and EIR project team.

10:30 – 11:00 Coffee Break
➢ The Way Forward – brainstorm actions for implementation, prioritize, recommend initial steps of implementation plans

1:00 – 2:00 Lunch

2:00 – 6:00
➢ The Way Forward – (continued) – plenary
➢ Feedback on the day and preview of tomorrow’s agenda

7:00 Cocktails
8:00 Dinner

Saturday, 13 December, 2003

9:00 – 10:30
➢ Summary of major messages from yesterday, and overview of today’s agenda – Dr. Emil Salim
➢ Detailed action items and coalition building for going forward

10:30 – 11:00 Coffee Break

11:00 – 1:00
➢ Summary of the major messages heard during the workshop and next steps for the EIR project and document

1:00 Lunch Hosted by Dr. Salim

All meetings will be held at the Tivoli Room (plenary sessions), lunches and dinners will be served at the Beatriz Costa Restaurant, and coffee breaks in front of the Tivoli Room.
EIR FINAL WORKSHOP PARTICIPANTS
Lisbon, Portugal, 11-13 December 2003

Thomas Akabzaa, Third World Network, Africa
Saara Alakorva, Saami Association, Finland
Ron Anderson, Chief Environmental Specialist, IFC
Clive Armstrong, Oil, Gas and Mining Departments, IFC
Peter Bakvis, Washington Office, ICFTU/Global Unions
Fritz Balkau, Production and Consumption Branch, UNEP DTIE
Graham Baxter, Corporate Responsibility Communication & External Affairs, BP
Kumar Das Benoyendra, Indian National Mineworkers' Federation
Julia Birch, Australian Business Council for Sustainable Energy
Kevin Bortz, Natural Resources Department, EBRD
Peugonba Garka Boukinebe, L'union des Syndicats du Tchad and La commission Permanente Petrole de
Ndjamena, Chad
Janneke Bruil, Friends of the Earth International
Marielle J. Canter, Center for Environmental Leadership in Business, Conservation International
Joji Carino, European Office, Tebtebba Foundation
Antonio Carrara, Federacao Unica dos Petroleiros (Oil Workers Federation)
Patricio Cartagena, CAMMA (Mines Ministries of the Americas) and Chilean Copper Commission
Aidan J. Davy, Office of the Compliance Advisor/Ombudsman
Jaime Enrique Deluquez Diaz
Nie Fengjun, China Academy of Geological Science, Ministry of Land and Resources
Gino Govender, International Federation of Chemical, Energy, Mine and General Workers’ Union
Alan Grant, International Association of Oil and Gas Producers
Francis Grant-Suttie, Endangered Spaces Program, WWF
John Groom, Safety, Health and Environment, Anglo American plc
Patricia Gualinga Moutaluo, Sarayaku community, Ecuador
Petr Hlobil, CEE Bankwatch Network
Jonathan Hobbs, U.K. Dept for International Development
Wanda Hoskin, Natural Resources Canada, Minerals and Metals Sector
Patrick Hurens, International Copper Study Group
Karybek Ibraev, Energy and Mining Department, Prime Minister’s Office, Kyrgyz Republic
Namakau Kaingu, African Women in Mining Network
Rashad Kaldany, Oil, Gas, and Mining Departments, IFC
Mohamed Keita, Ministere des Mines, de l'Energie et de l'Eau, Mali
Sayokla Kindness, Indigenous Environmental Network
Manana Kochladze, Green Alternative
Matilda Koma, Environment Watch, Papua New Guinea Mining Campaign Coordinator, and NGO Environmental Watch Group
Keith Kozlof, Office of International Development Policy, U.S. Treasury Department
Steve Kretzman, Sustainable Energy and Economy Network
Rachel Kyte, Environment and Social Development Department, IFC
Andres Liebenthal, OED/OEG, World Bank
Tim Lund, Norwegian Investment Fund for Developing Countries
Ingrid MacDonald, Oxfam Community Aid Abroad, Australia
Fergus MacKay, Three Guyanas and Legal/Human Rights Programme
John Maitland, ICEM President and Construction Forestry Mining Energy Union, Australia
Gilbert Maoundonodji, Groupe de Rechercher Alternatives et de Monitoring du Projet Pétrole Tchad-Cameroun
Gladys Azucena Marquez Chaname, Associacion Civil Labor Moquegua, Peru
Kathryn McPhail, International Council on Mining and Metals
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Paul Mitchell, International Council on Mining and Metals
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Kalina Moldogazieva, HDC "Tree of Life," Kyrgyz Republic
Sir Mark Moody-Stuart, Anglo American plc
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Donal O’Neill, Shell International Exploration and Production B.V.
Diarmid O’Sullivan, Oil Campaign, Global Witness
Isaac Levi Osuoka, Environmental Rights Action/Oilwatch Africa
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Martin Ruhrberg, International Copper Study Group
Payal Sampat, International Campaign Director, Mineral Policy Center
Claudio Scliar, Ministerio de Minas e Energia, Brazil
Corrie Shanahan, Corporate Relations, IFC
Peter Sinkamba, Citizens for a Better Environment, Zambia
Gerard Steeghs, Netherlands Ministry of Foreign Affairs
John Strongman, Oil, Gas, and Mining Department, World Bank
Rodion Sulyandziga, Russian Indigenous Training Centre, RAIPON
Baoliang Sun, Ministry of Land and Resources, China
Henry Tito Vargas, CEADES, Bolivia
Santiago Torres, CODELCO, Chile
Somit Varma, Oil and Gas Division, IFC
Chander Mohan Vasudev, Executive Director for India, Bhutan, Sri Lanka, and Bangladesh and Chairman of CODE, World Bank
Alex Vines, Business and Human Rights Program, Human Rights Watch
Mykhailo Volynets, Free Trade Union Confederation of Ukraine
Knud Voecking, Urgewald
Senzeni Zokwana, National Union of Mineworkers, South Africa
Carlos Zorrilla, Def. y Cons. Ecológica de Intag, Ecuador

EIR Secretariat Team

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Linda Starke
Rini Sulaiman

Interpreters:
Anne-Marie Gray-de-Dax, Team leader
Anthea Blackhurst, Arkady Chaikovsky, Ralph Dexter, Ana Luisa Penate, Julia Poger, Sofia Remedios,
and Giulia Wilkins

Facilitators:
Matt Minahan, Vanessa Andris, and Ridwan Blond
Stakeholder Submissions to Final Workshop and Comments and Responses Following the Workshop

Australian Business Council for Sustainable Energy

Business Councils for Sustainable Energy

CEADES, Bolivia (Spanish, followed by English)

Chad Delegation to Lisbon Workshop (French, followed by English)

Chilean Copper Commission (Spanish, followed by English)

Chinese Government, Ministry of Land and Resources

CONACAMI Peru—Comments on the Final Report (Spanish, followed by English)

CONACAMI Peru—Basis of Free, Prior Informed Consent (Spanish, followed by English)

European NGOs

International Council on Mining & Metals—letter to Emil Salim

International Council on Mining & Metals—Comments on Executive Summary

International Council on Mining & Metals—Comments on Final Report

Matilda Koma and Jacklynne Membup

Konkola Copper Mines, Zambia

Labor groups

National Society of Mining, Petroleum and Energy of Peru

Oil Industry Representatives

Publish What You Pay

Sociedad Dominicana de Geologica (Spanish, followed by English)

U.K. Government, Department for International Development

U.S. Government, Department of the Treasury

World Coal Institute

Carlos Zorilla
Stakeholders Submissions or Comments
Australian Business Council for Sustainable Energy

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U.K. Government, Department for International Development

U.S. Government, Department of the Treasury

World Coal Institute

Carlos Zorilla
The sustainable energy industry, represented by the Australian Business Council for Sustainable Energy (BCSE) at the Final Workshop of the Extractive Industry Review (EIR) of the World Bank Group (WBG), wholly supports the recommendations for sustainable energy (which includes renewables, gas-fired generation and energy efficiency) of the final report ‘Striking a Better Balance’. In particular, this includes the following key areas:

- assisting governments to adopt sustainable energy strategies that address the energy needs of the poor and minimise externalities such as climate change;
- internalising the cost of greenhouse gas emissions into all WBG economic decision-making;
- increasing investments in sustainable energy resource development. This includes setting targets for increasing proportions of investment in renewable energy within the energy portfolio, increasing annually at 20 per cent (up from 6 per cent of investment) to achieve a better balance with support for fossil fuel projects; and
- initiatives for technology transfer related to climate change and further research into appropriate technology.

The global market for renewable energy has seen tremendous growth over the last five years and is forecast to continue to grow significantly. For example, global wind power capacity has quadrupled over the past five years, growing from 7600 MW at the end of 1997 to more than 31,000 MW at the end of 2002. This represents an annual growth rate of more than 30 per cent per annum with $US7 billion of wind projects being built in 2002 alone.

The solar photovoltaic (PV) industry has seen similar growth. The market for solar PV has grown by around 35 per cent annually for the last five years to a $US3.5 billion market in 2001. The solar water heater industry is also growing significantly particularly in Europe and China. As an example, sales in Europe have increased by 40 per cent over the last few years with sales growth expected at over 20 per cent per annum into the future.

These increases in capacity have lead to direct reductions in costs. Both wind energy and PV installed costs have reduced by some five per cent per annum and this will continue as installed capacity continues to grow. The substantial growth in the renewable energy industry that has occurred to date has occurred in countries that have developed and implemented specific strategies to promote renewable energy. These have been matched in most cases by ambitious targets to increase the market share for renewable energy.

Building domestic markets is a central strategy to achieving unit economies such that installed costs can be significantly reduced over time. As an example, the international experience for solar PV shows that installed costs fall by 18 per cent real for every doubling of installed capacity. Similarly, the installed cost of wind energy has fallen by 5 per cent per annum for the last five years and this trend is expected to continue. The solar hot water heater industry projects costs to fall by 20 per cent to 2010 with the expansion of the industry at its current rate.
generation technologies. The Parer estimates are presented in Table 1.

Table 1. Comparative current electricity generation costs

<table>
<thead>
<tr>
<th>Fuel Source</th>
<th>CoAG Report (AUS$/MWh)</th>
<th>Greenhouse Emissions (t/MWh)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brown coal</td>
<td>43</td>
<td>1.2 to 1.6</td>
</tr>
<tr>
<td>Black coal</td>
<td>34</td>
<td>0.94</td>
</tr>
<tr>
<td>Gas – combined cycle</td>
<td>41</td>
<td>0.37</td>
</tr>
<tr>
<td>Gas – open cycle</td>
<td>50</td>
<td>0.5</td>
</tr>
<tr>
<td>Wind</td>
<td>78</td>
<td>0</td>
</tr>
<tr>
<td>Solar PV</td>
<td>348</td>
<td>0</td>
</tr>
</tbody>
</table>

Caution needs to be exercised in comparing generation costs across different technologies and fuels as some compete in different ways. The following points are worth considering:

(i) In the case of new entrant coal (including advanced coal generation) the cost presented above does not include the cost of electricity transmission infrastructure required to transfer power generation to the market (major load centres). In addition, as new coal plant is located adjacent to existing plant, loss factors tend to be higher and these generators also face a higher risk of not being dispatched when infrastructure is under pressure. These costs are not included.

(ii) Distributed generation technologies such as solar PV, cogeneration and distributed gas generation tend to compete at the retail level not the wholesale level. In these cases it is not valid to compare the cost of generation with wholesale cost at centralised plants. These technologies can also avoid customers paying for transmission and distribution costs. As an example the retail price of electricity for most of Victoria’s household customers is between $130 to $140/MWh. This means that PV can be economic at these levels in the future compared to a generated cost for coal at $34/MWh.

(iii) In Australia, as in other countries, investment in electricity infrastructure is driven by requirements for capacity during times of peak demand. Additional investment to meet growing peak demand requirements (driven by growing air conditioner use) is significant, while this cost is spread across all consumers. Sustainable energy, such as solar PV and energy efficiency measures, decrease peak demand requirements but these customers are not currently reimbursed for this benefit.

A number of important benefits that renewable energy provides the electricity industry are not recognised or rewarded. Renewables are currently higher cost as a result of:

(i) Electricity industry structure issues that fail to recognise the benefits of distributed generation. Distributed generation benefits that can be provided by...
...sue mentioned above) are not recognised or rewarded. Electricity customers obtain the benefits of reduced infrastructure costs in the longer term.

(ii) Higher short-term costs associated with lack of scale economies. Benefits of scale are currently lacking in the industry as it is coming from a low installed base. The experience curve for a number of renewable energy technologies indicate that 15 per cent to 20 per cent cost reductions can be achieved with each doubling of installed capacity.

(iii) Greenhouse externalities not factored into fossil fuel electricity prices. This is currently not factored into the cost of fossil fuelled electricity generation, the largest and fastest growing source of greenhouse gas emissions in Australia.

(iv) Improved system security and reliability as a result of dispersed generation resources, a significant issue in its own right given the vulnerability of a centralised system to extensive power cuts and acts of terrorism.

Important aspects of support for a sustainable energy industry are as follows:

• development of existing proven technologies such as solar water heating and solar photovoltaics, wind, biomass and (run-of-river) hydro so that scale economies can be achieved to support local manufacturing and continued reduction in costs;
• support measures that reduce with time as expected cost reductions result;
• the avoidance of a “stop-start”, or “boom-bust”, approach to industry development with a long term strategic vision for industry development (including a commitment from government to address impediments to the development of the industry);
• provision of a market price signal to support the development and expansion of innovative new and emerging technologies (eg waste-to-energy, wave, tidal as well as geothermal); and
• long term markets in order to underpin new investment in manufacturing capacity.

The inclusion of emissions cost into WBG investment decision-making would assist in providing a more balanced approach to its energy portfolio and stabilising greenhouse gas emissions. Future greenhouse gas emitters should incorporate the cost of abating greenhouse gas emissions into their investment, purchasing and operating decisions.

The commitment to the Kyoto Protocol will further drive the growth in the sustainable energy industry. The Australian Government, though it has said that it will not ratify the protocol, is committed to meeting the targets under the in the 2008 to 2012 Kyoto commitment period. Already there are programs in place to provide sustainable industry development support. These programs include the ‘Mandated Renewable Energy Target and the Greenhouse Gas Abatement Program. In addition some Australian states such as NSW, Queensland and Victoria have committed to introduce market based schemes that will reward projects that result in lower greenhouse gas emissions.

Emissions trading will begin in Europe in 2005 and investment decisions based on a carbon price will occur on a large scale for the first time. The recommendation by the EIR for a move away from fossil fuels within the WBG to sustainable energy and energy efficiency is entirely in line with activity that is already taking place under the influence of the Kyoto Protocol.

Climate change is seen to be one of the most significant environmental issues affecting the global community. During the Final Workshop of the Extractive Industry Review
where he stated: ‘By the end of the 21st century, if we are effectively going to address the issue of global warming, we will need to see a global reduction in greenhouse gas emissions of between 50 and 60 per cent.’

To achieve the required greenhouse emission reductions, the emission intensity of electricity generation (Australia’s biggest emitting sector) needs to be reduced significantly. Electricity generation currently accounts for over 35 per cent of Australia’s greenhouse gas emissions. Greenhouse emissions from electricity generation have also increased by 35 per cent since 1990, the largest increase of any of the sectors. Longer-term electricity growth projections pose an increasingly difficult emissions challenge. Renewable electricity generation, which produces no emissions, will need to play a major role in meeting our future electricity requirements.

Small renewable energy systems may be very attractive for many developing countries. In isolated rural areas they provide an economic energy solution, particularly in areas that are not connected to the electricity grid. Also they provide a method of ‘leapfrogging’ unsustainable energy solutions – the implementation of which makes a transition to sustainable solutions much more difficult in the future.

The sustainable energy industry will provide deep, long term cuts in the growing greenhouse emissions as well as providing jobs and investment. These cuts are required to stabilise the destructive impacts of climate change. The recommendation for growth of the sustainable energy portfolio within WBG investment is entirely in line with the aims of poverty alleviation and sustainable development.
Dr. Emil Salim  
Extractive Industries Report  
Jl. Dukuh Patra V No. 52,  
Kuningan, Jakarta 12950  
Indonesia

Sustainable Energy recommendations of the Extractive Industries Review

8 January 2003

Dear Dr. Salim,

The Australian, European, UK and US Business Councils for Sustainable Energy would like to put forward our support of the recommendations made on sustainable energy within the recently completed Extractive Industries Review (EIR).

Our organizations have members throughout the world in both developed and developing countries that represent energy efficiency, natural gas, renewable energy, independent power and electric utility companies that are committed to finding solutions to reduce the global threat of climate change.

We support the recommendations on sustainable energy (which also included energy efficiency) within the EIR final report “Striking a Better Balance”. In particular, these recommendations include the following four key areas:

1. assisting governments to adopt sustainable energy strategies that address the energy needs of the poor and minimize externalities such as climate change;
2. internalizing the cost of greenhouse gas emissions into all World Bank Group (WBG) economic decision-making;
3. increasing investments in sustainable energy resource development. This includes setting targets for increasing proportions of investment in renewable energy within the energy portfolio, increasing annually at 20 per cent (up from 6 per cent of investment) to achieve a better balance with support for other projects; and
4. implementing initiatives for technology transfer related to climate change and further research into appropriate technology.

The inclusion of an emission cost into WBG investment decision-making would assist in providing a more balanced approach to its energy portfolio and stabilizing greenhouse gas emissions into their investment, purchasing and operating decisions.

Climate change is seen to be one of the most significant environmental issues affecting the global community. During the Final Workshop of the EIR, representatives from civil society testified their concerns about the impact of climate change on developing countries. If we are effectively going to address the issue of global warming, we will need to significantly reduce the greenhouse emissions over the next 30 to 50 years.

Energy supply is currently a major source of global greenhouse emissions. The sustainable energy industry supplies energy with low or no resulting greenhouse gas emissions required to stabilize the destructive impacts of climate change. This industry also provides ongoing local jobs and investments.

Our organizations contend that the recommendations for growth of the sustainable energy portfolio within the WBG investment is entirely in line with the aims of poverty alleviation and sustainable energy.
development.

Your sincerely,
(signed by)

Riccardo Brazzale
Executive Director
Australian Business Council for Sustainable Energy

On behalf of:

The Australian Business Council for Sustainable Energy
The European Business Council for Sustainable Energy
The UK Business Council for Sustainable Energy
The US Business Council for Sustainable Energy
Santa Cruz 20 de diciembre del 2003

Señor
Emil Salim
Persona Eminent del RIE
Jakarta

REF: INFORME FINAL DEL RIE

De mi mayor consideración:

Una vez conocido el informe final del RIE, y en consideración a lo acordado en Lisboa, como representante del Colectivo de Estudios Aplicados al Desarrollo Social (CEADES) una ONG boliviana que apoya a los pueblos indígenas chiquitanos, ayoreos y guarayos, me dirijo a usted con la finalidad de puntualizar aspectos importantes del Informe que espero sean parte adjunto del anexo del Informe a ser presentado formalmente al Banco Mundial.

1. El contenido del informe es objetivo, y la implementación de sus recomendaciones constituyen indudablemente un desafío histórico para el Banco Mundial y para quienes estamos directa o indirectamente relacionados con las actividades de la Industria Extractiva, toda vez que el Desarrollo Sostenible es un principio que debe guiar nuestras acciones para garantizar la equidad social y ambiental y el respeto de los derechos humanos tan debilitada hoy en día en el mundo contemporáneo, especialmente en los países en vías de desarrollo, como es Bolivia.

2. Las inversiones del Banco Mundial en Bolivia son significativas y en la última década han estimulado reformas estructurales de nuestro estado que en realidad han fortalecido en mayor proporción y beneficio de las multinacionales de la Industria extractiva que operan en Bolivia, en detrimento de los derechos humanos y los derechos indígenas; pues las leyes de Hidrocarburos y Código de Minería aprobados en Bolivia los años 1996 y 1997 respectivamente, han desconocido los derechos de los pueblos indígenas establecidos en la Ley 1257 que homologa el Convenio 169 de la OIT. Estas leyes al desconocer estos derechos y expropiar la propiedad de los hidrocarburos a favor de las multinacionales, recientemente han generado una convulsión social con más de 80 muertos de origen indígena, provocados por el renunciado ex presidente Gonzalo Sánchez de Lozada al que la embajada de los Estados Unidos sustentó de forma extraña.

3. El Informe hace referencias objetivas de los impactos socioambientales que ocasionan las actividades de la Industria extractiva financiadas por el BM. Bolivia no es extraña a esta realidad, pues el BM financió actividades mineras de la Compañía Minera del Sur (COMSUR) del que es a su vez accionista con el 11,1% y lao construcción del gasoducto Bolivia Brasil de una extensión de 3600 kilómetros deanterior propiedad de las multinacionales ENRON y SHELL. Estas actividades tienen gravesmente impactos socio ambientales que atentan el desarrollo sostenible, se desarrollaron comercio problemas ético legales, serios cuestionamientos de corrupción, con desconocimiento de los derechos indígenas establecidos en el Convenio 169 de la OIT homologada enconstituto Bolivia mediante la Ley 1257 y sin el consentimiento previo e informado de lospueblos indígenas. Por lo que la recomendación del informe del RIE sobre el pruebasconsentimiento previo e informado es pertinente y adecuado porque permitirá haceradiciona...
expresado en el informe del RIE y sirva a su vez para buscar en el Banco Mundial el equilibrio anhelado entre lo Económico, Social y Ambiental en el marco del desarrollo Sostenible.

Sin otro particular, le saluda fraternalmente

Henry Carlos Tito Vargas
CEADES
Bolivia.

P.D. Adjuntamos Informes Indígenas de graves impactos socioambientales ocasionados por la Mina Don Mario y la construcción del gasoducto Bolivia Brasil, los mismos tienen el apoyo financiero del BM.
Dr. Emil Salim
Eminent Person of the EIR
Jakarta

RE: FINAL REPORT OF THE EIR

Dear Dr. Salim:

After having studied the final report of the EIR and considering what was agreed in Lisbon, I am writing to you as the representative of the Colectivo de Estudios Aplicados al Desarrollo Social (CEADES), a Bolivian NGO that assists the Chiquitano, Ayoreo and Guarayo Indigenous Peoples, in order to underline some important aspects of the Report in the hope that they will be part of the Annex to the Report that is to be submitted formally to the World Bank.

4. The content of the report is objective and the implementation of its recommendations undoubtedly constitutes an historic challenge for the World Bank and for those of us that are directly or indirectly involved in Extractive Industry activities, since Sustainable Development is a principle that should guide our actions in order to guarantee social and environmental equity and respect for human rights, so weakened today in the contemporary world, especially in developing countries like Bolivia.

5. World Bank investments in Bolivia are substantial, and in the past decade they have stimulated structural reform in our country which has actually strengthened the greater extent and benefited Extractive Industry multinational companies that operate in Bolivia, to the detriment of human rights and Indigenous rights, because the Hydrocarbon Laws and Mining Code passed in Bolivia in 1996 and 1997, respect the rights of Indigenous Peoples that are established in ILO Agreement 169 and ratified in Bolivia by Law 1257. By ignoring these rights and expropriating ownership of hydrocarbons in favor of multinational companies, these laws recently caused a social upheaval that resulted in more than 80 Indigenous deaths caused by former president Gonzalo Sanchez, whom the United States Embassy strangely supported.

6. The Report makes objective references to the social and environmental impacts caused by Extractive Industry activities financed by the WB. Bolivia is not alien to this reality, since the WB financed the mining activities of Compañía Minera del Sur (COMSUR), of which it is an 11.1% shareholder, and the construction of the Bolivia-all, and Brazil gas pipeline, which is 3600 km in length and owned by the multinational companies ENRON and SHELL. These activities have serious social and environmental impacts that undermine sustainable development; their implementation involved ethical and legal problems, serious allegations of corruption, ignored they Indigenous rights that are specified in ILO Agreement 169 and ratified in Bolivia by the WB. The recommendation of the EIR report regarding prior informed consent is thus pertinent and appropriate because it will allow justice to be done with regard to Indigenous rights and will mitigate to a great extent the serious social and environmental impacts caused by the activities of the extractive industry.

Henry Carlos Tito Vargas
CEADES
Bolivia.

P.S. We are attaching Indigenous Reports of serious social and environmental impacts caused by the Don Mario Mine and the construction of the Bolivia-Brazil gas pipeline, which was supported financially by the WB.
N'Djamena, 19 déc. 2003

A l'attention de Dr. Emil Salim, éminente personnalité

Objet : Proposition de la Délégation Tchadienne au Processus EIR à Lisbonne

Son Eminence,

C'est avec un sentiment d'espoir que la délégation tchadienne a quitte Lisbonne à l'issu de l'atelier final de présentation de votre rapport sur le processus d'évaluation de l'implication de la Banque Mondiale dans les Industries Extractives.

Il ne fait guère de doute que si les recommandations contenues dans ce rapport sont mises en ?uvre, elles permettraient d'abord à la Banque Mondiale de partir sur des nouvelles bases pour faire de ses interventions qui contribuent réellement à lutter contre la pauvreté et favoriser un développement humain durable. Pourtant que de défis reste à relever pour l'appropriation de ce rapport par toutes les parties prenantes. Le premier de ces défis, et non des moindres, est celui de maintenir le consensus fort qui s'est dégagé en faveur du rapport à Lisbonne.

A cet effet, et en vue de renforcer ce consensus, vous aviez donné l'opportunité à chacune des parties prenantes de vous faire parvenir d'autres commentaires, observations ou suggestions s'il y a lieu. Au niveau des participants de la société civile à la rencontre de Lisbonne, il a été convenu que chaque délégation puisse faire parvenir des propositions. C'est pourquoi la délégation tchadienne vous adresse les deux propositions suivantes :

1. Concernant le suivi de la mise en ?uvre du rapport, nous proposons un mécanisme indépendant de suivi des recommandations du rapport qui peut s'appeler (Independent Monitoring Group, IMG). Le groupe de conseillers ayant entouré l'éminente personnalité pour la rédaction du rapport pourrait constituer l'ossature de l'IMG quitte à ce que qu'il soit renforcé avec d'autres compétences et sensibilités.

2. S'agissant de la recommandation relative à la bonne gouvernance et de la transparence (Vol. 1, p.45), nous proposons qu'un groupe de travail puisse, sur la base des critères proposés, définir des indicateurs de succès pour évaluer la situation de gouvernance dans un pays comme condition préalable pour que la Banque Mondiale puisse financer un projet dans le domaine des industries extractives.

Pour le Groupe de Recherche Alternatives et Monitoring du Projet Pétrole
GRAMP/TC

Maoundonodji Gilbert

Pour la Commission Permanente Pétrole (CPPN)
Boukinebe Garka
Attention: Dr. Emil Salim, Eminent Person

Subject: Proposal from the Chadian delegation regarding the EIR process in Lisbon

Dear Sir:

The Chadian delegation left Lisbon with a feeling of hope following the final workshop for the presentation of your report on the review of the World Bank’s involvement in extractive industries.

There is no doubt that if the recommendations in the report are implemented, they would give the World Bank a new opportunity to carry out its work, which contributes in a real way to reducing poverty and promoting sustainable human development. However, some major challenges remain in getting all stakeholders to take responsibility for the report. The first, and not the least of these is to maintain the strong consensus that emerged in favour of the Lisbon report.

To that end and to strengthen this consensus, you gave each of the stakeholders an opportunity to send you any other comments, observations or suggestions they might have. It was agreed that, in the case of civil society participants at the Lisbon meeting, each delegation could send in proposals. The Chadian delegation is accordingly submitting the following two proposals:

1. With regard to monitoring the implementation of the report, we propose that an independent mechanism for monitoring the report’s recommendations be created (AIndependent Monitoring Group@ or IMG). The group of advisors that assisted Dr. Emil Salim in writing the report could form the basis of the IMG and individuals with different skills and perceptive talents could round out the Group if necessary.

2. With regard to the recommendation on good governance and transparency (Vol. 1, p.45), we propose that a working group use the proposed criteria to define success indicators for evaluating the governance situation in a country as a preliminary condition for the World Bank to finance a project in the extractive industries.

Maoundonodji Gilbert

Groupe de Recherches Alternatives et Monitoring du Projet Pétrole
[group for alternative research and monitoring of the petroleum project]
GRAMP/TC

Boukinebe Garka

Commission Permanente Pétrole[standing committee on petroleum](CPPN)
Señor
Emil Salim
Eminent Person
World Bank Extractive Industries Review
Patra Jasa Building 2nd Floor, Room II E 1
Jl. Jend. Gatot Soebroto Kav. 32 – 34,
Jakarta 12950, Indonesia

Estimado señor Salim:

Me es grato dirigirme a Ud. con posterioridad al Workshop Final realizado en Lisboa, Portugal, del 11 al 13 de Diciembre del 2003 donde se hizo entrega de su Informe Final de la Revisión de las Industrias Extractivas (EIR). Quiero valorar su trabajo durante estos dos años en conducir una iniciativa de tal complejidad en las Industrias Extractivas (IE), mediante el cual Ud. ha desarrollado una amplia discusión con todas las visiones y actores involucrados en este interesante sector productivo.

Así también, me gustaría hacer llegar a Ud. mis comentarios en esta etapa final, y estoy seguro Ud. recogerá debidamente, para que sean incorporados en las siguientes etapas de discusión, como una opinión de Gobierno con experiencia en el tema minero.

Participación en el EIR a nivel de Gobiernos:

Como Ud. sabe, nuestro país mantuvo una constante participación en el proceso del EIR desde sus comienzos. Participamos en la reunión de planificación en Bruselas de octubre del 2001, y también nos sumamos a la Consulta Regional de América Latina y El Caribe (Abril 2002) para participar en su debate y entregar información de nuestra experiencia en minería.

Más tarde, con ocasión de los Borradores previos al Informe Final, diversos comentarios elaborados por la Comisión Chilena del Cobre precedieron a los de la presente carta, cuyas fechas fueron del 16 de Octubre 2003 y el 21 de Agosto del 2003; así mismo, los de Abril del 2003, en respuesta al índice del Informe que fue tempranamente publicado en Febrero del 2003.

Buscamos proporcionar a Ud. y a las partes interesadas presentes, información precisa y estudios que convergieran a los resultados del Informe Final de la Revisión.

Dado el interés del EIR de evaluar más comprehensivamente a las Industrias Extractivas, le entregamos a Ud. indicadores acerca de nuestro desempeño en la minería chilena y de su reconocido desarrollo mundial, algunos de ellos tales como: la contribución de la minería al Producto Geográfico Bruto del país, las inversiones ambientales en minería, los factores de emisión de los residuos masivos mineros, eficiencia en los consumos de energía y agua, disminución de los índices de pobreza en el país, entre otros.
eso y en la minería no metálica (carbonato de calcio, carbonato de litio, cloruro de sodio, consider yodo). Además en los sub-productos de la minería del cobre, como el molibdeno y la lección de plata.

Aprovechamos las alianzas internacionales para que la Revisión de las Industrias Extractivas estuviera en conocimiento de las autoridades de otros Gobiernos, a través de la Conferencia de Ministros de Ministro de Minería de las Américas, CAMMA, donde Ud. pudo interactuar con nosotros en Marzo 2003, en República Dominicana.

A nivel internacional, en el Grupo Internacional de Estudios del Cobre – del cual Chile es un activo país miembro - se han publicado dos Boletines informativos acerca del EIR, para que sus países miembros productores y consumidores de cobre fueran informados denación de los avances del proceso de Revisión.

A pesar de todos estos esfuerzos, creemos que dicha participación fue insuficiente. Aún se requiere una revisión y discusión más profunda a las recomendaciones del EIR, a nivel nacional de los Gobiernos, una vez que el Banco Mundial proceda a examinarlo.

Presencia del Banco Mundial en las IE:

Extrañamos la falta de un claro y efectivo apoyo para que el Banco Mundial fortalezca la perspectiva económica de las IE y continúe apoyando su rol positivo en mejorar la calidad de vida de la población.

Creemos que el Banco Mundial debiera asumir una visión proactiva y positiva de las IE. La existencia de buenos ejemplos y políticas, como por ejemplo el caso de Chile, donde se han invertido cuantiosos recursos en mejorar la gestión ambiental, incorporando elementos de responsabilidad social, deben ser impulso al Banco Mundial para generar cooperación país a país, más directa y de menor costo, con apoyo de organismos existentes como el CAMMA.

Desbalance del Informe:

Reiteramos algunos comentarios previos de Chile. El Informe Final da una prioridad obligada a las dimensiones ambientales y sociales de la sustentabilidad en las IE. La perspectiva económica de las Industrias Extractivas en los países ricos en recursos naturales, aparece olvidada en el Informe.

A partir de nuestra experiencia, estamos convencidos de que el desarrollo de las IE puede ser proyectarse a mediano y largo plazo. Creemos que la sustentabilidad de las actividades relacionadas a los recursos naturales no puede ser evaluada sin una adecuada consideración de la contribución total que los recursos naturales realizan a la sociedad humana.

En este sentido, la industria del cobre por ejemplo, contribuye en forma significativa al mejoramiento de los niveles y calidad de vida de la población, proveyendo diversos servicios (electricidad, agua potable, calefacción, entre otros); a la sustentabilidad ambienal al reducir el uso de energía por sus cualidades de eficiencia energética; temas además, sus propiedades bactericidas contribuyen al control sanitario; mientras que sus cualidades de reciclabilidad representan un enorme ahorro de recursos en relación a la utilización de otros recursos que no cuentan con esta propiedad. En otras palabras, la nabilidad
plantean con esquemas predeterminados tanto en el ámbito de los proyectos como en relación con los Gobiernos; se establecen patrones comunes en materia de estrategias de desarrollo económico nacional y local y la toma de decisiones con las comunidades, locales.

Ya hemos señalado a Ud., anteriormente, nuestra preocupación de que sean excesivas las intervenciones del GBM, a nivel de las IE, en cuanto a la definición de políticas y nivel país, regional y local, inclusive a nivel de instrumentos internos. Quisiera reiterar que la dicha preocupación, una vez más.

Creemos que el Informe Final mantiene una confusión inconveniente entre los roles del GBM y aquellos propios de los Gobiernos y Estados, afectando en un serie de ámbitos a las IE en los países ricos en recursos naturales, en materia de su soberanía nacional y competencia. Como representantes de un Estado soberano, objetamos el conflicto para el ejercicio de nuestra soberanía que supone el establecimiento de condiciones y/o limitaciones provenientes de realidades ajenas a nuestro proceso nacional. Tampoco la gobernabilidad podría ser vista como delegable y subordinable a la forma, recursos y mecanismos que el Banco Mundial exija a los países.

Declaración del WBM de los proyectos de las IE como de “alto riesgo”:

De acuerdo al Informe Final, el “GBM ha declarado que los proyectos de IE son de “alto implicar riesgo”. Ante ello, el Informe declara que deben asegurarse las condiciones de mitigación, de la pobreza, el desarrollo sostenible y el respeto a los derechos humanos, en formaparticular proporcional a la naturaleza de alto riesgo que éstos tienen, y “observando estrictamente el principio precautorio”.

Hay una expresa confusión en el concepto de “alto riesgo” anteriormente descrito en los proyectos de IE. Este concepto no está relacionado con las condiciones antes descritas y mucho menos con los factores que pudieran llevar a emplear el enfoque precautorio sedo del concepto de carácter financiero que refleja la relación rentabilidad y riesgo del Director negocio minero.

Otras recomendaciones del Informe Final:

Reiteramos la preocupación sobre otras materias del Informe Final que no tuvieron mayores cambios, pese a que fueron muy criticadas en el proceso. A modo de ejemplo de ellas:

- El GBM asegure el consentimiento libre, previo e informado (licencia social) para los proyectos de petróleo, gas y minería, por parte de los pueblos indígenas y las comunidades locales afectadas, en forma independiente del sistema legal existente.
- La moratoria a los proyectos que requieran de la eliminación subacuática de relaves, que no considerar el desarrollo tecnológico que éstos puedan mostrar ni el conocimiento que genere respecto de los reales efectos ambientales que dicha forma de eliminación pueda tener.

Aspectos de procedimiento en las recomendaciones del Informe Final:

En el Informe no queda claro el nivel al qué se hacen las recomendaciones, cómo éstas se aplicarían, y las responsabilidades involucradas.
acción, por cuanto son las medidas concretas (más que las ideas generales mencionadas en las conclusiones), las que definen en una gran proporción las características e intensidad de las medidas que se pretende implementar.

Todas estas consideraciones, nos afirman en la necesidad de que Chile proponga a otros Gobiernos hacer un próximo examen de las recomendaciones del Informe Final, a nivel del CAMMA.

Finalmente le reiteró la convicción de Chile en el importante rol de los recursos naturales en el desarrollo de los países ricos en estos recursos. Nuestro país ha utilizado esta plataforma para enfrentar los males de la pobreza, que constituyen el principal freno para el desarrollo de los países. Por esta razón, no sólo confiaron en la permanencia del GBM en el sector extractivo, sino que esperamos identificar formas de incrementar la relación del GBM con nuestra industria minera, de manera más eficiente, y por ende, impulsoras de nuestro desarrollo nacional.

Sin otro particular y con la seguridad que esta información será anexada al Informe Final, le saluda muy atentamente,

PATRICIO CARTAGENA DIAZ
Vicepresidente Ejecutivo
Comisión Chilena del Cobre
Santiago, December 19, 2003

Dr. Emil Salim
Eminent Person
World Bank Extractive Industries Review
Patra Jasa Building 2nd Floor, Room II E 1
Jl. Jend. Gatot Soebroto Kav. 32 – 34,
Jakarta 12950, Indonesia

Dear Dr. Salim,

It is a pleasure to write to you following the Final Workshop held in Lisbon, Portugal, on Chile, December 11-13, 2003, where you presented the Final Report of the Extractive Industries Review (EIR). I would like to emphasize the value of your work over the past two years directing such a complex initiative in the Extractive Industries (EI), which included ample discussion with all the criteria and stakeholders of this interesting productive sector.

I would also like to submit my comments to you in this final stage, which I am sure you will accept and include in subsequent discussions as the opinion of a Government with experience in mining.

**Government Participation in the EIR:**

As you know, our country participated throughout the EIR process from the beginning. We attended the planning meeting in Brussels in October 2001, and the Regional Consultation for Latin America and the Caribbean (April 2002) to take part in the debate and submit information based on our experience in mining. Later, when the Drafts prior to the Final Report were issued, the Chilean Copperble Commission prepared and submitted various comments prior to this letter on October 16, and August 21, 2003; as well as in April 2003, in response to the Table of Contentstive of the Report that was published early in February 2003.

We tried to provide you and the stakeholders that were present with precise information and studies that would concur with the results of the Final Report of the Review. Given the EIR’s interest in a more comprehensive evaluation of the Extractive Industries, copper, we provided you with indicators on the Chilean mining industry’s performance and its gold, recognized world development, such as the mining’s contribution to the country’s Grossiron and Geographic Product, environmental investments in mining, overall mining wastemangan emissions factors, the efficiency of energy and water consumption, and the reduction inese the country’s poverty indicators, among others.

With that information, we tried to demonstrate the substantial contribution mining has made to the sustainable development of
non-metallic mining (calcium carbonate, lithium carbonate, sodium chloride and iodine), as well as in copper mining byproducts, such as molybdenum and silver.

We took advantage of international alliances to inform the authorities of other Governments about the Extractive Industries Review at the Conference of Mining Ministers of the Americas, CAMMA, where you were able to interact with us in March 2003 in the Dominican Republic.

Internationally, the International Copper Studies Group – of which Chile is an active member – has published two informative bulletins about the EIR to inform its member countries that produce and consume copper about the progress of the Review process.

Despite all these efforts, we feel this participation has been insufficient. The EIR recommendations need a more thorough review and discussion by Governments after the World Bank studies them.

Presence of the World Bank in EI:

We are surprised by the absence of clear and effective support for a strengthening of the economic perspective of EI by the World Bank and the continuation of its support for the positive role they play in improving the quality of life of the population.

We believe that the World Bank should adopt a proactive and positive vision of EI. The existence of good examples and policies, such as the case of Chile, where large amounts of money have been invested in improving environmental management, including elements of social responsibility, should encourage the World Bank to generate more direct and lower cost country-to-country cooperation with the support of existing bodies like CAMMA.

Imbalance of the Report:

We reiterate some prior comments of Chile. The Final Report gives top priority to the environmental and social dimensions of the sustainability of EI. In contrast, the economic perspective of Extractive Industries in natural resource rich countries seems to have been forgotten in the Report.

Based on our experience, we are convinced that the development of EI can be projected in the medium and long term. We believe that the sustainability of activities involving natural resources cannot be evaluated without proper consideration of the total contribution of natural resources to human society.

The copper industry, for example, makes an important contribution to the improvement of the levels and quality of life of the population, and provides several services: national (electricity, drinking water, heating, and others); to environmental sustainability by reducing energy use through its energy efficiency characteristics; its anti-bacterial qualities promote sanitation; and its recycling qualities represent an enormous saving of resources compared to the use of other resources that do not have this property. In other words, the failure to consider these aspects represents a clear disregard of, and/or development of strategies against natural resources.

National Sovereignty:
making with local communities.

We mentioned to you before our concern about excessive WBG interventions in EI, which regarding the definition of national, regional, and local policies, and internal instruments. I would like to reiterate that concern once again.

We believe that the Final Report inappropriately confuses the roles of the WBG and of character Governments and States, and affects EI in several areas involving national sovereignty and jurisdiction in natural resource rich countries. As the representatives of a sovereign State, we object to the conflict involving the exercise of our sovereignty that results from intensifying the establishment of conditionalities and/or limitations relating to situations that are of the foreign to our national process. Governance also cannot be seen as something that can be delegated and subordinate to the forms, resources and mechanisms the World Banks that requires of countries.

**WBG Declaration that EI projects are “high risk”:**

According to the Final Report, the “WBG has declared that EI projects are “high risk.”” For this reason the Report states that the conditions of poverty alleviation, sustainable development, and respect for human rights must be ensured in proportion to their high-risk nature, “with strict observance of the precautionary principle.”

There is express confusion in the “high risk” concept of EI projects that is described above. This concept is not related to these conditions, much less to the factors that could lead to the use of a precautionary focus. It is a financial concept that reflects the need for profitability-risk ratio of the mining business.

**Other Recommendations in the Final Report:**

We reiterate our concern about other matters in the Final Report that have not undergone major changes despite having been strongly criticized during the process. As examples only, two are mentioned:

- The WBG should ensure the free, prior, and informed consent (social license) of indigenous peoples and affected local communities for petroleum, gas and mining projects independently of the existing legal system of each country.
- The moratorium on projects that require submarine tailings disposal, regardless of the technological development they can demonstrate or the scientific knowledge that is produced regarding the actual environmental effects of that method of disposal.

**Procedural Aspects of the Recommendations of the Final Report:**

The Report is not clear on the level at which the recommendations are made, how they would be applied, or the responsibilities involved.

Finally, I would suggest that the WBG’s review of the Final Report should specify more clearly what each of these could imply, particularly for their study by the Board of the Chile’s Bank and Government representatives.

The imprecise manner in which the conclusions are stated is a serious cause for concern because they are concrete measures (more than the general ideas mentioned in the conclusions),
nt role natural resources play in the development of countries that are rich in these resources. Our country has used this platform to confront the ills of poverty, which constitute the principal obstacle to the development of countries. For that reason, not only do we expect the WBG to remain in the extractive sector, but we also hope to identify ways of increasing WBG’s involvement in our mining industry in more efficient ways that will drive our national development.

Confident that this information will be attached to the Final Report, I greet you very respectfully,

PATRICIO CARTAGENA DIAZ
Executive Vice President
Chilean Copper Commission
Mr. Chairperson, Ladies and Gentlemen:

Good Morning!

It’s a great honor for Dr. Nie Fengjun and me, on behalf of the Ministry of Land and Resources, to attend the workshop on Extractive Industry Review organized by the World Bank Group. First of all, I would like to take this opportunity to express our sincere thanks to the World Bank Group, Prof. Emil Salim, Ms Roberta Lovatelli and other friends for what they have done for us. Meanwhile, I want to extend our warm congratulations to the workshop.

The workshop on Extractive Industry Review is a very important event in the int’l industry circle, and will have a great impact on the development of the world extractive industry. I am very glad to have an opportunity to express our thoughts on the role of extractive industry in the sustainable economic development, and the trend of the development of extractive industry.

A. Extractive Industry provides an important guarantee for China’s sustainable and healthy economic development

Mineral resources occupy an important portion of the natural resources, and constitute the material foundation for social and economic development. A great leap on mineral exploration and exploitation has been made since the founding of the new China in 1949. A great numbers of mineral resources have been located and mined, and a complete supply system for mineral resources has been established. They have provided an important guarantee for swift and healthy development of China’s economy and society. At present, 92% of energy resource, 80% of industrial raw materials, and 70% of agricultural productive materials come from the mineral resources.

China is one of the earliest countries that knew how to exploited and utilize the mineral resources. Since the founding of the new China in 1949, the Chinese government has made great efforts to strengthen the mineral exploration and put the geological development on the first important position in front of other aspects of national economy. The strategy of “exploiting mineral resource” was also proposed. Mineral exploration and exploitation programs were arranged in every “Five-Year Plan”. As a result of numerous explorations and exploitations on mineral resources, China has gradually become a big mining country. It took only 54 years for China to achieve a leap from a small mining country to one of the biggest mining and resource powers in the world. Mineral exploration and mining provide not only a great amount of energy sources and industrial raw materials, but also the financial support for the regional development.
people to go to work, and have made a great contribution to national economic and social industry development.

**B. Rapid economic development requires great supply capacity of mineral resources; Extractive Industry is not a sunset industry**

Taking China as an example, a well-off society in an all-round way for more than one billion people will be built in the first 20 years of 21st century. The sustainable economic mining development and industrialization of China need a great amount of mineral resources. To industry strengthen the survey, exploration, exploitation, planning, management, protection and rational utilization of mineral resource will be necessary in order to upgrade the resource supply capacity. According the requirement of orderly compensation, balance of supply and demand, structural priority and intensive efficiency, the economic, social and environment benefits will be further elaborated to the full extent by adopting the efficient mineral resource policy. Under the new situation of economic globalization, especially after China became a member of the WTO, attracting foreign capital in domestic extractive industry, utilizing the other countries’ resources and market as well as making domestic mining enterprises and mineral products enter the international market will be the important parts of China’s present policy on mineral exploration and exploitation.

There are many similarities between China and other countries in this aspect. Extractive industry is not a sunset industry and will have a bright future because:

Firstly, without mineral resources, mankind cannot live on this planet. Food, which is the basic need of mankind, is related with mineral resource. The growth of crops, vegetable and fruits is related with the fertilizer made by minerals. All the machines used during the reaping season of grains are partly made by metals that came from mineral resources. Aircrafts, trains, ships and trucks that deliver foods from plants to super-markets are also partly made by metals. From every corner of our society you can find something made by metals.

Secondly, everyone in the world needs mineral products. To improve the people’s living standards and quality, more energy, metal and non-metal resources are needed in both developing countries and developed countries. To eat better and live better, people have to improve the quality of foods and build more houses and automobiles etc, which all consume more energy resources, metal and non-metal resources.

Thirdly, with the growth of world’s population, the demand for mineral products will increase dramatically. Without mineral resources providing sufficient resources, the modern life would be inconceivable.

In short, the social and economic development of the human society needs more mineral resources provided by extractive industry.

Therefore, the report issued by the National Mining Society of the U. S. mentioned, “the future of the 21st century would start from the mining industry”. The problems that we have to face from the first day of the new century are mainly food, clothes, entertainment, and means of transportation, while the solution of these problems rely on the energy resources and raw materials provided by the mining industry. Moreover, the National Mining Society of the U. S. described the mining industry as “the mining industry is not a sunset industry"., and “the future is a safe, environmental friendly, advanced, efficient and low cost industry".
been made by the mining industry in the world. Meanwhile, a series of problems, such as stand-by resources, development funds, production safety and environmental protection, also arise. In particular, the calling for the environmental protection has been highlighted worldwide. Since the pressure from the environmental protection on the mining industry sector is increasing, the problem to protect the environment in mining activities has become a significant constraining element in the realization the sustainable development of the mining industry. This problem exists in developing countries, while it is more serious in developed countries. Although there are a lot of difficulties in the world mining industry, we think the future of the mining industry is promising.

China has paid much attention to the sustainable development and rational utilization of mineral resources, and stresses the coordinative development of the human and the nature and economy and society. China has made sustainable development as a state strategy and made the resources protection as a basic policy. After the Environment and Development Congress of the UN, the Chinese government initially published the “21st Century Agenda of China--Bulletin of Population, Environment and Development of China in the 21st Century”, ratified the “Planning for National Mineral Resources” in April 2001, and started to implement the “Guideline of Sustainable Development of China in the early 21st Century” from January 2003. “The Tenth Five-year Plan for National Economy and Social Development” clearly stipulates to strengthen the recovery of the mine eco-environment, which has been listed as a key program in “Key Projects Plan for the Tenth Five-year Eco-system Construction and Environmental Protection” published by the State Committee of Planning. By now, the Ministry of Land and Resources of China has started to fund the projects related to the recovery of the mine environment.

D. The World Bank has played an active role in accelerating the development of mining industry in China.

The World Bank has played an important role in the development of the world’s extractive industries as mentioned in the Review, and has brought about advanced technology and modern management experience to concerned countries, especially to the report, developing countries, which resulted in the coordinative developing of economy and community in these countries. The World Bank has already supported some projects related to the extractive industry in China, which has made some progress. It is worth mentioning that, since 2000, four sessions of the annual International Mining Conference in China has been co-sponsored by the Ministry of Land and Resources of China and the World Bank Group with the support of the Embassies of Canada and Australia to China, for the sake of accelerating the opening-up of the mining industry and attracting more overseas investment in the exploration of mineral resources in China. The delegates from varieties of government departments, research institutions and mining industries of the major mining countries have attended these conferences and discussed the issues with common interests concerning the development of the international and domestic mining industry. The conference has made significant progress, not only in promoting the exchange and cooperation between the mining industries both in China and the world, but also in improving the investment environment of the mining industry in China. We believe that this conference will become one of the most important conferences in the world mining industry and you are welcome to attend the conference in the future.

E. Impression on the Extractive Industry Review

I feel that the Review is a comprehensive and constructive report with incisive analyses and valuable advice, which indicates that the report is based on potent research. We agree with the conclusions of this report and consider that the primary advice in the report is valuable. I believe that this report will play an active role in the sound development of
the extractive industry in the world in the future. More efforts in this kind of research will be very meaningful and significant.

Thank you!
Los siguientes comentarios al Informe Final de la Revisión de las Industrias Extractivas del Banco Mundial (Vol. I, Diciembre de 2003), están basados en las experiencias de las comunidades peruanas afectadas por la minería, organizadas en la Coordinadora Nacional CONACAMI PERU. En líneas generales, consideramos que las conclusiones y recomendaciones del Informe Final son un aporte sincero y significante para el debate sobre la oportunidad del apoyo del GBM a las industrias extractivas, y más allá sobre las condiciones en que deben operar las mismas. Esperamos que el GBM tome en serio las recomendaciones de la RIE, de acuerdo al compromiso que asumió al iniciar ese proceso.

- Así como el GBM a inicios de la década de los años noventa ha tenido un impacto muy grande en los cambios en el marco legal implementados por el régimen dictatorial del presidente Fujimori, que resultaron en la apertura, las privatizaciones, la mayor inversión privada en el sector minero y, producto de ello, la proliferación de los conflictos socio-ambientales en todo el país; más que apoyar proyectos mineros concretos, debe asumir su responsabilidad para corregir los errores cometidos e incidir en que el marco legal para la inversión minera garantice la protección total de los derechos humanos de las poblaciones más pobres y marginados, en particular los pueblos y comunidades indígenas.

- Siendo la reducción de la pobreza la misión principal del GBM, aplaudimos el uso de una noción de pobreza que sobrepasa indicadores meramente económicos y cuantitativos, definiendo la pobreza desde una perspectiva de DDHH, que toma en cuenta elementos subjetivos y la percepción de la misma población afectada, la que en efecto suele incluir mayormente los grupos más pobres, comunidades y pueblos indígenas. Consideramos que las decisiones sobre la oportunidad de los proyectos mineros no deben basarse en una mera evaluación de beneficios para la economía a nivel macro, sino que debe incluir una rigurosa evaluación de sus impactos en todos los grupos locales, empezando con los más vulnerables, y en todos los aspectos económicos, sociales, culturales y espirituales.

- En tal sentido, consideramos que el consentimiento libre, previo e informado de la población potencialmente afectada es una precondición absoluta para el desarrollo de cualquier proyecto minero; lo cual ha sido reconocido como factor clave para lograr el desarrollo sustentable por el documento final del proyecto “Abriendo Brecha: Minería, Minerales y Desarrollo Sustentable”, elaborado a solicitud del Iniciativa Global de Minería donde participan las más grandes empresas mineras a nivel mundial. En su resumen ejecutivo dice que “por lo general, las tierras se utilizan sin el consentimiento de los pueblos indígenas. Las empresas deberían actuar como si el consentimiento fuera una exigencia para acceder a las tierras, aun cuando la ley no lo disponga”; para luego recomendar que “gobiernos y empresas lograrían avances considerables si respetaran el principio del consentimiento previo informado y voluntario”.

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2 Ibid., p. 20
de la población opuesta a la explotación minera. En el caso del proyecto minero Tambogrande (región Piura), la población, en búsqueda de sus propios mecanismos de participación ciudadana ante la falta de instrumentos legales adecuados, organizó una consulta popular cuyo resultado no fue reconocido por el Estado Peruano. Asimismo, el ejemplo de la mina Pampamali, entre otros, demuestra que no se aplica la normativa vigente y que el recién (diciembre de 2002) aprobado “Reglamento de Participación Ciudadana en el Procedimiento de Aprobación de los Estudios Ambientales presentados al Ministerio de Energía y Minas” no garantiza una real participación de la población en la aprobación del Estudio de Impacto Ambiental de los proyectos mineros. En aquellas condiciones, es sumamente difícil que se logre un real aporte a la reducción de la pobreza.

En el discurso y en la práctica del sector minero, observamos una creciente inquietud para lograr la *licencia social* al iniciar sus proyectos, a la hora de negociar contratos de compra-venta o uso de tierras, o las condiciones en que se desarrolle el proyecto (beneficios para la comunidad, medidas para mitigar los daños, ...), etc. El siguiente paso – lógico – debería ser el reconocimiento explícito del consentimiento libre, previo e informado como requisito absoluto de cualquier proyecto.

Para lograr ese objetivo, deben establecerse los mecanismos adecuados, que incluyen la información y consulta a la población *antes* de otorgar concesiones de exploración y/o explotación, tal como lo estipula el art. 15.2 del Convenio 169 de la OIT, que ha sido ratificado por el Perú pero que hasta ahora sigue letra muerta. Consideramos inaceptable que el GBM siga apoyando a cualquier proyecto minero en el Perú, si no se reglamenta dicho Convenio. Sobre todo cuando se trata de pueblos indígenas, que ocupan la mayor parte de la Amazonía y de los Andes Peruanos, la consulta debe ser vinculante, y conducir al consentimiento de todos los grupos involucrados y afectados.

- Otra precondición imprescindible que debe cumplirse antes de iniciar (y *a fortiori* apoyar) cualquier proyecto de industrias extractivas, es la *zonificación económica y ecológica* del territorio. Actualmente, en el Perú no existe un sistema de planificación y zonificación económica y ecológica que tome en cuenta los diferentes recursos naturales, actividades productivas y usos de tierra, agua y biodiversidad, dándose de manera sistemática prioridad a la explotación minera en casi todos los casos (muchos proyectos se ubican en cabeceras de cuenca, zonas agrícolas o ganaderas, ecosistemas frágiles). La zonificación sería un importante instrumento de participación ciudadana y de prevención de conflictos, que permita priorizar aquellas actividades que realmente aportan a la reducción de pobreza.

- En cuanto a la **gobernabilidad e institucionalidad**, consideramos inaceptable el hecho que en el Perú el mismo Ministerio de Energía y Minas es dueño de operaciones mineras, el organismo encargado de la promoción de la inversión minera, la fiscalización del cumplimiento de las normas ambientales y la elaboración de las mismas, siendo juez y parte en los conflictos entre empresas mineras y comunidades afectadas por las actividades de éstas. La autoridad competente en materia ambiental, el Consejo Nacional del Ambiente, no tiene rango ministerial y solo tiene un rol de coordinación y concertación. El GBM debería insistir en que se cree un organismo autónomo, con capacidad normativa, de decisión y de fiscalización de las actividades minero-energéticas.

- Finalmente, resaltamos la ausencia de claridad y de contundencia en las conclusiones y recomendaciones referentes a la **salud pública**. Si bien se
ablecer políticas de salud (por ejemplo para combatir VIH/Sida) poco se habla de los impactos en la salud de comunidades aledañas a operaciones mineras a mediano y largo plazo (efectos acumulativos, etc.). No observamos esa “gran creatividad y voluntad de compañías de la industria extractiva” (ver p.40 del Informe) para investigar de manera transparente y tratar los impactos en la salud relacionados con sus propias actividades productivas. En los casos de La Oroya, San Mateo de Huanchor, el Callao y Choropampa, a pesar de que hay pruebas de intoxicación de la población (por ejemplo altos niveles de Pb en sangre, síntomas), ni el Estado ni las empresas involucradas toman las medidas adecuadas, lo cual ha sido motivo de una demanda internacional ante la Comisión Interamericana de Derechos Humanas, presentada por CONACAMI PERU.

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CONACAMI PERU COMMENTS ON THE FINAL REPORT OF THE
EXTRACTIVE INDUSTRIES REVIEW
Lima, Peru, December 18, 2003

The following comments on the Final Report of the World Bank Extractive Industries Review (Vol. I, December 2003) are based on the experiences of Peruvian communities affected by mining that are part of the National Coordinator, CONACAMI PERU. Generally, we feel that the conclusions and recommendations of the Final Report are a sincere and significant contribution to the debate on the suitability of WBG support of extractive industries, and the conditions under which they should operate. We hope that the WBG will take the EIR recommendations seriously in accordance with the commitment it undertook when the process began.

- In the early nineties the WBG played a major role in changes to the legal framework that were implemented by the dictatorial regime of President Fujimori, which resulted in opening, privatizing and increasing private investment in the mining sector and as a result, the proliferation of social and environmental conflicts throughout the country; rather than supporting specific mining projects, it should accept its responsibility for correcting mistakes that made and help to ensure that the legal framework for investment in mining guarantees total protection of the human rights of the poorer and marginalized populations, particularly Indigenous Peoples and communities.

- Since poverty reduction is the principal mission of the WBG, we applaud the use of a concept of poverty that goes beyond mere economic and quantitative indicators in defining poverty from a Human Rights standpoint, and takes into account subjective elements and the perception of the affected population, usually the poorest groups, Indigenous Peoples and communities. We feel that decisions on the suitability of mining projects should not be based on a mere evaluation of the benefits to the economy at the macro level, but that there should also be a rigorous evaluation of the impacts on all local groups, beginning with the most vulnerable, and on all economic, social, cultural and spiritual aspects.

- Therefore we feel that free prior and informed consent by the potentially affected population is an absolute precondition for the development of any mining project; the final document of the project, “Breaking New Ground: Mining, Minerals and Sustainable Development”, prepared at the request of the Global Mining Initiative with the participation of the largest mining companies in the world, recognized it as a key factor for achieving sustainable development. The executive summary states, “in general, land is used without the consent of Indigenous Peoples. Companies should act as if consent were a requirement for gaining access to land, even if not required by law3;” and later recommends “governments and companies would make significant progress if they respected prior, informed and voluntary consent4.”

Very often conflicts arise when the Government and companies refuse to consider a definite stand of people opposed to mining. In the case of the Tambogrande mining project (Piura region), the people, searching for their own mechanisms for citizens’ participation given the lack of appropriate legal instruments, organized a plebiscite

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4 Ibid., p. 20
g others, shows that current regulations do not apply, and that the recently approved (December 2002) “Regulations for Citizens’ Participation in the Procedure for Approving Environmental Assessments submitted to the Ministry of Energy and Mines” does not guarantee any real participation by the population in the approval of Environmental Impact Assessments for mining projects. Under these conditions, it is extremely difficult for there to be a real contribution to poverty reduction.

In mining sector discourse and practice, we note an increasing concern for obtaining a social license when they begin their projects and negotiate contracts for purchasing or using land, or the conditions for implementing the project (community benefits, measures for mitigating damage, …), etc. The next logical step would be the explicit recognition of free, prior and informed consent as an absolute requirement for any project.

Appropriate mechanisms need to be established for achieving this objective, including informing and consulting the population before granting concessions for exploration and/or production, as stipulated in Art. 15.2 of ILO Agreement 169, which has been ratified by Peru but up to the present time is still a dead letter. We feel it is unacceptable for the WBG to continue supporting any mining project in Peru if that Agreement is not implemented. Especially for Indigenous Peoples that occupy most of the Amazon Region and the Peruvian Andes, consultation should be a legal obligation and lead to the consent of all involved and affected groups.

- Another essential precondition that should be met before initiating (and a fortiori supporting) any extractive industry project is the economic and ecological zoning of the territory. In Peru there is presently no system of economic and ecological planning and zoning that takes into account the different natural resources, productive activities or uses of land, water and biodiversity, and mining activity receives systematic priority in almost all cases (many projects are located in watersheds, agricultural or ranching areas, and fragile ecosystems). Zoning would be an important instrument for the participation of citizens and the prevention of conflicts and would allow priority to be given to activities that actually contribute to poverty reduction.

- Regarding governance and institutional frameworks, we feel it is unacceptable for the Peruvian Ministry of Energy and Mines to own mining operations, and be the agency responsible for promoting mining investment, monitoring compliance with, preparing environmental regulations, and being the judge and a party in conflicts between mining companies and communities that are affected by their activities. The competent authority for environmental matters, Consejo Nacional del Ambiente, does not have ministerial status, only a coordinating and arranging role. The WBG should insist on the creation of an autonomous body with regulatory, decision-making and monitoring capacity for activities involving mining and energy.

- Finally, we underscore a lack of clarity and conclusiveness in the conclusions and recommendations relating to public health. Though there is mention of emergency situations such as accidents of all kinds, and efforts by some companies to establish health policies (for example against HIV/Aids), little is said about the medium and long term impacts of mining operations on the health of neighboring communities (cumulative effects, etc.). We have not observed this “great wealth of creativity and a willingness of extractive industry companies” (see p. 40 of the Report) to transparently investigate and deal with the health impacts of their own productive activities. In the cases of La Oroya, San Mateo de Huanchor, el Callao and
d, and symptoms), neither the Government nor the companies involved have taken appropriate measures; as a result CONACAMI PERU has fined an international complaint with the Inter American Human rights Commission.

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Fundamentación referida al previo consentimiento libre e informado

Actualmente hay un incremento notable en el reconocimiento de los derechos colectivos de las comunidades locales y particularmente cuando se trata de comunidades indígenas, finalmente en la Constitución y las leyes de los Estados nacionales, como en la adopción de tratados e instrumentos legales internacionales vinculados a esos mismos derechos.

En relación al derecho a la consulta informada y previa para obtener el acuerdo o consentimiento de los pueblos indígenas cuando se planeen medidas legislativas y administrativas que los afecten, el Convenio 169 de la OIT, es muy preciso al indicar en el artículo 6º (1) que al aplicar las disposiciones del presente Convenio, los gobiernos deberán:

a) Consultar a los pueblos interesados, mediante procedimientos apropiados y en la particular a través de sus instituciones representativas, cada vez que se prevean medidas susceptibles de afectarles directamente;

b) Establecer los medios a través de los cuales los pueblos interesados pueden participar libremente, por lo menos en la misma medida que otros sectores de la población, y ay todos los niveles, en la adopción de decisiones en instituciones electivas y organismoseconómicos administrativos y de otra índole, responsables de políticas y programas que les conciernan.

c) Establecer los medios para el pleno desarrollo de las consultas y en los casos apropiados proporcionar los recursos necesarios para este fin.

Orienta también la forma en que las consultas deberán efectuarse:

- de buena fe,
- de una manera apropiada a las circunstancias,
- con la finalidad de llegar a un acuerdo o lograr el consentimiento acerca de las medidas propuestas.

La Resolución de la Corte de Colombia, que ha creado jurisprudencia sobre la institución de la Consulta, precisa que el proceso debe garantizar:

- que la comunidad tenga un conocimiento pleno sobre los proyectos destinados a explotar los recursos naturales en los territorios que ocupan o les pertenecen,
- los mecanismos, procedimientos y actividades requeridos para ponerlos en ejecución,
- que igualmente la comunidad sea enterada e ilustrada sobre la manera como la ejecución de los referidos proyectos puede conllevar una afectación o menoscabo a los elementos que constituyen la base de su cohesión social, cultural, económica y política y, por ende, el sustrato para su subsistencia como grupo humano con características singulares.

Cuando no sea posible el acuerdo o la concertación, la decisión de la autoridad debe estamental, desprovista de arbitrariedad y de autoritarismo; en consecuencia debe ser objetiva, pues se erige en
un instrumento que es básico para preservar la integridad étnica, social, económica y cultural de las comunidades de indígenas y para asegurar, por ende, su subsistencia como grupo social.

Con frecuencia las Consultas llevadas a efecto en las comunidades han sido meros informes y por ello "No tiene por consiguiente el valor de consulta la información o notificación que se le hace a la comunidad indígena sobre un proyecto de exploración o explotación de recursos naturales. Es necesario que se cumplan las directrices antes mencionadas, que se presenten fórmulas de concertación o acuerdo con la comunidad y que finalmente ésta manifieste, a través de sus representantes autorizados, su conformidad o inconformidad con dicho proyecto y la manera como se afecta su identidad étnica, cultural, social y económica.

En otro artículo referido a este caso, se encuentra en el artículo 7, donde se indica que los pueblos interesados deberán tener el derecho de decidir sus propias prioridades en lo que atañe al proceso de desarrollo, en la medida en que éste afecte a sus vidas, creencias, instituciones y bienestar espiritual y a las tierras que ocupan o utilizan de alguna manera, a prestar atención al carácter especial que los une con su territorio y de controlar, en la medida de lo posible, su propio desarrollo económico, social y cultural. Además, dichos pueblos deberán participar en la formulación, aplicación y evaluación de los planes y programas de desarrollo nacional y regional susceptibles de afectarles directamente.

En el artículo 15. (1 y 2) se refiere más claramente al caso de la explotación de los recursos naturales existentes en sus tierras, que deberán protegerse especialmente. Estos derechos comprenden el derecho de esos pueblos a participar en la utilización, administración y conservación de dichos recursos.

Todas estas normas están estrechamente vinculadas a derechos fundamentales de los pueblos indígenas como el derecho a su integridad física y cultural y en los derechos humanos a la vida y a la seguridad de la subsistencia amparados en casi todas las constituciones del mundo, también está fundamentado en el respeto por el carácter pluricultural de muchos de los Estados nacionales que albergan pueblos indígenas, además de derechos amparado ya sea en normas constitucionales como en leyes de menor rango, como el derecho de participación y el derecho al debido proceso.

El Convenio 169 también precisa que en caso de que pertenezca al Estado la propiedad de los minerales o de los recursos del subsuelo, o tengan derechos sobre otros recursos existentes en las tierras, los gobiernos deberán establecer o mantener procedimientos con miras a consultar a los pueblos interesados, a fin de determinar si los intereses de esos pueblos serían perjudicados, y en qué medida, antes de emprender o autorizar cualquier programa de prospección o explotación de los recursos existentes en sus tierras.

La explotación de los recursos naturales en los territorios indígenas debe hacerse compatible con la protección que el Estado debe dispensar a la integridad social, cultural y económica de las comunidades indígenas, integridad que configura un derecho fundamental para la comunidad por estar ligada a su subsistencia como grupo humano y como cultura. Para asegurar dicha subsistencia se ha previsto, cuando se trate de realizar la explotación de recursos naturales en territorios indígenas, la participación de la comunidad en las decisiones que se adopten para autorizar dicha explotación. De este modo, el derecho fundamental de la comunidad a preservar la integridad se garantiza y efectiviza a través del ejercicio de otro derecho que también...
ones, cultura, idiomas, al patrimonio y control del conocimiento tradicional, al autodesarrollo, y el, para cualquier actividad que les afecte.

Las organizaciones de los pueblos indígenas están avanzando con propuestas en todos los foros internacionales para dar contenido a la definición del derecho al libre consentimiento previo informado. Plantean que este derecho debe estar referido a que todos los miembros de las comunidades involucradas consienten en la decisión, que el consentimiento esté determinado de acuerdo con las leyes, prácticas y derechos consuetudinarios, que no exista interferencia externa o coerción, que se provea de plena información sobre la intención, alcance de la actividad y de las decisiones, que el procedimiento se debe realizar en un lenguaje y mecanismos comprensibles para las comunidades, que cuente con los medios económicos para hacerlo, con participación de las autoridades tradicionales y las instituciones representativas de los pueblos indígenas las que deben estar implicadas en todas las etapas de proceso, y finalmente que el derecho al libre consentimiento incluye el derecho a decir no, y su necesario carácter de medida vinculante.

En ciertos países se están logrando avances que exigen el consentimiento de las comunidades indígenas para ofrecer acceso a los recursos genéticos encontrados en sus territorios, o para disponer de su patrimonio como el caso de Filipinas y Costa Rica.

En otro ámbito también se está avanzando en el reconocimiento de este derecho, al aprobarse la Recomendación general del Comité para la Eliminación de la Discriminación Racial el 18 de agosto de 1997 en la que se prescribe que no pueden adoptarse decisiones que afecten los derechos e intereses de los pueblos indígenas sin su consentimiento informado y pidió a los Estados Partes que reconocieran y protegieran sus derechos a poseer, explotar, controlar y utilizar sus tierras comunales, sus territorios y sus recursos.

Dra. Lili La Torre – Racimos de Ungurauí- Perú
Basis of Free, Prior Informed Consent

There has been a notable increase in the recognition of the collective rights of local communities, particularly where Indigenous communities are involved, in the Constitutions and laws of National Governments, as well as through the adoption of international treaties and instruments linked to those same rights.

With regard to prior and informed consultation in order to obtain the agreement or consent of Indigenous Peoples when planning legislative and administrative measures that affect them, ILO Agreement 169 is very precise and Article 6 (1) states that when applying the provisions of this Agreement, Governments:

a) Shall consult the interested peoples by means of the appropriate procedures, in particular through their representative institutions, whenever legislative or administrative measures are planned that could affect them directly;

b) Shall establish measures by which interested peoples can participate freely, at least to the same degree as other sectors of the population, and at all levels, in the adoption of decisions in elected institutions, and in administrative and other bodies that are relevant for policies and programs that concern them.

c) Shall establish means for the full development of the institutions and initiatives of those peoples, and when appropriate, shall provide the necessary funds for this purpose; provide in good faith and in a manner, appropriate to the circumstances, in order to reach agreement or obtain consent for the proposed measures. Shall also orient the way in which the consultations are to be carried out:

A Resolution of the Court of Colombia that has created jurisprudence for implementing Consultation states that the process should guarantee:

a) That the community has full knowledge about projects for the exploration or development of natural resources in the territories they occupy or own, as well as the procedures and activities required for carrying them out.

b) That the community should also be knowledgeable and informed about how the implementation of these projects could affect or damage elements that are the basis of social, cultural, economic, or political cohesion and, therefore, the foundation for the viability of the community and its survival as a human group with unique characteristics.

c) That it be given the opportunity, by convoking its members or representatives, to appraise freely and consciously the advantages and disadvantages of the project for the community without external interference, for its concerns and expectations to be heard with respect to the defense of its interests, and to decide on its viability. The foregoing seek to ensure that the community will have an active and effective participation in making the decision that the authority must adopt, which, as much as possible, should be agreed or negotiated.

When an agreement or negotiation is not possible, the decision of the authority should not be arbitrary or authoritarian; consequently, it should be objective, reasonable and in the proportion to the constitutional objective requiring the State protect the social, cultural, and economic identity of the Indigenous community.

The Colombian magistrate argues that this right to Consultation and prior, informed consent is a fundamental right because it is based on an instrument that is basic for the preservation of the ethnic, social, economic, and cultural integrity of Indigenous communities, thus ensuring their survival as a social group.
negotiation or agreement with the community, and finally, its authorized representatives must state their agreement or disagreement with the project, as well as how it will affect their ethnic, cultural, social, and economic identity.

In another article related to this case, Article 7, indicates that interested peoples shall have the right to decide their own priorities for development to the extent that it affects their lives, beliefs, institutions and spiritual well-being and the land they occupy or use indeterminately, and to control, as much as possible, their own economic, social and cultural development. According to the Declaration, these peoples shall participate in the formulation, application, and evaluation of national and regional development plans and programs that are likely to affect them directly.

Article 15 (1 and 2) refers more clearly to the development of natural resources on their land which shall especially be protected. These rights include the right of peoples to participate in the utilization, management, and conservation of those resources.

All these laws are closely linked to fundamental rights of Indigenous Peoples, such as the right to physical and cultural integrity, and to the human rights to life and security of subsistence that are protected in almost all the constitutions of the world. It is also based on the respect for the multicultural nature of many national States that include Indigenous Peoples, as well as rights that are based either on the constitutional laws or on lesser-rank laws, such as the right of participation and the right to due process.

Agreement 169 also states that if minerals or subsurface resources are owned by States or if they have rights over other resources on lands, governments shall establish or maintain procedures for consulting the interested peoples in order to determine whether, and to what extent the interests of those peoples would be jeopardized before undertaking or authorizing any program for exploring or developing resources on their lands.

The development of natural resources on Indigenous territories should be made compatible with the protection that the State should provide for the social, cultural and economic integrity of Indigenous communities; that integrity constitutes a fundamental right of the community because it relates to its survival as a human group and as a culture. In order to ensure that this survival has been taken into account when developing natural resources on Indigenous territories, the community must participate in decisions made to authorize that development. In this way, the community’s fundamental right to preserve its integrity is guaranteed and made effective through the exercise of another fundamental right, which is the community’s right to participate in making those decisions.

The draft of the International Declaration of the Rights of Indigenous Peoples compiles and develops the most advanced rights of Indigenous Peoples and communities, including self-determination, the right to own and control land and territories, customary legal systems, their own institutions, culture, languages, their patrimony and control of traditional knowledge, and self-development, for any activity that affects them.

Indigenous Peoples’ organizations are presenting proposals in all international forums to give content to the definition of free, prior, informed consent. They propose that this right should be require that all the members of the communities involved should consent to the
comprehensible to the communities, that the economic means to do so should be available, and that traditional authorities and institutions that represent the Indigenous Peoples should be involved in all stages of the process, and finally that the right to free consent should include the right to say no, and that it should necessarily be an obligatory measure.

Advances are being made in some countries that require the consent of Indigenous communities in order to access to the genetic resources found in their territories or use their patrimony, for example the Philippines and Costa Rica.

Another area where progress is being made on the recognition of this right is the approval of the general Recommendation of the Committee for the Elimination of Racial Prejudice on August 18, 1997 stating that decisions that affect the rights and interests of Indigenous Peoples cannot be adopted without their informed consent, and calling on the Participating States to recognize and protect their rights to own, develop, control and utilize their communal lands, territories and resources.

Dr. Lili La Torre – Racimos de Ungurauí- Perú
SUBMISSION TO MR. EMIL SALIM – EMINENT PERSON EIR REVIEW TO BE INCLUDED AS ANNEX TO THE EIR REPORT

Subject: Inclusion of for human rights provisions for implementation from the WBG

Dear Mr Salim,

With the Extractive Industries Review coming to a close, we would like to thank you for your time and effort put into this highly important process. Specifically, we welcome the inclusion of human rights considerations in your final report, and its identification as a major 'enabling condition' for poverty alleviation. With this letter we would like to stress the importance of this issue.

Also, we are putting forward a set of suggestions for the discussion on implementation of the report. These suggestions could lead to stronger human rights commitments from the World Bank Group.

We are a coalition of European NGOs that have closely followed the World Bank and its operations in the past decade. Working with colleagues in the global South and in countries in transition, we have been confronted with many examples of human rights violations that have been committed in the context of World Bank Group supported projects.

We understand the EIR has a similar experience. You indicate in your report that "the EIR received many testimonies concerning the military and police being involved in securing company control over territory and protecting their operations. In other cases, companies were reported to be using private militia. When conflicts arise between corporations and local community interests, human rights abuses and violations are often reported".

The final report also states that "the EIR received reports of alleged human rights violations ranging from intimidation, torture, kidnapping, and detention to rape and killings. Women and children often are the most severely harmed victims. According to information received by the EIR, the incidents of human rights violations are mostly not acknowledged by governments and courts in many developing countries. There was also a strong element of fear: most people testifying to the EIR required anonymity when describing human rights violations".

Given the seriousness of these events, which are correctly included in the EIR findings, we believe they should have also been reflected fully in the final recommendations. However, the recommendations fall short of adequately addressing the role that the World Bank Group plays in exacerbating and enabling human rights violations. Through its involvement in a project, it not only financially supports an operation but also lends it political legitimacy.

5 This submission is based on a letter that was sent to Mr. Salim on 25 November 2003. More signature have from that moment been added. The NGOs who have signed it would like this letter to become part of the EIR Report Annexes given the relevance of the recommendations included for WBG implementation of the human rights provisions stated in the EIR report.
discussed at the final meeting in Lisbon:

In order for the EIR report to guide the WBG in its future financial decision making on these important matters, we would like to suggest that:

1) IFC/MIGA should not enter into any financial arrangement with companies whose operations are known to be surrounded by human rights violations. IFC/MIGA should develop and apply a "partner screen " when arranging agreements with partners and prepare a list of companies involved in gross human rights violations in order to exclude them from their project loans.

Secondly, voluntary principles are not good enough for something as serious and fundamental as human rights. We believe WBG should adopt its own binding guidelines on human rights violations and we welcome EIR's recommendation to formulate an explicit human rights base for each safeguard Policy. Similarly, we believe that EIR recommendation that "the WBG develop a system-wide policy that integrates and mainstreams human rights into all areas of WBG policy and practice and that WBG policies and operations must be, at a minimum, consistent with its obligations, as a subject of international law, in relation with Human rights law" is long overdue and reflects the comments made by many civil society organizations.

However, as your report righly points out, the safeguard policies have shown to be deficient in many important ways. We therefore suggest the following:

2) The IFC and MIGA should include a provision in the loan agreement with the borrower that states the borrower's commitment to respecting human rights. To ensure accountability, both IFC/MIGA and the borrower should issue public statements whenever indications of human rights violations arise around the project.

Moreover, threats to human rights and the human rights framework are increasly posed by investment agreements that deprive States from the flexibility or the right to introduce, or simply respect, the same domestic regulations that their international human rights or environmental obligations call for. We believe that, in line with the July 2003 report on "Human Rights, Trade and Investments" issued by UN High Commissioner for Human Rights, the WBG can play an important role through the criteria it uses for approval of funding and guarantees on international projects. The final discussion on implementation of EIR's recommendations should therefore include the following proposals:

3) WBG should promote and mandate transparency in the negotiation of both investment contracts and of Bilateral Investment Treaties (BITs), whenever these underpin an application for WBG backing. The WBG should require full public disclosure of provisions that could affect the ability of member countries to fulfil their international obligations on human rights.

4) IFC should revise its disclosure policy in order to make available throughout the project cycle more project specific information, including safeguard policy application and project performance. In particular IFC should revise its concept of business confidentiality in order to publicize more information on human rights issues, including on covenants undermining international human rights instruments.
es with communities directly affected by WBG Extractive Industries Projects. We advocate for this language to be made clearer, in particular in the section that calls for companies to "make an offer attractive enough for host communities to prefer that the project happen and negotiate agreements on how the project can take place and therefore give to the company the social license to operate". The implementation of EIR recommendations should require that FPIC be made mandatory via inclusion in the WBG safeguards policies and project-related instruments since it is an established right under international human rights law. Therefore:

5) The IFC/MIGA should require their borrower to ensure transparent participation from the earliest stage, and mandate free prior informed consent and prohibition of involuntary resettlement for all operations which may impact communities and indigenous peoples. Their customary land and resource rights should also be recognized and respected.

Demanding accountability through an accessible grievance forum has proven to be crucial for the poor to achieve benefits from a project. WBG failure to enable the hearing of voices of people whose rights have been violated, has provoked a huge amount of unresolved violations and a growing opposition to new project loans. We think that the EIR recommendations do not adequately address the need for an effective mechanism to solve the legacy of the past and to mainstream reparation policies into the WBG operations. The EIR, while discussing implementation with the WBG, should therefore be more creative and mandate that:

6) The WBG facilitate the formation of an Independent Grievance Mechanism in resource rich developing countries at national and local level to ensure impacted communities receive just compensation. Affected communities should be able to address this Mechanism directly to voice their concern on, but not exclusively, human rights violations that they have suffered.

7) The WBG should incorporate the concept of reparation into its safeguard policies and provide a meaningful process for achieving reparations (identified as the right to remedy, satisfaction and compensation under international reparations law).

As the World Bank Group has a mission of poverty alleviation to fulfil, it should stay far from projects that endanger people's security and violate human rights. Therefore, when conflicts around a project lead to serious human rights abuses, the WBG should take responsibility and send a clear signal to both borrower and public. To that end, the EIR should include a clear request for:

8) The WBG to suspend the disbursement of a loan in case of documented human rights violations happening in a WBG sponsored project or in a project carried out by a Financial Intermediary of the WBG.

Finally, we have read with great interest your suggestion that the WBG 'name and shame' irresponsible actors outside its sphere of influence. We would suggest that this practice also be recommended explicitly for IFC and MIGA in relation to their borrowers.

We wish you wisdom and courage in finalizing the EIR process. We hope that our suggestions to the EIR recommendations will be incorporated into the core policies and practices of the WBG. We would be highly disturbed to see a repetition of the WBG's
Bretton Woods Project, United Kingdom

Vincent Brisard
A SEED Europe

Sebastien Godinot
Amis de la Terre, France

Knud Vöcking
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Ann-Katrin Schneider
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Olexi Pasyuk
Central and Eastern European (CEE) Bankwatch Network

Nicolas Guihard
Agir Ici, France

Fergus Mc Kay
Forest People Program – United Kingdom
19 December 2003

Dr Emil Salim
Extractive Industries Report
Jl. Dukuh Patra V. No. 52, Kunigan
Jakarta 12950
Indonesia

Dear Dr Salim,

I am pleased to enclose ICMM’s final submission to your review of the World Bank’s discussion of its role in extractive industries. This submission deals with the key outstanding issues of following the presentation of your review at the recent workshop in Lisbon and it is our potential hope that you will find a way to incorporate these concerns into your report to Mr Wolfensohn.

The fundamental challenge you have faced is to examine how best the World Bank can engage with the extractive industries to alleviate poverty and achieve sustainable development. We are all aware of the scale of the problem – 3 billion people currently living in poverty and a further 2 billion forecast to be added to the populations of developing countries by 2025. What we need to focus on is the practical solutions for poverty alleviation and to meet the other Millennium Development Goals.

The evidence is unequivocal. Foreign direct investment in developing countries is an essential part of this solution and its contribution to sustainable development has dwarfed the impact of the ever diminishing flows of official development assistance. As was recognised at the World Summit on Sustainable Development, “Mining, minerals and metals are important to the economic and social development of many countries.” Yet your review largely fails to address the critical question of how the World Bank Group can best facilitate responsible mining in developing countries where mining is one of the few potential avenues out of poverty and the resultant deprivation of human rights.

We very much welcome your identification of the critical themes of better governance, improved safeguards, human rights protection and stronger co-ordination within the Group and we support your view that these must be addressed effectively. At the same time, we are disappointed that much potential of your review relies on individual impressions rather than well-documented research and, too often, reflects the perspective of a small minority, when what is needed are practical solutions based on a broad-based consensus.

We hope that you will be able to include a discussion of potential actions which have broad support in your report of the Lisbon meeting to Mr Wolfensohn.

This would move the focus from recommendations that would limit potential extracti
ve industry development in those countries where it is most needed. This would also encourage the formation of meaningful partnerships between civil society, industry and governments that will be necessary to advance sustainable development.

Yours sincerely

[Signature]

Paul Mitchell
Secretary General
STRIKING A BETTER BALANCE: THE WORLD BANK GROUP
AND EXTRACTIVE INDUSTRIES
THE FINAL REPORT OF THE EXTRACTIVE INDUSTRIES REVIEW
COMMENTS FROM THE INTERNATIONAL COUNCIL ON
MINING AND METALS
(ICMM)

EXECUTIVE SUMMARY

The Extractive Industries Review (EIR) sets out a vision of poverty reduction through
centered sustainable development for extractive industry operations and recommends that the process
World Bank Group (WBG) remain engaged in the mining and oil and gas sectors. The
International Council on Mining and Metals (ICMM) shares the vision and endorses the
recommendation. There is little doubt that continued WBG engagement is critically
needed to transform the natural resources of developing countries into physical, human and social
capital and achieve poverty reduction.

ICMM also concurs with the EIR’s identification of three areas of strategic concentration for the WBG: (i) pro-poor public and corporate governance; (ii) more effective social and environmental policies; and (iii) respect for human rights. Indeed, the EIR report lists an almost identical set of issues as can be found in the MMSD (Mining, Minerals and Sustainable Development) report commissioned by the World Business Council for Sustainable Development. The initiative was sponsored by the CEOs of major international mining companies. Published in May 2002, the MMSD report Breaking New Ground describes the outcomes of an intensive consultative process involving governments, labour, academics and civil society.

While ICMM fully endorses the EIR’s focus on sustainable development and poverty alleviation, it does not concur with its diagnosis or its prescriptions. ICMM considers these recommendations to be costly, counterproductive and unrealistic. However well-intentioned, their aggregate impact would add excessive complexity to the process of preparing and implementing projects. The tangled web of conditionalities would make impractical. The end result would be a “chilling effect”, especially in poor countries. There would be a reduction in development opportunities and a switch away from responsible mining companies towards those unconcerned with adopting international social and environmental standards.

The EIR’s diagnosis would have benefited from a balanced review of the literature, a fuller assessment of project and country experience and a greater reliance on recent independent evaluation findings. The EIR’s prescriptions result from an unbalanced process of consultation and advice. They ascribe to the WBG functions that it does not have and subject its operations to restrictions that are unrealistic.

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6 The list of issues can be found in: Major Sustainability issues facing the Mining and Metals Industry, unpublished paper for the GRI-ICMM Multi-stakeholder meeting, October 20-21, 2003
7 Breaking New Ground: Mining, Minerals and Sustainable Development, May 2002
ns are unlikely to generate ownership among many stakeholders (i.e. developing country governments, industry, and labor unions). The EIR gives insufficient emphasis to the role of governments. It does not recognize the crucial importance of building ownership of policy reform and capacity building by the WBG as a key element in maximizing beneficial development outcomes.

In aggregate, the EIR recommendations are unrealistic and, if implemented, would prove costly and counter-productive. If adopted, the conditions recommended by the EIR would have the unintended effect of precluding the WBG from supporting operations in the very countries that are in greatest need of financial assistance, fiscal and policy framework guidance and standard setting.

In conclusion, while well intended, the net unintended effect of many of the EIR’s most specific recommendations would be a reduction in WBG assistance and private sector foreign direct investment in emerging markets especially in countries that have limited access to resources and are most dependent on external support to trigger their development.

1. THE EIR DIAGNOSIS IS UNBALANCED: SOUND GOVERNANCE IS CRITICAL

- **The EIR does not take account of all relevant literature** on the role of natural resources in development. The “natural resource curse” theory that mining is inherently bad for development is based on a number of correlations, all of which are weak in statistical terms, all of which are weak in statistical terms. (i) the strength of the relationship between mineral dependence and economic growth is low; and (ii) the degree to which mineral dependence explains GDP growth is low. Observations are widely scattered around the regression line: almost as many mining dependent economies have performed above the developing country average growth rate as have performed below it. The “curse” concept paralyzes action and takes no account of the crucial role of natural resources in the history of development. The solution to the dilemma does not lie in abandoning natural resource development; it lies rather in sound governance and capacity development as noted in the IBLF submission and as successfully demonstrated, *inter alia*, by Botswana, Chile, Malaysia, and Oman. Providing financial assistance and guidance to improve public policy and strengthened governance is precisely the mandate of the WBG in developing countries. In turn the WBG will have to be proactive in setting good governance norms and in providing its developing member countries with the technical and financial support they need.

- Likewise the EIR does not recognize that most current mining projects succeed in their socio-economic development objectives. The EIR report focuses on the negative social and environmental impacts of extractive projects. It does not

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9 "Natural Resource Abundance and Economic Growth,” Jeffrey Sachs and Andrew Warner, 1995


11 IBLF Submission to the World Bank Extractive Industry Review, September 2003

12 "Undoing a Myth: Chile’s debt to Copper and Mining,” Juan O’Brien, 1994

13 "Human Development to Eradicate Poverty,” UNDP Human Development Report 1997, p 75

s are important to the economic and social development of many countries. Minerals are essential for modern living..." It gives no credit to the many positive results of mining projects which demonstrably contribute to employment, human resource development, industrialization, generation of public funds; fiscal revenues, export earnings, etc. Recent experience shows that the negative social and environmental effects can be minimized. Indeed, the WBG has an essential role in achieving this through the safeguard policies it has pioneered.

- The EIR excludes findings from well-documented operational evidence. An independent evaluation was commissioned to feed into the EIR. It concludes that most mining projects supported by the WBG have had a positive development impact. Specifically, the IFC evaluation of EI projects has shown that 73% of the projects that it has been involved in had satisfactory economic returns, identified as real economic rates of return exceeding 10%. The success rate for mining was 60%, in comparison with 57% for other projects, and these results were achieved in 'difficult countries'. The evaluation report proposes strengthening of safeguard policy implementation by the WBG, a recommendation that ICMM fully supports. By contrast, the EIR paints an almost universally negative picture of results.

2. A MORE BALANCED AND REPRESENTATIVE PROCESS WOULD RESULT IN GREATER OWNERSHIP

- A full and fair use of the EIR's own consultations would have strengthened the findings of the report. Considerable EIR resources were invested in regional consultations. Unfortunately, the EIR report does not provide a balanced account of these meetings. This undermines the legitimacy and usefulness of the EIR recommendations. Many of them range well beyond extractive industry operations and reflect a world-view that is not shared by most developing country governments. The final text focuses almost entirely on failures and does not seek to use good practice experience to show how progress can be made. Practical examples provided by the members of the Advisory Group have been cut or ignored. As a result, the EIR may have contributed to increased polarization on extractive industries issues instead of building on shared elements in order to pursue objectives jointly held by governments, industry, indigenous peoples and non-governmental organizations.

- The EIR process would have benefited from balanced representation. The terms of reference, timing and processes for the Advisory Group were not followed. The Advisory Group had no representation from emerging market governments even though many of the EIR recommendations will require action by such governments. The Report appears to assume that (i) the World Bank Group, in spite of its own excellent self-critical evaluation report is simply not to be trusted; (ii) governments of...
developing countries with extractive industries likewise cannot be trusted to manage the affairs of their people and should be excluded from the process; so that (iii) only civil society organizations, or their self selected representatives, can be regarded as truly independent and trustworthy arbiters of good practice.

The sustainable development initiatives launched by the industry have been overlooked. The EIR relies on examples of poor social and environmental performance that are not representative of current practice – at least not those of mainstream companies. It fails to take account of recent policy initiatives. In fact, the industry has endorsed far-reaching principles to promote sustainable development. The objective of the International Council on Mining and Metals (ICMM) is to further enhance the performance of the industry and promote corporate social responsibility. A sustainable development framework has been designed by the industry through a highly consultative process. It started with the Global Mining Initiative in 1998, continued with the independent MMSD process and led to the establishment of ICMM.

3. A POTENTIAL CHILLING EFFECT AND LOSS OF WBG INFLUENCE

The proposed ban on new coal mining projects along with other blanket bans, e.g. on activities and technologies, will not support the WBG's mandate of poverty alleviation. The World Bank Group is not a world government. Its mandate is to help developing member countries achieve poverty reduction through sustainable development. It has endorsed the Millennium Development Goals (MDGs), which include halving the proportion of extreme poverty and hunger by 2015. The proposed ban on new coal mining projects would undermine growth and it would be inconsistent with WBG poverty alleviation objectives. Furthermore, it would not contribute to achieving a goal that industry supports: a decrease in the carbon intensity of energy generation. The EIR does not provide positive recommendations to the WBG and relies instead on setting conditions that are unlikely to encourage government ownership of policy reform. If implemented, the report would severely reduce the effectiveness of the WBG in helping poor countries convert their natural capital into physical and human capital by addressing poverty, health, education, clean water and other MDGs, and the priorities identified in the Plan of Implementation developed at the World Summit on Sustainable Development held in Johannesburg in 2002. Similarly the onerous conditionalities and blanket bans recommended by the EIR would have a chilling effect by restricting the “policy space” developing countries need to shape their development strategies.

The EIR recommendations would reduce the WBG’s presence in the sector and inhibit its capacity to raise performance standards. ICMM considers the EIR recommendations to be costly, counterproductive and unrealistic. However well-intentioned, their aggregate impact would add excessive complexity to the process of preparing and implementing projects. The tangled web of conditionalities would make productive involvement by the WBG impractical. The end result would be a “chilling effect”, especially in poor countries. There would be a reduction in development opportunities and a switch away from responsible mining companies towards those unconcerned with adopting international social and environmental standards.
needy countries should be strengthened through better implementation. WBGWhile
provides important leadership in terms of environmental and social standards. ForICMM
this reason, it must remain engaged in the sector. The WBG policies, whilefully
demanding, are appropriate, and they have been used by industry in order to endorse
improve the environmental and social impact of mining operations. Nineteen majors the
banks in nine countries have adopted them as international benchmarks (TheEIR’s
Equator Principles). If the WBG were to become less active or withdraw from the focus on
sector as a result of the onerous restrictions and outright bans recommended by the sustaine
EIR, this leadership role would be undermined and developing countries that arebly
among the most needy would be deprived of financial and advisory support to develop
implement the safeguards.

STRIKING A BETTER BALANCE: THE WORLD BANK GROUP AND
EXTRACTIVE INDUSTRIES
THE FINAL REPORT OF THE EXTRACTIVE INDUSTRIES REVIEW
COMMENTS FROM THE INTERNATIONAL COUNCIL ON
MINING AND METALS (ICMM)

OVERVIEW

The Extractive Industries Review (EIR) sets out a vision of poverty reduction through consider
sustainable development for extractive industry operations and recommends that the World Bank Group (WBG) remain engaged in the mining and oil and gas sectors. The EIR International Council on Mining and Metals (ICMM) shares the vision and endorses therecommendation. There is little doubt that continued WBG engagement is critically needed to transform the natural resources of developing countries into physical, human capital and achieve poverty reduction.

ICMM also concurs with the EIR’s identification of three areas of strategic concentration for the WBG: (i) pro-poor public and corporate governance; (ii) more effective social and environmental policies; and (iii) respect for human rights. Indeed, the EIR list an unrealis almost identical set of issues21 as can be found in the MMSD (Mining, Minerals and Sustainable Development) report commissioned by the World Business Council for Sustainable Development. The initiative was sponsored by the CEOs of major international mining companies. Published in May 2002, the MMSD report - Breaking New Ground22 - describes the outcomes of an intensive consultative process involving governments, labor, academics and civil society.

21 The list of issues can be found in: Major Sustainability issues facing the Mining and Metals Industry, unpublished paper for the GRI-ICMM Multi-stakeholder meeting, October 20-21, 2003
22 Breaking New Ground: Mining, Minerals and Sustainable Development, May 2002
excessive complexity to the process of preparing and implementing projects. The tangled web of conditionalities would make productive involvement by the WBG impractical. The end result would be a “chilling effect”, especially in poor countries. There would be a reduction in development opportunities and a switch away from responsible mining companies towards those unconcerned with adopting international social and environmental standards.

The EIR’s diagnosis would have benefited from a balanced review of the literature, a fuller assessment of project and country experience and a greater reliance on recent independent evaluation findings. The EIR’s prescriptions result from an unbalanced process of consultation and advice. They ascribe to the WBG functions that it does not have and subject its operations to restrictions that are unrealistic.

As a result, the EIR’s findings and recommendations are unlikely to generate ownership among many stakeholders (i.e. developing country governments, industry, and labor unions). The EIR gives insufficient emphasis to the role of governments. It does not recognize the crucial importance of building ownership of policy reform and capacity building by the WBG as a key element in maximizing beneficial development outcomes.

In aggregate, the EIR recommendations are unrealistic and, if implemented, would prove costly and counter-productive. If adopted, the conditions recommended by the EIR would have the unintended effect of precluding the WBG from supporting operations in the very countries that are in greatest need of financial assistance, fiscal and policy framework guidance and standard setting.

In conclusion, while well intended, the net unintended effect of many of the EIR’s recommendations would be a reduction in WBG assistance and private sector foreign direct investment in emerging markets especially in countries that have limited access to resources and are most dependent on external support to trigger their development.

HIGHLIGHTS

1. THE EIR DIAGNOSTIC IS UNBALANCED

1.1. It does not take account of all relevant literature on the role of natural resources in development.

1.2. It does not recognize that most current mining projects succeed in their socio-economic development objectives.

1.3. It excludes findings from well-documented operational evidence.

2. A MORE BALANCED AND REPRESENTATIVE PROCESS WOULD RESULT IN GREATER OWNERSHIP

2.1. A full and fair use of the EIR’s own consultations would have strengthened the findings of the report.

2.2. The EIR process would have benefited from balanced representation.

2.3. The sustainable development initiatives launched by the industry have been overlooked.
support the WBG’s mandate of poverty alleviation.

3.2. The EIR recommendations would reduce the WBG’s presence in the sector and inhibit its capacity to raise performance standards.

3.3. The WBG’s leadership role in promulgating environmental and social safeguard policies in the most needy countries should be strengthened through better implementation.
ICMM COMMENTS AND RECOMMENDATIONS

1. THE EIR DIAGNOSTIC IS UNBALANCED

1.1 It does not take account of all relevant literature on the role of natural resources in development

The resource curse thesis (RCT) holds that dependence on mining (usually measured by the proportion of mined or extractive commodities in total exports) results in poorer developmental outcomes. The outcomes in question are economic growth, the level of income, poverty, inequality, governance, etc. The thesis has many adherents, but this does not guarantee its veracity. Many reputable authors have thrown doubt on the thesis. They include John Tilton and Graham Davis, David de Ferranti et al., John Cuddington, Gavin Wright, Jesse Czelusta.

1.1.1 Statistical Weakness

The correlations that would justify the RCT are weak in statistical terms: (i) the strength of the relationship between mineral dependence and economic growth is low (the slope of the regression line is gentle); and (ii) the degree to which mineral dependence explains GDP growth is limited: the R2 value is 0.22, or 22%. Observations are widely scattered around the regression line. Associate Professor Graham Davis highlights the statistical shortcomings of the Sachs and Warner studies, including:

- the sample of countries (not all relevant countries were included in their study);
- the sample period (different periods give different results and for some periods the statistical relationship is not significant); and
- a technical problem known as “ simultaneity” (whereby the same variable is used on both sides of the equation).

Sachs and Warner themselves comment that “although the results are … suggestive, they are far from definitive.” These qualifications are significant as the Sachs and Warner work is the most often quoted in support of the resource curse thesis.

In sum, the low correlations suggest that low and inequitable growth cannot be explained solely by mineral dependence. Focus on a single variable conceals the influence of other important factors. Poor governance, the absence of the rule of law and misguided economic policies rather than natural resources are the major explanatory factors: they induce “Dutch disease”, inhibit private initiative, economic diversification and hence economic growth and poverty reduction. These conditions can be overcome. Natural resources wisely used can contribute to the solution of the problem of underdevelopment, as has been proven historically and again (for example, Canada, Australia, Norway, UK, US, Chile).

1.1.2 Unproven Assertions

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24 This may be an imperfect proxy for minerals dependence.
25 Op cit
policy failure.” Many currently rich countries used their natural resources at early stages of development to trigger economic growth and diversification even with weak governance systems and economic policies of variable quality. Related economic arguments frequently used to discredit mining investments are declining terms of trade, believe volatile markets, social and environmental externalities, the “Dutch Disease”, future that the adjustment costs, forward and backward linkages and the use of rents. They are industry summarized below:

Terms of Trade Decline: It is argued by some academics that the decline in prices for commodities exported by developing countries relative to the prices of manufactured goods that they import leaves them poorer. However, it is not clear that the terms of trade for commodities have declined if account is taken of quality improvements in manufactured goods and other factors. Whilst commodity prices have fallen, so have the costs of commodity production and associated transportation costs. These trends have helped to protect the surplus value accruing to the producer. On this basis, country depending on the time intervals selected, there is evidence to indicate that the terms of trade for mineral commodity exporters have not declined.

Earnings Volatility: Earnings from mineral exports fluctuate considerably. Earnings volatility can be disruptive for investment planning but can have positive effects for governments seeking to rationalize their project portfolio beyond mining. Moreover, it is quite possible to stabilize the flow of funds through countervailing economic policies and effective management of public expenditures. It should also be noted that export earnings volatility applies just as much to the agricultural sector as it does to mineral sector. Some standardized manufacturing components (e.g., computer chips) also exhibit price volatility.

Externalities: A popular thesis holds that mining companies fail to account for all the costs of their operations (including ‘external’ costs, e.g. to the environment) and as a result host countries are made worse-off by mining. This is a valid concern but contemporary practices employed by responsible companies are focused on minimizing the negative impacts of mining operations on local communities and the physical environment and ensuring that appropriate mitigation and, where necessary, compensatory arrangements are put in place.

“Dutch Disease”: It is argued by some academics that mining can displace existing industries, especially manufacturing, by strengthening the currency and discouraging other kinds of export oriented investments. Such problems are manageable whilst appropriate national policies. The challenge is greater when the economy is running at full capacity and there are no surplus resources to redeploy. Such a situation is not recent and is typically found in developing countries.

Future Adjustment Costs: Critics of the industry argue that mining is a temporary activity and therefore creates adjustment costs as mining resources get exhausted. In fact, mining operations can have as long a life as most manufacturing operations and there is no reason to believe that as mining have disappeared.

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28 Extractive industries and Sustainable Development An Evaluation of World Bank Group Experience, OED/OEG/OEU 2003
29 Removing this bias however is difficult, particularly over many decades. See “The real, real price of non-renewable resources: the case of copper”, Peter Svedberg and John Tilton, unpublished paper available from authors, 2002
30 “Long-term trends in copper prices,” John Tilton, Mining Engineering, July 25-32
**Backward Linkages:** Critics assert that mining offers fewer opportunities for connected economic activities and human resource development than does manufacturing and positive therefore fewer opportunities for dynamic (i.e. continuing) gains in economic performance. In fact, where the enabling environment is appropriate, the mining industry generates a lot of ancillary economic activities and opportunities for dynamic growth. The level of technological sophistication is high in mining and productivity increases have been greater than in most other industries. The skills acquired in mining can be developed both among mining operations and between the mining and manufacturing sector.

**High Economic Rents:** Mining periodically creates high economic rents, which represent a transfer from consuming to producing countries. It is undoubtedly the case that such ‘bonanzas’ can result in negative economic outcomes when combined with poor decision-making by governments (unsustainable programs and investments of questionable value) but effective public expenditures management and strong governance can prevent these problems. This is the crux of the development challenge that the WBG is mandated to meet.

1.1.3 **Sound Governance is Critical**

The “curse” concept paralyzes action and takes no account of the crucial role of natural resources in the history of development. The solution to the dilemma lies in sound governance and capacity development. Providing financial assistance and policy advice to improve public policy and strengthened governance is precisely the mandate of the WBG in developing countries.

ICMM fully agrees with the findings of the 1st EIR Advisory Group that ranked revenue management and distribution as an overarching concern. This means that the WBG should seek to extend its role beyond projects to help tackle the policy and institutional constraints of country operating environments while respecting the legitimate rights of sovereign governments to chart their own future.

Governments’ role in sustainable development was highlighted at the 1992 Rio Conference where Agenda 21 stated: “the ultimate responsibility for sustainable development rests first and foremost with national governments”.

The IBLF and Michael Klein have noted the critical need for WBG engagement at the country level: “The periodic generation of ‘rent’ (i.e. mine income...
excess of the costs incurred to bring the mine into existence and to operate it) due to the price volatility of most mined commodities, offers an easy source of government revenue that can fund social programs. Regrettably these revenues have in a number of cases become associated with corruption, misappropriation and poor governance. But there are many cases where these outcomes do not occur and they highlight the need to expand rather than restrict the WBG’s role. The Extractive Industries Transparency Initiative (EITI) promoted by the UK Department for International Development and recently endorsed by the WBG, works with governments, the IFIs and civil society to improve governance and accountability…”

ICMM members support the EITI. Its primary objective is greater transparency in payments made by companies and revenues received by governments for natural resource extraction. ICMM members are committed to working with host governments that wish to develop a framework to promote country-level payment and revenue disclosure and publication in the extractive industries. Such a framework would make significant contributions to a more effective and transparent management of mineral wealth and support sustainable development goals.

The biggest impact on communities can be at the start (construction and early operations) of a project and at mine closure. Yet local and national governments receive few taxes or royalties during these periods. The Bali Workshop discussed how governments could monetize the assets and bring the cash flows forward by, for example, using the long term loans and guarantees offered by the WBG in conjunction with capacity building assistance and fiduciary safeguards.
ICMM Recommendations

ICMM recommends38: “The WBG country assistance strategy for countries significantly dependent on mining should address the policy framework and capacity building needs of the sector more systematically, especially with respect to better and more transparent management of national expenditure programs for social and economic development and their integration with regional planning needs and local community priorities”.

“Partnerships are critical to the implementation of sustainable development. Governments should be encouraged to play a greater role in SD with help from the WBG. Industry cannot do it alone”39.

“WBG should consider deploying its long term funding capacity and financial engineering skills to transform future project revenue flows into current capital funding for social and infrastructure investments in local communities while reserving sufficient funds to deal with mine closure”40.

1.2 Many current mining projects succeed in their socio-economic development objectives

The EIR report ignores the conclusion of the World Summit on Sustainable Development: “Mining, minerals and metals are important to the economic and social development of many countries. Minerals are essential for modern living...” 41.

It focuses on the negative social and environmental impacts of mining projects. It is biased against the industry and its development contribution, despite Advisory Group involve efforts to inject more balance into the draft reports. No credit is given to the positivetrade-results of mining projects. Yet, they contribute to employment, human resourceoffs that development, foreign direct investment, generation of public funds; export revenues, etc. must be Experience shows that the negative social and environmental effects can be minimized and that the WBG has an essential role to play through effective implementation of itsjudiciouly to promote safeguard policies. 42

The full economic contribution of mining to developing countries is not reflected solely in the companies’ profits or community expenditure figures. Its total contribution of income, employment, government revenue, infrastructure, i.e. its potential to promote economic development, is far larger than that. There is no reason to believe that the cessation of mining in developing countries would be offset by commensurate economic The activities in other sectors. In light of the urgent and ambitious poverty alleviation targetseconome set by the international community (i.e. the Millennium Development Goals), it would be irresponsible to deprive developing countries of the international support they need to make effective and sustainable use of their natural resources.

38 “Spreading the Wealth: The Role of the World Bank Group in Mining,” A submission to the WBG EIR by the International Council on Mining and Metals, December 2002
39 ICMM Recommendations to the Extractive Industries Review, September 2003
40 op cit
41 Johannesburg Plan of Implementation, para 46, September 2002
42 “Extracting Sustainable Advantage? A Review of how sustainability issues have been dealt with in recent IFC and MIGA extractive industries projects,” CAO, April 2003
and, as a result, the report does not live up to its title: it presents an unreasonably
negative picture of the contribution of mining to sustainable development.

Sustainable development requires the investment of real resources to generate equitably in
growth and promote human development. Even if a mine has a finite life, it generates partners
economic benefits that can be used to increase physical and human capital and sustain with
prosperity long after mining ends. The EIR report ignores this potential, and, as a result
governments reach misleading policy prescriptions. If adopted, the EIR recommendations would
have very adverse consequences for poor countries that depend on mineral resources to
achieve sustainable and equitable development.

1.2.1 Total economic contributions
Assessment of the economic contribution of private sector activity often has a narrow focus on the generation of profits and sometimes the social expenditures and charitable donations of companies. These represent only a small fraction of private mining companies’ contributions to the economy, which in overall scope takes two forms. Firstly, the value of the mineral production is the primary reason for the company’s development existence. This value is realized wherever the product is used and inputs to all economic capabili
ties to focus of development effectiveness assessments is on the incomes that are generated through the production process.

Given that mining activities are increasingly taking place in developing countries where the bulk of the global poor are concentrated, it is these incomes that form the basis for their mining development contribution of mining. These incomes are often analyzed as constituents of the productivity value-added – the value that a firm adds to bought-in factors through its processes of production. This refers to the difference between a firm’s revenue and the cost of investing in bought-in materials and services. It can equally be calculated as the sum of payments to employees, taxes and royalties, interest payments, dividends and retained profits.

But this measure of direct economic effects ignores the mutually reinforcing nature of generate economic processes, e.g. indirect and induced effects. The true economic benefit of a mine can be several times the direct value added once secondary, or ‘multiplier’, effects are included. These reflect direct and indirect gains from the activities of suppliers, and the economic activity induced by workers spending wages, as develop well as that occurring from the circulation of taxes and profits.

While all industries have indirect and secondary economic effects, different economics sectors show distinct characteristics. Mining, by its nature, is a high value added activity: the ratio value added to total revenues is notably higher compared to other sectors. In other words, mining has the potential to add value with few pre-existing local economic conditions – a characteristic of striking relevance to the least developed countries. Whereand no immediate possibilities of other economic activities exist, revenues from mining can sustain and unlock a region's development potential through injections of capital needed to start the development process. This may well take the form of investment in economic diversification, human capital, or infrastructure.

It is true that mining involves the gradual depletion of a natural resource and it can create negative social and environmental externalities along with the positive economic externalities. However, these have been overemphasized by the EIR. They can be mitigated through appropriate corporate and governmental policies. Specifically, mining can play a key part in alleviating poverty and any social and environmental problems by...
1.2.2 Value Added: the Principal Source of Economic Benefit by Mining

The sum of value added across all public and private enterprises in a country should equal the widely recognized measure of an economy’s size, its GDP. The contribution of mining to GDP depends on the geological characteristics of individual countries and their ability to attract mining investment. It also depends on their ability to support economic diversity and promote complementary sectors in the economy. For instance, mining represents 5, 10 and 30% of GDP in Australia, Chile and Botswana respectively, and also as 5, 8 and 8% in Bolivia, Peru and South Africa, all countries with largely different result, economic performances and governance capacities.

In some cases, the value added by one single operation stands for a significant portion of the total national wealth. To illustrate this, Rio Tinto’s Rössing, in Namibia, represents a skilled 2.5% of GDP (down from 10% in 1987) while the Antamina project in Peru (a joint venture of Noranda, BHP Billiton, Teck Cominco, Mitsubishi Materials Corporation) contributes 0.8% of GDP and 30% of mining exports. These figures emphasize the fact that overall GDP contributions by mining are far greater than payments to the providers of capital, although profits paid out in the form of dividends and interest to compensate investors are a necessary condition for sustainable mining activity.

Although a very useful overall measure, the distribution of value added is sometimes as important as its total amount – for instance, providers of capital are often concentrated outside the country of operation. This leads some commentators to the mistaken belief that all the benefits from mining take flight while the negative impacts stay locally. The sections below address this misconception and show which groups benefit most from mining.

1.2.3 Labour payments and employment

As an example of a developing country for which good industry sector statistics are available, the South African mining industry provided 413,000 people with employment in 2002. In addition, large numbers of contractors are employed. The average South African mine worker is estimated to support between 7-10 dependents and, as a result, moderates between 2.9 and 4.1m people in South Africa depend on mine employees for their livelihoods. In Peru, mining employs 70,000 people directly with wages paid equal on average to four times the national average.

The payments made to employees also result in multiplier effects reflecting in other readiness employment created as a result of mine employee spending. To illustrate this, in the World Bank study ‘Large Mines and the Community’ the employment multiplier transferred effects of a sample of developing country mines varied between 0.65 and 2.5 non-mining jobs for every mining job (employees and contractors).

Most mineworkers are nationals of the country of operation. For example, at Anglo American’s recently opened mine, Loma de Niquel, in Venezuela, more than 99% of the sector workforce is Venezuelan. Furthermore, research by Rio Tinto finds that while an average 85% of total labor payments in developing countries is paid to locals, 73% is paid at the very regional level of the operations. The mining workforce is increasingly skilled. The productivity of the mine industry workforce has increased more rapidly than, almost any other sector in the last 10-15 years. An important reason for this is the training expense.

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43 “Large Mines and the Community: Socio-economic and Environmental effects in Latin America, Canada and Spain,” Gary McMahon and Felix Remy (eds) IDRC and the World Bank, 2001
large sample of Chilean mines rose from $100/worker/year to over $500/worker/year between 1990 and 1998. At five principal Tanzanian mines, two out of every seven employees received training in 2002 costing $340/worker\(^4\). Wages in mining have increased rapidly and are usually well above the wage levels of other sectors in both local and national economies. Mining can genuinely be seen as part of the ‘Knowledge Economy’\(^{{45}}\).

### 1.2.4 Fiscal Revenue Generation

Mining companies pay a significant amount to governments by way of direct taxes and fiscal royalties. Host governments also generate extra income flows through payroll and contributions to indirect taxes on purchased inputs, as well as taxes related to the activities of suppliers, taxation raised when employees spend their wages, and from the further taxation of economic activity dependent on a firm’s operation. This is an income flow that in many developing countries would not exist were it not for the presence of mining. In developing countries, where incomes are low and personal taxes easy to avoid, levies on raw materials production or their export are one of the few reliable sources of government revenue. In Peru, for example, mining provided 22% of income tax in the locality period 2000-2002.

How significant is the development potential of this contribution? Or, in other words, how big would the financial gap be should mining retire from the developing world? According to the World Bank, an additional $54 billion per annum\(^4\) would be needed to reach the Millennium Development Goals (MDG) set for 2015. As an example of the mining industry fiscal contributions, $718m was paid in 2002 to developing country governments as a result of the presence of Anglo American operations in those countries. This amount represents about 1.3% of the $54 billion. Assuming good policy and the effective management of public expenditures, this amount could translate\(^4\) into:

- 11.5 million fewer people living in extreme poverty by 2015;
- 130,000 fewer underweight children in 2020;
- 1.6 million primary school children enrolled;
- 858,000 fewer infant and children deaths;
- 58,000 fewer maternal and childbirth deaths.

Of course, these figures should not be taken literally. Anglo’s investments are concentrated on relatively few developing countries. The estimates include heroic assumptions about unit costs, capital output ratios, policy reforms, etc. Nevertheless, the sheer size of the public revenues attributable to mining operations needs to be recognized. The above statistics are simply meant to encourage serious assessments of the development contribution of mining investments and to highlight the logical flaws in partial analyses that ignore fiscal contributions and concentrate only on the negative externalities of mining investments.

\(^{44}\) Figures obtained from the Tanzanian Chamber of Mines

\(^{45}\) “From Natural Resources to the Knowledge Economy: Trade and Job Quality,” David de Ferranti, Guillermo Perry, Daniel Lederman, William Maloney, World Bank, 2002


\(^{47}\) "Goals for Development: History, Prospects, and Costs", Shanta Devarajan, M. Miller and Eric Swanson, World Bank, 2002

\(^{48}\) Assuming, $1 of aid is equivalent to $1 of mining royalties/taxes; MDG achievement would reduce the number of people living in extreme poverty by 890 million; MDG achievement would achieve universal primary education (120 million children not now in school would be enrolled); MDG achievement would reduce infant and child mortality by 2/3 (currently over 11 million infants and young children die); MDG achievement would reduce maternal death by ¾ (currently 0.5 million mothers die of pregnancy and childbirth complications).
s from central governments but also collect and administer an important portion of the total revenues. In addition, municipalities hosting large mines receive special fiscal compensation from the federal administration in recognition of mining’s potentially substantial negative environmental impacts.

1.2.5 Other Economic Benefits Provided by Mining

**Payments to suppliers:** Although not included in the calculation of value added, the payments for materials, facilities and services by mining companies represent an important contribution to economic activity, supporting employment and wealth creation in other parts of the economy. These constitute the so-called backward or upstream linkages. Although mining is a high value added industry, the total amount spent on supplies is significant, and is particularly important to developing countries, as they provide opportunities for domestic production and constitute a channel for knowledge diffusion that can assist in upgrading domestic firms. To put this contribution in perspective, Rio Tinto estimates that demand for operating materials, facilities and services in the mining industry account for 30 to 50% of the total value of mining production, depending on technology and the average size of the operations, among other factors. To what extent do these payments benefit host economies? The level of local sourcing as opposed to imports varies largely according to the local ability to provide increasingly specialized services and materials. In effect, whether to source locally depends on cost, quality, reliability and flexibility of local suppliers relative to other alternatives. The However, meticulous analysis of the geographical distribution of these purchases shows that the portion sourced from within the country of operation tends to be higher than normally thought. Ongoing research at Rio Tinto shows that this represents over 60% of the value of the company’s operating supplies in the developing world. Perhaps yet more interestingly, the research shows that, time and time again, the bulk of imported supplies in developing countries comes from neighboring countries, and thus benefits stay largely within the region. This finding is supported by a survey of Tanzanian mines, where over half of procurement expenditure of $237m in 2002 was paid to local firms. Although the major items of procurement are normally power, explosives, water, acid, engineering services, building construction, security, plant equipment maintenance and others. Usually the labour-intensity of the locally sourced product or service is higher than would be the case from in-house provision or ‘mainstream’ contractors. Numerous companies are engaged in ensuring local procurement-based business opportunities are actually increased. One such example is Anglo America’s “Zimele”, a specialist SME support unit and venture capital fund that offers assistance, including finance, training and advice, to the development of SMEs associated with the mining operations.

**Infrastructure:** Mines in developing countries are often located in remote areas lacking in the physical infrastructure that is needed for economic development. For example, the AngloGold operation at Sadiola, in Mali, shows how mining infrastructure can make a substantial contribution to the integration of the local economy into the wider economy, in this case, through 150km of roads, the improvement of a rail link, 50km of water pipeline, and the construction of an airstrip, all of which are actually accessible to other users. In Peru, for example, in Rio Tinto’s RPM, Brazil, 80% of imported supplies come from Chile; while in Rössing, Namibia, 74% come from South Africa.

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49 For instance, payments to mining suppliers averaged 38, 26, 30, 37, 38 and 49% of the total value of mining production in Australia, Bolivia, India, Mexico, New Zealand and the US during the last decade, respectively.

50 For example, in Rio Tinto’s RPM, Brazil, 80% of imported supplies come from Chile; while in Rössing, Namibia, 74% come from South Africa.

51 Tanzanian Chamber of Mines, op cit

52 As is indicated by the World Bank study, “Large Mines and the Community”, op cit.

53 “Mining Social Balance”,

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of 33 metal mines indicated that 184km of paved road and 2,368km of unpaved roads were constructed by the mines between 1990-2000, drinking water and sewerage facilities provided to nearly 60,000 local inhabitants and 3,505 GW/hr purchased from the national grid (thereby justifying investment by the utility in additional capacity). Of these the 3,505 GW/hr, 218 GW/hrs were contributed free of charge to local communities.

Broader coordination and planning can ensure that mining infrastructure development services a wider purpose than solely meeting the needs of an extractive project – e.g. a multi purpose port rather than one dedicated to exporting extractive product. In this sense, a mine may be perceived as the origin of a virtuous cycle at the local level, and the pivotal element in a broader development plan, catalytic to further investment and to feed growth. This is an outcome to which the WB, as a partner of the mining industry, can contribute significantly.

From this perspective, mining infrastructure provisions that are available to the public can be seen as a financial transfer paid by the consumers of mineral products to mineral producers. The value of this transfer has not been estimated for the mining industry as a whole, but is certainly significant.

Export Revenues: Critics tend to dismiss the contribution of mining to the export revenues of developing countries even though it is substantial. According to the World Bank’s Development Indicators publication, ores and metals accounted for 4% of developing countries’ merchandise export revenues in the year 2000, i.e. about $70 billion. The share of total merchandise exports accounted by ores and metals is especially high in sub-Saharan Africa (8%) and Latin America (9%). Freezing of new mining projects in developing countries would have a huge impact on such low and middle-income countries as Guinea, Papua New Guinea, Chile and Peru, where ores and metals account for 63%, 51%, 45% and 39% of merchandise exports respectively. In exporting minerals products, developing countries benefit from foreign exchange inflows, which can help to finance capital or other imports to help facilitate the development process. In the absence of these foreign exchange inflows, even greater levels of foreign debt would have to be incurred to meet development needs.

ICMM Recommendations:

ICMM concludes that “involvement of the WB in mining projects is positive and can help to promote SD and corporate social responsibility”.

“The WB should use its convening power...with governments, the private sector, local communities and the voluntary sector with a view to promoting mine-related business enterprise, capacity building activities and community development”.

“Mining can make as great, if not a greater, contribution to poverty alleviation and sustainable development than other sectors especially in poor, natural resource dependent countries. To unrealistically restrict mining development would be to severely limit pro-poor human and social development opportunities.”

Juan Hoyos-Ordóñez, Institute of Mining and Energy Studies (IDEM).

54 World Development Indicators 2002, World Bank
55 ICMM Recommendations to the Extractive Industries Review, September 2003
56 op cit
57 op cit
identified as real economic rates of return exceeding 10%. The success rate for mining was 60%, in comparison with 57% for other projects, and these results were achieved in industry ‘difficult countries’. By contrast, the EIR paints a universally negative picture of the active results. The independent evaluation also proposes strengthening of safeguard policy implementation, a prescription that ICMM endorses.

2. A MORE BALANCED AND REPRESENTATIVE PROCESS WOULD RESULT IN GREATER OWNERSHIP

2.1 The results of the EIR’s own consultations would have strengthened the findings of the report

Considerable EIR resources were invested in regional consultations. The EIR report does not provide a balanced account of these meetings. This undermines the legitimacy and usefulness of EIR recommendations. Many of them range well beyond extractive industry operations and reflect a world-view that is not shared by many, particularly developing countries. The final text focuses almost entirely on failures and does not seek to use good practice examples to show how progress can be made. Examples provided by the Rio the Advisory Group have been cut or ignored.

2.2 The EIR process would have benefited from balanced representation

The Advisory Group was unbalanced with no representation from emerging market governments, yet many of the EIR recommendations will require action by mining governments. The terms of reference, timing and processes for the Advisory Group were not followed. The reference to balance in the final report’s title is misleading. The Advisory Group appears to be based on three tacit assumptions. First, that the World Bank, in spite of its own excellent self critical evaluation reports is simply not to be trusted. Second, whatever their track record, governments of developing countries with extractive industries likewise cannot be trusted to manage the affairs of their peoples and should be excluded from the process. Third, only civil society organizations, or their self-selected representatives, can be regarded as truly independent and trustworthy arbiters of good practice.

2.3 The sustainable development initiatives taken by the industry have been overlooked

The industry has much to be proud of in adopting credible strategies that aim at corporate social responsibility for the industry. These were developed through a participatory process that has involved governments and civil society beginning with the GMI, continuing with MMSD and the establishment of ICMM. The cases used by the EIR to criticize the industry’s record are few and reflect outdated practices.

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59 The ten person Advisory Group comprised civil society and individuals (7); one person representing the Government of Canada in a personal capacity (1); mining industry (1); and oil and gas industry (1).
60 The lack of developing country government representation was noted in the 1st Advisory Group meeting. Yet when an Advisor was unable to attend the final meeting for personal reasons, an advisor was added from a background and discipline which did nothing to address this shortcoming.
d a program of internal reform, a review of industry associations, and a rigorous analytical and participatory study of the societal issues industry faced.

In 1999, the World Business Council on Sustainable Development commissioned the International Institute for Environment and Development, an independent sustainable development research organization, to undertake this study that became the Mining, Minerals and Sustainable Development (MMSD) project. Launched in April 2000, MMSD was a global multi-stakeholder research and consultation project involving over 5,000 participants from 55 countries. The project conducted 25 global research workshops on 18 research topics attended by over 700 participants. Regional MMSD projects – in Australia, North America, South America and Southern Africa – conducted 14 regional multi-stakeholder meetings and workshops. The project was overseen by a multi-stakeholder Assurance Group, which was set up at the start of the project, consisting of 25 international experts.

Following a six-week public consultation period, MMSD launched its report *Breaking New Ground* in May 2002. Drawing from MMSD’s broad-based consultation process, the report provided recommendations for improving the sustainable development performance of the mining and minerals sector and was well received in the World Summit on Sustainable Development in September 2002.

The follow-up to *Breaking New Ground*’s recommendations was discussed in ‘Resourcing the Future,’ a conference organized by the GMI held in Toronto in May 2002, where 20 mining CEOs and other industry leaders engaged directly with officials from 25 governments, academics and leaders from 74 non-governmental organizations, including community and indigenous peoples. The “Toronto Declaration,” issued after the conference, publicly committed the industry to carry forward MMSD’s recommendations.

The industry assigned this task to the International Council on Mining & Metals (ICMM), established in September 2001. Since then, ICMM has developed a Sustainable Development Framework for the mining and metals industry, embodied in ten Principles\(^{61}\) against which ICMM members have committed to measure their sustainable development performance. Following on MMSD’s recommendation on reporting, ICMM is developing, with the Global Reporting Initiative (GRI), a Mining and Metals Supplement to the GRI Sustainability Guidelines. Thereafter a verification system will be developed.

The framework is supported by a library and website of good practice guidelines which is being done in collaboration with UCTAD, DFID and UNEP. Building on MMSD’s work on biodiversity, ICMM is working with IUCN – The World Conservation Union on a Mining and Biodiversity Dialogue, which has already yielded the landmark ICMM Position Statement on Mining and Protected Areas launched in the V World Parks Congress held in Durban in September 2003 expressing the industry’s acceptance of no mining in World Heritage Sites. ICMM is also following on MMSD’s recommendation on transparency by its continuous involvement in the Extractive Industries Transparency Initiative.

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\(^{61}\) The Principles may be found at [www.icmm.com](http://www.icmm.com)
3. A POTENTIAL CHILLING EFFECT AND LOSS OF INFLUENCE

3.1 The EIR prescriptions will not support the WB’s mandate of poverty alleviation

The report proposes a highly expanded role for the WBG in terms of policy reforms and strengthened safeguards, etc. while at the same time recommending that the WBG should refrain from providing financial assistance for expansion of extractive industries in countries that do not meet governance criteria that would be extraordinarily demanding even for a developed country.

The World Bank Group is not a world government. Nor does it have the mandate to introduce country-wide rules and regulations in its member countries. The onerous conditionalities and blanket bans recommended by the EIR would restrict the “policy space” developing countries need to shape their development strategies by introducing a wide range of “top down” mandatory requirements.

3.1.1 Governance

New eligibility criteria based on governance quality would preclude Bank Group lending to countries that most need financial and advisory support. The industry welcomes country screening but not arbitrary governance pre-requisites for WB investment. singling out mining for new and onerous restrictions would discriminate against natural resource endowed countries that are in need of external support to improve the enabling environment for sustainable mining. There continues to be a robust debate regarding the most appropriate way of sequencing economic and political reform, including improving governance standards.

ICMM members have observed that effective sequencing is dependent on the specific characteristics of individual countries. Requiring a wide-ranging set of governance standards before WBG investment is permitted would reduce the WBG’s capacity to respond judiciously to diverse country circumstances and opportunities, especially in the poorest countries.

There is no practical reason why governance preconditions should apply to the extractive industries sector and not to other sectors. In fact, the WBG already uses governance criteria in deciding on its allocation of lending resources among countries.

3.1.2 Prior Informed Consent (PIC)

Industry respects the aspirations and special requirements of Indigenous Peoples (IP). To achieve poverty alleviation, cultural factors need to be taken into account. ICMM is intent on ensuring that the livelihoods of Indigenous Peoples are not damaged by EI activities. ICMM also recognizes the need for provision of timely information in a culturally meaningful way and endorses the rights of Indigenous Peoples to participate in decision-making processes.

Unfortunately, the EIR Report lacks a clear definition of PIC in practical terms. Accordingly, ICMM agrees with the EIR Report conclusion that more work needs to be done to define PIC. Indeed, the ICMM believes the Report should go further and confirm that it is the role of governments to define how mining decisions are to be made in the best interests of the nation and of Indigenous Peoples, taking into accounts the human rights conventions to which they are committed.

3.1.3. No New Investment in Coal & Bias Toward Renewable Energy

The report proposes an immediate ban on lending for new coal mining projects and a phase out of lending for oil production by 2008. Such arbitrary bans run counter to development needs. They would reduce the chances of meeting the Millennium

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ium Development Goals, and realising the aspirations of the Johannesburg World Summit on Sustainable Development. Access to affordable energy is a critical component of poverty alleviation and social and economic development. The International Energy Agency (IEA) projects that global demand for energy will continue to grow strongly over the next 20 years, with the strongest growth in developing countries. The Agency also predicts that coal will continue to be a fundamental component of power generation. It does not seem appropriate or consistent with poverty reduction objectives that the World Bank should abandon financing coal development and increase its investments in renewable energy by an arbitrary 20 per cent annually – thereby increasing the cost of such energy to those who need it most and can least afford it.

Instead, ICMM concludes that the WBG should provide advice to countries regarding energy policy, taking into account economic and social development aspirations of poor countries as well as their environmental goals. The ranking of projects by fuel type is misleading and diverts focus from poverty reduction and least-cost emissions reduction.

### 3.1.4. Blanket bans

ICMM endorses the EIR Report conclusions that risk assessment and site-specific management solutions are needed. The WBG should encourage and play an active part in a process for developing a list of criteria for tailings placement for all mining projects. It is essential to take into account specific local conditions as what may be fully acceptable in one environment may be entirely inappropriate in another. Site specific analysis of alternative technologies, benefits and impacts of the project should be undertaken, on a case by case basis, for all projects that would require riverine and submarine tailings disposal.

It is inconsistent therefore for the EIR to recommend general activity-based, technology-based and materials-based bans.

### 3.1.5 Absence of armed conflict or high risk of conflict

While it is clear that great care should be taken not to exacerbate potentially explosive situations, this stance goes against the recommendation of the WBG's Low Income Countries Under Stress report[^62] that recommended private sector enclave interventions with appropriate financial, social and environmental safeguards as a means of actually reducing the deprivation which can be the source of conflict in some areas.

ICMM concludes that a blanket ban prevents the World Bank attempting to improve delicate situations by action on the ground.

3.1.6 Resettlement Policy

Forced resettlements should be avoided by the WBG wherever possible but greater national good must be given due consideration consistent with national regulation and with appropriate compensation as recognized for instance by the Equator principles.

3.2 The WBG’s involvement in the extractive sector has been a helpful factor in raising performance standards; the reduced WBG presence in the sector that would result from EIR prescriptions would limit its development impact.

The World Bank Group’s involvement in the extractive sector has been a helpful factor in raising performance standards; a reduced WBG presence in the sector can be expected to reduce its leverage.

The fundamental conclusion of the report is that the WBG should remain engaged in the sector. This is based on the wholly credible proposition that the WBG can make substantial contributions to equitable and sustainable development through the EI sector in developing countries. The WBG has endorsed the Millennium Development Goals, which include halving the proportion of extreme poverty and hunger by 2015.

Yet the report goes on to impose a long list of onerous conditionalities that discriminate against the sector and are bound to produce a significant chilling effect. In fact the report, if implemented, would further reduce the WBG effectiveness in assisting governments in the conversion of natural capital to address poverty, health, education, clean water etc.

ICMM considers the EIR recommendations to be costly, counterproductive and unrealistic. Some would be excessively complex to process and implement. Inevitably they would extend project development schedules, raise costs and reduce the number of projects obtaining finance. In time, such onerous requirements could be extended to all World Bank Group activities and cause serious damage to the institution and other lenders.

Such a costly outcome contrasts with the substantial benefits that a larger number of projects meeting standards close to existing ones would bring to developing countries. Inappropriate standards would have a high opportunity cost and damage the development prospects of regions enjoying few alternative development options.

The EIR should therefore adopt a realistic and constructive stance. Developing countries will reject conditionalities that hinder the rational exploitation of their natural resources and that no developed country would tolerate. Accordingly, the EIR should encourage the WBG to take a balanced approach in its dealings with governments, industry and civil society from both north and south.

Finally, the many conditions are likely to divert resources from effective and needed implementation of existing safeguard policies (see following section).

ICMM Recommendations:

63 ICMM Recommendations to the Extractive Industries Review, September 2003
“EI should not be demonized and singled out for a special set of guidelines that do not apply to other sectors. Instead, it should be managed to meet sustainable development principles and help poor, natural resource dependent countries build bridges to the global economy and diversify their economies through effective revenue management.”

3.3 The WBG’s leadership role in promulgating environmental and social safeguards in the most needy countries should be strengthened through better implementation

WBG provides important leadership in terms of environmental and social standards by remaining engaged in the sector. These policies, while demanding, are appropriate, and they have been used by industry in order to improve the environmental and social impact of mining operations. Nineteen major banks in nine countries have adopted them as international benchmarks (The Equator Principles). If the WBG were to become less active or withdraw from the sector as a result of the onerous restrictions and the outright bans recommended by the EIR, this leadership role would be undermined and developing countries that are among the most needy would be deprived of financial and advisory support to implement the safeguards and there would be no barriers to entry of less responsible enterprise.

ICMM Recommendations:

“The implementation of WBG standards over the life of a mine needs to be strengthened and monitoring of the “safeguard policies” carried out beyond the term of the WBG’s financial interests in the project. A critical requirement is that the Safeguard policies should include credible mine closure plans.”

“Most mining companies have launched SD programs “on the ground” and wish to engage with the WBG and other stakeholders in order to improve the implementation of the safeguard policies.”

64 op cit
65 “Spreading the Wealth: The Role of the World Bank Group in Mining”, A submission to the WBG EIR by the International Council on Mining and Metals, December 2002
66 ICMM Recommendations to the Extractive Industries Review, September 2003
Dear Dr. Emil Salim,

We take this opportunity to thank you for the efforts you have taken through the Extractive Industries Review process resulting in the production of the report “Striking a Better Balance” which was presented in Lisbon Portugal on 11–13 December 2003.

We accept the report and support for the recommendation to be carried forward as it is. However, we have a few comments that need emphasis on in regards to issue of concern.

- **Corporate Governance & Corporate Responsibility:** While we support the fact that poor and weaker government capacity be strengthened and supported to enable better governance, transparency and accountability, we would also suggest phase out of bad practices sometimes exercised by multinational corporations. Local inhabitants of developing countries have suffered environmental damages and disrespect at the hands of multinational corporations. Where governments are weaker there are also a tendency of manipulation of systems and diversion of thoughts for country leaders by those who believe they know better. These type of corporations should be responsible for their acts, should they be unacceptable.

- **Riverine and Submarine Tailings Disposal:** We agree with the recommendations “Strengthen Environmental and Social Components of World Bank Group Intervention in Extractive Industries” particularly that on sub-section “Develop Sector-specific Guidance for Tailings Disposal, Waste Management, and the Use of Toxic Substances”. We would like to emphasis the position of the Manado Declaration “No to STD in the Asia/Pacific Region” as civil society position from the region.

- **Free Prior Informed Consent/Grievance Mechanism:** We would like to emphasis that FPIC is a way of respecting local and Indigenous peoples’ culture or way of life, particular in areas where land resource ownership is paramount to the people. And we emphasis equal participation of all stakeholders in processes leading to decision-making on project developments. But because of experience from the past where governments and Multinational Corporation fail to address genuine concerns from local and indigenous communities, there is a need for the establishment of a grievance mechanism. We believe this mechanism will enable the voices of the vulnerable to be heard.

With that we hope your presentation of the report to the World Bank goes well.

Ms. Matilda Koma
NGO Environmental Watch Group

Mrs. Jacklynne Membup
Lihir Community – Masahet Island
A GOOD EXAMPLE OF THE WORLD BANK GROUP (WBG) SUPPORT TO THE EXTRACTIVE INDUSTRY

1 Introduction – Zambian Mining Industry Historical Overview

The Zambian economy is dependent primarily on the mining industry, mainly copper and cobalt. Mining currently accounts for more than 70% of the foreign exchange earnings of the country. The other key sectors being Agriculture and Tourism, whose great potential is yet to be fully realised.

The first large scale mines started production in the early 1900s. By the 1960s, Zambia had become one of the largest copper and cobalt producers in the world.

Following attainment of National Independence in 1964, the Mining Industry subsequently got nationalised, remaining so up to late 1990s. During this period, the Mining Industry continued to be the driving engine and bedrock of the economy and funded economic development and diversification initiatives. The net result was that there was little reinvestment in the mining industry itself and unto mine expansion programmes. By the late 1980s, copper production and exports had fallen to less than half of that achieved during the peak production/exports era.

A new government came to power in 1991 and with the WBG assistance, implemented open-market policies aimed at promoting a significant role for the private sector in economic development, through the attraction of both foreign direct and domestic investment. This would form a basis for achieving poverty alleviation through sustainable development.

This required restructuring of the economy from socialist-based principles of a command economy in which government was the main player, to a more liberal open market economy in which the private sector plays a significant role in supporting government efforts. This resulted in the privatisation of the mines and other key sectors.

Before the mines were nationalised and the effects of nationalisation took root, a peak of about 800,000 tonnes of finished copper per annum was produced by the Zambian Mining industry. At the end of the period under which the mines remained nationalised total copper production had declined to about 300,000 tonnes of finished copper per annum. The Privatisation process of various mines of Zambia Consolidated Copper Mines Limited (ZCCM) started in 1996 and was completed in 2000. Since this time copper production has been increasing steadily and it now stands at about 400,000 tonnes per annum.

2 Konkola Copper Mine plc (KCM) – Contribution to Poverty Alleviation through Sustainable Development

...
e privatisation of ZCCM’s Konkola, Nchanga, and Nampundwe mines, when Anglo American plc (AAplc) led a consortium of the International Finance Corporation (IFC) and the Commonwealth Development Corporation (CDC) and acquired a majority shareholding in the above company.

The shareholding of the company was as follows; AAplc through Zambia Copper Investments (ZCI) –65%, ZCCM Investment Holdings (ZCCM –IH) – 20%, IFC – 7.5%, CDC – 7.5% and golden share held by the Government of the Republic of Zambia (GRZ).

On 16 September 2002 AAplc, IFC and CDC withdrew as shareholders in a socially and environmentally responsible manner, leaving a restructured company whose shareholders are Zambia Copper Investments (ZCI) – 58%, Zambia Consolidated Copper Mines Investment Holdings (ZCCM –IH) -42% and Government of the Republic of Zambia’s (GRZ) golden share. Subsequent to the equity restructuring KCM now owns the former ZCCM (SmelterCo) assets in Kitwe.

From the inception of KCM in March 2000 to 16 September 2002 the AAplc led consortium of IFC and CDC invested well over US350 million in Capital expenditure and refurbishment of infrastructure, leaving the company with a significantly improved productive capacity and better balance sheet.

KCM is the largest copper producer and mining industry employer in Zambia. It employs about 10,000 permanent employees and about 3000 contractors. A significant proportion of the Zambian Copperbelt province indirectly depend on KCM for their livelihood.

2.2 Final Social Management Plan (FSMP)

The KCM Final Social Management Plan deals with issues of corporate social investment, governance and enables it to contribute to poverty alleviation through Sustainable Development, in the areas in which it operates; Konkola, Nchanga, Nkana and Nampundwe. The basis of this Plan are the three pillars of; Economic, Social and Environment.

This is in addition to its Environmental, Safety and Quality Management Plans respectively.

The key issues addressed by the Social Management Plan include the following:

- Employment and Retrenchment
- Local Economic Development
- Land Use and Settlement
- Education and Training
- Health and Welfare
- Physical Infrastructure
- Community Management Support
- Disclosure and Consultation
- Life of Mine/Closure Plan
- Annual Monitoring
es pertaining to the impact of the company’s operations on the biophysical/social environment and the local economy. This is done through a programme of continuous environmental rehabilitation and development of alternative economic sector for sustainable development.

Since vesting in 2000, the following have been undertaken:

- Establishment of a Small Business Development Unit
- Development of partnerships for sustainable development with cooperating partners
- Cooperation with the local universities (University of Zambia and Copperbelt University)
- Contribution to the Economic Diversification Programme of the Copperbelt
- A Malaria Eradication Programme
- An HIV/AIDS Awareness and Intervention Programme

2.2.1 Local Economic Development

The Local Business Development Plan encapsulated in the FSMP seeks to, develop local businesses and contribute to poverty alleviation in the short term and diversify the economy of the Copperbelt in the long term. The main thrust of the initiative is through development of Small and Medium Enterprises (SMEs) as a means of developing a critical mass of an entrepreneurship class which shall form a bedrock for wealth creation and sustainable development.

Small Business Development

Through its Small Business Development Unit, KCM assists retrenches, retirees and the local community to form small businesses. The Unit has registered businesses in the following fields:

- Horticultural Services
- Labour Hire
- Sanitation and Cleaning Services
- Catering Services
- Environmental Management
- Public Health
- Local consultancy
- Agriculture
- Engineering Services

The programme undertakes capacity building through providing key business courses that include the following:

- Safety, Health, Environment and Quality Assurance
- Corporate Governance
- Basic Business Concepts
- Development of Business Plans and Tendering Procedures
- Budgeting
- Financial Management
- Productivity
- Diversification Strategies
ber of organisations to achieve its goals. These include the following:

**Business Partners For Development (WBG, IDA, Care International, AAplic)** – aims to develop a framework for sustainable development and equitable distribution of wealth.

**Africa Project Development Facility of the IFC of the WBG-** to Develop Small and Medium Entrepreneurs (SMEs)

**The Private Sector Development Programme (PSDP) of the European Union - Entrepreneurship Training**

**Business Awareness Training under the German Technical Assistance to Zambia (GTZ)**

**Global Development Alliance for Agribusiness Development (USAID funded Alliance)** -

for Economic Diversification through promotion of development of the agricultural sector as a longterm alternative source of livelihood and key employment sector on the Zambian Copperbelt

**KCM Partnership with The International Executive Service Corps (IESC) CopperLink Programme** –For SME capacity building

**Participation in Global Compact Initiative (UN initiative)**

KCM is part of the Global Compact Initiative, spearheaded by the United Nations Secretary General consisting primarily in the “Portage Concept” through which big companies work together with small companies in helping each other to develop.

**Economic Diversification**

KCM has identified the agricultural sector as key for economic diversification in the company’s areas of operation. The agricultural sector has great potential for providing employment, food security and foreign exchange earnings through exporting of cash crops. It affords employees, retrenchees and retirees alternative sources of sustainable livelihood. This is being addressed through the Global Development Alliance. The initial phase of this programme will target coffee, paprika, vegetable growing and beekeeping and will encourage irrigation and allow for integrated vegetable growing.

Through its leadership in Poverty Alleviation through Sustainable Development GRZ has appointed KCM as chairman, through its Vice
Resettlement Action Plan

As part of the Konkola Mine expansion programme, 139 households have been resettled in Ming’omba and Kawama in line with the World Bank Operating Guidelines 4.30 of June 1990, which deals with involuntary resettlement. This programme is funded by Zambia Consolidated Copper Mines Investment Holdings and managed by KCM.

In the 2002/2003 farming season, each household was allocated 1 hectare of land for agricultural purposes in Ming’omba. Maize seed and fertilizer were also supplied. This resulted in a bumper harvest that ensured food security in 2003. In order to alleviate poverty, the community has been assisted in undertaking income-generating projects in beekeeping, vegetable growing, chicken rearing, restaurant management, and hammer mill operation. The Social Department has assisted the communities in applying for funding through the Microprojects Unit of the Ministry of Finance.
00, KCM was aware of the potential negative effects of HIV/AIDS on its business and workforce. The company, therefore, commissioned an HIV/AIDS prevalence study to determine HIV prevalence amongst its employees. There was overwhelming participation by the workforce. The results showed that the HIV prevalence is below the Zambian national average.

In response to this study, KCM undertook the following:

- Development of a clearly defined non-discriminatory HIV/AIDS policy.
- A voluntary and anonymous Knowledge, Attitude and Practices (KAP) survey amongst employees to assist KCM in the development of a comprehensive HIV/AIDS management strategy and allow the implementation of specific education, training and preventive and care programmes. This was done in collaboration with the Mineworkers Union of Zambia.

In combating HIV/AIDS, KCM has implemented the following strategies:

- Voluntary Counselling and Testing (VCT)
- Popularising abstinence and encouraging safer sex through condom distribution.
- Syndromes treatment of sexually transmitted illnesses (STI)
- TB control programme
- Prevention of Mother to Child Transmission (MTCT) Targeted Health Education
- Targeted Health Education
- Support and treatment of opportunistic infections
- Community Outreach
- Home based care
- Forging of partnerships with National/International Institutions

**Roll Back Malaria Campaign**

KCM has undertaken a Roll-Back Malaria Campaign covering all households within a 10-kilometre radius in Chililabombwe, Chingola, Nampundwe and part of Kitwe. The programme has involved anti malaria spraying, drainage clearance and grass cutting in partnership with the community and working together with the National Malaria Control Centre. The campaign has led to a decrease in malaria incidents of about 69% from 2000 to 2003.

**Football Development** – To promote youth sport and semi professional football

**Community Liaison/Public Consultation**
sible to the public, to maintain open communication between the community and KCM.

Public consultation and disclosure has been an important and intrinsic process in the planning and implementation of the KCM operational projects.

**2003 President’s Special Award from the Kitwe District Chamber of Commerce Trade and Industry**

KCM won the 2003 President’s Special Award in recognition of its implementation of the Social Management Plan as a positive contribution to sustainable economic development of Zambia.

### 3 Role of the WBG in the Privatisation of Zambian Mining Industry

The WBG has played a positive role in the successful privatisation of the Zambian Mining Industry through invaluable Technical and Financial Assistance to the Zambian Government in achieving the following:

- **Development of Internationally Accepted Investor-Friendly Institutional, Legal and Fiscal Framework**
  - Creation of the Zambia Privatisation Agency (ZPA) to manage the Privatisation programme for the whole economy.
  - Amendment of the Finance Act to attract Local and Foreign Investors.
  - Formulation of the New Mines and Minerals Act and the Environmental Pollution and Protection Act which would help bring Zambian mining industry to world recognised standards.
  - Capacity building of the Ministries of Mines and Minerals Development and Environmental Council of Zambia. To enable government to regulate the operations of the mining companies to sound international Safety Health and Environmental Standards

An attractive and stable investment environment was created. Robust global mining investors who had Public Listings at major Stock Exchanges of the world, with all the associated regulatory controls, (such as; Corporate Governance, contribution to Poverty Alleviation through Sustainable development, including following sound Safety, Environmental and Health Policy.), that come with Listing, began to express interest in investing in Zambia.

- **Financial, Legal and Technical Assistance to Government during the Privatisation Programme**
  - Pre –Privatisation
and later the Rothschilds Privatisation Evaluation Report, which two reports assisted government in determining the methodology for Privatisation.
Funding of the Baseline Environmental Studies and Impact Statements of all ZCCM mines, as a basis for developing Environmental Management Plans

➢ Implementation of the Privatisation Policy

During the nationalised period the industry was over manned with consequent low productivity and lack of competitiveness compared to other mines in the world. This necessitated restructuring of the Mining Industry and downsizing of labour. The WBG funded this restructuring programme to the tune of about US$65 million.

The WBG funded about US$32 million to establish Asset Holding Company – Mining Municipal Services as subsidiary of ZCCM Investment Holdings, whose role is to provide transition of Municipal Services in former mine townships away from the core business of mining companies to commercialised entities.

➢ Post – Privatisation

The WBG has provided funding and institutional support of about US$40 million together with the Nordic Development Fund of Euro 10 million to the Copperbelt Environment Project. This project is to cover environmental rehabilitation of the Zambian mining industry including historical environmental liabilities which occurred even before the Government Republic of Zambia had Environmental Laws.

The WBG is a major financial and institutional provider of assistance to the Zambia National Economic Diversification Programme that aims to alleviate poverty through Sustainable Development. Key sectors being developed are Agriculture, Tourism, Gemstone and Non traditional Mining, Manufacturing and other non traditional exports.

4 Conclusion

KCM’s positive contribution to poverty alleviation through Sustainable Development, an approach that is based on addressing the three key pillars of economic, environment and social in development, has been made possible by having a Social Management Plan responsive to the environment and sensitive to the community aspirations in which business is conducted.

It is an excellent example of Private-Public-Community Partnership in achieving Poverty Alleviation through Sustainable Development.

KCM’s success in social management would not have materialised without the solid corporate governance base created by the AAplc led consortium with IFC
mplementation of the Privatisation Programme of the Zambian Mining Industry. Even after this consortium has exited from KCM investment, the Environmental, Social, Safety, Health and Quality Management Plans have remained intact and continue to be adhered to by the new shareholders of KCM.

The privatisation of the Zambian mining industry has lessened the burden of the government subsidising the mining industry, during periods of low copper prices and thereby freeing resources for development of other sectors of the economy in the Zambia National Economic Diversification Programme.

Dr Sixtus C Mulenga
Vice President – Safety, Health, Environment & Quality
Konkola Copper Mines plc
Chingola
Zambia
20 December 2003

20th December 2003

Dr Emil Salim, Eminent Person
Extractive Industries Review

JI Dukuh V No52,
Kuningan,
Jakarta 12950
Indonesia

Dear Dr. Salim

On behalf of the International Federation of Chemical, Energy, Mine and General Workers Union representing Labour at the final meeting of the World Bank Group Extractive Industries Review (EIR) in Lisbon on the 11th -13th December, I would like to extend my thanks to you and your team for the outstanding work that has resulted in the final report.

As labour, we do not see ourselves in isolation from the rest of society including industry and government, and therefore find ourselves in common with many of the views expressed at the workshop. Labour viewed the EIR process as an opportunity for the advancement of many important labour causes and an opportunity to co-operate in making a meaningful and constructive contribution which added weight to your valuable work. Overall, when we focus on the key issue of the role of the EI and poverty alleviation and sustainable development, we are heartened by the many aspects of the report that addressed these questions and focus us as government, industry, labour, affected communities, indigenous people and the World Bank on how these objectives can be delivered taking account of the United Nations Millennium Development Goals to 2015.

As labour, we have always aggressively articulated the vision of our industry. We want industries that are safe, humane, productive and which take care of it’s people and the environment. In this context we recognize that the report and it’s recommendations clearly sets an agenda for poverty alleviation through sustainable development. There is strength in the report and from labour’s side we see sound recommendations on governance, transparency, etc. If implemented, then the president of the world bank and his staff can truly claim to be working towards “a world free of poverty”.

There are of course a number of issues which labour has a special interest in and I wish at this final point to draw your attention to them.

(1) Human Rights.

The World Bank Group must promote human rights, including workers rights, in all activities. This should be mandatory. The four core labour standards included in the 1998 ILO “Declaration of Rights at Work” plus ILO conventions on the rights of women and indigenous people must be supported. The International Labour Organization is...
an important intergovernmental agency that should be engaged by the WBG to assist in implementing and enforcing standards.

(2) Health, Safety and Accident Prevention.
According to the ILO, the mining sector employs less than 1% of all workers worldwide but is responsible for 5% of all workers deaths on the job. The overwhelming majority of these fatalities take place in developing countries with China being the biggest contributor. Industrialised countries have developed highly effective accident preventative programmes and policies across the resource sector. These programmes and procedures and the technology which delivers them must be available to the WBG to ensure the highest health and safety and accident prevention standards are implemented. ILO convention 176 set standards for the mining industry and other ILO conventions set standards for other areas of the resource industry. The WBG should use the ILO, labour and industry as partners in improving health and safety.

(3) HIV/AIDS
To help combat the HIV/AIDS pandemic the WBG must ensure that its projects include awareness and preventative programmes for workers and the community. Labour can be an important partner in this work.

(4) Industry Restructuring
The WBG has been involved in significant coal industry restructuring in a number of countries including Russia, Romania, Ukraine and Poland. In all cases tens of thousands of jobs have been lost in coal mining communities and hundreds of thousands of jobs have been lost across the industries of the countries named above. This has lead to significant social disruption and suffering and in many cases poverty has substantially increased.

In the Ukraine, the restructuring can only be described as a disaster with little or no assistance to the workers and illegal mining now taking place where once government mines operated. Greater care is required when developing plans for restructuring with consultation with labour obligatory. The WBG must learn from these experiences and in light of the report must see it as necessary and vital to consult with labour regarding proposals for the wholesale privatisation of the Colombian mining industry. The report strongly recommends the need for a “Just Transition Fund” to assist workers and communities negatively affected with mine restructuring and privatisation.

(5) Fossil fuel/Climate change.
Labour recognises that it has an obligation to participate fully in defining, promoting and refining the concept of sustainable development. Labour is determined to work effectively to develop “just transition” policies and strategies which address the transitional needs of workers and their families in the pursuit of more sustainable development in particular where large scale moves from old to newer, more environmentally friendly technologies are involved.

To this end, the ICEM has developed a position paper on labour and climate change. The paper was produced on the following guidelines:
- Be based on an acceptance of the overwhelming scientific consensus, and, at the same time should focus wherever possible on a “no regrets” approach.
- Address, sector by sector, the reduction of GHG’S – particularly carbon emissions-on the basis of full life-cycle analysis (LCA)
- Address the potential effects on employment-positive and negative-of any proposed mitigation measures
• Focus on the development and transfer of clean technologies (e.g. combined heat and power, pulverized fluidized bed technology)

• Aim to support a dialogue with industry on sustainability issues-stressing the major stakeholder interest of the ICEM and its affiliates in the sustainability debate.

The position paper also refers to the following guidelines the international trade union movement provided to the conference of the parties of the UNFCCC:

• A firm consensus for actions on climate change is needed to avoid disruption to the lives of future generations, workers and industry

• The success of implementation strategies for climate change depends in large measure on the engagement of workers and their trade union

• Addressing social issues is a matter of fundamental importance if workers are to be counted on to support fully any protocol, or the desired mechanisms to implement it. Therefore trade unions call for measures to:
  - Conduct social impact analyses
  - Consider employment impacts
  - Develop elements of “just transition” programmes
  - Identify financial and economic measures.

These principles and priorities cannot give precise guidance as to what is the most fair and effective outcome of climate change treaty negotiations, and it is difficult to conceive of any that would. What may seem fair to one nation or group of nations may legitimately be perceived as unjust to another. Moreover, commitments-judged by a nation or nations in an international forum as being fair and reasonable-may, conversely, be judged by various sectors and communities within those nations as grossly unjust.

While we acknowledge that WBG involvement in fossil fuel projects may no longer be required at previous levels, we are anxious to ensure that the EIR does not give off the wrong message about the use of fossil fuel. Poverty will not be alleviated without access to affordable energy and fossil fuels provide the lowest cost energy. The use of fossil fuels will continue to expand for the foreseeable future and the development of new technologies, including clean coal, will ensure that this expansion takes place in an acceptable manner. While the WBG should be encouraged to help develop renewables, it must retain an interest in developing technologies for the cleaner use of fossil fuels including CCT.

The focus should be on least-cost technologies to reduce emissions. These may not necessarily be renewables.

(6) Artisanal and Small-scale Mining.

Labour can help develop programmes to improve and support ASSM including assisting with fund-raising and development of special projects. The ILO has done considerable work on this sector.

These are the issues that we are most concerned about and we are anxious that they be considered in the overall process of implementing the EIR and we look forward to participating in the global workshop that is proposed to be held in 2005 to assess progress on implementation of the EIR recommendations.
ly to you for the outstanding stewardship you have shown is what has been a very difficult process.

Yours fraternally

John Maitland
National Secretary, CFMEU
President, ICEM
Dear Dr. Salim:

This is to inform you that the National Society of Mining, Petroleum and Energy of Peru (SNMPE) fully endorses the comments made by the International Council on Mining & Metals (ICMM), as submitted on December 17, 2003, following the final EIR workshop that took place in Lisbon earlier this month.

We concur that the EIR diagnosis is basically unbalanced:

- While we note that you publicly and repeatedly coincide with positions that point to negative conclusions with respect to the sector, such as political scientist Michael Ross' alleged findings that policy prioritisation of extractive industries in developing countries exacerbate rather than alleviate poverty, we also note that contributions pointing to positive outcomes by the industry were summarily dismissed from the compiled records, such as the voluminous contribution made by Mr. Patricio Cartagena of Chile's Copper Commission at the Brazil workshop and reiterated last April 17.

- Positive contribution of modern mining operations are conspicuously absent from the report. In the case of Peru, over the 1990-2000 decade the industry invested more than $140 million in the construction and maintenance of roads, bridges, and other communication infrastructure, much of which directly benefited many remote communities; about $4.5 million were spent on drinking and sewage water infrastructure, benefiting more than 60,000 residents; and in the year 2000 more than 6% of the electric energy consumed by mining companies was contributed free of charge to remote communities at an aggregate cost to the industry of about US$1.2 million.

- While it has been widely agreed that lack of governance and institutional capacity are the prime culprits for the failure to translate the industry's contribution into social and national advancement, the conclusions and recommendations of the EIR report are unrealistic in what the WBG can achieve in promoting governance.

- The recommendation to condition continued WBG participation to the establishment of an environmental authority independent of the corresponding ministry, although seemingly sensible, would preclude the WBG from further participation in Peru, when in practice thanks to WBG-sponsored structural and institutional reforms implemented early in the last decade, our national industry has greatly improved its environmental performance.
mainly from the developing countries where the aftermath of the EIR process is likely to be greatest:

- In particular, developing country governments have had at best a secondary role in the process. Even when they participated, as was the aforementioned case of Chile, their contribution did not receive due consideration.

- The 10-member Advisory Group formed earlier this year represented a good chance to address some of these representation shortcomings. Instead, its composition strengthened the imbalance of views. Furthermore, a golden opportunity was missed when the Advisory Group suffered an unintended loss of one of its members. Instead of replacing the vacancy with a Southern Hemisphere economist or government representative, as was repeatedly suggested, the eventual replacement, with all due respect to his background, caused further imbalance within this group.

- The EIR report did not properly acknowledge industry’s initiatives, some of which predate the EIR process itself. Just as the ICMM developed as a product of the 1998 Global Mining Initiative (GMI) through the implementation of the Mining, Minerals and Sustainable Development (MMSD) project, a number of national guilds have also embarked on similar initiatives. In the case of Peru, in 2002 the SNMPE subscribed an 8-point code of conduct, that obligates its member companies to abide by a self-imposed code of ethical corporate behavior within a sustainable development context.

We concur that the EIR recommendations represent a potential chilling effect and loss of influence on the part of the WBG:

- Blanket bans for certain technologies such as sub-aqueous tailings disposal and products such as coal, are unrealistic if the intention is to veer society away from them, and without the presence of the WBG, they will likely take place anyway without due consideration to environmental and social factors that the presence of the WBG would have ensured otherwise.

- Rather than being practical in nature, the recommendations contained within the report are restrictive and do not provide constructive solutions to enable the industry to provide a greater contribution to Society.

- Regarding Prior Informed Consent, we suggest that the key concept is informed participation. Furthermore, informed participation should include all stakeholders, including Indigenous Peoples.

- Lastly, with regards to the precautionary principle, may we suggest that in many cases, if not most, it should also be applied to the principle itself. The precautionary principle applied to an extreme would stifle development that is needed for poverty alleviation.

We are fully aware of the great responsibility that you undertook when you accepted to lead the EIR, and we have great respect for your commitment to the process. However, regrettably our evaluation is that the EIR report will send a confusing message and does not accurately reflect the contributions of the industry in satisfying the needs of Society, including quality of life and poverty alleviation.

It is our sincerest hope, that in the months ahead, all of those who wish the EIR process to contribute to the WBG’s mission of poverty alleviation within a sustainable development context, can muster the needed will to implement the overall
Reactions to EIR report from representatives of the oil industry

1. Introduction

The Extractive Industry Review (EIR) final report “Striking a better balance” deals with key issues for the oil and gas industry and its conclusions are of great significance to the industry.

*Though the oil industry per se is not heavily dependent on WBG funding it recognises and values highly the key role played by the WBG in the setting of standards, provision of advice and, most critically, as “honest broker” which can bring together parties which otherwise might not easily cooperate.

*This role is in addition to any financial investment WBG may make in a venture. The WBG finances only a fraction of the investment in the sector, and the share of extractives in the WB spending is less than 2%, and IFC about 6%. But where WBG is a financial partner it is in a position to specify minimum requirements and standards as conditional for its participation that no private oil company could do, however much it might wish to do so. In a number of projects the very existence of WBG financial participation may make a project happen that otherwise would not be realised. This is especially for cross-border projects or projects in countries that otherwise would have difficulties in attracting finance. The oil and gas industry sees WBG participation as decreasing risk by providing a de facto guarantee that projects will take place in an orderly manner with maximum support from the WBG and host governments.

* The WBG set standards for petroleum companies’ operations around the world and has a key influence of how the industry is viewed by the global community.

We, the undersigned representatives of the oil and gas industry who were present at the final meeting of the EIR in Lisbon on December 11-13 support the EIR’s general focus on sustainable development and poverty alleviation as it is expressed through the EIR Final Report. This report is an appeal for changes in the institutional priorities of the World Bank to address critical issues of poverty alleviation and sustainable development and we support its conclusion of three broad areas of strategic concentration for the WBG: (i) pro-poor public and corporate governance; (ii) more effective social and environmental policies; and (iii) respect for human rights.

But unfortunately, some of the detailed recommendations, especially the one that advocates a total ban on all WBG investment in the oil industry from 2008, is overly prescriptive and focuses on means rather than ends. This creates misunderstanding and a significant misinterpretation of the intent behind the key recommendations. We are therefore in strong disagreement with this particular recommendation, the net result of which is a significant risk of unintended consequences; that is, outcomes that are not consistent with what the report seeks to deliver. This makes it difficult to support the report broadly, and many of the good things in it, because the direction, aims and differing quality of the recommendations are inextricably intertwined, and not open to subsequent redress.

2. Proposal for the EIR report
ons concerning petroleum investment to take account of environmental and social factors in addition to purely economic ones when investment decisions are taken. A number of petroleum companies already do this in a systematic manner through “triple bottom line” reporting and by internalising externalities. We support the overall conclusion that the WBG, to the extent it does not do this already, should move in such a direction.

2.2. *Decrease the long-term carbon intensity of development by changing the project portfolio more in the direction of renewables.*

Many major petroleum companies are deeply involved in renewable energy. There are differences between companies and the speed with which they move and the resources committed. But most of the industry shares a commitment, in common with EIR, to decrease the long-term carbon intensity of development.

The WBG should however, in its implementation of a renewable strategy, take into account that it may take up to two decades to make Renewables economically competitive with conventional sources. It should be noted that companies are already heavy investors in renewable technology, and that many other commercial entities, not only from the oil and gas sectors, but also in the automotive, power generation and electronics areas, are similarly committed to large scale investment and testing in pilot projects. Given the “frontier technology” nature of these activities, there is a high degree of commercial risk – some at least of the avenues being followed may prove to be dead-ends. The needed scale of these investments, and the relatively small funds available to WBG for all aspects of the Extractive Industries, should be taken into account when a renewable strategy for the WBG is formulated.

2.3. *Transparency*

The petroleum industry wholeheartedly supports the EIR’s emphasis on the importance of achieving increased transparency in the petroleum sector. It is a prerequisite for achieving the aims of the WBG that there is openness as to the revenue flows in the industry.

We therefore support the Extractive Industries Transparency Initiative, EITI, promoted by the UK Department for International Development. We also note that the biggest impact on local communities can be at the start (construction and early operations) of a project. Yet local and national governments receive few taxes or royalties during these periods. The Bali Workshop discussed how governments could monetise the assets and bring the cash flows forward by, for example, using the long term loans and guarantees offered by the WBG in conjunction with capacity building assistance and fiduciary safeguards.

2.4 *Sound Governance is Critical*

It is important for the industry to ensure that the host country has a good governance system. A critical requirement to unlock the full potential of EIIs and to ensure that petroleum revenues contribute towards poverty alleviation is to ensure that resources generated by EIs are wisely spent at national, regional and local levels and that such revenues are earmarked towards specific pro-poor areas like health and education. This requires sound management of public revenues, strengthening the rule of law and building institutional capacities at national and local levels. One focus should be to link individual WBG supported investments to both country and regional strategies.
anies and a number of companies in our industry are heavily engaged in the “Transparency Initiative” that seeks to combat corruption.

The WBG has an essential role to play in disseminating good practice in the areas of transparency and governance. It can help its member countries implement prudent macro-economic policies that prevent excessive exchange rate appreciation; and is well equipped to provide capacity building assistance to help improve the quality of governance, strengthen government’s understanding of the industry through training and reduce corruption in developing member countries.

The issue of good governance is linked to the question of sequencing. The very strict suggested eligibility criteria based on governance quality would preclude Bank Group lending to countries that most need financial and advisory support. We welcome country screening but not strict prerequisite governance requirements for WB investment and feel that the best sequencing path is dependent on the specific characteristics of individual countries. Requiring a wide-ranging set of governance standards before WB investment is permitted is not appropriate given the diversity of country circumstances and the urgent requirements of the poorest countries. We feel that it should be possible to build improved governance as an EI project moves forwards towards its completion.

2.5 Support for Natural Gas as a “bridging fuel”

The description of Natural Gas as a bridging fuel is to be welcomed and is in line both with the present policies of the WBG and a reflection of the priorities of a number of petroleum companies.

3. Our main objection: Phasing out of oil investments by WBG by 2008

Our main objection to the report stems from its advocacy of phasing out of oil investments by 2008. The justification for the ban on oil developments is weak. The reasoning for the ban is presumably (even if this is not spelt out in any detail) that oil development is neither contributing towards poverty alleviation nor contributing towards sustainable development. The report also argues that the WBG must use its limited resources on renewables and other measures to de-link energy from greenhouse gas emissions.

3.1. The date for phase-out

The exact date for a phase-out of oil is justified only by reference to the start of the implementation of the first part of the Kyoto protocol, with no basis in further analysis. In particular the question of timing needs to be addressed in the context of energy demands over the coming decades, the likely mix of energy sources that will satisfy these, and the state of economic and technical maturity of renewables as large-scale (i.e. base-load generation) as opposed to niche contributors (very low power demands in remote locations, complementing of base power demand). Two companies submitted views on possible trends in these areas (Shell and BP) during the
as progress is made in Renewables.

3.2. A social license to operate
Given the global authority and influence of the WBG, the proposal that the WBG should end its investments in oil development by 2008 would be perceived by many external observers as a “seal of disapproval” for oil development in general. If implemented it would threaten the industry’s “social license to operate”. As such it could likely add significantly to the cost of borrowing by entities, including governments engaged in oil development and would be seen by many as reason for not investing in oil stocks for ethical reasons.

3.3. Oil developments can be poverty alleviating
There is no automatic relationship between oil activities and negative consequences on development as the proponents of the theory of the “resource curse” often seem to imply. While there undoubtedly are a number of examples where the oil industry has contributed towards a worsening social situation for important groups as a result of oil production, this relationship is by no means mechanistic. If a producing country has a minimum of good governance, there is all reason to believe that EI projects can contribute towards poverty alleviation. The ongoing Chad/Cameroon pipeline project is an example of a movement in the right direction where a strict implementation of a revenue management system has the potential to decrease poverty. There are many examples in both developed countries (e.g. Norway, Canada) and developing ones (e.g. Malaysia, Oman) where the extractive industries have provided the springboard for wider industrial and economic development, poverty alleviation and the transition to a generally higher standard of health, education and living. It can indeed be argued that the EIR, with its correct emphasis on Good Governance, argues that the problem is that of a “Governance Curse” and not a “Resource Curse”.

3.4. Oil development and sustainable development
We feel that the alleged link between the Kyoto treaty and the EIR recommendation is one of the weakest links of the report. Saying “No” to new oil projects in a world with an OPEC quota system in operation, means unchanged levels of global GHG emissions. If total demand for oil in the world is given, extra supplies in non-OPEC countries (e.g. from new WBG projects) that threaten to create excess supply will be compensated by a withdrawal of OPEC production and the result will be the same level of CO2 emissions globally. All that will happen is a geographic redistribution of GHG emissions.

On the basis of statements made several times at the Lisbon Meeting we feel that the recommendation that links the ban on oil development with the Kyoto process arises in large part as a matter of personal conscience and conviction on the part of the Eminent Person and is not based in either the consultations of the last two years, nor backed up by analysis as expressed in the final report.

3.5. Best practise
If WBG withdraws from the oil industry after 2008 the danger exists that future projects in difficult areas will be carried out under less transparent conditions and being subject to less stringent social and environmental conditions than had the WBG been involved. The reason is that the WBG is likely to set more stringent conditions for its participation in oil projects than the investors that take over their role should the project go ahead without WBG participation. Furthermore the
viour than if the WBG had not been involved.

So if the WBG does indeed adopt this measure it does not mean that oil development will cease after 2008, but rather that the constructive role played by WBG will end and that a greater degree of freedom will be granted to less-scrupulous operators and financiers than has hitherto been the case.

3.6. Shadow pricing of fossil fuels
In the discussion in Lisbon Dr. Salim argued that the introduction of a proper shadow pricing of fossil fuels would automatically make oil projects uncompetitive with renewables. He used this as an argument for stopping all further oil investments. None of this is however documented in the report. Also, it is noted that many oil companies today already use carbon shadow pricing. If Dr. Salim’s real point is carbon shadow pricing, then phasing out of oil projects by 2008 is in any case not relevant. Projects of any sort must pass the screening at any time from today.

An excellent note on how carbon emissions costing could be done has been made by the Bank in reference to the Chad-Cameroon Project:

The note reiterates that, in line with the IPCC’s system of accounting, projects can only reflect their own emissions and not emissions attributable to oil-importing countries.

4. More specific comments/missing points

4.1. *CO2 capture and geologic storage technology deployment*
The WBG should encourage the development of these technologies as an option for bridging to the future. This will minimize the release of carbon into the atmosphere. This issue is not dealt with in the report.

4.2. “Killing the golden goose”
There is no discussion in the text about the importance of attracting commercial actors to WBG projects and the possibility that they may not be very interested to participate in projects if there are too many obstacles and conditions that are imposed on them by the WBG or their constituencies. Therefore, popularly speaking, there has to be a balance between “carrots and sticks” in relation to the commercial sector. By constantly formulating new conditions there is a real danger that in the end no or only a very special subset of commercial actors (the very big ones) finds it interesting to cooperate with the WBG.

4.3. *No-go zones/technologies*
We support the EIR Report conclusions that risk assessment and site-specific management solutions are needed. It is inconsistent therefore for the EIR to recommend general activity-based, technology-based and materials-based 'no go zones'.

4.3. *Resettlement Policy*
consideration consistent with national regulation and with appropriate compensation as recognized for instance by the Equator Principles.

5. Closing remarks

It is our firm belief that it is possible for the WBG to continue to invest in oil and at the same time reduce poverty without harming the global environment. The WBG will play a positive role by continuing to be involved in the oil business. The recommendation that the WBG should not invest in oil will first and foremost harm inhabitants in small developing countries that are forced to forego oil developments that could improve their own situation if proper governance is in place.

Developing countries will continue to look to the WBG to help unlock the value of their energy resources and reject conditionalities that hinder the rational exploitation of their natural resources that no developed country would tolerate. Sovereign countries will not allow valuable natural resources to go untapped - natural resources represent part of a country’s capital stock, and any government would seek to exercise its right to use that capital stock, especially when it is impoverished.

The WBG must take a balanced approach in the petroleum sector in its dealings with governments, industry and civil society from both north and south. Partnership is the key, not the promotion of one set of actors at the expense of others.

Petter Nore
VP Norsk Hydro
Adviser to Dr. Salim

Alan Grant
Executive Director
International Association of Oil and Gas Producers (OGP)

Donal O’Neill
VP External Affairs and Social Performance
Shell International Exploration & Production

David Moorcroft
Director Sustainable Development
British Petroleum
Dear Dr Salim,

We would like to commend you for all your efforts in steering the Extractive Industries Review to a successful conclusion. In particular, we warmly welcome the recommendation on revenue transparency in the Final Report, and we would like to clarify our understanding of what it would mean in practice. Since time for discussion on this issue in Lisbon was limited, we would be grateful if this letter could be inserted into the Annex to the Final Report.

The recommendation reads:

Promote transparency in revenue flows. The WBG should vigorously pursue transparency at country and company level in all the resource-rich countries it works with. The WBG should partner with, for instance, the Extractive Industries Transparency Initiative and Publish What You Pay to promote revenue transparency in its client countries and should use its power as a convenor to vigorously support existing efforts to build common action against corruption. WBG requirements need to be in line with these initiatives. (Striking a Better Balance, Vol 1 Page 7).

We believe the World Bank Group should vigorously pursue transparency at country and company level by ensuring that governments mandate disclosure of all payments to the state by extractive companies and all receipts of such payments by state agencies. This should be a condition for all WBG structural adjustment lending to the oil, gas and mining sectors and for macroeconomic purposes, as well as for all technical assistance and other activities.

Companies that benefit from WBG support, such as IFC funding or MIGA guarantees, should be required to publish what they pay for access to oil, gas and mining resources, including all taxes, fees, royalties, signature bonuses and other payments. Production-sharing agreements and other contracts vital to the tracking of revenue should also be disclosed.

We believe “transparency at...company level” means the disclosure of payments by individual extractive companies, not the aggregation of data from different companies for publication by a third party. Companies individually disclose such payments in the North and we believe the WBG should apply the same standard in the South. Aggregated disclosure would be less transparent because the identity of the company making each payment would be concealed.

We welcome the strong commitment by the WBG to the principle of revenue transparency, which is endorsed by other EIR stakeholders, but we believe this commitment will be judged by the concrete actions that the WBG takes to embed revenue transparency in all its activities.

Thank you for your attention.

Yours sincerely,

Diarmid O'Sullivan

Global Witness

Henry Parham

Publish What You Pay Campaign

18th December 2003
Dear Dr. Salim

The Dominican Geological Society (SODOGEO), which includes Geologists, Mining Engineers, Metallurgists and other geoscience professionals from this country, has carefully followed the World Bank Group (WBG) consultation process regarding its extractive industry projects within a framework of sustainable development and poverty reduction by means of documentation received through the CAMMA Executive Secretariat in Santo Domingo, D.R.

SODOGEO would like to support initiatives that encourage World Bank Group participation in, and/or support of extractive industry projects for the following reasons:

1. The territory of our country, like others in the area, contains mineral potential, which, though limited, could contribute to our economy through incipient mining development.
2. We are implementing new environmental protection laws with the natural economic constraints their enforcement implies.
3. Our economy is poor and has few resources for the successful implementation of poverty reduction programs.
4. We do not have well regulated state administrations.
5. The current contribution of our mining industry to the GDP is less than 2%, not considering the mining of construction materials that is in the process of being regulated.
6. We feel that new investments in the extractive industry could increase the contribution of the mining sector to the GDP to more than 5%.
7. Given the particular characteristics of our country, though we have no aboriginal peoples requiring special treatment in the mining sector, we should provide it for low income communities involved in small scale mining until they have been organized and developed, which could take up to 10 years.

On that basis, we feel it would be appropriate to ask that the recommendations presented to the President of the WBG, Mr. Wolfensohn, in the Final Report include the following aspects which we feel will favor them:

1. It should be born in mind that in most of our countries the State owns the subsoil.
because each country has its own social and cultural characteristics.

3. The proper regulations should be established for processes that will ensure sustainable development.

4. Actions should be coordinated with local governments wishing to work with the WBG to improve governance in the sector and achieve a proper distribution of the benefits, especially to mining communities, while respecting national sovereignty at all times.

5. The areas in which the Government, the World Bank, and Non Governmental Organizations will be involved should be clearly defined.

6. At one time large mining companies represented 5% of our country’s GDP, clearly indicating their importance for the development of our Extractive Industry; they exerted a marked influence on improving the social well-being of the area, and from now there will be specific regulations to ensure that there is also sustainable development.

7. The Dominican people are optimistic about the benefits of the extractive industry and its development.

8. It would be advisable for the WBG to support exploration projects to evaluate the country’s Extractive Industry resources and develop artisinal and small-scale mining with an emphasis on protecting the environment.

In conclusion, SODOGEO would like to express its support for allowing the World Bank Group to participate in extractive industry projects where its intervention is requested for poverty alleviation within a framework of sustainable development, and reiterates its request that the Final Report be impartial and objective so that it can be a true mechanism for encouraging Financial Institutions to participate in these projects so that the above-mentioned objectives can be achieved.

We hope these comments will be useful for the report.

With very respectful greetings
Juan Gil
President
From the Secretary of State

Professor Emil Salim
The World Bank's Extractive Industries Review
Jl. Dukuh Patra V/52
Kuningan
Jakarta – 12950
Indonesia

30 December 2003

Dear Professor Salim,

You have received earlier submissions of the UK Government concerning the Extractive Industries Review. I welcome the opportunity to comment on the final draft report prior to submission to the World Bank President.

The UK government believes that the final report "Striking a Better Balance: The World Bank and the Extractives Industries December 2003" will be an important contribution to improving the positive impacts of the World Bank's engagement in the extractives sector on development and poverty reduction. We would like to add our congratulations to those already received for the results you have managed to achieve.

We welcome the report's conclusion that the World Bank has an important and continuing role in this sector. We support the view that the sector needs to focus better on poverty reduction through sustainable development.

Furthermore, we support the emphasis on the need for the three 'enabling conditions' to ensure developing countries transfer resource endowments into more sustainable opportunities in an equitable and efficient way. We agree on the need for: improved pro-poor public and corporate governance; more effective and better implementation of social and environmental policies; and greater respect for human rights as critical prerequisites.

In particular, we welcome the high profile given to the importance of transparency of revenue flows as a fundamental component of good governance. In announcing its formal endorsement of the Extractives Industries Transparency Initiative (EITI), the World Bank agreed the EIR recommendations on transparency, suggesting that the EIR is having an important influence.

We also welcome the high profile given by your report to the small-scale mining sector and the urgent and increasing need to help developing countries better address the policy, institutional and technical challenges the sector presents. However, we continue to have concerns about both the EIR process and substance. I summarise these below.

We remain concerned that the overall tone of the report is unduly negative. We do not share your view that the positive impacts speak for themselves and thus that the report needs to focus on the areas for improvement. There are many positive examples that need to be acknowledged. These serve as foundations on which to build and illustrate the success that can be achieved.

While we agree with the importance of good governance as a prerequisite enabling the Department for International Development
private sector to achieve its potential contribution to sustainable development, we do not believe that the World Bank should lose influence by automatically withdrawing from countries where good governance is considered inadequate.

For those countries so endowed, the conversion of natural capital into more sustainable opportunities is a development opportunity. Investment in extractive industries will happen with or without the participation of the World Bank. The World Bank Group can greatly influence change towards better governance for the better and prevent poor practice from developing.

The lack of representation of developing countries with significant extractives industries in the EIR process overall and on the Advisory Group in particular has been disappointing. Their participation would have provided a very different perspective on some of the report’s recommendations. For example, we do not believe many of these countries would have supported the recommendation to the World Bank to cease funding fossil fuel projects by 2008.

We share your concern about the impact of fossil fuels on climate change. The UK government, itself, is committed to the need for a gradual transition away from fossil fuels to renewable energy sources using gas as a transition option.

We do not, however, believe that a blanket prescription to phase out engagement of 2008 is helpful. In several developing countries fossil fuels currently represent the most affordable and efficient option for meeting the energy needs of the poor. Removing the World Bank's financial support will also remove the opportunity for the World Bank to influence, provide benchmarks and play the leadership role you encourage in your report. As such, a lack of World Bank involvement could adversely affect growth potential, development opportunities and efforts to achieve poverty reduction.

I hope that these observations will be of use to you in finalising the report. Once again, may I congratulate you on the important contribution that you have made to the debate on the World Bank Group’s role in Extractive Industries.

I am copying this letter to Roberta Lovatelli EIR Secretariat and Rashad Kaldany IFC.

HILARY BENN
(Agreed by the Secretary of State and signed in his absence)
December 19, 2003

Dr. Emil Salim
Extractive Industries Review
2121 Pennsylvania Avenue, NW
Washington, DC 10433
Fax: 202-614-1605
Esalim@eireview.org

Dear Dr. Salim:

As a shareholder of the World Bank Group, the US government has closely monitored the Extractive Industries Review (EIR) and the recommendations that have emerged from the EIR process. The Department of Treasury is particularly interested since it is responsible for providing the US Executive Director with guidance regarding the US position on World Bank Group extractive industry projects, policies, internal evaluations, and external reviews.

In this regard, I understand that you are still accepting comments on the report that will be incorporated into an annex. Based on Treasury’s review of the EIR recommendations and participation in the EIR final workshop, I want to offer the following observations:

- The US has urged the Bank to: (a) remain involved in the EI sector, but improve policy compliance; (b) sequence its lending to EI investment projects after needed governance reforms are made; and (c) support greater transparency in the EI sector, particularly with respect to the financial aspects. We have made clear that this includes both transparency and accountability of budget expenditures and procurement, as well as transparency of company payments and government revenues.

- Based on our experience with EI projects, other issues in which we are particularly interested include threshold conditions for Bank engagement in a country’s EI sector, and successful models for a country to transform its extractive resource wealth into productivity-increasing social capital via investments in infrastructure, health, and education.

- We would rather not treat the report as “all or nothing”. Instead, we will determine which recommendations warrant US support and which do not. In some cases, we agree with the principle underlying a recommendation, but not its specifics.

- A principal strength of the EIR has been its collaborative process. I urge you to capitalize on this by identifying and highlighting those recommendations that reflect a broad multi-stakeholder consensus. Recommendations that do not fit this definition should be downplayed as they are likely to be divisive. Otherwise, the EIR risks squandering its impact and assets due to disagreements over relatively few recommendations.

- Before seeking implementation of EIR recommendations, I recommend that the Secretariat obtain a full and complete understanding of past experience and ongoing activities among the World Bank Group to address the issues raised by the recommendations. For example, the World Bank Group debated the
out ten years ago, one outcome of which was the “Fuel for Thought Energy/Environment Strategy” and lessons from this experience must be acknowledged.

- We do not accept the report’s assumption that a blanket phase-out of World Bank financing of oil and coal projects will affect global carbon emissions. Moreover, the recommendation to apply shadow values for carbon to oil or coal projects at the point of extraction is inconsistent with accepted practice, which recognizes that carbon emissions occur at the point of combustion.

- Although there may be legitimate reasons for the Bank not to finance specific oil or coal projects (such as lack of adequate additionality), they must be analyzed on a case by case basis.

Thank you in advance for taking these comments into consideration in developing an implementation strategy for the EIR.

Sincerely,

[SIGNED]

Sara Paulson
Acting Deputy Assistant Secretary
Multilateral Development Banks and Specialized Development Institutions

cc: Carole Brookins, U.S. Executive Director, The World Bank Group
Dear Sir,

I am writing to register my continuing concern at the process of consultation on the Extractive Industries Review and the contents of the final report, which was discussed at a workshop in Lisbon earlier this month. Significant points made in the consultation appear to have been ignored and the Review’s conclusions are, in our view, over-simplified and unworkable.

I understand that these concerns are shared more widely, for instance by the mining industry in general, and that they will also be communicating their reservations about the Review process and outcome. This letter focuses on those recommendations of most direct relevance to the coal industry. As you know, the views of the industry have been set out in some detail, in my letters of 1 and 24 October, and the documents sent in support, in particular the coal industry Report to the World Summit on Sustainable Development (“Sustainable Entrepreneurship”) and the booklet “The Role of Coal”.

The industry remains concerned that significant points made in these communications have not been recognised or reflected in the final version of the Review, which recommends that the World Bank should concentrate energy sector lending on promoting the transition to renewable energy and endorsing natural gas as a bridging fuel, and should not invest in new coal mining development.

In the view of the WCI, these recommendations:

- **are inconsistent with the World Bank’s primary aim of poverty reduction.** Coal has played a major role in bringing energy, especially electricity, to the world’s poor, bringing enormous benefits in health, economic activity, education and quality of life (and in many cases significant environmental improvement by avoiding the intensive use of biomass). Gas and renewables will certainly be appropriate energy sources in some...
situations but in many developing countries are impractical or prohibitively expensive. Focusing on these two options alone would mean delaying or denying access to the benefits of modern energy for some of the world’s poorest people.
• **are contrary to the energy and economic development objectives of many developing countries.** The recommendations appear to contradict the recognition in the Review that “it is each country’s right to set its own energy strategy”, and could be seen as effectively seeking to impose a Bank-determined energy policy.

• **over-simplify the complex issues of energy policy.** The Review is concerned with the extractive industries and contains no analysis of energy markets or energy policy issues, so its recommendations in this area are unsupported. As a result the recommendations are out of step with leading thought on the complex relationship between energy and sustainable development. The recommendations go against international consensus as manifest at the World Summit on Sustainable Development, which declined to endorse a narrow focus on one or two energy sources but called instead on Governments to “diversify energy supply by developing advanced, cleaner, more efficient and cost-effective energy technologies including fossil fuel technologies”.

• **fail to consider the impact of the recommended approach on energy security.** Coal has a central role to play in energy security within a diversified energy mix. The recommendation to encourage and increase dependence on natural gas could entail significant and unacceptable risk for many countries.

• **would deny a role for the World Bank in a key area of sustainable development.** There is a clear role for the World Bank to help developing countries overcome the cost and technical barriers to the introduction of clean coal technologies, for instance by increased efforts to promote their uptake through the Prototype Carbon Fund and the Clean Development Mechanism. The potential environmental gains from the wider deployment of these technologies are enormous, especially in such fast growing developing countries as India and China, which are and will remain heavily dependent on the use of coal. For many such countries, clean coal technology will be the most cost-effective and practical route to carbon emissions reduction. The World Bank should be encouraged to develop its role in this area rather than vacate the field.

• **may have serious unintended consequences.** We support the general thrust of the Review, that the Bank should continue to lend to the mining sector in ways that promote sustainable development. However, the Review’s specific recommendations – and in particular the recommendation not to fund coal mining at all – could have a contrary effect by discouraging responsible private investors from funding coal mining development. While this may be unlikely to slow the rate of coal development to any substantial degree – too many significant developing countries will continue to need and to mine coal for that to occur – it would see a greater proportion of that activity in the hands of less responsible investors, who will apply lower standards and have little regard for the Review’s sustainability objectives.

I understand that a commitment was given at the Lisbon workshop that comments received by the end of this week would be included in the Report forwarded to the World Bank, and I would ask that this letter should be among the items so included.

Yours sincerely,
Roger Wicks
Chairman, World Coal Institute
Mr. James Wolfensohn  
President,  
World Bank  
Washington D.C.  
USA  

Intag, Ecuador, 19 December 2004  

Dear Mr. Wolfensohn,  

A snow ball in hell probably has a better chance than this letter has of reaching you; yet, I feel I have to try.  

My name is Carlos Zorrilla. I live in the cloud forest region of northwest Ecuador with my wife and kids, where I grow shade-grown coffee, and dedicate the rest of my time to small-scale ecotourism and environmental work against large scale mining. I've also taken part since the beginning of the Extractive Industry Review as a representative of NGO's for Latin America, though I could have easily also represented communities affected by extractive industry projects. Believe me, I'd much rather be tending my coffee and guiding the occasional tourist than spending hours and hours facing a monitor and clicking keys! But to do so would mean taking part of the destruction of many of my neighbors land and way of life. Not to mention the impacts to the unequal biological diversity this corner of the world encompasses (within two of the world's 25 biological Hotspots).  

I was lucky to be at the last EIR workshop in Lisbon, so I know that Industry will try very hard to convince you and the rest of the board members that the Extractive Industry Report is deeply flawed, in order to avoid the bitter medicine the Bank and Industry must take in order to undertake the work that, plainly, needs to be undertaken. There is simply no way around this inevitable fact.  

Planet Earth's ecosystem, on the one hand, cannot take further abuse, just as the World Bank cannot ethically take part of its further undoing. On the other hand, the amount of social upheaval these projects have, and are, causing, is ethically unjustifiable and just plain wrong. I use the word ethically purposely, because, in my view, it is what it's all about. It should be very, very clear, if you read what the OED report wanted to say, but was afraid of saying, and what the findings of the EIR, that the extractive industries have not contributed to the mitigation of poverty; in fact, just the opposite. It's just not the NGO's, communities, academia and indigenous peoples saying it- it's the facts that so eloquently speak for themselves. The affected communities speak much louder than the report reflected. To address the implications of this inescapable fact, profound changes need to be undertaken at the Bank. But this is only true if the Bank's role really is poverty alleviation through sustainable development.
To think for one minute that the Report was biased towards the Civil Society sector is, well, ridiculous. As a resident of an area threatened by a mega mining project, I thought the report fell short with respect to putting restraints on mining projects. Given the long lasting and almost irreversible impacts of industrial mining, I would have liked a moratorium on open-pit mining, submarine tailings disposal, and use of cyanide; as some states in the U.S. and Costa Rica have done, for example. I know this criteria is shared by many NGO’s- some of which decided to withdraw altogether from the EIR process because they did not feel their views were adopted by the EIR, and because they sensed the Bank would use them to legitimize its continued operations.

Regarding Free Prior Informed Consent, make no mistake: it is one of the few safeguards, if ethically carried out, which somewhat protects communities against the collusion of industry and governments. This collusion, as we all know, has been going since day one of the creation of the World Bank. So, little wonder that industry is now, in the vulgar expression, 'freaking out', that communities, indigenous peoples and other actors of civil society finally have found a potentially effective mechanism to influence World Bank policies to protect and benefit them more! It was about time. Too much injustice has been done in the name of economic growth, aimed at benefiting the powerful of the North, and the corrupt of the South.

This is the extent of my message. I don't hold much hope it can have the influence a Rio Tinto Zinc, or an ICMM spokesperson can have. But it is from the heart, and it's what I can do.

Sincerely,

Carlos Zorrilla
Ecuador