Report No. 26373

Extractive Industries and Sustainable Development:

An Evaluation of World Bank Group Experience

(Four Volumes)

Volume III: IFC Experience

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Document of the Operations Evaluation Group

Abbreviations and Acronyms

AMR	Annual Monitoring Report
ASM	artisanal and small-scale mining
CAO	Compliance Advisor/Ombudsman (for IFC and MIGA)
CAS	Country Assistance Strategy
EI	extractive industries
EIA	Environmental Impact Assessment
EIR	Extractive Industries Review
GRICS	Governance Research Indicators Country Snapshot
GHG	greenhouse gas
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
MIGA	Multilateral Investment Guarantee Agency
NGO	nongovernmental organization
OED	Operations Evaluation Department (World Bank)
OEG	Operations Evaluation Group (IFC)
OEU	Operations Evaluation Unit (MIGA)
SME	small and medium-sized enterprise
WBG	World Bank Group

Definitions

Extractive industries for this review include oil, gas, and mining of minerals and metals. Mining for construction materials, including cement production and quarries, is not included, nor are indirect investments through financial intermediaries.

Sustainable development meets the needs of the present without compromising the ability of future generations to meet their own needs. This requires sound environmental and social performance and economic efficiency. Given that fiscal revenues constitute the major source of net benefits (beyond the project financiers) obtained from the extraction of mineral resources, the interests of future generations can be protected through the efficient utilization of these revenues for people in the host country.

Revenue management refers to the collection, distribution and utilization of government revenues.

The World Bank Group includes IDA, IBRD, IFC and MIGA. In this report, the combination of IDA and IBRD is referred to as the World Bank or "the Bank." The evaluation units of the WBG are the Operations Evaluation Department (OED) of the Bank, the Operations Evaluation Group (OEG) of IFC, and the Operations Evaluation Unit (OEU) of MIGA. These units are independent from WBG management and report to the WBG's Board through the Director-General, Operations Evaluation.

Resource-rich and *EI-dependent* are used interchangeably for developing countries with average annual export values of oil, gas and mineral products over 15 percent of total exports. This standard was chosen with reference to the WBG's Poverty Reduction Sourcebook, which states: "A country's mining sector can play an important role in poverty reduction strategies if the approximate share of the mining sector is … greater than 10–25 percent of export earnings." For a list of countries meeting this criterion, see Volume II, Annex B.

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Preface

For this study, OEG analyzed a random sample of IFC projects approved between 1991 and 1996 and evaluated at early operating maturity between 1996 and 2001. The performance of these *22 evaluated EI projects* was compared to others evaluated in the same time period, using IFC's established evaluation framework (see www.ifc.org/oeg/xpsrs/xpsrs.html) under three performance dimensions: development outcome, IFC's investment outcome, and IFC's effectiveness (Annex 2B). To validate the findings, OEG also conducted a desk review of all EI projects approved since fiscal year 1993 and older projects still in IFC's portfolio. The results of these *45 studied EI projects* are summarized in Annexes 2C and 2D. OEG also reviewed IFC's strategy in the sector, technical assistance trust fund activities (Annex 3), internal documents, and relevant literature.

OEG presented an analysis of IFC's investments in the sector in its approach paper for this study. More information can also be found in the WBG's background paper to the Extractive Industries Review (EIR). Both are available online. A brief summary of the analysis is in Annex 1, and highlights are on the next page.

Evaluators visited more than a dozen project sites in six countries to assess development results and to talk to representatives from industry, government, and civil society (see Box 3). We surveyed participants at the EIR workshops about their perceptions: initially, about the most important sectoral issues, to help guide the evaluation (Annex 4A); then, at the regional workshops, about the need for, and effort and success of, IFC and the WBG in the sector (Annex 4B). OEG also asked IFC staff to what extent the WBG was appropriately addressing key issues in the sector (Annex 4C), and whether coordination in the WBG was adequate. OEG also sought feedback from numerous stakeholders knowledgeable about the sector, inside and outside the WBG.

Acknowledgments

This report was written by Roland Michelitsch under the general guidance of Bill Stevenson, Director of IFC's Operations Evaluations Group (OEG). Other contributors include Sid Edelmann, Rex Bosson, and Dennis Long, who also completed project-level evaluations, conducted site visits, and helped prepare the report. Margaret Ghobadi assisted with the analysis of trust fund activities. Linda Morra, Head of Special Studies in OEG, provided valuable advice. Pelin Aldatmaz, Nicholas Burke, and Sanda Pesut assisted with data analysis and presentation. Cesar Gordillo, Yvette Jarencio, and Elvira Sanchez-Bustamante provided essential support as program assistants.

Special thanks to the members of our advisory panel, who provided unique perspectives and advice:

- James Cooney, General Manager, Strategic Issues, Placer Dome Inc.
- Cristina Echavarría, Director, Mining Policy Research Initiative, International Development Research Centre (IDRC)
- Arvind Ganesan, Director, Business and Human Rights, Human Rights Watch
- Michael Rae, Program Leader — Resource Conservation, WWF Australia (formerly World Wildlife Fund, now World Wide Fund for Nature)
- David Rice, Group Policy Adviser, Development Issues, BP

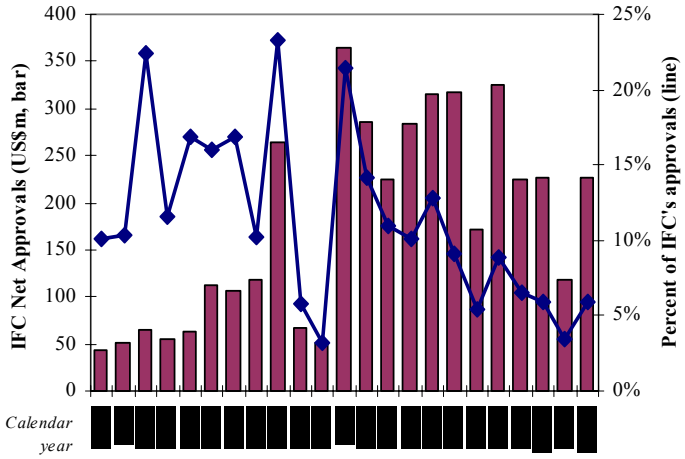
Many thanks to all the people we met in the field and in Washington who shared their views about the sector, in particular to those who told us about the impacts that oil, gas, and mining projects had on them personally.

The author would also like to thank IFC staff involved with the evaluated projects — either at appraisal or currently — who took time to respond to OEG's many requests for information and generously shared their knowledge with us. In particular, we thank Clive Armstrong and Monika Weber-Fahr who provided their invaluable perspective from the joint World Bank/IFC Global Products Group for Oil, Gas, Mining, and Chemicals, and Ron Anderson from IFC's Environment and Social Development Department.

IFC Approvals at a Glance

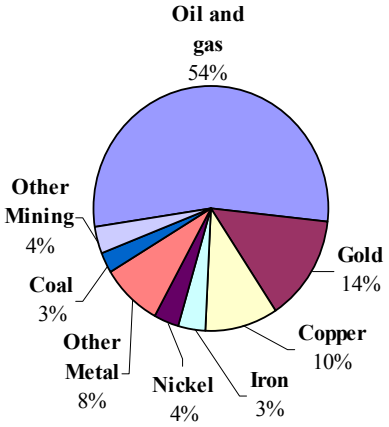
- Following a peak in 1991 ($400 million), IFC approved investments of about $250 annually in EI.
- The share of EI has declined from over 20% in 1991 to around 5% in the last three years.
- Approvals were concentrated in oil and gas (54%), gold (14%), and copper (10%).
- Approvals were concentrated in Latin America (34%) and Sub-Saharan Africa (30%).
- Approvals were concentrated in countries with high country risk, much more so than IFC's overall approvals; these countries also predominantly feature poor governance.
- IFC's portfolio in EI (as of June 2002) was $628 million, or 6% of IFC's total portfolio.
- Just over 60% of the EI portfolio was in mining, and just under 40% in oil and gas.
- Just over half was loans, just under half equity.

Declining share since 1992

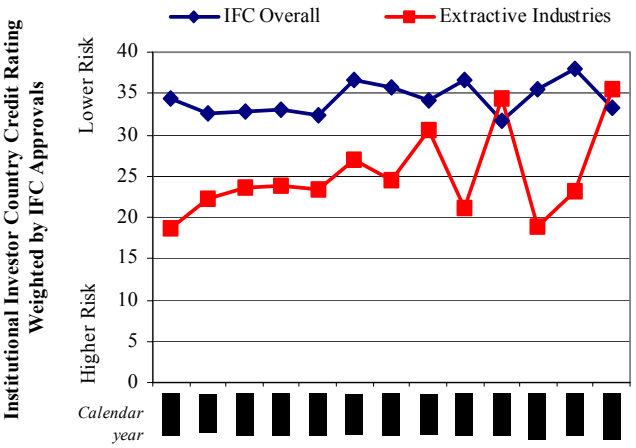


Concentrated in oil&gas, gold and copper

IFC approvals since inception ($4.3 billion)

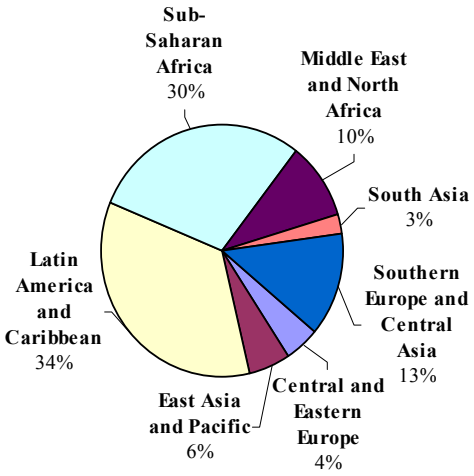


Concentrated in countries with poor investment climates



Concentrated in Latin America and Sub-Saharan Africa

IFC approvals since inception ($4.3 billion)



1. Introduction

1. *Summary*: Overall, IFC support for extractive industries (EI) has been effective, but implementation can be improved, broader sustainability issues better addressed, and results better tracked and reported. Projects usually generated large revenues for governments and opportunities for people. IFC has generally added value, particularly in improving the environmental[1] and social aspects of projects, but given the sector's high impact potential it will need to prevent or mitigate negative impacts better and more systematically. IFC also needs to ensure that its environmental and social guidelines and procedures continue to set standards and adapt in line with rapidly improving industry standards; and that its projects adapt with them. In pursuit of its sustainability agenda, IFC needs to do more to address the risks that government revenues may not be effectively used for development and poverty reduction, that benefits may not be distributed transparently, and that local communities may not tangibly benefit from EI projects. To enhance the contribution of IFC's projects and the sector to sustainable development requires further improvements in project implementation, effective cooperation within the World Bank Group (WBG), and full engagement of all stakeholders.

2. OEG's evaluation is based on the premise that IFC should only support EI projects if it can help improve the sector's contribution to sustainable private sector development. Promoting sustainable private sector development, and ultimately reducing poverty and improving people's lives, is IFC's mission. Some people feel that the exploitation of non-renewable natural resources and sustainable development are an inherent contradiction. But most realize that, over the next decades and probably centuries, we will all need oil, gas, minerals, and metals, and that exploration, development, and use will continue with or without IFC and the WBG. The question is whether the WBG and IFC can improve the sector's development potential by enhancing positive and mitigating negative aspects. While IFC and the WBG finance only a small share of the sector's investment, their actual and potential influence is often much larger.

3. *Sustainable development defined for this evaluation.* Sustainable development "meets the needs of the present without compromising the ability of future generations to meet their own needs." An individual mine or oil field will eventually be exhausted, but EI projects can still contribute to sustainable development and thus provide a role model for other private investment if they are:

- economically sound, providing adequate revenues for host countries, which in turn are used for the benefit of current and future generations;
- financially sound, providing sufficient returns to reward investors for risk;
- environmentally sound, adequately mitigating negative environmental effects[2] — and, where possible, improving the environment;
- socially sound, adequately mitigating negative social effects and providing tangible and sustainable benefits for local people.

[1] As in IFC's guidelines, "environmental" aspects include worker health and safety.
[2] Environmental effects could be local (e.g. impacts on water quality) or global (e.g. contribution to greenhouse gases through gas flaring).

4. *The focus on sustainability in IFC's EI activities has increased over the past decade.* IFC's sector strategy[3] has consistently emphasized the sector's contribution to government revenues and has focused on countries and projects where the value added by IFC is greatest. Initially, IFC mainly saw its role in funding projects without access to commercial finance and in acting as a neutral party between government and investors. In the mid-1990s, the strategy was expanded to highlight environmental issues, later to social issues, and later still to governance and revenue management — how host countries distribute and manage the revenues from EI. In recent years, IFC's environmental and social specialists have devoted more time to the sector than to any other and have frequently improved EI projects beyond the requirements of IFC's policies and guidelines.

5. *This increased focus on sustainability reflects the evolution in IFC and the industry*. Over the past decade environmental, social, and sustainability concerns have become more prominent in the sector. Industry has responded by developing and implementing better standards and techniques to reduce the environmental impacts of its operations.[4] Leading industry players now report on sustainability indicators — health, safety, environmental, and most recently social indicators — of their operations and are working on standardizing the reporting.[5] Industry also recognizes that it must do more to retain its "social license to operate," particularly to broaden the benefits of wealth creation and thereby contribute to poverty reduction.[6] IFC's sustainability initiative, started in the past few years, has similarly heightened the focus on sustainable development results within IFC and beyond. IFC's EI operations were often among the first to develop or implement new programs such as SME linkages or IFC and AIDS. Under the sustainability initiative, IFC developed a position paper on revenue management in 2002, which recognized that large government revenues, as they typically occur in EI projects, require special attention — particularly where country governance is poor. Indeed, this is an area deserving special attention from IFC and the WBG.

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[3] IFC does not have a Board-approved sector strategy for EI, but its investment departments discuss their strategies annually with IFC management. While these sector strategies are not normally disclosed, IFC has recently started to publish regional strategies for mining (www.ifc.org/mining/region/region.html). IFC ceased to invest in oil and gas exploration in fiscal year 1992, but this was due to poor results and the difficulties of assessing exploration risks. Exploration projects in mining are very rare, but IFC has invested at very early stages (exploration or pre-feasibility study).

[4] See, for example, *The oil and gas industry from Rio to Johannesburg and beyond — Contributing to sustainable development* (2002), by the International Association of Oil and Gas Producers and the International Petroleum Industry Environmental Conservation Association (IPIECA). Other initiatives in the mining sector, for example, the Mining, Minerals and Sustainable Development Project (MMSD), came to similar conclusions.

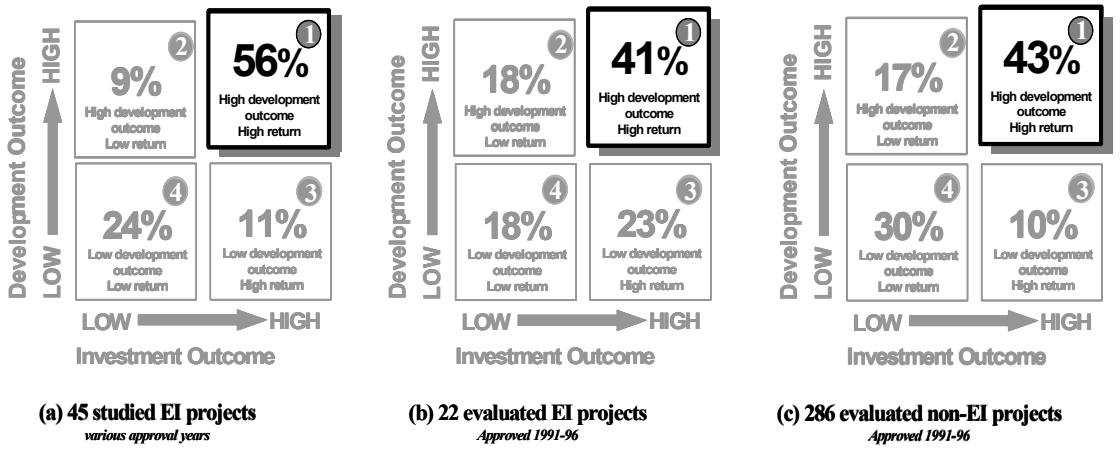
[5] For example, the International Council on Mining and Metals (ICMM) is working with the Global Reporting Initiative (GRI) on developing sustainability indicators for the mining industry. Ultimately, this is expected to result in a consistent and coherent module for reporting on sustainable development for mining companies.

[6] Mining and Minerals Sustainability Survey 2001.

2. From Economic Benefits to Sustainable Development

6. *Development results in EI were the same as in other sectors.* IFC synthesizes development results of four indicators — economic sustainability, private sector development, business success, and environmental and social effects — into one "development outcome," which measures a project's overall impact on a country's development. Fifty-nine percent of the 22 *evaluated EI projects* achieved positive results, compared to 60 percent for all other IFC projects.[7] The development success rate for all 45 *studied projects* (65 percent) is slightly higher.[8] The "win-win" outcomes — positive development results and good investment results for IFC — are about the same when only *evaluated projects* are considered, and slightly better for all *studied projects* (Figure 1). While there is room for improvement, it is important to note that this success rate has been achieved in very difficult country environments, where many development institutions are struggling to achieve positive results.[9]

Figure 1: EI versus non-EI projects: *Similar development, better investment results*



7. About three-quarters of IFC's EI projects were economically attractive; results in mining were the same as in other sectors, those in oil and gas significantly better. Seventy-three percent of the evaluated EI projects had adequate economic returns — real economic rates of return over 10 percent — compared to 57 percent for other projects. The success rate for oil and gas (83 percent) was significantly[10] higher than that for mining (60 percent) and other sectors. Again, these results were achieved in difficult countries, but it is also important to note several limitations of the economic rate of return:

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[7] This and other comparisons of "**evaluated**" projects relate to a random, representative sample of 22 IFC projects (12 oil & gas, 10 mining) approved 1991–96 and evaluated 1996–2001 (results in Annex 2B) using IFC's standard evaluation framework. For desk reviews of all 45 "**studied**" projects — 22 oil and gas and 23 mining projects approved since fiscal year 1993 or still in IFC's portfolio — a similar but simplified ratings framework was used (Annex 2E, results in Annexes 2C and 2D).

[8] The results of all studied projects are not strictly comparable, since they have a different maturity profile — older and younger — than the evaluated projects. Also, there are no comparators in IFC's portfolio, since IFC does not track and rate development results on a portfolio basis. The number of projects is too small to analyze trends.

[9] See, for example, *World Bank Group Work in Low-Income Countries Under Stress: A Task Force Report* (2002), http://www1.worldbank.org/operations/licus/.

[10] "Significantly" used in this report implies statistically significant using a 90% confidence interval.

- It does not take into account the distribution of benefits — a dollar for the investor is treated the same as a dollar for government or a dollar spent on a social program for the poorest.
- It does not address how government revenues are used.
- Accounting for the depletion of natural resources in economic rate of return calculations is difficult. IFC uses a depletion premium to account for the non-renewable nature of the resource.[11]
- Compliance with IFC's environmental and social requirements was interpreted as an indication that negative externalities had been adequately mitigated; where appropriate, we imputed costs of cleanup as economic costs; however, it is difficult to quantify environmental and social externalities and data is scarce.

8. *Financial and economic project success were closely linked.* All 12 projects that were financially successful also provided adequate economic returns.[12] In addition, 4 out of 10 projects that were not successful for investors still had adequate economic rates of return (greater than 10 percent). In three of them, the government retroactively changed earlier agreements, making otherwise viable projects financially unattractive.

9. *Most projects generated large revenues for governments, sometimes even when private investors did not do well.* These revenues come in many different forms,[13] but usually as income taxes and royalties.[14] Governments sometimes get revenues even when investors do not do well. For example, IFC has funded projects that failed or ran into financial difficulties. Often, but not always, these companies continue to pay all taxes, including royalties, duties, and transit fees while investors lose money. In other cases, governments faced with the potential loss of jobs and community livelihood, agreed to forgo some taxes until a project turned around. In Eastern Europe, some IFC clients faced increasing tax demands that led to financial losses from otherwise viable projects. A Latin American oil company failed, but its assets were bought and rehabilitated and the new company contributed more than $30 million in royalties in 2000. A mining company lost more than $30 million in four years, but was expected to pay about US$5.5 million in taxes.

10. *All stakeholder groups recognize that the distribution of benefits and costs is the crucial issue in EI.* We surveyed stakeholders from many backgrounds — government, industry, NGOs, and the WBG.[15] Among a wide range of questions covering economic, environmental, social, and governance aspects (Annex 4A), equitable distribution of benefits was perceived

[11] Until 1996, IFC effectively valued resources at zero. Since then, IFC has started to deduct the net present value of the economic benefits generated from the resource over the projected life as depletion premium. This may differ substantially from how governments or investors might value the resource, which will depend on many factors, such as country and resource risk.

[12] Adequate economic returns do not always mean large government revenues. See below on distribution.

[13] There are many different taxation regimes. For an excellent overview see *Global Mining Taxation Comparative Study*, J. Otto, 2000, or *Review of Legal and Fiscal Frameworks for Exploration and Mining* (Koh Naito, Felix Remy, John P. Williams, 2001). On oil and gas, see www.ifc.org/ogmc/pdfs/DanielJohnston.pdf.

[14] Oil features higher royalties — and other forms of "rents" — than mining. Royalties in mining affect the cut-off grade and can thus easily make otherwise attractive deposits unviable; in oil this is less likely, since marginal costs are low compared to the resource value. Rents are the excess of pre-tax benefits over cost, including the minimum return on capital required to attract investment.

[15] We surveyed over 50 people at the Extractive Industries Review (EIR) Planning Workshop and about half responded (Annex 4A). Broad and balanced representation of stakeholders was one of the workshop's goals.

to be the most important overall; it was also among the top two issues in every stakeholder group.

11. *But IFC — and the WBG — has not adequately addressed distribution.* In several projects, people outside and even inside the WBG questioned ex-post whether benefits of EI projects were distributed fairly.[16] For example, where governments had taken a large equity share, but commodity prices — and fiscal revenues — dropped below expectations, they were later disappointed; or where they had granted income tax exemptions for the first years — often the most profitable for a gold project. We surveyed 33 IFC staff — all EI sector investment staff and all regional economists or strategists. Only half of the respondents indicated that distribution was adequately addressed in IFC's EI projects — or in Country Assistance Strategies (CASs). Responses by World Bank staff were similar (Annex 4C). Recognizing the importance of distribution in EI, IFC usually identifies the share of net benefits that accrues to government. But IFC has typically not compared the benefits to other EI projects or stated whether it perceives the distribution of benefits to be reasonable — and has been criticized for this in the case of the Chad-Cameroon pipeline.[17] IFC has also not systematically tracked actual government revenues during supervision.[18] Recognizing the uncertainty about commodity prices, resource quality, and many other factors, IFC typically addresses downside risks for investors in a sensitivity analysis; but IFC did not address how such risk factors affect the distribution of benefits.

12. *Transparency and improved analysis of the distribution may help prevent later conflicts.* Due to variations in country and project characteristics (e.g., resource quality, taxation regimes, legal entitlements, country risk, etc.) some people question the reliability and relevance of distributional comparisons. But given the importance of rent distribution — and the history of conflicts over it[19] — more comparative analysis is warranted. Attempts to compare distributions across countries exist, both in the WBG and elsewhere.[20] World Bank staff we interviewed stated that they could and should be cited to provide a frame of reference when presenting IFC projects for approval. More transparency on how the distribution was arrived at, comparing it to other projects, and testing its robustness under different scenarios would help reduce potential conflicts and disputes.[21]

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[16] Examples include questioning the appropriateness of favorable tax exemptions and swap arrangements.

[17] The Inspection Panel for the Chad-Cameroon pipeline claimed "it was unable to find any analysis justifying the allocation of revenues between Chad and the Consortium [of investors]." World Bank management stated that it was not a party to the confidential agreement between Chad and the Consortium, but that the reasonableness of the agreement had been independently studied, and that it had made certain Chad received independent expert advice.

[18] This appears to be changing. IFC has started to track development results in supervision, and some recent Board Reports for EI projects identify government revenues as one of the indicators to be tracked.

[19] See, for example: *Breaking the Conflict Trap: Civil War and Development Policy,* draft WBG Policy Research Report (2003), http://econ.worldbank.org/prr/CivilWarPRR/

[20] *Review of Legal and Fiscal Frameworks for Exploration and Mining* (Koh Naito, Felix Remy, John P. Williams, 2001) compares the fiscal regimes of 23 countries. *Global Mining Taxation Comparative Study*, Institute for Global Resources Policy and Management and Colorado School of Mines (second edition, March 2000, James Otto et al.) compares the effects of taxation on "model" copper and gold mines. An unofficial note on the WBG's web site "Best Practices in Dealing with the Social Impacts of Oil and Gas Operations," on Management of Government Revenues, cites numerous reference documents and concludes that international practice of the government's "take" in oil and gas is about 45%–50% at the low end and 80%–85% at the high end.

[21] For example, a host government has requested an independent "fairness" assessment of an existing contract with an IFC client company. Routinely providing a resolution mechanism where conflicts between governments and investors arise may help settle disputes, and is now often incorporated in agreements between investors and governments. However, years after the contract was signed it is even more difficult to assess how reasonable a

13. *"Insufficient" benefits for local communities are an important development issue — and a commercial risk — that has not always received enough attention.* IFC has typically not calculated shares accruing to different levels of government or accruing directly to local communities. It is difficult to define "sufficient" benefits. At the least, they should compensate local communities for negative impacts and maintain — or improve — their living standards. Where local people oppose projects, businesses risk costly interruption and property damage. In EI, environmental problems are often the trigger for opposition. However, such opposition can often be traced to deeper social issues, for example a long-standing perception of insufficient benefits. In such situations, companies sometimes spend a lot to build trust or defend themselves, money that could be better spent on community development. Where IFC client companies proactively engage the community and provide benefits for local people — e.g., increased employment or sales, better infrastructure, schools, and housing — they reduce risk for their operations. But private companies cannot be expected to take over government responsibilities — for financial reasons, and because such a solution is not sustainable.

14. *Benefits from government revenues do not always reach local communities.* In many countries where IFC operates, government revenues are not being used effectively for the benefit of local communities. In some countries, communities received only a very small share of fiscal revenues — which led to problems. For example, in one case, the "legal" distribution to the provincial authorities was only a small share of royalties; even that was not consistently distributed, and communities accused local leaders of embezzlement. In another case, the "legal" distribution to the region was quite high, but usually not forthcoming. Even where money was distributed to the provincial governments, people affected by EI did not necessarily benefit, due to mismanagement, lack of transparency and possibly corruption, allocating the money to other parts of the province, or using it for recurrent administrative expenditures instead of investing it to provide sustainable benefits.

15. *Volatility of revenues is also a problem, but may be easier to fix.* The discussion during taxation conferences[22] tends to focus on managing the volatility of revenues from EI, caused by changing commodity prices and the exhaustibility of the resource. Several "technical" solutions — for example, funds for stabilization or for future generations — are well understood, but the record of such solutions is poor, due in part to the secular decline in commodity prices and in part to poor governance.

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distribution is, and renegotiating contracts later will also discourage potential future investors. Volume II (paragraph 5.16 and Box 5.4) discusses issues related to the acceptability of benefit distribution.

[22] The WBG hosted a workshop on petroleum revenue management (www.ifc.org/ogmc/petroleum.htm) in October 2002; the IMF hosted a similar conference in June 2002.

3. Private Sector Development and Benefits to Investors

16. EI investments were often among the first attractive investment opportunities for private investors and IFC, followed by other investments. In at least a dozen countries,[23] IFC's first investment was in EI. IFC's EI investment was also often the first private investment in the sector, providing important demonstration effects. Investments in other sectors — by IFC and others — often followed. In recent years, IFC has increasingly focused on enhancing SME-linkages in connection with its EI investments (Box 1) and on supporting EI-related projects with trust funds.

Box 1: Value added SME linkages

IFC's environmental and SME departments increasingly work with project sponsors, aid agencies, and nongovernmental organizations (NGOs) to develop programs promoting sustainable economic development in areas affected by EI projects. Examples of programs to set up or strengthen micro-finance organizations, training programs, and technical advice for local businesses include:

Mozal Aluminum Smelter, Mozambique

- IFC worked with Mozal to develop local business capacity to compete for product and service contracts — transport, catering, cleaning, and security. For these, Mozal broke its contracts down into smaller components (to attract local competition) and now spends about US$35 million annually with private local companies. As part of Mozal's Community Development Trust, which tries to maximize positive impacts for the local community, farm extension services have been provided to 1,200 farmers.
- An ongoing linkage supply program developed by the IFC-managed Africa Project Development Facility (APDF) helps small businesses win and deliver Mozal phase II construction contracts.

Chad-Cameroon Petroleum Development and Pipeline Project

- The WBG worked closely with the sponsors to put in place features to ensure economic benefits for local businesses — to date more than $340 million has been spent, more than $139 million in Chad alone. Ongoing training enables SMEs to win pipeline-related contracts. The Support and Training Entrepreneurial Program (STEP) was launched in Chad by IFC to train university graduates to consult, train, and develop small- and micro-enterprises. Already 14 field officers are working with more than 150 enterprises.
- IFC is working with the U.S. organization Africare to implement a project to provide food to petroleum workers in the short term and to the general population in the long term. Eight enterprises have been created and more than 120 people have received training and financing.

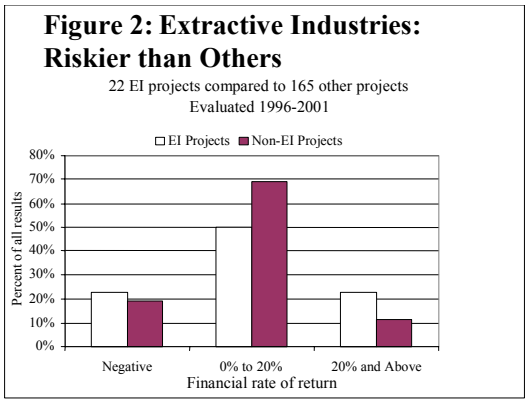
Yanacocha Gold Mine, Peru

- IFC is working with Yanacocha to implement a Rural and an Urban Development Program. Many program components have been implemented with NGOs, rural communities, and the city of Cajamarca. Yanacocha and external donors have respectively provided more than $15 million and $7.3 million for these programs.
- Local SMEs supplying goods and services participate in quality management training focused on international business practices and environmental and safety standards to improve productivity and win Yanacocha contracts. A training program equips tradesmen to participate in the construction of a housing complex that will be developed over the next five years. Also, SME suppliers of components, such as window frames, are being assisted.
- Another program has been established to build local farmers' capacity to supply the mine's canteen and hotels. Similarly, local artisans in ceramics and textiles have been identified for training in design, production, and marketing and are supported at local and international trade fairs.

Data provided by the WBG's SME department and summarized by OEG

[23] Chad (2000), Chile (1957), Gabon (1982), Ghana (1984), Guinea (1982), Guinea-Bissau (1989), Kyrgyz Republic (1995), Mauritania (1968), Russian Federation (1993), Tajikistan (1996), Uzbekistan (1994), Zimbabwe (1981). EI projects have been among the first investments in several other countries.

17. *Financial returns — for IFC and other investors — were better than for other sectors.* OEG evaluates both business success — whether projects were attractive for all investors[24] — and IFC's own investment results. Business success was better in EI (55 percent positive) than in other sectors (44 percent). While this result is not significantly different, it is noteworthy that it was achieved in very difficult country circumstances. Controlling for country risk, the business success of EI projects was significantly better than for other projects, indicating that EI projects can be among the few attractive investment opportunities in difficult countries. IFC's investment results on a portfolio basis are also substantially better than in other sectors, enhancing IFC's overall profitability and helping to support IFC's activities in other sectors.



18. *... but financial risks were also higher*. For investors the sector is also riskier than others. For example, while EI projects featured more extremely positive financial results (financial rates of return > 20 percent), they also featured more financial losses (Figure 2). IFC's equity investments in EI are as likely to succeed as those in other sectors — about one-third of the time — but successful investments are more likely to result in large returns. IFC's strong portfolio results are carried by a handful of very big winners. In all of them, IFC invested early in the project's development, taking considerable risk. Overall in the portfolio, such winners tended to be concentrated in Latin America, in countries with at least reasonable governance, and in oil, gold, and copper — the largest exposures by sub-sector.[25]

19. The main drivers of project business success were quality of management and the resource; commodity prices; and the country's governance and investment climate. Among the studied projects, the following tended to be the main business success drivers:

- *Quality of management*: Strong management and a financially committed sponsor are crucial to deal appropriately with production challenges and market downturns — but were sometimes missing.
- *Quality of the resource*: Only resources that are globally cost-competitive are likely to result in attractive financial returns. IFC and the sponsors have sometimes overestimated the quality of the resource or — put differently — underestimated the difficulties and costs to extract and process it.
- *Commodity prices*: The 1990s have been a decade of falling prices for many commodities. For example, from 1990 to 1998 oil prices dropped in real terms by over 40 percent, gold by over 20 percent, and copper by almost 40 percent. This has had negative effects on the projects IFC supported, and shows the importance of investing in the lowest-cost producers. Several commodity prices have since recovered, so the current outlook is probably brighter than at the evaluation stage.

[24] The benchmark for a satisfactory business success is whether the real (inflation-adjusted), after-tax financial rate of return exceeds a company's estimated weighted average cost of capital.
[25] Annex 1 contains more information on IFC's EI investment activities.

- *The host country environment*: Taxation regimes are an important determinant of returns to investors, as are other features of the enabling environment. In several cases, viable projects had poor returns to investors because of government actions, such as retroactively increased taxation or transit fees. Better regulatory quality was significantly correlated with better financial results, as was political stability, which was also significantly correlated with better development results and environmental effects.

4. Environmental and Social Issues — From "Do No Harm" to Sustainability

20. *IFC has continually expanded the scope of its environmental and social assessment.* In 1988/89, IFC began its own reviews and appointed its first environmental advisor.[26] Initially, IFC followed the World Bank's safeguard policies, guidelines, and procedures, but gradually IFC developed its own, better adapted for the private sector. From 1993, IFC developed sector-specific guidelines for areas not covered by the World Bank's existing guidelines and adopted specific procedures for environmental review in 1992/93. In 1998, after extensive consultation, IFC revised its review procedures and adapted several safeguard policies for the private sector. It also developed a policy statement on harmful child and forced labor (the World Bank lacks such a policy).[27] Also in 1998, the World Bank updated its Pollution Prevention and Abatement Handbook[28] (PPAH), providing industry-specific guidelines that apply to WBG projects. IFC continues to modify its operating procedures and to develop additional industry-specific guidelines.[29]

21. *Lessons from experience lead to changes in policies, guidelines, procedures, and practices.* Based on past evaluation findings, OEG has also made numerous recommendations with respect to environmental and social safeguard policies, guidelines, and procedures, many of which have been implemented. IFC's Environmental and Social Development Department also feeds lessons from practical experience and research into upgrading procedures within the department. For example, IFC introduced a guideline on hazardous materials handling, in part motivated by the Yanacocha mercury spill and the Kumtor cyanide spill. IFC produced a guideline for offshore oil and gas projects before investing in Early Oil, Azerbaijan. Thus, the body of policies, documents, and procedures that codify IFC's environmental and social operating procedures and practices is constantly adapting. The recently completed safeguard policy review by the Compliance Advisor Ombudsman (CAO) is likely to also result in changes.

22. *IFC increased staffing in support of the increased focus on environmental and social issues.* Starting with one staff, IFC hired additional environmental and later social experts between 1990 and 2002, and currently employs almost 40 specialists. Their role is to appraise and supervise projects to ensure that projects financed by IFC meet the applicable environmental and social safeguard policies and guidelines, and improve projects "beyond compliance." In recent years, IFC's environmental and social experts have spent more time on EI than on any other sector, highlighting the sector's high impact potential in this area.

23. *IFC categorizes projects based upon their potential environmental and social impact.* When a project is first presented to IFC, the environmental and social specialists categorize it according to its potential negative impact. The categorization determines how IFC appraises and supervises a project and what actions will be sought from the clients. A category A[30] pro-

[26] Before that, the World Bank reviewed the environmental aspects of IFC's projects, using guidelines initially published in 1984 and revised in 1988.
[27] Available on line at http://www.ifc.org/enviro/EnvSoc/childlabor/childsafeguard.htm.
[28] Available on line at http://www.ifc.org/enviro/enviro/pollution/guidelines.htm
[29] Ibid.
[30] Category A projects are "likely to have significant adverse environmental impacts that are sensitive, diverse, or unprecedented." They require EIAs that normally cover (a) environmental and social baseline conditions; (b) potential environmental and social impacts (direct and indirect), including opportunities for enhancement, cu-

ject — considered likely to have significant adverse environmental and social impacts, unless prevented or mitigated — requires peer review, triggers a detailed and disclosable assessment document (Environmental Impact Assessment, or EIA), a public consultation process, and frequent supervision throughout the life of the project. A category B project — with lesser potential impact than category A — has a narrower environmental assessment, requires only submission of an environmental summary and, in practice, receives less direct supervision. Some NGOs have criticized IFC for "under-categorizing" projects, and have argued that all EI-projects should be category A. Management — and the CAO — maintains that projects should be categorized reflecting their impact potential. OEG usually found projects to be appropriately categorized, but given unclear guidance and lacking documentary explanation it is sometimes difficult to understand the rationale for categorizations.[31] Even so, IFC sometimes goes beyond the requirements for category B projects, for example, subjecting them to independent audits.

24. *EI projects have high potential for negative environmental and social impact.* About 40 percent of IFC's EI investments are category A (most others are B), compared to 3 percent of IFC's non-EI investments. More than 40 percent of IFC's total category A investments are thus in EI. This indicates the high environmental sensitivity of the sector and IFC's commitment to thorough environmental review and monitoring of the sector. In support of this commitment, IFC's environmental and social specialists spent one-third of their time on the EI portfolio in fiscal year 2002.

25. *Resource-rich countries are more likely to have problems achieving important development goals.* The WBG has assessed the likelihood that countries will achieve important Millennium Development Goals.[32] OEG then analyzed whether EI-dependent countries were more or less likely to achieve the Millennium Development Goals than other developing countries. Only the goal of reduced child malnutrition was much more likely to be achieved in EI-dependent countries (likely or possible in 67 percent of countries) than in others (51 percent). EI-dependent countries were less likely to achieve almost all other goals, most notably increasing access to clean water (58 percent versus 72 percent), reducing child mortality (46 percent versus 65 percent), maternal mortality (45 percent versus 59 percent), and HIV/AIDS (50 percent versus 63 percent). IFC has recently started an initiative against HIV/AIDS, with 6 of 14 engagements with client companies working in the EI sector (Box 2).

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mulative impact, and other anticipated developments; (c) systematic comparison of feasible alternatives, sites, technologies, and designs; (d) preventive, mitigating, and compensatory measures; (e) capacity for environmental and social management and training programs; (f) detailed results of the public consultation and disclosure program; and (g) monitoring. It usually quantifies: capital and recurrent costs, environmental and social staffing, training, monitoring requirements, and the benefits of proposed alternatives and mitigation measures. See www.ifc.org/enviro/EnvSoc/ESRP/esrp.htm.

[31] For example, a feasibility study for a project that would — if implemented — be categorized as 'A' was categorized as 'C' (no impact); an exploration project potentially affecting a nature reserve and indigenous people was categorized as 'B.' The CAO's safeguard policy review found that decisions about categorizations "may be inconsistent and non-transparent." IFC's Environment and Social Development Department conceded that consistent categorization was difficult. This suggests a need for better guidance, transparency and peer review.

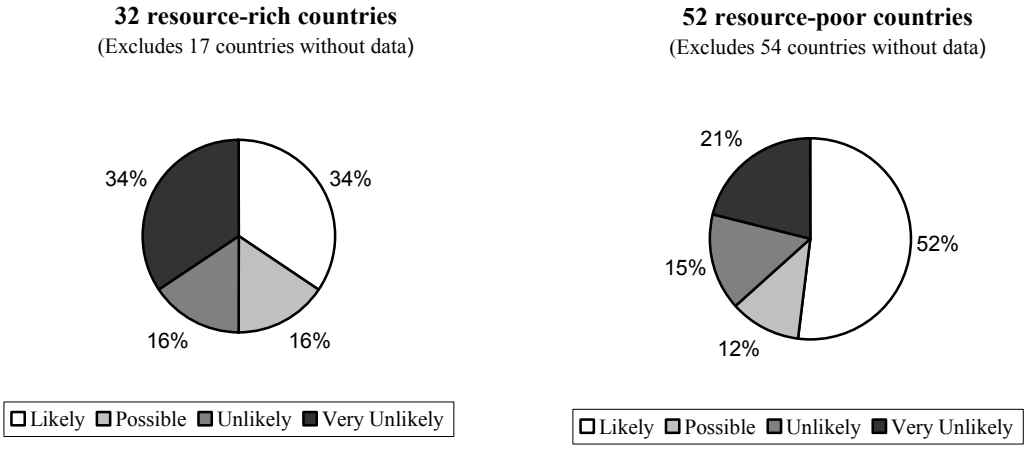
[32] For a more detailed description of the Millennium Development Goals see www.developmentgoals.org. We did not have sufficient data to analyze performance for the important goal of poverty reduction. Also, OEG's analysis did not control for other factors that may affect achievement of Millennium Development Goals, such as, for example, income per capita.

Box 2: Extractive industries and HIV/AIDS

The majority of the private sector, including most of IFC's clients, is still not meaningfully involved in counteracting HIV/AIDS, a disease that affects communities, workers, and managers. Businesses will feel the impact of HIV/AIDS most clearly through their workforce, with direct consequences for a company's profitability. Some sectors are more risky than others regarding HIV transmission. Extractive industries tend to be particularly at risk, since they usually provide employees with salaries that are significantly higher than those of the general population and their operations also rely on a workforce separated from their families for long periods of time. Such conditions have systematically contributed to high-risk behavior, in extractive industries and in related activities, such as infrastructure construction and transportation. The rural settings of EI operations, which — unlike more urbanized areas — often lack government health, education, and prevention programs, further increase the level of risk. Thus, the communities in which extractive industries operate have a heightened AIDS risk. The figure below also illustrates that resource-rich countries are less likely to achieve the Millennium Development Goal of halting or reversing AIDS by 2015.

HIV/AIDS: Worse in resource-rich countries

Likelihood of achieving the Millennium Development Goal of halting or reversing AIDS by 2015.



The program "IFC Against AIDS" provides guidance to its clients to design and implement education, prevention, and care programs in support of employees and the communities in which they work and live. Under this initiative, IFC has to date worked with 10 clients (four in EI) on HIV/AIDS programs and is starting to engage with four more (two in EI). With the help of trust funds, IFC is also working on putting together an HIV/AIDS toolkit that would help mining companies become effective partners in the prevention and treatment of HIV/AIDS, both for the mining workforce and the communities dependent on the mines. The assignment is to identify, evaluate, and disseminate selected examples of public-private partnership approaches to HIV/AIDS prevention and treatment in the mining sector that have proved to be workable and cost-effective.

Among the clients with whom IFC has worked is Mozal, an aluminum producer in Mozambique, which has a strong HIV/AIDS program in place that includes education and awareness, voluntary testing and counseling, and supplementing medication available at local hospitals. For more information on the program, see Mozal's Health, Safety, Environment and Community Report (www.mozal.com).

For more information on IFC's initiative, see www.ifc.org/test/sustainability/docs/IFC_against_AIDS.pdf.

IFC's Results in Mitigating Negative and Enhancing Positive Impacts

26. *Mixed environmental and social results for EI projects.* Using only the random sample of detailed evaluations,[33] the results for mining (4 of 10 projects, or 40 percent rated positive) are significantly worse and those for oil and gas (11 of 12, or 92 percent positive[34]) are significantly better than those for other projects (65 percent). Using the broader, but less in-depth analysis of the entire portfolio,[35] the positive results for oil and gas (94 percent positive) are confirmed; mining projects (62 percent positive) are not different from the IFC average (65 percent). For mining, the better performance of the broader portfolio of studied projects, compared to the evaluated sample, indicates that, on current outlook, performance has improved.[36] To validate results from the evaluations and desk reviews, OEG staff visited 13 EI projects (Box 3). Each field visit included an environmental specialist with EI experience or a mining engineer. The field visits confirmed for the most part the information in IFC's files.

27. *IFC's oil and gas projects performed well, but there are issues beyond compliance.* The oil and gas sector is dominated by multinationals that in recent years have stated their commitments to improve performance and enhance sustainability and are also disclosing results achieved. OEG's analysis also found that the performance of projects sponsored by major multinationals was much better than that sponsored by smaller companies. IFC could usefully transfer knowledge and disclosure standards from these companies to less-progressive companies to improve overall sector performance.[37] While oil and gas projects have an almost spotless compliance record, OEG observed one instance of non-compliance with respect to wastewater discharges, which was later corrected. In another case, an oil pipeline (replacing truck traffic) in an area later designated as national park raised complex environmental and social issues. When IFC exited two years after disbursement, the project was not in full compliance with IFC's requirements, but the sponsor was working toward it. Other projects raise issues beyond IFC's requirements.

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[33] Twenty-two projects approved 1991–96 and evaluated 1996–2001, 10 in mining and 12 in oil and gas.

[34] There was insufficient information to rate the 12th project, since IFC had exited from the investment.

[35] The portfolio analysis is mainly based on desk reviews, even though some of the results were verified through OEG's 13 field visits. It excludes 14 projects that were considered immature and 5 projects from which IFC had exited and insufficient information for an overall assessment was available. It also "summarizes" ratings for multiple projects in the same company and takes into account longer-term developments than the typical five-year span of the more detailed evaluations. See Annexes 2E and 2F.

[36] Ratings for the sample of evaluated projects were not updated to incorporate new information, to remain comparable with those of non-EI projects in the same sample and allow for meaningful statistical analysis. For the studied projects, such new information was incorporated. For example, in several cases material problems had later been corrected and OEG considered that the earlier shortfalls were not material enough to warrant a rating less than satisfactory. Also, the evaluated sample included 1991–92 projects, some with environmental problems, that were no longer considered in the studied portfolio (approvals since 1993 and current portfolio).

[37] For example, some companies have established a zero flaring goal. Shell's and BP's sustainability reporting is considered among the best in the oil industry. See for example www.sustainability.com for the "Top 50" corporate reports.

Box 3: Observations from OEG's site visits and country studies

OEG staff visited 13 projects in 6 countries.[a] Evaluators analyzed the overall country and sector context, reviewed first hand the impact of IFC's projects (and to a lesser extent other projects) and asked representatives from government, civil society, industry, and the WBG about their perceptions. The main observations were:

- EI projects, their relations with communities and their impacts are extremely complex.
- For the most part, the field visits confirmed information in IFC's files, but they also found surprises — good and bad — demonstrating that, even with diligent supervision from Washington and occasional field visits, IFC will always be struggling to remain fully informed.
- IFC projects usually brought direct jobs and other opportunities; most projects improved access to infrastructure and services for many people, often in remote areas.
- Some client companies were especially proactive in trying to increase these opportunities for local people by providing training for potential employees and suppliers — sometimes with IFC's help.
- Opportunities attracted people from outside the project area; their influx sometimes caused environmental and social problems for the existing community; particularly where the capacity of local governments was weak, companies found it difficult to cope.
- Not everyone benefited, and negative environmental and social impacts were not always adequately mitigated.
- IFC-supported projects appeared to operate to higher standards than others; nevertheless, NGOs focused their criticism on projects supported by IFC, other international financial institutions and multinational companies, perhaps because they felt they had more leverage there than at the national level.
- NGO criticism alerted IFC to problems on several occasions; but some criticism was unwarranted, and views expressed by different NGOs — e.g., local versus international — sometimes differed substantially.
- The very strong contribution by IFC's environmental and social development specialists in several projects was acknowledged by clients and communities with whom they interacted.
- But these interactions often came late, responding to problems rather than proactively preventing them — which would have been more effective and cheaper; more systematic tracking of key risk factors could have prevented some problems.
- Companies that consulted early and continuously with the local community had more effective support programs that did not necessarily cost a lot, but established trust and support.
- Once the trust of the local community is lost — for example, following an accident — companies find it very costly to regain it.
- Affected communities usually saw few benefits from the taxes and royalties companies paid to governments — either little money flowed back or it was not effectively used.
- Companies were expected to make up for the lack of government services and many of them did a lot: providing roads, water, or power; or supporting education and health services for the community. But companies are wary of taking on too much: not only can it be costly and create further expectations, it also creates an unsustainable dependency on a limited-life EI project.
- Several clients asked OEG about best practices with respect to social, environmental, health, and safety issues. There is much potential to share best practices among IFC's client companies; for example, one mining company gave sewing machines to village women who, once they had developed skills making uniforms for the mine, began to export clothing.

a. Argentina, Brazil, Ghana, Kazakhstan, Kyrgyz Republic, Peru. In one country (Kyrgyz Republic) the focus was mainly on the environmental and social performance of the project.

- First, several projects feature routine *gas flaring*. When they were approved, this was not covered by a specific guideline. Even today, the WBG guidelines for onshore oil and gas projects are not very specific on this issue, particularly when compared to more recent IFC offshore guidelines.[38] In any event, it was difficult to establish the extent of the problem, since IFC management does not systematically track gas flaring — or greenhouse gas (GHG) emissions — for all portfolio projects. IFC will calculate GHG emissions for future projects (see Box 4 on climate change), but it is unclear whether they will also be tracked during supervision. Also, the WBG is now leading a global gas flaring reduction initiative, which includes — as a first step — tracking gas flaring, followed by a number of possible steps to reduce the problem.[39]
- Second, *transportation* of oil could have been addressed more thoroughly in some cases. For example, NGOs raised concerns about spills from pipelines used by, but not part of, IFC projects. In another project, OEG discovered that environmental staff were unaware that a project had started to transport oil using trucks and rail rather than the originally anticipated pipeline, and environmental management of this transport mode appeared insufficient. The environmental impact of the transportation infrastructure for IFC's oil and gas projects has not always been a focus in the past, but recently IFC has begun to pay more attention to this issue. However, it can be a difficult issue to address, since it is often "beyond the fence line" of control by the project sponsors.

Box 4: IFC's position on climate change (excerpts)

IFC recognizes the long-term risk from climate change. While the Kyoto Protocol puts the main responsibility for reducing greenhouse gas (GHG) emissions on developed countries, IFC believes it can have a role in reducing the GHG intensity of economic activity in developing countries. IFC requires that environmental assessments for each project consider global environmental aspects, including climate change. GHG emissions are quantified and disclosed for projects with potentially significant emissions. IFC actively promotes market-based solutions. In particular, IFC:

- Seeks to reduce methane and carbon dioxide emissions in hydrocarbon extraction projects;
- Will invest in cleaner coal projects that demonstrate best practice in addressing environmental and social issues;
- Will support low-cost energy solutions for developing countries (in parallel with WB policy reform);
- Pursues projects generating GHG emission reduction credits, and establishes relationships with potential buyers;
- Uses concessional funding (Global Environment Facility — GEF) to promote renewable energy and energy efficiency where appropriate;
- Devotes substantial resources to find, develop and fund projects for renewable energy;
- Will support funds to purchase GHG emissions credits when the market is ready; and
- Pursues projects that reduce losses in power transmission and distribution.

(http://www.ifc.org/test/sustainability/docs/Climate_Change_IFC.pdf)

[38] IFC's 2001 offshore guidelines require: minimize low pressure and eliminate high pressure flaring (or justify where this is not possible); eliminate continuous venting and minimize emergency venting; calculate annually GHG emissions. The World Bank's 1998 onshore guidelines just state "minimize flaring" but "flaring is preferable to venting."
[39] See www.worldbank.org/ogmc/global_gas.htm.

28. *Mining projects, particularly gold, had some environmental problems.* The broad range of environmental and social issues facing mining projects require a strong focus by the sponsoring company just to achieve compliance with IFC's guidelines. Gold mining projects — the largest share of IFC's mining projects — had a higher incidence of reported problems. Gold production usually involves toxic materials (e.g., cyanide, mercury, arsenic), and weaknesses in their handling were the most frequent problem. In response, IFC has developed a hazardous materials management guide, but as yet has not urged all its existing client companies to follow it. IFC also participated in the steering committee developing the Cyanide Management Code.[40]

29. *For a positive rating, projects need to be, over their lifetime, in material compliance with IFC's at-approval requirements*, which are considered a proxy for what IFC considered acceptable environmental performance. Projects are thus not measured against current requirements, unless at-approval requirements were clearly out-of-line with sound environmental practice in place at the time.[41] Thus, some projects rated satisfactory would not comply with current standards. Given the rapid evolution of industry standards, IFC may consider:

- Continuously updating guidelines and policies as industry standards evolve;
- Routinely advising clients when IFC updates guidelines;
- Identifying and documenting any shortfalls against the latest guidelines during supervision and urging clients to comply voluntarily; and
- For future projects, perhaps contractually obligating clients to achieve compliance with updated guidelines; however, this may be difficult to negotiate, since clients are unlikely to subscribe to a "moving target."

IFC helping to generate sustainable benefits

30. *Community Development — the shift from "do no harm" to "doing good."* IFC's previous focus on mitigating negative impacts to ensure compliance with safeguard policies is increasingly moving toward a focus on enhancing positive socio-economic impacts in its EI projects as part of a broader sustainability initiative. For example, in 2000, IFC issued guidance on community development.[42] The WBG's Small and Medium Enterprise (SME) Department has worked with several communities to assist in the development of small businesses in connection with high profile projects, with a particular focus on EI.[43] IFC policy encourages community development plans, but has not made them mandatory for EI projects.[44]

31. *IFC often goes beyond the guidelines and policies.* OEG has observed that in many cases, IFC establishes internal procedures for appraisal and supervision of projects that go

[40] The code can be found at www.cyanidecode.org/thecode/thecode.PDF.
[41] IFC's policy requires that "all its operations are carried out in an environmentally and socially responsible manner."
[42] *Community Development Resource Guide for Private Companies* (IFC, 2000), http://www.ifc.org/enviro/Publications/Community/IFC_CDR_Guide.pdf. Also, the World Bank Mining Department hosted a conference on Local Management of Mineral Wealth, June 2002.
[43] Examples of SME linkage programs in EI include: Chad-Cameroon Pipeline; Kyrgyz Republic — Kumtor Gold Mine; Mozambique — Mozal Aluminum Smelter; Nigeria — Niger Delta Contractor Credit Facility.
[44] An IFC specialist for social development expressed some frustration that investment staff sometimes resist community development plans since they are not mandatory (unless the project involves resettlement).

beyond the minimum standards of the published guidelines. For example, even where they were not required, IFC has:

- helped clients implement community development plans, sometimes using trust funds (Box 5 and Annex 3);
- helped clients with HIV/AIDS initiatives (see Box 2);
- requested *cumulative* EIAs; and
- encouraged some clients to adopt the new hazardous materials management guidelines.

Box 5: Donor-supported trust funds contribute to IFC's sustainability initiative

Since 1994, through IFC's Trust Fund Unit, donors have spent $3.5 million to support technical assistance for 22 EI-related projects — mostly in the past three years (Annex 3). Increasingly, technical assistance supports sustainable development, including a conference in China to improve the investment climate for sustainable mining, and a global initiative to disseminate examples of successful approaches to HIV/AIDS prevention. So far, the projects appear to have been broadly successful. However, because Project Completion Reports have often not been prepared, OEG was unable to assign project ratings. Technical assistance demand by the EI sector — focusing on social and environmental development — is likely to grow. Through better tracking, IFC would be in a better position to understand and communicate the impacts of its technical assistance program to its donors and the public.

32. *The WBG has developed policies, guidelines, practices, and procedures that are setting standards and help improve the sector's contribution to sustainable development.* Many observers — international organizations, government, industry, and NGOs — concur that the World Bank Group's requirements and guidelines set a high standard.[45] A 2001 UNEP study observed that the participation of multilateral financial institutions significantly raises the environmental and social standards of a project. Other multilateral (e.g., European Bank for Reconstruction and Development, Inter-American Development Bank) and bilateral institutions reference and some use IFC and World Bank guidelines. Several government officials have commented that WBG guidelines are an important benchmark when setting local standards. Industry also sees positive value: 95 percent of clients in EI saw IFC's requirements as primarily helpful to their long-term interest, compared to only two-thirds of all clients[46]. Some clients and even other companies list in their annual report that they comply with IFC guidelines[47] and several industry representatives commented that IFC's and the WBG's guidance materials — particularly on social issues — are very helpful. For example, IFC has published "good practice" manuals on public consultation, resettlement, HIV/AIDS, child labor,

[45] A United Nations Environment Program (UNEP) study, *The Role of Financial Institutions in Sustainable Mineral Development*, 2002, recommended benchmarking projects against international standards, such as the WBG guidelines (www.mineralresourcesforum.org/docs/pdfs/zemek.pdf). A 2001 study for Japan's Ministry of the Environment considered WBG guidelines to be the highest among international financial institutions (http://www.env.go.jp/en/jeq/v006-04.pdf). Industry associations (OGP/IPIECA study, *Key questions in managing social issues in oil & gas projects*, www.ipieca.org/downloads/social/impact_assessment.pdf, 2002) recognize that WBG policies and guidelines set de-facto standards where others do not exist — for example on resettlement. These positive views were confirmed by OEG's own evaluations, research, and interviews.

[46] *The Environmental and Social Challenges of Private Sector Projects: IFC's Experience* (2002), http://www.ifc.org/publications/pubs/loe/loe8/loe8.html

[47] This can put IFC in a difficult position, since it does not disclose the environmental performance of projects. For example, one client claimed compliance even though an evaluation had just established material non-compliance. Clearly IFC cannot verify claims of non-clients.

and community development.[48] By publishing guidance[49] on topics such as mine closure and community development, by hosting workshops and participating in, or leading sector initiatives, the WBG is highly visible, taking a leadership role in improving environmental and social impacts. In 2003, some of the largest private project finance banks have committed to adopting IFC safeguard policies and guidelines, thus broadening their reach.[50] Nevertheless, many other financial institutions and export credit agencies still lack such standards (Box 6).

Box 6: Lack of similar standards in other financial institutions

Many businesses recognize that "addressing sustainable development is critical to their long term survival, and to delivery of enhanced shareholder value."[a] But there is also much concern that similar standards do not apply to everyone. NGOs use WBG guidelines to point out weaknesses in other financial institutions' requirements and are concerned about a "race to the bottom."[b] UNEP noted in 2001 that, despite some progress since 1999, most export credit agencies (ECAs) were lacking adequate environmental and social requirements — all the more worrisome since their investment volume in the sector is much larger than that of the multilateral institutions. Some IFC investment staff expressed concerns about losing business to financial institutions with lower standards when IFC cannot convince potential clients that IFC's guidelines are in their own long-term interest. OEG found that NGOs are often vocal critics of projects supported by international financial institutions and multinational corporations, but do not necessarily raise similar concerns about local or state-owned companies with worse performance.

a. For example, *Mining & Minerals Sustainability Survey 2001*: A PriceWaterhouseCoopers survey of 32 world-class mining and minerals organizations.

b. Numerous examples include ECA-Watch (www.eca-watch.org/problems/impacts.html) demanding to "stipulate World Bank and OECD DAC (Development Assistance Committee) standards as the minimum acceptable" for export credit agencies.

33. *Nevertheless, some guidelines are inconsistent, incomplete, or missing.* Given the WBG's high visibility, it is particularly important that its guidelines be regularly updated and conform to at least "good practice" standards in the industry and among financial institutions. IFC did not update its safeguard policies for several years and some are now inconsistent with World Bank guidelines.[51] For example, staff told OEG that IFC projects now must comply with a draft, non-public version of the 1999 policy on safety of dams, not with the 1996 version on IFC's web site, nor with the 2001 World Bank policy. Similarly, IFC does not use the "new" World Bank 2001 involuntary resettlement policy but the "old" 1990 policy, combined with a resettlement handbook, which is appreciated by practitioners, but not mandatory. While OEG was told that what applies is clear to IFC's specialists, to any outsider it must appear extremely confusing. There are also numerous examples of inconsistent or incomplete IFC guidelines. For example: Requirements for closure plan funding differ for different types of mines (coal, open pit mining, base metal mining). IFC promised specific guidelines for cyanide leaching in gold mining in 1998, but these have yet to be published. Ongoing consultations are seen as critical for enhanced community development, but not re-

[48] Available on line at http://ifchq14.ifc.org/Apps/OSD/IOToolkit.nsf/Resource?OpenFrameSet
[49] See, for example, the guidance notes at www.ifc.org/enviro/EnvSoc/ESRP/Guidance/guidance.htm.
[50] Banks adopting the so-called "Equator Principles" – a voluntary set of guidelines based on the social and environmental policies of IFC and the World Bank – are ABN AMRO Bank, N.V., Barclays PLC, Citigroup, Inc., Credit Lyonnais, Credit Suisse Group, HVB Group, Rabobank, Royal Bank of Scotland, WestLB AG, and Westpac Banking Corporation.
[51] IFC did not update safeguard policies during the CAO review of these policies.

quired. Social issues are recognized to be crucial for mine closure, but not addressed in the requirements. IFC's 2001 guidelines for offshore oilfields place much more emphasis on reducing gas flaring and other sources of greenhouse gas emissions than the applicable 1998 WBG guidelines for onshore oilfields. IFC's requirements for identifying and controlling impacts of downstream transportation of oil and gas projects are generally adequate, but may need to be more specific on road and rail transport of oil, oil products, and gas. There are also some areas, such as human rights, that are not covered by IFC's guidelines, but are being addressed by the industry or other bilateral or multilateral institutions.[52]

34. *Leading EI companies have signed up to "Voluntary Principles on Security and Human Rights," but IFC has no such requirements.* Human rights organizations have repeatedly noted violations of the rights of individuals in connection with EI projects, particularly in the oil sector.[53] EI projects involve large investments, often in countries where security, including the threat of war or terrorist attack, is a concern. IFC has approved projects in several such countries, where sponsors were working with the army or private security forces to protect their property. Since IFC usually leaves security issues up to client companies, there is potential for problems to develop. A few IFC clients have been accused of human rights violations, and IFC has been criticized for supporting projects that could lead to such violations. Following an initiative led by several countries, many industry leaders and NGOs have signed up to "Voluntary Principles on Security and Human Rights."[54] However, IFC currently has no policy or guidance on country-internal conflicts[55] or potential human rights abuses, and does not usually specify how its client companies should protect staff and assets. Given the potential risks for people in the host country and for IFC's own reputation, this appears to be a significant gap and an area where corporate best practice is not yet reflected in WBG standards and guidelines.

35. *Policies, guidelines, best practice, and results in the field*. Operational policies and guidelines provide direction to IFC staff and clients. But the ultimate test of their usefulness is whether they improve results in the field. Safeguards are useful, but identification of potential problems by investment officers is equally important so that these issues are not overlooked. Therefore, additional training of investment staff to recognize social and environmental issues in EI projects throughout the project cycle would be useful. Investment officers need not have the expertise to replace environmental and social development specialists, but should have sufficient skills to recognize problems and the benefits of getting specialists involved in internal and external project preparation at the earliest possible time. Particularly, investment staff intervention to bring specialists into early contact with sponsors and to encourage sponsors to retain skilled and experienced social specialists in relevant situations is of prime importance. Strong management support, and recognition of investment officers who proactively engage with sponsors to address social and environmental issues, is essential for improved sustainability of IFC projects.

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[52] Interestingly, many of these issues are covered in the "best practices" for oil and gas compiled with input from different stakeholder groups and hosted on the World Bank's web site. However, these "best practices" (www.worldbank.org/ogsimpact/) are unofficial and not even well known within IFC.

[53] www.hrw.org/corporations/

[54] www.state.gov/www/global/human_rights/001220_fsdrl_principles.html

[55] The World Bank's Operational Policy 7.60 (OP 7.60, June 2001) "Projects in Disputed Areas" relates to disputes among countries, not within a country.

36. *Problems can arise when IFC's environmental and development specialists are not involved early enough.* Several projects had problems that could have been prevented or more easily mitigated had there been early interaction between IFC's social specialists and the project sponsor. For example, in one Latin American project, IFC became involved in the early 1990s, but the first social development specialist input from IFC came many years later, since IFC only hired social specialists starting in the mid-1990s. IFC's specialist recommended that the sponsor employ more social specialists to adequately address community issues, including conflict resolution. But this recommendation was only taken seriously after the social and environmental impacts of a subsequent spill became apparent. The sponsor now has a very proactive social department of 15 people who consult with both rural and urban stakeholders around the project.

37. *Supervision for EI projects is better than for the overall IFC portfolio, but gaps remain.* IFC's supervision for EI projects was significantly better overall than for other sectors, with 82 percent (versus 59 percent) rated satisfactory. In part, this reflects the necessity of closer supervision of environmental and social aspects since many EI projects face complex environmental and social issues. Nevertheless, there are important gaps:

- IFC had insufficient information to assess the environmental performance for several EI portfolio projects, often where IFC only had an equity investment or in older projects preceding the introduction of IFC's 1998 procedures.[56]
- IFC was caught unaware because of weak monitoring, or less than full disclosure by companies, of problems relating to handling of hazardous materials, mine closure plans, acid rock drainage, tailings impoundments, IFC's resettlement policy, gas flaring, and transportation of oil.
- While project-level supervision overall was strong, IFC's management and information systems do not provide adequate centralized data on environmental and social issues for the portfolio. For example, management is only now starting to develop overview reporting templates specifying: which safeguard policies and guidelines apply to specific projects and whether projects comply with them; which mining projects have appropriate mine closure plans and funding in place; and which oil and gas projects involve routine flaring. Some, but not all, of these issues will be addressed through IFC's new management information system.

38. Many of IFC's EI projects are in countries with inadequate environmental and social governance; this strongly challenges IFC in terms of resource allocation, reputation risk, and responsibility. Many host countries lack adequate environmental laws, regulations, and enforcement. Previous OEG studies[57] have found significantly worse performance in such countries. EI projects are particularly concentrated there, and IFC's potential added value is thus also greatest. But this also requires substantial resources for IFC to ensure compliance. It is unclear whether IFC will ever — or should — be in a position to replace host country enforcement. In addition, even if IFC can ensure compliance while it is an investor, it can typi-

[56] No assessment of the environmental effects of eight projects was possible: in five, IFC no longer had an investment and had insufficient information before exiting; in one, the sponsor does not have the contractual obligation to report because IFC only has an equity investment; in two, projects had not begun commercial operations. Even for newer equity investments, IFC is not always able to contractually require compliance with its environmental policies and guidelines — but IFC's review procedures do not distinguish between investment instruments.

[57] For example, OEG's *Annual Review of IFC's Evaluation Findings: FY2001,* in OEG *Findings*, April 2003 (http://www.ifc.org/oeg/OEG_Findings_042103.pdf).

cally not influence performance after exiting its investment.[58] Also, some issues (e.g., new settlement in areas of resource development) are difficult for IFC and its clients to deal with in the absence of government support. Yet IFC does not consistently assess the institutional capacity of national government agencies. In some cases there was a preceding or concurrent World Bank involvement to upgrade government capacity, but this is not the norm.[59] This raises the question whether IFC ought to more routinely seek World Bank assistance to upgrade government's environmental review capacity where it is found lacking. A complementary action that would reduce the burden on IFC would be to require that clients subscribe to international standards of independent monitoring.[60] In all new category A projects (and for some category B projects), IFC requires independent audits or at least independent verification of the Annual Monitoring Reports (AMRs). Such requirements could reduce the supervision load and reputation risk for IFC, but this has to be balanced against the higher cost for the client — who also benefits from improved performance.

39. *Baseline data is important, but was not always sufficiently established or tracked.* EIAs prepared for category A projects are required to include a comprehensive baseline survey of environmental and social conditions. Yet for several past projects this had either not been completed, or did not provide enough information.[61] A detailed inventory of the environmental and social conditions before breaking ground for exploration is crucial to track development results, and is also in the self-interest of the company. Local communities — understandably — highlight areas where they want improvements, and do not necessarily give credit for past improvements achieved. It is common for the EI industry to be charged with claims of polluting air and water, degrading land, destroying structures, and more generally worsening livelihoods. While many claims are real, some cannot be substantiated.[62] Extensive baseline data, later tracked in ongoing monitoring programs, would help distinguish the two and allow establishing and appropriately compensating negative impacts. It would also help the company — and IFC — to demonstrate positive developments.[63] On the other hand, monitoring and baseline surveys are costly. It is therefore important to establish the most important environmental and socio-economic indicators in the EIA, and identify how they should be tracked later. IFC has recently started to track development results more systematically in its supervision, and well-designed EIAs and AMRs could help in this respect.

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[58] An exception is one project where IFC had put in place funds for mine closure before exiting, and controlled their use even after the exit. IFC is now handing over the responsibility to oversee use of the funds to the local regulatory agency.

[59] For example, World Bank sector adjustment loans in Ghana and Peru helped support capacity building for proper environmental governance in EI. But due to insufficient funds, it is unclear whether the monitoring regimes will be sustainable.

[60] For example, by securing ISO 14001, BS8800 and/or NOSA ratings.

[61] For example, one IFC client did not complete a baseline study and thus experienced major difficulties when faced with claims of pollution, and land and agriculture degradation; another client reportedly completed a baseline study but was subsequently unable to locate it.

[62] For example, villagers claimed a company had not compensated for the destruction of a long-standing village, but photographic evidence showed the village did not exist before mining activities were announced; numerous claims of stream and drinking water pollution could be disproved by evidence of prior conditions.

[63] IFC has been criticized by NGOs that it cannot demonstrate that EI projects reduce poverty and improve living standards. In the past, IFC has not consistently tracked changes in environmental, and particularly socio-economic indicators. OEG observed negative impacts in some projects it visited — but clear improvements in others.

Challenges in meeting IFC's environmental and social development objectives

40. *Funding mine closure — difficult to implement.* Mine closure is a major environmental and social issue for the sector. Abandoned mines represent an environmental hazard to the country, and potentially significant cumulative clean-up costs associated with long-term environmental and social damage. Since 1982, the WBG has therefore required concrete and detailed plans for reclamation and funding, with the goal of returning land to conditions supporting prior land use (or better uses). Since 1998, IFC's guidelines have required that money be reserved over the life of the mine to cover closure cost.[64] However, IFC's experience has shown in several cases that this approach can be problematic — when commodity prices declined, the ore body was less valuable than anticipated, and the mine life thus shorter than anticipated. While IFC eventually secured funding for mine closure in several such cases, this clearly represented a risk, and mine closure issues have not been resolved for all portfolio projects.[65] Another difficulty for implementing sustainable solutions for mine closure is that IFC generally exits from its investments when its role is completed — often well before the mine closes — and therefore loses any influence over the mine operator. The WBG has developed good practice guidance, covering different options for securing funding that may offer solutions,[66] but this guidance is not mandatory. There is clearly an urgent need to identify solutions (e.g., financial instruments) to ensure that mines will be closed properly, even if a company becomes insolvent.

41. *Social issues related to mine closure — not covered and even more complex*. The social issues surrounding mine closure are not covered in IFC's guidelines. They revolve around communities being able to deal with loss of jobs, economic activity, revenues, and services, that are associated with mine closure. To address them successfully requires cooperation of multiple stakeholders, including local communities, mining companies, and different levels of government. The WBG has developed guidance on this issue, including the respective roles of different stakeholders and "checklists" on handling social — and environmental — mine closure issues. As with all guidance notes, these are not mandatory for IFC projects.[67]

42. *Longer mine life — more potential for sustainable development?* IFC has funded mines with estimated lives exceeding 30 years where the mining company becomes a part of the community and can justify expenditures for improved infrastructure to support its operations. This allows more time to contribute to sustainable development and prepare for mine closure, but may increase the community's dependence. IFC also funds mines with relatively short lives. The compressed life can exaggerate some of the social and environmental issues associated with mining, including mine closure and reclamation risk. One African company

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[64] While these guidelines apply in principle only to coal, iron ore, and base metal projects, IFC has in practice also applied them to other mining projects. Reserving money is not required in the general 1995 open pit and underground mining guidelines, another example illustrating the need to update IFC's guidelines. These are the guidelines relevant for precious metal mining, the largest share of IFC's mining portfolio.

[65] For example, in one portfolio project it was doubtful whether and how funding for mine closure could be secured, and in another IFC did not know whether a mine had been closed in line with IFC requirements. Supervision documents do not consistently address whether mine closure plans and funding are in place.

[66.] In *It's not over when it's over: Mine closure around the world* (2002), the mining policy group of the WBG's global product group has suggested several options for dealing with this problem, such as "closure bonds," warranties, securities, and insurance.

[67] Ibid. The publication recognizes that many aspects of mine closure are beyond the private sector's control, but recommends several steps that mining companies should undertake.

told OEG that it wished it had invested in local community development earlier. They did not, in part because they had expected to close down within a decade, but will now continue to operate following the acquisition of an adjacent mine.

43. *Tailings Dams — the Achilles' heel of mining projects, but few problems in IFC's portfolio.* In 1996, Comsur, an IFC client, experienced a tailings dam break. In the same year, IFC also discovered through an evaluation that the client of one its older investments was discharging tailings straight into a river — without a tailings dam.[68] Following this, a 1999 draft Policy on Safety of Dams (OP4.37) was prepared that includes tailings dams. The environmental assessment must now provide information on the tailings dam. IFC's mining engineers and environmental staff are expected to review tailings dam safety at appraisal and during supervision. While there were no problems until recently, IFC just discovered a problem with a leaky tailings impoundment.[69] Tailings dams often remain following closure, posing a potential threat to the community. It is thus important to assess the public risks from potential tailings dam failure, starting from the EIA.

44. *Private ownership can improve environmental performance, but this often means addressing the environmental legacy of past practices — a challenge.* Several IFC investments have been in newly privatized but existing operations. The past practices of the former government managers had left a legacy of environmental problems (oil pits, leaking pipelines, contaminated waterways, leaking tailings dams), often passed on to the new owners charged with the cleanup. Environmental performance invariably improved under the new ownership, reversing most of the negative impacts, but in some cases bringing the operation into compliance proved difficult and prolonged.

45. *Going beyond the fence line.* Current industry practice places an imaginary fence line around the project, with activities outside the fence line not considered part of the project's impact. While there has to be a cut-off, defining the fence line is difficult. For example, a country's ability or lack thereof to clean up a spill can have effects well beyond what may be considered the confines of the project, particularly with respect to transport — by rail, road, pipelines, and sea. Transport is often contracted to or is the full responsibility of third parties. Two IFC projects experienced high-profile hazardous materials spills, Minera Yanacocha, Peru, and Kumtor Gold, Kyrgyz Republic. Both featured road transport mishaps outside what had been defined as the fence line. From these experiences, IFC has extended its appraisal and supervision reach to cover some of the operations of suppliers and shippers, applying environmental guidelines to these activities. Nevertheless, there will remain the debate over the point of transfer of responsibility.

46. *Challenges when IFC enters late in the process*. IFC can have a major influence if involved in the project from inception. In several cases, however, IFC had not been approached until after the sponsors had advanced the project, not always in accordance with IFC's guidelines, particularly in relation to public consultation. In such cases, IFC faces a choice between turning down a project and losing the opportunity to add value, or imposing what may be costly preconditions on the client for proceeding. Current guidance on what to do in such circumstances is unclear.

47. *For equity investments, ensuring sound environmental and social performance — or just obtaining sufficient information to judge it — is particularly difficult.* IFC has several

[68] IFC asked the client to redress the problem, but the client chose to prepay IFC's loan instead.
[69] In another project, the reputation of an IFC client suffered because of a tailings dam break at an adjacent mine.

equity-only investments, with little legal leverage to influence the project and no legal right to obtain Annual Monitoring Reports. IFC could use "moral suasion," but has not always done so in the past. In some cases, the appropriate environmental and social terms and conditions were in the loan documents, but these expired upon repayment of the loan. In the event that the company is delinquent in its environmental or social responsibilities, IFC will bear some reputational risk, whether it remains an investor or exits. Even today, IFC does not always include contractual environmental and social requirements for equity. OEG pointed this problem out in its first Annual Review in 1997. IFC management responded that it would look into this issue, but that there were complex commercial and other considerations. But IFC's 1998 environmental and social review procedures do not distinguish between investment instruments and do not address this issue. It is difficult to negotiate appropriate requirements for equity investments (e.g., shareholders' agreement, put option in case of environmental default, etc.), but lack thereof makes it difficult, if not impossible, for IFC to comply with its own procedures. Also, there are no guidelines establishing how active IFC should be as a shareholder, for example, whether IFC should routinely ask for information about a client's environmental practices and raise this issue at shareholder meetings.[70]

48. *Some new approvals may pose similar difficulties.* Since 2001, IFC has approved funding for five projects to help the EI sector with services, loans, or seed capital. These projects could create jobs, establish new ventures, and improve services. As yet, there have been few disbursements under these projects, but when they, or similar projects are disbursed, they could present unique challenges for monitoring and enforcing compliance under IFC's safeguards policies and guidelines, because of IFC's indirect relation to the underlying projects and lack of contractual leverage. Similar issues apply to EI projects approved through financial markets operations, which were not covered in this evaluation.

49. Artisanal and small-scale mining (ASM) can give rise to major environmental and social problems, and sometimes pose a reputation risk for IFC's clients. ASM features prominently in a number of countries where IFC has EI investments. Authorities sometimes consider this a stopgap measure for poverty prevention and leave ASM untouched, even if they oppose its practices. ASM is often illegal, and takes place under very unhealthy and unsafe working conditions, including child labor. ASM can create major environmental damage, degrade land beyond rehabilitation, and pollute waterways with heavy sediment, heavy metals, hazardous materials (mercury), and acid rock drainage. Sometimes ASM precedes large mines, and government regulation often requires eviction of miners; at other times, ASM is attracted by large-scale mining activity. In either case, large mining companies face a dilemma — evicting ASM-operators is difficult to do and results in poor community relations, while letting them operate results in reputation risk — being blamed for the poor environmental and safety record of ASM.[71] In one case, an IFC client wanted to help artisanal miners with better equipment and guidance, but realized that even improved conditions would still constitute too great a reputation risk. Dealing with ASM has often proven beyond the capability of industry. But governments are also struggling with it. Observers suggest a twofold solution. One, create alternative employment opportunities; two, help "upgrade" this sub-sector: provide assistance to transform artisanal miners into safer, small-scale miners that

[70] For example, while IFC has strongly advocated the *Business Case for Sustainable Development*, IFC's guidance for nominees to corporate boards does not specify whether they are expected to promote the sustainability concept.

[71] For example, ASM is a major issue in several mining projects in Africa.

are regulated and abide by improved environmental standards. Experience beyond IFC's portfolio suggests that private companies can engage constructively with ASM-operators (Box 7), as does other WBG work.[72]

Box 7: Artisanal and small-scale mining — Constructive engagement by a private company

Irrespective of the legality of their presence the significance of small-scale mining activity on concessions (or potential incursions by small miners from elsewhere) should not be underestimated, either by government authorities or private companies. In particular, where small-scale mining is the main economic activity of "established" communities, any external threats to their livelihoods will be strongly resisted.

The "problem" of small miners can only be addressed by looking beyond the threat they present to the project. This involves developing an understanding of the reasons for their presence and the extent to which mining meets their basic needs (as a primary or supplemental economic activity), and identifying viable alternative livelihoods or opportunities to continue to mine.

The emerging policy of encouraging an intimate association between small and large-scale mining projects has merits, but should not be used as a substitute for a comprehensive government strategy towards small-scale mining.

Source: *Case study on the Las Cristinas Project (Venezuela) — Lessons from the Evaluation* by Aidan Davy, Auristela Perez, May 1999.

[72] See Volume II on what the World Bank has done and can do with respect to ASM; the collaborative group on ASM (http://wbln1018.worldbank.org/IFCEXT/casmsite.nsf) in which the WBG participates; and the MMSD working paper on ASM (www.iied.org/mmsd/activities/small_scale_mining.html).

5. Disclosure and Consultation

50. *IFC's disclosure requirements have increased.* IFC adopted its first disclosure policy in July 1994 and revised it in 1996 and 1998.[73] Under the policy, IFC balances accountability as a public institution — favoring disclosure — with the need to protect commercially sensitive information. EI projects are particularly sensitive, and IFC frequently signs confidentiality agreements. Disclosure in IFC has increased substantially since the early 1990s, when almost none was required. Recognizing the fundamental importance of accountability and transparency in the development process, IFC requires disclosure of:

- **Summary of Project Information —** a brief factual summary of the evolving project.
- **Environment-Related Documents** — Category A projects: Environmental Impact Assessment, released at least 60 days before the Board date; Category B projects: Summary of the key findings of the environmental review, released at least 30 days before.

51. *Disclosure is only required pre-approval; public information is thus often outdated, but this aspect has improved recently*. In several projects reviewed by OEG, project scope or design had substantially changed, but the publicly available information had not been updated.[74] Publicly available project documents usually addressed planned measures to address environmental effects, not whether these measures have been effectively implemented. Such issues would usually be covered in an Annual Monitoring Report (AMR) supplied by the client to IFC, but AMRs are not publicly available.[75] While disclosure has to be balanced against commercial confidentiality, lack of disclosure diminishes trust.[76] For some recent IFC projects, updated environmental and social information has been disclosed.[77]

52. *IFC protects its clients by keeping project information confidential — but is that in their best interest?* Leading industry players see value in disclosure. IFC, at EIR workshops and other consultations, has been criticized — sometimes based on misconceptions about specific EI projects. More information could diminish such misconceptions, but IFC does not disclose, even in aggregate form, non-compliance by its clients.[78] There are no guidelines on whether, or under what circumstances, IFC should notify local authorities or the public of known compliance shortfalls. Many IFC clients have started to voluntarily disclose detailed social, environmental, and financial reports, recognizing that openness and transparency increases trust and is in their long-term interest. Others are considering it, such as one client who asked OEG's advice about best practice in sustainability reporting. Leading industry

[73] For IFC's current disclosure policy see www.ifc.org/enviro/enviro/Disclosure_Policy/disclosure.htm.
[74] IFC's disclosure policy is ambiguous: it requires that the summary of project information and environmental review summary be updated when there are material changes, but does not specify whether this also applies after Board approval. In practice, IFC did not always update these documents where later changes occurred.
[75] In its current form, the AMR is highly technical, sometimes running into hundreds of pages, and would not necessarily lend itself for publication. A less technical summary of key indicators of environmental, social, health , and safety performance (standardized to the extent possible) may be preferable.
[76] Trust and validity can be increased when the community participates in the monitoring activities, in the design of the baseline data collection, gets trained in sampling and analytical techniques, and participates in the recording and archiving of the data. Such measures could proactively increase trust, or may be necessary once trust is lost.
[77] Examples include an updated environmental action plan for La Colorada (Mexico) and an updated environmental management plan for Konkola Copper Mine (Zambia).
[78] This is true not only for EI, but for IFC's entire portfolio.

players publish independently verified, detailed sustainability reports, including, for example, sites with independent audits and mine closure plans; injury rates; land, water, and energy use; spill incidents, gas flaring, carbon dioxide, and greenhouse gas emissions; and environmental and non-compliance incidents. IFC has begun to insist on disclosure of ongoing environmental and social information in a few high-profile projects, but this is not the norm.

53. *In several cases, IFC clients have gone beyond the disclosure requirements.*[79] One client is now the only company in the country that audits and discloses environmental performance reports. In a few recent cases, IFC has agreed with the client on independent monitoring and disclosure of the AMR. There are also several cases where IFC has gone beyond the minimum requirements, one example being the Chad-Cameroon pipeline project with a 19-volume environmental management plan and ongoing independent review. Some other IFC clients also disclose substantial amounts of information about their environmental and social activities.[80] Such information can be found, for example, on IFC's or the clients' web sites.

54. *The trust of the community can be built through open, honest, respectful, and ongoing consultation.* But IFC's requirements fall short of its own "good practice" guidance on public consultation and disclosure plans.[81] The guidance defines consultation as "a wider *continuous* process of participation of all stakeholders in the decisions *throughout* the *formulation and execution* of a project." IFC's pre-approval disclosure and consultation requirements may not be enough to achieve trust in the community. In particular, ongoing consultations are not required (unless a project involves resettlement or indigenous people),[82] nor is disclosure.

55. *Good communication can improve the effectiveness of assistance programs and reduce anxiety if problems occur.* Unilateral company decisions on what is best for the community are likely to be misguided, expensive, and cause discontent. For example, when a mining company supplied — as a temporary solution — tanks to restore water supply to villagers without consulting them, they accused it of treating them "like refugees." But another mining company consulted extensively with the community and developed — for a few hundred dollars — a project that recycles engine oil for coastal fishermen, reduces coastal pollution, and has strong support in the community. Companies that communicate poorly can face high costs from project interruptions and for mending community relations.[83] From field visits, desk reviews, and the literature, it is clear that IFC clients that consult, disclose, and communicate well are better off than those that do it poorly.

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[79] For example, Kumtor in the Kyrgyz Republic www.cameco.com/operations/gold/kumtor/index.php or MBR, a Brazilian company: www.mbr.com.br/eng/meioambiente/meioambiente.asp.

[80] Disclosure of financial information, including revenues generated for governments, is covered in the next section.

[81] Available either from the WBG bookstore or online at www.ifc.org/enviro/Publications/Practice/practice.htm.

[82] For category A projects, IFC's 1998 procedures require that "The project sponsor continues to consult with relevant stakeholders throughout project construction and operation, as necessary, to address environmental assessment related and other issues that affect them. IFC requires the project sponsor to report on ongoing consultation as part of its annual reporting requirements" (emphasis added).

[83] For example, one IFC client did not effectively consult the community and key players at the outset. An accident with hazardous material spill soured community relations, cost the company millions of dollars and created major and costly problems; it may result in preventing them from developing an important deposit on the concession. The company started an active social assistance program, but it came late.

56. *Public consultation can be complex, confusing, and difficult for both the company and the stakeholders*. Some multinationals have geared up for this important part of doing business, but others are struggling, and even with the best of intentions are finding themselves running into difficulties. Some have requested assistance from IFC.[84] To usefully consult with the companies on an equal footing, the communities and other stakeholders may need assistance and training to understand the business and technology. Independent experts can help, but who pays for them? If the sponsor provides the funding, the expert may be perceived as compromised, but alternative funding sources are scarce. IFC has worked with a number of clients and the communities to facilitate the consultative process, sometimes using trust funds (Annex 3), sometimes with the help of the CAO — and OEG has witnessed positive effects in several projects.

[84] IFC has prepared a checklist for improved public consultation "Doing Better Business through Effective Publish Consultation and Disclosure: A Check Sheet" (Annex 6).

6. Governance and Challenges of Managing Revenues from Extractive Industries

57. *Extractive industries — large revenues for countries with poor governance.* The economic sustainability section of this report indicated that most of IFC's EI investments created large revenues for host countries, particularly in oil and gas, sometimes even when investors did not achieve satisfactory returns.[85] There is abundant evidence that such large revenues, which, in addition, tend to be volatile and finite, create particular challenges for resource-rich countries. While IFC usually thoroughly analyzed the financial, social, and environmental aspects of a project, it has, in the past, not approached revenue management and distribution with the same rigor. Since IFC's EI projects are highly concentrated in risky countries that tend to suffer more from weak governance, the issue becomes particularly important. Since fiscal year 1993, half of IFC's EI approvals were in countries in the worst governance quartile, compared to only a quarter of all non-EI approvals.[86] To recommend not investing in countries with poor governance sounds tempting; but the WBG's mission is to reduce poverty and improve people's lives — and hundreds of millions of people live in resource-rich countries with poor governance. While the WBG alone may not be able to improve governance, using its unique position as global player with the convening power to engage both public and private stakeholders, it can effect change.

58. *Challenges of investing in countries with the poorest governance.* Countries with poor governance often lack transparency, adequate laws, financial capacity, and regulations to allow regulators and judiciary systems to cope adequately with large EI projects. If corruption is an issue, customs agents, transport companies, regulators, and government officials could exert significant pressure on projects, causing delays and additional costs. From a development perspective, corruption is bad for growth, and tends to reduce economic growth and private sector investment.[87] Resource-rich developing countries that are often cited among the best examples for the positive contribution of the EI sector — such as Botswana and Chile — are all considered to have relatively little corruption.[88]

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[85] This is particularly the case where governments get revenues based on production or revenue (e.g., royalties), not on profitability. In addition, in several projects, notably in Europe & Central Asia and Africa, the government retroactively changed fiscal rules or contractual arrangements.

[86] OEG used the 2001 "Governance Research Indicators Country Snapshot" (GRICS) published by the World Bank Institute. It measures perceptions of a large number of respondents and, as with any such indicator, individual country rankings are subject to large margins of error. Countries were sorted using a composite of the average ratings for voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and control of corruption, and then divided into quartiles. Results are similar using Transparency International's 2002 Corruption Perceptions Index. However, IFC staff attested that IFC had not invested in several projects due to country governance concerns.

[87.] For example: IMF Economic Issue 6: *Why worry about corruption.* (Paolo Mauro, 1997). Also: IMF Economic Issue 12: *Roads to nowhere: How corruption in public investment hurts growth* (Vito Tanzi, Hamid Davoodi, 1998).

[88] Transparency International ranks them in the top third on corruption, ahead of several industrialized countries.

59. *Results — for development, IFC's bottom line and the environment were closely correlated with governance quality.* OEG analyzed the results of the 45 studied projects by different governance indicators.[89] Development results were significantly better in countries with good government effectiveness, political stability, and regulatory quality (Figure 3). It is also worth noting that investing in countries with poor governance is not necessarily financially attractive for IFC. In fact, none of IFC's 10 most successful EI-investments was in a country with the highest corruption.[90] IFC's equity returns were worst in countries with the poorest control of corruption and vice versa (Figure 4).[91] Environmental results were significantly better with better political stability.

Figure 3: Better Development Results with Better Governance

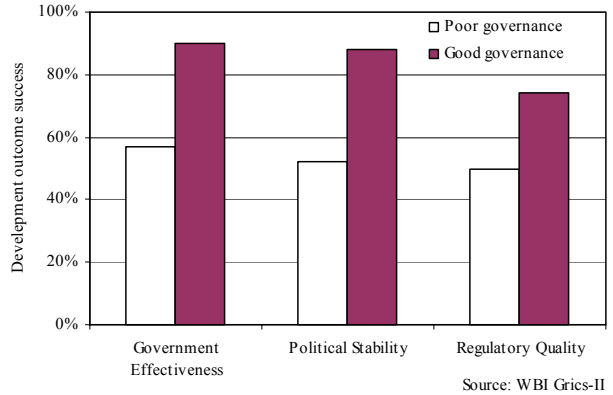
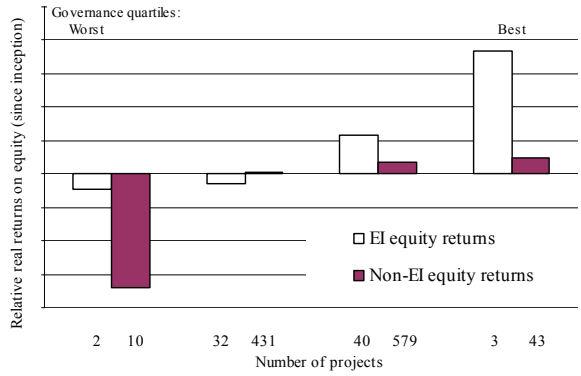


Figure 4: Better Country Governance - Better IFC Equity Returns for EI and for Other Sectors



World Bank Institute: Governance Research Indicators Country Snapshot (GRICS) Dataset, 2001

* 175 countries were sorted based on the average of their respective GRICS indicators (Voice and Accountability, Political Stability, Government Effectiveness, Regulatory Quality, Rule of Law and Control of Corruption) and divided into quartiles.

60. *Bribes are common in EI, particularly in oil and gas*. According to Transparency International,[92] the oil and gas sector is perceived as third most likely to involve bribes, following only public works contracts and arms deals. Mining ranks seventh. The OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions[93] entered into force in February 1999. Thirty-five countries have ratified the convention, and most have already enacted legislation to make it a crime for businesses to bribe foreign public officials. Quite a few countries already had laws outlawing corruption abroad before that.[94] Nevertheless, paying bribes still appears to be common.

[89] "Good" control of corruption, government effectiveness, voice and accountability, political stability, and rule of law was defined as the top half of the World Bank Institute's "GRICS-II" data. Too few (four of 45 studied projects) of IFC's EI investments were in countries with good control of corruption to conduct meaningful statistical analysis.

[90] Ranking in terms of "successful" was based on returns (in NPV terms). "Highest corruption" countries were those in the bottom quartile of Transparency International's 2002 Corruption Perception Index.

[91] Rankings for control of corruption by quartile of the World Bank Institute's "GRICS-II" data.

[92] Bribery in business sectors: www.transparency.org/cpi/2002/bpi2002.en.html#sectors.

[93] See www.oecd.org/ and the section on corruption.

[94] For example, the United States with the Foreign Corrupt Practices Act of 1977.

61. *IFC takes precautions against corruption, but it is clearly a risk.* IFC projects provide a demonstration effect for others and it is therefore imperative that the projects are implemented transparently and honestly. IFC usually explicitly requires sponsors to abide by host country laws and regulations, which often outlaw corruption. During appraisal, IFC typically checks the background and reputation of its sponsors and how licenses were awarded. To that end, IFC has, on several occasions, hired private investigators. IFC also typically requires that its clients' financial statements be audited, which may reduce but not eliminate the scope for irregularities. OEG reviewed project files and had informal discussions with IFC staff, project sponsors, and third parties knowledgeable about the sector. OEG found no evidence that IFC clients were paying bribes, but did not conduct an audit. However, particularly since IFC projects are taking place in countries with high perceived levels of corruption, there is clearly a risk. OEG's field visits and other research showed substantial differences with respect to the transparency and handling of EI sector revenues among different countries with IFC EI investments.

62. *Corruption is linked to revenue management, but is difficult to prove.* IMF research has found that corruption distorts allocation of resources by governments. It is associated with higher public spending, but with poorer quality infrastructure. In countries with poor governance, it is therefore particularly important to address how governments manage fiscal revenues from EI. OEG visited several countries where little of the government revenues was flowing back to benefit communities next to EI projects. In some countries, there was a strong suspicion that government officials at different levels were corrupt. Without transparency about the resource flows, such allegations are difficult to prove or disprove. About seventy percent of government officials surveyed (Annex 4B) saw a need for the IFC to help improve governance and transparency (the corresponding figure for the World Bank is 83%). One mining minister whom IFC interviewed advocated disclosure of moneys provided to local authorities to better ensure local communities benefit from it.

63. *IFC's recent efforts with respect to revenue management.* The Chad-Cameroon pipeline is the first IFC project to proactively tackle revenue management.[95] This followed IFC's recognition that projects which devolve little or no benefit to local communities present both development and commercial risks. A recent IFC position paper on Revenue Distribution and Management[96] (Box 8) states that, in high-impact projects in countries with poor governance and weak institutions, IFC will systematically assess the risks that governments would misuse payments or that intended benefits may not reach local communities. IFC would also, together with the Bank, IMF, and sponsors, consider mitigating measures. At this point, the position paper applies only to "high-impact" projects (substantial in relation to the nation's income) and none of the mitigating measures are mandatory.

64. *Key issues in revenue management*: A joint working group consisting of industry, civil society and WBG staff considered the following policies critical with respect to revenue management and utilization:[97] (i) the establishment of transparency and accountability with respect to revenues earned and their disposition; (ii) consultation with principal stakeholders in developing plans for the use of resource revenues; (iii) credible oversight and audit of the

[95] For more details see www.worldbank.org/afr/ccproj.
[96] Revenue distribution and management in IFC projects: www.ifc.org/test/sustainability/docs/Revenue_Distri_Mgmt.pdf).
[97] See http://www.ifc.org/ogmc/socialandeconomicimpact.htm

implementation of these plans; and (iv) serious attention to building local institutional capacity.

65. *Disclosure of government revenues — a step toward better management?* To date, neither the IMF nor the World Bank necessarily require that resource-rich countries disclose the revenues generated by EI, even though they sometimes recommend it. IFC's EI clients are also not required to disclose the revenues they generate for governments. However, several public campaigns have started to advocate disclosure of EI-revenues.[98] But disclosure of government revenues can raise difficult issues. Governments in some countries even make it illegal, for example through confidentiality covenants in production sharing agreements. Industry is concerned that unilateral disclosure could create a competitive disadvantage. However, almost all industry representatives that OEG interviewed in the course of this study would support industry-wide disclosure of government revenues. Most of them, however, emphasized that these were their personal, not necessarily corporate views. Some companies operating in the EI sector have started disclosing government revenues even against host government concerns.

Box 8: IFC's position regarding revenue distribution and management — highlights

Revenue distribution and management in extractive industry projects are important development issues and have emerged as major factors for reputational as well as operational risks for investors. Large revenues generated by these projects and accruing to government may be misused. Benefits from these revenues may not reach local communities. While revenue distribution and management are not issues in every IFC project, they can become problematic in high-impact projects, that is, *where revenues are substantial in relation to the nation's fiscal income*.

To deal with the problem, *IFC* proposes a number of steps that it *may* undertake for high-impact projects that will generate substantial revenues for host governments:

- Engage with the World Bank or IMF to seek coordination of issues beyond IFC's mandate.
- Where coordination may not achieve the necessary level of management, consider other mitigation measures, such as sponsor's community development programs.
- Seek funds or partners to assist a Sponsor with capacity-building.

[98] The "extractive industries transparency initiative" (www.dfid.gov.uk/News/News/files/eiti_guide.htm) and "publish what you pay" (www.publishwhatyoupay.org/) advocate disclosure.

7. Issues Beyond the Control of IFC and Its Clients — Require Effective Cooperation and Action Inside and Outside the WBG

66. *Issues beyond IFC's control require better cooperation among financiers and development partners.* IFC has been more effective in EI projects than in other sectors in addressing most issues within its own control. More needs to be done to ensure that the sector and the projects IFC supports contribute to sustainable development. IFC can address some issues together with its clients; for example, helping them to improve their environmental performance, their community development activities, and consultation and disclosure — to serve as role models for sustainable development. IFC has done much[99] and can probably do even more to convince its clients that better environmental and social performance, while potentially entailing short-term costs, will ultimately be in their long-term interest. But to have even greater impact, IFC also needs to work on further improving its own environmental and social policies and guidelines and their implementation and — together with its member countries — help improve those of other international financial institutions. Little would be gained if IFC alone adds requirements and its potential clients seek financing elsewhere. But many of the issues discussed in this evaluation are even beyond the control of IFC's client companies. To resolve them will require close cooperation within the World Bank Group and with other stakeholders and partners — the IMF, IFC's member governments, and other international financial institutions. On environmental and social issues, the recent adoption of IFC's policies and guidelines by several internationally active banks is an important step in that direction.

67. Merging World Bank and IFC units has improved sectoral cooperation; but cooperation with country departments and tackling of revenue distribution and utilization, governance, and transparency is still inadequate. To validate the findings of this evaluation, we surveyed all of IFC's sectoral investment staff and regional economists.[100] Almost 90 percent responded that merging IFC's and the World Bank's sector departments into one Global Product Group had improved coordination of sectoral issues. At the same time, less than half said that overall cooperation within the WBG was adequate; in their view, lack of support by the World Bank's country departments was the biggest internal constraint.[101] One likely explanation for the insufficient coordination is that the country directors lack the incentive to address EI issues: In the countries where IFC operates, the WBG's EI lending volume tends to be small, EI projects are considered environmentally risky,[102] and governments may not be

[99] See, for example, IFC's publication, *The Business Case for Sustainability* (www.ifc.org/test/sustainability/docs/TheBusinessCase.pdf) and its *2002 Sustainability Review* (http://www.ifc.org/ar2002/review/sustainability.html). See also the work of the Natural Resources Cluster of Business Partners for Development (www.bpd-naturalresources.org).

[100] Over 90% of 33 staff responded. We did not survey managers and directors, but interviewed them individually.

[101] Fifty-two percent of IFC respondents saw this as a problem. Their comments included: "The big issue is that the WB country departments rarely give adequate priority to mining issues." "IFC/WB coordination happens only on an individual basis at staff level and on the director level, but the former is not very consistent."

[102] Eighty-eight percent of 34 WBG respondents stated that the WBG avoided good EI projects due to safeguard concerns. This confirms the 2001 *Fourth Quality-At-Entry Assessment* by the WBG's Quality Assurance Group, which found that risk aversion resulted in dropping environmental components of projects. An anonymous World Bank survey respondent put it bluntly "The World Bank Management is extremely sensitive to developed country social and environmental NGOs."

receptive to WBG activity in this area. IFC staff considered lacking support by host country governments to be the biggest constraint to enhancing the contribution of EI sector to sustainable development — 63 percent of 24 IFC respondents considered this a constraint (See paragraph 69). Only about half of the IFC respondents said that revenue distribution and utilization, governance, and transparency were adequately addressed in EI operations. This confirmed an analysis of CASs, showing that weak country governance and revenue management in resource-rich countries were often not adequately addressed in CASs and subsequent WBG interventions; IFC's EI activities were often not even mentioned in CASs (see Volume II). This points to a need to more thoroughly address EI issues in country strategies, ideally in a Comprehensive Development Framework mode, also engaging other stakeholders beyond the WBG.

68. *Perceptions of environmental and social performance differ.* Well over 90 percent of IFC staff responded that environmental and social issues were adequately addressed in IFC's EI projects. This perception is better than our evaluation results suggest, but staff may have provided their perception on what IFC's performance is for projects approved *today*, whereas we evaluated past results. Certainly the perception of IFC staff is higher than that of outside observers. Among the participants at the EIR workshops, only 44 percent (of 52) responded that IFC successfully addressed environmental impacts, 33 percent (of 48) responded positively for social impacts. Views among NGOs were worst — 15 percent and 7 percent positive, respectively. Responses from government and industry were around 50 percent positive, again slightly better for environmental issues. This points to a need to improve performance compared to past results, but also for much greater disclosure and engagement of stakeholders to address the poor perceptions where they are not warranted.

69. Even a concerted WBG effort is probably not enough; IFC staff respond that the biggest factor keeping EI from contributing to sustainable development is lacking support from the host country government. About two-thirds of respondents cited this factor as a constraint. One respondent explained "[The] main problem is governments in client countries don't want the Bank or IFC messing with their only independent source of revenues. Even when the Bank does intervene, it often does not have the leverage to engineer change." Some respondents commented that the IMF also needs to be involved, but also that continued engagement in the sector was important to maintain the country dialogue. An OED study also found that governance was key to a successful management of fiscal revenues from EI, but that government commitment or political will to address it was lacking in four out of five country cases (Volume II, chapter 5).

70. *The results confirm that closer cooperation is needed — within the WBG and beyond.* The survey results confirm the evaluation findings — that important issues such as revenue distribution, utilization, governance, and transparency, need to be better addressed. This will require closer cooperation within the WBG. But the WBG will also need to use its convening power and the help from its member governments, the IMF, industry, financiers, and civil society to break the resource curse and ensure that extractive industries contribute to sustainable development. Greater transparency about the resources generated for governments is likely to increase pressure on governments to account for their flow and effective use. Our evaluation results suggest that better country governance is not only likely to improve the development results of IFC's operations, but also IFC's own financial results.

71. *IFC needs to better tackle transparency, government revenue distribution, and more generally, sustainable development*. Other stakeholders echoed the perceptions of IFC staff.

NGOs, industry, and governments alike expressed a need for IFC to address these issues (Annex 4B). But neither group responded that there was enough IFC effort or success. NGOs were most critical (under 10 percent said IFC successfully addressed these areas), but the perceptions of industry (about 20 percent) and government (about 40 percent) also indicate substantial room for improvement.

8. Conclusions and Recommendations

72. Overall, IFC has effectively supported EI operations, but needs to further improve their implementation, better address broader sustainability issues and, with its clients, better track and report on results achieved. Projects usually generated large revenues for governments and opportunities for people. IFC has generally added value, particularly in improving the environmental and social aspects of projects, but given the sector's high impact potential IFC will need to help client companies to prevent or mitigate negative impacts better and more systematically. IFC also needs to ensure that its environmental and social guidelines and procedures continue to set standards and adapt in line with rapidly improving industry standards, and that its projects adapt with them. In pursuit of its sustainability agenda, IFC needs to do more to address the risks that government revenues may not be effectively used for development, that benefits may not be distributed transparently and that local communities may not tangibly benefit from EI projects. To enhance the contribution of IFC's projects and the sector to sustainable development requires further improvements in project implementation, effective cooperation within the World Bank Group, and the full engagement of all stakeholders.

73. This evaluation found gaps in three areas: *strategic gaps*, resulting from not adequately addressing issues such as country governance and revenue management through effective action, jointly within the WBG and with other partners, and clearer project selection criteria; *implementation gaps*, which if addressed could enhance the performance of IFC's EI projects and through the demonstration effects of IFC's projects and requirements, that of EI more generally; and *gaps in engaging stakeholders*, which if addressed would allow IFC and its clients to improve performance and better demonstrate contribution to sustainable development.

Recommendation 1 Formulate an integrated strategy

Recommendation 1a: *Paragraphs 11, 25, 66-70*	Address extractive industries in CASs. IFC should work closely with other parts of the WBG to ensure that CASs for resource-rich countries[103] explicitly discuss the EI sector's contribution to sustainable development (e.g., importance of fiscal revenues, their management, distribution, and use for development priorities) and obstacles for enhancing its contribution. The CAS should provide an agreed framework for WBG-wide cooperation, with a particular focus on close interaction between IFC and the World Bank's country departments. IFC and the World Bank should routinely work together to enhance the development impacts of EI projects, for example in the form of public-private partnerships with respect to community development programs.[104] IFC and the WBG should build on existing initiatives, such as Business Partners for Development and the Comprehensive Development Framework, to enlist the help of other stakeholders, such as the IMF, other bilateral and multilateral institutions, industry, and civil society.

[103] This recommendation also applies to countries expected to become resource-rich, for example through a large IFC-supported project, and where IFC intends to make investments more generally.

[104] One form of public-private partnerships, as recommended in the WBG's *Private Sector Development Strategy* (2002) is "output-based aid" (OBA). OBA would use public funding, at least in part, but feature private provision of services. Some taxation schemes allowing tax credits for community development expenditures are similar to OBA.

Recommendation 1b: *Paragraphs 12, 14, 25, 57-65, 71; Box 8*	Where country governance is weak, increase transparency and address the weaknesses. Together with the World Bank and other stakeholders, IFC should analyze all aspects of country governance quality and the risks that poor governance may detract from sustainable development. In particular, IFC should encourage enhanced transparency and disclosure concerning contractual agreements between investors and governments, the amount of fiscal revenues generated and their distribution.[105] IFC — together with the World Bank and other stakeholders — should encourage such transparency sector-wide in the country. When financing projects whose major expected development contribution is the generation of revenues to governments, IFC should carefully review and discuss the governance risk that these revenues will not be used productively. Where such governance risk is high, and the project's revenues are significant,[106] IFC should work with the government (in partnership with the World Bank and IMF) to put in place mechanisms to reduce this risk, including possibly ring-fencing of project revenue management. For all proposed EI investments, IFC should address these issues in Board Reports.
Recommendation 1c: *Paragraphs 12, 34, 38; Box 3*	Support environmental and social sustainability. IFC should focus on projects that can serve as models for environmental and social performance, transparency, and disclosure. Where laws and regulations — or their enforcement — are weak, IFC should insist on special measures to ensure a project's sound environmental and social performance. Such measures could include building local monitoring capacity, and disclosure of independently audited and publicly disclosed monitoring reports. They could also include an explicit assessment of the risk of conflicts, and measures to deal with them.

[105] For example, IFC should encourage disclosure of production sharing agreements, concession, and privatization terms, as well as payments made to governments at different levels. Given that providing this information is even illegal in some countries and investors may have justified concerns about unilateral disclosure, the WBG should encourage country- or industry-wide disclosure.

[106] "Significant" should be considered in both absolute terms and in relation to total sector production, based on analysis of past experience, and may vary by country.

Recommendation 2 Focus on implementation

Recommendation 2a: *Paragraphs 11, 16, 27, 36-39, 47, 68, 72; Box 3*	Improve project appraisal[107] and supervision.[108] IFC should continue to require high-quality environmental impact assessments that establish baseline data for relevant environmental and socio-economic impact indicators. These indicators — compared to the baseline — should be consistently tracked[109] and aggregated for IFC's management. Appropriate requirements to allow IFC to adequately mitigate risks and monitor all its projects should be included for all investments, particularly equity.[110] Where IFC finds poor environmental and social systems or performance, it should address them proactively and vigorously.[111] IFC's investment officers and nominees to company boards should be co-responsible with technical specialists for the environmental and social performance of their projects. Where possible, IFC should also develop and use local monitoring capacity.
Recommendation 2b: *Paragraphs 27, 35-36; Box 3*	Adequately involve specialists throughout. IFC needs to ensure that its environmental and social specialists are consulted as early as possible and throughout the project life, and that investment officers fully share relevant information. To that end, investment officers need to be better trained to identify risks and opportunities. Also, changing the incentive structure by making the investment officer and department explicitly accountable for environmental performance would likely provide better incentives for calling in the experts as early as possible, not after a problem has materialized.
Recommendation 2c: *Paragraphs 11, 27, 37, 39; Box 3*	Enhance reporting of results. IFC should develop a reporting template that specifies for each portfolio project which safeguard policies and guidelines apply, whether the company is in compliance with them, and how it performs with respect to key sustainability indicators for the industry. Where relevant, IFC should also include "beyond the fence line" issues, such as transportation and project-related security issues.

[107] IFC should continue to appraise projects by comparing their global competitiveness and review in-depth geological and metallurgical characteristics. IFC should also diligently check the background of sponsors and how concessions were awarded.

[108] Current supervision of EI projects is significantly better than average and these recommendations build on this strength.

[109] This requirement should apply to all portfolio companies. For example, IFC should routinely ask clients for Annual Monitoring Reports even where they are not required.

[110.] The requirements should encompass environmental and social risks, as well as financial risks (e.g., from hedging) and parallel what IFC normally addresses in its loan covenants.

[111] IFC should encourage its clients to improve their practices in line with evolving good industry practices. Where clients do not correct important shortfalls, IFC should call the loan, raise the issue at shareholders' meetings, or inform the local regulatory agency, or the press. IFC should consider developing guidelines on how "active" it should be as a shareholder.

Recommendation 2d: *Paragraphs 7, 10, 14, 57, 63, 67, 70; Box 8*	Evaluate distribution of benefits. IFC should develop[112] global comparators for the distribution of benefits from EI — among investors, governments at different levels, and local communities. For its projects, IFC should analyze the distribution and compare it to other EI projects. At appraisal, IFC should include the distribution effects in its sensitivity and risk analysis (e.g., distribution of benefits at different levels of output and prices), track actual distribution during the project life, and aggregate the data at the country and sector level.

Recommendation 3 **Engage the stakeholders**

Recommendation 3a: *Paragraphs 23, 25, 33, 34 ; Box 2; Figure 3*	Update policies and guidelines. In consultation with stakeholders, IFC should continuously update its environmental and social safeguard policies, guidelines, and processes in line with evolving good practice in the industry.[113] The WBG should use its convening power and the help of its member governments to promote their use by governments, industry, and other financiers. IFC should develop, update, or clarify policies and guidelines on indigenous people (or "vulnerable people"), safety of dams, natural habitats (or biodiversity), security and human rights, HIV/AIDS prevention, mining (closure — funding and social issues, acid rock drainage, precious metal mining), and oil and gas (gas flaring, downstream transportation of oil).

[112] Together with the World Bank and other stakeholders.

[113] The policies and guidelines need to be comprehensive enough to capture all important environmental and social effects, local, regional, and global, as well as short- and long-term. Yet, they also need to be practical and reflect IFC's industry experience: they need to be realistic (achievable at reasonable cost), client-driven (adaptable to the client's other reporting requirements) and monitorable (sufficiently specific). To be practicable, the policies and guidelines should meet the business case for sustainability, i.e., implementing them should be in a company's long-term commercial interest.

Recommendation 3b: *Paragraphs 14, 62-65, 67, 69-71; Box 8*	Promote disclosure of fiscal revenues from EI. IFC should encourage — and consider requiring — its clients to publish such information. Where client confidentiality undertakings initially restrict disclosure, IFC could report results on an aggregate country, regional, or sectoral level and participate in initiatives advocating such disclosure. IFC needs to balance client confidentiality with its own accountability as a public institution and the public's desire to know more. On balance, increased communication and transparency is likely to help IFC and its clients and reduce misconceptions, distrust, and criticism.
Recommendation 3c: *Paragraphs 5, 11, 39, 51-53*	Develop, monitor, and report on sustainability indicators. In consultation with other stakeholders, IFC should develop and track key sustainability indicators and consider disclosing them to demonstrate the economic, social and environmental impacts of its EI projects.[114] Reporting on credible sustainable development indicators will help overcome the current inability to systematically demonstrate results achieved.
Recommendation 3d: *Paragraphs 33, 36, 52, 54-56, 64, 66 ; Box 3*	Increase local community participation. This evaluation found strong evidence that improved community consultation is in the best long-term interest of our clients. IFC should thus make community development programs with ongoing consultations the norm for EI projects. Such programs should start with a participatory assessment of the community's situation[115] and long-term development needs. They should include ongoing consultations, focus on sustainable solutions to meet these needs, and prepare communities for the time after the extractive operations cease. Good communication is also likely to improve results — by listening to people and being exposed to public scrutiny and challenge.

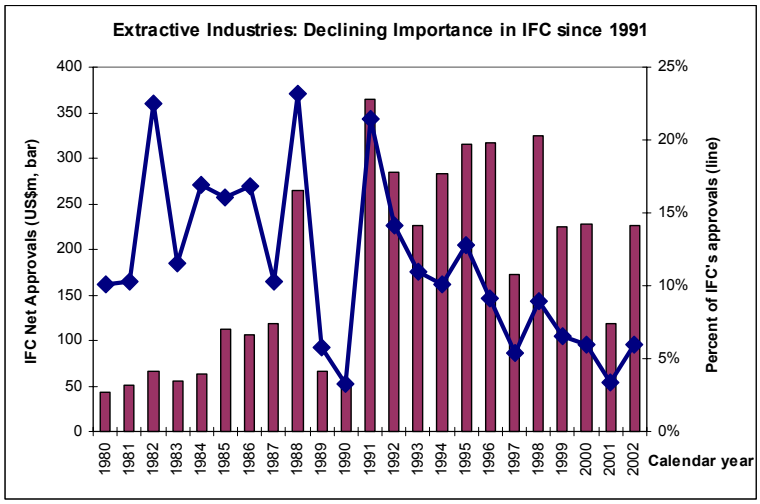
[114] IFC could build on existing industry initiatives. Information on industry-specific indicators should include, for example, fiscal revenue generation, health and safety statistics (including HIV/AIDS prevention), gas flaring (or greenhouse gas emissions), adequacy of mine closure preparations (including funding) and oil transportation arrangements, hazardous materials management and emergency response plans. It could also include data to capture private sector contributions beyond compliance, such as infrastructure, health and education services. The reporting requirements should also include relevant sustainable development indicators, such as water quality, access to potable water or schooling, and income levels. Other documentation, such as aerial photography and videotaping of the site and surrounding areas could help to later document improvements or deteriorations, and potentially reduce later disputes.

[115] Such an assessment should be conducted as early as possible, and IFC should prepare guidance on what IFC and its clients should do when early consultations were not carried out or were insufficient.

Recommendation 3e: *Paragraphs 28-29, 32, 52, 56, 66; Boxes 2, 3, 5*	Improve communications with clients. IFC should routinely share best practice among clients and encourage them to apply it. IFC should communicate its information needs better to its clients, for example by tailoring reporting to their own requirements. Clients very much appreciated assistance they had received from IFC staff, but were eager for more. IFC should build on its various initiatives to add value and further facilitate exchange of ideas among its clients, for example by organizing conferences and further developing toolkits on how to best address environmental and social issues.[116]

[116.] For example, IFC could review the mine closure plans of all existing clients and share best practices among them.

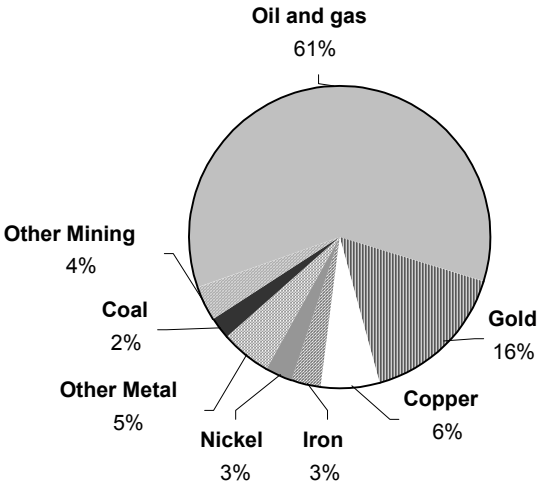
Annex 1: IFC's Investments in Extractive Industries



74. *Approvals.* In the 1960s and 1970s, few developing countries considered private sector development of their EI resources. IFC funded its first EI project, a Chilean copper mine, in 1958 and only five EI projects in the subsequent 12 years, three of them in the Chilean copper sector. As countries loosened control of their natural resources and permitted private sector investment, IFC became more active in the sector. Growth was initially slow. Prior to FY1980, IFC had only approved 17 projects for US$137 million. Growth then accelerated through 1991, when IFC's net approvals reached almost US$400 million. Approvals have, since 1991, fluctuated at around US$250 million annually, with a similar amount funded through the IFC B-loan syndication program. Compared to IFC's total approvals, the importance of EI projects declined substantially from around 15 percent in the 1980s to about 6 percent today. Since 1990, IFC has approved over 140 extractive industries projects, predominantly in Latin American and Sub-Saharan African countries (about 30 percent each).

Concentrated in oil & gas and gold

IFC approvals 1990-2002 ($3.1 billion)



75. *Products and funding instruments*: IFC's EI approvals—about US$3.1 billion from 1990 to the end of 2002—were particularly concentrated in oil and gas production and development (61 percent).[1] Gold (16 percent) and copper (6 percent) were also important. IFC has provided loans, equity, quasi-equity, and syndicated investments (mostly loans) to EI projects. IFC approved relatively less equity investments in EI (12 percent) than for other projects (16 percent) since 1990. In IFC's outstanding portfolio, however, EI had a larger share of equity (34 percent) than other projects (26 percent). IFC has been successful in attracting participant funding to EI — participants approved funding for about as much as IFC approved for its own account.

76. *Frontier countries*: IFC's overall strategy does not emphasize EI as a sector. However, it does emphasize investments in "frontier countries," defined as countries with poor

[1] From 1983 until 1991, IFC also financed oil and gas exploration, but the amounts involved were small ($60 million). It ceased to do so, mainly because of disappointing initial results.

country credit ratings.[2] Investments in EI depend on the location of the natural resources. IFC's investments also depend on where IFC has a role to play. IFC's role and contribution in EI projects was significantly better (95 percent satisfactory or better) than in other projects (79 percent). On average, IFC's approvals in EI have been in countries 10 points riskier (on a scale of 0 to 100) than IFC's average approvals. Thus, operating in EI allows IFC to invest in risky countries where it is often difficult to find other opportunities. For example, in at least a dozen countries IFC's first approval was in EI[3] and during the past decade Sub-Saharan Africa received the largest share of IFC's EI approvals. In Sub-Saharan Africa, where foreign direct investment is scarce, IFC's extractive industries approvals have accounted for over 40 percent of IFC's total approvals since 1956. IFC's outstanding EI portfolio at June 30, 2002, was concentrated in Latin America and Sub-Saharan Africa.

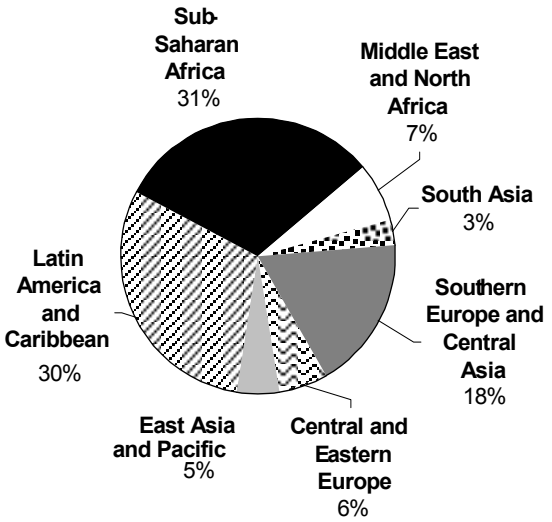
77. More analysis of IFC's approvals can be found in the WBG background paper for the EIR (www.eireview.org) and in OEG's approach paper (www.ifc.org/oeg). Further details on IFC's EI portfolio performance are included in the main report and in Annex 2.

Extractive Industries - Outstanding Portfolio
June 30, 2002

		US$ millions	%
Mining	Loan	214	56%
	Equity/Quasi-Equity	170	44%
sub-total		384	4%
Change from previous year		-6%	
Oil and Gas	Loan	143	59%
	Equity/Quasi-Equity	101	41%
sub-total		245	2%
Change from previous year		5%	
All EI	Loan	357	57%
	Equity/Quasi-Equity	271	43%
sub-total		628	6%
Change from previous year		-2%	
Non-EI	Loan	6,511	65%
	Equity/Quasi-Equity	3,581	35%
sub-total		10,092	94%
Change from previous year		-1%	
Grand Total		10,720	100%

Concentrated in Latin America and Sub-Saharan Africa

IFC approvals 1990 - 2002 ($3.1 billion)



[2] Institutional Investor country credit ratings below 30 or without a rating. In this report such countries are referred to as "risky" countries.

[3] Chad (2000), Chile (1957), Gabon (1982), Ghana (1984), Guinea (1982), Guinea-Bissau (1989), Kyrgyz Republic (1995), Mauritania (1968), Russian Federation (1993), Tajikistan (1996), Uzbekistan (1994), Zimbabwe (1981).

Annex 2A: Summary Results — All EI Projects

This Annex combines all EI projects that OEG reviewed: evaluated projects (Annex 2B) using IFC's established evaluation framework (www.ifc.org/oeg/xpsrs) and studied projects (Annexes 2C & 2D) that used desk reviews and the simplified binary evaluation framework (Annex 2H). Ratings in some case refer to multiple investments in the same company.

Note that the comparator – IFC average and non-oil, gas and mining projects refers to projects approved 1991-1996 and evaluated 1996-2001, whereas studied extractive industries projects include both older and newer projects.

			Development Outcome				IFC's Investment			IFC's Effectiveness		
			Project	Economic Sustainability	Environmental effects	PSD		Equity	Loan		Screening, appraisal, structuring	Supervision and administration	Role and contribution
Studied projects (various approval years)													
Oil and Gas	Number rated	23	23	23	17	23	23	16	19	23	23	23	23
	Success rate	70%	61%	78%	94%	65%	65%	50%	58%	78%	57%	83%	87%
Mining	Number rated	22	22	22	21	22	22	13	22	22	22	22	22
	Success rate	59%	59%	59%	62%	77%	68%	46%	73%	73%	64%	86%	91%
All-EI	Number rated	45	45	45	38	45	45	29	41	45	45	45	45
	Success rate	64%	60%	69%	76%	71%	67%	48%	66%	76%	60%	84%	89%
Evaluated projects (Approved 1991-96, Evaluated 1996-2001)													
Oil and Gas (12)	Success rate	67%	50%	83%	100%	58%	58%	25%	80%	92%	50%	92%	100%
Mining (10)	Success rate	50%	60%	60%	40%	90%	70%	60%	78%	70%	70%	70%	90%
All-EI (22)	Success rate	59%	55%	73%	71%	73%	64%	44%	79%	82%	59%	82%	95%
IFC Average (Approved 1991-96, Evaluated 1996-2001)													
All Evaluations (308)	Success rate	60%	44%	58%	65%	72%	54%	28%	73%	62%	55%	60%	80%
...of which: non-EI (286)	Success rate	60%	44%	57%	65%	72%	53%	28%	73%	60%	54%	59%	79%

Annex 2B: Performance Ratings for Evaluated EI Projects

The 22 EI projects were part of a random representative sample of 308 IFC projects approved 1991-1996 and evaluated 1996-2001. The rating scale for development outcome for evaluated projects was highly successful, successful, mostly successful, mostly unsuccessful, unsuccessful and highly unsuccessful; that for the indicators is excellent, satisfactory, partly satisfactory and unsatisfactory. For simplified presentation, the top half of the rating scale appears in the table as S (satisfactory or better, also "positive" in the main text), the bottom half as LS (less-than-satisfactory).

In 2002, OEG updated the evaluation framework to better align them with other IFC initiatives (e.g. corporate and departmental scorecards, sustainability initiative). The major change was to reduce the development outcome indicators from six to four;

- "Economic growth" and "Living standards" were merged into one indicator "economic sustainability"
- "Enabling environment" was merged into "Private sector development"

OEG's current evaluation framework is available at: http://www.ifc.org/oeg/xpsrs/NonfinMarkets/nonfinmktsinsts.html

Type: **Min** = Mining **OG** = Oil and Gas

Outcomes / indicators: **S** = Satisfactory or better **LS** = Less than Satisfactory

NOP = No opinion possible **N/A** = Not applicable as this operation featured none

	Type	DEVELOPMENT OUTCOME	Project business success	Growth of economy	Living standards	Environmental, social, health & safety effects	Private sector development	IFC's INVESTMENT OUTCOME	Equity	Loan	IFC's EFFECTIVENESS	Screening, appraisal & structuring	Supervision & administration	Role & contribution
1	Min	S	S	S	S	S	S	S	S	S	S	S	S	S
2	Min	S	S	S	S	S	S	S	S	S	S	S	S	S
3	Min	S	S	S	S	S	S	S	N/A	S	S	S	S	S
4	Min	S	S	S	S	LS	S	S	N/A	S	LS	S	LS	S
5	Min	S	S	S	S	LS	S	LS	N/A	LS	S	LS	S	S
6	Min	LS	LS	LS	S	S	S	S	N/A	S	S	S	S	S
7	Min	LS	LS	LS	S	LS	S	S	S	S	S	S	S	S
8	Min	LS	S	S	S	LS	S	S	N/A	S	LS	LS	LS	LS
9	Min	LS	LS	LS	S	LS	S	LS	LS	N/A	S	S	LS	S
10	Min	LS	LS	LS	S	LS	LS	LS	LS	LS	LS	LS	S	S
11	OG	S	S	S	S	S	S	S	N/A	S	S	S	S	S
12	OG	S	S	S	S	S	S	S	S	S	S	S	S	S
13	OG	S	S	S	S	S	S	S	N/A	S	S	S	S	S
14	OG	S	S	S	S	S	S	S	N/A	S	S	S	S	S
15	OG	S	S	S	S	S	LS	S	N/A	S	S	S	S	S
16	OG	S	S	S	S	NOP	S	LS	N/A	LS	S	S	S	S
17	OG	S	LS	S	S	S	S	LS	N/A	LS	S	LS	S	S
18	OG	S	LS	S	LS	S	S	LS	LS	S	S	LS	S	S
19	OG	LS	LS	S	S	S	LS	S	N/A	S	S	LS	S	S
20	OG	LS	LS	LS	S	S	LS	S	N/A	S	LS	LS	LS	S
21	OG	LS	LS	LS	LS	S	LS	LS	LS	N/A	S	LS	S	S
22	OG	LS	LS	S	S	S	LS	LS	LS	N/A	S	LS	S	S

Annex 2C: Performance Ratings for Studied Oil and Gas Projects

Outcomes/indicators: **S** = *Satisfactory or better* **LS** = Less than Satisfactory

NOP = No opinion possible **N/A** = Not applicable as this operation featured none

	DEVELOPMENT OUTCOME	Project business success	Growth of economy	Environmental, social, health & safety effects	Private sector development	IFC's INVESTMENT OUTCOME	Equity	Loan	IFC's EFFECTIVENESS	Screening, appraisal & structuring	Supervision & administration	Role & contribution
1	S	S	S	S	LS	S	S	S	S	S	S	S
2	S	S	S	S	S	S	S	S	S	S	S	S
3	S	S	S	S	S	S	N/A	S	S	S	S	S
4	S	S	S	S	S	S	S	LS	S	LS	S	S
5	S	S	S	LS	S	S	S	LS	S	LS	S	S
6	S	S	S	S	S	S	N/A	S	S	S	S	S
7	S	S	S	S	S	S	S	S	S	S	S	S
8	S	S	S	S	S	S	S	LS	S	S	S	S
9	S	S	S	S	S	S	N/A	S	S	S	S	S
10	S	S	S	S	S	S	N/A	S	S	S	S	S
11	S	S	S	NOP	S	S	S	LS	S	S	S	S
12	S	S	S	S	S	S	S	LS	S	S	S	S
13	S	LS	S	S	S	S	N/A	S	S	LS	S	S
14	S	S	S	NOP	S	LS	LS	LS	S	S	LS	S
15	S	S	S	NOP	LS	LS	LS	N/A	LS	LS	S	LS
16	S	LS	S	S	S	LS	LS	LS	LS	LS	S	S
17	LS	LS	S	S	LS	S	N/A	S	S	LS	S	S
18	LS	LS	LS	S	LS	S	N/A	S	LS	LS	LS	S
19	LS	LS	LS	NOP	LS	LS	LS	N/A	S	S	S	S
20	LS	LS	LS	S	LS	LS	LS	N/A	S	S	S	LS
21	LS	LS	S	S	LS	LS	LS	LS	S	LS	S	S
22	LS	LS	LS	NOP	LS	LS	LS	N/A	LS	LS	LS	LS
23	LS	LS	LS	NOP	S	LS	LS	S	LS	LS	LS	S

Annex 2D: Performance Ratings for Studied Mining Projects

Outcomes/indicators: **S** = *Satisfactory or better* **LS** = Less than Satisfactory

NOP = No opinion possible **N/A** = Not applicable as this operation featured none

	DEVELOPMENT OUTCOME	Project business success	Growth of economy	Environmental, social, health & safety effects	Private sector development	IFC's INVESTMENT OUTCOME	Equity	Loan	IFC's EFFECTIVENESS	Screening, appraisal & structuring	Supervision & administration	Role & contribution
1	S	S	S	S	S	S	S	S	S	S	S	S
2	S	S	S	S	S	S	S	S	S	S	S	S
3	S	S	S	LS	S	S	N/A	S	S	S	S	S
4	S	S	S	S	S	S	S	S	S	S	S	S
5	S	S	S	S	S	S	N/A	S	S	S	S	S
6	S	S	S	LS	S	S	S	S	S	LS	S	S
7	S	S	S	S	S	S	NOP	S	S	S	S	S
8	S	S	S	S	S	S	N/A	S	S	S	S	S
9	S	S	S	S	S	S	N/A	S	S	S	LS	S
10	S	S	S	S	S	S	N/A	S	S	S	S	S
11	S	S	S	S	S	S	N/A	S	S	S	S	S
12	S	S	S	LS	S	S	S	S	S	S	LS	S
13	S	S	S	LS	S	LS	N/A	LS	S	LS	S	S
14	LS	LS	LS	S	LS	S	S	S	S	S	S	S
15	LS	LS	LS	NOP	LS	S	LS	S	LS	LS	S	LS
16	LS	LS	LS	LS	LS	S	N/A	S	LS	LS	S	LS
17	LS	LS	LS	S	S	LS	LS	LS	S	S	S	S
18	LS	LS	LS	S	S	LS	LS	S	S	S	S	S
19	LS	LS	LS	LS	S	LS	LS	LS	LS	LS	LS	S
20	LS	LS	LS	S	LS	LS	LS	LS	LS	LS	S	S
21	LS	LS	LS	LS	S	LS	LS	LS	LS	LS	S	S
22	LS	LS	LS	LS	LS	LS	LS	LS	LS	LS	S	S

Annex 2E: Approved Projects Reviewed by OEG — Mining

Evaluated (in bold italics) and studied projects

Approved amounts may differ from disbursed amounts (US$ millions)

Country	Project Name	ID	Approval Date	Status	Project Size	IFC Gross	IFC Net	Loan	Equity	Quasi-equity	Other	Participants	Project Type	Environ. Category	Detail Sector
Bolivia	**Comsur**														
	COMSUR (II)	***3956***	***Sep-93***	***Active***	***55.5***	***12.3***	***12.3***	***11.0***	***0.0***	***1.3***	***0.0***	***0.0***	***Investment***	***B***	***Zinc***
	COMSUR III	4799	Aug-95	Active	22.0	13.3	8.3	7.5	0.0	0.8	0.0	5.0	Investment	A	Gold
	COMSUR V	9670	Dec-99	Active	22.7	10.0	10.0	10.0	0.0	0.0	0.0	0.0	Investment	B	Zinc
Brazil	**Codemin**														
	CODEMIN SA III	420	May-78	Active	98.4	62.9	8.9	5.0	3.9	0.0	0.0	54.0	Investment	N	Nickel
	CODEMIN III	658	Feb-83	Active	4.0	0.4	0.4	0.0	0.4	0.0	0.0	0.0	Rights Issue	N	Nickel
Brazil	**MBR**														
	MBR (II)	2649	Jun-92	Active	266.1	60.0	35.0	25.0	0.0	10.0	0.0	25.0	Investment	A	Iron
	MBR LTDP	9343	Jun-99	Active	342.0	140.0	25.0	20.0	0.0	5.0	0.0	115.0	Investment	A	Iron
Brazil	**Para Pigmentos**														
	PARA PIGMENTOS	***4494***	***Jun-94***	***Active***	***183.0***	***74.0***	***34.0***	***25.0***	***0.0***	***9.0***	***0.0***	***40.0***	***Investment***	***A***	***Misc. Ores***
Brazil	**Samarco**														
	Samarco	5036	Jan-97	Active	44.8	39.0	23.0	23.0	0.0	0.0	0.0	16.0	Investment	A	Iron
Chile	**Escondida**														
	ESCONDIDA COPPER	1081	Jul-88	Active	1,143.2	85.0	85.0	70.0	15.0	0.0	0.0	0.0	Investment	N	Copper
	Escondida RI	9209	Nov-98	Active	25.0	25.0	25.0	0.0	0.0	25.0	0.0	0.0	Rights Issue	C	Copper
Chile	**Refimet**														
	REFIMET SMELTER	***4802***	***Feb-95***	***Closed***	***91.2***	***79.0***	***20.0***	***10.0***	***0.0***	***10.0***	***0.0***	***59.0***	***Investment***	***B***	***Copper***
	Refimet (Rev)	***7346***	***Nov-95***	***Closed***	***6.0***	***5.0***	***5.0***	***5.0***	***0.0***	***0.0***	***0.0***	***0.0***	***Investment***	***C***	***Copper***
Gabon	**COMILOG II**														
	COMILOG II	***2772***	***Jun-91***	***Closed***	***35.4***	***9.0***	***9.0***	***9.0***	***0.0***	***0.0***	***0.0***	***0.0***	***Investment***	***U***	***Other Metals***
Ghana	**Bogosu**														
	BOGOSU GOLD	973	Jul-87	Active	6.0	0.6	0.6	0.0	0.0	0.6	0.0	0.0	Investment	N	Gold
	BOGOSU (V)-RESTR	4102	Jun-93	Active	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	Rescheduling	B	Gold
Ghana	**GAGL**														
	IDUAPRIEM GOLD	1231	Feb-90	Active	13.5	3.0	3.0	0.0	3.0	0.0	0.0	0.0	Investment	N	Gold
	IDUAPRIEM II	2386	Jun-91	Active	55.4	48.0	18.0	8.4	0.0	8.5	1.1	30.0	Investment	B	Gold
	GAGL III	4896	Jul-95	Active	11.5	10.1	10.1	0.0	0.0	2.6	7.5	0.0	Investment	B	Gold
	GAGL IV	7261	Mar-96	Active	13.5	4.5	4.5	4.5	0.0	0.0	0.0	0.0	Investment	B	Gold
	GAGL IV-Restr	10327	Jun-00	Active	13.5	0.5	0.5	0.0	0.0	0.5	0.0	0.0	Restructuring	C	Gold
Kyrgyz Republic	**Kumtor**														
	KUMTOR GOLD	***3966***	***Mar-95***	***Active***	***335.0***	***40.0***	***40.0***	***30.0***	***0.0***	***10.0***	***0.0***	***0.0***	***Investment***	***A***	***Gold***
Mali	**SOMISY**														
	SOMISY	***2429***	***Dec-91***	***Active***	***122.6***	***23.2***	***23.2***	***0.0***	***1.5***	***21.7***	***0.0***	***0.0***	***Investment***	***B***	***Gold***
	Somisy Capex	7975	Jun-97	Active	63.8	35.0	10.0	10.0	0.0	0.0	0.0	25.0	Investment	B	Gold
	Randgold RI	9342	Nov-98	Active	34.8	2.3	2.3	0.0	2.3	0.0	0.0	0.0	Rights Issue	C	Gold
Mali	**Sadiola Gold**														
	SADIOLA GOLD	***4360***	***Dec-94***	***Active***	***246.2***	***64.8***	***39.8***	***35.0***	***4.8***	***0.0***	***0.0***	***25.0***	***Investment***	***A***	***Gold***
Mozambique	**Mozal**														
	MOZAL	7764	Jun-97	Active	1,365.0	120.0	120.0	55.0	0.0	65.0	0.0	0.0	Investment	A	Aluminum
	Mozal II	10323	Apr-01	Active	1,024.0	25.0	25.0	25.0	0.0	0.0	0.0	0.0	Investment	A	Aluminum
Peru	**Buenaventura**														
	BUENAVENTURA 1	446	Dec-78	Active	10.0	3.5	3.5	2.0	1.5	0.0	0.0	0.0	Investment	N	Silver
	BUENAVENTURA III	1232	Mar-90	Active	6.0	0.6	0.6	0.0	0.6	0.0	0.0	0.0	Rights Issue	U	Silver
	BUENAVENTURA IV	4070	May-93	Active	105.8	0.7	0.7	0.0	0.7	0.0	0.0	0.0	Rights Issue	B	Silver
Peru	**Minera Regina**														
	MINERA LA REGINA	737	Jun-84	Active	21.4	5.2	5.2	5.0	0.2	0.0	0.0	0.0	Investment	N	Other Metals
	Regina Restr II	8888	Dec-97	Active	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	Restructuring	A	Other Metals
Peru	**Yanacocha**														
	YANACOCHA	2983	May-93	Active	45.0	24.7	12.7	12.0	0.3	0.3	0.0	12.0	Investment	A	Gold
	MAQUI MAQUI	***4449***	***May-94***	***Active***	***53.8***	***15.9***	***10.9***	***10.0***	***0.0***	***0.0***	***0.9***	***5.0***	***Investment***	***A***	***Gold***
	Yanacocha III	9502	Jun-99	Active	121.0	110.0	30.0	30.0	0.0	0.0	0.0	80.0	Investment	A	Gold
Tajikistan	**Zeravshan**														
	Zeravshan Gold	***7192***	***Oct-96***	***Active***	***127.0***	***7.5***	***7.5***	***0.0***	***1.2***	***6.3***	***0.0***	***0.0***	***Investment***	***B***	***Gold***
	Nelson Gold	7911	Oct-96	Active	0.0	2.1	2.1	0.0	0.0	0.0	2.1	0.0	Investment	B	Gold
	Zeravshan-Jilau	8579	Feb-98	Active	14.7	3.0	3.0	3.0	0.0	0.0	0.0	0.0	Investment	B	Gold
	Zeravshan-NGC	8823	Feb-98	Active	9.0	3.0	3.0	0.0	3.0	0.0	0.0	0.0	Investment	B	Gold
Turkey	**Cayeli Bakir**														
	CAYELI BAKIR	***2448***	***Jun-92***	***Active***	***144.5***	***75.0***	***30.0***	***30.0***	***0.0***	***0.0***	***0.0***	***45.0***	***Investment***	***B***	***Copper***
Uganda	**Kasese**														
	Kasese Cobalt	4895	Jun-96	Active	110.0	24.6	19.6	16.0	3.6	0.0	0.0	5.0	Investment	A	Other Metals
Venezuela	**Minera Loma**														
	Loma de Niquel	7343	Apr-97	Active	430.0	124.5	74.5	65.0	2.4	7.1	0.0	50.0	Investment	A	Nickel
	Minera Loma RI	10398	Jun-00	Active	98.4	0.3	0.3	0.0	0.0	0.3	0.0	0.0	Rights Issue	C	Nickel
Zambia	**KCM**														
	KCM	8570	Feb-00	Active	334.8	30.0	30.0	0.0	7.2	22.8	0.0	0.0	Investment	A	Copper
Zimbabwe	**Wankie**														
	WANKIE COLLIERY2	3485	Oct-92	Closed	28.0	10.0	10.0	10.0	0.0	0.0	0.0	0.0	Investment	B	Coal Mining

Unrated projects, reviewed for issues and lessons

Approved amounts may differ from disbursed amounts (US$ millions)

Country	Project Name	ID	Approval Date	Status	Project Size	IFC Gross	IFC Net	Loan	Equity	Quasi-equity	Other	Participants	Project Type	Environ. Category	Detail Sector
Africa Region	**MACS**														
	MACS	9345	Apr-01	Active	100	74.0	34.0	30.0	4.0	-	-	40.0	Investment	B	Mining Services
Burkina Faso	**AEF FasoMine**														
	AEF FasoMine	9024	Sep-98	Active	5	1.5	1.5	1.0	0.5	-	-	-	Investment	B	Iron
China	**Daning Coal**														
	Daning Coal	10015	May-01	Active	75	30.0	15.0	13.0	2.0	-	-	15.0	Investment	A	Coal Mining
India	**Sarshatali Coal**														
	Sarshatali Coal	7984	Feb-99	Active	149	35.0	35.0	30.0	5.0	-	-	-	Investment	A	Coal Mining
Indonesia	**Dianlia**														
	Dianlia	9987	Feb-01	Active	10	5.0	5.0	4.0	-	1.0	-	-	Investment	B	Coal Mining
Mexico	**Mexcobre**														
	MEXCOBRE SX/EW	4313	May-94	Closed	75	60.0	25.0	25.0	-	-	-	35.0	Investment	B	Copper
	Pan American														
	Pan American	9800	Jul-99	Active	13	12.5	12.5	-	12.5	-	-	-	Investment	A	Silver
	La Colorada	10326	Feb-01	Active	51	28.6	10.3	4.0	-	6.0	0.3	18.3	Investment	A	Silver
	PanAme-La Colora	10856	Feb-01	Active	1	1.2	1.2	-	1.2	-	-	-	Investment	A	Silver
Peru	**Quellaveco**														
	QUELLAVECO	3823	Apr-93	Active	31	6.2	6.2	-	-	6.2	-	-	Investment	A	Copper
	QUELLAVECO - RI	7447	Mar-96	Active	27	5.3	5.3	-	-	5.3	-	-	Rights Issue	C	Copper
	Minera Q RI	10170	Jan-00	Active	3	0.6	0.6	-	0.6	-	-	-	Rights Issue	A	Copper
Russian Federation	**Julietta**														
	Julietta	10020	Sep-00	Active	77	10.0	10.0	8.5	-	1.5	-	-	Investment	A	Gold
	Bema Gold														
	Bema Gold	10655	Sep-00	Active	1	1.0	1.0	-	1.0	-	-	-	Investment	A	Gold
Sierra Leone	**Sierra Rutile**														
	SIERRA RUTILE 1	2609	Apr-92	Closed	71	20.0	20.0	20.0	-	-	-	-	Investment	A	Nickel
	SIEROMCO	3999	Jun-93	Closed	27	10.0	10.0	10.0	-	-	-	-	Investment	B	Other
	Sierra Restr	9148	May-98	Closed	0	0.0	0.0	-	-	-	-	-	Restructuring	N	Misc. Ores
Tunisia	**Miniere Bougrine**														
	MINIERE BGRN-RI	4677	May-94	Closed	8	0.9	0.9	-	-	0.9	-	-	Rights Issue	U	Zinc
Uzbekistan	**Amantytau Gold**														
	AMANTAYTAU GOLD	4323	Mar-94	Closed	6	1.2	1.2	-	-	1.2	-	-	Investment	C	Gold

Annex 2F: Approved Projects Reviewed by OEG — Oil and Gas

Evaluated (in bold italics) and studied projects

Approved amounts may differ from disbursed amounts (US$ millions)

Country	Project Name	ID	Approval Date	Status	Project Size	IFC Gross	IFC Net	Loan	Equity	Quasi-equity	Other	Participants	Project Type	Environ. Category	Detail Sector
Albania	**Patos Marinza**														
	Patos Marinza	7429	Mar-98	Active	275.2	108.5	58.5	30.0	28.5	0.0	0.0	50.0	Investment	A	O & G Production
	Patos Marinza In	10885	Jun-01	Active	197.5	10.0	10.0	10.0	0.0	0.0	0.0	0.0	Investment	A	O & G Production
Argentina	**Bridas/PAE**														
	BRIDAS 2	3078	Jun-92	Active	238.0	130.0	50.0	35.0	0.0	15.0	0.0	80.0	Investment	B	O & G Production
	BRIDAS III	***5093***	***Jun-95***	***Active***	***221.3***	***70.0***	***30.0***	***20.0***	***10.0***	***0.0***	***0.0***	***40.0***	***Investment***	***B***	***O & G Production***
	Cadipsa														
	(SOP) CADIPSA	***2979***	***Oct-92***	***Closed***	***83.0***	***40.0***	***20.0***	***10.0***	***5.0***	***5.0***	***0.0***	***20.0***	***Restructuring***	***B***	***O & G Production***
	Capsa Diadema														
	Diadema Field	***7418***	***Jun-96***	***Active***	***70.0***	***60.0***	***20.0***	***15.0***	***0.0***	***5.0***	***0.0***	***40.0***	***Investment***	***B***	***O & G Production***
	Cia.Combustible														
	CIA. COMBUSTIBLE	4067	Dec-93	Closed	251.6	80.0	40.0	25.0	15.0	0.0	0.0	40.0	Restructuring	B	O & G Production
	Huantraico / Neuquen														
	Huantraico	2764	Oct-91	Active	60.0	17.0	17.0	0.0	17.0	0.0	0.0	0.0	Restructuring	A	O & G Production
	HUANTRAICO (II)	3262	Jun-92	Active	180.4	60.0	25.0	15.0	10.0	0.0	0.0	35.0	Investment	U	O & G Production
	Neuquen	7182	Mar-96	Active	186.0	26.4	26.4	0.0	26.4	0.0	0.0	0.0	Investment	B	O & G Production
	Neuquen Basin RI	9537	Jan-99	Active	5.0	5.0	5.0	0.0	5.0	0.0	0.0	0.0	Rights Issue	C	O & G Production
Azerbaijan	**Early Oil**														
	Early Oil:Amoco	7271	Jul-98	Active	650.0	65.7	32.8	32.8	0.0	0.0	0.0	32.8	Investment	A	O & G Production
	Early Oil: Exxon	9440	Jul-98	Active	305.4	30.9	15.4	15.4	0.0	0.0	0.0	15.4	Investment	A	O & G Production
	Early Oil:LUKOil	9441	Jul-98	Active	382.7	38.6	19.3	19.3	0.0	0.0	0.0	19.3	Investment	A	O & G Production
	Early Oil:TPAO	9442	Jul-98	Active	259.8	26.1	13.0	13.0	0.0	0.0	0.0	13.0	Investment	A	O & G Production
	Early Oil:Unocal	9443	Jul-98	Active	384.7	38.8	19.4	19.4	0.0	0.0	0.0	19.4	Investment	A	O & G Production
Cameroon	**Pecten**														
	PECTEN (II)	***3815***	***Feb-94***	***Active***	***135.0***	***105.0***	***40.0***	***40.0***	***0.0***	***0.0***	***0.0***	***65.0***	***Investment***	***B***	***O & G Production***
	Pecten Itindi	7621	Feb-97	Active	115.0	95.0	20.0	20.0	0.0	0.0	0.0	75.0	Investment	B	O & G Production
	Pecten - Mokoko	8498	Mar-98	Active	265.0	265.0	75.0	75.0	0.0	0.0	0.0	190.0	Investment	B	O & G Production
Congo	**Engen**														
	ENGEN/ENGEN CONG	***4981***	***May-95***	***Closed***	***99.8***	***91.4***	***46.4***	***15.0***	***2.9***	***28.5***	***0.0***	***45.0***	***Investment***	***B***	***O & G Production***
Cote d'Ivoire	**CI-11**														
	BLOCK CI-11	***3448***	***Mar-93***	***Active***	***45.5***	***11.4***	***11.4***	***0.0***	***11.4***	***0.0***	***0.0***	***0.0***	***Investment***	***A***	***O & G Production***
	BLOCK CI-11 OIL	***4603***	***Nov-94***	***Active***	***66.0***	***27.3***	***27.3***	***0.0***	***27.3***	***0.0***	***0.0***	***0.0***	***Investment***	***A***	***O & G Production***
	BLOCK CI-11-UMIC	4975	May-95	Closed	45.0	35.0	15.0	15.0	0.0	0.0	0.0	20.0	Investment	A	O & G Production
	Block CI-II-GNR	7018	May-95	Closed	25.0	17.5	7.5	7.5	0.0	0.0	0.0	10.0	Investment	A	O & G Production
	CI-II-Pluspetrol	7019	May-95	Closed	25.0	17.5	7.5	7.5	0.0	0.0	0.0	10.0	Investment	A	O & G Production
	BlockCI-11/12 RI	8233	Mar-97	Active	5.0	5.0	5.0	0.0	5.0	0.0	0.0	0.0	Rights Issue	C	O & G Production
	Block CI-11 RI 2	9171	May-98	Active	5.0	5.0	5.0	0.0	5.0	0.0	0.0	0.0	Rights Issue	FI	O & G Production
Ecuador	**Tripetrol**														
	TRIPETROL EXPLOR	***3251***	***Jul-92***	***Closed***	***32.0***	***10.0***	***10.0***	***6.0***	***0.0***	***4.0***	***0.0***	***0.0***	***Investment***	***B***	***O & G Production***
Egypt	**Apache Qarun Concession**														
	MELEIHA OIL EXPL	873	Jun-86	Active	180.0	79.5	49.5	30.0	19.5	0.0	0.0	30.0	Investment	N	O & G Production
	MELEIHA II	995	Sep-87	Active	36.0	9.2	9.2	0.0	9.2	0.0	0.0	0.0	Investment	N	O & G Production
	MELEIHA & AGHAR	2975	Jun-92	Active	36.4	13.0	13.0	0.0	13.0	0.0	0.0	0.0	Investment	B	O & G Production
	Meleiha														
	Phoenix Resource	5127	Oct-95	Closed	10.0	10.0	10.0	0.0	10.0	0.0	0.0	0.0	Investment	A	O & G Production
	Apache Qarun	***7211***	***Oct-95***	***Closed***	***51.6***	***27.5***	***12.5***	***12.5***	***0.0***	***0.0***	***0.0***	***15.0***	***Investment***	***A***	***O & G Production***
	PRC Qarun	7422	Oct-95	Closed	93.3	55.0	25.0	25.0	0.0	0.0	0.0	30.0	Investment	A	O & G Production
Guatemala	**Basic**														
	BASIC	3888	Jun-94	Closed	33.0	20.0	14.0	10.0	4.0	0.0	0.0	6.0	Investment	A	O & G Production
	BASIC II	7407	Jul-96	Closed	73.0	25.8	13.8	12.0	1.8	0.0	0.0	12.0	Investment	A	O & G Production
India	**Triveni**														
	TRIVENI	2202	Dec-90	Closed	20.6	0.6	0.6	0.0	0.6	0.0	0.0	0.0	Investment	U	Oilfield Services
Kazakhstan	**Akshabulak/Kazgermunai**														
	Akshabulak	7416	Mar-96	Active	266.9	65.7	65.7	0.0	0.1	65.6	0.0	0.0	Investment	A	O & G Production
Pakistan	**MariGas**														
	MARI GAS II	***2837***	***Dec-91***	***Closed***	***47.9***	***19.5***	***19.5***	***19.5***	***0.0***	***0.0***	***0.0***	***0.0***	***Investment***	***B***	***O & G Production***
	PPL														
	PPL	655	Nov-82	Active	176.6	163.4	17.0	15.5	1.6	0.0	0.0	146.4	Investment	N	O & G Production
	PPL-SUI LIME	***3911***	***Jun-94***	***Active***	***72.5***	***52.1***	***31.1***	***31.1***	***0.0***	***0.0***	***0.0***	***21.0***	***Investment***	***B***	***O & G Production***
	PPL-SUI LIME INC	4907	Oct-94	Active	2.0	2.0	0.0	0.0	0.0	0.0	0.0	2.0	Investment	C	O & G Production
Poland	**Amoco Poland**														
	COALBED METHANE	3471	Mar-94	Closed	86.5	8.7	8.7	0.0	0.0	8.7	0.0	0.0	Investment	B	O & G Production
Russian Federation	**Aminex (Russia/Tunisia)**		Oct-96												
	Aminex: Tunisia	7610	Oct-96	Closed	7.2	3.1	3.1	0.0	3.1	0.0	0.0	0.0	Investment	B	O & G Production
	Aminex: Kirtayel	7624	Oct-96	Active	85.2	20.1	20.1	17.0	3.1	0.0	0.0	0.0	Investment	B	O & G Production
	Aminex RI	9623	Mar-99	Active	1.1	0.1	0.1	0.0	0.1	0.0	0.0	0.0	Rights Issue	C	O & G Production
	Bitech														
	Bitech-Silur	8902	Mar-99	Closed	65.0	25.0	25.0	17.5	7.5	0.0	0.0	0.0	Investment	B	O & G Production
	Polar														
	POLAR LIGHTS	***4040***	***Jun-93***	***Closed***	***340.0***	***60.0***	***60.0***	***60.0***	***0.0***	***0.0***	***0.0***	***0.0***	***Investment***	***A***	***O & G Production***
	Vasyugan														
	VASYUGAN	***3532***	***Jun-93***	***Closed***	***37.1***	***11.5***	***11.5***	***10.0***	***0.0***	***1.5***	***0.0***	***0.0***	***Investment***	***B***	***O & G Production***

Unrated projects, reviewed for issues and lessons

Approved amounts may differ from disbursed amounts (US$ millions)

Country	Project Name	ID	Approval Date	Status	Project Size	IFC Gross	IFC Net	Loan	Equity	Quasi-equity	Other	Participants	Project Type	Environ. Category	Detail Sector
Africa Region	**SAPTFF**														
	SAPTFF	10145	Jun-00	Active	200	80	80.0	-	-	-	80.0	-	Investment	FI-2	Trade Finance
Bangladesh	**Jalalabad II**														
	Jalalabad II	9354	Mar-00	Active	163	70	40.0	30.0	-	10.0	-	30.0	Investment	A	O&G Production
Cameroon	**ChadOil-COTCO**														
	ChadOil-COTCO	11124	Jun-00	Active	-	-	-	-	-	-	-	-	Investment	A	O&G Production
Chad	**ChadOil**														
	ChadOil	4338	Jun-00	Active	3,724	400	100.0	100.0	-	-	-	300.0	Investment	A	O&G Production
	ChadOil-TOTCO	11125	Jun-00	Active	-	-	-	-	-	-	-	-	Investment	A	O&G Production
Colombia	**Harken**														
	Harken	9484	Jun-99	Closed	158	55	30.0	20.0	-	10.0	-	25.0	Investment	B	O&G Production
Kazakhstan	**Sazankurak**														
	Sazankurak	10056	Jun-00	Active	45	20	20.0	15.0	-	5.0	-	-	Investment	B	O&G Production
Kazakhstan	**FIOC**														
	FIOC	10411	Jun-00	Active	-	0	0.0	-	0.0	-	-	-	Investment	B	O&G Production
Nigeria	**Delta Contractor**														
	Delta Contractor	10683	Jun-01	Active	30	15	15.0	15.0	-	-	-	-	Investment	FI-2	Finance Companies
Pakistan	**Lasmo Pakistan**														
	Lasmo Pakistan	10408	Jun-01	Active	120	40	40.0	40.0	-	-	-	-	Investment	B	O&G Production

Annex 2G: Reasons for Not Rating Projects or Companies

	Country	*Project Name*	*Reason*
Mining	Africa Region	MACS	No disbursement yet.
	Burkina Faso	AEF FasoMine	No disbursement yet.
	China	Daning Coal	No disbursement yet.
	India	Sarshatali Coal	No disbursement yet.
	Indonesia	Dianlia	No disbursement yet.
	Mexico	Mexcobre	Exited, loan prepaid in 1996.
	Mexico	La Colorada	Too early to evaluate. The Russian project did not proceed, Mexican project in early start-up.
	Peru	Quellaveco	No commercial activity.
	Russian Federation	Julietta Gold / OMGC	Too early to evaluate, commenced operations in late 2000.
	Russian Federation	Bema Gold	Too early to evaluate, disbursed in late 2001.
	Sierra Leone	Sierra Rutile	Original project ceased operations due to civil war. Expansion not yet disbursed.
	Tunisia	Miniere Bougrine	Project closed, no information available.
	Uzbekistan	Amantaytau	Exited, original project-a feasibility study-was closed. Follow-on project was dropped.

	Country	*Project Name*	*Reason*
Oil & Gas	Africa Region	SAPTFF	No disbursement yet.
	Bangladesh	Jalalabad	No disbursement yet.
	Chad/Cameroon	ChadOil	Too early to evaluate, no first oil yet
	Colombia	Harken	Exited, no current information available.
	Kazakhstan	FIOC Sazankurak	Too early to evaluate, disbursed in late 2001.
	Nigeria	Niger Delta	No disbursement yet.
	Pakistan	Lasmo	No disbursement yet.

The companies and projects above were reviewed by OEG. They were considered inappropriate for rating purposes (i.e. too early, cancelled, insufficient information, etc.). They did provide valuable issues and lessons that have been used in this report.

Annex 2H: Evaluation Framework and Rating Guidelines for Studied Projects

I. Development Outcome Rating The development outcome rating is a bottom-line, synthesis assessment of the operation's results, based on the following four development indicators.

- ***Project business success*** considers the narrow objectives supported by IFC's financing. The best measure of a project's business success is its financial rate of return (FRR). Lacking the data to calculate an FRR, we based this rating on assessments of the inputs to an FRR — capital expenditures, cost over-runs, capacity utilization, sales volumes, pricing, revenues, margins, profits, taxes, subsidies, etc.
    - *Rates satisfactory when the inputs to an FRR suggest a satisfactory FRR.*
- ***Economic Sustainability*** considers the project's net economic benefits to all members of society, which is best measured by an economic rate of return (ERR). Lacking the data to calculate an ERR, we based this rating on assessments of the inputs to an ERR — the social benefits and costs including taxes paid, benefits to suppliers, effects on competitors, consumer surplus, effects on input and output markets, and how competitive prices and quantities are determined in relevant markets. It should also capture non-quantified benefits. In particular whether or not the project had a direct impact – positive or negative – on the poor or on living standards in the local community.
    - *Rates satisfactory* when the net *economic* benefits are positive and near to expectations and in marginal cases, where a project also has a demonstrably positive effect on society in the host country.
- ***Project's Environmental Effects*** are based on the project's compliance with WBG environmental requirements.
    - *Rates satisfactory* if the project is - *and* was over its lifetime - in <u>material</u> compliance with <u>either</u> IFC's current or at-approval requirements.
- ***Private Sector Development*** considers, as relevant, the upstream and downstream linkages to private firms, new technology, management skills and training, degree of local entrepreneurship and competition, demonstration effects, enhanced private ownership, capital markets development; and business practices as a positive corporate role model. It also includes regulatory improvements such as changes in government policy and legal, tax and accounting frameworks and possibly project-related technical assistance or project activities that have changed the enabling environment to create conditions conducive to the flow of private capital, domestic and foreign, into productive investment.
    - *Rates satisfactory* when the project provides distinctly positive net contributions.

II. IFC investment outcome

- *Rates* satisfactory when no *loss* reserves exist; loans are not in arrears; equity investments achieve a 5% real return; any loan rescheduling still provides the full margin originally expected; and any loan prepayment provides greater than 65% of the originally expected loan income.

III. IFC's Effectiveness

- ***Screening, Appraisal, and Structuring***
  - *Rates satisfactory* if it met IFC's procedures and good practice standards;

- ***Supervision and Administration***
  - *Rates satisfactory* if IFC was sufficiently informed to react in a timely manner to any material change in the project's and company's performance;

- ***IFC's Role and Contribution***
  - *Rates satisfactory* if IFC's role and contribution were in line with its operating principles;

IFC's Effectiveness (*Synthesis*) Rating

- *Rates satisfactory* if IFC's performance was up to a high professional standard.

Annex 3: IFC's Technical Assistance Trust Fund Activities in EI

Trust Funds: IFC Donor-Supported Technical Assistance (TA) Programs, through IFC's Trust Fund Unit approved TA of US$3.5 million for 22 EI projects since 1994. The majority (84%) of the funding was approved in the last three years and has increasingly supported sustainable development initiatives. Examples include funding for a conference to improve the investment climate for sustainable mining (China); support to bring a coal company into environmental and social compliance (Russia); dissemination of examples of successful approaches to HIV/AIDS prevention (Global); and a range of programs for a gold and copper mining investment (Laos). In 2002, oil and gas related projects were approved to support an investment forum in Mongolia and privatization assistance in Mozambique. EI project approvals reached 12% of total approvals in 2002 but have accounted for only 3% of total approvals since 1994. It is likely, as EI projects include more social and environmental development, that demand for TATF for EI will grow. Because Project Completion Reports (PCRs) were generally not completed on the above projects, OEG did a desk review and some one-on-one consultations to better understand project results. Overall, the projects have been broadly successful, but based on the information received OEG was unable to assign project ratings.

Year	Amount US$	%	Projects	%	Average US$	Country/Region
1994	100,000	3%	1	5%	100,000	Brazil
1995	225,000	7%	1	5%	225,000	Kazakhstan
1996	115,000	3%	2	9%	57,500	Albania,Tajikistan
1997	43,460	1%	1	5%	43,460	Mongolia (2)
1998	-	0%	0	0%	-	
1999	60,000	2%	1	5%	60,000	Africa Region
2000	318,000	9%	3	14%	106,000	Tajikistan, Albania, Kyrgyz Republic
2001	800,000	23%	5	23%	160,000	China (2), Kazakhstan, World Region / Global, Zambia, Lao People's Democratic Republic
2002	1,795,400	52%	8	36%	224,425	Mongolia, Mozambique (2), Lao People's Democratic Republic (2), World Region / Global, China (2), Russia
	3,456,860	100%	22	100%	157,130	

Annex 4A: Perceptions of Survey Participants at the EIR Planning Workshop

Over 50 stakeholders participated in the EIR Planning Workshop in Brussels (28-30 October, 2001): government entities (9), the private sector (15), non-governmental organizations (21) and the World Bank Group (WBG, 8). In the course of the workshop, OED/OEG asked participants to "rank" the evaluative questions suggested in the approach paper by importance.

About half of the participants responded. The questions, and the final rankings based on the votes cast are shown below:

1. Distribution of costs and benefits was ranked first overall and first or second by each group.
2. Environmental and social effects, including effects on local communities, indigenous people, biodiversity and potential human rights abuses, was ranked second overall and among the top six questions by each group of respondents.
3. Appropriate mitigation mechanisms for environmental and social effects throughout the project cycle was ranked third with some differences of opinion by the respondents.
4. The WBG's role in improving development impacts and minimizing risks was ranked fourth overall, with roughly equal importance across all groups.
5. Compliance with the WBG's safeguard policies was ranked fifth with wider variation among the respondents.

EVALUATIVE QUESTIONS

1. Project Context and Economic Effects	Rank (% of votes)
1.1 What was the share of EI of export earnings, GDP and government revenues in the respective country of WBG operation?	22
1.2 To what extent has there been an association between EI' share of GDP, and country's economic growth and income distribution?	12 (3%)
1.3 To what extent were the project's objectives consistent with the country's current development priorities?	6 (6%)
1.4 What were the net benefits generated by a specific WBG investment operation?	11 (3%)
1.5 How are benefits and costs distributed between central government, local government, local communities and private shareholders? Is the distribution perceived to be fair by different stake- holder groups? Are there conflict resolution mechanisms in place, and if so have they worked? Are there lessons to be learned about the consequences of different types of distributions?	1 (13%)
1.6 Did the operation have impacts on private sector development in the host country beyond the operation itself (e.g. demonstration effects, linkages, infrastructure development, etc.)?	17
1.7 Are royalties effectively channeled for developmental purposes? Are independent arrangements for auditing, monitoring and evaluation in place?	9 (5%)

2. Environmental and Social Effects	Rank (%)
2.1 What have been the environmental and social effects — positive and negative — of WBG activities in the sector? In particular, what were the effects on bio-diversity, local communities (including indigenous people)? Have there been human rights abuses associated with WBG projects?	2 (11%)

2.2	Have WBG operations complied with relevant safeguard policies and adequate labor safety standards? How adequate are the measures taken to mitigate the most important negative environmental and social aspects, e.g. involuntary re-settlement? How do WBG safeguard policies compare with local requirements?	5 (7%)
2.3	Have expected environmental and social effects at each stage of the project cycle (construction, operation, closure and restoration) been adequately assessed and addressed at appraisal (e.g. through environmental assessments, public consultations, and project design and implementation arrangements?	17
2.4	Have actual effects been adequately monitored during supervision?	20
2.5	Have appropriate mechanisms been put in place to handle environmental and social effects throughout the life cycle of oil, gas and mining operations (e.g. for compensation to adversely affected communities and for mine or field clo-sure even beyond WBG involvement)?	3 (9%)
2.6	Was the operation affected by — or did it even contribute to — civil war?	26

3.	**Governance and Transparency**	Rank (%)
3.1	Did the operation contribute to capacity building at the government (central or local), corporate or voluntary agency level?	7 (6%)
3.2	Did corruption increase or decrease over the life of the project? Is this change attributable to the project?	17
3.3	Did the operation improve the framework for property rights in EI, e.g. is it clear who owns the resource and is it possible to transfer the rights?	21
3.4	Were exploration and development rights awarded in a fair and transparent manner?	15
3.5	Disclosure: were the benefits from development of the resource, and their distribution, disclosed? Was the use of the generated benefits transparently disclosed? What are the issues related to public disclosure?	8 (5%)

4.	**Role of the World Bank Group**	Rank (%)
4.1	Was WBG financing necessary for a particular project or activity to proceed?	12(3%)
4.2	Did the WBG help improve the development impacts and minimize the risk associated with oil, gas and mining ac-tivities? How and to what extent did the WBG affect the impacts from the point of view of government (central and local), civil society and the companies? In particular, has the WBG helped improve positive environmental and social aspects, and reduced potential negative aspects in the operations it supported? Has the WBG helped the country ad-dress macroeconomic consequences resulting fro the volatility of commodities markets?	4 (7%)
4.3a	Did the WBG help improve the efficiency of the oil, gas and mining sector and the investment climate in the sector …..	15
4.3b	….. and has this resulted in subsequent private investment without WBG support?	24
4.4	Did the WBG contribute to improved governance and increased transparency in the sector?	10 (4%)
4.5	Did the WBG assess whether the economic benefits from EI that are retained in the host economy are adequate com-pared to the value of the resources, and, if so, how?	12 (3%)
4.6	Did the WBG address and influence the distribution of benefits and costs? Can one establish what impact this had on poverty reduction?	24
4.7	Has there been a trade-off between IFC profitability and development outcomes achieved in these sectors?	23

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Annex 4B: Perceptions of Survey Participants at the EIR Regional Workshops

The survey was conducted at the various Extractive Industries Review (EIR) Regional Workshops. To date, the Latin America and the Caribbean, Eastern Europe and Central Asia and Africa Workshop have been held in Rio de Janeiro, Brazil (April 15-19, 2002), Budapest, Hungary (June 18-22, 2002) and Maputo, Mozambique (January 13-17, 2003), respectively. Feedback from the Asia Workshop (March 2003) was not received in time to be included in this report. The purpose of the regional workshops is to engage the various regional stakeholders in the EIR. OED/OEG asked the participants to provide their impressions on the need, effort and success of World Bank and IFC involvement in the EI in the region. The response rate for the survey was about 26% as indicated in Table 1.

Table 1. Stakeholder Survey: Respondent Profile

	Venue				*% OF ALL*
RESPONDENT CATEGORY	*RIO*	*BUDAPEST*	*MAPUTO*	*TOTAL*	*RESPONDENTS*
Local NGO	3	5	3	11	14%
Global NGO	1	6	1	8	11%
Industry	3	8	5	16	21%
Government	11	1	19	31	41%
World Bank Group	2	0	1	3	4%
Other	1	4	2	7	9%
No. of Respondents	21	24	31	76	100%
No. of Workshop Participants	85	80	127	292	
% of Respondents to Participants	25%	30%	24%	26%	

Responses pertaining to IFC	**Perception Survey Results - All Workshops by Participant Type**											
QUESTIONS	All NGO		Industry		Government		WBG		Other		Total	
Responses primarily based on:												
(1) General knowledge of WBG activities	12		13		22		1		5		58	
(2) Specific knowledge of one or more IFC projects	6		4		2		0		2		16	
(3) Specific knowledge of one or more IDA or IBRD projects	12		1		12		2		4		35	
	%+	#	%+	#	%+	#	%+	#	%+	#	%+	#
1. EXTRACTIVE INDUSTRIES DEVELOPMENT												
Need	67%	15	87%	15	76%	21	100%	2	50%	6	75%	59
Effort	21%	14	64%	14	56%	18	100%	2	33%	6	48%	54
Success	14%	14	47%	15	42%	19	50%	2	0%	5	33%	55
2. DISTRIBUTION OF PUBLIC REVENUES												
Need	80%	15	67%	15	82%	17	100%	3	60%	5	76%	55
Effort	17%	12	33%	12	41%	17	67%	3	25%	4	33%	48
Success	0%	10	27%	11	38%	13	33%	3	0%	5	21%	42
3. SUSTAINABLE DEVELOPMENT												
Need	86%	14	71%	14	74%	19	100%	3	80%	5	78%	55
Effort	8%	12	36%	11	50%	18	67%	3	60%	5	39%	49
Success	0%	12	13%	8	44%	16	33%	3	25%	4	23%	43
4. ENVIRONMENTAL IMPACTS												
Need	88%	17	93%	14	90%	21	100%	3	80%	5	90%	60
Effort	38%	13	83%	12	50%	20	67%	3	80%	5	58%	53
Success	15%	13	58%	12	53%	19	67%	3	40%	5	44%	52
5. SOCIAL IMPACTS												
Need	88%	17	86%	14	86%	21	100%	3	60%	5	85%	60
Effort	14%	14	60%	10	55%	20	33%	3	60%	5	44%	52
Success	7%	15	44%	9	50%	16	33%	3	40%	5	33%	48
6. GOVERNANCE AND TRANSPARENCY												
Need	94%	17	86%	14	68%	19	100%	3	80%	5	83%	58
Effort	21%	14	64%	11	44%	18	33%	3	33%	3	41%	49
Success	8%	13	22%	9	44%	18	33%	3	0%	4	26%	47
7. INVESTMENT CLIMATE AND ECONOMIC LINKAGES												
Need	71%	14	100%	12	83%	18	100%	3	80%	5	85%	52
Effort	30%	10	82%	11	61%	18	100%	3	67%	3	62%	45
Success	22%	9	33%	9	40%	15	100%	3	33%	3	38%	39

Response is greater than 60%

Responses pertaining to IFC	Perception Survey Results - By Workshop							
QUESTIONS	Rio de Janeiro		Budapest		Mozambique		Total	
Responses primarily based on:								
(1) General knowledge of WBG activities	13		20		25		58	
(2) Specific knowledge of one or more IFC projects	2		13		1		16	
(3) Specific knowledge of one or more IDA or IBRD projects	12		13		10		35	
	%+	#	%+	#	%+	#	%+	#
1. EXTRACTIVE INDUSTRIES DEVELOPMENT								
Need	74%	19	68%	19	81%	21	75%	59
Effort	60%	15	53%	19	35%	20	48%	54
Success	69%	16	32%	19	5%	20	33%	55
2. DISTRIBUTION OF PUBLIC REVENUES								
Need	87%	15	67%	21	79%	19	76%	55
Effort	33%	12	24%	17	42%	19	33%	48
Success	33%	9	13%	16	24%	17	21%	42
3. SUSTAINABLE DEVELOPMENT								
Need	88%	16	79%	19	70%	20	78%	55
Effort	67%	12	29%	17	30%	20	39%	49
Success	45%	11	13%	15	18%	17	23%	43
4. ENVIRONMENTAL IMPACTS								
Need	94%	18	80%	20	95%	22	90%	60
Effort	62%	13	67%	18	50%	22	58%	53
Success	57%	14	53%	17	29%	21	44%	52
5. SOCIAL IMPACTS								
Need	95%	19	75%	20	86%	21	85%	60
Effort	46%	13	31%	16	52%	23	44%	52
Success	46%	13	25%	16	32%	19	33%	48
6. GOVERNANCE AND TRANSPARENCY								
Need	78%	18	80%	20	90%	20	83%	58
Effort	47%	15	44%	16	33%	18	41%	49
Success	46%	13	19%	16	17%	18	26%	47
7. INVESTMENT CLIMATE AND ECONOMIC LINKAGES								
Need	100%	16	71%	17	84%	19	85%	52
Effort	73%	15	64%	14	50%	16	62%	45
Success	62%	13	38%	13	15%	13	38%	39

Response is greater than 60%

Annex 4C: Perceptions of WBG Staff Surveyed

The survey of WBG staff included 66 questions and room for comments. The questions were designed to get the views of staff on the relative importance of issues for EI dependent countries and to determine if they feel that the WBG addresses them adequately.

- **Revenue Generation:** generating higher fiscal revenues from EI production activities
- **Revenue Distribution**: fair allocation of fiscal revenues among central/federal governments, subnational (provincial/district/municipal) governments, and local communities (villages, indigenous)
- **Revenue Utilization:** allocation of fiscal revenues from EI for developmental priorities
- **Mitigating Negative Environmental Impacts**: from past EI activities or new ones
- **Mitigating Negative Social Impacts:** from past EI activities or new ones
- **Capacity-building for EI sector management:** including policy/legal/technical/business issues
- **Improving the Investment Climate:** legal/regulatory framework; property rights
- **Improving Transparency and Governance:** more public disclosure; reducing rent-seeking

The survey also asked staff to provide views on the level of coordination between IFC, MIGA and the World Bank, on risk aversion toward EI, and on the constraints on the WBG's involvement in EI. Questionnaires were sent out by e-mail and respondents were given about a month, until February 24, 2003, to respond. The 66 persons (69%) that responded have, on average worked for WBG for about eight years (ten years for World Bank respondents and about 6 years for IFC and MIGA) and indicated familiarity with 48 EI dependent countries.

Table 2. Staff Survey: Respondent Profile

	Organization				*% OF ALL*
RESPONDENT CATEGORY	*World Bank*	*IFC*	*MIGA*	*TOTAL*	*RESPONDENTS*
Task Managers	12			12	18%
Investment Officers		24		24	36%
Regional Economists	14	6		20	30%
Underwriters			5	5	8%
Other			5	5	8%
Number of Respondents	26	30	10	66	100%
Number of surveys distributed	51	33	12	96	
Response rate (%)	51%	91%	83%	69%	

Joint Operations Evaluation Department/Group/Unit
Staff Survey Results

QUESTIONS	IFC Staff			IBRD Staff			MIGA Staff			Total		
	Positive	High	Total	Positive	High	Total	Positive	High	Total	Positive	High	Total
1. Importance												
Revenue Generation	86%	62%	29	87%	83%	23	90%	70%	10	87%	71%	62
Revenue Distribution	86%	54%	28	77%	55%	22	88%	50%	8	83%	53%	58
Revenue Utilization	83%	59%	29	83%	57%	23	89%	67%	9	84%	59%	61
Mitigating Negative Environmental Impacts	86%	41%	29	77%	32%	22	100%	67%	9	85%	42%	60
Mitigating Negative Social Impacts	86%	45%	29	78%	39%	23	89%	56%	9	84%	44%	61
Capacity-building for EI sector management	83%	38%	29	87%	39%	23	89%	56%	9	85%	41%	61
Improving the Investment Climate	93%	54%	28	88%	63%	24	90%	30%	10	90%	53%	62
Improving Transparency and Governance	93%	57%	28	88%	71%	24	90%	30%	10	90%	58%	62
2. CAS - Adequately addresses												
Revenue Generation	86%	14%	21	78%	35%	23	100%	40%	5	84%	27%	49
Revenue Distribution	*60%*	20%	20	*50%*	20%	20	80%	40%	5	*58%*	22%	45
Revenue Utilization	65%	20%	20	71%	38%	21	80%	20%	5	70%	28%	46
Mitigating Negative Environmental Impacts	77%	27%	22	80%	20%	20	80%	60%	5	79%	28%	47
Mitigating Negative Social Impacts	76%	24%	21	76%	29%	21	*60%*	60%	5	74%	30%	47
Capacity-building for EI sector management	68%	11%	19	76%	0%	21	80%	0%	5	73%	4%	45
Improving the Investment Climate	86%	32%	22	91%	27%	22	80%	20%	5	88%	29%	49
Improving Transparency and Governance	80%	25%	20	70%	35%	23	100%	60%	5	77%	33%	48
3. EI projects/operations adequately address												
Revenue Generation	92%	36%	25	88%	35%	17	100%	78%	9	92%	43%	51
Revenue Distribution	*46%*	8%	26	*56%*	19%	16	78%	22%	9	*55%*	14%	51
Revenue Utilization	*54%*	13%	24	67%	28%	18	78%	0%	9	63%	16%	51
Mitigating Negative Environmental Impacts	100%	62%	29	89%	50%	18	100%	67%	9	96%	59%	56
Mitigating Negative Social Impacts	96%	54%	28	78%	44%	18	88%	13%	8	89%	44%	54
Capacity-building for EI sector management	83%	26%	23	88%	44%	16	89%	33%	9	85%	33%	48
Improving the Investment Climate	67%	21%	24	82%	35%	17	90%	30%	10	76%	27%	51
Improving Transparency and Governance	*54%*	8%	26	80%	35%	20	*56%*	11%	9	64%	18%	55
4. Interventions outside the EI sector - adequately address EI issues												
Revenue Generation	69%	25%	16	74%	32%	19	86%	57%	7	74%	33%	42
Revenue Distribution	63%	0%	16	**39%**	17%	18	100%	14%	7	*59%*	10%	41
Revenue Utilization	47%	0%	15	42%	16%	19	86%	29%	7	*51%*	12%	41
Mitigating Negative Environmental Impacts	89%	33%	18	63%	26%	19	100%	44%	9	80%	33%	46
Mitigating Negative Social Impacts	88%	29%	17	*41%*	12%	17	75%	38%	8	67%	24%	42
Capacity-building for EI sector management	67%	0%	15	*50%*	6%	18	75%	13%	8	61%	5%	41
Improving the Investment Climate	65%	12%	17	89%	39%	18	100%	0%	9	82%	20%	44
Improving Transparency and Governance	76%	6%	17	*60%*	20%	20	89%	0%	9	72%	11%	46
5. Non-lending interventions - adequately address EI issues												
Revenue Generation	75%	6%	16	67%	29%	21	75%	0%	4	71%	17%	41
Revenue Distribution	*60%*	13%	15	*50%*	30%	20	100%	0%	4	*59%*	21%	39
Revenue Utilization	*60%*	20%	15	65%	25%	20	75%	0%	4	64%	21%	39
Mitigating Negative Environmental Impacts	84%	32%	19	*43%*	22%	23	100%	0%	4	65%	24%	46
Mitigating Negative Social Impacts	84%	32%	19	*50%*	21%	24	100%	25%	4	68%	26%	47
Capacity-building for EI sector management	95%	15%	20	*55%*	18%	22	83%	33%	6	75%	19%	48
Improving the Investment Climate	94%	6%	18	77%	36%	22	83%	33%	6	85%	24%	46
Improving Transparency and Governance	68%	16%	19	68%	41%	22	80%	0%	5	70%	26%	46

Joint Operations Evaluation Department/Group/Unit
Staff Survey Results

QUESTIONS	IFC Staff			IBRD Staff			MIGA Staff			Total		
	Positive	High	Total	Positive	High	Total	Positive	High	Total	Positive	High	Total
6. Coordination across WBG is adequate												
	48%	46%	25	*52%*	13%	23	100%	50%	8	57%	18%	56
7. The Global Product Group (GPG) for Oil & Gas and Mining has helped to improve the following:												
Coordination between IFC and WB on sectoral issues	88%	46%	24	71%	29%	14	88%	0%	8	83%	33%	46
Strategic integration of sectoral and macro interventions	*58%*	11%	19	*58%*	8%	12	100%	0%	7	66%	8%	38
Quality of sectoral ESW and non-lending interventions	*55%*	0%	11	67%	8%	12	100%	0%	4	67%	4%	27
Sectoral knowledge-sharing across regions	90%	40%	20	67%	25%	12	83%	0%	6	82%	29%	38
Overall quality of service to clients	76%	19%	21	67%	0%	12	80%	0%	5	74%	11%	38
Other	100%	100%	1	67%	0%	3	100%	0%	1	80%	20%	5
8. WBG avoided good projects in EI due to safeguards concerns from:												
WBG management	86%	14%	14	86%	21%	14	100%	50%	6	88%	24%	34
WBG task managers	70%	0%	10	**38%**	23%	13	60%	40%	5	*54%*	18%	28
Client country government	**30%**	20%	10	**29%**	14%	14	**0%**	0%	5	**24%**	14%	29
EI public agencies/enterprises	*56%*	11%	9	**21%**	7%	14	75%	25%	4	*41%*	11%	27
Private investors	*54%*	15%	13	**29%**	7%	14	*40%*	20%	5	*41%*	13%	32
9. Factors that constrain WBG ability to assist client countries in enhancing EI's contribution to sustainable development:												
Inadequate linkage between EI sector activities and sustainable development	*42%*	4%	24	*50%*	23%	22	*56%*	0%	9	*47%*	11%	55
Inadequate availability of staff with appropriate skills	**32%**	0%	25	*59%*	27%	22	**22%**	0%	9	*41%*	11%	56
Pressure for rapid processing of credits/funding/guarantees	**38%**	5%	21	**38%**	24%	21	44%	22%	9	**39%**	16%	51
Inadequate level of support from the Bank's Country Department/Country Management Unit	*52%*	10%	21	*55%*	20%	20	**29%**	0%	7	*50%*	13%	48
Inadequate level of support from the Global Product Groups for Oil, Gas and Mining	**8%**	4%	24	**33%**	20%	15	**0%**	0%	6	**16%**	9%	45
Inadequate level of support from the client government	63%	17%	24	**38%**	19%	21	**17%**	0%	6	*47%*	16%	51
Inadequate level of support from project implementor (sectoral agency or private sponsor)	**24%**	0%	21	**25%**	6%	16	*50%*	13%	8	**29%**	4%	45
Other	100%	0%	3	100%	100%	2	100%	100%	1	100%	50%	6

Rating Scale - Question 1:

1 = Not at all Important
2 = Moderately
3 = Important
4 = Highly Important
High = % responding 4. Positive = % responding 3 or 4

Response is less than 40%

Response is less than 60% and 40% or more

Rating Scale - Questions 2 - 9:

1 = Strongly disagree
2 = Disagree
3 = Agree
4 = Strongly agree
High = % responding 4. Positive = % responding 3 or 4

Annex 5: Relevant IFC Safeguard Policies, Guidelines, and Procedures

SOURCE: http://www.ifc.org/enviro

The following social and environmental safeguards policies apply to extractive industries projects, as appropriate.

Environmental Safeguards Policies:

- OP 4.01 Environmental Assessment – October 1998
- OP 4.04 Natural Habitats – November 1998
- OP 4.36 Forestry – November 1998
- OP 4.37 Dam Safety – September 1996 (IFC now reportedly uses a 1999 draft policy, but it is not in the public domain)
- OP 7.50 International Waterways – November 1998
- OP 7.60 Disputed Territories – June 2001

Social Safeguards Policies:

- OD 4.20 Indigenous Peoples – September 1991
- OD 4.30 Involuntary Resettlement – June 1990
- OPN 11.03 Cultural Property – September 1986
- IFC's Statement on Child and Forced Labor – March 1998

OP 7.60, OD 4.20, OD 4.30and OPN 11.03 remain as World Bank policies, while the others have been modified and updated to better correspond with the IFC business model.

Guidelines contained in the Pollution Prevention and Abatement Handbook (PPAH) or updated http://www.ifc.org/enviro/enviro/pollution/guidelines.htm:

- General Environmental Guidelines (1993 & 1998);
- General Health and Safety Guidelines (1998);
- Base Metal and Iron Ore Mining (1998)
- Coal Mining and Production (1998)
- Oil and Gas Development – Onshore (1998)
- Oil and Gas Development – Offshore (2000)
- Mining and milling – Underground (1995)
- Mining and Milling – Open Pit (1995)
- Hazardous Materials Management Guidelines (2001)

The PPAH also includes various other guidelines on environmental management, fire safety, waste minimization, pollution prevention, air pollution control and wastewater management, cleaner production, risk assessment, trans-boundary issues (GHG), and pollution management of various chemicals all of which may also be relevant in a specific project. A "precious metals" guideline is still pending.

IFC has specific requirements for Public Disclosure and Public Consultation depending upon the categorization of the project.[1]

[1] http://www.ifc.org/enviro/enviro/Disclosure_Policy/disclosure.htm

Annex 6: Selected Sustainability Guidance Material — Consultation

Consultation could be defined as a wider continuous process of participation of all stakeholders in the decisions throughout the formulation and execution of a project leading to a sustainable development for the population in the area. Consultation, formally, is part of the environmental impact assessment of the project. In practice it is a tool for managing two-way communication between the developer and the public, in general, and the local community, in particular.

Consultation should be understood as a means to achieve certain goals and not as a goal in itself. Its basic purpose is to improve decision-making, and build understanding, by actively involving individuals and organizations with a stake in the project. This involvement will increase the project's long-term viability and will enhance its benefits to 10 ally- impacted people and other stakeholders.

The process of consultation and participation should include precise agreements that could be adapted and monitored throughout the life of the project. Consultation should have an impact on the project design and implementation. It should be started by the appropriate government agency prior to licensing or contracting of the area, and should be continued by an oil company that assumes the operation from the early seismic works through drilling operations, development and exploitation, and formal abandonment. When possible, the consultation process should be witnessed by a third party (i.e., the ombudsman office and/or an association of environmental NGOs).

Emerging Best Practices on Consultation

A list of best practices comprises the following points: Consultation requires exchange of information, collaboration, and mutual understanding of the parties involved. It often proceeds through cultural barriers, drops bad past legacies, and ends up creating confidence and trust.

It is essential to identify the representatives of key stakeholders and local authorities, including existing alliances, social structures, and possibly prevailing conflicts among local groups and/or external groups and NGOs. Where indigenous peoples have their own representative organizations, such organizations should be the channels for communicating their preferences.

Governments have an important role to establish first contacts with the indigenous population, gathering adequate social], cultural information, and introducing the new contractor. This kind of information is usually in the hands of academia and NGOs rather than government alone. Governments and the concerned private companies should make an effort to gather and review this information as early as possible.

Consultation should include the provision of information on the project in a timely, complete, and culturally appropriate fashion. It should lead to a meaningful dialogue and provide recorded results, including the views and recommendations of the indigenous peoples for the protection of the environment and the mechanisms put in place for their participation.

Mechanisms should be devised for direct participation by indigenous peoples in decision-making on aspects of the project that affect them directly. Such participation shall take place throughout project design, implementation, monitoring, and evaluation.

Proper consultation hence requires developing local capacity to interpret the technicalities of environmental studies, understanding the impact of international markets, developing long-term solutions, and being able to effectively communicate complex issues across cultural barriers.

It requires time to obtain consensus on an adequate community relations program. Resulting delays could create conflicts if contract terms are not properly established.

Consultation-by the government prior to the contract or by the company as part of the environmental impact assessment of any important operation-requires the preparation of typical business plans, including identification of objectives, responsibilities, and inputs to be accomplished by each stakeholder.

Some Practical Recommendations

To organize a consultation: Designing meaningful consultations with indigenous peoples depends upon several factors, including the national, legal, and political context; the linguistic and cultural characteristics of the indigenous groups; and the degree of interaction and relationships with the regional and national societies and external social actors (that is, missionaries, school systems, local traders, and loggers). It also depends on the nature of their traditional social organizations and leadership patterns, and the groups organized to represent the interests of indigenous peoples. Despite these differences there are some *general principles* for organizing and conducting meaningful consultations with indigenous peoples. These include the following:

1. Use of facilitators who know the indigenous languages and are knowledgeable about the indigenous cultures;
2. Creation of appropriate settings and locations for the consultations, preferably in the territories and settlements where indigenous peoples live;
3. Provision of background information on the proposed project in a language and format that is understandable to the population (for example, simple diagrams and charts in the native languages, maps, videos, 3D models);
4. Recognition of the time frames of indigenous peoples, especially in terms of decision-making, that are often different from those of outsiders;
5. Respect for indigenous leadership patterns and religious beliefs, and ensuring that elders and other traditional authorities have the opportunity to express their points of view;
6. Recognition that in some cases there may be different factions within a community with contrasting views on national development projects and establishment of methodologies for the peaceful resolution of conflicts and differences;
7. Provision of resources (e.g. food, shelter, travel funds) so persons can attend the consultations from distant villages or their representatives can attend consultations in district, provincial, or national capitals;
8. Ensuring that interpreters are provided for indigenous participants when consultations are held in district, provincial, and national capitals;

9. Support to the local and regional indigenous leadership to improve communications with their communities and to be able to follow up the consultation process; and
10. Dealing with gender issues.

To manage a consultation process: To manage consultation at any point of the project life, the project developer should take into consideration the following steps:

1. *Plan ahead:* to identify the project risks, the parties to be involved, and the stakeholders' interests and institutional goals; to understand past experiences, if any, and to effectively fulfill regulations.
2. *Test your proposals:* to ensure that the key stakeholders understand the project impacts and benefits and would be able to voice their concerns and input alternative approaches. Prepare good responses to obvious questions.
3. *Invest time and money:* the schedule and budget of the project should properly include the consultation effort. Involve consultants and permanent staff with appropriate qualifications.
4. *Involve senior and local managers:* their direct participation will make the entire company understand the importance of integrating the stakeholders concerns.
5. *Hire and train the right personnel:* a community liaison advisor with direct access to management and certain negotiation capacity should be appointed and would be responsible for hearing the local concerns. The advisor could also work with community liaison officers, depending on the size of the project.
6. *Maintain overall responsibility:* manage carefully consultants and subcontractors to avoid bad feelings from affected people who will not differentiate contracted personnel from the company itself.
7. *Coordinate all related activities:* to provide consistency in the information conveyed by all company staff to all outside stakeholders.
8. *Build dialogue and trust:* develop two channels of communication, preferably in the local language. Particular attention should be given to women and less powerful groups, and actively include them in a culturally appropriate way into the dialogue. It is important to maintain the personnel that interacts with the stakeholders. As in personal relationships, continuity and familiarity build trust.
9. *Manage expectations:* avoid unrealistic expectations. Be clear in describing the project impact and what it could deliver, trying not to overstate the benefits.
10. *Work with governments:* inform and consult with relevant government departments regarding the activities, risks, and opportunities of the project and the required permits. Work closely with local authorities who often have long- established relations with the local communities and who could delineate responsibilities between the local municipalities, the community leaders, and the project sponsor.
11. *Work with NGOs and community-based organizations:* identify and liaise, particularly with those who represent the affected people. NGOs have vital expertise, local knowledge, and could be sounding boards for project design and mitigation efforts. Initial research is important to understand local power dynamics and to ensure that NGOs truly represent and convey the community interests.
12. *Prepare an action plan:* consolidate in an action plan the agreed projects, including timing and indicators for monitoring.

Government responsibilities: Government responsibilities within the process of consultation could be grouped in the following list:

1. To set adequate regulations
2. To provide land tenure rights
3. To keep a database with socio-cultural information available to interested companies
4. To carry out the first consultation
5. To contract areas allowing enough time for preparing adequate environmental impact assessments involving effective public consultations
6. To facilitate the process of consultation between industry and indigenous peoples, ensuring due representation of the parties and providing validity to the agreements reached
7. To establish proper links between the companies' community relations program, the communities' *Planes de Vidal* and the regional development plans with respect to education, health, infrastructure, defense, and the activities of other productive sectors in the region
8. To supervise the execution of agreed plans and audit accounts
9. To mediate in case of conflicts.