



## **The Extractive Industries Review (EIR)**

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

### **Executive Summary**

## **Notes**

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

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

## **Abbreviations**

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

## **Executive summary**

### **Overview**

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

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

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

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

### **Civil society testimonials**

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

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

debt and the development of international policies for sustainability. The possibility of a moratoria on oil, gas and mining activities should also be considered.

### **Case studies**

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

#### ***Positive experiences***

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

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

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

#### ***Negative experiences***

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

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

The working group concluded that there was a need to distinguish between existing damage and anticipated damage in the future i.e. avoidable. Governments had a responsibility to mitigate existing damage, but did not always face up to their liabilities.

### ***Common understanding***

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

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

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

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

### **World Bank Presentations**

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

### ***Safeguard policies***

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

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

be better coordinated to deliver seamless packages of social, environmental and economic assistance.

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

### ***Project viability***

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

### **Three Scenarios**

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

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

Opportunities to change the role of the World Bank Group lay in the support of other stakeholders in their efforts to fight poverty. The Bank could be a leading player in strengthening governance and stimulating the participation of all stakeholders through a common approach. The Bank could improve its image by modifying the way it worked and communicating more effectively with stakeholders. For companies, there would be

opportunities to expand financing to small-scale and artisanal mining, Bank technical and financial support to industry could diminish environmental contamination, and with better access to World Bank credit, companies could bring greater benefits to local communities. For civil society, opportunities lay in improving the capacity of all players and ensuring better participation. For governments, increased World Bank activity would be an opportunity to finance more initiatives to develop the extractive sector.

### **Broad consensus**

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

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

link all the parties; follow-up, and participative monitoring, of socio-cultural and environmental impacts.

### **Working together**

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

### **Post-Consultation Statement from Civil Society**

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

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

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

### ***Overwhelming impacts***

Indigenous community representatives underlined the overwhelming social, cultural, economic and environmental impacts of the extractive industries for which there had to be indemnity. There were no standards and procedures to guarantee prior consultation, and their right to participate in decision-making. There were also no policies and procedures to guarantee that communities benefit from profits generated by the extractive industries, and that these contributed to the development of their communities and to poverty alleviation. Indigenous peoples' participation in tripartite dialogue did not meet the basic principles of equity, given their unequal standing, not only financially but in terms of capacity vis-à-vis government and the industry. Extractive activities in indigenous territories also threatened biodiversity conservation and ancestral traditions, which were guaranteed by other

international instruments such as the International Labor Organization's Convention 169 on Indigenous and Tribal Peoples in Independent Countries, as well as the Biological Diversity Convention. The World Bank had also not followed the policies and processes for indigenous peoples as recommended in the revision of the World Bank's Indigenous Peoples' Policy (Operational Directive 4.20).