The Extractive Industries Review (EIR)

Latin America and Caribbean
Regional Workshop

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Testimonials and Consultation Report

Extractive Industries Review
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Notes

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

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

Abbreviations

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

Executive summary

Overview

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

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

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

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

Civil society testimonials

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

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

economic impacts by all groups, open consultations, special programs for artisanal mining, indemnity for ecological debt and the development of international policies for sustainability. The possibility of a moratoria on oil, gas and mining activities should also be considered.

Case studies

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

Positive experiences

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

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

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

Negative experiences

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

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

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

Common understanding

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

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

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

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

World Bank Presentations

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

Safeguard policies

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

Other comments pointed to the rising demand for natural resources making the continued involvement of the World Bank important in ensuring sustainable development. Some

offered examples of mining activity which had increased poverty, while others highlighted partnerships between government and industry where mining had improved the quality of life for the community. Bank staff agreed that the different arms of the World Bank Group could be better coordinated to deliver seamless packages of social, environmental and economic assistance.

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

Project viability

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

Three Scenarios

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

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

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

Broad consensus

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

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

communication; and definition of the Bank's socio-economic standards to all the players involved.

- *Revenue management*—promote equitable distribution of revenues from oil, gas and mining projects; suitable allocation of fiscal revenues from rents, taxes and royalties; devise program to measure impact and stabilize the use of resources.
- *Partnership development*—set-up and support roundtables for tripartite dialogue between civil society, government and industry leading to recommendations that would link all the parties; follow-up, and participative monitoring, of socio-cultural and environmental impacts.

Working together

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

Post-Consultation Statement from Civil Society

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

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

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

Overwhelming impacts

Indigenous community representatives underlined the overwhelming social, cultural, economic and environmental impacts of the extractive industries for which there had to

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

Contents

1. Introduction

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

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

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

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

Open Forum

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

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

Three pillars of sustainable development

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

Changing the World Bank

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

3. Testimonial presentations

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

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

Two testimonials set out the broad picture. Taking the example of oil extraction in Ecuador, a human rights organization examined the extractive industries' contribution to development. An association of nine indigenous peoples' organizations discussed the

issue of consultation and participation of indigenous people, the government and the media. There followed four national studies: environmental and socio-cultural impacts of the hydrocarbon industry in Bolivia; cultural and social impacts of mining in Argentina; the impact of trans-national mining companies in Peru; and small-scale, and artisanal, mining in Bolivia.

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

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

Contribution of the Extractive Industries to Development: Oil in Ecuador

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

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

Ecuador's experience, supported by evidence from the World Bank Inspection Panel, challenged the World Bank's view that supporting oil and mining was a way to combat poverty and promote development. Countries dependent on natural resources were often the poorest and showed the lowest investment in social development, he asserted. He believed World Bank structural adjustment programs had played a major part in bringing

this about, prioritizing debt repayments, supporting privatization and, most recently, promoting oil development in the Andean-Amazon countries.

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

Dialogue and Consultation: Indigenous People and Governments

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

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

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

Environmental and Socio-Cultural Impacts of Hydrocarbons in Bolivia

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

From the outset, government officials did not consider the number of people who would be affected by the oil developments, the geographical terrain or the differences existing between indigenous peoples. Impact assessments were too general in their design, and did

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

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

Social Impacts on the Mapuche People

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

The Mapuches consequently imposed their own conditions within the territory. The company had responded with proposals that they compensate the communities for right of access. An agreement was reached, but the company, reportedly, did not honor it, which led the Mapuche to takeover a major processing plant in the area. The failure of further negotiations led to appeals being lodged at the national level, and subsequently to the Inter-American Court of Human Rights, in the United States. In addition to territorial claims, the Mapuche were demanding reparations for the cultural harm inflicted by oil and gas extraction. Their campaign demanded that all extractive activities within Mapuche territory be stopped, and that there should be a transition to alternative sources of energy, e.g. biomass, wind and solar energy. They also called for oil plans to be revamped to ‘realistic, sensible levels’, avoiding new exploratory activities, wells should be closed, extraction rates reduced and some areas declared untouchable to oil developments.

Impact of Transnational Mining Companies

A speaker from the National Coordination of Peruvian Communities Affected by Mining, discussed the environmental and social impacts of mining in Peru. Such was the wealth of mineral resources in the country, that over 80 companies were actively engaged in mining, not counting 60 to 90 smaller mining companies. Peru had attracted ten of the world's largest mining firms.

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

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

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

The impact study was made available to local communities, but the document was impossible for them to understand. The labor association was also waiting for the IFC to publish their impact assessments; this had been another opportunity for communities to make their views known, but was missed due to a lack of information on how they could participate. Beyond the impact assessments, an additional problem was the lack of capacity at the state level; the Peruvian government lacked the necessary technical resources, and qualified staff to ensure environmental safeguards were met. The mine was located 1,250 km south of the capital, Lima, hindering effective state monitoring.

The IFC also held a 5 percent share in the Yanacocha mine, where studies suggested the mine had significantly increased poverty in the local town of Cajamarca, leading it to become the second poorest in Peru. The IFC intervened after the mercury spill and was now undertaking an investigation into its social impacts. However, beyond the health risks arising from mercury poisoning, the agricultural sector had suffered economic losses as local farmers could no longer find markets for their produce.

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

Small-scale and Artisanal Mining

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

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

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

4. World Bank Voluntary Information Exchange

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

The World Bank Group and Development

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

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

Working with Governments

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

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

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

Working with the Private Sector

The reason the World Bank Group provided, or mobilized, financing for the private sector was because it believed a thriving private sector was essential for sustained economic growth, which, in turn, was essential for poverty reduction. In the Bank's view, if oil, gas and mining developments were owned and well managed by the private sector, in an environment of good governance, social and environmental safeguards and

regulatory frameworks, they were often better done. The IFC rarely provided financing for more than 20 to 25 percent of the total value of a project, and only invested in projects that were commercially viable. In addition, projects had to contribute to sustainable development, and meet all the environmental and social safeguards of the World Bank Group.

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

Environmental and Social Safeguards

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

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

In addition to safeguard policies, the World Bank Group had published guidelines for the oil and gas, and mining industries, as well as procedures to be followed by the Bank and by external clients. Procedures were far more comprehensive than ten years ago, and stretched beyond issues relating to the immediate area surrounding a project. They also divided responsibilities, such as requiring companies to undertake an environmental impact assessment that was then evaluated by the Bank. Bank staff subsequently supervised projects to ensure all provisions were implemented. In 1999, after the World Bank Group Board set up the Compliance Adviser and Ombudsman's (CAO) Office as

recourse for communities with complaints relating to World Bank Group-sponsored projects. The CAO's office also advised the President of the World Bank Group, and senior management at the IFC and MIGA, on how the institution was handling its safeguard policies and how its investments were impacting on local communities.

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

Global Advocacy

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

Questions and Answers

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

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

Small-scale, Artisinal and Junior Firm Mining

In relation to small-scale mining, staff confirmed that the World Bank was working with international donors to set up a mechanism to assist the sector and mitigate its social and environmental impacts. They noted that because of the small size of the sector, its needs were very different to other extractive industries. The IFC was developing programs for

small and medium-scale enterprises (SMEs), but small-scale mines were often classified as micro enterprises that could only be helped at the local level. The World Bank did provide financing for organizations that in turn financed such micro enterprises. Roughly half the World Bank's mining business was with junior firms and half with larger firms. Very little business was done with the largest mining companies. The Bank's strategy was to work with firms presenting viable projects, both those working nationally and internationally. Working with smaller firms, in some countries, required capacity building, particularly for environmental considerations, such as assistance to undertake proper environmental assessments.

Environmental Safeguards

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

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

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

Poverty Assessment

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

education, health, or housing. It was felt the World Bank should show investing companies how to integrate social and environmental considerations.

Sustainable Extraction

In response to questions raised on how the World Bank certified the sustainability of their oil and mining projects, the head of the Mining Department commented that sustainable mining meant a community would continue to realize its development potential after the life of the mine. The ideal model for mining was, therefore, to build an industry that contributed to local, regional and national development, but, as everyone knew, this had not been the reality in practice. What the World Bank had not achieved at Yanacocha, it was now trying to achieve in Laos (Sepon), and in all future projects. The Bank had to work both with the private sector and communities to put a successful development framework in place. If a mine did not create employment and improve the quality of life for communities, then it did not contribute to the broad social dimension the Bank was trying to achieve.

Consultation

5. Keynote speech by Dr. Emil Salim

Opening the formal Consultation, the EIR's Eminent Person, Prof. Dr. Emil Salim, introduced the frame of reference for discussing the impact of the extractive industries, namely within the World Bank's mandate of sustainable development and poverty reduction.

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

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

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

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

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

6. The Extractive Industries Review Process

Background

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

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

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

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

Extractive Industries Review Final Report

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

The task for the next one and a half years of the Review was to stay focused on the role of the World Bank Group in the extractive industries: what were the respective roles of the World Bank, IFC, and MIGA, and how should they work together? Should they stay in, or stay out, of the extractive industries? All recommendations had to be concrete and implementable and their driving force be what would best contribute to poverty reduction and sustainable development.

Confirming both the position of the EIR and the way its recommendations would be handled by the World Bank, the Head of the Mining Department confirmed that the Bank wanted specific recommendations that could become operational inputs into its future work as a development institution. If Dr. Salim concluded, on the basis of tangible evidence, that the Bank should withdraw from the extractive industries, that view would certainly be presented to the World Bank Group President and Board.

7. Case Studies: Environmental, Social and Economic Impacts of Oil, Gas and Mining Projects

Forming the core of the Consultation, eighteen case studies were examined by working groups, whose conclusions were then discussed in the plenary sessions. .

MMSD South America Project: Results and Challenges

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

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

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

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

New Model for Development in Areas of Extractive Economy (Columbia)

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

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

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

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

assistance for production. In turn, alliances with the private sector enabled small-scale farmers to take up permanent crops such as cacao and African palm oil that gave them a sustainable income over the long-term.

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

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

Discussions

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

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

Environmental Legislation and Oil Policy

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

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

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

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

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

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

For dealing with negative impacts, indigenous people had proposed: mapping exclusion zones for natural resource extraction; community strengthening through training to improve consultation processes; negotiation, monitoring and efforts to facilitate good

leadership; improved dialogue between communities, industry and the government; education, information dissemination, improvement in participation mechanisms; and strengthening the skills of all actors. The World Bank Group could have an integral role in facilitating this.

Mining in Peru

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

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

Discussions

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

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

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

The working group also exchanged views on whether agriculture was better than mining for development; more information was needed on the economic alternatives to mining.

Threats to Biodiversity and an Example of Sustainable Development from Mining

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

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

Discussion

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

Monitoring Economic, Social and Cultural Impacts

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

The study combined results from workshops with field evaluations. Teams of sociologists, anthropologists, economists, geologists and lawyers studied technical aspects of mining, and primary and secondary qualitative, and quantitative, data. They also undertook comprehensive information gathering, such as interviews, focus groups and opinion polls. Three impact areas were defined: the primary impact areas comprised zones in the immediate vicinity of the mines; secondary impact areas comprised of the

municipality, province or region; Argentina itself was examined for tertiary impacts. Economic impacts were measured using three variables: employment levels, added value, and direct, and indirect, tax revenues.

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

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

Best Practice at Casanare

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

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

Much remained to be done, especially for justice, where BP worked with Presidency of the Republic and the Excelencia de la Justicia Corporation on projects to promote

transparency, court development, and extra-judicial family advice. Other problems to be tackled included the decline in minor agricultural activities, the lack of skills among new immigrants, and the increase in crime and violence due to the generated wealth in the region.

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

A Small Hydroelectric Power Plant for a Mine in Brazil

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

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

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

General discussions

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

Higher Levels of Sustainable Development

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

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

Facilitating Positive Impacts

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

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

Avoiding Negative Impacts

Actions the World Bank Group could take to minimize the negative impacts of the extractive industries included promoting transparency, developing systems of local, regional, and national consultation, and facilitating constructive dialogue between stakeholders. Participants believed communities should have the right to say "no" to any mining project and that the World Bank should support sustainable activities, other than mining, of benefit to local communities. Tools to improve communication were

necessary to ensure informed public participation and the Bank should encourage the social responsibility of business and set rules for obtaining mining rights that insisted on public consultation regarding environmental standards. The Bank should continue strengthening country institutions, facilitate access to technology, and work harder to develop effective leadership in local communities.

Comments from the Eminent Person

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

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

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

The Need to be Pro-Poor

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

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

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

- Aiming for sustainable development, i.e. closing the gap between economic development and environment/social development

- Strengthening civil society, i.e. ensuring a proper balance exists between government, business and civil society.

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

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

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

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

The Project Cycle

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

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

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

preparation and at project appraisal. Environmental guidelines required a significant amount of consultation at the development planning stage.

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

Revenue Management

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

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

Effectiveness of Safeguards

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

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

Increase in Poverty

A human rights NGO called for World Bank presentations on extractive industry cases in different countries and how they had contributed to development. His earlier testimony concluded that the oil industry had not helped relieve poverty; but rather deepened it. The question was what responsibility the oil industry had to bear for this, as the problem did not only lie in how oil resources were managed, and what the social and

environmental impacts were. Also relevant were the arrangements that conditioned the economy, and this was an area where the World Bank Group could do much more. For example, in Ecuador's case, management of their external debt was one of the main areas where the World Bank could contribute ideas, processes and mechanisms; wealth generated from the country's natural resource extraction could then be used to relieve poverty.

Small-scale mining

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

New Role for the World Bank Group

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

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

Extractive Industry Projects in Latin America and the Caribbean

In a session focused specifically on the World Bank's involvement in Latin America and the Caribbean, the Oil, Gas and Chemicals Department explained that, since 1993, the World Bank had worked with governments on seven oil and gas projects. Their focus had been on sector reform, development of natural gas and support for capacity building with governments and communities. On the mining side, over the same period, there had been

three projects. The IFC had made ten investments in oil and gas, and 24 in mining, where the emphasis had been on promoting sustainable development. MIGA projects had mostly been in mining.

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

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

Strategic Social and Environmental Management

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

The World Bank also initiated dialogue with the Government of Bolivia on the potential social and environmental impacts of accelerated natural resource developments. The Bank ensured that, for the first time, there was a strategic environmental dimension employed for the increase in the exploration, and exploitation, of gas in Bolivia.

Working with the Private Sector

The World Bank had worked with one Brazilian company, Samarco, on iron production. It was a good example, an IFC economist suggested, of how a firm could combine corporate social responsibility with financial success. Over the period of the Bank's involvement, the company transformed itself into one of the best employers in Brazil, in terms of its investment in human capital. It had also become an active member of the community, supporting training and education, raising awareness on environmental issues and participating in micro-credit programs to support the growth of SMEs.

Cleaning-Up the Past

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

Questions

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

The Role of the World Bank Group

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

The overall role of the World Bank Group in the extractive industries was to ensure the contribution of projects to sustainable development. For example, in Bolivia this might

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

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

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

Evaluating Performance

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

Fighting Poverty

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

Training

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

9. Three Scenarios

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

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

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

Complete Withdrawal

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

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

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

For government, World Bank Group withdrawal may allow governments a greater degree of self-determination, greater authority to define projects, opportunity to cooperate with other governments, and encounter fewer problems with civil society. Risks included the loss of support for institutional strengthening and discontinuity of development politics. There may be a general climate of distrust for investors.

Maintaining the Status Quo

For the World Bank Group, opportunities lay in 'frontier' countries if present practices were left unchanged. The status quo was the safest option in operational terms, particularly if the Bank embarked on a project in an uncertain situation. The risk of maintaining the status quo would be that the oil, gas and mining sector may not make an adequate contribution to potential needs, e.g. UN Millennium Development Goals.

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

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

Change and Expansion

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

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

For companies, there would be opportunities to expand financing to small-scale and artisanal mining and to improve their environmental and social practices. Technical and financial support to business could diminish environmental contamination. With greater

access to World Bank credits, companies could bring greater benefits to the communities, helping with strengthening the institutions of indigenous people and civil society and building their capacity to manage and find solutions to conflicts and undertake negotiations. This would contribute to confidence within the tripartite dialogue. Risks for companies included mining laws that bypassed the autonomy of indigenous people, public disorder and political and social instability, and legal uncertainty.

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

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

General Discussion

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

New Private Sector Competencies

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

New Bank Attitudes

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

Institutional Invigoration

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

Poverty Reduction

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

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

Referring to two important triangles (government-industry-civil society and the environmental-social-cultural dimension), an indigenous peoples' representative believed that poverty eradication was possible provided there was dialogue and then consensus within the three sectors. Rights existed, he emphasized; towns had to define themselves and create identities that a consensus could take into account and on which trust could be built. It was important to work together to create a climate of trust in order to be able to

work out a development plan. The Bank, other interventions pointed out, had a role in improving the capacity of the industries and the government to understand the communities; it could open channels of dialogue and recommend follow-ups.

Environmental Legacy

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

Neutral Broker

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

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

Recognize Existing Initiatives

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

Local Economic Development Strategies

For industry, a company representative noted that many developing countries insisted on local people having a very high share of the company work force, which often required technical capacity building. Looking at supply chains, one company was discussing with IFC and already had a pilot scheme in Nigeria by which local contractors became

involved in the oil and gas supply chain. Local economic development strategies in general were an area where the Bank could develop competency that industry did not have. But there were already examples of tripartite dialogue in which not only the companies, government and civil society participated, but also the World Bank—in Peru, indigenous peoples' organizations would confirm that a favorable climate existed. Where those dialogues had taken place there was no conflict.

A New Role for the World Bank Group

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

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

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

10. Areas of Consensus

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

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

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

Another context for the Review was the view that the World Bank Group should not be in the extractive industries, Dr. Salim reminded participants. The U.S. Congress had received such a report two years previously. There were also NGOs that demanded that

World Bank Group involvement should stop right now. The question, however, was what did Latin American stakeholders think: should the World Bank Group be in, out or how?

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

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

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

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

Empowerment of Civil Society

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

In the interests of fair dialogue, the Consultation recommended that the World Bank Group contribute to the building of decision fora drawing on the balanced and informed participation of representatives of the existing organizational patterns of the players involved, the government and industry. The Bank should also contribute to the development of capacities for citizens' participation in both the planning and implementation of projects and the monitoring of the use of resources flowing from the extractive industries. Thirdly, the Group should finance economic-ecological zoning

studies as a means to diminish conflicts. All would call for non-reimbursable funds, which the Consultation recognized as a limitation.

Good Governance

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

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

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

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

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

Social and Environmental Responsibility of Business

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

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

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

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

Capacity Building

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

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

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

The Consultation recognized as problematic the difficulties of finding adequate training organizations, government policies, in assigning part of oil, gas and mining revenues to education and in adjusting regulatory frameworks that covered social and environmental monitoring.

Small-scale Mining

The Consultation considered that the World Bank Group should support small-scale mining in areas of its formalization, government administration, social and environmental improvement, evaluation and monitoring.

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

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

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

Environmental Liabilities

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

Standards, Guidelines and Monitoring

Three areas of Standards, guidelines and monitoring would benefit from World Bank Group support, the Consultation felt: preparation of social and environmental guidelines for mining (and separately for small-scale and artisanal mining) and empowerment of environmental authorities; communities; and introduction of standardized indicators.

Environmental and social guidelines should distinguish the various phases of extraction—from exploration to closure—and include detailed analysis of environmental and social aspects. Support for their preparation should include their translation and circulation in several languages: existing World Bank guidelines were available only in English, downloading from the internet was a long and difficult process, and the cost otherwise was $125).

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

Conflict Management

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

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

Revenue Management

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

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

The Bank should support development of institutional frameworks including all legal aspects at different levels for allocating fiscal revenues with more balance between the center and the regions. This was particularly needed in decentralized countries with regional and local governments. The Bank could also help with credit programs and "lease for learning and innovation" loans to strengthen capacity at regional and local level.

Programs of sectoral adjustment were needed along with improved legal and institutional frameworks that offered incentives so that development of the extractive industries had a more favorable impact on the country's overall development. This was important at the macro level where the extractive industries were on such a large scale that they distorted the economy to the detriment of development of other productive activities.

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

Partnership Development

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

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

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

11. Closing remarks

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

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

parliaments had a responsibility to tell their governments where the shortcomings were.

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

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

Annex 1

The Extractive Industries Review

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

Post-Consultation Statement by Civil Society

12. Alternative views

Concerns in Ecuador

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

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

Civil society statement

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

The Consultation, in their view had had a limited focus, unequal participation and lack of information. The overwhelming number of participants from the mining and oil sectors, as well as those having first hand access to information about their respective activity had unbalanced the participation and limited analysis of the problems.

On the substantive side, the focus on whether or not the extractive industries generated wealth had been misplaced: the answer was obvious—those industries were among the most profitable in the world. What should have been discussed, in their view, was that this wealth had not been fairly distributed, had not contributed to economic development, and had not been an effective response to combating poverty. It was also crucial to analyze how Structural Adjustment Policies had contributed to poverty, and to set priorities in order to ensure that the most effective strategies in alleviating poverty were implemented.

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

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

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

Overwhelming community impacts

Indigenous community representatives specifically underlined the overwhelming social, cultural, economic and environmental impacts of the extractive industries on indigenous territories that the communities there had to bear—for which there had to be indemnity to compensate for the negative effects of the activities. They pointed out that there had been a failure to recognize their fundamental rights, such as legal entitlement to territories and organizational structures. There had been constant attempts to manipulate their leaders, with the intention of dividing their communities. There had been no standards and procedures to guarantee prior consultation, and their right to participate in decision-

making. There were also no policies and procedures to guarantee that communities benefited from profits generated by the extractive industries, and that these contributed to the development of their communities and to poverty alleviation. Indigenous communities' participation in tripartite dialogue did not meet the basic principles of equity—given their unequal standing, not only financially but in terms of capacity, vis-à-vis government and industry.

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

Annex 2

The Extractive Industries Review

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

Agenda

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

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

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

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

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

Environmental/Economic/Social Impacts:
- Discussion in three groups

Presentation of positive/negative impacts by 2 different stakeholders

Information Market Place:
Participants display their own materials

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

Case study Discussions:

- 3 case studies in three groups

Presentations on economic/social/environmental issues of projects

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

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

April 19
Scenarios:

- Presentation of scenarios from previous day

Discussion

Recommendations:

- Discussion about recommendations in groups
- Report back from groups
- Discussion

Conclusions:
Wrap up: Dr. Salim

Annex 3

The Extractive Industries Review

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

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