



The Extractive Industries Review (EIR)

Regional Consultation Workshop for Middle East and North Africa

**Marrakech, Morocco
June 29-July 2, 2003**

Testimonials and Consultation Report (Draft)

Notes

The Extractive Industries Review Regional Consultation Workshop for the Middle East and North Africa was held in Marrakech, Morocco, 29 June-2 July, 2003. This report was prepared by the EIR Secretariat to summarize the views of workshop participants, neither endorsing nor contradicting them.

As in common usage, unless otherwise indicated, use of the terms ‘World Bank’ or ‘the Bank’ refers to the International Bank for Reconstruction and Development (IBRD) and the International Development Agency (IDA). The International Finance Corporation and the Multilateral Investment Guarantee Agency are referred to as IFC and MIGA, respectively. The term ‘World Bank Group’ (WBG) is used as a collective term for all the above institutions.

Abbreviations

ASM	Artisanal and Small-Scale Mining
CAO	Compliance Adviser/Ombudsman
CAS	Country Assistance Strategy
CASM	Communities and Small Miners Initiative
CPIA	Country Policy and Institutional Analysis
EI	Extractive Industries
EIA	Environmental Impact Assessment
EIR	Extractive Industries Review
EITI	Extractive Industries Transparency Initiative
GDP	Gross Domestic Product
GRI	Global Reporting Initiative
IBRD	International Bank for Reconstruction and Development
ICMM	International Council on Mining & Metals
IDA	International Development Agency
IFC	International Finance Corporation
ILO	International Labor Organization
IMF	International Monetary Fund
MDG	Millennium Development Goal
MIGA	Multilateral Investment Guarantee Agency
NGO	Non-Government Organization
OED	Operations Evaluation Department
OEG	Operations Evaluation Group
OEU	Operations Evaluation Unit
OPEC	Organization of Petroleum Exporting Companies
OAPEC	Organization of Arab Petroleum Exporting Countries
PRSP	Poverty Reduction Strategy Paper
SAL	Structural Adjustment Loan
SME	Small and Medium-Sized Enterprise
UN	United Nations
WBG	World Bank Group

Table of Contents

Notes	i
Abbreviations	i
Table of Contents	i
1. Introduction	1
Part One: Open Forum.....	2
2. Welcome from Eminent Person, Prof. Dr. Emil Salim	2
3. WBG Voluntary Information Exchange	2
Introduction	2
Working with Governments	3
Working with the Private Sector	6
Project Environmental and Social Review	7
MENA Program.....	10
Independent Evaluation Process.....	13
4. Civil Society Testimonials	16
Jordan Society for Sustainable Development.....	16
Water and Development Organization, Palestine.....	17
Association for the Protection of Nature and the Environment, Tunisia.....	19
National Association of Human Rights, Egypt	20
Final Statement on Behalf of Civil Society.....	23
Part Two: Closed Consultation Session	25
5. Introduction	25
Introduction by the Eminent Person	25
Opening Speech by the Minister of Energy and Mining of Morocco	26
6. Case Studies	27
Poverty Alleviation.....	27
Governance.....	29
Environmental Issues.....	35

Public vs Private Sector Led Development	39
Structural Adjustment.....	43
7. Working Groups.....	50
Day One.....	50
Governance and Revenue Management	50
Poverty Alleviation.....	51
Economic Diversification.....	53
Day Two.....	54
Environmental Issues.....	54
Private vs Public Sector Led Development	56
Structural Adjustment.....	57
8. Perspectives of the Region	59
Resource Blessings, Resource Curses, and the Bank	59
Opportunities for employment generation and poverty alleviation in extractive industries of MENA countries	61
9. Opening Remarks to Final Session	63
10. Final Recommendations.....	65
Economic Diversification	65
Governance and Revenue Management	67
Poverty Alleviation.....	69
Public Participation and Basic Democratic Rights.....	73
Foreign and National Ownership.....	75
11. Closing Remarks.....	77
World Bank	77
EIR Eminent Person	77

1. Introduction

The Extractive Industries Review (EIR) Regional Consultation Workshop for the Middle East and North Africa took place in Marrakech, Morocco, June 29 - July 02, 2003. This was the fifth and final workshop in a series of five multi-stakeholder consultations convened to discuss the role of the World Bank Group (WBG) in the extractive industries (EI). The purpose of the workshop was to analyze the involvement of the WBG in the oil, gas and mining sectors in the region and to see whether these activities were compatible with the overall WBG mission of poverty reduction and sustainable development. Over sixty participants attended the workshop, representing civil society (non-governmental organizations, community-based organizations and labor unions), government, industry, academia, and the WBG itself.

The formal three-day consultation was preceded by a half-day open forum for civil society testimonials and voluntary information exchange with WBG staff. The subsequent workshop sessions were only open to participants who had been invited or 'self-selected'¹. These sessions featured presentations and discussions in plenary on specific cases, and small group discussions on thematic issues of importance in the region. Drawing on the discussions, participants identified a set of recommendations on key issues of concern if the WBG were to continue actively supporting the extractive sector in the Middle East and North Africa (MENA).

The process was guided by the EIR's Eminent Person, Prof. Dr. Emil Salim. Conclusions from the MENA Consultation will be used as inputs for the final EIR report, to be presented to WBG President, James D. Wolfensohn, in December 2003. In line with the EIR's mandate, careful note was taken throughout the workshop of dissenting views, which will be taken into account in the final report.

Additional material from the MENA Consultation, including participant's testimonials, case studies and presentations, is available on the EIR website: www.eireview.org.

¹ 'Self-Selection': the self-selection process allows civil society to nominate 12 participants from a variety of non-governmental organizations to represent their interests at the formal 3-day sessions of the consultation workshop. For the Middle East and North Africa workshop, this process was coordinated by Abdel Rahman Sultan (Friends of the Earth Middle East).

Part One: Open Forum

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

The Eminent Person, Prof. Dr. Emil Salim, welcomed the participants and reminded them that it was an open session, so everyone was free to speak out and make a contribution.

3. WBG Voluntary Information Exchange

In a voluntary information exchange with WBG representatives, staff reported on the Group's global and regional outlays, and the changing focus of its projects. Environmental and social standards are now more important, but the Bank wants to go beyond this to a more holistic approach for poverty reduction and sustainable development. The Bank espouses the Millennium Development Goals, champions globally important development issues, and coordinates with the efforts of bilateral and multilateral development institutions and agencies.

Introduction

The WBG Structure

A senior advisor from the World Bank Group provided an introduction to the WBG structure – five organisations with a common goal of sustainable development and poverty alleviation:

- IBRD - the International Bank for Reconstruction and Development, works primarily with governments.
- IDA - the International Development Agency, works with governments of the poorest countries.
- IFC – the International Finance Corporation, works with private sector partners.
- MIGA – the Multilateral Investment Guarantee Agency, provides political risk insurance aid to help the private sector.
- ICSID – the International Centre for Settlement of Investment Disputes, arbitrates in disputes between investors and governments.

The WBG subscribes to the Millennium Development Goals (MDGs), which provides concrete substance to their more general goals. The link with Extractive Industries (EIs) is in the belief that revenues from EIs can be directed by governments towards achieving the MDGs. Therefore, the management of EI revenues is an important factor.

Who is involved?

The WBG never works in isolation: it partners with governments, civil society and the private sector, working in a variety of ways to catalyze the potential synergies between the separate domains.

The Country Assistance Strategy (CAS) is at the core of how the WBG works in a country context, and how it develops a country program. Discussions on the country strategy and program normally involve, in addition to the government, other development agencies including the IMF, bilaterals, and NGOs. The engagement with civil society is a highly critical component, as is the Poverty Reduction Strategy Paper. The Private Sector Strategy Paper maps out how to work with the private sector in order to achieve economic growth objectives and poverty reduction. Taken together, the two sets of strategy papers are highly instrumental in guiding the Bank jointly with the IMF in deciding what specific country programs to put in place.

Because extractive industries have the potential to bring about substantial growth and development in a country, it is important that they are addressed and reflected in the CAS.

What does the WBG do in the Extractive Industries?

The WBG believes that the economic growth generated by extractive industries has amply demonstrated that EIs are a means of reducing poverty and addressing the MDGs, for instance, by providing jobs and entrepreneurial activity, directly or indirectly. The oil and gas sectors are much less labour-intensive than mining, but the spin-offs can be very substantial, either from people who provide goods and services directly to these industries or from those employed in the small, medium and large enterprises that develop through the government's application of revenues obtained from these sectors. There are many ways in which a country can capitalize on the presence of extractive industries in order to generate other businesses.

A final point is the importance of knowing how the government is going to use revenues from EIs, especially how they intend to ensure that the revenues have a developmental impact in supporting the poor and in financing social and other developmental investments. The portion of the WBG portfolio devoted to oil, gas and mining is very small, and has decreased significantly in recent years, so in general, the Bank does not have a lot of leverage in these sectors. But it can assist in other ways, such as with environmental degradation, accidents and spills, land rights issues, cultural changes, and revenue flows, all of which can have a direct impact upon the poor.

Working with Governments

Ways of working

The World Bank Group (IBRD/IDA) works with governments in various ways:

- Investment lending to finance specific projects, such as building roads and mine closure;

- Adjustment lending supports policy and institutional reforms (SALs);
- Technical assistance lending to help develop regulatory frameworks and institutional capacity;
- Trust funds, usually in the form of grants, assist with planning and capacity-building; and
- Advisory services and partnerships that provide information, advice, and share experience, such as on how to run the oil and gas sector or a mine; often civil society is involved very closely in helping generate ideas.

Key beliefs

Assistance to governments is driven by a set of key beliefs. The first is that resource projects can contribute to development with the right macroeconomic and sector conditions. Second, investment and enterprise management are generally best left to the private sector in competitive markets. Third is that governments are best focused on protecting the public interest and creating a good legal and regulatory framework for the development of a competitive private sector by:

- setting the macroeconomic and sector policy, and the framework for development
- providing access to minerals, regulation, and oversight of the private sector
- ensuring good fiscal management of revenues
- sharing the benefits of development

Championing global issues

The WBG has a broad global perspective which it uses in championing development issues and creating partnerships with governments and other parties. A good example is the gas flaring reduction initiative with governments and industry, and the ‘Communities and Small-Scale Mining (CASM) Initiative’ with the UK Department for International Development (DFID) and others, for artisanal and small-scale mining. The Bank sets standards and safeguards for its own operations that can also help guide others. For example, the standards set for mining been adopted by the International Council of Mining and Minerals (ICMM) in guiding the activities of their members.

At the request of countries, a lot of research takes place both at local and country level on best practice regarding energy development issues. The Energy Sector Management Assistance Program (ESMAP), enables countries to request assistance on how to manage the sector better, to see examples of how other countries are managing, and then to develop their own program.

The Global Gas Flaring Reduction (GGFR) initiative

One of the Bank's most successful endeavors is the Global Gas Flaring Reduction partnership which aims to support governments and industry in their efforts to reduce flaring and venting of gas by improving the framework for private sector investments. Gas flaring and venting represents a huge economic loss, as well as having a heavy impact on the environment through global warming, and damage to the local environment and poor people's livelihoods and well-being. Captured and used properly, gas can be used as fuel by local communities and as a source of power for the small-medium enterprise (SME) sector.

The main outputs from the GGFR are: an inventory of best practices; financing mechanisms for gas flaring reduction projects; an international set of standards; an improved framework for investments; assistance in developing local markets and access to international markets; and disseminating best practices. The main benefits from joining up are to get access to the best practice internationally for protecting the environment and recovering maximum value. There are funds for capacity building and advice on market development, legislation and regulations. Funding is also available for specific studies and surveys. The WBG wants to foster public-private partnerships. So far 7 countries, 4 companies, and one NGO are involved.

Discussion

In response to a question about the difference between EI sectors and agriculture and power, the response was that agriculture and power are in different lending categories. Another participant asked about the consultation process in the CAS, specifically what was the civil society consultation process for the economic policy, reform program component of the CAS, and how does it underpin an actual individual structural adjustment loan? There appears to be no formally structured mechanism for engaging specifically with civil society, instead views are solicited from a very wide range of interested parties and stakeholders, and these get fed into the final document.

The next question was about why there was such an emphasis on the GGFR partnership. In response, there are several reasons why gas is so important: one is that it exists in large quantities in many WBG client countries and has been neglected for a long time. The reason for this neglect is that often gas is used only domestically, so it is hard to attract investors into a country because they are worried about the financial and political risks. The economic potential and the environmental benefits are what underscore the Bank's initiative in gas. Also, because markets are developing at a dramatic rate, and with the introduction of new technology, it is more viable for developing countries to export gas.

A participant from Egypt asked if the Bank worked directly with the private sector or within the framework of a treaty with the government. The presenter responded that what usually happens is within the context of a technical assistance loan or a structural adjustment loan. A relationship is established between the WB and the government, part of which includes a framework that will make it attractive for the private sector to invest, while at the same time protecting public sector interests. It's not a treaty - it's a framework that is attractive for all

parties. Similar to the CAS, in putting the framework together, government, industry and civil society are all involved in the discussions.

Working with the Private Sector

Precipitating private investment

The lead economist from the Oil, Gas, Mining & Chemicals Department explained how the WBG can assist private sector development and why it does so. As the Bank believes that economic growth is essential to reduce poverty, it also sees that where economic growth has taken place in a successful and sustained way, the private sector has played a significant part. However, sometimes there may be situations where there are good private sector investment opportunities, and local or foreign investors are interested in investing, but because of political risks the banks are too nervous to lend. IFC and MIGA were set up to fill that gap in the market, to provide finance and security to help precipitate private investment. In addition, IFC tries to bring added value in terms of sustainable development impact to the projects it supports

Key criteria

IFC is still a relatively small institution compared to the Bank, but in some countries it can be quite important. When IFC invests in a project, it looks at several key criteria. First of all, the projects must be commercially viable; if the project fails, IFC loses its money, so it looks carefully at the viability. Also, IFC is not trying to displace private investment. If the private investor is willing to invest without IFC, then IFC steps back, which is one of the reasons in this region why in some sectors IFC is not very strong.

Thirdly, to fit within the overall WBG country program, the investment has to be consistent with the Country Assistance Strategy. All of IFC investments have to meet WBG environmental and social guidelines, as well as the guidelines of the country concerned. In addition, every single investment goes to the WBG Board for approval, and the final say rests with the government - governments can say “no, we choose not to have IFC involved in this sector”.

Areas of focus

IFC reacts to needs as they arise, seeking to fill market gaps, so in the extractive industries IFC operates in countries where:

- perceived risks are highest, and private investors are reluctant to invest on their own;
- there are complex intergovernmental relationships, such as cross-border projects like pipelines; and
- the project output is for local use, and smaller companies are involved as suppliers, such as providing services to oil and gas production companies.

The main IFC product is long term US dollar loans, not exceeding more than 20-30% of the required investment. Commercial banks often will come in with IFC as equity investment partners. IFC operates under normal commercial guidelines – it does not accept government guarantees and it must not displace private investors.

MIGA, the Multilateral Insurance Guarantee Association, provides specific guarantees to investors against particular political risks, such as war, civil disturbance, expropriation, capital transfer risk or breach of contract. The role of MIGA can be quite complementary to IFC's role.

Discussion

An NGO participant asked first if IFC assesses how the current policies and institutions function in a country, against whether or not a project would contribute to sustainable development? Secondly, does MIGA offer the same guarantees to domestic investors against political unrest and other things? The reply was that, although MIGA is designed to promote foreign investment, it could help local investors by providing guarantees to foreign banks, which in turn could invest with a local company. It won't, however, provide the same guarantees to a local company. IFC does check the conditions in a country to see if an investment would have a sustainable impact; this happens through the CAS and through the WB Board.

A participant from Jordan asked if the World Bank is not satisfied with a certain country, would it deprive the country of help from the World Bank, or are there certain objective measures that are used. In response, it was suggested that the Bank does stay engaged with the government to help countries as much as possible, unless conditions in the country become non-conducive to development. But more often it graduates its program according to the progress that is being made with the country.

Project Environmental and Social Review

Safeguard policies are evolving

An IFC environmental specialist stressed that safeguard policies have been evolving constantly and that the application of safeguards is fairly complex. Safeguard policies can be broken down into three categories: the first is environmental and social policies that are intended to 'do no harm' and are subject to interpretation and professional judgement of Bank staff. There is considerable pressure to add safeguard policies on human rights, on labour, on transparency, or simply to embrace the international standards that already exists, such as ILO's international transparency requirements. There is a lot of ongoing internal discussion about these options.

The second component is guidelines for safeguard policies which are more numerical in nature and sector specific. An example is the guidelines on pollution prevention produced in 1999. More recently, guidelines were developed on health care facilities and education; and there are occupation and safety guidelines, and exclusion lists.

Adding value

Overall, the objectives of safeguard policies are to ensure that all projects proposed for investment are environmentally sound and sustainable; and to keep decision makers informed about environmental risks. There is a movement from ‘do no harm’ to ‘adding value’ to projects.

Categories of risk

There are four categories of risk, with Category A projects having the highest risk of significant adverse environmental impacts; and Category B having potentially adverse environmental impacts that could be managed using prevailing mitigation instruments. There is a lively debate within the Bank Group and within the multilateral financial institution community to get rid of categorization, because it was based on the ‘do no harm’ principle. Approximately 50% of IFC lending is in the ‘FI’ or ‘Financial Intermediary’ Category, where funds are loaned to intermediary financial institutions, who have to apply the Bank’s safeguard policies and do due diligence for the projects they lend to.

Indigenous peoples policy

The indigenous people policy was developed in the early 90s with the idea to ‘do no harm’ to indigenous peoples worldwide through Bank lending. Since that time practice has been evolving so that today the consideration is towards the broader concept of ‘vulnerable groups’, such as the elderly, who may or may not be part of an indigenous group. One way certain kinds of vulnerability is being addressed is through the involuntary re-settlement policy which uses community development programs to find opportunities for adding value to the Bank’s investment. This procedure is not without controversy.

Safety of dams

Similarly on the guidelines side, application principles have changed. When the safety of dams guidelines were first developed, they were developed solely for the purpose of ensuring that hydropower and irrigation dams were safe and would not break; thereby ensuring there would be no loss of human life and economic dislocation downstream. In 1999, the guidelines were broadened to include tailings dams, and other types of dams in the thermo power sector.

Guidelines for the extractive sectors

Guidelines have been developed specific to extractive industries – eg, the pollution prevention handbook, the core mining and production guidelines, and onshore gas development. IFC has interim guidelines for all of offshore gas development, underground mining, and open cast mining. A set of guidelines for mining precious metals is under preparation, but is awaiting the outcome of the EIR process. The question is: should the guidelines reflect ‘best practice’ or should they follow the traditional Bank approach, which accommodates various

requirements making it relatively easy for a country to embrace as a standard. It would be interesting if the EIR could make a recommendation on the role of the Bank Group.

The Bank's 'exclusion list' excludes, for instance, any involvement in the production and trade of radioactive materials, so there never has been any involvement in a uranium mine. The suggestion came up in Bali to exclude all mines.

In the World Bank Group, MIGA and IFC apply the safeguard policies; and they are applied differently, depending upon who is the client is. For the most part, Bank staff has determined safeguard requirements, interpretation, and application, on a project-by-project basis. That practice in itself has been controversial for several reasons: one is the subjectivity of the safeguard policies; and secondly, a number of projects didn't turn out the way they were expected to. Within the Bank there are internal instruments for dealing with controversy: the Inspection Panel, a kind of a legalistic mechanism, deals almost entirely with the projects and staff compliance with provisions within the safeguard policies. IFC and MIGA use a different instrument - the CAO Compliance Advisor and Ombudsman Office. The ombudsman component deals with problems on the ground, so that if somebody feels impaired by a bank investment, then there is recourse through the CAO Office.

In concluding the presentation, the presenter stressed that there are different requirements within the Bank regarding how a safeguard policy is complied with, whether it's a guideline or not, and whether it might remain in the future. Safeguard policies are evolving, and opinions vary on how they should be applied and if they should be broader or collapsed.

Discussion

From the Mining Industry Federation in Morocco there was a question about if more stringent environmental and social guidelines resulted in IFC reducing its involvement in the oil, gas and mining sectors. The response was a categorical 'no', that borrowers have not been put off as IFC has increased its requirements.

From Tunisian civil society a question arose about the ongoing debate within the Bank regarding the application of social and environmental guidelines, and how projects are categorized. The response was that there is no set of rules in the Bank Group on how you arrive at the categorization of A, B or C. There is a threshold, where if impacts are significant and irreversible, then the project falls into category 'A', and that generates studies on the environmental and social front to ensure that proper avoidance and mitigation are put in place. There may or may not be site visits; it varies from project to project, and there's no standard 'cookie cutter' approach. The key social issue is how do investments in the extractive industries trickle down to alleviate poverty. Good practice is focusing on developing baseline indicators on poverty and working with these throughout the life of the project.

A question was raised about safeguard policies concerning coal mining projects, and if IFC has plans to phase out the use of coal within the next 5 to 10 years. The Bank does have a guideline on coal mining, but it doesn't include CO2 emissions. Perhaps the Bank should

have a carbon strategy, which might alter the current perspective on coal mining. It is likely that a recommendation will come out of the EI Review.

MENA Program

The World Bank Group Sector Manager for Water and Energy in MENA spoke about the challenges for development in the region. Overall, the lending program for extractive industries is very limited in the MENA region. So the Bank is involved in extractive industries through other dimensions of economic impact. The general economic challenge that the region currently is facing is very serious and the extractive sector plays a very important role in the changes that are taking place.

GDP per capita growth in the MENA region is projected to be only around 1%. This is in contrast to the actual demographic trends in the region and the need for creating new jobs to absorb a very large and young population, which is far greater in the MENA region than in other regions. The rate of unemployment is 15%; for young people it is 53%. In addition, the region is still going through a demographic transition; the fairly high fertility rate means that the problem is likely to continue for 15 to 20 years. In the next 10 years, the region would have to create 50 million new jobs just to absorb new-comers to the labour market, which doesn't include those currently unemployed. This challenge is the single highest sustained labor pressure that any region has ever met in history. So, it is a very substantial problem.

Worker productivity in the region has also declined over the past 15 years. And the capital investment per worker has decreased drastically. So, what is happening is more workers looking for jobs, low productivity, and low investment per worker.

Most countries are struggling with some level of fiscal imbalance - between 5 and 10% for most of them - which is considered very difficult to sustain. The region needs more foreign direct investment and the international aid frame has been decreasing as well. The proportion of government employment in the overall labor force is highest in this region - 1 in 5 jobs is in the public sector. The MENA region is highly exposed to political conflicts, with the highest level of violent conflicts in the world.

Paradox of plenty

The region is characterized by paradoxes related to the extractive sector:

- the region is extremely resource rich but this wealth has not been converted into growth, employment and security for most people;
- the energy needs of the poorest are not always met, yet the system of subsidy flows mostly benefits the rich;
- sector reform is essential to mobilize future investments, but the region is lagging behind on sector reform; and

- governance structure is central to ensure that extractive industry revenues trickle down to the poorest, but there is a serious gap in governance in the MENA region in comparison with the rest of the world.

Four major reports are being prepared to substantiate the reality of the above assertions, by finding measurable indicators to create benchmarks and compare the performance of this region with other regions. One report is on trade and growth, another is on employment, another is on gender and the role of women in the economy, and one is on governance.

The region is resource-rich. It has 2/3 of the reserves of oil and gas and 1/3 of the production. Countries could use that wealth to diversify their economies, to increase their industrial strength, and to move into the service sector. In practice, if you look at non-oil exports it is clear that the economy is not sufficiently diversified; oil and gas wealth is not being used to move to other forms of income generation, and oil and gas revenues per capita are falling sharply in the region.

In comparing regional budget deficits, MENA's is the highest showing that the more oil, the higher the budget deficit, which means that if you have an easy oil windfall, you have poor fiscal and macro policies. Sector reform is essential to attract investment and generate wealth. Taking the example of both the energy and power sectors, oil and gas, upstream and downstream, most countries, with the exception of Jordan, are only in preliminary stages of reform.

Access to power reaches 90% of the population, but the 10% not connected are the poorest. Energy subsidies are high, running at 10% of GDP in some countries, which means that the better off are benefiting most. Tariff structures mean that large users benefit more from subsidies.

It's obvious that there is a massive challenge and an urgent need for reform. The current growth model is clearly unsustainable, as it will be unable to respond to the demographic pressure and the need for additional labour and jobs. MENA needs a new model for development, increased integration into the world economy, economic diversification, 50 million new jobs over the next 10 years, increased flows of investments, better macro and fiscal management, sustainable resource management, and better governance to make sure that the sharing process over these resources happens in a way which is beneficial to most.

A new strategy in the region

The new strategy of the World Bank in the MENA region since a year ago is based on 5 key pillars – the priorities of all Bank interventions in the region:

- Private sector development and employment creation;
- Public sector efficiency and governance;
- Education for a global world;
- Gender; and

- Sustainable development of water resources.

There are 12 countries that potentially are borrowers and 6 that are potential users of advisory services. Extractive industries receive only \$84 million out of a total budget of \$5.5 billion annually.

In Algeria there is an energy and mining project which focuses on institutional and policy dimensions in power, mining, and oil and gas. In Saudi Arabia, the Bank has a technical assistance and partnership initiative for gas flaring and mining. In Morocco, MIGA is providing workshops and technical assistance. The overall thrust of involvement is in activities more related to policy, knowledge, information exchange, than providing financial services. The quality of the investment climate is an important element – ie, revenue management, and macro, fiscal and trade policies. Environmental management is a cross-cutting theme that the Bank sees as important at the sector level, as well as at the macro level.

The speaker concluded by inviting comments and suggestions on what the Bank currently is doing and what may be missing from its portfolio.

Discussion

A spokesperson from the Secretary of State for Energy and Industry from Tunisia expressed concern over the lack of recent statistics in the presentation, and felt that the Bank was not in touch with the current situation in countries in the region. In Tunisia, they have diversified their economy, completed their reforms, and are now starting to work on institutional aspects. The Bank is invited to come and see where things stand today.

The Director General of the Ministry of Energy and Water in Lebanon complemented the Bank for their support for institutional reforms in the water and energy sector.

A speaker from a civil society organization in Jordan asked how the Bank can ensure poverty alleviation in the region. GDP statistics do not show the actual impacts of projects the Bank is involved in. The Bank spokesperson responded by agreeing with the comment and mentioning that every 3 years the Bank does a poverty assessment in every country they work in. From this they gain a very good, detailed understanding of the nature and reality of poverty on the ground.

A comment was made that there was no mention of the political factors which have influenced conditions in the region – the Iran-Iraq war, the Israeli-Arab conflict, the Gulf War, etc. Another participant (Jordan) agreed and added that the image of the Bank was not good and wondered what was being done to improve it. A participant from Egypt, from the National Association of Human Rights and Human Development, asked what solutions the Bank is proposing to combat the various problems, beyond the list of 5 strategies. Another participant asked if the Bank had analyzed its own performance and assessed why it had been unable to achieve its goals for various countries.

The Bank representative emphasized that the data presented were regional averages, and it is in the country studies that individual typologies come out. It is very difficult to provide standard solutions for the very broad issues that were presented. Also the Bank is limited in its engagement by what countries ask it to do. Moreover, it is up to the country to set and drive its own policies and strategies. The Bank can be a partner with government in exchanging knowledge and in conducting research.

Independent Evaluation Process

The Office of the Compliance Advisor/Ombudsman (CAO)

The Senior Specialist Compliance from the office of Compliance Advisor/Ombudsman (CAO) started his presentation with a brief overview of a recent report which looks at the extent to which IFC and MIGA have started to consider the broader relevance of sustainability to the extractive sectors in their investment projects. The report was requested by the management of IFC as a contribution to the EIR.

The CAO Senior Specialist next described the CAO office as the independent accountability mechanism for the two private sector arms of the World Bank Group, IFC and MIGA. Communities in the vicinity of IFC or MIGA field projects that have been affected either socially or environmentally as a consequence of a project, have the opportunity to register their concerns to the CAO office in the form of a complaint, which will be considered and taken forward. CAO is accountable to those communities, as well as to the President of the WBG. The office is focused on finding solutions and solving problems on the ground: it is not interested in finding scapegoats.

The office has three functions: compliance, advisory, and ombudsman. Activities are transparent, participatory, and when necessary, also confidential. On the first function, the ombudsman, there could be different grounds for complaint, such as: project planning or implementation may be questionable; the social or environmental impact of the project may not be adequately mitigated; or affected communities may not have been properly involved during project preparation.

Once a complaint is lodged with the office, its legitimacy is determined - do the people who launched the complaint have a legitimate interest in the project, are they directly affected. Having done that, there would be an assessment, which might involve one of several processes:

- it might lead to dialogue towards mutually acceptable solutions; or
- it might lead to mediation or some form of arrangements on remedial action.

The second function, the compliance role, concerns material compliance. The social and environmental outcome on the ground must be consistent with the Bank's safeguard policy provisions and guidelines. CAO only responds to situations where there is evidence of adverse social and environmental outcomes.

The third role is the advisory function. Advice is derived from the lessons drawn from the ombudsman and compliance functions, although the office does undertake some specific assignments, like the EIR or the review of IFC. The intention behind all the advice is to try to improve performance systematically across IFC and MIGA. A very crucial point is that CAO does not give project-specific advice, the logic being that it might potentially undermine objectivity and impartiality if we were later to receive a complaint on that project.

The report on IFC and MIGA was a snapshot look at projects, with a balance between oil and gas and mining, and a very broad geographic spread. In addition, the office only looked at projects that started after IFC adopted its safeguard policies and guidelines, and after MIGA adopted its environmental assessment policy and procedures – ie, projects started after July 1999.

The focus was on broad sustainability issues of relevance to the extractive sectors - to what extent were those dealt with during project planning and implementation. The methodology that was adopted holds all the projects to very high standards. Many of the criteria are considered to be at the leading edge of the sustainability debate, and quite a few went beyond the safeguard policies of IFC and MIGA. Just as the EIR is not constrained by the policy framework within the World Bank Group, the CAO wanted to look a little bit beyond that as well.

The basic approach looked at a total of 52 sustainability issues, grouped under the three broad pillars of sustainability: environmental responsibility, social responsibility, and the economic and governance dimensions. Both mandatory and non-mandatory criteria were looked at. On balance, the performance for the mandatory criteria was pretty good, while the score for the non-mandatory criteria was remarkably lower.

The environmental dimension included: natural habitat, air quality, water and hydrology, hazardous materials. The social dimension included issues on resettlement, land rights and indigenous people, public involvement, community development and conflicts in human rights. The economic and governance dimension included: revenue management, corruption and political instability, and economic aspects like links to the local economy through procurement, employment and basic infrastructure close to the project.

Based on the assessment, IFC, and to a lesser extent MIGA, are set to go beyond the basic requirements associated with the policies and guidelines for sustainability. The basic findings were:

- There still is some scope for improvement on environmental and social dimensions of sustainability.
- Encouragingly, some non-mandatory criteria were treated fairly comprehensively in each sustainability dimension.
- Recommend IFC & MIGA to reinforce existing guidance to encompass a wider set of sustainability concerns.

- As the sustainability agenda is evolving, a flexible approach to introducing revisions should be adopted.
- Sustainability innovations are emerging, but ad hoc. Recommend IFC/MIGA develop mechanisms to buy down incremental cost of 'higher risk' innovations.

The speaker made the following comments on the economic and governance aspects:

- Economic and governance aspects scored lowest, but all these criteria are non-mandatory: there is significant scope for improvement.
- Recommend IFC reports on steps taken to mitigate adverse impacts and enhance revenue management and distribution for high-impact projects.
- Recommend higher level of disclosure by IFC/MIGA on rationale for supporting other projects, and closer collaboration with World Bank on operational instruments.

Discussion

The first question came from an industry participant about how to mainstream safeguard policies into a value-added approach, and within the Bank to systematize it without getting bogged down in bureaucracy and procedures. The CAO representative commented that the Bank Group as a whole is very capable of dealing with complexity. But when dealing with value-added activities, one must be very careful not to go down the compliance route, as it runs the risk of undermining creativity and the ability to do very good work. The compliance side of the CAO Office is very careful to not stray into looking at value-added activities. Some of the issues in the non-mandatory basket do lend themselves to systematization, to a more rigorous and consistent approach across all projects, and those could be integrated into safeguard policies and environmental guidelines.

A professor from King Fahd University of Petroleum and Minerals expressed his appreciation for the CAO office, but would like to see some analysis or evaluation of MENA countries regarding environmental and social dimensions, and governance issues. He also asked if the evaluation and advice they provide is binding. The CAO representative replied that there were no projects from their study in the MENA region, and there's no sector specific information on the region. Regarding the second question, the advice can be accepted or ignored, it's not binding. However, experience has proven that the institution has been willing to respond to CAO's advice. In particular, MIGA clients generally have welcomed intervention and participation in follow-up processes. On the ombudsman function, if there has been a clear breach of compliance with policies or guidelines, then there is an institutional responsibility to respond and to put things right. However, some of the guidelines are very specific, and others are open to interpretation, so it will be a judgement call for the institution. There is a further check which is that the CAO office is obliged to provide full disclosure, so if the institution chooses not to follow the recommendation, civil society could goad them into accountability.

In response to a query about how to contact the CAO office, they are working on building much broader awareness of the facility, with MIGA and IFC providing upfront information so that communities will be aware of the CAO at an early stage. The office only accepts

complaints from people who are directly affected and who have a material interest in the project. So complaints are accepted from communities, but could also come from an NGO acting on behalf of the community.

A Jordanian participant raised the question if the CAO gets involved in ranking projects that apply for loans or grants from the World Bank. The response was that they don't get involved when a project is being considered for approval – that's the work of the Environment and Social Department. The World Bank has the Inspection Panel to provide a similar service. Another Jordanian participant had tried to raise a complaint with the CAO but was refused because they did not represent the community at the project site. He asked if IFC and other institutions could make a point of informing local communities about the CAO. The CAO office is working to get better acknowledgement of their existence and function. Apparently the complaint mentioned that was initially turned down was accepted later, when the connection with the community was made clear.

4. Civil Society Testimonials

Jordan Society for Sustainable Development

Background

The Executive Director of the Jordan Society for Sustainable Development described the experience of phosphate extraction in Jordan, a technical assistance project of the World Bank. Phosphate extraction started in the early 50s in Rossayfa, a small Jordanian town 20 km northeast of the capital, Amman. Rossayfa was a recreational park for the 2 biggest towns, Amman and Zarka. The extraction operation now has expanded to completely occupy the entire eastern part of the town. The government expects that reserves to be depleted in 2006.

Until the early 60s Rossayfa was the biggest phosphate mine in Jordan. After that, a huge deposit was discovered in the south in the eastern desert in Wadi Lhassa (Lhassa Valley) which is a unique desert ecosystem. A rare species, the Syrian ostrich, was found there but became extinct after the early 60s. Another phosphate deposit close to the Saudi border was opened in the early 80s in an area called Alshidya Mines - the area became heavily devastated by the mining.

World Bank becomes Involved

The World Bank first became involved in the phosphate mining at Lhassa in the 80s. In 1988, the Bank provided a loan for the phosphate mining company to start extracting in the area of Alshidya, and within 10 years, the mining company had a loss of \$128 million. During this time phosphate mining did not exceed 5% of GDP.

In 2000, the World Bank started to reform the structure of the phosphate mining company. The expectation was that the loss will be decreased within a few years. In the process 1300 workers were forced to take early retirement.

The key question is: why hasn't the World Bank involvement resulted in sustainable development and poverty alleviation? Why is there such a large loss and why are 1300 families now without a source of regular income? As well there has been widespread environmental devastation. This is the result of World Bank policies. Why not support development of the IT sector which is less than 10 years old and now contributes 20% to total government revenues? There are other sectors that are being neglected that could also bring about more sustainable economic development and decrease poverty.

Additional comment

A Jordanian participant added that the value-added from the mining sector is negligible. There is no significant processing industry, which means that mining depletes resources without improving economic development and the structure of the country. There now is another project in Jordan called Silica, sponsored by IFC, which exports silica from Jordan without any significant processing of silica that could contribute to helping the country overcome its financial problems.

Water and Development Organization, Palestine

The Director of the Water and Environment Development Organization spoke about his experience with the World Bank and other lending institutions.

After 1993, development assistance came to Palestine, much of it as loans, which is looked upon as another form of occupation. Today, everything has collapsed in Palestine, and there is no way to pay the interest or to get the intended benefits. It is astonishing to hear that the World Bank does not support local investors. It supports outside investors, a type of colonization that is much worse, because it is very difficult to get rid of, and it makes future generations suffer the consequences of the loans.

Governments may not actually represent the people in developing countries, so the public is often not aware of what obligations the government may take on. Some loans may be used to enable the government or the regime to stay in power as long as possible. After World Bank intervention there appears to be no improvement, and sometimes things are worse off. The currency becomes devaluated, taxes are increased, and the public is unaware of the arrangements between their government, the World Bank and other lenders. These actions may increase instability in these countries.

Another problem specific to Palestine is the consequences of Intifada, where loans were taken out and the project work ceases, but interest on the loans continues to be calculated. Recently, gas was discovered in Gaza; there are hopes that there also will be oil, and that the standard of living will become like that in developed countries. The concern is that the people will suffer and all the money will go mainly to the investors.

The Palestinians hope for a better future, but suddenly everything can just disappear. Instead of getting the benefits, bulldozers destroy the infrastructure. Who is going to pay for this? It's

the coming generation, whereas the lenders remain unaffected. Most of the developing countries have paid larger amounts than the loans they receive, and they are struggling to pay the interest for these loans. And there is no way to get out of it.

It would be good to see just one developing country, with loans from the WB or other lenders, that managed to change from a developing to a developed country. All the time it is the opposite.

Where do oil, gas and mining industries stand with sustainable development? Mining has a dramatic impact on the environment: natural resources, land, forests, water resources, to the oceans, to the fish, to everything.

However, this does not mean we should not try to get loans if it really serves the public interests. But the public should be approached from the earliest stages, because they are going to pay the taxes. So the government has to be made accountable for their actions and decisions. People should be able to take their government to task for their unfulfilled promises.

The World Bank and developed countries are fighting for human rights in developing countries. But when they give these loans, where does the human rights issue stand? There are many countries in the MENA region that do not allow NGO's – how can you support such a country when no one can express their beliefs about essential issues?

All projects have environmental impact assessment, but who does the assessment? It's the government and the WB. And the results are well known. Even if it was a really deep study and reflects all the consequences and the recommendations of mitigation measures, who is going to ensure its implementation? It's just a good report that is put on the shelf in a certain ministry. When it comes to implementation, the driving force is how much revenue the investor will get out of the project.

It would be better to work very closely with civil society groups that are working with the government, because these are the people who will pay for the loans. Third parties should be involved in preparing for and overseeing the environmental impact assessment. If the government is not using the loans for the right purpose, they can inform the World Bank if there is any mismanagement.

The World Bank should give more money toward renewable energy resources. The MENA region is well known for its solar energy, which is a sustainable resource that can serve the interests of the people, rather than a group of investors. Palestine with its small geographic area, and with a lot of communities scattered here and there, should not always consider a centralized system. There are other systems that can better serve these communities, and the people can feel the benefits rather than the burden of taxes and the loans to be repaid.

When the Bank gives loans, they should insist that that the loans are invested in the best possible way. If the Bank has the power to interfere with government policy to devalue currency and increase taxes, then they can use the same power to ensure that the resources they provide are used for the right purpose as planned.

Discussion

A participant from Jordan asked why renewable energy projects are funded through the GEF, and why the level of funds is only sufficient for an experiment. Would it not be better to have more money to invest up front, so that the results can be used by the public as an alternative energy source and not remain just at the experimental level? In the long run, because it's renewable energy, it would cost much less than using fossil fuel or gas.

Another participant from Jordan recommended that the World Bank should not work directly with civic organizations, because in the Third World, when civil societies and civic organizations work directly with international or foreign organizations, it is not very welcomed politically. An EIR researcher suggested it was important to strengthen civil society so they could function without outside influence.

A clarification was made regarding funds for Palestine; the Bank is not lending money in Palestine, everything is provided on a grant basis. This is the only exception in the region, as all other countries receive loans. The standards for lending are high; the Bank takes very seriously issues such as impact, financial management, and appropriate use to benefit the poor and the public.

Association for the Protection of Nature and the Environment, Tunisia

The President of the Association for the Protection of Nature and the Environment from Tunisia spoke about an oil extraction project in Tunisia. The association has been interested in the environmental impacts of oil activity in the country and conducted a small GEF-funded study that provided some insight into offshore oil operations, and enabled them to draw up a set of guidelines for government legislation on offshore drilling. Although there is legislation requiring impact studies for all aspects of oil exploitation, company operations, some of which were encouraged or financed by the World Bank, do not meet the real needs for environmental protection.

The company AMINEX is operating in a highly sensitive area where 90% of Tunisia's shrimp production takes place. In this area the waters are only 5 to 10 meters deep and there is very little current flowing, so any pollution is likely to remain in the area and not settle further offshore. The Mediterranean provides nearly 30% of Tunisia's protein resources, therefore it's quite critical that oil operations exercise extreme precaution. One of the concerns is the type of drilling mud being used, which contains locally-produced barite that is high in lead. The impact study suggests that when the used mud is dumped into the ocean it will not create any problems. This type of conclusion raises questions about the reliability of the study, and makes it appear as if the World Bank accepts these impact studies without question to justify its compliance with the project. It seems that the classification process is more subjective than objective, and is not carried out very carefully.

There were also plans to build a pipeline, and it was stated that the pipeline would not pose an obstacle to fishing stocks. Marathon, an American company, was said to have the expertise to

deal with an eventual oil spill. However, in the contingency plan it only proposed a technical solution, whereas in reality if an oil spill should take place, it requires substantial public involvement. NGOs could play a significant role in organizing local people. But it seems there are no NGOs involved in this contingency plan.

The World Bank needs to be more critical with environmental practice, and more straight with civil society. It should follow a code of practice, based on well-established scientific criteria, and make environmental protection a daily reality observed by all components of the World Bank. Are the problems in the region solely the responsibility of our governments, or does the World Bank have some responsibility? For example, Tunisia has complied with all the IMF's recommendations, but still is in a bad situation. Is it the only one at fault or were the World Bank's recommendations wrong? We would like to suggest the World Bank revises its methodology, and works hand-in-hand with civil society, because that way can guarantee success. NGOs can succeed where others did not.

The World Bank should set up an institution where complaints against the World Bank can be filed, and create its own ombudsman which you can go to when you have something to reproach the World Bank for.

Discussion

From Morocco came a suggestion that if a World Bank-supported project fails, then the loan should be cancelled. The Bank should be congratulated for projects that have led to the well-being of citizens, but it should be reprimanded for projects that did not achieve their predetermined objectives.

National Association of Human Rights, Egypt

This speaker from the National Association of Human Rights in Egypt expressed his concern that Arab citizens in the region are besieged by two gods – the greater one of the World Bank that dictates the fates of people by deciding who should get grants and who shouldn't, and the lesser one of national governments that exploit and extinguish the wealth and resources of their countries, and govern by controlling or terrorizing their people.

Natural resources are the legitimate property of the people, but where do the people stand in the equation between the World Bank, governments and the private business sector. Do Palestinian people have a say in what are the best projects for them? What projects will insure a fair realization of their needs? Were people consulted in the agreements between the World Bank and the government of Jordan, regarding projects for phosphate exploitation?

The people are ruled by governments which allow no room for real elections. Final decisions about any agreements or contracts should be made by the elected members of parliament. But are there real parliaments? Are there real elections? Is there any legislation that protects citizens and guarantees rights? Indeed, we are undergoing a very bad situation. Are there any real unions able to voice their opinions about various decisions? Are there real political parties in each country? Existing legislation binds political parties and controls the existence of organizations that may act as a representative of the people. Most NGOs in the region are

virtual entities, subject to threats of disappearance. The most prevalent kind of organization is the governmental non-governmental organisation.

What criteria does the World Bank use in deciding the extent to which a given project or contract is the result of popular consultation or a consensus between civil society, the private sector and government, and how does it decide that a project really is beneficial to the country concerned?

A number of governments have set up corruption mechanisms with business people in the region and have developed a trade in corruption. States are able to produce investors and businessmen in the same way they fabricate associations and NGOs. Donations are allocated to fabricated names, behind which are government people who benefit from these operations and projects. This is the real problem. Is the World Bank concerned with these issues, and is it ready to confront these problems and the corrupt and dictatorial regimes responsible?

The key questions to ask are:

- Do the loans and grants given by the World Bank really get to the people who are supposed to benefit from them?
- Do they really serve the purpose of poverty alleviation and eradication?
- Do they promote resource development or will future generations pay the price of a corrupt organisation and decisions made by those that rule and initiate policies made by people in the World Bank, who fail to understand our real interests?
- Is the problem only because of studies carried out by technocrats and employees who get lavish salaries from the Bank, and who decide what projects are good for countries?

How reliable are all the academic studies, and the data and models that are presented? People are denied simple, essential information, and are deprived of their right to be informed. Governments often provide lies and false information to deceive the people.

Information is not readily available from institutions like the World Bank; they do not practice transparency with the very people they claim to serve. Why, then, should people trust the World Bank? They don't even trust their own governments. Therefore, there is not enough emphasis on human rights, or on the role of democracy in preserving these rights, nor on popular participation in decision-making, nor on providing information to the people concerned. However genuine your purposes may be, you and our governments are on one side, and the people are on the other.

Discussion

A Saudi participant asked the World Bank to share the feedback they have so far from different regions on their future role in extractive industries, and what they could do to enhance economic and sustainable development and poverty eradication. What are the Bank's strengths, weaknesses, the opportunities and risks? People are very aware of the problems in the region, but they need solutions and would like the World Bank's help. The major issue is mismanagement of resources. The World Bank has a lot of experience in this, and should

share their expertise. The Bank did very well in Chad, by establishing trust funds for the oil industry. Why not establish trust funds in this region? Why not help governments hedge their revenues against oil price fluctuations, to protect future generations? Why don't oil companies publicly announce their transactions so people know how much revenue their governments receive?

Why is there a problem with resource management? There are lots of resources, lots of money comes from oil, and yet it's a lousy job. There is a high correlation between backwardness and how much money comes from oil and gas. Why is this so? Are Arabs or people from the Middle East programmed differently from other races? Solutions are needed for these problems, and it's part of the World Bank's responsibility to help.

A participant from Palestine asked two questions: What is the process of lending? What will happen if a country refuses to pay back their outstanding loans?

A participant from Tunisia stressed the importance of involving civil society at all stages of project definition and execution in Bank-financed projects. Also, women should be taking part in these projects. Renewable energy use should be explored as it can enable economic development to take place, and reduce the cost of energy.

Another comment was that it is essential that international corporations abide by international law and assume responsibility towards people. They should act in a transparent way and abide by international requirements concerning the environment, natural resource use, civil society and indigenous people.

On the question of the process of lending, there is agreement between the Bank and the government on the 'Country Assistance Strategy' (CAS) - a strategy document updated every three years through consultation with civil society and the government. The strategy states what the Bank will be involved in and what it won't be involved in. The consultation for the CAS provides civil society a chance to express their views on what is most important in the eyes of the citizens. The Bank can only work in areas where the government makes a decision that it wants the Bank's assistance. So, requests for lending come from the government, usually either the Ministry of Finance or the Ministry of Planning. They decide if the country will borrow for primary education or for renewable energy or if it will enter into agreement on sectoral reforms. Government sets the priorities. The Bank's role is in terms of advocacy. Where there is a lot of evidence that something will have a development impact, the Bank brings it into the dialogue – eg, the gender dimension, primary education, renewable energy.

If a country does not pay its arrears to the Bank, an extremely rare occurrence because it is very costly for a country to take that step, the Bank will not get involved again in the country concerned. If it comes back ten or twenty years later, the first thing it has to do is pay arrears. The Bank does not write off arrears, unless there is a process like the one that cancelled debt in the poor countries of sub-Saharan Africa.

Concerning the issue of governance, there is nothing inherent to the people in the region. The difficulties relating to oil and gas are the same all over the world. There is an unfortunate

correlation between major oil and gas and mining wealth and the performance of the economy. It's very difficult to maintain good governance because revenue flows are very erratic, making government expenditure programs very volatile. This makes it extremely difficult to run the economy.

Corruption is another problem. The very large amounts earned in the oil and gas sector are an enormous temptation to people who don't have the interest of society in mind. There are also technical problems, such as the 'Dutch disease': when major revenues come in, you may have a rapid depreciation of the exchange rate, which tends to make non-oil businesses non-competitive. Having started out dependant on oil, gas and mining, the country becomes increasingly dependent on that one resource, and diversification is threatened. For example, the kind of diversification being sought after in Morocco and Tunisia, are encouraging but very difficult to maintain.

Those are the main problems. In order to deal with them, one thing that helps is having transparency. How much money is actually coming in so that civil society and other interested parties can look at how it is used and see if it is responsibly managed? The Bank can help with capacity-building in the government sectors, and in managing and building reasonable expenditure programs. The Bank also has helped with anti-corruption campaigns at local and global levels.

Although the Bank can't interfere in the development of democratic processes in the country concerned, it at least can make a very clear statement on issues such as transparency and the inclusion of civil society. These are important elements in the Country Assistance Strategy and are a core part of the Bank's dialogue with different countries. The Bank supports the 'Extractive Industries Transparency Initiative' which takes a much clearer stance on many of these issues.

Regarding transparency in the Bank, and making information available to countries in the region, a lot of material on what the Bank is doing with other countries in different areas is available through the Public Information Centers of the Bank. Very detailed descriptions of different projects or programs are all made public.

To make companies act in a more transparent way, there is a campaign largely led by civil society called 'Publish What You Pay' that asks companies to make public what they pay to government. A level playing field is needed for this initiative to work – to be fair, all companies have to disclose their payments. To begin with it may mean publishing an aggregate figure.

Final Statement on Behalf of Civil Society

The representative for civil society organisations expressed appreciation for the opportunity to speak on behalf of the other civil society participants. Civil society felt frustrated and unhappy about the current situation their people live in. Hopefully the Bank can address some of the issues on improving the environmental situation and alleviating poverty. The presence of private sector and government representatives is a good opportunity to have some

confrontation, some openness and transparency towards solving the energy problems and poverty problems that prevail in our countries.

Achieving transparency is an essential goal for everyone, and it should be a permanent condition. It is important for civil society, the private sector, governments and the World Bank to work together, and, in particular, to listen carefully to what civil society would like to accomplish in the future, because its ambition is to solve environmental problems, as well as to alleviate poverty in the region.

It would be helpful if governments would disclose their plans and their agendas, so that we could then begin to cooperate and work together. The EIR process should lead us toward a higher degree of cooperation and achievement. The representative thanked the EIR secretariat for the opportunity to speak, and the government representatives for listening to their requests.

Part Two: Closed Consultation Session

5. Introduction

Introduction by the Eminent Person

Dr. Salim introduced the closed workshop sessions by reminding the participants of the origins of the Extractive Industries Review, arising from a request by civil society to the President of the World Bank to review the contribution that extractive industries make towards poverty alleviation through sustainable development, and in particular, assessing the role of the World Bank in supporting extractive industries. Sustainable development contains three major components – economic sustainability, environmental sustainability and social sustainability.

The Extractive Industries Review is not doing a scientific analysis, but instead is consulting with all stakeholders – civil society, business, government, academics, the World Bank Group - in all regions to review and discuss the activities of the World Bank in the field. The Bank has a clear set of goals, including the Millennium Development Goals, but what is the reality in achieving the goals through project implementation in each country. Have 20% of the poor been lifted out of poverty? How is the Country Assistance Strategy? How is the coordination between the different parts of the Bank – IBRD, IFC, MIGA and IDA?

The MENA region has not been able to alleviate itself out of the poverty trap, yet it has rich extractive resources. There are not many Bank-supported projects in extractive industries in the 20 countries in the region. The consultation will look at 5 key issues in the region: governance, poverty alleviation and employment generation, economic diversification through value-added initiatives, the environment – renewable energy, pollution and climate change, and private-public sector led development. Structural adjustment questions will also be addressed.

Dr. Salim suggested that the selected topics are not exhaustive; participants should use them as a tool to come up with new issues specific to MENA. The EIR wants to find out the special niche for this region. What are the new, unique or specific problems that the World Bank should be involved in, and does the Bank need a different approach for this region? Recommendations should be realistic and practical; development should benefit the people, but specifically how, where, when and how. What can the World Bank do in the Middle East and North Africa that generates action and solves problems? How should it change the way it works – internally and externally?

Dr. Salim urged the participants to speak frankly and feel free to openly criticize the Bank, because the objective is to get to the bottom of the issues and to finish this consultation with a clear set of recommendations for what the Bank needs to do to improve the situation in the Middle East and North Africa.

Opening Speech by the Minister of Energy and Mining of Morocco

After welcoming the participants and thanking the EIR, the Moroccan Minister of Energy and Mining expressed his belief that the event would give new impetus to sustainable development in the region and spotlight investment opportunities in energy and mining.

The Minister then described the key steps the government is taking to meet development objectives. These include strengthening institutional capacity, promoting access to water and energy resources, and integrating environmental issues in national planning. One of their greatest challenges is to help the most deprived social classes achieve economic growth and poverty reduction, within a framework of environmental protection and conservation.

The government has taken steps to establish a favorable climate for private investment, including optimizing market consolidation within the region. An example of this is the extensive system of oil and gas pipelines, and expansion of the regional electrical grid. In addition North African countries have implemented major reforms that are intended to increase competition and promote the flow of investments within the energy sector.

Morocco's energy strategy contains six major elements:

- security of procurement under all circumstances;
- energy at the best cost;
- making energy accessible to the whole population;
- protecting the environment, control, and technical security;
- developing energy observation and energy prospecting; and
- liberalizing markets and restructuring energy industries.

The government has made studies on upgrading the refining industry, procurement, and how to configure the electricity sector to service both industry and households. Oil exploration policy is focusing on promoting investments and developing sedimentary basins with international oil companies along the 3,500 km coastline. The country currently is expanding its gas pipeline to Europe, and in 2005 will start exploiting its natural gas resources for power generation.

Morocco has a long tradition of mining, and today the sector contributes 7% to the GDP and 19% to the value of exports. Mining also has an impact on regional development, particularly in terms of employment as well as economic and socio-educational infrastructure. At regional level the mining sector creates basic infrastructure - roads, drinking water systems, expansion of electricity and communication networks, mining towns and socio-educational centers.

It holds three quarters of the world's phosphate resources, and is the third largest global producer, as well as its leading exporter.

The country is implementing a new, more consistent minerals strategy that balances the roles of the private and public sectors, and gives new impetus to developing and promoting the sector. The new strategy focuses on the following:

- optimizing mining exploration through greater involvement of the private sector;
- adapting the legislative and regulatory framework to the new requirements of integrated development and globalization by providing incentives, easing administrative procedures, and improving the quality of government services
- transforming mining know-how into a source of growth through the exchange of experts and strategists; and
- improving industry profitability by providing incentives to spur research and development.

Other initiatives include ongoing drafting of the national geological map, public administrative and enterprise reform, and modernizing the mining code. The country continues to pursue more open markets and seeks opportunities for regional integration and complementary relationships.

Discussion

A Jordanian participant asked about revenue management in the mining sector, if there is a fund or a mechanism to collect and distribute some of the resource revenues directly to poverty alleviation, for small-scale economic projects, to improve health conditions, etc. Also, could part of the revenue be used for restoring ecosystems damaged by mining activities? The Minister replied that part of the revenues collected, does benefit the population, and that there are codes in effect since 1951 governing the rehabilitation of soils. They are currently updating the code, and each operator has to have an environmental impact assessment and an environmental management plan.

6. Case Studies

Over the course of the consultation a series of regional case studies was presented by different speakers.

Poverty Alleviation

Saudi Arabia government perspective

A representative from the Saudi government, Ministry of Petroleum and Mineral Resources, spoke about how to use oil revenues to reduce the poverty phenomenon in Saudi Arabia. The speaker described the Kingdom of Saudi Arabia as one of the largest of the Arab countries, having about 2.2 million square kilometers of land and 22 million inhabitants. Most of Saudi Arabia is desert, inappropriate for agriculture and with scarce water resources. Arable land is also very limited. The economy of the country largely depends on oil, which accounts for 75% of the annual budget and for 40% of the GDP.

Two factors underpin poverty in Saudi Arabia:

- People with low or no qualifications at all, migrate from desert and rural areas on a massive scale yearly; and
- After the annual pilgrimage is over, some people stay illegally in Mecca and Medina, resulting in poverty pockets.

In general, the Saudi government has managed this problem by utilizing its oil income to fund a five-year program to upgrade and enhance the level of basic infrastructure and social services in the country. Education is free up to and including university. Under this program 226,000 schools were built, and the number of students rose from 30,000 to 4 million. 8 universities were built, 83 faculties opened, and various other specialized health and business training institutes established.

Social services include free medical care and medicine. 298 hospitals were built having 41,000 beds, and 3,254 health centers were opened in various urban and rural parts of the Kingdom. A 36,000 mile road network was built, with highways linking different regions of the country. 25 airports were established. Electrical stations and generators were installed, and desalination stations were built in the west and in Djeddah. All these services and infrastructure contributed to a better quality of life for the people and for greater prosperity. The government also set up several funds for poverty alleviation. The social security fund is one of these funds. Plots of lands were developed and given to needy people, along with free loans for housing. A number of settlements were built to house poorer people. Overall, a substantial proportion of oil revenues was devoted to developing basic infrastructure, and for building hospitals, schools and housing, to enhance people's quality of life.

Discussion

One of the participants commented that it was difficult to understand the reality of poverty in the richest country in the region. A participant from Jordan asked if the presence of NGOs in Saudi Arabia would encourage the government to improve the situation in terms of poverty alleviation.

A civil society participant from Egypt commented that if the royal family applied the Islamic principle of 'zakat' and donated one tenth of its wealth to the poor, poverty would be eradicated not only in Saudi Arabia but also in all Arab countries. This speaker recommended setting up joint projects which would greatly help the countries of the region and promote cooperation, instead of relying on imports of services and goods from western companies.

Another participant commented that the immigration situation in Saudi Arabia is a result of poverty, and that unequal distribution of wealth is one of the essential causes of poverty. The speaker requested information on the proportion of the population below the poverty line and the Saudi definition of 'poverty line'.

A Jordanian participant asked if there are any development projects aiming specifically at alleviating poverty, and if there are any development projects linked to extractive industries

which teach people how to rely on themselves to generate revenue? What is the contribution of the oil industry in development projects, excluding infrastructure projects?

The Saudi representative responded that regarding ‘zakat’ contributions, some people apply the principle literally and others do not. There is no specific measurement of the poverty line in Saudi Arabia, although there are poor people. The five year plan gives priority to ‘development’ aspects, emphasizing skill development, basic education, etc. In addition, there are development funds for the provision of loans to various small-scale industries. Poor areas are developed, particularly in urban centers, through welfare assistance.

The participant from Papua New Guinea asked if there were plans to privatize the mining sector, so that the development of these resources can be faster and bring more economic benefits, especially to alleviate poverty. The response was that the government is proceeding with privatization and mining projects are included.

From Bahrain a participant asked if there was any specific information that shows the percentage of industries in the GDP, as well as the proportion of religious tourism (pilgrimage) in relation to the country’s GDP. (These figures were not available.)

Another participant raised the question of what the reasons are behind poverty, and then asked about what important mineral resources are being developed for extraction. The Saudi representative reiterated that non-returnee pilgrims and internal immigration were the prime causes for poverty. Regarding mineral exploitation, no specific information was provided, although there are some projects undergoing study and development for exploitation.

Governance

Algerian Technical Assistance Loan

Sonatrach overview

The spokesperson from SONATRACH provided an overview of this 40 year old integrated Algerian oil and gas company which has production, transport, petrochemistry and marketing operations. SONATRACH is a national company with an annual turnover of \$18 billion, which makes it an important component for Algeria’s economic development. It occupies a strategic geographical position close to African and European markets.

SONATRACH's objectives are to provide raw materials for the country’s energy and industrial requirements, to develop local technological capabilities, and to contribute to the development of other related industries. The company brings in 90% of the country’s foreign exchange and provides raw materials for domestic needs. During the period 2003-2007, it plans to make investments in Algeria amounting to 23 billion dollars. As part of its contribution to national development, SONATRACH is involved in financing public infrastructure, such as an airport, a power station, etc.

Human resources at SONATRACH are highly qualified: the group has approximately 120,000 employees; 50,000 work directly for SONATRACH. It also has training centers and its own institute. It has substantial financial resources, expertise and recognized know-how for developing gas reservoirs, liquefaction, intercontinental transport structures, and upgrading its products. SONATRACH operates 86 fields through a large industrial infrastructure and has a 13,000 km transport network. It also has a portfolio of subsidiaries and shareholdings covering engineering, construction and oil and gas services.

Partnerships

SONATRACH has embarked on a policy of partnership with international oil and gas companies to respond to the changes affecting the world's hydrocarbon industry - the more difficult competition between the principal oil provinces; the need for more advanced and expensive technologies; the need to share financial and technical risks; and the significant capital needed to develop the upstream oil sector in Algeria. After implementing a law that defines the role of foreign oil companies in Algeria, over 60 production-sharing contracts have been signed between SONATRACH and 26 first-rank foreign partners. Since this move, Algeria has increased the number of strikes and has rebuilt its oil reserves. Over the last decade, the partnership extracted over \$3 billion worth of reserves and made 56 strikes, including some giant deposits. This development trend will continue over the next five years (2002-2007).

SONATRACH also has launched a policy of international development to obtain further reserves abroad and to diversify sources of supply and marketing, while getting closer to large world markets. The 40 years experience and 15 years in partnerships will enable it to work on joint international projects. SONATRACH's goal is to rise in the ranks of international oil and gas companies.

Social services

SONATRACH aims to provide all of its employees and their families with medical protection, to improve their living conditions, and to get them involved in cultural and sporting activities. As well, there is an educational program for children. To implement this program, SONATRACH's social work division manages a multitude of medical centers in the north and the south of the country, in each industrial center. The centers perform consultations and provide other healthcare services. They also run 32 nursery schools for 2500 children. Following the May 21, 2003 earthquake, the company and its subsidiaries organized heavy equipment and personnel to rescue victims and help survivors. Tens of thousands of meals were distributed, and tents made available to the disaster victims.

Environmental protection

As part of the national energy policy, SONATRACH set up a program for recovering and upgrading associated gases, prior to the 1992 Rio Conference. The ratio of flared gas to associated gas has been lowered from 62% in 1980 to 12% in 2001. Any new facility has to install anti-pollution systems to minimize atmospheric emissions. Processing, mud pit,

drilling, and well abandonment procedures have also been put in place. The SONATRACH group also contributes to developing less polluting fuels, such as LPG, natural gas, and unleaded petrol. At central level there is a health, safety and environmental unit that covers all the company's operational activities.

WBG technical assistance project

A representative from the WBG's regional office described the Technical Assistance project, which is aimed at supporting implementation of a new government policy in the energy and mining sectors. The Bank provided an energy and mining assistance loan of \$80 million, which was approved in 2001.

The Bank supports the objectives of the government's reform program in energy and mining, which are to: improve efficiency in the energy and mining sectors; secure adequate supplies; introduce competition; increase government revenues by developing the resources; address environmental concerns; promote efficient use of public resources; and protect public interests, alleviating the financial burden of energy and mining enterprises on public finance.

The Bank has agreed with the government on the principles that would apply in putting the policies into place, most of which has to do with good governance. Governance in this context means putting in place a legal and regulatory framework that promotes transparency, public accountability, and governance in the wider sense. The separation of the policy, regulatory and commercial functions is essential. At the moment, SONATRACH combines a number of these functions, and the distinction between what is government and what is SONATRACH is not always clear.

Another component is assisting the company to restructure and commercialize public enterprises. That's much more the case in the mining and electricity sectors. Once there are new laws and appropriate regulatory agencies, the technical assistance loan provides assistance for capacity building. In the upstream sector, private sector participation is already taking place.

The government approved a new mining law in 2001, and an electricity law in 2002. A new hydrocarbon law has been drafted and made public on the website of the ministry; but at the moment, there does not appear to be a political consensus to get it passed, and it likely will be presented to parliament only after the 2004 elections. The Ministry has conducted a very public process, with many consultations amongst various stakeholders throughout the country. The regulatory agencies for electricity distribution and mining are being established, and the restructuring of the electricity and gas distribution utility, SONAGAZ, as well as the mining companies, is in progress.

The first independent power project, combined with some desalination projects, has just started construction. The government also recently adopted a national environmental action plan, and new environmental legislation is being prepared.

On the hydrocarbon side, the government is waiting for approval of the new law, but a lot of the technical preparation for new secondary legislation has already been completed. Conceptual design studies are in place for the new agencies: a contract management agency which will govern the whole process of attracting investments, especially on the upstream side; and a regulatory agency which will regulate a number of downstream activities. Further studies are well advanced on opening up the downstream sector of the hydrocarbon sector, including refining, transport, storage, and retail distribution of products.

Mining sector

A second speaker for the WBG explained that the main goal of the mining component of the technical assistance loan is to generate employment in remote rural areas by developing the sector. The sector will be opened up to national and foreign private investment, which the government believes will speed up the process of sector development. The public sector would mostly work on regulations, definition of regulations and implementation of these regulations, while production responsibilities and operations would be given more and more to the private sector.

The first task was to establish an appropriate legal and regulatory framework, and to define responsibilities clearly. Now, the main thrust is to develop and strengthen the government's capacity to implement all the regulations and to monitor the sector. Transparent procedures will be established for some of the most important aspects of mining; one cornerstone is how to administer mining rights. A mining cadastre is being developed that is simple, transparent, and efficient. Another cornerstone is environmental licensing, which will be determined by an environmental impact assessment. It will stipulate guidelines on appropriate production methods, procedures for permitting and evaluation, etc. The government's information sharing function is being worked on, and the project is supporting restructuring the state-owned mining companies.

Results so far

The mining code was approved by the National Assembly and passed by the government in July 2001. All the regulations have been prepared, developed and about 95% of them approved by the various government bodies. The institutional framework is in place. The Ministry of Energy and Mining has been divided into a general mining directorate, which is still in charge of designing policies and the regulatory framework, and two new autonomous agencies for sector management. Sufficient human and financial resources have been mobilized for the new agencies. One agency looks after mining rights, and the second one is responsible for monitoring sector performance: environmental monitoring, a mining inspectorate for health and safety, etc. A separate agency has been brought under the national umbrella - the Agence Nationale de la Géologie et du Contrôle Minier. A data base compilation and information sharing mechanism will be developed over the next two years.

The new procedures have established approximately 300 new mining titles - about 130 are new titles with new operators, and 170 are prospects that have been auctioned. They all are now in production. Most of the response has come from many small- and medium-scale

national enterprises, which are expected to have a strong effect on generating employment in the rural areas.

Investment promotion has resulted in foreign partners committing in the areas of iron, phosphate, and gold.

Discussion

A question was posed about the impact of sector reform on SONATRACH, to which the reply was that the State would take over the public power functions the company used to provide.

The Bank spokesperson mentioned that reform of the mining sector is relatively straightforward because it is a small sector and not politically interesting, whereas the hydrocarbon sector is politically more complex, so it will take some time before reforms will penetrate the oil sector.

An EIR researcher asked the two WB presenters to clarify what they meant by ‘a new law’. What exactly are the elements of those laws regarding size of projects, incentives, royalties and tax structures, contract models, etc?

From Jordan a participant asked for more details on the targets and achievements regarding governance, poverty alleviation, the economy, international debt. How was the public affected?

The Bank person responded that the focus is policy reform, so the targets are broadly defined. In the hydrocarbon sector, for example, a ‘framework’ law has been drafted, and the details will be spelled out in secondary legislation which in part depends on how the parliament is going to pass the law. So it’s really a process that has been put in motion: starting with a lot of technical preparation for the legal text; followed by discussion within the government and with various other stakeholders; and now it has gone to parliament where it will be debated.

The EIR researcher rephrased the question, asking what was the advice from the World Bank to the government? The Bank representative replied that their general advice is to separate the three functions of policy, regulation and business. The contract management function will be a public bidding process, so it will be more clear how it is governed. The regulatory agency will lift out these functions from SONATRACH – currently they are partly policy maker, partly regulator, and partly commercial operator. The same principles apply to the electricity and mining sectors, where similar processes are underway. It will take a few years to make them operational and functional.

A participant from Egypt asked about the impact in Algeria of the violence on development and growth, the relationship between violence and corruption, and how these elements affect the projects under discussion. An Algerian academic responded by stating that the three problems are not related: the reasons for the violence are complex, perhaps one reason is the slow pace of development; the corruption in Algeria is the same problem as everywhere else; and the pace of reform is slow, but so it is in most countries.

A Moroccan participant raised the question about what is new about or what is the problem with the hydrocarbon law?

From Jordan came a question about the commitment of the WBG to correct past mistakes in the mining industry, especially as new mining is likely to cause more environmental damage.

A Palestinian participant asked why Algeria needs loans from the WBG for the mining and oil and gas industries; why can't SONATRACH provide the financial resources, given its size and positive performance? This is not a very good indicator.

A WBG representative replied that the lengthy and divided discussion on the hydrocarbon law is a healthy indicator of an open and transparent process. No one knows what the outcome will be. The loan is not to SONATRACH, it's to the government of Algeria. The Bank representative was unable to comment on past environmental damage, but the loan, which is forward looking, does include a proper environmental framework and will improve environmental legislation, so that in the future, environmental problems can be avoided.

The other Bank regional representative commented that the environmental component was a process that had to be developed. Within the framework of this project, the law for the mining sector includes articles on how to prepare an environmental impact assessment, how to present it, what are the norms and standards, etc. mostly for the future. The government will be able to assess environmental impact, in cooperation with other ministries such as the Ministry of the Environment, and will have the regulatory framework. What is most important is to develop awareness about the importance of the environment; it's more than laws and regulations, as it must be a daily preoccupation of everybody in the country. Also, in each of the components - mining and hydrocarbons - there is a sector environmental evaluation, which will provide a detailed inventory of past impacts.

A Jordanian speaker suggested that all current extractive projects should include an environmental impact assessment to avoid creating future problems. Another Jordanian asked if the new law will open the market to competition in down-stream refining and distribution or will there be concessions for a limited number of operations? The Bank representative replied that the government's objective is to have a competitive, market-based system. The current legislation requires environmental impact assessment before new investments are approved. The legal framework and the capacity to monitor are being strengthened; the loan will provide for capacity-building - eg, training programs for staff in the new agencies.

The other World Bank spokesperson pointed out that the current technical assistance project is incorrectly classified as 'C', which means there's no environmental impact. It should have a 'B' rating, which requires an environmental impact assessment before it gets Bank board approval. It's necessary to demonstrate ability to control the effects induced by the project - eg, a development within the mining sector will be dealt with how? Are the laws and regulations ok? Do the agencies have the capacity to monitor? etc. This has since been corrected; the government, with Bank support, is carrying out a sector environmental assessment which includes analysis of potential induced impacts from the project.

A participant questioned the ability of outsiders to assess the environmental impact on local biodiversity and the social life of people and communities. The Bank regional representative clarified that projects are initially classified by a non-governmental quality assurance group. The Bank then evaluates this and gives a classification. Afterwards, the environmental assessment process takes place, which involves a detailed and careful consultation with all stakeholders. During this process, if there appears to be potentially serious impact on the ecosystems or social impact, the project might be upgraded to category 'A'. Bank thinking on these issues has been evolving, and today much more up-front environmental assessment is regularly required.

Environmental Issues

Mining and the environment

Mohamed Ali Abrougui, President of the Association Tunisienne pour la Protection de la Nature et de l'Environnement, spoke about mining extraction and the environment. He suggested that a new approach was needed to solve the conflict between mining extraction and environmental activities, an approach that would bring all the key stakeholders together - the ecologists, NGOs, civil society, people working with the environment, those directly involved in mining extraction, and those institutions that finance such activities.

There also has to be a platform for the communities that are either beneficiaries or victims of this activity. NGOs and governments in the MENA region have to work out a dialogue and a real consultation process with all the key stakeholders. It's essential to find a balance between, on the one hand the environment, the ecosystem, and the communities that benefit or who are victims, and on the other hand the mining industry, which plays such an extremely important role in the economy. The approach, therefore, is not to condemn this industry, but to try and find solutions enabling it to play an active role in terms of sustainable development.

This could be an excellent task for the World Bank to undertake with its partners and its clients to safeguard and ensure a sustainable environment, the longevity of the ecosystem, and the interests of communities, with the purpose of combating poverty and introducing sustainable industrial development.

This partnership could provide an example of good practice, putting to an end conflicting relations between mining activity and those who wish to protect the environment and ensure sustainable development. It's really about identifying and managing risks, strengthening relationships, and creating added-value in the long-term within the industry, within a framework of sustainable development.

Yesterday, governments, operating companies, the World Bank, and NGOs were all unanimous in saying that the environment needs to be taken into consideration, so these opportunities should be followed to reinforce protection and to promote the sector, by developing and promoting good scientific practices which would integrate effectively conservation approaches with mining activity.

The World Bank could become a positive force in environmental protection and serve as an example to similar institutions, such as the African Development Bank or the European Investment Bank. There currently is an initiative on environmental protection underway between several NGOs like IUCN and Flora and Fauna International, and some of the oil companies like Shell and BP. The World Bank should support this initiative and foster a similar multi-stakeholder approach in the mining sector, ensuring due respect to communities. It is likely that there would be widespread interest and support for this effort.

Yesterday, it was pointed out that there were conflicts in the process of the mining project in south Tunisia. This demonstrated that there were many risks in undertaking this project. The Moroccan Minister talked about their approach of integrating mining activity into the overall process of national development. It was a good example of the importance of detailed and holistic planning, in which the design and management of a sectoral activity like mining is integrated into a regional planning process. The Moroccan example should be followed in other countries, and along with other good examples, could be used by the World Bank to resolve the conflict between the environmental protection lobby and those that want to pursue mining and other economic activities.

Extractive industries and community development

Ms Layla Baghi, President of the Association Tunisienne Femme et Environnement, spoke about the relationship between extractive industries and community development. Extractive industry projects impact communities adversely in a variety of ways: on health – respiratory system, skin disease; loss of biodiversity; pollution of air and water; soil degradation – causing population movement; and loss of traditional skills, capabilities and know-how. Therefore mining can have a negative impact on local communities, and contribute to exacerbating poverty. Women particularly can be strongly affected, as they are responsible for providing for their families. Their access to water and fuel is already limited, basic infrastructure is lacking, the birth rate is high, and literacy levels are low. The population as a whole has a strong attachment to its traditions and way of life, which can easily become disrupted by an extractive project.

Yesterday, there was an attempt to identify a set of proposals that would enable the industry to create projects that would fit well into an overall plan for sustainable development. It was proposed that the community should become involved at management level, in the evaluation of projects, and in preventing health problems. Before the WB agrees to this project, the measures should be clear for mitigating the negative impacts on the local community and workers. Health and medical facilities should be provided, preventative measures should be in place to avoid disease or damage caused by industrial activities, and equipment used in industrial processes should be inspected and certified.

If populations must be resettled, then they must be provided proper housing and basic infrastructure. Benefits must be clearly evident, and this will require transparency at management level, good governance, and guarantees that commitments will be implemented. In this way extractive industries can contribute towards the alleviation of poverty.

For all of these initiatives to succeed, it will take a great deal of time and investment. A fundamental question for the Bank is why attempt to reduce poverty through extractive industries when it would be easier and more effective to intervene directly in other poverty alleviation activities, which fall within the priorities of economic and social programs, such as increasing the capabilities of poor people, education, the development of renewable energy, or energy efficiency. When there are lots of large companies already interested in investing in these industries – the involvement of international institutions and Bank financing are not needed.

Therefore, if there are other alternatives that are much simpler and more direct in combating poverty, such as investing directly in education, infrastructure, and access to water, why does the Bank not support these instead, especially as they are very important priorities in economic and social programs in the region. It would be very useful to develop photovoltaics to give the rural population access to electricity, solar energy for heating water, biogas for small farmers to utilize waste to create energy, and wind power for pumping or for generating electricity. It is also very important to improve energy efficiency, as this will help make industry more competitive and thereby improve the economy, as well as aid in environmental protection.

Therefore, the World Bank should intervene to support the additional costs that are needed to develop clean technologies, such as wind power or solar energy. The Bank should help countries introduce a legal framework that favors private investment for developing renewable energy and energy efficiency. The Bank can also help countries take advantage of the Kyoto Protocol ‘Clean Development Mechanism’ to benefit economic and social development, and to contribute to reducing greenhouse gases.

Discussion

A spokesperson from the Moroccan Mining Industry Federation felt that the picture painted was very dark and somber, and that the speaker wants to close down all mines. Mining operations can have a negative impact if the operator doesn't take the necessary precautions. However, it is not true that mining towns have no access to basic infrastructure. This is quite a contrast to what the Minister for Energy and Mines described specifically of the situation in Morocco. Mining towns do have basic facilities that provide the population, not just those involved in mining but also the surrounding population, with water, energy, hospitals, doctors, and nurses.

The participant from Papua New Guinea asked the Tunisian delegate about their experience with environmental issues after privatization, and if there was more interest from international business people after privatization. The response from the delegate was that Tunisia has not yet privatized all its industries related to mining extraction. It has just started privatizing certain sectors, such as cement plants. This move is likely to bring many problems for the environment, because the multinationals that bought the cement plants now want to replace the use of gas with coal. There's no privatization in the rest of the sector; the Tunisian Government still runs everything, except for unprofitable, abandoned mines. These have been

left to local communities to work for their own benefit, in accordance with criteria from the Ministry for Energy.

A representative from the Saudi Ministry of Petroleum commented on the proposal for energy substitutes such as wind and solar energy, which he contended were in the early stage of introduction and therefore required a lot of investment and huge efforts before they could satisfy the needs of energy consumption. He also wondered about the degree of risk to the environment when using other energy sources, such as nuclear power. The Tunisian speaker felt fortunate that there was no nuclear power in Morocco, Algeria, or Tunisia. No single country would be able to support either the installation or operation of this type of industry on its own. Wind power would be a better option for the three 'Maghreb' countries of North Africa. Furthermore, the presentation regarding mining did not condemn it, but did point out the negative impacts which really do exist. The Moroccan example should be followed because it associates mining within the broader notion of environmental management, and with regional planning and control. Everything should correspond to the needs of each country. For example in Tunisia, mining resources are not sufficiently developed, therefore the World Bank should look into the alternative energy sector, such as wind power, renewable energies, solar energies, and so on. That would also be same for Morocco.

A representative from a multinational company asked the Tunisian speaker about the fuel used in the cement plants before privatization. Previously, they used gas in the cement industry, so the problem is not with industry, it is with the new owners who want to import coal. This is a consequence of globalization.

A representative from the Ministry for Infrastructure and Housing, in the department that runs the quarries, commented that there are always negative effects from quarries. It's impossible to eliminate all of the impacts, but there are regulations to minimize environmental impacts. Both the authorities and the operator try to collaborate together in order to respect the environment.

A speaker from the Saudi Ministry of Petroleum and Mines noted that there is a tendency to blame the World Bank and not assume any responsibility for projects within a given country. Governments through their 5 year plans are responsible for designing and launching projects. The World Bank should come in later and provide assistance when requested. The Bank should also be involved in assessing the project after it is running.

The presenter from Tunisia added that everything in the presentation was part of the government's own strategy, ie, the development of energy efficiency and of renewable energies. The strategy has been defined by the government already, so why can't the World Bank help achieve these goals.

The World Bank regional representative clarified that renewable energy is one of the pillars of the Bank's strategy, and that they are involved with a number of countries through the Global Environment Fund (GEF) to support the development of renewables. In Morocco only, the Bank is collaborating in 3 projects involving renewable energy and energy efficiency. The signing ceremony of an energy efficiency project in the industrial zone of Sidi Bernoussi

takes place tomorrow morning in Casablanca. Another project in Tangier will be supported by the Prototype Common Fund. The third project is a solar thermal plant. There are a plenty of mechanisms like the GEF which can provide subsidies to offset the cost of renewable energy while the technologies are reaching maturity.

An individual from Palestine raised the problem of cross-border pollution and the impacts on human health and the environment. A Jordanian participant asked the Bank to provide the percent invested in renewables vs non-renewable energy extraction. He also wondered if there is a plan to move the source of funds allocated for renewable energy projects from the GEF to IFC or IBRD. The Bank spokesperson did not have the number available, but did mention the very limited investments in the extractive sectors. It is likely that the renewable energy portfolio will increase.

Public vs Private Sector Led Development

Aramco, Saudi Arabia

The representative of Saudi Aramco provided a detailed picture of the Saudi Arabian national oil company. He started off with a historical review of the growth rate in oil consumption from 1974 (8%) to today (1.5%). Today's rate is expected to continue over the next 20 years, and OPEC is expected to supply 70%. Saudi Arabia will provide 1/3 of this, with 95% from Saudi Aramco. The company is completely nationalized, there are no foreign partners. The company employs 55,000 people; only 5,000 are expatriates.

The transportation sector is also expected to take the lion's share of future growth; this sector supports continued growth in oil consumption, as there are no alternatives to oil currently on the horizon. Globally, Saudi Arabia has the lowest costs per barrel for production, mainly because of the enormous reserves – ¼ of the world's oil and the largest gas reserves - and the high production level. Saudi Aramco refines approximately 20% to 25% of its production, mostly for domestic consumption. Exploration, development and production costs are also very low.

The company is a fully integrated international petroleum company, handling all aspects of oil and gas industry, from exploration to producing, processing, transporting, storage, refining, distribution mainly within the Kingdom, shipping overseas, and marketing.

The company started in 1933, with international partners, and in 1980, the Saudi Government took 100% control. It provides 10% of the oil consumed in the world today, producing 10 million barrels a day. They also have the largest and the most modern crude and product shipping fleet in the world, with more than 70 owned and chartered supertankers. They ship 1/3 of the daily production that's exported - about 2 million barrels per day.

Exploration data is analyzed at the Exploration and Petroleum Engineering Center, or EXPEC, one of the largest and most sophisticated centers of its kind in the world, providing super computer capabilities and advanced technologies. To maintain their high production levels, they operate a vast network of facilities, both offshore and onshore buildings and

pipelines. The company's main onshore oil processing facilities have a capacity of more than 7 million barrels a day, very close to the average total daily production of the United States. They also have about 70 million barrels of storage tank capacity at the major terminals.

During the 70s, the government developed the Master Gas System, which completely eliminated gas flaring in Saudi Arabia, and was the beginning of the petrochemical industry in Saudi Arabia. This all occurred after the nationalizing the oil company. They currently process about 6 billion cubic feet per day of gas, mainly for power generation purposes in Saudi Arabia.

For marketing crude the company has offices all over the world - in New York, Houston, London, The Netherlands, Tokyo, and Singapore. The 3 major markets are Europe, the US, and the Far East. They also have several downstream international joint ventures.

For environmental protection, they have a network of air and water quality monitoring stations, and work with Saudi universities and other institutes on research programs, such as the environmental sensitivity mapping of delicate coastal areas. They also conduct environmental education and outreach efforts for the general public.

On the social side the company has a school building program: they've built 130 schools serving about 80,000 children. There's also a mobile library which travels throughout the Kingdom, introducing children to reading. They support a home ownership program - a home-loan program for Saudi Arabians who work for the company in the Eastern Province - that has helped to construct about 50,000 homes.

Saudi Aramco has played a major role in the country's industrialization process, supporting indigenous industries and helping them gain technology and understanding of markets. It still continues to play that role.

Employees receive health, social, recreational, and educational services, in addition to their training. Human resources development focuses mainly on developing Saudi employees, with on-the-job, vocational, instructional, computer classes, and special engineering courses. Some students are sent to advanced degree programs. On average about 1000 employees attend company training every day.

The Aramco representative completed his presentation by describing some things about the current economic outlook and future challenges for the Saudi economy.

Discussion

The first question asked was if this model should be followed by other countries. The presenter replied that the important thing is the balance between the state and private enterprise. Saudi Aramco was fortunate because previously it was a private oil company, and that legacy is very beneficial for a state enterprise.

A question was put about the fact that the competitiveness of their industrial products is based mainly on subsidies from their natural gas activities. In negotiating their entry into the WTO how are they going to solve the problem of subsidies for petrochemicals? Aramco's understanding about the subsidy issue is that as long as both the domestic and the foreign investor are treated the same, the WTO allows the government to price its natural gas as it likes. No one will force the country to increase the price, as long as there's no differentiation between foreign and domestic manufacturers.

The next questions were: what is the contribution of the mining sector to the national income; and does Saudi Aramco think that it will go out of Saudi Arabia in the future? The company did some studies on foreign activities, but it is now preoccupied with its domestic ventures, exploration, and production; it's a big job, especially with the increase in production that is forecast. The value of foreign direct investment in mining was about 40 million dollars. It is not significant yet, but there are big projects coming on-stream, including a phosphate plant in the north of the country.

A Jordanian participant wondered why other non-oil sources didn't increase or didn't contribute much to growth, when oil prices impacted government revenues. Also how to evaluate the contribution of Aramco to poverty alleviation in the whole Kingdom, not just the local area? What percent of revenues goes to environmental activities that are not related to company activities? The first reply was that the environmental unit does projects for the government, such as investigating pollution or other issues not related to oil. Secondly, as an operational company, they do not get directly involved in contributing to poverty or doing studies about poverty in the other parts of the Kingdom. The government, however, does contribute to local charities in their area - approximately 70 million Saudi Riyals per year. Thirdly, regarding the non-oil sectors, the main industry is petrochemicals, which is directly related to oil prices, so petrochemical prices decline severely when oil prices decline. So that's the problem.

The next question was: What does ARAMCO see as the potential value for bringing in private sector partners to invest in large infrastructure projects? Apparently the company was not questioned about this; it was a decision made by the government in order to increase employment in other parts of the Kingdom. Attracting foreign direct investment is another consideration. The Kingdom doesn't want to keep spending on Saudi Aramco, so by giving these contracts out to foreign companies they can reduce their overall capital spending. The competitive environment will be healthier for the company and it will help improve overall efficiency.

A participant from Jordan asked about how production policy is related to prices. There is a certain nominal price, optimal price, or fair price for crude oil. What is your opinion about this fair, optimal price and how do you control your production around that? The reply was that it's a very complicated issue, because it involves the Kingdom's income needs and budgetary requirements for growth and spending, as well as the needs of other OPEC members, because it isn't decided alone. It's a very complex arrangement within OPEC to achieve the final price and volume. Governments have to look at the next twenty years, and not just react to short-term changes.

The presenter from Tunisia hoped that the company would invest even more in the future in environmental protection and poverty alleviation. It should also work on alternative forms of energy like Shell and BP, who are very actively investing in the non-oil energy sector. What does the company plan to do when the US gets its hands on Iraqi oil; what will your role in OPEC be? The reply was that they don't forecast that Iraq will increase its production beyond its previous levels of 2.5 million barrels a day, for at least the next two to four years, before it's able to attract significant foreign direct investment to go beyond that. OPEC can handle Iraqi oil up to three, three and a half million barrels a day. Beyond that there will be problems. If the country is forced to lower production, it might try to increase prices in order to maintain the same level of income. So, that is the danger for the world's oil consumers. Regarding alternative energies, Saudi Aramco is in a very good position to develop alternative energy resources, especially solar energy. However, at this time, the company is very involved in developing gas-powered electricity generation in the country. Also, oil production is ramping up quickly, with billions invested in new production facilities. So both budgets and expertise are tied up with these initiatives.

A participant from Egypt expressed pride over the accomplishments of Aramco, but was unable to distinguish between the company and the state, and wondered to which extent did Saudi Arabia contribute to developing economic and commercial relations with its Arab neighbours. Its neighbours have plenty of problems that may have an impact on Saudi Arabia, inasmuch that Saudi Arabia relies on a considerable labor force from those countries. Also there seemed to be an absence of women in the presentation – this needs to be remedied. The response was that Saudi Aramco is the leading employer of women in the Kingdom, mainly as teachers. The company employs women at all levels in the medical, nursing, secretarial, and engineering fields, it's really a trend setter. Regarding the other question, Saudi Aramco is an operational company, and the government has maintained a hands-off policy towards the company, allowing it to maintain and run its business in a very independent manner. There are no government officials, friends, or nephews of anybody working in the company. It maintains a very professional environment, and that's part of the ability of the company to continue to be so successful. Regarding the question about helping other countries, as part of OPEC Saudi Arabia contributes significantly to the OPEC Fund, and it is part of OAPEC, which also has a Fund. These funds are helping some of the poorer countries. Although the country tends to treat labour from around the world the same, there are preferences towards labour coming from neighbouring countries like Egypt. There are no specific development projects with other countries because the mechanism for implementing development projects does not exist within the Arab League.

A Jordanian asked if some of the national oil companies in the region which are facing problems, could benefit from the expertise of the company. In reply the Aramco spokesperson declared that the lack of cooperation is reflective of the overall level of cooperation in the region. It would be helpful if it could be improved, but unfortunately it sometimes is tied to political issues.

Structural Adjustment

Heike Meinhardt-Gibbs, Senior Program Officer from the Macroeconomics Program Office of WWF-US presented the results of her commissioned research on the interaction between structural adjustment programs and extractive industries. The presentation was titled “Sustainable Development Impacts of Policy and Institutional Reforms”. The common mission of the World Bank is sustainable economic development and poverty reduction. Sustainable economic development includes three elements: economic sustainability, social sustainability, and environmental sustainability. And in order to produce sustainable development outcomes, the policy and institutional frameworks within which the extractive industries are developed also must contain those three principles: the economic, the social, and the environment. The Bank’s development policy lending programmes are often in the form of structural or sectoral adjustments, and also technical assistance and advisory services. Those are the main three lending mechanisms that were looked into.

The research is focused on three main objectives:

- Determining the sustainable development consequences: Are the World Bank structural adjustment prescriptions and related effects in the extractive industries having positive or negative impacts on poverty, national local economies, and the environment? In other words, are there sustainable development consequences?
- Identifying the determining factors: What factors will well-intended policy and institutional reforms have unintended negative economic, social, and environmental consequences?
- Improving World Bank development outcomes: What is the best future function for the World Bank Group in relation to structural adjustments and the extractive industries in promoting more environmentally and socially beneficial development?

The research is based on three country-case studies: Peru, Tanzania and Indonesia. Although there wasn’t one from this region, the Peru case links quite well with the Algerian project on energy and mining technical assistance. The Algeria project implementation is in the early stages, but the Peru case is quite far along.

The IMF is included because stabilization loans often have conditionalities for a longer term structural adjustment program that is often overseen by both the IFM and the World Bank. Secondly, the IMS does not receive nearly as much scrutiny as the World Bank, and does not have the environmental and social safeguards that the Bank does. And thirdly, the World Bank typically requires a country to have a sound macro-economic program; usually an IMF program is a prerequisite for a bank loan.

There are three main conclusions from the research:

1. Despite well intended efforts by the Bank to improve the social and environmental performance of the extractive industries, expansion of these sectors driven and shaped by structural reforms has:
 - i increased environmental degradation

- ii not reduced poverty
- iii produced harmful macro-economic imbalances and capital flows

Thus structural reforms linked to expansion of the extractive industries have not contributed to sustainable development.

2. Market policy and institutional failures are responsible for market distortions, corruption, and negative social and environmental impacts.
3. In some cases, structural adjustments have corrected some of these failures, however, in other cases significant failures persist, and even new ones are created by the reforms themselves.

Thus, when development of the extractive industry sectors moves forward, prior to addressing some of these important failures, it leads to poor development outcomes. Unfortunately, it is under these important market, policy, and institutional failures that, in some cases, a majority of a country's core mineral and hydrocarbon assets have been sold; often this is coupled with weakened environmental and social standards. And in many cases, it has been contractually locked in for ten or twenty years.

The last general conclusion is that the IMF and World Bank policy lending programs are significantly concentrated on providing opportunities for private business, mainly foreign investors, and they give little attention to strengthening the rights of the poor and improving environmental management. Improving the economy of the poor, and the security of the poor, as well as sustainable natural resource management, are three priorities commonly found in the Poverty Reduction Strategy Papers.

The case study on Peru starts from 1991, when Peru was considered to be in an economic crisis. The IMF and the World Bank stepped in to try to assist Peru, and remained involved throughout the 1990s. In the early 90s, two thirds of the World Bank's lending to Peru was structural adjustment lending, through a structural loan, institutional reforms, privatization specific to the extractive industries, and technical assistance for energy and mining.

Up until 1998, the World Bank took the lead on a lot of structural adjustment, especially privatization, but after 1998 the Bank stepped back and was only involved in social programs. At that point the IMF took over from where the Bank left off.

Structural reforms

Under structural reforms the state-owned enterprises were dismantled and privatized; the state-owned petroleum enterprise was downsized. The role of the state was changed, taking them out of business and making them a regulatory agent. Under the liberalization of investment there were no restrictions on remittance of profits or royalties; no performance requirements; and no authorization of prior registry. Labour contracts were liberalized: firing costs were sharply diminished, temporary labor contracts were introduced, and restrictions on hiring foreign technical and managerial personnel was waived. Under trade liberalization

tariffs were unified at 12%, and extractive businesses were exempted the 18% value added tax.

Extractive industry sector reforms

Policy and institutional reforms in both the hydrocarbon and mining sectors were aimed at improving the investment climate, specifically to complement the structural adjustment programme processes. To begin with, there was a new contract arrangement in the hydrocarbon sector, which gave longer contract terms - it went from 7 years to 30 years for oil and 40 years for gas. The contract area had no specific maximum size, and contract procedures were shortened and simplified so that it takes only one month now for a new company to get registered, which gives little time for community conflicts and environmental concerns.

The mining contract contained a 'stabilization agreement', which guaranteed current taxes, labour, environmental, and other regulations for ten years. When investments in the sector dropped in 1998-2000, the term was boosted with a guaranteed 80% tax free status for 15 years. Under the new hydrocarbon law environmental impact assessment was brought under the Ministry of Energy and Mines, the same Ministry that is responsible for attracting investments into the sector. It was not allowed to be under the main environmental agency, and later was shifted to the Ministry of Finance. Environmental penalties were reduced or repealed. All of these things are supported by the Bank in their mining strategy for Latin America.

The public mining registry established mining rights and reduced the number of unresolved mining claims. A team of lawyers and engineers worked on reducing the backlog, and a computerized system was installed to expedite new requests. Royalties for hydrocarbons were reduced from a scale of 15-35% to 5-20%; mining royalties and production taxes were completely eliminated. The Amazon Tax Exemption exempted or reduced income and sales tax on natural gas and petroleum taxes in the region

Market failures

Market failures corrected by structural adjustments included reduced political interference in price setting, and dismantling the state monopoly. What persisted was: the lack of access of Peruvian companies to long-term finance; the lack of market and land access for small-scale miners; export diversification is constrained by developed countries subsidies and non-tariff barriers, they would like to diversify into the garment and textiles industry; and the consolidated global gold market supply chain, which is dominated by the major companies like Newmont and Anglo Gold.

The newly created market barriers were: large foreign corporate price interference in the hydrocarbon sector; a lack of competition in the natural gas privatization process, the natural gas supply chain is somewhat monopolized; and the majority of the natural gas and petroleum production now is controlled by the same company.

Policy failures

Policy was corrected to establish some environmental admission levels. Some policy failures persisted such as the overlapping property claims between mining, oil, and gas, and indigenous communities and protected areas; and the lack of property rights for the poor. Environmental regulations are inadequate – there are no regulations for transportation, only for distribution. New policy failures were created, including preferential tax treatments for extractive industries, and permission to enter into environmentally and socially sensitive areas. Environmentally-friendly technologies, like water treatment equipment, get no tax incentives. Environmental and social costs are not internalized, there is no mandatory environmental and social protection in the new contract model, and labour laws were weakened.

Institutional failures

There were negligible improvements in institutional development. The overall weak institutional capacity persisted, especially in the agencies responsible for environment, social affairs and competition. In one of its follow up missions, the Bank listed a lot of things that needed to be done, but the government didn't want to borrow for that. This is very typical and happens very often in other countries. Lack of transparency and accountability on the distribution of extractive revenues continued to persist as well.

There were a number of newly-created institutional failures, starting with the consolidation of authority over extractive industry investment and environmental and social requirements within the ministry that is responsible for investment. The environmental management plans have too few requirements, and the roles and responsibilities of senior actors in the sector are unclear.

Effects

Ownership in the sector has become significantly concentrated, as large foreign enterprises now own the strategically important Peruvian mineral and hydrocarbon assets. This is a complete shift from previous Peruvian-based ownership. The concentration of foreign investment and ownership has created new, powerful extractive industries, foreign-based economic agents that a weak state has trouble controlling. This has very important social and economic implications for Peru, with much of the wealth generated not staying in the country.

Production and investment in mining have increased significantly, whereas petroleum production has not increased, but exploration and investment have. Natural gas production and investment has also increased significantly. Extractive industries are capital intensive so the ratio of employment to investment is low – eg, mining accounts for 50% of total export value, but less than 1% of employment. There has been an overall decrease in employment in the petroleum industry, and in mining, payrolled employment has decreased 27%, but contractors have increased 320%, mainly short term construction jobs. Unemployment levels have only slightly decreased compared with 1991.

The reforms tend to favor large-scale operations, other than the labour intensive small-scale mining which employ 45,000 people, including dependent families. Through the reforms, small-scale miners in one region were able to get 1300 concessions granted to them. But in the other region, few concessions were granted to small-scale miners; most were given to new, large, foreign companies or to those with connections to foreign investors.

Economic outcomes

The economic outcomes that resulted were: short term economic stabilization, short term increase in foreign direct investment, short term financing of the fiscal deficit, and positive impact on the balance of payments. GDP average growth was 3.8% between 1991 and 2000, which is not enough to sustain poverty reduction. Prices for petroleum producers did decrease, but the savings were not passed on to consumers. Consumer energy prices have increased, and there's a 255% increase in fuel and energy imports, which creates a negative pressure on the balance of payments.

Government revenues have decreased by about 12% of GDP; tax exemptions account for 2% of GDP. There's been an outflow of capital from the country, and now there's further dependency on natural resource-based commodities. The country is more vulnerable to external economic shocks, mainly from mineral and hydrocarbon price fluctuations. There's been an overall decrease in the value-added share of the economy. Core natural resource assets have been quickly sold off for short-term fiscal deficit financing.

Poverty outcomes

GDP growth was below the rate to sustain an increase in employment or to reduce poverty. The 2000 poverty rate is 54.1%; in 1991 it was 55%. It had dropped in the middle of the 90s, but went right back up again. Rural and indigenous populations are lagging behind because most industrial development is in urban areas. There have been mixed results on impacts for local communities. Revenue is not making it back to the communities or to regional and local governments, and government is not engaged in local community development. There has been an increase in social antagonism and unrest, which is not good for the investment climate.

Environmental outcomes

Overall, there was a net increase in environmental degradation because of the significant expansion in these sectors. Exploration and production have moved to more socially and environmentally sensitive areas. This is due to a combination of new technology and economic and tax incentives; trade investment mobilization also makes it more attractive to export credit agency financing. Protected areas are now open to extractive industry development, including a few Bank supported projects.

Regarding climate change and air pollution, there has been a significant increase in thermal generation uses of diesel, fuel oil and coal in the mining industry. Greenhouse gas emissions

have increased because of increased production and combustion of fossil fuels. There may eventually be some fuel switching benefits if natural gas is used.

The Bank's support for the social program loan was contingent on Peru performing satisfactorily on the IMF program benchmarks. In 2000, the country halted privatization because of concerns over competition. As a result, the Bank suspended the loan for the social program.

Main conclusions

The following are the main conclusions of the research study:

1. Expansion of EIs driven by structural adjustment does not produce sustainable development outcomes.
2. Policy-lending programs correct some market, policy, and institutional failures, but many still persist and the reforms themselves create new failures. Thus, when EI development proceeds before adequately addressing important failures, it leads to poor development outcomes.
3. IMF and WB policy-lending programs are significantly concentrated on providing opportunities to private business, while given little attention to strengthening the rights of the poor or environmental management.

Recommendations

A final set of recommendations was presented:

1. Poverty and environmental degradation are structural problems. Therefore, they require central importance in structural adjustment – policy and institutional reforms.
2. The current World Bank approach of *ex-post*, 'complementary' environmental and social projects is inadequate. It is the IMF- and World Bank-supported economic policies themselves that must provide the correct incentives for more sustainable development outcomes.
3. World Bank lending should concentrate on improving the social and environmental performance of the extractive industries sectors.
4. Governance that strengthens the rights of the poor and environmental management (strengthen civil society).
5. Bank policy-lending should concentrate on diversifying economies away from natural resource intensive sectors.

6. Mandatory upstream environmental and social analysis of all policy lending. (revision OD 8.60)
7. Provide clear poverty and environmental output performance criteria for policy programs and government budgetary allocation.
8. Bank should not link lending to IMF programs.

Discussion

The first comment came from a participant from Jordan, who felt that corruption and lack of democracy were the main drivers behind the choices taken by the Peruvian government to make such a severe adjustment. However, it was not understandable why the World Bank and IMF were part of such an adjustment program. The speaker said that the World Bank has received a lot of advice from the private sector, on what private investors need in order to come into a country

A private sector representative pointed out that structural adjustment has changed over the years, and how important it is to understand the context of pre-existing conditions. He cautioned against over-generalizing and to understand the context and relationships. The final point was a question about how many detailed case studies were done and how much peer review was there for the study. The presenter agreed with the comments and said that these points were included in the paper. There were 3 specific case studies, but her regular work involves the same focus on structural adjustment in other countries. The study was peer reviewed by 3 senior people with bank experience, as well as country experts.

The next question came from the PNG participant who felt that there wasn't a balance between environmental affects and economic benefits coming to the community. In his second question he asked if WWF would like indigenous communities to remain in the jungle as they are. The presenter replied that there is a tension between the environmental movement and social development movement, but the program from her office is absolutely linked to poverty. All their projects have poverty and environmental linkages – there are forward and backward linkages because the rural poor depends significantly on natural resources for their livelihood. They are directly affected if anything happens to natural resources. There are tradeoffs, such as in small-scale mining which benefits the poor but damages the environment, but what tradeoffs are acceptable? In many projects the poor are not being helped and the environment is being ruined.

Another participant from Jordan commented that the World Bank support to extractive industries didn't enhance sustainable development. Any plan to integrate social development with industries must have social equity, and be economically viable and environmentally safe.

7. Working Groups

Day One

On the first closed day the plenary divided into three working groups that looked at three topics: Governance and Revenue Management, Poverty Alleviation, and Economic Diversification.

Governance and Revenue Management

The first working group discussed the question “*What are the main obstacles in terms of Governance and Revenue Management for Extractive Industries that prevent sustainable development?*” and listed the following obstacles:

1. No democracy: no public participation in decision-making (autocracy).
2. Corruption caused by lack of transparency and accountability.
3. Excessive military and security expenditure, compared to other programs.
4. Lack of capacity for long term planning, monitoring, and inefficient allocation of natural resources.
5. Insensitivity of multi-national corporations, IFIs, and donors to specific needs and circumstances of host country.
6. Lack of good, overall fiscal and macro-framework, and capacity to deal with revenues in a consistent way.
7. Lack of access for the local community to get benefits from revenues – eg, education, health, infrastructure, etc.
8. Foreign investment dominance and lack of local domestic enterprises.
9. Weak legal system, regulatory framework, and mechanisms for enforcing compliance with standards and regulations.
10. Insufficient technical capability, training and education, standards, procedures, and manuals.
11. Poor communication capacity and resources.

In addition, the group raised the problem of political pressure on spending; the need to invest in production, rather than consumption; and the need for social and economic performance measures.

Discussion

An American researcher mentioned that in previous consultations a government official from Sub-Saharan Africa suggested that the private sector doesn't like democracy because the environment is more unpredictable. Therefore, how does this affect the approach of the Bank towards funding? In response, a company representative countered that over the long term democracy gives companies a greater connection with the government, and without it regime changes can be quite radical. It simply isn't true that industry dislikes democracy. A participant from Jordan agreed that most companies who want to make real business prefer transparency and the democratic system, because they know it is competitive and fair. If they take shortcuts or have influential people on their side then they don't want democracy. A Tunisian speaker stated that multi-national corporations are often the source of corruption in developing countries. An Egyptian participant contended that there are groups of business people who operate like parasites in the private sector, and prefer to work in autocracies. The private sector contains both those who are interested in sustainable development, and those who are Mafiosi.

Poverty Alleviation

The second working group discussed: *“What are the main obstacles for Extractive Industries to contribute to Poverty Alleviation in your region?”* and came up with the following list of major obstacles:

1. Government attitude is not conducive towards private sector involvement.
2. Poor government revenue management and distribution.
3. Extractive industries are capital intensive which excludes local private sector involvement.
4. Extractive industries create economic and social issues.
5. Price fluctuations are beyond government control.
6. Governmental subsidies do not help the poor; they benefit the rich.
7. Local communities and NGOs are ignorant of the decision-making process.
8. The Arab-Israeli conflict.
9. Projects lack continuity and long term planning for mine closure and job security.
10. Unfair distribution of wealth and allocation of revenue for community development.
11. Domination of foreign investment means that revenues go abroad.

12. Lack of added-value processing means that local jobs and revenues are lost.

The group identified several positive impacts on poverty alleviation: employment is generated in disadvantaged communities; remote areas are helped; high revenues are generated for governments; a competitive advantage is created; and small, spin-off businesses are created.

Discussion

The first speaker suggested that subsidies do help the poor but some are more beneficial than others. Giving cash to the poor is best, but if the financial system doesn't allow it, then subsidies are needed. A participant from Papua New Guinea noted that most of the mining industry is government controlled with very little private involvement, and that if the sector was opened up there would be greater possibilities for growth of the industry as well as government revenues. An American academic was surprised that some people considered FDI an obstacle to poverty alleviation; most governments are trying to attract FDI to help the poor. The UN used to be suspicious of FDI, but now they are advising on how best to attract it.

A speaker from Jordan asserted that the industry was created in the 30s by British and US companies and they still dominate. The accumulative extraction of billions of dollars of natural resources has seriously affected the region. A spokesman for a foreign company clarified that the vast majority of production in the MENA region comes from national companies not from multi-nationals. Another company representative stated that the first 8 or 9 largest oil and gas companies are national oil companies – Aramco and the Iranian oil corporation are the largest. The difference is even greater in terms of reserves. Another Jordanian commented that foreign investment is suspect because people remember when the 'Seven Sisters' controlled their wealth, and the struggle during the 60s and 70s to nationalize their wealth. Now they smell that 'the rat is back in the house'.

A participant from Jordan added that foreign direct investment, in most cases, doesn't help countries overcome their problems. In the long term, these companies are looking for profit, so they take money out of the country; and they hire internationally for their senior management staff. He didn't think transnational corporations were the best solution or the best model for poverty alleviation in MENA countries.

A Tunisian participant contended that there's always a difference of opinion between those in favor of private companies and those against them. Therefore, it isn't clear if privatization of the sector will help combat poverty. The World Bank encourages privatization, but it should provide evidence proving economic and social gains after privatization. Otherwise they should be careful issuing a recommendation that encouraging privatization can help combat poverty. A professor of finance from Saudi Arabia urged caution in talking about foreign investment: "Don't shoot yourself in the foot." Countries have to be careful in dealing with multinational corporations to ensure it's to their advantage. Be suspicious of international financial institutions. If democratic systems are in place in the country, and there are skillful negotiators who represent the country's interests, then one needn't worry. The speaker described a situation where the foreign minister, who was not an expert on oil and gas, was

negotiating a natural gas initiative, and nothing materialized at the end of two years. Afterwards, the oil minister renegotiated the deal with the companies and unbundled the contracts. The speaker stressed the importance of foreign investment.

A Jordanian participant wanted to know the numbers of national and international companies in mining in the region, and how much transfer of know-how there is between them. Another individual mentioned that there still is some suspicion among the populace towards multinational companies because of bad history. A further comment was made about the lack of trust prevalent in society and even among the governments, which leads people to underestimate the importance of investment that may serve their needs. The problem is that often investments don't really serve the needs of local people. An Egyptian participant commented that the main issue is independence of will and in decision-making. People live under governments and regimes which are subjected to foreign hegemony of the great powers, whether governments or institutions such as the World Bank. People are in a situation of dependence in which politics is very important, such as the case with Iraq and its oil. Political will and decision-making are in the hands of puppets. The speaker asked if the talk about democracy and popular participation in decision-making means independent decision-making and national control over those who govern us, or does it mean corruption and bribes given to the rulers by international institutions so that decisions are dictated from abroad, not following the national will or the needs of development.

Another participant suggested that countries in their eagerness to get foreign investment compromise their environment in pursuit of revenue-generating activities. An example is the case of a national cement industry that was privatized a few years ago, in which the foreign company insists on using coal, against the wishes of local people. This was supported by the government, ignoring environmental regulations. Similarly in Palestine all the hazardous industries have moved from Israel, which has badly affected the health situation. Most of the quarries in Israel have shut down and moved to the West Bank bringing their dust and pollution. So if foreign investment is not carefully managed and monitored, it possibly may destroy the environment.

Economic Diversification

The third working group discussed the question of “*What are the main requirements for Economic Diversification in resource dependent countries in your region?*” and first identified the need for having: the right political will; a good investment climate; basic infrastructure - physical, education, health; a functional banking system; easy market access; and value-added industries if there is foreign investment.

The major obstacles to economic diversification are:

1. Bad governance: lack of transparency and poor administrative procedures;
2. Subsidies;

3. Standardization of education, research, and development activities: there will be no new technologies and no new products;
4. Trade barriers: should they be removed in general or only at the regional level? Protectionism by developed countries prevents exports to these countries; and
5. Finance issue: availability of long term loans for small businesses, financial incentives, and loans for SMEs.

Discussion

A participant from Jordan mentioned the phenomenon of globalization, and asked how economic diversification can accommodate the adverse effects of globalization on local communities and national industry. Another participant saw no problem in signing international trade agreements while protecting local markets – eg, the US blocked steel imports from Europe and vice-versa, so there is nothing wrong with setting barriers to protect the economy. The high quality of foreign produced goods was identified as another problem. The group rapporteur made a comment concerning added value, that foreign investment is needed to create economic diversification, with the condition that there should be some value-added to the national economy.

Day Two

On the second day of the closed sessions the working groups discussed what the World Bank *should* and *should not do* in the MENA region regarding Environmental Issues, Private vs Public Sector Led Development, and Structural Adjustment.

Environmental Issues

The environmental working group wanted the World Bank to do the following:

- Assist the governments in building environmental capacity, including institutional, human, and technical resources.
- Have a new and appropriate approach for government and enterprises, providing financing and technical assistance.
- Work out a communication strategy through capacity-building for NGOs, local government, and professional groups.
- Ensure consultation with civil society and other partners during project design.
- Strengthen the participatory process during evaluation and implementation.
- Work on rehabilitation of mines.
- Encourage transfer of clean technologies.

- All Bank lending should include environmental and social considerations.
- All project financing should comply with guidelines appropriate for the country and the region.
- Equivalent share for renewable energy projects, as compared to the share for extractive energy projects.
- Focus on renewable energy.
- Ensure application of the consultations throughout Environmental Impact Assessments and convey information to civil society.
- Facilitate relationships between civil society and the countries of the region.
- The Bank should stick closer to its stated objectives.

The working group felt that the World Bank should not do the following:

- Ignore civil society.
- Ignore mechanisms for implementation and follow up.
- Bring in experts who are not from the country.
- Should not ask for repayments from projects that are not profitable.
- Be complacent towards government if the project lacks transparency and positive affects on the population and environment.

Discussion

One of the working group members commented that there are priorities regarding local, regional, and global environment concerns. For him the local environment is absolutely a priority, and went onto suggest that regulations and standards for environmental matters should be specific to the country, not imported from elsewhere. The World Bank should take this into account when working with different governments. He also suggested that renewables were not feasible at this time because they are not competitive. When the Clean Development Mechanism becomes operational it will be a golden opportunity for renewables, and the World Bank should have a major role in it.

Another working group participant commented that by taking care of the national environment, it contributed to regional and global well-being. Secondly, renewables have to be examined from more than an economic perspective, their contribution to environmental and social welfare also have value.

A third member of the group was concerned about the rising up of a parallel 'government' to act as a third party in ensuring the terms of a World Bank loan are implemented properly. It is

unlikely any government would accept this, so the recommendations should be made more practical.

A participant from Jordan, who wasn't in the working group, commented on the expression "*the stone age did not end because we ran out of stones*" regarding renewables. There may be plenty of coal and oil, but there are undesirable consequences for the environment and human health that should make us change to renewables because they don't have these side effects. Also he felt it is important to have NGO 'watchdogs' because governments do make mistakes; and they are much stronger than NGOs and shouldn't feel threatened by them.

Private vs Public Sector Led Development

This working group made the following recommendations on what the World Bank should do about the issue of private vs public sector led development:

The overall objective is sustainable development and poverty alleviation.

- Support privatization gradually.
- Help small business to boost job creation.
- Support local development projects including small industries.
- Support developing laws and legislation that suit sustainable development.
- Assist in contract negotiations with foreign investors.
- Assist in regulation of extractive industry.
- Assist in institutional and political reform.
- Assist in lending and advisory services.
- Support third party monitoring institutions.
- Support capacity-building for planning, management, and monitoring.
- Coordinate with other international organizations – Regional Development Banks, UN agencies, etc.

The group recommended the World Bank should not do any of this unless:

- Capacity is built.
- They consult with grassroots constituents.
- They always take into account the social structure of individual countries.

The group recommended that the World Bank should not do the following:

- Support state-owned extractive industries – eg, mining.

- Support projects where the final product does not reflect real value – not subsidized.
- Support projects that do not fulfill sustainable development goals.
- Support EIA studies carried out by governments.

Discussion

The first speaker asked for clarification about the need for subsidies for renewable energy. The group representative clarified that the recommendation was restricted to the oil, gas, and mining sectors, and was not about renewable energy. If research or something new is needed, they would support subsidizing that.

The next question was if the group was in favor of the private sector or the public sector. The response was that there are certain things that can be privatized and other things that cannot. Everything has to serve the interests of the country as a whole. Also, the decision has to be linked to sustainable development, which has its own requirements. The group does not want to see the whole country either subsidized or privatized.

The following comment expressed surprised that the group prefers to see foreign investors investing in extractive industries, rather than seeing their own governments invest. Why is that? The second question and comment was if the group thinks we can live without subsidies? Are subsidies totally evil? Should do away with subsidies? The person asking felt it was impossible to do without subsidies, and gave the example of Jordan, where 60% of the consumers of electricity consume below 160 kilowatt-hours per month, which means they have one lamp and one appliance only. The speaker contended that these people do need subsidies, and there likely always will be people who will need subsidies. He suggested that a subsidy is not bad by itself - if you have the right mechanisms you can make a subsidy go to the people who deserve it.

In response to this, the group representative provided another example from Jordan where the government terminated a subsidy for bread and wheat because people were feeding bread to their animals because it was cheaper than animal feed. If this happens with outside investors it is like exporting government money. Subsidies that don't serve the poor should be avoided. For example, subsidies for electricity or diesel mainly benefit the rich. The poor have no car and only one lamp, whereas rich people and big industries are the biggest consumers.

The final speaker commented that the impact assessment study has to be properly conducted to avoid the example sited.

Structural Adjustment

The working group recommended the following things that the World Bank should do:

- Have a coherent strategy in which poverty and the environment should be of central importance when designing the Structural Adjustment Loans.

- Upstream do mandatory core poverty and environmental diagnostic analysis as a prerequisite at the Country Assistance Strategy level, so that the analysis underpins the design of the policy lending program.
- At the individual Structural Adjustment Loan level or other policy lending level make mandatory social and environmental assessments.
- The Structural Adjustment Loan should include specific poverty and environmental structural benchmarks.
- Provide Structural Adjustment loans, with these conditions:
 - Give unemployment benefits
 - Promote democracy
 - Privatize energy and extractive industries
 - Reduce military budget
 - Reduce corruption
 - Support good revenue management
 - Include a environmental and social support program

Another viewpoint in one of the sub-groups was that countries in MENA do not need loans for structural adjustment, because they will not make a positive contribution and the countries already have sufficient resources, but they are not used efficiently.

Discussion

A number of group members pointed out that there were lots of differences in this group, and the final list of recommendations reflects the majority view of the group. One of the concerns about structural adjustment loans is the conditions that accompany the loans, because they mostly mirror conditions in the western world. The World Bank and IMF try to dump a western model onto developing countries, where the infrastructure is not similar to the western world. For instance, there is no social security therefore there is a lot of corruption. There is no true democracy and all the things that go with it. So, it is like cooking a meal in a very good modern kitchen and putting it on a table which has no legs. So, these models don't work in the developing countries. When giving these loans, the Bank groups should look into the conditions in the developing countries, and try to support the poorest of the poor

Another comment was that for those people who have lost faith in their governments, the World Bank is not the answer. If they don't trust their government, they should go back home and change it. The World Bank will not do it for them.

An issue was raised about the lack of financial scrutiny in loans provided to state-owned companies from the government. A suggestion was made that the Bank does not monitor what happens inside a company. The rejoinder was that most state-owned enterprises are very large, so there are micro-economic implications. If the Bank is involved in lending to a state-owned enterprise, a great deal of attention is paid to the financial records and the degree of transparency in the company's financial transactions.

8. Perspectives of the Region

Resource Blessings, Resource Curses, and the Bank

Professor Robert Weiner, Chairman of George Washington University's Department of International Business, spoke about 'Resource Blessings, Resource Curses, and the Bank'. He mentioned that a lot has been heard about the difficulties and the problems of oil and gas and minerals, but that people take for granted a lot of the blessings. The MENA region was a very poor one before the advent of oil, and a lot of the wealth of the region is associated with the mineral industries. Much of the education and health systems and the basic systems for social services in these countries are a direct result of wealth from these industries.

It has been pointed out that in natural resource rich countries, the development record has not been very good; and it is a challenge to transform the non-sustainable, depletable resource wealth of a country into sustainable wealth by converting it through investment into human capital and physical capital. That is the challenge that the region faces, and that is where the curse can be a blessing if things are done right.

So, what can the Bank do?

There are three potential areas where the Bank can make a difference: the first area is capital for projects, the second is technical assistance, and the third is income stabilization, as related to revenue management. Income stabilization differs from revenue management in that it refers to the stabilization of the revenues themselves, and not just how the revenues are spent.

Capital investment

Capital is helpful if the private sector is not willing to invest or is not willing to invest enough. When the Bank started lending in this area, official capital flows to developing countries, greatly exceeded private capital flows. Now the reverse is true. The private sector has been very willing to invest in extractive industries, despite the political risk and corruptive practices in some undemocratic systems.

Historically, most development of hydrocarbons was originally funded by foreign capital, whether by the Rothschilds, Nobel in Russia at the beginning of the 20th Century, or Saudi Aramco in this region. The types of risks that the private sector faces in the extractive industries in terms of expropriation or taxes are not much different now than in 1900 or the 1950s. Many of the multinational companies are still looking for opportunities.

Given the interest of the private sector in investing and the limited capital available to the Bank, the onus is on the Bank to explain why it should lend for extractive industries at all. There are cases for investment based on market failure: a good example is the Chad-Cameroon pipeline where the political risk and the complexity of dealing with multiple countries and environmental issues made it really impossible for the private sector to participate without the Bank. Given the development needs of Chad, this constitutes a good

example of appropriate use of the World Bank's capital. Some bad examples are the IFC-MENA projects in the 1990s, because there was no reason for the IFC to put its capital into these projects. The private sector easily could have funded these projects without assistance from the IFC.

Technical assistance

The WBG has tremendous resources for technical assistance. It is in a unique position to take lessons learned in one country and apply them in other countries. No private sector organisation can do this. In addition, where there's a market failure the private sector can't credibly provide unbiased advice, as actions based on advice are likely to affect profitability. That's an advantage the WBG has in overcoming market failure through technical assistance.

The WBG can make loans for technical assistance; most private banks will not make loans for information gathering or technical assistance, because of the difficulty in paying back. A good example of a technical assistance project is the Algeria Technical Assistance Loan, because it is geared at increasing the efficiency of the sector, and contends with complex issues of learning from other countries. This type of loan from the Bank can make the most difference, by using only a small amount of capital and leaving more capital for direct poverty alleviation.

Another area for technical assistance that could make a difference to the region is the operational governance of state-owned enterprises. Some state-owned enterprises are run very poorly, and can squander a lot of national wealth. The Algerian case contains all the important components for avoiding unfavourable arrangements with multinationals – eg, environmental regulations, regulations on pipeline access, etc.

Revenue management is critical for getting the capital and the wealth to the country from the extractive industries sector. The management of revenues for development and fiscal decentralization are all areas where the Bank provides aid and technical assistance. But the Bank could do better in this area if it was better organized. It's difficult to get all the expertise together to collaborate – the oil, gas and mining group, the micro- economists, and the fiscal people.

Income stabilization

Regarding income stabilization, the extractive industries are subject to booms and busts, and the poor are particularly vulnerable to these fluctuations. When there's a bust, usually the poor lose their jobs first and are first to struggle; this is seen in countries that have tremendous economic problems, such as Argentina. Booms and busts are very difficult in terms of governance. Booms can encourage corruption and rent-seeking, as well as the build up of uneconomic projects. Because of political pressure, it's difficult to save money. Investment in economic diversification also can be simply a waste of money.

The Bank has been giving technical advice on booms and busts since the late 1980s. They started giving advice on risk management, providing both technical assistance and numerous

policy working papers, recommending countries to hedge their oil, metal, or coffee revenues, but the advice was essentially ignored. In the late 1990s, there was another initiative in income stabilization, but this is now moribund. Last year there were two well-attended conferences but the follow up was not evident outside of the Bank. So it's very difficult to conclude that either the WBG or IMF has made any progress at all in helping countries in this area, and that countries have been able to smooth out their booms or busts, including the negative aspects of the boom.

On a final note the speaker raised a point about the difficulty of forecasting in the oil and gas sector, which is fairly essential for planning the budget, for social spending, for helping the poor, for hospitals, for schools, etc. Although the cycle for forecasting is only 12 to 18 months, forecasting results are terrible. For example, for Saudi Arabia the average error is about 20%. So when revenues are unexpectedly high, then spending is unexpectedly high, and when revenues are unexpectedly low, the government has to cut social programs or industrial programs. That translates into tremendous dislocation in certain sectors on an annual basis.

Discussion

A question was posed about economic diversification, asking for clarification on examples of good and bad economic diversification. The presenter replied that it doesn't make sense investing in uneconomical businesses simply because they add value to extracted natural resources. In diversification it's best to look for an industry in which the country has an advantage. The first thing to invest in is education and health care. The way to transform depletable capital into sustainable capital is to make investments in infrastructure and in human capital.

A Jordanian participant asked how can foreign enterprises that started the oil industry in the MENA region in the beginning of this century still have the risk today they had then. The response from the speaker was that a lot of risks that the oil industry faces are not necessarily related to governments or regime changes, but to whether or not the infrastructure is operating in the jungle or in the desert or in the North Sea. Places where the infrastructure is very difficult or can be destroyed by a storm or by guerillas are typical risks for the industry and the industry has found ways to cope with them. There is always political risk, but that is not a reason not to invest. The real point is: Should the WB use its capital?

There may be some exceptional cases, but in most cases, the best use of World Bank capital in this industry is for technical assistance, where with a relatively small amount of money, it can make a tremendous difference.

Opportunities for employment generation and poverty alleviation in extractive industries of MENA countries

Professor Surek Borida, Head of the Department of Mining Engineering at Papua New Guinea University of Technology spoke about opportunities for employment generation and poverty alleviation in extractive industries in MENA countries. The presentation is based on a study carried out on mineral resources in the MENA region, looking into how they can help

the economies of countries in the region. Although the petroleum industry is the backbone of regional economies, there are many large undeveloped metal and mineral resources, which if developed and turned into operating mines, would generate huge employment opportunities and could also assist with poverty alleviation.

The speaker first provided an inventory of mineral resources and mining. There are many large deposits throughout the region, and many investment opportunities to transform these resources into producing mines. The mining industry is highly capital intensive; it requires large investments to create physical facilities for mining and processing; and most mineral deposits are located in remote and undeveloped areas. Through these investments, infrastructure development - roads, transport facilities, airport, schools, hospitals and townships – will come to remote areas. Foreign capital can join with local capital to create joint venture companies. Large employment opportunities are then created which will help alleviate poverty among local communities living near the mines.

The mines generate spin-off businesses to service the mining facilities, and act like a catalyst for overall industrial development in surrounding areas. New mines increase tax revenues for the government, and efficient use of the capital will make the whole economy cheaper.

Foreign direct investment (FDI) is available from many diverse sources – bilateral and multilateral agencies, development banks, corporations, and commercial banks. To access these funds a positive investment climate and environment is needed, with appropriate laws and regulations, property rights and tenure, a transparent tax regime, and a capacity to repatriate profits. Efficient financial institutions – banks, insurance companies – must also be available.

FDI moves only to countries where most of the economy is in the private sector and free from the risk of nationalization in the near and long term future. Existing government owned mining companies, steel plants, and smelters and refineries should be privatized by floating the shares to local and foreign investors. The joint-venture concept is appropriate to attract FDI. A tax credit scheme for infrastructure development can increase local benefits.

The ‘Development Forum Concept’ involves all the stakeholders getting together to discuss the project before the mining license is granted. Mining investment conferences can help in getting funds from different banks. MIGA can help with risk reduction. They have a website where Arab countries can feed data on mineral resources to attract FDI.

In summarizing the presentation, it was emphasized that there is an urgent need to attract FDI in the mining-metals sector to the mineral-rich countries in the region – ie, Iran, Oman, Qatar, Kuwait, Sudan, Egypt, Algeria, Tunisia, Morocco and Libya. Large investments will come to those countries only when appropriate legislative and fiscal changes are made. The potential is large to increase economic activity and to bring many important benefits to the local population, namely to:

- Strengthen the overall economic base.
- Create large employment opportunities.

- Create more local businessmen and stakeholders in the construction industries.
- Increase the purchasing power and income base of the population.
- Generate infrastructure development in remote areas.

Discussion

A participant from Palestine asked for clarification if investors are demanding fiscal and legislative changes in some of the MENA countries. The presenter provided some details on the two components: legislative changes are mainly to do with how mining licences are granted; and fiscal changes are to do with tax regimes and repatriation of profits. A transparent system is needed for both. A Jordanian participant suggested there was also a problem in marketing opportunities to potential investors, not only simply making the suggested changes. A question arose from a participant from Tunisia that the legislation allows a five year tax holiday for investors, but still investment has not increased. The presenter suggested there could be other factors than the tax regime inhibiting foreign investment.

9. Opening Remarks to Final Session

The Eminent Person, Prof. Dr. Emil Salim, opened the final session with some guiding remarks. He reminded the participants that the purpose of the workshop was to give the EIR team ideas and recommendations to pass on to the World Bank Group. The terms of reference for the EIR specify that team must listen and understand the views of the various stakeholders - government, business, and civil society – in order to identify areas of consensus and areas of dissent on the possible future role of the World Bank in extractive industries that would promote poverty alleviation through sustainable development. Sustainable development means assuring economic sustainability, environmental sustainability, and social sustainability. Based on that, understanding, based on our knowledge of the diverging and converging views, the EIR team then will make recommendations to the Bank, which must be feasible, practical, and forward-looking. That is the focus of the workshop.

The list of projects that have been financed by the World Bank since 1992 in MENA is unfortunately rather limited, and gives only a glimpse of how the WB operates in this region. Our discussions about the role of the World Bank should be realistic, with our feet on the ground. We have looked at a number of cases studies, from which we have identified some of the possible crucial questions for extractive industries in the MENA region. That should be the basis for what should be done and how things should be done in the recommendations to the World Bank.

Economic diversification

So what has come up from discussions during the last three days? One issue clearly is the need for economic diversification. MENA is a region rich in natural resources, but most of these resources are not renewable - they will be exhausted at a given point of time because of

physical reasons or because of technological change. One may now be importing oil or gas, but what will happen in 15 or 20 years when the technology has moved forward? So, oil being a non-renewable resource implies risks.

Secondly, the globe suffers from what is referred to as global warming due to climate change. This is a global issue and, even if it is not considered important for national governments, if the climate goes on changing in the next 20 years, it will hit the developing countries very hard. Developing countries which have low coastal areas - such as Ecuador, Bangladesh with its frequent floods, the Philippines, and the Pacific Islands - will sink under water.

Climate change will also endanger the production of water-based agriculture. Those that will suffer from climate change are not really the rich countries. So, for the sake of the developing countries which already are poor, how can we prevent this negative impact of fossil fuel on the climate of developing countries? In order not to contribute to the suffering of developing countries, we need to think about diversification. This is where we can ask what the World Bank should be doing and how to do it. What should the Bank do in the developing countries which are in the majority? Question number one, therefore, has to do with economic diversification.

Revenue management

The second issue is that of revenue management. MENA, unlike other regions, is rich in natural resources, with a large revenue intake. The question here is how can this revenue contribute to promoting the income of people (men, women and youth), their welfare, and their quality of life? So that in a twenty-year perspective, using the natural resources with good revenue management, this region will have enhanced people's quality of life and will have contributed to global development.

Poverty alleviation

The third issue is poverty. This region consists of rich countries and rather poor ones. Poverty here is not only in terms of income, but also is accessibility to education, to health, to electricity, to a decent life, to the quality of life, to a human type of life. How can we achieve poverty alleviation in this region? All these issues need to be addressed – ie, poverty alleviation and economic diversification - because the huge capital that this region has is not so much material capital. It's the people, the human beings that are here. These human beings consume but also they represent human and social capital. If this region is to reduce poverty levels, achieve higher incomes, and economic diversification, the key is public participation and basic democratic rights. It's not democracy in terms of capitalism, not democracy that is advocated by the U.S. It's democracy like the Koran tells us how we should democratize our life. It's democracy that is in line with our own culture, with the rural Middle Eastern and African culture, a democracy that allows people to rise up, to have their life in their own hands, in order to improve their standard of living.

Strengthen local capacities

Fourth and fifth is an element, which I don't see in other regions, is this strong nationalism. This is a region with an old history that dates back centuries. This is a proud region that knows that it is different from others. This is a region with culture and an old, established identity. During the discussion yesterday this was emphasized, and we need to agree on this and keep in mind the identity of the region. So, national ownership is essential in development. What I feel exists here is not necessarily globalization but localization. Let's give people here an opportunity to develop, to meet the competition of globalization by strengthening the local capacities of this region.

These are the five most important issues that we are here to discuss; do not theorize about them, instead ask what to do and how to do it. We are not asking you to go over the history of things, or what experts to call, or what professors to consult. What is needed from you is concrete suggestions about what the EIR team should propose to the World Bank. How should the Bank behave in setting up programs, in projects, in processes, in policies, in order for the MENA countries to diversify their economy, improve their revenue management, alleviate poverty in a broad sense, introduce public participation, and build up local capacities? This also reinforces the idea that these countries are not homogeneous – it's moving towards a diversified world in the MENA countries. They will retain their own identity, so they are not a mere imitation of the US, like what's happening to Europe. That identity, that character, and that history need to be maintained – it's a long and rich history.

The concrete proposals you are supposed to come up with have to state what is to be done and how it ought to be done. The stronger your voice is, the more meaningful your recommendations will be. The EIR can then tell the World Bank that the material being presented to them has come from the people of the MENA region. We then can count on the support of the Executive Director of the Bank for the MENA region to join together with us in pushing the World Bank to change the course of development to a better way, compared with the past.

10. Final Recommendations

The working groups spent the last morning discussing five topics: Economic Diversification, Governance and Revenue Management, Poverty Alleviation, Public Participation and Basic Democratic Rights, and Foreign and National Ownership. In making recommendations, the groups looked at “*What the World Bank should do*” and “*How should they do it*”.

Economic Diversification

The working group summarized the issues they discussed in seven main topics:

- i *Evaluate and share past experience*: Evaluate the past experience of projects implemented by the World Bank in the region and share the knowledge between the countries in the MENA region. Some projects have succeeded and others have failed, so past experience is

essential to set a strategic plan for the future and to know how to proceed. This topic is linked to number ‘vii’ which is also very important, that is to draw up an inventory of the resources for future needs. ‘Resources’ means not only natural resources but also human resources. The plan for the future is also meant to promote diversification of the economy.

- ii *Develop specialized professional skills, research, and social evaluation:* Professional skills, research, and social evaluation are very important to diversify the economy and to prepare future generations for other skills in mining and extractive industries. This will be made possible first by creating a national and regional network for the exchange of ideas between countries, and by establishing focal points in each country. These focal points will be responsible for exchanging experiences. Second, by coordinating between UN agencies and local governments, because within the UN structure there are a lot of programs – eg, by UNESCO and the UNDP - aimed at promoting professional skills. The Bank could coordinate with these agencies in order to deal with this issue.
- iii *Promote social development in all different sectors of society:* The Bank should advise governments on equitable revenue expenditure. For example, expenditures should be made in health care and education, not only to promote the technologies of extractive industries. Countries have to diversify because these industries are not renewable.
- iv *Relate lending policy to reform:* In lending to governments to develop some projects, regulations need to be applied to and by governments. Carry out some reforms in the lending process, and link them to performance standards in order to improve lending procedures. The WB should put in some benchmarks to ensure that governments introduce institutional reforms and legislation that will enhance flexibility. There should be some international or European standards or framework.
- v *Scrutinize loans against project viability:* The Bank can help to make better, impartial feasibility studies and independent reviews.
- vi *Promote removal of barriers between countries:* Promote removing barriers between the MENA countries, and between MENA countries and other countries. This is a way to promote exports from the MENA countries to other countries. There are a lot of things to export from these countries to the world. The Bank should defend the interests of developing countries in terms of industry and development.
- vii *Make an inventory of resources:* The Bank can help establish a data base and regional network that could be used to foster diversification of the economy.

Discussion

The first question was about what the role of the World Bank was in ‘creating a regional and national network’ - should the Bank create the network? The answer was: Yes, they should create the network in order to share knowledge between countries concerning projects which have been financed by the Bank. Another participant suggested that the Bank should not establish the national networks, or even the regional one, because this is the business of civil

society or the private sector. There is a risk that the Bank will parachute in ideas again and establish from above networks which are supposed to come from bottom to top. Another comment on this issue was that this idea is derived from our past experience with the European Union, which has created some national and regional networks in order to exchange data and evaluate projects. Another group member commented that the discussion was about sharing experiences and learning from different parts of the world. Countries need to learn from what happened before and try to relate the learning to the local context.

A question was raised about the group's attitude towards privatization of education and health care, and if they think the World Bank should encourage privatization projects in education and health? A group member replied that their discussions were strategic, so they didn't address that level of detail, but the group did recommend that the Bank should liaise with the UN agencies, such as UNESCO, UNDP and WHO, that promote similar programs.

Another participant noted that a lot of the recommendations are things that should be done regardless of whether there's an extractive industry or not. It's just good management and sound economics. There is a link to extractive industries with revenue management, but unless the economy is protected against the shocks and the abuses of investment in extractive industries, the chances of achieving the recommendations are greatly reduced.

A final comment was that there is a link between this topic and revenue management.

Governance and Revenue Management

- i *Make engagement of the Bank conditional:* The engagement of the World Bank should be conditional and subject to a timetable decided on in consultation with respective governments. Conditionalities are: progress on achieving democracy; protection of human rights; and reduction in military and security expenditures, and extravagant expenses like palaces.
- ii *Transparency:* Transparency is a very important topic, and to achieve transparency in the MENA region an institution is needed. A code of conduct or a convention on transparency should be drafted and negotiated with the assistance of the World Bank through international and regional partnerships. Governments should provide voluntary transparency of extractive industry's revenues. Local people, grass roots institutions, and NGOs should be consulted on the allocation of extractive industry revenues to social and environmental programs. The ICMM code of conduct was cited as a good example to follow.
- iii *Technical assistance:* The Bank should continue carrying out studies for governments on public expenditure programs. The Bank can provide advice and studies on stabilization investment in collaboration with local partners and regional institutions. The Bank should actively collaborate with organizations that represent the region and already have valuable information about all the issues being discussed. This should include UN agencies and regional financial institutions like the OPEC Fund, the AFAD, the Asian and African Development Banks, or the Arab Petroleum Investment Corporation.

- iv *Training:* Training should be aimed at capacity-building. When the Bank provides financial or technical assistance, training should be a prerequisite so that appropriate know-how and expertise are shared.
- v *Monitoring group:* The World Bank should advise some of the governments to establish a monitoring system, with a monitoring group that ensures that Bank projects comply with revenue management regulations in order to help the country achieve its own technical and financial aims. This is the case in Chad.

Discussion

The first comment was that there are some Western countries that cause instability in the region, so that they can sell weapons against oil and thus save their dollars. Governments should not deal with these countries. A representative from the International Council for Minerals and Mining (ICMM) briefly described the structure and purpose of the organization, in which 15 mining companies have joined together to improve industry performance. The principles that have just been signed cover ten aspects of performance, including transparency and promoting community and social development. ICMM is about to sign an agreement with the Global Reporting Initiative (GRI), and is about to develop reporting standards through a multi-stakeholder process, because all companies will be required to report based on the principles. Next they will go into independent verification systems. This is the way that mining companies around the world are looking at the issues that have been outlined, and they want to carry this work forward.

A participant commented on the concept of the monitoring group, and that the presence of NGOs and civil society within this group is essential to ensure transparency and fairness in the distribution of revenues. The next speaker questioned the inclusion of NGOs in the monitoring group as there already are elected monitoring agencies within the countries, such as the parliament, for example. The speaker questioned the need to have a 'state-within-a-state'. NGOs think they are more reliable and more trustworthy than the people at the parliament. They should remember their real role - they can monitor everything, but their role is not to decide what's right and what's wrong. If they see that there is something wrong, they can go to the courts. They should not have the power to tell the government what to do and what not to do. That's the function of parliament and the executive branch of the government. NGOs should have a more realistic role.

Another participant commented that the 'Code of Conduct' and 'Convention on Transparency' are two completely different concepts. This speaker did not like the voluntary nature of the Code of Conduct. This is particularly important where there are large loans that have to be paid by the people themselves and future generations. This requires very serious accountability and disclosure, like a prescriptive law and not a moral choice on the part of contractees. The idea that governments should be involved in moral contracts is not effective at all because nobody abides by ethics and morals anymore. Business is business. The Bank is not bound by ethics; it gets involved in business from a purely professional perspective, which aims at making a profit. The same goes for governments that do not believe in

democracy and often claim that there is no corruption. They continue to build palaces and make expenditures for policing and military purposes.

A participant from Jordan agreed with his colleague that there are many ways for NGOs to get involved in monitoring. But there are cases in MENA where there aren't environmental laws or legislation, or there's poor enforcement. The speaker felt that conditions should be made better for NGOs or civil society to monitor projects that are implemented.

One of the working group members clarified that the intention of the Code of Conduct was to have certain activities to insure transparency, environmental and social sustainability, and other objectives, that it was not intended as an ethical choice.

A participant from Egypt asked for clarification on the proposal concerning cutting military expenditure. He wondered what the basis for this was – is it considered a social cost or a private cost? Have they evaluated the peace settlement in the area with an economic basis to cut down on military expenditure? Would it be advisable, within certain conditions, to propose a reduction in military expenditure?

Another participant commented on how easy it is to get stuck in an attitude of compliance; what's missing for him is the need to talk about compliance audit and meeting standards. He suggested that there are some issues no one knows anything about, such as collective participation, collective wisdom, and creative and constructive values.

The final comment was that there are a lot of problems, and the main problem is not the World Bank, it's their own people. He suggested to try solving their own problems first, before seeking help from the Bank.

Poverty Alleviation

After much contentious discussion, the poverty alleviation working group came up with a set of recommendations. There was a lot of disagreement in the group, but they did raise some key issues, such as: What is involved in poverty alleviation? What to do about it? How to do it? The group felt that the questions needed careful phrasing so that it would be possible for the WB to help. Perhaps some aspects of poverty alleviation are not the concern of the WB. The group did talk about the need to redesign and reform policies implemented by the WB, and they tried to come up with recommendations to introduce some ideas concerning poverty alleviation. So far nothing has been done up to now in the area of extractive industries that are funded by the WB.

- i *Capacity-building at local level:* The Bank should help with capacity-building for local people who are affected by the activities of extractive industries. These people often lack educational opportunities. They lack a suitable environment and basic living needs, such as electricity. A given percentage of the revenues of extractive industries should be allocated to building schools and vocational training centers, with the emphasis on knowledge-sharing and disseminating information.

- ii *Satisfying local people's minimal needs:* The revenues and benefits of extractive industries do not go directly or indirectly to the poor. The Bank should ensure that minimal needs are identified, and programs are designed that effectively address these needs. Part of the revenues generated by extractive industries should be allocated to finance programs on basic needs.
- iii *Enhance small-scale enterprises:* The Bank should assist in creating an environment conducive to enhancing small-scale enterprises, through providing advice, technical assistance, and training.
- iv *Compensation:* Most extractive industries resources are in marginal areas or areas limited in natural resources; people living in areas surrounding extractive industries are often poor. Extractive industries introduce changes in people's lifestyle. These industries plunder existing wealth, and ignore the living conditions of local people, who then have to leave their land and look for employment, changing from producers to employees. Therefore the Bank should help develop a mechanism to compensate for these people's losses. They will need alternatives for the after-project period.
- v *Gender equity:* The World Bank should ensure that a gender perspective is incorporated in the design and different phases of projects.
- vi *Fair revenue distribution:* The Bank can help in setting up a mechanism that provides fair distribution of revenues, as well as by helping develop programs and policies that ensure that equitable distribution happens.
- vii *Community participation:* The Bank should facilitate the involvement of local communities in poverty alleviation programs, ensuring that a bottom-up approach is adopted that takes into account the needs of local people. For local people to really benefit from the programs they must be actively involved - they know their needs best and how a program can best satisfy those needs.
- viii *Participation of civil society organisations:* The Bank should also facilitate the participation of civil society organizations and NGOs. Civil society organizations can be trusted, they are accepted by local communities, and their work is credible. Very few governments can boast of this.

The group provided some additional comments for the Bank. One concern is the image of the World Bank among the public. In Jordan, people associate the World Bank with taxes or raising electricity prices, so when they hear about a World Bank-funded project, they refuse to cooperate or implement the project. There is a misunderstanding about the World Bank and its aims. There are other people who refuse to cooperate in World Bank projects for religious or ethical reasons. The bad image of the Bank can be a problem when trying to alleviate poverty, because it involves dealing directly with local communities.

Discussion

A speaker who spoke previously on the involvement of civil society contended that he did not say that the civil society has no role and that the government should do everything. He agrees there is a certain role for civil society, whether the system is democratic or not. Civil society organisations should be the watchdog; they should watch the government and even the representatives of the people. If you cannot change anything by law, you can write about it or go out in the streets and demonstrate. Civil society organisations have a very important role, but the roles should not be mixed with that of government. Countries have a parliament; they have political parties with their own roles. NGO's should not take the role of parliament and political parties. If you don't trust your government, you should not try to change it through the World Bank.

The next speaker wanted to see a big emphasis on small and medium enterprises. He felt that, in the Arab world, there is a cultural bias against small businesses; when dealing with extractive industries, people expect investment from multinationals and governments. They don't expect small businesses. He would like the World Bank to use its accumulated experience to promote the provision of technical assistance and training, and highlight the importance of small and medium enterprises, by providing support more proactively. Commercial banks also need to be proactive; they normally don't lend to small businesses because of the risks. The speaker would like to see more emphasis on small businesses.

Another speaker from Jordan noted that international lending or donor agencies are involving civil society organizations as a third party to complement small-scale enterprises. The banks in Jordan are not lending for this purpose, so the third party, civil society organizations use the money from the Bank to contribute to developing small-scale enterprises, aiming to alleviate poverty by raising the living standards of local communities.

A speaker from Saudi Arabia felt there was a direct relationship between growth and poverty alleviation. He believed that if they achieved economic growth from extractive industries, then they would be able to contribute to poverty alleviation. If the growth is managed efficiently, it can contribute to education and health. He looks forward to support from the World Bank in the MENA area because of the potential contribution of extractive industries to poverty reduction.

A speaker from Morocco contended that it's not just the World Bank that can help reduce poverty. It's a matter for all the international authorities, because the task is so large. A request was made for the World Bank to be the voice for all these countries to help reduce poverty by reducing the proliferation of nuclear weapons and weapons of mass destruction, and working to stop wars.

A participant from Egypt commented that he is not asking the Bank to do anything, and he doesn't want anything from it. Moreover, there is a danger in believing that the World Bank is going to play a role in poverty alleviation.

The next speaker suggested that the World Bank committed a serious crime in relation to civil society in the 90s, when it started working on projects purportedly for development and growth through the private sector in cooperation with civil society organizations. One consequence was that large organizations developed, especially those that worked closely with the Bank. These organizations mobilized entrepreneurial groups which benefited from loans. New issues arose related to corruption and abuse of power, and the idea that civil society organizations must emulate the private sector in its management procedures. The result is that the work of civil society in a number of countries has been destroyed. These organizations turned into mechanisms working for the private sector, whereas previously they had been a militant component of society, fighting for social causes such as unemployment and poverty. Civil society basically is not a mechanism that works with money. Even in the West, civil society has always been connected with charity work. In Islam also, the concept is one that is based on 'helping' and 'giving'. So, when the World Bank introduced and implemented the notion of privatization, this constituted a real blow to the very idea of civil society.

A participant from Saudi Arabia spoke on behalf of the tragic situation in Iraq, where there is a lot of poverty and hunger. He would like to see the World Bank provide technical assistance to assess the oil and gas sector in Iraq and its implications for sustainable development, peace, security, and poverty eradication in the region. The situation in Iraq is certainly going to affect the whole region economically and politically. The speaker called on the group to help include this item in the final report: Iraq should be given special consideration in the technical assistance that the WB might be providing.

The next speaker disagreed with the previous one because there was not yet an independent, democratically-elected Iraqi state to invite the World Bank to come and provide its services. Unless Iraq is liberated and is a sovereign state, no international organization should get involved there, except for humanitarian assistance; otherwise it will be an act of colonization.

A participant from the World Bank, who is part of a task team working in Iraq, clarified the current activity of the Bank in Iraq. Following a UN resolution, they are participating with a fairly large team of UN staff and Bank consultants in carrying out a needs assessment, depending on the security situation. No firm decision has been taken so far about the form of intervention, but the same point has been made that there should be a legitimate Iraq government before the assistance will flow, except for the humanitarian aid which is going to be provided. So, for the moment the Bank's only role is in assessing needs; no decision has been taken on the form of intervention and what the World Bank could actually do.

The next comment was regarding poverty alleviation: Not all countries in the region are in a situation of crisis. Some countries like Saudi Arabia are rich, and some are poor. The rich have surplus resources and can help the neighboring countries in poverty alleviation. Is poverty alleviation limited to the Bank or can these countries help each other at the regional level in contributing to poverty alleviation? Some of these countries are in a position to help without imposing conditions of for example, structural adjustment. The speaker felt it would be much easier if this was done at the regional level.

The last speaker referred to the heated debate that took place among civil society organizations about poverty alleviation. The talk now is about ‘wealth alleviation’, which should be considered since this is the argument written in the memorandum from Johannesburg by civil society organizations.

Public Participation and Basic Democratic Rights

This working group presented the following set of recommendations:

- i *Governance contract:* The World Bank should draw up a standard contract with terms of reference stipulating all the clauses that refer to the fight against poverty, freedom of expression, good governance, etc, and where non-compliance with these stipulations will be denounced.
- ii *Distribute contract:* The Bank should make this contract available to all parties concerned: government, local authorities, and civil society.
- iii *Complaints committee:* The World Bank should set up a complaints committee within the World Bank to receive complaints from all interested parties and to provide the required explanations.
- iv *Prior informed consent:* The Bank should include an article in the contract stipulating that any legal text relating to the project in question should be discussed beforehand between the various parties so that it can be properly observed.
- v *Compliance with international conventions:* The Bank should ensure compliance with international conventions signed, in particular, within the framework of the ILO. The World Bank should refer to these international conventions.

To achieve the above, the Bank should draft a periodic report on the state of the country in question regarding good governance, democracy, transparency, freedom of expression, the fight against corruption, etc, with a scoring system like that for other evaluation reports drawn up by international authorities. Furthermore, the group suggested that this information be published, using appropriate communication media, and in particular the Country Policy and Institutional Analysis (CPIA). It also is important to have access to information through accessible and usable communication media.

Discussion

One of the working group members raised a point that he felt was not emphasized enough, which was that the World Bank should publish periodically an evaluation grid adopting a certain grading procedure for transparency, the fight against poverty, etc. The countries with the highest number of points would be at the top of the list and would be awarded favorable conditions of financing by the Bank. Those countries at the bottom of the list should be dealt with in a strict way. The World Bank cannot enforce but it can encourage countries to try and

move from the bottom of the list to the top, hence the need for this periodic country assessment.

Another member of the group commented that they focused on the importance of having contracts between the various parties, the Bank, and the government, with specific conditions of respect for human rights, environment, etc. The second point he emphasized was the importance of the power of information: it is essential to publish these contracts, using different media, and inform civil society about the contracts. The last point he made was that the Bank should establish a committee dealing with civil society that takes into consideration principles like democracy, participation, environment, and human rights. It would be important to have open sessions with this committee, attended by civil society and NGO's.

The next speaker first supported the recommendation for the country level status assessment, referring to the work being done in the World Bank called the CPIA, the Country Policy and Institutional Analysis. He suggested publishing this report so that civil society and others, including the private sector, could use it as a basis both for decision-making and for monitoring.

A World Bank representative clarified that the World Bank Institute currently does something similar and that the information is publicly disclosed through its web site. The work aggregates a lot of indicators from a lot of different organizations – eg, there is one on corruption. It brings in a lot of information sources and very cleverly gives the option of looking at not only the level of governance, corruption, civil society participation in a single country, but also you can compare it to its peers in a given region or within regions. It's potentially a very powerful piece of information. It isn't currently used for any form of preferential lending, but it's there as an instrument that people can look at to get a sense of where their government stands in terms of those kinds of issues.

The next comment was that information on contracts is not published or available. The records of the World Bank are published, but they are extremely expensive - one book costs about \$400. They can be bought in Egypt.

The World Bank representative responded that all the reports on the projects are in the Public Information Centers, and is readily available on the website. Information is easily available, not only about a project, but also about its context, what's happening in the country, what's happening in the sector, etc. These are very useful and widely used by civil society. Some reports are sold; they usually are deep research reports on particular issues. Very often, these reports are made available free for people who have a special interest in them, but other people can buy them from bookstores.

The next speaker said he had problems downloading some of the World Bank studies. He also questioned the payment for publications that were funded by representative governments; he felt they should be available to all people concerned.

The last comment reiterated the high cost for World Bank items, and suggested it was a clever device to prevent NGOs from participating.

Foreign and National Ownership

The working group on foreign and national ownership concluded that the Bank could contribute the following:

- i *Investment for added-value:* Attract investment into a country to process primary materials. Add value for extractive industries in the MENA region, because one problem is that most materials are extracted and exported as raw materials, so the benefit is minimal.

The mechanism: First, the World Bank should provide an advisory mechanism to develop a competitive law in the region. Second, there is a need for sustainable resources development, which can be part of national policies and practices. The Bank could have an advisory role in this. Transparency is required to benefit from the secondary and tertiary sectors. Transparency is needed because the aims are not always clear, nor is the mechanism for implementation in the country.

- ii *Encourage SMEs:* Encourage the development of small- and medium-scale enterprises and activities at the micro-level because these sectors are neglected. In the MENA region, the big projects usually attract foreign investment. The Bank can make this possible through the guarantee of transfer of technology for these sectors.
- iii *Develop local industries:* Remove regional trade barriers, develop local industries, and guarantee that there is a real benefit for the local industries and economy, particularly as there is a risk of one economy dominating over another. The Bank can help achieve this by through helping to harmonize and unify customs and administrative processes. This has always constituted one of the most important obstacles in the region so far. Another way is to design incentives that encourage regional investment. Such incentives are lacking in the MENA region, even at regional level. For example, there is room to encourage partnerships in economic development by setting up projects.
- iv *Balanced domestic and foreign ownership:* Insure an appropriate mix of local and foreign ownership to keep value-added in the country. In order to promote national and foreign ownership and attract investment, try to guarantee equilibrium in the economy in general, which means trying to promote investment in all sectors of the economy in a country. That is often a problem because there usually are sectors which are stronger than others in attracting foreign investment, which may lead to no profit for the country, as the investors may only be looking for what is the total growth of the economy, neglecting how that growth is achieved. Sometimes you may have economic growth but at the same time a total loss of some sectors. The aim then here is to achieve equity in economic development.

The mechanism advocated is to improve the image of the country through investment promotion. First, promote the image of the country itself, because sometimes the countries of the MENA region are promoted in the wrong way. For example, most of them have a reputation of being hotspots where there are regional conflicts, terrorism, etc. So, in order

to attract investment, it's essential to improve the country's image. There is an advisory role here for institutions like the World Bank.

Another way of achieving this is not just focusing on profitability, but also using local capabilities to promote sustainable development for local communities. In addition, there is the need to broaden the base of investment and make a better use of local potential.

- v *Blacklist offenders:* Make a black list of foreign and local enterprises which do not respect the appropriate environmental and social legislation. This may be one of the roles assigned to the World Bank which, through its monitoring mechanisms, is able to follow up which countries violate environmental and social regulations. This is possible through access to information on past environmental and social performance.
- vi *Information transparency:* It's important to guarantee transparency in environmental reporting. A problem in MENA is that often, even if the WB asks for EIAs, and there are scoping sessions arranged for this process, there is no access to project information, particularly those which constitute a priority for the country, whatever the environmental and social consequences.

The World Bank has a role in improving legislation and enforcing access to environmental reporting. Such improvements will provide incentives for economic development, and FDI can contribute to protecting the environment. Another mechanism is to internalize social and environmental costs, by having an environmental tax on extractive industries, which could be imposed when contracts that lead to granting licenses for extraction are drafted with the government. This is different from taxes which are allocated for environmental and social work, whether there is a present need for these taxes or not, as they may be used in the future ('ear-marked' taxes). There also could be some kind of tax-exemption and related incentives for environmental-friendly industries.

Discussion

The first commentator expressed concern over the seemingly intensive role of the World Bank in the affairs of countries in the region, including such things as legislation and projects. His fear was that a measure of control would result from this level of involvement, and felt that shouldn't be the role of the Bank, as it is an investor and no investor has the right to interfere in the internal affairs of countries. The group rapporteur replied that the role of the Bank was to act as an advisor or consultant, not one of enforcement. This is especially relevant for environmental and social issues, and to ensure there is compliance with international standards in legislative improvement.

The second speaker asked if the group took into consideration the depletable nature of the extractive industries, and the consideration of future generations. In response the rapporteur said that it was only briefly mentioned, but they did discuss the issue of sustainability and the need for extractive industries to offer incentives and implement environmental measures like the EMS systems or the ISO 14000, or adopt measures to make their industry as clean as possible.

The next speaker commented that when negotiating extraction contracts there is some provision for either a production-sharing agreement or a set of royalty and tax regimes. Within that framework, you can take into account the fact that oil is depletable. If you have a good government it will set aside money, like Kuwait is doing, in the form of a future generation fund (as you have in Alaska, Norway and Chad), just in case something goes wrong in the future and the oil is depleted.

11. Closing Remarks

World Bank

Charles McPherson, Senior Advisor with the International Finance Corporation, expressed his appreciation to the participants for their active involvement in the workshop process. He emphasized the relevance of the discussions to the World Bank, the importance of the issues raised, and the value of the multi-stakeholder approach. He was particularly happy that the groups had gone beyond simply identifying the issues, and had made recommendations on what to do to address them. He was confident that the results would get attention at a very senior level within the Bank.

EIR Eminent Person

The EIR's Eminent Person, Dr. Emil Salim commented that he was pleased with the accomplishments of this consultation, and was grateful that it could be held in a region that was rich both in history and resources. The purpose of the EIR is to find out how to correct the imbalance in the extractive industries sector that leaves civil society disempowered and vulnerable in relation to government and industry. The World Bank historically has strongly supported both government and the private sector in the extractives sector, but now it is time to strengthen civil society in order for the Bank to begin to address its main objective of poverty alleviation through sustainable development.

The Bank must take a different approach and emphasize more strongly both environmental development and social development on an equal footing with economic development. Dr. Salim concluded by thanking everyone for their contributions, and he urged the participants to push the World Bank to implement the recommendations that finally come out of the EIR.