

**STRIKING A BETTER BALANCE--
THE WORLD BANK GROUP AND EXTRACTIVE INDUSTRIES:
THE FINAL REPORT OF THE EXTRACTIVE INDUSTRIES REVIEW**

WORLD BANK GROUP MANAGEMENT RESPONSE

SEPTEMBER 17, 2004

Abbreviations and Acronyms

AAA	Analytic and advisory activities
ASM	Artisanal and small-scale mining
CAO	Compliance Advisor/Ombudsman
CAS	Country Assistance Strategy
CO ₂	Carbon dioxide
CASM	Communities and small-scale mining
CODE	Committee on Development Effectiveness
DFID	Department for International Development
EI	Extractive industries
EIR	Extractive Industries Review
EITI	Extractive Industries Transparency Initiative
FY	Fiscal year (ending June 30 th for the WBG)
GGFR	Global Gas Flaring Reduction partnership
GHG	Greenhouse gas
GRI	Global Reporting Initiative
HGA	Host government agreement
HIPC	Heavily Indebted Poor Country
HIV/AIDS	Human immunodeficiency virus/acquired immune deficiency syndrome
IBRD	International Bank for Reconstruction and Development
ICMM	International Council on Mining and Metals
IDA	International Development Association
IEA	International Energy Agency
IFC	International Finance Corporation
IGA	Intergovernment agreement
IMF	International Monetary Fund
IUCN	World Conservation Union
LICUS	Low-income countries under stress
MDGs	Millennium Development Goals
MIGA	Multilateral Investment Guarantee Agency
MMSD	Mining, minerals and sustainable development
NGO	Nongovernmental organization
OECD	Organisation for Economic Co-operation and Development
OED	Operations Evaluation Department
OEG	Operations Evaluation Group
OEU	Operational Evaluation Unit
OP	Operational Policy
PPAH	Pollution Prevention and Abatement Handbook
PRSP	Poverty Reduction Strategy Paper
SAL	Structural adjustment loan
SECAL	Sectoral adjustment loan
SEED	Southeast Europe Enterprise Development
SME	Small and medium enterprises
TA	Technical assistance
UJV	Unincorporated joint venture
UN	United Nations
WBG	World Bank Group

Executive Summary

The World Bank Group announced in 2000 that it would conduct a comprehensive assessment of its activities in the extractive industries sector (oil, gas, and mining production - EI). This included, the Extractive Industries Review, an independent stakeholder consultation process headed by Dr. Emil Salim (former State Minister for Population and Environment, Indonesia). Dr. Salim's report produced a number of recommendations for the institution's future involvement in the sector. The Bank Group has considered these recommendations seriously and, in responding, has consulted with and sought to balance the often diverse views of many stakeholders including shareholder governments, civil society, and industry. What follows is a summary of Bank Group management's response.

The Bank Group welcomes the Review. We agree with the majority of its recommendations and we endorse its two fundamental messages:

- ***Extractive industries can contribute to sustainable development***, when projects are implemented well and preserve the rights of affected people, and if the benefits they generate are well-used; and
- ***There is a continuing role for the Bank Group in supporting EI*** provided its involvement supports poverty reduction and sustainable development.

We have learned a great deal from the various stakeholders in government, industry, and civil society who participated in the Review. We are already in the process of implementing many of its recommendations, including initiatives on gas-flaring reduction, carbon-emissions trading, revenue transparency, help for small-scale mining operations, and increased support for biodiversity. In addition, the Bank Group continues to be a leading provider of resources to developing countries for environmental protection, education, health, and other sectors that have linkages with the EI.

We also recognize that consumption of fossil fuels increases greenhouse gas emissions that are believed to contribute to climate change, and the Bank Group already has leveraged about \$10 billion for renewable energy and energy efficiency in developing countries through its investments and technical support. For the Bank Group, supporting sustainable energy means assisting its partner countries in enabling them to access the most cost-effective, best-performing and reliable sustainable energy technologies that are economic, affordable, and best suited to their needs. The Extractive Industries Review has drawn further attention to the importance of renewable energy for sustainable development and has recommended an even stronger Bank Group role. This is fully consistent with the direction in which we are headed, and we will redouble our efforts. This is an area, however, in which the entire international community must act, as renewable energy currently represents only 2 percent of the world's energy investments.

In summary: the Extractive Industries Review process and Dr. Salim's report have had a beneficial impact on the Bank Group's approach to the sector. Our future investments in extractive industries will be selective, with greater focus on the needs of poor people, and a stronger emphasis on good governance and on promoting

environmentally and socially sustainable development. When requested, we will also continue to advise and help governments create appropriate policy and regulatory frameworks for the sustainable development of their countries' resources. In addition, we will take major steps to increase our own support, as well as to encourage and advocate for more global support, for economically viable renewable energy and other clean fuels. Our goal is clear: to help developing countries provide their people with access to clean, affordable, and sustainable sources of energy and to ensure that extractive industries contribute to economic growth, sustainable development and poverty reduction. In many areas the Management Response is a first step in addressing complex issues where there are strong opposing views. More detailed responses in some areas will be spelt out in other processes such as the revision of IFC's safeguards. We will continue to maintain a dialogue with stakeholders on the issues, to learn as we go and to refine our approach in the light of experience and outcomes.

Our specific responses to the Review's recommendations includes prompt actions in the following areas:

Strengthening governance and transparency

- **All future Country Assistance Strategies (CAS) for resource-rich countries will systematically address relevant extractive industry issues.**
- **The sequencing of our activities in EI will be based upon governance capacity and risks.** WBG and other governance indicators will help assess risk and gauge developing-country capacity. The engagement of the IMF and WBG in the country and specific country and project circumstances will help us judge whether to support projects. Where we make judgments in favor of involvement we will disclose our rationale, and where the risks are deemed to be too great and cannot be mitigated, new investments will not be supported. For significant projects we will require risks to be mitigated.
- **In addition, the Bank Group will require revenue transparency as a condition for new investments in EI**—in line with our support of the Extractive Industries Transparency Initiative. For new large projects, we will require transparency immediately to ensure that revenues are properly and transparently accounted for; for new smaller projects, we will expect it within two years.

Ensuring that extractive industry benefits reach the poor

- **We strongly support the principle that communities should benefit from projects that affect them.**
- **We agree with the recommendations of the Review to work with stakeholders to develop consistent indicators of the benefits of extractive industry projects on poverty reduction** and use these to help identify and track project outcomes. For

example, we are already working with the Global Reporting Initiative on this front. We will identify expected development impacts of EI projects we support and make these public before we recommend Board approval.

- We will establish **independent monitoring mechanisms** in our largest projects, and encourage the development of **capacity in communities to monitor projects that affect them**.
- We will work with governments, sponsors, and communities **to ensure that affected communities benefit from projects as broadly as possible**, including continuing to encourage and assist SME (small and medium enterprise) linkages programs.

Mitigating environmental and social risks

- We support the principle that **due to the high value of some biodiversity resources, there are, effectively, “no-go” zones in the world for new extractive industry investments**. The Bank Group’s existing natural habitats policy provides a basis for identifying these areas. IFC’s revision of its safeguards will propose how to best protect biodiversity both inside and outside internationally agreed protected areas through its Performance Standards and Implementation Guides.
- IFC’s safeguard policies are **in the process of being revised and updated to improve their clarity, accessibility, and implementation, in support of some of the specific recommendations included in the Extractive Industries Review**—for example, social and environmental assessments, community participation in monitoring of projects, as well as other more technical safeguards that apply.
- In addition, we will **expand disclosure of information about the impact of Bank Group’s extractive industry investments and ensure prompt disclosure of relevant information to communities about projects that affect them**.

Protecting the rights of people affected by extractive industry investments

- We strongly support **protecting the rights of those affected by extractive industry projects**.
- The Bank Group will **only support extractive industry projects that have the broad support of affected communities**. This does not mean a veto power for individuals or any group, but means that the Bank Group will require a process of free, prior, and informed consultation with affected communities that leads to the affected community’s broad support for the project. The IBRD/IDA’s Indigenous Peoples policy is being revised to reflect this principle, and will be discussed by the Board of Executive Directors in the second half of 2004.

- In addition, for new projects we will **implement the specific recommendation in the Review on the use of security forces to protect extractive industry project sites**— in line with the US/UK Voluntary Principles on Security and Human Rights.

Promoting renewable energy and efficiency to combat climate change

- First, our strategy—through programs and policies—will **aim to ensure that economically and financially viable renewable energy and energy efficiency investments become an essential element in the energy choices of our member nations**, not marginal considerations.
- Second, to ensure an institutional focus on the transition toward cleaner energy sources, we will set an initial target to increase our renewable energy and energy efficiency portfolio commitments by **20 percent annually over the next five years. This target will be reviewed on a regular basis.**
- Third, the Bank Group stands ready in the coming months to convene or participate in a **“steering group” of nations, academic and research institutions, civil society, and industry that can help frame a broader agenda on renewable energy** (including policy reform, research, and financing). We welcome ideas and suggestions for this coordinating mechanism.
- Fourth, to foster greater collaboration across national and institutional lines, the Bank Group will **commit to reporting its annual performance in supporting renewable and energy efficiency programs** against the figures of other leading organizations.
- Fifth, as part of our improved reporting regime, we will aim to **provide sector-specific information**, so that we can better engage a wide range of stakeholders on trends regarding specific technologies, whether those are hydroelectric, wind, solar, geothermal, or biomass.
- Finally, we will **increase not only our staff capacity**, but also the resources at their disposal and incentives within their programs, so that we can more effectively help our country and sector teams succeed in renewable energy and energy efficiency projects, as well as more rapidly transfer best practices across sectors and regions.

Improving organizational coordination

- The experiences of the joint Department that was set up to combine IFC and Bank activities in EI are being reviewed.
- **Lessons learned will be shared publicly—and acted upon.**

Ongoing learning and review

- **A working level advisory group on EI will be established**—with representatives of governments, industry, civil society, and others—to provide input and perspectives to the Bank Group on extractive industry issues.
- We will make **progress reports** to our Board on the Bank Group’s work in the EI sector every year—and **these reports will be made public.**

Not surprisingly, given the range of stakeholders and interests, the Extractive Industries Review did not lead to a consensus of all those who had been involved in the process. While there was broad agreement on the key issues, in some key areas there were different and strongly held views on how these issues should be addressed. And some developing country governments have stated that their views were not adequately represented. An important issue in this regard was the recommendation that the Bank Group should withdraw from investment in oil and coal in developing countries.

Poverty reduction must be at the center of the Bank Group’s role in the EI. Under current scenarios overall aid resources will be insufficient to meet the Millennium Development Goals (MDGs). For many developing countries, oil, gas, and mining) are important assets that should play a role in supporting economic growth if these countries are to achieve the MDGs. They can be a source of employment, raw materials and energy, revenues, infrastructure and demand for local services and goods.

In addition, more than 1.6 billion people do not have electricity; and 2.3 billion people depend on traditional biomass fuels, which are leading causes of both deforestation and pollution. Reducing these levels of “energy poverty” in the next two decades is a huge challenge not just for the Bank Group, but for the entire international community. Local development of energy resources, particularly when international prices are high, can help both directly and indirectly reduce “energy poverty”.

Finally, all forms of energy have a role to play, and while we strongly support a major scaling up of renewable and clean energy sources, oil and coal will inevitably continue to be major fuel sources for the world’s poorest peoples for the foreseeable future. Although the Bank Group’s participation in the sector is expected to remain relatively small, and gas is expected to increase its share of WBG EI financing **by staying engaged in oil and coal** we can have an influential role in ensuring that the best environmental and social practices are followed and that the goal of sustainable poverty reduction is achieved.