



Appraisal Environmental and Social Review Summary

Appraisal Stage

(ESRS Appraisal Stage)

Date Prepared/Updated: 04/04/2022 | Report No: ESRSA01925



BASIC INFORMATION

A. Basic Project Data

Country	Region	Project ID	Parent Project ID (if any)
Ecuador	LATIN AMERICA AND CARIBBEAN	P176221	
Project Name	Implementation of the Extractives Industry Transparency Initiative (EITI) in Ecuador		
Practice Area (Lead)	Financing Instrument	Estimated Appraisal Date	Estimated Board Date
Energy & Extractives	Investment Project Financing		4/18/2022
Borrower(s)	Implementing Agency(ies)		
Republic of Ecuador	Vice Ministry of Mines		

Proposed Development Objective

To assist the Government of Ecuador in increasing operational capacity of the Technical Secretariat and the Multi-Stakeholder Group (MSG) on implementing EITI. This will increase transparency and accountability in the extractives sector by using government information systems for disclosing data and promoting a better understanding of the extractive industries value chain.

Financing (in USD Million)	Amount
Total Project Cost	0.60

B. Is the project being prepared in a Situation of Urgent Need of Assistance or Capacity Constraints, as per Bank IPF Policy, para. 12?

No

C. Summary Description of Proposed Project [including overview of Country, Sectoral & Institutional Contexts and Relationship to CPF]

The project will help to increase its operational capacity of the Technical Secretariat and the Multi-Stakeholder Group (MSG) on implementing EITI operating in Ecuador. The project will increase transparency and accountability in the extractives sector by using government information systems for disclosing data and promoting a better understanding of the extractive industries value chain.

Public Disclosure



D. Environmental and Social Overview

D.1. Detailed project location(s) and salient physical characteristics relevant to the E&S assessment [geographic, environmental, social]

The Extractive Industries Transparency Initiative (EITI) is a global standard for the good governance of extractive industries, particularly oil, and mineral resources. This micro Recipient-Executed Trust Funded project will support capacity building, transparent data management, improvements in systematic reporting, and training for the staff of the Technical EITI Secretariat and the Multi-Stakeholder Group (MSG) at the national level in Ecuador on the requirements of the EITI standard. The Project does not have any particular physical location, and does not involve any physical investments having on-the-ground impacts. There are other EITI development experiences in the region, as in Peru, which began disclosing information on revenues and payments in 2007 and is now using the EITI to include the main concerns of communities also. Peru's EITI Report 2015-2016 provided extensive information on social and environmental issues in that country's extractives sector.

A World Bank report about the EITI in Ecuador (July 2019, WB) points out that, in general in the country, participation of civil society organizations is good, but their ability to engage with extractive industry activities and projects is deficient. The document notes that there are no special regulatory provisions that link citizen participation processes to the extractives sector, with the exception of a regulation that promotes the engagement of indigenous communities through a prior consultation process for hydrocarbon activities.

The extractives sector has developed in an uneven way in Ecuador. On one hand, the country has produced oil for more than four decades and the oil business serves as the basis of its national economy, with large investments in large-scale operations, of which the state-owned company Petroamazonas now controls approximately 80% (according to the EITI Ecuador Technical Secretariat). On the other hand, mining has consisted of artisanal and small-scale mining activity, mainly in gold, which contributes 1.5% to Ecuador's GDP. In both these cases, oil and mining activities have overlapped with the ancestral territories of several of the 14 indigenous nationalities present in Ecuador, and the struggles of such peoples to have a greater say in the way these activities are conducted have gained international attention. In 2018 the Ministry of Energy and Non-Renewable Natural Resources (MERNNR) estimated that direct investment in mining was US\$ 268 million and that this could increase to US\$ 2,252 million between 2019 and 2021.

A challenge for extractives activities is the transparent dissemination of public information. Some of the weaknesses in this regard in the sector include: (i) dissemination of information on state-owned companies is broad but uneven; (ii) most of the information gaps on budget management, economic aspects, and environmental and social risks and impacts occur at the local level; (iii) updated information on current mining rights is lacking; (iv) data about how the state has distributed tax revenues from companies in the sector is hard to come by; and (v) institutional budgets to hire officials who can work to overcome these two previous limitations is lacking.

The EITI standard includes a set of expectations for EITI-supporting companies, as well as provisions on environmental, social and gender impacts. Of the seven requirements included in the EITI, the sixth requirement encourages the disclosure of information related to revenue management and expenditures, helping stakeholders to assess whether the extractives sector is leading to desirable social, economic and environmental impacts and outcomes. The EITI requirements related to revenue allocations include: (6.1) social and environmental expenditures by extractive companies; (6.2) quasi-fiscal expenditures; (6.3) an overview of the contribution of the extractives sector to the economy; and (6.4) the environmental impact of extractive activities.



D. 2. Borrower's Institutional Capacity

The Implementing Agency is the Ministry of Energy and Non-Renewable Natural Resources of the Republic of Ecuador (MERNNR), through its Vice Ministry of Mines (VMM). The Project Implementing Unit (PIU) takes the form of an EITI Ecuador Technical Secretariat housed within that Vice Ministry, which has been designated as the "Champion" of the EITI in Ecuador and is also part of the Multi-Stakeholder Group (MSG). The Technical Secretariat is being led by a senior staff member selected and appointed by the MSG as a Manager/Coordinator (EITI National Coordinator).

It is important to note that MERNNR is a new institution that was formed in 2018 through the merger of the former Ministries of Hydrocarbons, Mining and Electricity, and Renewable Energy. As such it is still in the process of consolidation and not yet ready to engage in the systematic dissemination of information. One weakness of the new Ministry is that it does not have an integrated information system that would allow easy access to data from the extractives sector. On the other hand, it is important to mention that the MEERN has achieved the acceptance of Ecuador's candidacy to the EITI standard, adapting to the international standards of this organization. The steps that MERNNR took to become a member of the EITI were as follows:

- MERNNR, with the support of the World Bank, initiated the process of Ecuador's accession to the EITI. The World Bank executed the Feasibility Study for its accession.
- In September 2019, Ecuador officially presented its decision to join the Initiative.
- In June 2020, the Multi-Stakeholder Group was established, comprised of representatives from the government, extractive industries, and civil society.
- In July 2020, the Multi-Stakeholder Group, with the support of consultants from the Pan American Development Foundation, approved the Work Plan and Rules of Operation.
- In August 2020, Ecuador presented its candidacy to the EITI International Board.
- In October 2020, Ecuador received the official acceptance of the EITI to be part of this standard.

Some important elements to consider regarding the PIU's capacity to implement this project, and especially ESS 7 and ESS 10, are the following: (i) The Project has a national secretary with experience in the process, who participated in the initial stage of Ecuador's acceptance process to the EITI, (ii) The Project has managed to form an active network of stakeholders, with plural participation of public entities linked to the extractive sector in Ecuador, extractive industries and representatives of Civil Society. (iii) The project has an active official website (<https://www.eitiec.org/>) and social networks that disseminate information about the project.

Thus, the components of this Project aim to develop the capacities of the Vice Ministry of Mines to carry out outreach activities and consultative processes with stakeholders in extractive activities in Ecuador, as required by the EITI standard. In this regard, it is important to note that the Vice Ministry of Mines has been promoting since June 2020 the formation of the Multi-Stakeholder Group (MSG) as part of the activities to be part of the EITI. To date, the MSG has had the participation of actors from the public sector, extractive industries, and civil society. An important milestone in this process was the approval in August 2020 of the MSG Work Plan and its rules of operation, considering EITI standards of participation, transparency, and accountability. A second important milestone was the acceptance of Ecuador as a member of the EITI in October 2020 (<https://eiti.org/ecuador>), which shows VMM's progress in bringing the country in line with the EITI standard.



II. SUMMARY OF ENVIRONMENTAL AND SOCIAL (ES) RISKS AND IMPACTS

A. Environmental and Social Risk Classification (ESRC)

Moderate

Environmental Risk Rating

Low

The environmental risk of this trust funded project is rated Low, as it does not involve any specific physical location, any physical investments having on-the-ground impacts, any impact on natural habitats or biodiversity, or any direct generation of GHG or pollution. Potential risks are minimal.

Social Risk Rating

Moderate

The social risk rating is Moderate, particularly because despite the progress made by the Vice Ministry of Mines in the formation of the MSG, it is still necessary to improve the participation of some stakeholders that could be affected by future extractives projects, such as indigenous organizations, artisanal miners, communities affected by extractive industries, and local authorities. To this end, the Project will develop a strategy to promote fuller participation by and relations with indigenous peoples, to improve the mechanisms of dissemination of information and consultation related to the Project. Access to EITI Reports and other attempts at virtual participation, such as online meetings and workshops for example, could also be affected by digital gaps in rural areas of the country without internet access. Otherwise, due to its nature, this operation is not expected to have an adverse impact on livelihoods, nor will it limit community-level access to natural resources or require the acquisition of land leading to physical and/or economic displacement. On the contrary, it will develop a framework for sharing and communicating information in a systematic way; preparing Ecuador’s first EITI report; and training the staff of the Technical EITI Secretariat and the members of the Multi-Stakeholder Group. The potential risks of these activities, in and of themselves, are both minimal and manageable. Given that the objective of the grant is to increase transparency and accountability in the extractives sector of the country, it is expected to translate into positive effects for stakeholders in civil society, including vulnerable and marginalized groups such as indigenous peoples (IPs), Montubios and Afro-Ecuadorians, which could in turn establish positive new patterns for their engagement in oil and mining projects, facilitate informed consultation processes, and lower the risks of complaints or social conflicts in connection with such projects.

B. Environment and Social Standards (ESSs) that Apply to the Activities Being Considered

B.1. General Assessment

ESS1 Assessment and Management of Environmental and Social Risks and Impacts

Overview of the relevance of the Standard for the Project:

This micro Recipient-Executed Trust Funded Project involves capacity building and training activities for the staff of the Technical EITI Secretariat and the Multi-Stakeholder Group. It will also support the collection and transparent management of extractives industries data, and the establishment of a framework for systematic reporting in line with international EITI requirements. One social risk identified is the unintended exclusion of key stakeholders, such as indigenous peoples, small-scale artisanal miners, communities affected by extractive industries, and local authorities, who may not participate in meaningful information dissemination and consultation activities. An



important aspect for the Project will be the development of a proactive approach to the inclusion of these vulnerable groups during the implementation of the process.

For its objective of disseminating public data on extractive industries, the Project will identify possible "bottlenecks" in communication with key stakeholders, such as levels of access to digital tools or content that take into consideration aspects of indigenous languages and cultures, especially with indigenous stakeholders in rural areas and where future mining projects could be developed. Despite the progress made by MERNNR in the formation of the MSG, it is still necessary to improve the participation of some stakeholders that could be affected by future extractive projects, such as indigenous peoples, especially those located in areas of potential extractive projects in the Andes and the Amazon. To this end, the project will develop a strategy for engagement with indigenous peoples, as a condition for effectiveness. The objective of this strategy will be to promote greater engagement and relationship with indigenous peoples to prevent or mitigate the risk of their involuntary exclusion. Also, information dissemination and consultation activities with groups are potentially vulnerable to mining activities. Among those groups most vulnerable to exclusion from benefits under the Project, Afro-Ecuadorians, Montubios and IPs must certainly be considered.

The EITI Ecuador Technical Secretariat, as the Project Implementing Unit (PIU), shall be responsible for ensuring that work plans, terms of reference for engaging consultants, and other documents defining the scope and deliverables of capacity building and training activities are consistent with the applicable requirements of the ESSs 1-10. As specified in the ESCP, the Project capacity building program will include environmental and social dimensions consistent with the provisions of the ESSs, as applicable, as well as with the EITI standard and national norms.

ESS10 Stakeholder Engagement and Information Disclosure

This standard is relevant. The objective of the EITI is to strengthen government and company information systems, contribute to public debate and promote public understanding of the extractive sector. In each of the implementing countries, the EITI is supported by a coalition of government, companies, and civil society. In June 2020 the Vice Ministry of Mines promoted the formation of the Multi-Stakeholder Group (MSG) for the EITI initiative. This meeting had the participation of government entities, extractive industries, and civil society organizations. Afterward, in August 2020, the MSG approved (i) a workplan and (ii) MSG operating regulations according to EITI's standards, including rules about transparency and information accountability. In 2021, a preparatory study ("Estudio de Alcance y Materialidad") was produced with participation of 16 extractive industry companies with operations in Ecuador. This study is an input into the MSG discussions and the preparation of the first formal EITI Ecuador Report, which is due in April 2022.

EITI Ecuador operates through a Multi-Stakeholder Group (MSG) comprised of representatives from civil society, government, and extractive sector companies. The MSG oversees the publication of official data, identifies governance risks, and stimulates discussions and reforms to make oil, gas, and mineral resource management transparent. The EITI Ecuador Technical Secretariat is responsible for implementing the decisions of the GMP and aligning them with the requirements of the EITI standard.

MSG is composed of:



Government entities:

- Vice presidency
- Ministry of Energy and Non-Renewable Resources
- Ministry of Economy and Finance
- Ministry of Telecommunications and the Information Society

Extractives industries:

- Ecuador Mining Chamber
- Lundin Gold
- Repsol
- Petroamazonas EP

Civil Society:

- Fundación Ciudadanía y Desarrollo
- Corporación Participación Ciudadana
- Grupo Faro
- CEDENMA (Coordinadora Ecuatoria de Organizaciones para la Defensa de la Naturaleza y el Medio Ambiente)

CEDENMA is an umbrella NGO in Ecuador that brings together several civil society organizations interested in environmental protection, human rights, indigenous peoples' rights, and sustainable development, with links to grassroots social organizations. One of CEDENMA's contributions to the MSG has been to put on the agenda for discussion the issue of the negative social impacts generated by extractive projects and their effects on the most vulnerable populations. This has essentially served as a means for consulting with these organizations and capturing their feedback during the preparation of the Project, since up to now they have been represented in the MSG through CEDENMA.

Given that the Project design itself focuses on promoting stakeholder interactions and that the MSG is working under EITI requirements to ensure broad participation, it is not necessary to develop a separate SEP. Rather, project-based measures that relate to stakeholder outreach and engagement are specified in the ESCP. Considering that in Ecuador most of the population living in the areas of interest for oil and mining developers is indigenous, it is very important for the legitimacy of the MSG's work that representative organizations of IPs are included in the Group. The EITI Technical Secretariat will develop a strategy for participation and engagement with IPPs that will be an effectiveness condition for the Project.

Dissemination of EITI Reports will take into account digital and cultural gaps with excluded sectors of the indigenous rural population located in potential extractive project areas, so that they have access to information in a socio-culturally appropriate manner.

Finally, a Grievance Redress Mechanism will be established for the Project in the Technical EITI Secretariat; this is also referenced in the ESCP as a condition of effectiveness.

This ESCP contains the following activities related to ESS10:



- Details and timeframes for the implementation of the stakeholder engagement processes.
- Measures for the implementation of the GRM with a description of its operation and accessibility to stakeholders.
- A strategy to promote fuller participation by and relations with indigenous peoples.

B.2. Specific Risks and Impacts

A brief description of the potential environmental and social risks and impacts relevant to the Project.

ESS2 Labor and Working Conditions

This standard is relevant. The standard recognizes the importance of guaranteeing fair labor practices and providing healthy working conditions. The MERNNR and its Vice Ministry of Mines will compile and implement Labor Management Procedures (LMP) to identify the main labor issues, including sexual exploitation and abuse and sexual harassment (SEA/SH), as well as occupational health and safety (OHS) issues. Project workers are direct workers, including PIU staff and consultants hired for design and implementation.

In preparing the LMP, the PIU will specify the Grievance Redress Mechanism (GRM) or Mechanisms in place specifically for Project workers. The LMP will describe the working conditions and management of worker relationships, the conditions of employment and provisions for non-discrimination and equal opportunity, worker's organizations and freedom of association, and OHS measures for workers. The LMP will be a stand-alone document with details of worker GRM and a Code of Conduct that outlines obligations for all workers involved in the Project. The LMP will include a survivor-centric approach on SEA/SH issues and OHS considerations. The final version of the LMP will be ready prior to grant effectiveness.

ESS3 Resource Efficiency and Pollution Prevention and Management

This standard is not relevant. No direct, indirect, or cumulative impacts on resource efficiency have been identified since the Project does not involve any physical interventions. However, the Project activities focused on environmental and social capacity building, together with any other form of technical assistance, should be informed by this standard as may be relevant in the development of training materials.

ESS4 Community Health and Safety

This standard is not relevant. There will be no direct or indirect impacts on community health and safety since the Project does not involve any physical interventions. However, the Project activities focused on environmental and social capacity building, together with any other form of technical assistance, should be informed by the standard as may be relevant in the development of workshops and training.

ESS5 Land Acquisition, Restrictions on Land Use and Involuntary Resettlement

This standard is not relevant. There will be no direct or indirect impacts on community health and safety since the Project does not involve any physical interventions.



ESS6 Biodiversity Conservation and Sustainable Management of Living Natural Resources

This standard is not relevant. No direct, indirect or cumulative impacts on biodiversity are expected since the Project does not involve any physical interventions. However, Project activities focused on capacity building, together with any other form of technical assistance, should consider this standard as may be relevant in the development of workshops and training.

ESS7 Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities

This standard is relevant. Although the Project does not involve any physical intervention in specific areas or territories, it is important to note that the EITI standard provides a framework for governments and companies to develop and comply with a commitment to disseminate information along the extractive industries value chain. In addition, Ecuador’s National Mining Development Plan (2016) indicates that mining projects will be developed in the provinces of Zamora Chinchipe, Loja, El Oro, Morona Santiago and Azuay, among others, which overlap with indigenous territories.

According to information provided by the EITI Ecuador Secretariat, the MSG includes organizations such as CEDENMA that are affiliated with indigenous organizations. In Ecuador many indigenous organizations have taken a position against extractive projects because of their potential negative environmental and social impacts. In this context, the EITI initiative will generate new spaces for official information dissemination, deliberation, and multi-stakeholder consultation on extractive projects. The participation of NGOs with links to IP organizations provides an opportunity to broaden the dissemination of information and promote further deliberation and consultation. For example, CEDENMA has included in the 2022 MSG agenda the issue of negative social and economic impacts of extractive projects, which is a topic of interest to indigenous organizations.

In 2019 the World Bank conducted a Feasibility Study to Inform Ecuador’s Accession Decision to the EITI. One issue in this study was about the perception of stakeholders about the importance of IPs participation in the MSG. A report by Daitch and Field (2016) on this very topic (Preliminary Inquiry into Indigenous Peoples’ Participation in EITI Multi-Stakeholder Groups: What are the Present Experiences, Potential Benefits, and Challenges? Consensus Building Institute, 2016) identified that IPs participation in the MSG has great potential, but needs extensive engagement and work for that input to be fulfilled. In each of the case studies examined in different countries, both information about the EITI process and the data in the reports themselves do not reach enough indigenous communities. The Daitch and Field report concludes that it is difficult for IPs to participate in the potential benefits derived from transparency and accountability without first overcoming barriers that prevent them from engaging with both the typical members of the EITI MSG and the information generated by their activities.

The ESCP includes a condition of effectiveness which is developing a strategy for participation and engagement with IPs in the MSG, and communication that will take into account (i) any language or communication issues that may limit the full participation of IPs; (ii) traditional IPs decision-making mechanisms; and (iii) traditional conflict resolution mechanisms. The Project Operations Manual (POM) will include the key actions of the IP participation and engagement strategy.



ESS8 Cultural Heritage

This standard is not relevant. No direct, indirect or cumulative impacts on physical cultural heritage are expected since the Project does not involve any physical interventions. However, Project activities focused on capacity building, together with any other form of technical assistance, should consider this standard as may be relevant in the development of workshops and training.

ESS9 Financial Intermediaries

This standard is not relevant as the project does not involve financial intermediaries.

C. Legal Operational Policies that Apply

OP 7.50 Projects on International Waterways No

OP 7.60 Projects in Disputed Areas No

B.3. Reliance on Borrower’s policy, legal and institutional framework, relevant to the Project risks and impacts

Is this project being prepared for use of Borrower Framework? No

Areas where “Use of Borrower Framework” is being considered:

N/A

IV. CONTACT POINTS

World Bank

Contact:	Javier Aguilar	Title:	Sr Mining Spec.
Telephone No:	+1-202-473-0020	Email:	jaguilar@worldbank.org

Borrower/Client/Recipient

Borrower: Republic of Ecuador

Implementing Agency(ies)

Implementing Agency: Vice Ministry of Mines

Public Disclosure



V. FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: <http://www.worldbank.org/projects>

VI. APPROVAL

Task Team Leader(s):	Javier Aguilar
Practice Manager (ENR/Social)	Maria Gonzalez de Asis Cleared on 10-Feb-2022 at 09:58:31 GMT-05:00