

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

WORLD BANK GROUP MANAGEMENT RESPONSE

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WORLD BANK GROUP MANAGEMENT RESPONSE TO THE EXTRACTIVE INDUSTRIES REVIEW

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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.

WORLD BANK GROUP MANAGEMENT RESPONSE TO THE EXTRACTIVE INDUSTRIES REVIEW

I. Introduction

1. The most important role of the World Bank Group (WBG) is to help the poorest countries build capacity, grow, and reduce poverty. Achieving sustainable development and meeting the Millennium Development Goals (MDGs) are great challenges, and under current scenarios overall aid resources will be insufficient to meet them. For many developing countries, oil, gas, and mining (extractive industries—EI) are important national assets that should help these countries to achieve the economic growth and increased spending on basic social services and infrastructure that are needed to reach MDGs. Clearly, these resources need to be used in ways that meet environmental and social criteria for sustainable development.

2. WBG investment in EI has been selective. For some time, the WBG has encouraged the development of new EI capacity by private investors within an appropriate framework of government oversight and regulation. Its direct support of new public sector EI investment has declined as a result. WBG financing support of private investment has been focused mainly on projects in countries perceived by investors as risky, and where the WBG has been able to bring value not available in the market place, for example, in terms of environmental safeguards and revenue transparency. WBG EI investments currently account for less than 5 percent of its total annual investment, and an even smaller share of global new investment in EI. In addition to financing, the WBG is active in helping governments create appropriate frameworks for the successful development of their resources and in developing capacity to better manage EI and related issues. WBG safeguard policies and partnership activities have been influential in helping guide the policies and behavior of others.

3. In response to concerns about the sustainable impact of EI, the WBG launched a number of reviews to help assess its best future role in the sector. It asked Dr. Emil Salim (former State Minister for Population and Environment, Indonesia) to conduct an independent consultation with stakeholders about its role (The Extractive Industries Review - EIR)¹. And the WBG asked its own independent evaluation units for IBRD/IDA, IFC, and MIGA to undertake a joint evaluation of the outcomes of its past activities in the sector. The Compliance and Ombudsman's Office (CAO) of IFC and MIGA also undertook a review of the appraisal processes of some more recent projects. All of these reviews have now been made public.² There are large areas of overlap in their recommendations, although, in general, those of the EIR report of Dr. Salim are more wide ranging.

4. All three reports conclude that EI can contribute to sustainable development if appropriate conditions are present. All three support a continued role for the WBG in the sector,

¹ Views and opinions expressed in the EIR report are those of the author or of those consulted and are thus not to be attributed to the World Bank Group.

² The joint evaluation report *Extractive Industries and Sustainable Development – An Evaluation of World Bank Group Experience* can be accessed at www.worldbank.org/oed; the CAO report *Extracting Sustainable Advantage* can be accessed at www.cao-ombudsman.org.

and they provide recommendations as to how its contribution can be made more effective. This Management Response addresses the recommendations of the EIR report. A broad overview of the WBG response in key areas is given below. The Annex contains a detailed response to each of the recommendations, grouped in the categories employed in the EIR report.

II. Strengthening Governance and Transparency

Governance and EI

5. The WBG supports the core recommendation of the EIR that WBG EI programs be tailored to the specific requirements of each country and to the adequacy of governance, and that the sequencing of WBG interventions in EI needs to be carefully considered. Governance is at the heart of the development process: the overall framework of governance within which EI development takes place will be a major determinant of its contribution to sustainable poverty reduction.

6. To this end, all future Country Assistance Strategies (CASs) for resource-rich countries³ will systematically address relevant EI issues. We will carefully assess governance risks in deciding how to support EI development, including the sequencing of Bank Group activities. In particular, increasing the capacity of governments at the sector or national level to manage their EI better and to use EI revenues effectively are priorities for the WBG.

7. For all the EI projects that we support we will carefully evaluate governance capacity and risks at the national, sector, and local levels and use the results in decisions on sequencing our activities in EI. We will adopt a three pronged approach. For significant projects, where revenues are expected to account for ten per cent or more of government revenue, we will require risk mitigation measures to be put in place as a condition of financial support. For smaller projects, we will carefully consider the expected net benefits of projects and the risks to these from weak governance at the sector and national level, and when we consider that the balance of risks is acceptable, we will clearly lay out our assessment in this respect. Where the risks are deemed to be too great and cannot be mitigated, new investments will not be supported.

8. In recent years, the WBG has increased its ability to assess governance capacity and has increasingly focused on governance during preparation of the CAS and in allocating International Development Association (IDA) funds. More effective approaches to tackling poor governance are central to the Low-Income Countries Under Stress (LICUS) initiative, which the

³ *Resource-rich* countries are those in which EIs account for, or are expected soon to account for, more than 50 percent of government revenues and potentially include, for example: Algeria, Angola, Azerbaijan, Botswana, Chad, Congo (R), Congo (DRC), Equatorial Guinea, Gabon, Iran, Iraq, Kazakhstan, Libya, Nigeria, Oman, Syria, Sao Tome, Sudan, Timor-Leste, Turkmenistan, Venezuela, and Yemen. Countries with *substantial resources* are those in which extractive industries account for, or are expected soon to account for, 30 to 50 percent of fiscal revenues or exports and include potentially, for example: Bolivia, Cameroon, Central African Republic, Chile, Colombia, Ecuador, Egypt, Ghana, Guinea, Guyana, Indonesia, Jamaica, Jordan, Kyrgyz Republic, Mali, Malaysia, Mauritania, Mexico, Mongolia, Mozambique, Namibia, Niger, Papua New Guinea, Peru, Russia, Sierra Leone, South Africa, Suriname, Tanzania, Togo, Trinidad and Tobago, Ukraine, Uzbekistan, and Zambia. The usefulness of the two-tier approach and relevance of the specific thresholds will be reviewed in light of implementation experience; the corresponding country groupings will be periodically updated as necessary.

WBG has been implementing since 2002 in countries where inadequate policy and institutional performance precludes major financing programs.⁴ WBG engagement in a country is also a partnership relationship: other multilateral development banks, IMF, the United Nations, and bilateral donors all contribute to work with borrowing countries on governance issues, and the WBG seeks to complement and build on these efforts. For example, in its economic and sector work, the WBG draws on the IMF's reviews of a government's adherence to good practices on fiscal transparency and to data dissemination standards.

9. It is in this complex and evolving context that the WBG makes judgments about the appropriate sequencing of its activities in EI and other sectors. Helping governments build capacity is important, and it finds broad support among stakeholders. But there is considerable debate on when and how country development—including development of EI - can best be supported while capacity is still weak and being built. In responding to countries' need for assistance with EI, the WBG will always prioritize avoidance of corruption and adherence to the WBG's fiduciary principles. Established governance indicators will help assess risk and gauge developing country capacity. In this area, there is much WBG expertise to draw on, including the WBG's Country Policy and Institutional Assessment (CPIA) indicators, as well as other indicators and information that cover issues such as the quality of fiscal management, transparency and anti-corruption policies. Moreover, the WBG, in consultation with stakeholders, will consider development of additional EI-specific governance indicators. These indicators will be used in a consistent framework as an important consideration in helping to assess projects in different countries.

10. The WBG does not believe, however, that it is appropriate to depend only on such specific quantitative indicators to determine its engagement in the EI sector or in particular projects. To be effective, the WBG needs to engage with governments whose capacities range from very strong to extremely weak. Judgments will need to be made in the light of the WBG's experience and taking into account all views and evidence, including a broad range of qualitative and quantitative indicators and country circumstances. We will consider, for example, the involvement of the International Monetary Fund (IMF) and WBG in the country, qualitative judgments of the overall capacity of governance, the risks of conflict, and the nature of the project itself. The World Bank needs to constructively respond to what governments are aiming to achieve, and be prepared to provide financial or technical support, when there is evidence of credible commitment to improve governance.

11. Given the range of country circumstances we face—post-conflict and low-income, stable and middle-income, small and commodity-dependent, large and diversified—and the variety of projects we will be asked to support, a “one-size-fits-all” approach will not work. In the final analysis, the WBG will carefully evaluate expected net benefits for affected communities and for countries, their governance and other risks, and the benefits of WBG engagement. Judgments made by WBG management about engagement and sequencing will be presented to our Board for its final decision and the basis for these judgments will be publicly disclosed in project documents. In the case of IFC, for example, the Summary of Project Information (SPI) or

⁴ See *Low-Income Countries Under Stress: Implementation Overview*, December 2003, available at <http://www1.worldbank.org/operations/licus>.

equivalent document, that is released to the public at least 30 days before investments are considered by its Board, will review the indicators and other considerations taken into account in assessing relevant EI governance-related issues.

Transparency

12. Transparency of revenue payments from EI to governments is an important step toward the greater accountability and informed debate that are essential for better governance. The WBG will be proactive in encouraging transparency of EI revenues in its client countries. In addition to ensuring that revenue inflows are transparently accounted for and disclosed, it is critical to ensure that they are appropriately used. Much WBG governance work is already focused on helping governments improve the quality of their public expenditure processes and programs, and this will now go hand-in-hand with greater and more specific focus on transparency of EI revenues.

13. We strongly support the Extractive Industries Transparency Initiative (EITI) that was launched by the Government of the United Kingdom last year to promote EI revenue transparency and the objectives of campaigns such as “Publish What You Pay.” We are already working with a number of countries to help them develop their skills in accounting for EI revenues and in assisting them to publish information about their EI revenues in a consistent and useful way. The experience of these countries will provide a model for others. The WBG believes that a voluntary approach to transparency that puts great emphasis on country initiative and ownership will generally be more effective than imposition of conditionality by donors. Implementation experience will be reviewed with stakeholders in two years, to assess whether progress has been made in catalyzing transparency in government EI revenues.

14. In the operations that it supports, the WBG will expect revenue transparency as a condition for new investments in the EI sector. For significant new projects, we will expect transparency immediately about project payments to governments, and that the relevant terms of key agreements are publicly available whenever these are of public concern (e.g., Host Government Agreements—HGAs, and Inter-governmental Agreements—IGAs); within two years we will expect transparency about material EI-related payments to governments for all new EI projects that we support.

III. Ensuring that the Poor Benefit from Extractive Industries

Enhancing Poverty Impacts

15. The WBG strongly supports the principle that communities should benefit from projects that affect them and that these projects should contribute to broader regional and national development goals. To this end, the WBG will work with governments, sponsors, and communities to ensure that affected communities, including Indigenous Peoples’ communities, benefit from projects as much as possible through good practice approaches to local recruitment and training, and the development of local suppliers and downstream industries. Good practice will also include components that directly benefit local communities, such as access to health

services, community funds, vocational training, general education, and infrastructure. In many recent projects, IFC has linked small and medium enterprise (SME) development initiatives to its support for resource development investments to broaden and deepen the impact of such projects.

16. Good consultation processes are essential, and they must engage affected communities and enable them to participate effectively in the development and operation of projects. Thus the WBG will work with sponsors and governments to help ensure that consultation processes are participatory, and that they extend through the life of projects. Revised safeguards will include guidelines on community participation in monitoring of projects and mediation. In addition (as noted in Section VI below), the WBG will work with investors and communities to ensure that the EI projects that it supports are broadly supported by affected communities.

17. Investors recognize that developments that are welcomed by communities are likely to be beneficial in these communities, and will tend to be more productive, less prone to disruption, and will enhance their reputations. It is important to observe that in addition to government cooperation in each country with EI activities, support from the oil, gas, and mining companies is essential. We believe that many companies are exercising responsible leadership through their efforts to ensure balanced and equitable projects. Thus the WBG will consult fully with industry to benefit from its experiences and to ensure that it participates fully—as partners with the WBG, civil society, and governments, in the process of change.

18. The WBG will also work with stakeholders more generally to help facilitate the application of relevant best practice, including capacity building. In this respect, it proposes to establish a multistakeholder “Sustainable EI Development Facility,” with civil society and industry participation. With an initial focus on Africa, it will facilitate, through practical project experience, an enhanced contribution to sustainable development at the community level for EI projects where the WBG is involved.

19. The WBG helps governments to design and implement suitable frameworks for EI revenue sharing, and it can help them prepare for negotiations with investors and to build EI management capacity to oversee and use revenues at the national and local levels. Critical components of benefit sharing, though, are usually set at the national level, often by basic laws or Constitutions that allocate ownership of resources and royalties between landowners, developers, and tiers of government. International practice varies considerably. In practice, setting fiscal terms and benefit-sharing at the project level, as is suggested by the EIR, is often not possible. The WBG will require that national standards for benefit-sharing are fully met for all EI projects in which it is involved.

Reporting and Measuring the Poverty Impacts of EI Projects

20. We agree with the recommendations of the Review to work with stakeholders to develop consistent indicators of the benefits of EI projects on poverty reduction, both *ex ante* and *ex post*. The measurement of poverty impacts is challenging, and the WBG is continually striving to improve its performance in this area for all projects, including those in EI. Project size and other circumstances will determine the extent to which a project's ultimate impacts can be realistically assessed. The internal evaluations of WBG activities in EI have made an important contribution in their review of the outcomes of past WBG EI activities. We will continue to work with other stakeholders, especially with multistakeholder initiatives, such as the Global Reporting Initiative (GRI), to develop consistent EI-specific indicators of projects' contributions to sustainable development and poverty reduction that can be used to help design and track outcomes of projects. However, every project is different and standard indicators will not always be sufficient to fully describe a project's potential impacts.

21. The WBG will establish independent monitoring mechanisms in our largest projects, and encourage the development of capacity in communities to monitor projects that affect them. However, such mechanisms will usually not be practical for smaller projects. We will help ensure that communities are well informed by requiring that investors, as part of ongoing consultation processes, make available meaningful information about the social, economic and environmental impacts of their projects. In dealing with the private sector, the WBG will work with smaller, local sponsors to help build their capacity for community development and consultation processes. It will, where appropriate, also help communities develop their own capacities to participate effectively. In this context, IFC is reviewing its disclosure policy; this review will provide an overall framework for more effective disclosure. We propose to make public the expected development impacts of EI projects that we support prior to seeking Board approval.

Artisanal and Small-Scale Mining

22. The EIR has highlighted the important issue of artisanal and small-scale mining (ASM). By some accounts, more than a 100 million people depend directly or indirectly on this form of mining. Small scale mining can offer opportunities for development and poverty reduction. Yet because of limited access to capital and inadequate regulation and supervision, it can also be associated with significant environmental, social, and health costs. It is a widespread and complex issue and a major part of the approach to ASM will necessarily lie within overall poverty and development strategies. The WBG will use its leadership in the CASM initiative (Community and Small-Scale Miners) to help develop more effective strategies that can be reflected in CASs and better integrated into the Bank's country programs.

IV. Mitigating Environmental and Social Risk

23. We agree that the clarity and accessibility of our safeguards should be continually improved. The WBG has, over time, updated its policies and guidelines⁵ in line with experience. In a number of areas, however they are not state-of-the-art. These policies and guidelines are important not just for the WBG's activities but because they also help set the policies of governments, other institutions, and investors. Most recently, for example, 25 international banks (the Equator Banks) have adopted IFC's policies and guidelines as a basis for their own financing. Both the EIR and the WBG's own internal evaluations have indicated areas in which the practical implementation of safeguards in WBG projects should also be strengthened, and we are already moving ahead on this front.

24. The IFC, for example, is now updating its safeguard policies and guidelines. MIGA will subsequently present similar initiatives to its Board. The complete revision process will take some time; but priority will be given to dealing early with many specific EI issues that are included in the EIR recommendations—such as social and environmental assessments, community participation in monitoring of projects, as well as other more technical guidelines that relate specifically to EI including the use of cyanide, mine closure, tailings disposal and waste management, and acid rock drainage. The Natural Habitats policy will be addressed in IFC's Implementation Guide a part of this process, including considering carefully issues such as “no go zones”. A starting point will be the principles and values of bio-diversity and the need to conserve and sustainably manage biodiversity resources. Because of the high value of some biodiversity resources, there are, effectively, “no-go zones” in the world for new EI investments; and IFC is considering how to best protect biodiversity both inside and outside internationally agreed protected areas.

25. Stakeholders will have ample opportunity to comment on draft revised policies. On August 16 2004, IFC made its draft Policy on Social and Environmental Sustainability and draft Performance Standards public for comment. In addition, a revised set of Precious Minerals Mining Guidelines that begin to address many specific EI issues was made publicly available for comments in late July 2004.

V. Protecting the Rights of People Affected by EI Investments

The WBG and The Rights of Project Affected People.

26. We fully support the importance of protecting the rights of those who are affected by EI projects that the WBG supports. The Bank Group will only support EI projects that have the broad support of affected communities (including Indigenous Peoples communities). This does not mean a veto power for individuals or any group, but it does mean that the Bank Group requires a process of free, prior, and informed consultation with affected communities that leads to broad support by them of the project. The IBRD/IDA Indigenous Peoples policy (see below) is

⁵ WBG safeguards also include those for the protection of cultural resources (OPN 11.03 and draft OP/BP 4.11) that may be an important consideration in some EI projects.

being revised to reflect this principle, and it will be discussed by the Committee on Development Effectiveness in the second half of 2004.

27. The WBG shares a broader view of development today than when it was formed, and we continue to learn about the process of development and what is needed for sustainable progress. This understanding is reflected in the ways the WBG has changed over time, particularly during the past decade. The WBG now gives much greater focus to social and human capital—with direct implications for the rights of those impacted by projects, and for the governance of those countries where it is active. When we work with governments on such areas as education, the environment, poverty reduction, combating AIDS, and gender issues we are already dealing directly with some of the most vulnerable in society to help them exercise basic rights that are fundamental to their well being. Through our broader policies we help advance and protect important rights of members of the communities in which we operate. We also have many productive relationships with other organizations that have a focus on human rights, such as UN agencies.

28. The WBG also strongly supports good practices with respect to labor policies in all its member countries. IFC and MIGA have specific policies concerning child and forced labor. IBRD/IDA has appointed a Senior Advisor to the Office of the Managing Director, MDS. IFC and IBRD/IDA have embarked on in-depth reviews of their approach to human rights, an issue with implications well beyond the EI sector. In the coming months, Management will discuss with the Board the whole issue of a “rights-based” approach to development. The challenge for the WBG will be how to respond positively to emerging requests to adopt a rights-based development framework, in a way that is compatible with the roles of its several distinct institutions with their different clients and modes of operation. IFC is revising its approach to labor and working conditions as a part of its revision of its safeguards. In its draft Performance Standard addressing this issue, it adds proposed provisions concerning workers organizations and non-discrimination to existing provisions concerning child labor and forced labor. These proposals were made public for comment from August 16th 2004 and are intended to help IFC clients develop best practices in the context of corporate social responsibility.

29. In addition, the WBG will implement specific recommendation in the EIR 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. Many of the concerns about the potential abuses of the rights of people affected by EI projects arise from measures taken to ensure site security. The voluntary guidelines are designed to help protect against any abuse.

Indigenous Peoples

30. The WBG fully recognizes that Indigenous Peoples can be particularly vulnerable to projects that affect them due to their unique collective ties to lands, territories and natural resources. The WBG’s operational policy on Indigenous Peoples pioneered among the multilateral development banks an approach ensuring that adverse impacts on Indigenous Peoples are avoided—and where this is not feasible, those impacts are minimized, mitigated, and compensated for. The policy also requires that the benefits accruing to Indigenous Peoples are

culturally appropriate. Historically, this policy, in tandem with other operational policies, has played a critical role in setting best practice for EI activities involving Indigenous Peoples.

31. IBRD/IDA is now revising its current Indigenous Peoples policy, following extensive global consultations with external stakeholders. These consultations have included roundtables with global Indigenous Peoples leaders and, most recently, a meeting in May, 2004 of representatives of the international Indigenous community and the WBG's legal staff. Following discussion by the Committee on Development Effectiveness in the second half of 2004, it is expected that the revised draft (Operational Policy 4.10) will be made available for public comment for a minimum of 60 days prior to the full Board discussion.

32. In addition to providing an umbrella framework for WBG activities in EI that involve Indigenous Peoples, the revised draft policy is expected to include important provisions to ensure a process of free, prior, informed consultation with Indigenous Peoples' communities leading to their broad support. The revised policy will also have a number of important provisions that are particularly relevant for EI. The draft revised policy requires, for example, recognition of rights of Indigenous Peoples to lands and territories which were traditionally owned, customarily used or otherwise occupied, and ensuring that Indigenous Peoples receive benefits and compensation, and rights to due process, at least equivalent to what any landowner would be entitled to in the case of commercial development on their land, from EI projects that are carried out on their traditional lands. As discussed above, the WBG will only support EI projects that have the broad support of communities that they affect.

33. When approved, the revised policy and accompanying guidebook will provide a solid basis for addressing issues relating to Indigenous Peoples and EI development. The WBG will help develop and promote best practices, and will continue to work with Indigenous Peoples groups and others to learn from EI projects or processes that have affected Indigenous Peoples. A first discussion forum on best practices involving Indigenous Peoples in this respect is being planned for FY05.

VI. Promoting Renewable Energy and Efficiency to Combat Climate Change

Climate Change and EI

34. The WBG recognizes that the combustion of fossil fuels increases greenhouse gas emissions that are believed to contribute to climate change, which constitutes a global threat. Climate change will probably increase climate variability and the frequency of extreme weather events, and could adversely affect water quantity and quality, agricultural production, human health, human settlements, and biodiversity and ecological systems in most developing countries. Climate change will impact the poor most severely because of their greater dependence on agriculture and subsistence living, and their weaker capacity to respond to deteriorating environments. The WBG's approach to helping its developing country members respond to the threat of climate change is consistent with the overall approach of common but differentiated responsibilities in the Kyoto Protocol and its understanding that, for the immediate future, the burden of adjusting to a less carbon intensive world needed to be borne by the industrialized

countries. In this respect, the WBG has been active in supporting investment in greater efficiency of energy use in expanding renewable energy resource use, and in developing carbon trading markets (for example, through our Carbon Finance Operations in IFC and the World Bank).

35. The WBG agrees that renewable energy is a key route to addressing climate change concerns. Our strategy—implemented through programs and policies—will aim to ensure that economically and financially viable renewable energy and energy efficiency investments are essential ingredients in the energy choices of our member nations, not marginal considerations. The recent Bonn Renewable Energy 2004 Conference, confirmed that all forms of hydro should be considered renewable and the WBG will continue to support large hydro projects. However, we will aim to grow our commitments to investments in energy efficiency and “new” renewable energy (defined for this purposes as only including hydro of 10MW or smaller) by 20 percent annually over the next five years. We will review this target regularly⁶. WBG support for renewable investments will be part of its overall objective of broadening access to energy, especially among the poor. In the coming months, the WBG will convene or participate in a “steering group” of governments, academic and research institutions, civil society, and industry that can help frame a broader agenda on renewable energy (including policy reform, research, and financing).

36. To foster greater collaboration across national and institutional lines, we will commit to reporting our annual performance in renewable and energy efficiency programs against the figures of other leading organizations, and as a part of this, we will aim to provide sector-specific information on trends regarding specific technologies, such as hydroelectric, wind, solar, geothermal, and biomass. We will increase not only our staff capacity, but also the resources at their disposal and incentives within their programs, so that they can more effectively help WBG country and sector teams to develop renewable energy and energy efficiency projects, as well as more rapidly transfer best practices across sectors and regions.

37. A key objective of our activities will be to help remove institutional barriers to the adoption of renewables, including by addressing subsidies for fossil fuels, and failures to appropriately account for environmental costs. By these means we expect to encourage greater financial resources from both domestic and international sources to be committed to renewable energy and efficiency investments that are economically and financially viable. Even without policy barriers and distortions, some renewables may be economically more costly than conventional alternatives today. Their increased adoption will, for strategic, energy security and externality reasons, in part also depend on finding ways for developing countries to meet any additional costs. One approach would be increased aid in the form of grants and targeted subsidies from the industrialized economies. Another approach would be further development and growth of carbon finance as well as helping countries introduce renewable portfolio standards and similar market based mechanisms that the WBG already actively supports.

38. The WBG also supports the EIR’s recommendation that it should increase financing for the development of natural gas, a clean fuel, for developing countries. The WBG has long

⁶ The starting base will be \$200m – the average aggregate level of WBG commitments to energy efficiency and renewable investments, so defined, over the last three years.

recognized the vital role that natural gas can play in providing affordable and environmentally acceptable energy for development. This focus on natural gas will be reinforced in the coming years, both as a major part of the IBRD/IDA's broader Infrastructure Action Plan, and through increased financing for private gas projects whenever possible. The WBG expects that a larger share of its financing for EI will be accounted for by gas developments in the future.

The WBG and Renewables and Energy Efficiency

The WBG is already one of the largest financiers of renewable energy and energy efficiency in the developing world. By 2004, through its investments and technical support amounting to commitments of over \$6 billion (\$3.6 billion for renewable energy alone), the WBG had leveraged about \$10 billion in additional financing from public, private, and bilateral sources for renewable energy and energy efficiency. Since 1990, over 150 projects have been undertaken in over 60 different countries, in all regions, covering biomass, biogas, geothermal, small and run-of-river hydropower, solar photovoltaic, wind power, and energy efficiency. The contribution of renewable energy and energy efficiency to the WBG's portfolio has steadily grown since 1990. By 2004, the cumulative renewable energy and energy efficiency commitments of the World Bank (IBRD and IDA) were about 14 percent of the World Bank's power commitments, compared with just 4 percent in 1990. IFC's active portfolio in renewable energy and efficiency constitutes 20 percent of its power portfolio.

For the WBG, supporting sustainable energy means assisting its partner countries to access the most cost-effective, best-performing, and reliable energy technologies that they can afford and that best suit their needs. Renewable energy and energy efficiency do not yet present least-cost solutions for all problems, but they increase the menu of possible options. It is important that renewable energy technologies should not be forced on developing countries where they are not economic. However, in many cases the reason for slow uptake of renewable energy and energy efficiency is not primarily economic, but lies with inadequate capacity and an inappropriate policy and regulatory framework. Problems include the absence of enabling regulatory conditions, inappropriate subsidy regimes, high preparation costs for "first-off" projects, a lack of capital, lack of skilled human resources, inadequate market infrastructure, absence of quality standards, and poor information.

WBG projects support the removal of these barriers so that sustainable and growing markets in renewables can materialize. Importantly, given the energy deficit challenges, we need to move from a donor-driven approach to renewable energy development to a more commercial and market-oriented approach, so that countries can mobilize considerably more financing than is available today. While implementation of renewables in developing countries can and should be accelerated, the industrialized countries have a crucial role to play in driving renewable energy costs down, through early adoption of technologies and through investments in R&D. This is particularly true for the "newer" renewable energy technologies such as wind and solar.

39. The WBG's role in EI must be focused on poverty reduction and attainment of the MDGs. By producing and exporting oil, coal, or other EI products, many poor countries can generate crucial revenues for economic development. More than 50 WBG client countries have significant EI sectors that generate important revenues to governments. In other countries, EI may be relatively less significant, but they are still capable of making a valuable contribution at the local or national level. In addition, EI can contribute to community welfare and development in a number of ways.

40. Modern energy supplies remain out of reach for too many of the world's poor. More than 1.6 billion people do not have electricity, and 2.3 billion people depend on traditional biomass fuels, whose use too often contributes to the problems of respiratory ailments and deforestation.

Reducing these levels of “energy poverty” in the next two decades is a huge challenge. While all forms of energy will have a role to play, oil and coal are going to remain the major fuels, as they currently account for over 80 percent of energy supplies in developing countries. For this reason, the WBG does not believe that greater investment in renewables and natural gas depends on a withdrawal from oil or coal financing. We believe that we should continue to support coal and oil projects when we can ensure that the best environmental and social practices are followed. Our support in these areas is not large relative to the size of the sector. Given the nature of these markets, WBG withdrawal from oil or coal financing is not likely to have any net significant impact on greenhouse gas emissions.

41. In recent years, the major part of WBG activity in the coal sector has been to help governments in the transition economies close uneconomic coal mines in a socially and environmentally acceptable way. Given future growth in coal supply and demand in many developing countries, WBG support for policy reform and new private and public sector investments that apply best practices could have an important demonstration effect in helping lift safety, health, and environmental standards. For example, several thousands of people are believed to be killed each year in unsafe coal mines; and coal mining and combustion inefficiencies in many developing countries offer significant scope for improvement, with both local and global benefits. Longer term, clean coal technology and carbon dioxide sequestration offer the potential for coal use in a more environmentally sustainable way, and there is a role for the WBG to help support such approaches in its member countries.

VII. Improving Organizational Coordination

42. The WBG fully agrees that activities of its different institutions and units need to be coordinated to extract maximum synergies. The proposed greater focus on EI in CASs for resource rich countries will contribute to this. The EIR and the WBG’s own evaluation have themselves led to the development of a more closely shared understanding of the role of EI in development and the role of the WBG. WBG coordination has also been enhanced by the joint IBRD/IDA/IFC department that was set up to combine IFC and Bank EI activities. The experiences of this joint department are being reviewed. Lessons learned will be shared publicly—and acted upon.

43. There has been a substantial increase in social and environmental resources applied to WBG EI activities over the last ten years. IFC is now mainstreaming its environmental and social work to make investment staff more directly engaged and accountable, while retaining independent environmental and social compliance and review of outcomes. In the case of IBRD/IDA, the joint internal evaluation of WBG activities recommended a more effective use of environmental and social specialists in project evaluations and supervision, and this will be addressed. MIGA has also recently reorganized itself to better address these issues.

44. The EIR highlights the need for the WBG to better align its staffing and personnel policies with its mission. The WBG strives continually to ensure that its staff assessment processes are best practice, and it pays close attention to aligning its staff policies, including assessment policies, with its objectives of promoting sustainable development and poverty

reduction. As part of these efforts, IFC is currently introducing an innovative program to link the long-term development and financial impacts of projects to incentive payments for the staff who worked on them. In addition, IFC uses broad-based development scorecards for departments and a competency framework for staff that places emphasis on sustainable development.

VIII. Ongoing Learning and Review

45. Implementation of the management responses to the recommendations of the EIR, and of the internal evaluation reports, is an important element in the larger picture of the WBG's policy evolution. A number of important, time bound, processes are already underway and will further refine the proposals set out in the management response. IBRD/IDA's revised Indigenous Peoples policy (OP 4.10) is expected to be considered by CODE in the fourth quarter of 2005. IFC's draft Policy on Social and Environmental Sustainability and draft Performance Standards are now available for public comment as are its draft revised Precious Minerals Mining Guidelines and a concept paper for its proposed new approach to disclosure issues (www.ifc.org/policyreview).

46. We propose to report to our Board every year on progress, and these reports will be made public. In addition, we propose to establish an informal working level advisory group that would meet with our Global Oil, Gas, Mining and Chemicals Department. The advisory group would include representatives from governments, industry, and civil society. It would act as a sounding board for the WBG on EI issues and would help identify and promote appropriate best practice.

IX. Future Strategy for WBG in Extractive Industries

47. The WBG will continue to be active in assisting its member countries with policy advice and capacity building to help them develop their EI in a sustainable way. Its financing for new EI investments will continue to be based on the need for WBG involvement and the additional contribution it can make in terms of ensuring sustainable development. The WBG generally will leverage its impact through partnerships with stakeholders (e.g., CASM and EITI) and demonstration projects that set new standards and approaches. We will continue to give a key role to WBG policies and guidelines that are used by others (e.g. the Equator banks). Our financing strategy, in EI as in other areas, will be to leverage our own financing contribution through cofinancing from other donors, and through IFC's B-Loan program. Our over-riding goal will be promotion of growth and poverty reduction and focus on this goal will inform our assistance to governments in creation of an appropriate policy framework and capacity to effectively manage EI sectors and issues.

48. *Areas of Focus and Expected Outcomes.* In helping governments, our main areas of focus will be support for creating appropriate frameworks and capacity building intended to help ensure that EI contribute to sustainable development. Financing support will continue to focus on private investment and include a strong emphasis on local, regional, and smaller companies (including service companies), gas and local energy supply projects, and larger projects where WBG involvement can make a significant contribution to enhanced sustainability. WBG will support new public sector EI investment when economic and financial criteria are met in addition

to the development impact. In all of its investments, WBG will work with sponsors to help encourage and facilitate broader and more sustainable development impacts at the community level.

49. ***Improved Coordination.*** WBG activities will be better coordinated across its institutions. Much progress has already been made through the preparation of the joint management response to the EI review process, establishment of the joint IBRD/IDA/IFC Oil, Gas, Mining and Chemicals Department, and improved functioning of the Energy and Mining Sector Board. Further improvements will be made possible by a stronger CAS treatment of EI issues and increased cooperation among Bank and IFC units working in areas such as community and regional development.

50. ***Criteria for Engagement.*** The clear objective of WBG engagement in EI is to promote poverty reduction through sustainable development. We will keep this at the center of our project design, appraisal, supervision, and reporting. In our selection and implementation of projects we will be guided by our safeguard policies and guidelines, by best practices, and by our judgment. The quality of governance is one particularly important factor to which we will pay attention. While restrictive criteria for WBG involvement in the sector would not serve the interests of our client countries and their peoples, our activities in EI need to be fully informed by the national, sector, and local governance risks. We will give special attention to the assessment of these risks and, where appropriate, to measures to address them throughout our project activities. Even when not involved in specific EI projects, we will actively consider and help governments address EI issues, through our assessment of relevant EI issues in the CAS.

51. ***Results Focus and Resource Adequacy.*** Adequate resources will need to be applied to ensure acceptable outcomes. Increased focus on ensuring sustainable impacts of EI projects will require appropriate internal resources. For example, earlier and more extended involvement of environmental and social specialists is needed to ensure better implementation of safeguard policies and increased efforts on project appraisal, consultation, disclosure, and value-added in projects. The capacity to recover additional costs from clients may vary by WBG institution and by project. Project budgets will evaluate and reflect these factors and make a realistic allowance for the costs of staff involved in more detailed preparations and supervision. Section XI. below presents a summary of key commitments which the WBG has made in response to the recommendations of the EIR and sets out a timetable for their implementation. Detailed management responses to all EIR recommendations are presented in the Annex.

X. Summary

52. **Our future support for investments in EI will be selective, with greater focus on the needs of poor people and a stronger emphasis on good governance and on promoting growth and poverty reduction through environmentally and socially sustainable development. 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 options 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 sustainable development and poverty reduction. In many areas the Management Response is addressing complex issues where there are strong opposing views. 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.

XI. Summary of Commitments and Time-Bound Actions in Response to the EIR Recommendations		
Commitment	Process/Actions	Timings
Renewable Energy: <ul style="list-style-type: none"> 20% pa growth in investment Establish Steering Group Enhancement of reporting 	<ul style="list-style-type: none"> Work with Bank regional operations: IFC & MIGA infrastructure and environmental Groups, Carbon Finance and GEF Lead concept development for Financing and Policy Network as a part of German led Global Network Review of reporting and monitoring Strategic staffing survey 	<ul style="list-style-type: none"> From FY05 Q2FY05 Underway FY05
Governance: <ul style="list-style-type: none"> Address relevant EI issues in CASs for resource rich countries Review of governance risks in projects Review of use of governance indicators Mitigation in significant new projects Disclosure of assessment of governance 	<ul style="list-style-type: none"> Finalize list, draw up CAS good practice guidance; compile toolkit for LICUS Develop template Test CPIA & other indicators Apply on case by case base as needed Develop approach and vehicle to disclose 	<ul style="list-style-type: none"> Q2 FY05 Q2F05 Q3FY05 Ongoing Q2 FY05
Transparency: <ul style="list-style-type: none"> Requirement for significant new projects For all new projects Support country led transparency work 	<ul style="list-style-type: none"> Case-by-case Prepare guidelines for investors Ongoing (take stock of EITI in 2 years) 	<ul style="list-style-type: none"> Immediately From FY07 Ongoing
Benefiting the Poor: <ul style="list-style-type: none"> Require projects to benefit local people and have broad community support Work with sponsors to broaden development impact SME programs Application of poverty indicators Support for capacity building Sustainable development facility Support for ASM program 	<ul style="list-style-type: none"> Review new projects and assess support in line with Performance Standards. Case-by-case – develop best practice. Case by case – learn from experience Initial review of mining with GRI Use of IFC CCF and other facilities Finalize TOR and seek funding Enhanced work with stakeholders using CASM 	<ul style="list-style-type: none"> Q2 FY05 Ongoing Ongoing Q2 FY05 Ongoing Q2 FY05 Ongoing
Mitigating Social and Environmental Risk: <ul style="list-style-type: none"> Revision of IFC guidelines Addressing EI issues (STD, Riverine TD, cyanide etc) Review of no-go issues Bank guidance on new project categorization 	<ul style="list-style-type: none"> IFC Safeguard revision Guidelines – e.g. Precious Minerals Part of IFC Safeguards Revision ESSD to issue updated guidelines 	<ul style="list-style-type: none"> FY05 From Q1 FY05 FY05 Q3FY05
Disclosure: <ul style="list-style-type: none"> Disclosure of expected project benefits Annual disclosure of project impacts by investors. 	<ul style="list-style-type: none"> To be fully addressed in IFC Disclosure policy review – trial for EI immediately Investor guidelines to be developed 	<ul style="list-style-type: none"> FY05 Q2 FY05
Protecting Rights of People: <ul style="list-style-type: none"> Prior informed consultation Broad community support for projects Requirements about use of security forces Review core labor standards Broader human rights issues 	<ul style="list-style-type: none"> Develop guidance on informed consultation reflecting good practices Prepare guidelines Prepare guidelines for Investor Agreements IFC draft Safeguard proposals Await broader WBG review 	<ul style="list-style-type: none"> Ongoing Q3 FY05 Q3 FY05 FY05 FY05
Ongoing Learning and Review: <ul style="list-style-type: none"> Establishment of Advisory Group Annual review of progress Lessons of review of joint IFC/Bank Department 	<ul style="list-style-type: none"> Discuss with stakeholders Assessment of outcomes Publication of informal review results 	<ul style="list-style-type: none"> Q2FY05 From 12/05 FY05

ANNEX. DETAILED MANAGEMENT RESPONSES TO SPECIFIC EIR RECOMMENDATIONS

Part I. Pro-poor Governance		
	Recommendation of EIR Report	Management Response
1.	WBG programs should be tailored to the specific requirements and needs of the country and to the existing adequacy of governance—taking into account the nature of the resources the area is endowed with, the relative importance of current and expected resource revenues in the government's budget, and the anticipated social and environmental impacts.	We agree that programs need to be tailored in this way, with the Country Assistance Strategy (CAS) providing an overall context. Governance capacity at the sector and national levels will be a crucial factor in determining the sustainable impact of EI developments. The WBG will satisfy itself that the projects and programs it supports will generate net benefits for countries and communities. Such judgments need to take account of country and project specifics, of risk mitigation through policy measures and project design, and of capacity building prior to investment or in parallel.
2.	The criteria of governance adequacy should be developed transparently and with the involvement of all stakeholders. It should include minimum core and sector governance criteria, such as the quality of the rule of law; the absence of armed conflict or of a high risk of such conflict; respect for labor standards and human rights; recognition of and willingness to protect the rights of Indigenous Peoples; and government capacity to promote sustainable development through economic diversification.	Support for EI projects should be subject to a review of the governance and country context. Factors that should be considered include the nature of the project in terms of its size, sponsor, and potential impact, as well as the overall country and governance environment in which it will be executed. Many of these factors cannot be reduced to simple quantitative indicators; qualitative measures of governance and transparency, for example, would be relevant as well. In this latter respect, the WBG would start by reviewing existing indicators of governance developed by the WBG and others, in particular indicators such as the WBG's CPIA (Country Policy and Institutional Assessments) that are used, for example, to help determine IDA allocations. In addition, the WBG would take into account government performance in implementing any ongoing reform programs supported by IBRD/IDA and the IMF, and the strategy set out in the WBG CAS. Discussions with civil society and others on a country's policy priorities - normally carried out in the context assisting governments to prepare or update CASs or Poverty Reduction Strategy Papers (PRSP) - would include relevant EI issues. All projects need to comply with WBG policies, including those for environmental and social safeguards.
3.	The more specific building blocks of governance required for extractive industries include the following: promote transparency in revenue flows, promote disclosure of project documents, develop the capacity to manage fluctuating revenues, develop the capacity to manage revenues responsibly, help governments develop modern policy and regulatory frameworks, and integrate the public in decision-making processes at local and national levels.	We agree that these are among the key building blocks for governance and EI. Promotion of best practice in governance and project implementation is one of the WBG's core goals. All of the issues mentioned in this EIR Recommendation are increasingly important in the WBG's work. To further promote best practice in EI, the WBG proposes to increase transparency and disclosure for EI projects in which it participates. In the case of significant private projects supported by the WBG (including through IFC/MIGA finance/insurance, IBRD/IDA loans/credits and guarantees, as well as technical assistance to facilitate new investment), the WBG will work to ensure both mitigation of risks regarding inappropriate use of revenues, and disclosure of payments to governments, as well as the terms of

Part I. Pro-poor Governance		
	Recommendation of EIR Report	Management Response
		key contracts with governments such as Intergovernmental Agreements (IGAs) and Host Government Agreements (HGAs). For smaller projects, the revenue management risks will be carefully reviewed in appropriate project documents. In IFC's case, for example, it will be reviewed in its Summary of Project Information (SPI) that is disclosed at least 30 days before projects are taken to Board for approval. Within two years of the date of this Management Response (allowing time for transition), the WBG will expect disclosure of EI payments to governments in all new private sector EI projects where it is involved. More generally, the WBG is strengthening its support for transparency through the Extractive Industries Transparency Initiative (EITI), in its core diagnostic and analytic work, and through country-level policy dialogue on public finances. The WBG and IMF provide assistance to governments with EI revenue management, macroeconomic policy, EI policy and regulatory frameworks, and improving public consultation.
4.	Governance should be strengthened until it is able to withstand the risks of developing major extractions. Once that has happened, the IBRD/IDA can add support for the promotion of a well-governed extractive sector.	The WBG recognizes the vital importance of governance to sustainable development, particularly in resource-rich countries, and it is increasingly making it a key element in its CASS. Building government capacity in anticipation of developments is going to be the preferred approach when possible. The extent to which the WBG can support countries with EI projects when capacity may still be weak is a matter of country- and project-specific judgment. Development priorities differ across countries and WBG assistance needs to be tailored accordingly, to address the variety of contexts within which it must work, including: post-conflict countries undergoing reconstruction; small and centralized low-income countries; large and decentralized low-income countries; and middle-income countries of all types. It is not appropriate for the WBG to adopt a "one-size-fits-all" approach in today's complex and rapidly evolving world, and in making a judgment as to whether to support a project, the WBG will carefully evaluate the net balance of risks and benefits. As a part of this it will take account of a wide range of quantitative and qualitative indicators and information about governance and other risks (including use of indicators of governance, such as its own CPIA analysis). Project documents that will be public will include a review of this judgment. In the case of IFC, for example, it will provide a review of relevant EI governance-related issues in its SPI or equivalent document, that is released to the public at least 30 days before investments are considered by its Board. To balance the benefits of EI development with mitigation of governance risks, the WBG will often need to work on strengthening governance in parallel with EI development, with specific risk-mitigating measures included as an agreed part of EI project support. With respect to WBG support in the form of financing or facilitating new private investment, see response to I.3 above.
5.	When the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) consider investing in an oil, gas, or mining	See responses to I.1-I.4 above.

Part I. Pro poor Governance	
Recommendation of EIR Report	Management Response
project, they need to specifically assess the governance adequacy of the country as well as the anticipated impacts of the project and then only support projects when a country's government is prepared and able to withstand the inherent social, environmental, and governance challenges.	
6. IBRD/IDA policy lending in the oil, gas, and mining sectors should ensure that it does not support reforms that streamline investment processes and create new contract models in the extractive industries that undermine social benefits, local community rights, environmental protection, or domestic private-sector vis-à-vis transnational companies, which makes balanced development in all sectors of the economy difficult. Integrate the public in decision-making processes at local and national levels.	The WBG fully agrees that support for new investment frameworks should not undermine appropriate environmental and social safeguard policies that should apply to developments in the sector. What the WBG seeks to do when asked by countries is to help them create frameworks for private sector investment that is well regulated and that has appropriate environmental and social safeguards. In recent years, the focus of WBG in this respect has shifted more toward increasing government capacity to manage EI sectors, including capacity building in related areas. IBRD/IDA encourage inputs from civil society into decision making on the design and implementation of these programs. The general CAS framework is based on a search for balanced development and includes provision for public consultation, which will address EI-related issues where relevant. See also response to II.2 below.
7. Regain Leadership for Best Practice and Encourage Improved Corporate Governance: WBG to promote partnerships to develop incentives for and advance the international application of best practice, such as through corporate responsibility, reputation risk, and the adoption of international norms and codes of conduct, as well as the creation of financial instruments such as performance bonds, mandatory insurance, and fines.	The WBG agrees that it should play a leadership role and it is working to leverage its impact through partnerships on the basis of common long-term objectives, relative expertise, and complementary contributions. Current examples in EI include Global Gas Flaring Reduction Partnership (GGFR), Communities and Small-Scale Mining Initiative (CASM), the EITI, and a proposed study of the policy issues of oil and gas decommissioning. Promotion of best practice in governance and project implementation is one of the WBG's core goals in EI and other sectors. The use of financial instruments such as performance bonds, etc., will be considered as appropriate in revisions of IFC's guidelines as a part of its safeguards revision.
8. IFC and MIGA should only support projects that benefit all affected local groups, including vulnerable ethnic minorities, women, and the poorest members of the community. They should decline to finance projects where this is not the case or should redesign them to guarantee that the standards of living for local groups clearly improve.	The WBG will work with investors and governments to help minimize the risks and to help ensure that local communities, especially the most vulnerable, are properly compensated for unavoidable risks, and benefit from opportunities that are developed in the course of projects. The WBG will also seek to ensure that there are appropriate consultation processes, project and community program designs, linkage programs, and other means that enable communities to receive an adequate share of the benefits.
9. Push for Pro-poor Benefits from Extractive Industries: The WBG should start by helping client governments assess the advantages and disadvantages of the oil, gas, and mining sectors compared with other development options. It should support comprehensive assessments of existing natural resource wealth in client countries, including geophysical surveys and mapping to help with land use planning. In a mandatory	The WBG supports comprehensive assessments of natural resources, when requested by governments and justified by country considerations. When requests are at the sectoral and/or project level, the WBG will advise on the merits of developing EI, in comparison with not developing them. The CAS process provides a framework for the review of the overall direction of economic and industrial development at the country level and the role of the WBG in this respect. At the project-specific level, WBG economic evaluation and environmental assessment

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	comprehensive options assessment, the potential benefits and challenges posed by each sector should be addressed and the WBG should evaluate whether an extractive project provides the best option in the context of poverty alleviation through sustainable development and in line with the precautionary principle.	processes do this by comparing a “with project” case with a “without project” case. As appropriate, the WBG supports a precautionary approach for projects that focus on natural resource management. EI developments are only supported when, in WBG judgment, the economic case is strong when balanced with all environmental and social considerations. WBG policies are designed to help ensure that affected groups are not harmed by developments and, where possible, are better off.
10.	Where governments enter negotiations with extractive companies, the WBG should provide assistance, possibly through the use of independent consultants, to help negotiate deals that maximize the benefits retained in the country. IBRD/IDA policy lending should support policy and institutional reforms that ensure that extractive industry resource rents are used to stimulate more value-added and labor-intensive sectors.	The WBG provides assistance for governments in negotiations with EI companies, usually in the form of policy advice, technical assistance (TA) for capacity building, and assistance in engaging qualified expert advisors. The WBG does not take part in negotiations directly, and provides assistance in response to appropriate requests from governments. The WBG supports the use of appropriate policies and the strengthening of institutions to stimulate value-added and labor-intensive economic activity on a case-by-case basis, as warranted by the economic conditions in individual countries.
11.	IBRD and IDA should help governments to plan the integration of the power plants, deep-water ports, roads, and so on that EI development often requires into regional and national development plans. They should assist governments to enhance positive spillover effects by helping to create forward and backward linkages between mining investments, regional economies, and local communities. Export-oriented gas pipeline projects, for example, can make provisions for domestic use. Effective regional planning—supporting public-private partnerships and the design of realistic cost-sharing arrangements to create linkages early in the project planning cycle—will allow privately and jointly funded infrastructure to be big enough to meet the needs of the regional economy at little extra cost.	The WBG agrees that to the greatest extent possible, major developments should be integrated into overall development plans that can help ensure that local benefits are optimized. When evaluating EI projects, the WBG assesses their integration into related infrastructure frameworks. The WBG also assists countries with the integration of EI-related infrastructure into regional and national infrastructure development plans. When requested by governments and/or by private investors, it helps to assess whether particular infrastructure investments are economically and financially justified. The IBRD/IDA assists governments to create forward and backward linkages between EI investments, regional economies, and local communities as part of its ongoing TA in many EI projects. The IFC has a special Small and Medium Enterprise (SME) Linkages Team that works to encourage such linkages. The IBRD/IDA supports public-private partnerships and cost-sharing arrangements to create linkages from projects to local communities and businesses early in the project planning cycle.
12.	Require Revenue Sharing with Local Communities: IFC and MIGA should specifically involve IBRD and IDA early in the assessment and design of projects. A comprehensive options assessment should be undertaken before IFC and MIGA go ahead and support a project. Cooperation between IFC, MIGA, and IBRD/IDA should take place to encourage and support the creation of linkages to the national and regional economies.	See 13 below. IFC and MIGA ensure that their support for any project is consistent with the WBG (including IBRD/IDA) CAS for the host country. For projects of particular significance, or when special issues arise, IFC and MIGA will work closely with the IBRD/IDA country team. The economic evaluation of projects carried out by IFC and MIGA follows the same methodology as IBRD/IDA and is designed to ensure that a country as a whole is better off with an EI project than without it (taking into account relevant environmental and social factors). IFC, MIGA, and IBRD/IDA cooperate with respect to identifying and implementing project linkages where feasible.
13.	Ensure Local Communities Receive Benefits from Projects: To help ensure that local communities receive benefits from extractive industry projects, the WBG should: (a) require companies to engage in consent processes with communities and groups	The WBG believes that communities should, overall, benefit from projects that affect them. The revised Indigenous Peoples policy is expected to incorporate a provision to ensure that affected Indigenous Peoples communities receive benefits compensation and rights to due process at least equivalent to

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<p>directly affected by projects in order to obtain their free prior and informed consent, (b) require revenue sharing with local communities, (c) mandate the use of poverty indicators that are monitored systematically, (d) encourage the incorporation of public health components in all extractive industry projects, (e) urge NGOs to build the capacities of affected communities, and (f) help set up independent grievance mechanisms.</p>	<p>what any land owner would be entitled to in the case of commercial development on their land. As a part of this approach, the WBG does the following seven things. (a) It will require free prior informed consultation with affected communities, including Indigenous Peoples communities. Projects that are accepted by communities are going to be more effective both for communities and for developers. Discussions with communities should provide meaningful consultation and result in informed participation. (b) The Bank Group will support only those extractive industry projects that have the broad support of affected communities. This does not mean a veto power for individuals or any group, but it does mean that the Bank Group requires a process of free, prior and informed consultation with affected communities that leads to broad support for the project by the affected community. Our 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.</p> <p>(c) The WBG advises governments to ensure that revenue goes to the regions in which EI projects are located thereby compensating the regions for negative impacts and giving a sense of local benefit. It also advises governments to establish revenue-sharing mechanisms that are transparent and are robust enough to deliver benefits in practice. And when involved in projects, the WBG will aim to ensure that local government provisions for revenue distribution are met and will work with investors to ensure that communities benefit in some way from projects that affect them. When it comes to the specifics of the sharing of tax revenues and royalties, this is often set by national law and government policy, and varies widely between countries.</p> <p>(d) The WBG places a high priority on monitoring the sustainability outcomes of projects, and is working with stakeholders to identify appropriate indicators that can serve this purpose in the EI sector (see 20 below regarding the GRI).</p> <p>(e) EI developments in remote areas can bring health benefits to local communities not served by governments, and the WBG encourages investors to incorporate these into the design of projects and community programs. These health benefits include clinic accessibility and anti-malaria campaigns. The IFC has an active anti-AIDS program (<i>IFC Against AIDS</i>) that it has linked to some EI projects. IFC is considering public health issues in its review of Safeguard Policies. The WBG also encourages appropriate community programs that may include community funds.</p> <p>(f) NGOs can play an important role in all areas of the EI-community interface, both as watchdogs and as partners, and the WBG supports this role.</p> <p>(g) Grievance mechanisms that are trusted by local communities can serve as early indicators of problems and as forums for their solution; these will be helpful to investors and communities. The revised Indigenous Peoples policy is expected to incorporate</p>

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		provision for grievance procedures for projects involving Indigenous Peoples. The WBG will continue to encourage inclusion of these mechanisms as a part of overall community development plans. While it is better for grievances to be addressed locally and directly between investor and communities, IFC and MIGA have the CAO (Compliance and Ombudsman's Office) as an independent ombudsman's office to receive and try to resolve complaints; similarly, IBRD/IDA have the Inspection Panel.
14.	Require Companies to Engage in Consent Processes with Communities Directly Affected by WBG Extractive Industries Projects: IBRD and IDA should help governments develop policies that recognize ASM as a distinct sector and that distinguish between community-based and itinerant miners, giving communities clear priority over mining rights.	See response to I.13 above. The WBG will continue to work with other stakeholders to develop workable strategies that address the important social and environmental issues raised by artisanal and small-scale mining (ASM). A key vehicle for development and promotion of effective approaches is the Communities and Small-Scale Mining (CASM) initiative, a partnership coordinated by the WBG. The possible conflict between communities and itinerant miners is an important problem that needs to be addressed. The rule of law must be respected and the rights of license holders and communities must be protected. The WBG will continue to seek ways to support communities, especially in conflicts between properly licensed communities and unlicensed miners.
15.	Free prior and informed consent should not be understood as a one-off, yes-no vote or as a veto power for a single person or group. Rather, it is a process by which Indigenous Peoples, local communities, government, and companies may come to mutual agreements in a forum that gives affected communities enough leverage to negotiate conditions under which they may proceed and an outcome leaving the community clearly better off. Companies have to make the offer attractive enough for host communities to prefer that the project happen and negotiate agreements on how the project can take place and therefore give the company a "social license" to operate.	Concerning prior informed consent, see responses to I.13 (a) above and I.17 below. The WBG supports free, prior and informed consultations with communities through the project cycle as good practice. It is an important component in ensuring that communities are well informed about developments that will affect them, and that they have an opportunity to make their views known and have them fully taken into account. Companies working with the WBG have an incentive to try and ensure that communities welcome their projects. When involved in projects, the WBG will work with governments, investors and others to help ensure communities do benefit and therefore support projects.
16.	Clearly, such consent processes ought to take different forms in different cultural settings. However, they should always be undertaken in a way that incorporates and requires the free prior and informed consent of affected Indigenous Peoples and local communities. The most affected groups are often the poorest and the most vulnerable. Women, ethnic minorities, and Indigenous Peoples might otherwise not be included in local decision-making processes, even though they often bear the brunt of the burden of negative impacts.	The WBG shares concerns about possible marginalization of groups because of gender or ethnic discrimination, or any other cause. In consultations, the WBG will seek ways to ensure that the most vulnerable can be included in appropriate local decision making processes. The involvement of women in mining communities decision making has been identified as an issue in ongoing IBRD/IDA work in Papua New Guinea, for example, and it will be mainstreamed once effective strategies have been identified. Concerning prior informed consent and its relationship to the rule of law, see responses to I.13(a) above and I.17 below. The revised Indigenous Peoples policy is expected to incorporate provision to ensure a process of free, prior and informed consultation with affected Indigenous Peoples communities. IFC's review of social and environmental assessment in the safeguard revision is examining ways to ensure ready identification of the vulnerable and ways to address

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		their specific needs.
17.	<p>The WBG should be informed and guided by the deliberations and conclusions of the United Nations Permanent Forum on Indigenous Issues regarding free prior and informed consent. The WBG should ensure that Indigenous Peoples' right to give their free prior and informed consent is incorporated and respected in its Safeguard Policies and project-related instruments. Ideally, local governments should play an important role in such processes and in the implementation and monitoring of the agreements between local communities and companies. It is also necessary to include covenants in project agreements that provide for multiparty negotiated and enforceable agreements that govern various project activities, should Indigenous Peoples and local communities consent to the project. The WBG should require the use of independent, experienced, objective, and trusted facilitators in participatory processes. Professional services need to be effectively secured as part of social and environmental assessment and be paid for by the project proponent.</p>	<p>Management strongly shares the belief that the rights and interests of Indigenous Peoples and local communities should be well protected, and it endeavors to do so in all WBG-financed projects. The WBG's proposed revised Indigenous Peoples policy (Draft OP 4.10), which will provide a framework for WBG activities that affect Indigenous Peoples, is expected to be made available for public comment following discussion by the Committee on Development Effectiveness (CODE). The revised draft policy will provide greater clarity in the WBG's approach to Indigenous Peoples, including guidance on free, prior and informed consultation and informed participation by affected Indigenous Peoples communities. It also places greater focus on areas such as the recognition on rights of Indigenous Peoples to land and territories which were traditionally owned, customarily used or otherwise occupied by them and receiving benefits, compensation or rights to due process. The WBG uses its safeguard policies, such as those for Indigenous Peoples and Involuntary Resettlement, to ensure that people are treated fairly. It requires investors and governments to engage in meaningful consultation processes with Indigenous Peoples and local communities that gives them the opportunity to understand projects that will affect them [see 13 (b)]. One concern expressed by community representatives was the lack of capacity in some communities to effectively participate in consultation processes. Within the context of specific projects, investors and the WBG should consider proactively helping to increase capacity in communities through training or access to appropriate support from NGOs and others. IFC's Corporate Citizenship Facility (CCF) works with IFC clients and other stakeholders on such activities. Independent facilitators have been used by the WBG in participatory processes, and their use will be carefully considered on a case-by-case basis in the future.</p>
18.	<p>Require Revenue Sharing with Local Communities: IFC and MIGA should ensure that there will be an open, public planning process to distribute revenues in any proposed oil, gas, and mining projects fairly, whether this is provided for in the national legal framework or established on a project-specific basis, and that the local community will have equal access to the information it needs for meaningful participation in negotiation processes. Revenue and expenditure information should also be publicly available during project implementation.</p>	<p>See responses to I.13 (a) and I.17 above. The WBG will work with investors and governments to help minimize the risks and to help ensure that local communities, especially the most vulnerable, are properly compensated for unavoidable risks, and benefit from opportunities that are developed in the course of projects. The WBG will ensure that local communities are appropriately consulted and informed about developments that affect them. It will require investors to release information to local communities in a meaningful way about the economic, social, and environmental impacts of projects. However, fiscal revenue allocation is only rarely set by governments by negotiation on a project-specific basis. Whenever requested, or otherwise required, the WBG advises governments about EI taxation, revenue collection, and sharing, and can inform them of best practices.</p>
19.	<p>Revenues should be shared among local, regional, and national governments. Regional governments have specific demands put on them in terms of planning and addressing such issues as in-migration</p>	<p>See responses to I.8, I.13, I.17, and I.18 above. Although the sharing of EI revenues among different levels of government and communities is a complex issue, the WBG agrees that where EI developments impose costs on communities, these should be</p>

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	and maximizing development impacts through infrastructure creation region wide. An equitable share of the revenues should be provided to local communities. The WBG should consider "direct" or "local and regional" poverty alleviation goals as mandatory for the extractive industries projects it finances. And "sustainability dimensions" should be considered mandatory criteria by the IFC and MIGA.	fully compensated for, as a minimum response. IFC and MIGA already take sustainability into account in project evaluation and in their institutional reporting. IFC has produced two corporate sustainability reports. In the third, due November 2004, IFC hopes to build on reporting of measurement and monitoring of sustainability.
20.	Mandate the Use of Poverty Indicators That Are Monitored Systematically: Data on poverty alleviation in communities surrounding projects must be gathered; all WBG extractive industry projects should mandate the gathering of both baseline data and indicators. These will need to be monitored throughout the life of a project. The WBG needs to make adequate poverty assessments, measuring such indicators as access to potable water, access to services and infrastructure, educational levels of women and children, women's income, and other quality-of-life measures. Much more data should be collected on resettlement as well as on occupational health and safety. The indicators should be simple, easily collected and of relevance and interest to the people concerned. They are part of the ongoing trust building exercise.	The WBG screens social aspects of all projects, including EI projects. This includes a review of poverty. At the project level, baseline data collection is often a part of the social assessment. The December 2003 IFC Good Practice Note, <i>Addressing the Social Dimensions of Private Sector Projects</i> , addresses the issue of identifying indicators to measure improvements in social baseline conditions, although these need to be tailored to a project's size and potential impacts. As part of the ongoing IFC revision of its safeguards, the use of indicators will be evaluated further. IBRD/IDA is currently working with a wide range of stakeholders through the Global Reporting Initiative (GRI) on EI sustainability indicators that can be used consistently across projects and countries to report on outcomes. To be effective, such indicators need to be relevant and meaningful to communities.
21.	While recognizing that data of relevance and interest to local people will differ greatly from location to location, the WBG should attempt to ensure some commonality between local and regional data collection and reporting methods, including what data are collected; when, how, and where they are collected; and where they are made available. It should also ensure this collection is carried out in a manner that involves the local communities and regional bodies in ways which have credibility for poverty alleviation assessments.	The WBG agrees that data should be collected in a consistent format so that it can be compared and aggregated; see response to I.20 above.
22.	IFC and MIGA should adopt clear reporting guidelines for projects so that regional and local impacts and benefits of investments and guarantees are systematically monitored and, if need be, mitigated. Marginalized and at-risk communities should be carefully monitored at the local level and should participate in poverty alleviation plans for a region. Reporting on the impact of the extractive industries should be locally driven & participatory. Furthermore, ongoing assessments should be made available publicly in a timely manner.	IFC is currently reviewing its disclosure policy; for EI projects it is intended to ask sponsors to make information on a project's environmental, social, and economic impacts available each year to communities; see response to I.20 above. MIGA will review its disclosure policies following IFC.
23.	Encourage the Incorporation of Public Health Components in All Extractive Industry Projects: Extractive industry project design and operation	This is an important issue. EI developments in remote areas often bring health benefits to local communities that may not be provided by governments. Most EI projects fund community

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	should emphasize public health prevention and stringent risk reduction (through immunizations, for example, and vector control, treated bed nets, prophylaxis, and condoms). Affected communities should be informed of all human and environmental health risks. Non-employees in the vicinity of a project should be admitted to the project's clinic for all public health measures that benefit the project, especially the control of communicable diseases, and this should be included in the project planning. Extractive industry projects should offer health insurance or compensation for project-caused sickness, accidents, and toxic legacy issues. All relevant WBG-supported projects should mandate a health impact assessment along the lines of the course manual published by the World Health Organization in 2003.	health clinics that offer basic health care, preventive measures, etc., to employees and often to the local public at large. Examples of WBG health-related initiatives in the EI sector include a grant to a Canadian mining company working to support AIDS-affected mining workers and their families in South Africa. IFC has an active anti-AIDS program ("IFC Against AIDS") that is linked to appropriate EI projects. The CIDA-sponsored "Tool Kit for Mining" (pilot stage), an HIV/AIDS resource guide, is scheduled for completion in November 2004. WBG social and environmental assessments require potential health issues to be evaluated and taken into account in project design. The ongoing IFC review of safeguard policies will evaluate the utility of including comprehensive health assessments in the relevant section of environmental and social assessments. Consultation processes should inform local communities of potential health and environmental risks.
24.	Urge NGOs to Build Capacities of Affected Communities: Capacity building of local communities is crucial to ensure effective public participation and to help local communities understand and evaluate an integrated assessment process that incorporates social and environmental impacts along with the other important factors related to a project's potential to contribute to sustainable development. To participate effectively, people need a timely disclosure of information about projects. Communities also need the capacity to participate in the formulation and execution of community development plans.	Capacity building of local communities is very important, as is inclusion of local communities in project planning and development. The WBG provides for considerable disclosure of assessed environmental and social impacts prior to approving financing for projects. Where this information is not understood by local communities, or where they lack the capacity to respond, the WBG will endeavor to widen disclosure and capacity, including encouraging NGOs to assist communities. Community development plans endorsed by the WBG should contain provision for adequate community involvement, and for capacity building where required. IFC facilities have funded NGO capacity building, and this will be considered in future when needed.
25.	Help Set Up Independent Grievance Mechanisms: IFC and MIGA should ensure that there is an effective local complaints and dispute resolution system in place in affected communities when supporting extractive projects. This might be done through the development of a Safeguard Policy on access to impartial dispute resolution. IBRD and IDA should support the establishment of legal and regulatory frameworks, judicial reform, and arbitration tribunals for conflict resolution, which should give speedy and fair results. Relevant capacity building should support this work for all actors involved.	See also 13 f. The WBG agrees that mechanisms to help address local communities' concerns at an early stage are valuable for successful project development. IFC and MIGA support the provision of complaint and dispute resolution systems that provide fair and reasonable recourse for local communities and provides them for large complex projects. In 1999, IFC and MIGA established the Compliance Advisor Ombudsman (CAO) to provide individuals and communities impacted by IFC and MIGA projects the opportunity to raise their concerns directly with an independent authority. Since the late 1990s, the Public Consultation and Disclosure Plans (PCDP) and Resettlement Action Plans (RAPs) for EI projects include grievance mechanisms. Concerning broader judicial and legal reform, and access of poor people to justice, this is one of the core areas of IBRD/IDA intervention in supporting the rule of law and related institution building.
26.	Help Artisanal and Small-Scale Miners: At the country level, IBRD and IDA should help governments develop policies that recognize artisanal and small-scale mining (ASM) as a distinct sector and that distinguish between community-based miners and itinerant miners,	The WBG is already pursuing this important objective. It will increase its efforts and pay particular attention to child labor issues. Some of these issues have already been addressed in a guidance document on Mining and Indigenous Peoples; the guidance document will be used by task team leaders in designing projects. Explicit attention has been paid to issues of

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	giving communities clear priority over mining rights. WBG activities related to ASM should always recognize and respect Indigenous Peoples' rights and should particularly fight the problem of child labor in ASM. When it is considering financing for ASM, the WBG must include adequate, verifiable, and participatory precautionary measures to account for extra-territorial issues, such as river pollution, that may affect communities, including Indigenous Peoples.	indigenous rights and small-scale mining. And the value of IBRD/IDA projects for integrating respect for indigenous rights into government policies and projects has been recognized. The WBG will encourage development of more explicit guidance within the CASM framework for other difficult issues, such as child labor or the potential trans-boundary impacts of ASM activities. With additional resources (see response to I.32 below), these issues can be addressed in a consistent and systematic way. Similarly, CASM and other third-party monitors will be used by IBRD/IDA to verify and improve the impacts and outcomes of IBRD/IDA projects and assistance for ASM.
27.	IBRD/IDA should propose objectives and strategies to address the specific challenges of ASM activities, including the very real environmental and social problems these sectors can cause, the illegal status of these miners almost everywhere, and their lack of access to markets for their goods. IBRD and IDA should thus support governments in legalizing ASM and making it environmentally and socially less harmful, while helping responsible artisanal and small-scale miners earn more from their activities. In some instances, IBRD and IDA should help governments develop alternative livelihoods for ASM practitioners through community development programs. The WBG needs to build the required internal capacity to address these issues, and should form a special ASM unit that is adequately funded to meet these challenges.	The WBG is already working to address the challenges of ASM and will continue to strengthen its efforts. With regard to internal capacity, see response to I.29 on legalization and response to I.32 on internal WBG capacity building. All new IBRD/IDA projects with potential ASM components will, as a matter of course, assess the potential of organized ASM activity to serve as a platform for longer-term household and community social and economic sustainability. New projects will also recommend and design assistance programs that promote livelihood diversification and alternative livelihood development, wherever possible. In those places where mining has a community basis, a participatory community planning process for local development will be made part of the assistance framework. For the time being, rather than develop a special ASM unit, the Mining Policy and Reform Division will have this work be a function of the team established for the implementation the CASM initiative (see response to I.32 below).
28.	Help Governments Legalize and Regulate ASM and Integrate it into the Formal Sector: IBRD and IDA should assist governments to develop policies that legalize artisanal and small-scale mining activities. Community land rights and mining rights should be protected as a priority when giving these miners the opportunity to obtain licenses. National ASM policies should also address the integration of the sector in the national economy, giving artisanal and small-scale miners access to markets. The establishment of cooperatives may help ASM participate in the national market value chain. Policies should also outline strategies for addressing relations between small- and large-scale operators.	The WBG agrees that this is a likely requirement for addressing the poverty and other issues relating to ASM. IBRD/IDA are already helping governments address these issues and will increase their efforts. This recommendation flags a number of critical issues and also project-specific details that need to be addressed in the design and implementation of any new and ongoing IBRD/IDA assistance for ASM. A design checklist will be developed as part of the ASM profiling and assistance design project currently being undertaken by the IBRD/IDA (see response to I.30 below).
29.	IBRD and IDA should assist governments to develop the capacity to regulate a formal ASM sector in parallel with the process of legalizing ASM activities. Social and environmental regulations should go hand in hand with the legalization of the sector, addressing issues including gender imbalances, child labor, and environmental management, particularly the use of	The WBG will assist governments do this when requested. Current IBRD/IDA assistance is in keeping with the recommendation on the legalization and formalization of ASM activity, which is a cornerstone of its work in this area. IBRD/IDA projects typically provide assistance in the drafting of new legislation and regulations, as well as building institutional capacity to implement new laws and regulations. While sensitivity to gender, child labor, and environmental

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	toxic substances. Social and environmental impacts should also be addressed through support for direct capacity building activities of artisanal and small-scale miners to help them avoid, minimize, and mitigate environmental and social impacts.	issues has increased, and efforts have been made to build this into the design of assistance, change in practice is not easily achieved if left at the level of policy and law. For this reason, recent IBRD/IDA projects have included training and capacity-building initiatives, demonstration projects, and community-based education to increase awareness and skill levels among miners. Moreover, IBRD/IDA will increase the effectiveness and reach of the CASM small grants program, which works to build local capacity within communities and miners' associations. In April 2004, IBRD/IDA held a workshop with stakeholders on addressing the issue of child labor in small-scale mining.
30.	Help Governments Integrate the ASM Sector into National and Regional Development Plans: The WBG should provide technical assistance grants to governments to help integrate ASM into rural development policies and to include the sector within the wider economic and social government planning of poverty alleviation strategies. Solutions to the problems associated with ASM could be more effectively addressed through rural development. Government capacity to deal with this sector could be improved through exchange programs during which officials visit countries where a legalized ASM sector has clearly contributed to poverty alleviation, such as in Papua New Guinea, where projects have exemplified greater awareness of environment and safety issues, increased production, and successful closure.	Agreed that it is important wherever possible to integrate ASM issues into broader regional and other planning given the multifaceted nature of ASM issues. The IBRD/IDA has been shifting the focus of its technical assistance for ASM, with the aim of integrating ASM into rural development and poverty alleviation strategies in all new projects. New data survey and analytic tools have recently been developed by IBRD/IDA for ASM baseline studies, and these are keyed into country poverty reduction and rural development objectives. This new approach to understanding ASM to design more effective policies and assistance, as well as action programs for the implementation of country poverty reduction strategies, will be field tested and refined in a number of African countries (e.g., Uganda and Nigeria) in 2004. This approach should become the basis for all IBRD/IDA country work on ASM. Study tours are now a part of all IBRD/IDA technical assistance, promoting South-South interchange and exposure to good practice in other countries, such as Ecuador, Ghana, Papua New Guinea, and Peru.
31.	Develop Pilot Programs in Partnership with Others: The WBG should try a micro-lending approach to ASM in cooperation with aid agencies and other donors. Pilot projects could be developed in partnership with, for example, CASM or CAMMA, the Mines Ministers of the Americas. This form of financial support should be coupled with technical support and education designed to create opportunities to sell products at more competitive prices, incentives for better environmental management, a greater commitment to health and safety, and other improvements designed to put this sector on a more sustainable path.	Agreed that a variety of approaches need to be tried. IBRD/IDA will identify opportunities for working with other organizations (including NGOs, donor agencies, academic institutions, incorporated communities, and CASM) on IBRD/IDA projects and programs, as well as on ASM activities and projects external to and independent of the IBRD/IDA work program. These "partnerships" will be promoted by IBRD/IDA directly and through CASM. Financial resources for the support of pilot programs undertaken in partnership with others will be generated from internal IBRD/IDA and external sources. An application is being made for internal IBRD/IDA trust funds to sponsor ASM partnership projects outside the IBRD/IDA framework, which would be coordinated by CASM. IBRD/IDA and IFC will also set up a pilot project to test a micro-financing facility with ASM in different country and regional contexts.
32.	To address these issues, the WBG needs to build up the required internal capacity and should form a special ASM unit that is adequately funded to meet these challenges.	The Mining Policy and Reform Division will augment its staff devoted to ASM work. The level of increase will reflect both the demand for such services and the willingness of donors to provide support for an expanded CASM. Dedicated personnel with relevant field experience and technical expertise will have the dual responsibility of providing technical and supervisory support to IBRD/IDA projects with an ASM component and operating the CASM secretariat. They will improve analytic

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		tools, project designs, strategies for addressing issues, and modes of project implementation; and will monitor project outcomes and provide assistance when requested by former clients. They will also ensure that the IBRD/IDA experience and any "lessons learned" are passed on to the CASM knowledge network and vice-versa. They will have a mandate and budget to build bridges, move knowledge, and promote more collaborative approaches across IBRD/IDA and with non-IBRD/IDA organizations.
33.	National ASM policies should also address the integration of the sector in the national economy, giving artisanal and small-scale miners access to markets. Social and environmental regulations should go hand in hand with the legalization of the sector, addressing such issues as gender imbalances, child labor, and environmental management.	The WBG accepts the importance of these issues, and is working toward these objectives; see response to I.29 above.

Part II. Environmental and Social Components of WBG Interventions		
	Recommendation of EIR Report	Management Response
1.	Require Integrated Environmental and Social Impact Assessments: The WBG should take a holistic, multidimensional approach to assessments, identifying cumulative impacts of projects and socioeconomic linkages to environmental issues. Social impacts should be fully identified, including health impacts and projects' effects on vulnerable groups. And a strategy for impact prevention, minimization, and mitigation is needed.	The general direction in WBG operations has been toward a holistic approach, as exemplified in support for countries' Comprehensive Development Framework, PSRPs, and similar processes. The preparation of strategic environmental and social assessments, in which cumulative impacts assessment is a key deliverable, has become more common. The 1998 IFC Environment and Social Review Procedure introduced the requirement for a cumulative impacts assessment. Lessons learned, in part in EI, are being used to refine the strategic environment and social assessment and IFC's cumulative impacts assessment requirement. The IFC's December 2003 Good Practice Note, <i>Addressing the Social Dimensions of Private Sector Projects</i> , indicates how to better address social impacts and suggests innovative mitigation actions. IFC's current safeguards revision will advance the integrated (holistic and multidimensional) social and environment assessment agenda.
2.	In countries with significant extractive industries or anticipated growth in these sectors, the WBG's Operational Policy on structural adjustment (OP 8.60) should require upstream social and environmental analyses for policy lending affecting the oil, gas, and mining sectors—that is, for structural adjustment loans (SALs), sector adjustment loans (SECALs), technical assistance, and analytic and advisory activities (AAAs). These analyses should be developed in transparent and participatory processes with full public access to the drafts and final documents.	Environmental and social issues in SALs and SECALs, for EI and other sectors are addressed in the updated OP 8.60: "Development Policy Lending" (August 2004). This updating did not apply to technical assistance operations, which are covered by investment lending policy, and analytic and advisory activities, which are studies and direct advisory work, such as report-writing, workshops, presentations, etc. undertaken by WBG staff and consultants. The updated adjustment lending policy applies to all sectors, including EI. WBG staff review policies and practices in the country to identify links between policy reforms and their environmental and social impacts. Given that the environmental and social impacts of macroeconomic and structural policy reforms are often indirect and difficult to anticipate, the updated OP 8.60 provides for reliance on upstream analytic work to support the design of operations. The fast-disbursing nature of adjustment lending necessitates that, in most cases, any identifiable impacts should be analyzed and addressed at the level of the country program. TA lending can support, where appropriate, any analytic work related to EI, including to their environmental and social dimensions. IBRD/IDA encourage borrowers to consult with and engage the participation of stakeholders and civil society in analyzing social and environmental issues; the form and extent of such consultations depend on a country's specific constitutional and legislative framework. All such WBG-financed AAA may be made publicly available after consultation with the country concerned, taking into account such factors as the need to protect confidential information and the country's internal deliberative process.
3.	Extractive industry projects should be classified as Category A projects-likely to have significant adverse environmental impacts-unless there are compelling reasons to the contrary.	While many EI projects are category A, the WBG believes that categorization of projects should continue to be made in accordance with OP/BP 4.01, <i>Environmental Assessment</i> , and applied consistently across sectors. Categorization should be understood as a risk management tool. Some EI projects, particularly in existing oil producing or mining areas, or

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		expansions of existing developments, do not have significant incremental environmental or social impacts that would justify a Category A rating. Such projects would be classified as Category B according to OP 4.01 since their impacts are site-specific in nature and mitigation measures are readily available. Categorization and the scope of assessment are included in IFC's review of its safeguards.
4.	Update and Fully Implement the Natural Habitat Policy: The WBG should not finance any oil, gas, or mining projects or activities that might affect current official protected areas or critical natural habitat or areas that officials plan to designate in the future as protected.	The WBG values biodiversity for its support to ecosystems, social value, and cultural diversity. Biodiversity is found both within and outside of protected areas. Expanding biodiversity considerations beyond protected areas into the wider landscape is a priority because the threat of significant conversion is mainly outside protected areas. Many land use changes, including forestry conversion and large infrastructure developments, contribute significantly to changes to biodiversity and in the carbon cycle, thus increasing global GHG emissions. The challenge the WBG accepts, therefore, is to identify and either avoid or minimize significant conversion of biodiversity across a wider landscape. This means that because of the high value of some biodiversity resources, there, effectively may be no-go zones in the world, outside of protected areas. In the revision of IFC's Safeguard Policies, IFC is considering how to best protect biodiversity both inside and outside of agreed protected areas. Currently, OP 4.04, <i>Natural Habitats</i> , states that the WBG will not finance projects that, in its opinion, involve the significant conversion or degradation of critical natural habitat. The WBG, as directed by OP 4.04, does not support projects with significant conversion of natural habitat unless there are no feasible alternatives.
5.	Any extractive industry projects financed within a known "biological hot spot" must undergo additional alternative development studies.	OP 4.04 requires that the WBG not support projects involving the significant conversion of natural habitats unless there are no feasible project alternatives and siting, and comprehensive analysis demonstrates that overall benefits from the project substantially outweigh the environmental costs. See 4 above and 11 below.
6.	The current Natural Habitat Policy should be updated to use quantitative thresholds to signal when the policy applies and to indicate the ratio of the specific habitat proposed for conversion compared with the total area of that ecosystem in the country. These thresholds should be determined in participatory processes. Further, companies should be formally required to invest in offsets or compensatory areas that are commensurate with the area to be converted under the proposed extractive industry project. Special attention must always be paid to ensuring that the rights of Indigenous Peoples to their lands, territories, and resources traditionally owned or otherwise occupied and used are respected when choosing and designing an offset. In all cases, the region in general should clearly	The current policy is being reviewed as part of IFC's safeguard review. In this review process a "gap analysis" is under way, comparing the existing OP 4.04, <i>Natural Habitats</i> , with recommendations from several sources, including the EIR. Framing the policy explicitly in the values of biodiversity protection and the sustainable management of natural resources, thresholds, the determination of significance of conversion, offsets, and participation are being evaluated. MIGA will take any changes made by IFC to its Board in due course. IBRD/IDA is participating in this review process.

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	be better off in the net benefit sense.	
7.	Clear “no-go” zones for oil, gas, and mining projects should be adopted on the basis of this policy.	As set out in 4 above, the WBG highly values biodiversity and recognizes that there are circumstances where developments should not take place, whether these are EI or other forms of development. Current WBG policy in the area now takes a precautionary approach, as required by OP 4.04, <i>Natural Habitats</i> . It clearly recognizes government decisions to make areas off limits. It also recognizes government intention for multiple uses of areas of biodiversity and, therefore, focuses on minimizing significant conversion and degradation. This issue will continue to be reviewed within the WBG’s evolving environmental policy framework. In IFC’s safeguard review, the issue of no-go zones is being considered in the context outlined in 11.6 above.
8.	Update and Fully Implement the Resettlement Policy: IFC and MIGA should engage in consent processes leading to free prior and informed consent before resettlement takes place.	IFC is reviewing the Involuntary Resettlement Policy as part of its safeguard review. The WBG will ensure that in any EI project it supports, sponsors undertake appropriate consultation with affected communities. Projects that are accepted by communities are going to be more effective both for communities and for developers. Discussions with communities should provide free, prior and informed consultation. From these actions, the WBG should be able to determine whether the communities support the project. The WBG will commit to taking the community's views on the project into account in determining whether to proceed with project processing.
9.	Compensation and project-derived benefits should lead to genuine improvement, assessed by independent reputable third parties.	Current WBG resettlement policies are aimed at ensuring that people are at least as well off, and preferably have improved livelihoods, following resettlement and that alternative livelihoods are sustainable. The recent Board approved Baku–Tbilisi–Ceyhan (BTC) pipeline project includes an independent third party tasked to verify this objective in this large project. The practice appears potentially applicable to other large projects and it will evolve using lessons learned.
10.	As part of the project assessment and design, the WBG should satisfy itself that benefits allocated as part of the resettlement agreement are backed up by adequate financing by the sponsor. Further financing, such as performance bonds or resettlement insurance, should be available in case initial efforts to achieve better livelihoods are not effective. Resettled groups should furthermore count as part of the groups affected by the project and should receive clear benefits from it, such as receiving a share of project revenues allocated to Indigenous Peoples and local communities.	The instruments required by OP 4.12, <i>Involuntary Resettlement</i> , including the Resettlement Action Plan (RAP) and Resettlement Framework, include a budget to achieve their objectives. As part of the project preparation and appraisal process, WBG staff ensure that the budget for the proposed resettlement entitlements is adequate and that proper monitoring mechanisms are included to allow for regular assessment of implementation. The performance bond and resettlement insurance recommendation will be evaluated as part of the IFC safeguard review. The Community Development Action Plans (CDAP) required for high-risk EI projects in practice include the resettled communities, as well as Indigenous Peoples. Project benefits are distributed to all parties through the CDAP. Insofar as performance bonds are concerned, IFC is reviewing a series of financial instruments as a part of its best practice guidance.
11.	IBRD and IDA should provide technical assistance to governments to help them incorporate all these principles as a basis for national resettlement legislation.	IBRD/IDA will continue to provide technical assistance to governments for national resettlement legislation. This is undertaken when requested by the government, and deemed appropriate in the country context. Good and fair legislation in

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		this area contributes to the quality of governance and the effectiveness of poverty alleviation policies.
12.	<p>Revise the Disclosure Policy: The WBG Disclosure Policy should be broadened to include a series of documents currently protected by confidentiality agreements between IFC, MIGA, and companies. Protection of the proponent's technical processes should be guaranteed, but this needs to be achieved with less confidentiality.</p>	<p>The WBG recognizes the vital importance of effective disclosure, and will continue to increase the transparency of its projects and operations. The WBG aims to provide reasonable and effective disclosure to impacted communities, including about its activities. IFC has helped secure the approval of sponsors and government for the full public disclosure of key agreements in certain major EI projects. Recognizing the issues raised by the EIR, disclosure of the terms of agreements (such as IGAs and HGAs) will be made standard WBG policy for significant new private EI projects. Within two years, allowing time for implementation, the WBG will expect all EI payments to governments to be disclosed. In some areas that are not essential for the public interest, companies may need to maintain confidentiality to protect their legitimate commercial interests, and IFC will work with them to ensure this. The WBG has three disclosure policies that reflect the activities of IBRD/IDA, IFC, and MIGA, respectively. IFC has embarked on a review of its Disclosure Policy for all projects, and MIGA will do so following the IFC review.</p>
13.	<p>All relevant project documents need to be translated into local languages and disseminated in a culturally appropriate and timely manner. Specifically, environmental and social monitoring reports need to be disclosed during project implementation. IFC and MIGA should require disclosure of environmental and social assessments prior to appraisal for all Category A and B projects and at least 120 days prior to project approval, in order to allow meaningful consultation and participation of the public. The WBG should enhance disclosure after project completion, especially evaluations of private-sector project operations.</p>	<p>The WBG agrees that that relevant project documents be made available in local languages and in a culturally appropriate manner; this is current WBG policy. In the EI sector specifically, IFC intends to require investors to make information about project environmental, social and economic impacts available to the public on a regular basis, and it will provide regular reports on the impacts of new EI projects after Board approval. The WBG requires investors to consult with local communities and disclose a draft of the environmental assessment as part of this consultation. IBRD/IDA appraisal for Category A and B projects cannot begin until an environmental assessment, Resettlement Action Plan, and/or Indigenous Peoples Development Plan (as required) have been prepared, consulted upon, and disclosed. In the case of IFC, an approved draft of the environmental and social assessment or environmental assessment and relevant social safeguard documents are disclosed in-country, including to the local community, for at least 30 days before Board presentation. A 60-day disclosure period for safeguard documents is used for IBRD/IDA guarantee operations. The issue of the disclosure of evaluations of private sector operations will be addressed as part of the revision of the IFC Disclosure Policy (see II.12 above).</p>
14.	<p>Net benefit analyses—including revenue flows to the national as well as the local level, taxes, and other means of income for each project—need to be prepared and published. The WBG could help governments create a database of agreements between governments and oil, gas, and mining companies in order to allow comparison of different arrangements.</p>	<p>The WBG agrees that the evaluation of projects should assess net benefits as described. IBRD/IDA publish this evaluation in their project appraisal documents. IFC/MIGA publish these where they are consistent with their respective disclosure policies. At IFC, these are currently under review, and MIGA will then review them as well (see II.12 above). When governments so request, the WBG provides technical assistance concerning EI contractual and fiscal terms, best practice, and comparison with</p>

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		arrangements in other countries.
15.	The WBG should disseminate its Disclosure Policy more broadly at the start of the environmental and social assessment process in the early design phase of extractive projects, so that potentially affected people know what information is available to them. The WBG should expedite access to ensure that potentially affected people get prompt and timely access to the information they need. The WBG should mandate similar disclosure of information and transparency standards from its financial intermediaries and should regularly monitor and review implementation.	The WBG will take measures to ensure that its disclosure policies are made available to affected peoples early in the project cycle. The WBG will examine its policies concerning disclosure of information by financial intermediaries (see response to II.12 above). This issue affects all WBG operations with financial intermediaries, not just those in the EI sector.
16.	There should be an independent and impartial Information Ombudsman to monitor disclosure policy implementation.	This issue goes well beyond the EI sector. Present structures, such as the Inspection Panel (IBRD/IDA) and the CAO (IFC/MIGA), are considered to provide a sufficient avenue for complaints concerning WBG adherence to its policies, including those on disclosure, for all of its projects, including EI projects.
17.	Develop Sector-specific Guidance for Tailings Disposal, Waste Management, and the Use of Toxic Substances: The WBG should develop a list of criteria for tailings placement for all mining projects.	This process was initiated in December 2001 when IFC issued the Hazardous Materials Management Guideline, and it is continuing with the draft of the revised Precious Minerals Mining Guideline that was available from July 2004 and the planned WBG updating of the 1998 <i>Pollution Prevention and Abatement Handbook</i> (PPAH), beginning in June 2004 and running for two years led by the IFC.
18.	No WBG-supported mining project should use riverine tailings disposal.	In practice, under its existing guidelines, the WBG has not for some time supported projects with riverine tailings disposal. The new Precious Minerals Mining Guideline (see II 18 and II 22) [proposes clear standards in this respect. .
19.	Submarine tailings disposal (STD) should not be used until balanced and unbiased research, accountable to balanced stakeholder management, demonstrates its safety.	The WBG would only support the use of STD after careful evaluation; however, it would not rule out STD where it is clearly the best option and is environmentally and socially acceptable. The WBG is represented on the International Steering Committee, Deep Sea Tailings Placement Program. This is an industry-sponsored initiative to (a) identify gaps in the knowledge on impacts, and (b) undertake necessary research to fill any gaps. Findings of this exercise will be considered by the WBG in its approach to evaluating STD.
20.	STD and riverine tailings disposal should not be used in areas such as coral reefs that have important ecological functions or cultural significance or in coastal waters used for subsistence purposes.	Existing safeguard policies (in particular environmental assessment, natural habitats, and cultural property) ensure that ecological functions, cultural significance, and subsistence uses should not be jeopardized when STD is selected as the preferred disposal option (see also II.18 and II.19 above).
21.	WBG support for mines using toxic materials such as cyanide and mercury should be minimized; where possible, safer substitutes should be used.	The WBG agrees with the need for careful use of processes and toxic materials that would pose risks to the environment if not properly planned, managed, and monitored. Issues of “no-go technologies” are being examined in the review of IFC’s policies and guidelines (the draft revised Precious Minerals Mining Guideline that was available from July 2004). The WBG will continue to work with industry in developing good practice procedures that minimize risk.. The WBG agrees that the use of

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		toxic materials should be minimized, but it must be recognized that in many operations there is no technical and commercial alternative to the use of materials such as cyanide. In supporting projects, the WBG will carefully review the operator's procedures for transporting, storing, using, and disposing of toxic materials to ensure they are in line with the Hazardous Materials Management Guidelines (see II 17 above).
2.	The WBG needs to revise its cyanide effluent guidelines to be consistent with the most advanced guidelines in Canada, the United States, and the European Union or to be adequate to prevent environmental degradation.	The draft Precious Minerals Mining Guideline that will be made public for comment in July 2004 addresses this issue (see also II.17 above).
13.	Develop Guidelines for Integrated Closure Planning: IBRD and IDA should develop clear guidelines and require provision for sufficient funds to be built up in the balance sheet for closure from the start of any new development.	The WBG agrees that planning for EI site closure is important. The WBG will develop a more comprehensive approach to mine closure that addresses key issues, such as environmental and social effects, disclosure, and appropriate financial provisions (including efforts to secure independent financial provision, when possible and consistent with local legislation). This is currently being considered in the preparation of the revised Precious Metal Mining Guideline. It also will be a key consideration in the planned updating of the 1998 <i>Pollution Prevention and Abatement Handbook</i> . IFC is also planning a Good Practice Note on Mine Closure for FY05.
24.	IFC and MIGA policies should specify: (a) the outlines of the integrated closure planning process to be conducted at projects, (b) the type of analysis of acid drainage potential that is acceptable and how this information will be shared with those potentially affected, and (c) the creation of a fund or guarantee mechanism that will ensure resources are available to pay end-of-life social and environmental costs identified during planning.	See response to II.23 concerning items (a) and (b). The acid drainage and financing of mine closure are items being considered in the Precious Metal Mining Guideline and the planned updating of the 1998 <i>Pollution Prevention and Abatement Handbook</i> . With respect to disclosure and mechanisms to ensure that resources are available, see responses to I.13 and II.23 above.
25.	Develop Guidelines on Emergency Prevention and Response: WBG emergency response plan guidelines should involve ways to establish good lines of communication for warning local communities, sufficient recognition of potential impacts, and adequate monitoring and maintenance. Such practice should be required in IFC and MIGA projects and encouraged in reforms of national legislation and regulation.	The WBG agrees with this and notes that these guidelines have been in place since December 2001. In particular, community involvement is a key part of the guidelines. The ongoing updating of the 1998 <i>Pollution Prevention and Abatement Handbook</i> will revisit the guidelines using lessons learned from initial experiences in EI. The WBG will continue to work with governments on reforms of national legislation to better address emergency prevention and response.
26.	IFC and MIGA should promote emergency prevention by requiring project sponsors to use best practice and available technologies. Further, MIGA and IFC should require full and early disclosure of emergency response plans, as well as accident and response reports, to the extent feasible.	The December 2001 Hazardous Materials Management Guideline requires preparation of emergency response plans. These are included in the environmental and social impact assessment that is disclosed for all Category A projects.
27.	The WBG should mandate that projects it supports only use safe, modern, and well-run vessels to carry oil or hazardous cargoes. Safety	

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	and age criteria and labor standards should be required for all such vessels, along with systematic and stringent inspections.
28.	<p>Address the Legacy of the Past: Compensation funds should be established for people affected by past developments.</p>
29.	<p>The WBG should establish a targeted program aimed at restoring degraded lands, improving the life of the poor who are affected by previous project closures, and generating employment and skills training.</p>

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MARPOL. However, because oil from most projects is blended with other crude streams and oil sales are often not handled by the sponsor, it is not always possible to enforce requirements on tanker usage beyond the WBG's immediate sponsor.
It is agreed that "legacies," such as abandoned mines or oil production facilities, are a major concern in some countries and regions. The WBG has provided considerable support for mine closure and remediation to address legacy issues, and this will continue. However, WBG involvement will largely depend upon the willingness and capacity of governments and others to finance projects, given other priorities. The WBG will consider working with stakeholders to develop effective approaches to assessing and prioritizing needs. A key priority is to avoid creation of new legacies, and in this respect proposals concerning mine closure for private clients are discussed in response to II.23 above. Compensation funds are complicated instruments, and the WBG provides support when requested by governments as a part of overall economic, environmental, and social policies.
This is an important issue in many areas with a long history of EI operations, and the WBG will increase its efforts to identify suitable areas for intervention and discussion with governments. The WBG already undertakes a considerable amount of work in this area and has financed some projects. However, financing of specific remediation and post-closure projects will generally depend upon the willingness and ability of governments to borrow from the WBG for such purposes.

Part III. Human Rights		
	Recommendation of EIR Report	Management Response
1.	A system-wide policy needs to integrate and mainstream human rights into all areas of WBG policy and practice.	The WBG draws on the values of human rights in all its work. In addition, it has reviews under way to consider how to engage with human rights issues. IBRD/IDA has appointed a senior advisor within the Office of the Managing Director, MDS to help coordinate this work. IFC's Performance Standard add proposed provisions concerning workers organizations and non-discrimination to existing provisions concerning child labor and forced labor. These proposals were made public for comment from August 16 th 2004. In both IBRD/IDA and IFC, human rights is an issue that goes well beyond the EI sector. Activities in EI will be undertaken with direct reference to any overall change in the WBG's approach to human rights issues.
2.	The WBG should systematically incorporate experienced, independent, and reputable third parties to verify the status of human rights in all relevant projects.	See response to III.1 above.
3.	A central Human Rights Unit is essential, with regional counterparts, together with a clear policy and a mandate for monitoring, verification, and transparent annual audits.	See response to III.1 above.
4.	IFC and MIGA should assess the human rights records of companies they work with and ensure that WBG-funded projects are designed and implemented in a manner consistent with applicable international human rights standards.	IFC and MIGA currently review potential corporate borrowers in terms of their overall corporate governance and management of environmental and social issues. Where human rights risks are significant, this practice includes human rights. This may be made more systematic as part of IFC's review of its approach to human rights. In response to concerns about the use of security forces by private EI companies, the WBG will require that sponsors follow provisions regarding the use of private and public security forces based on the <i>Voluntary Principles on the Use of Security Forces</i> . The Principles were developed by a group of NGOs, governments, and industry as a guide using security forces in a manner that does not violate human rights. The WBG believes that community consultation is a key part of any approach to security. (See also response to III.1 above.)
5.	Adopt Core Labor Standards (CLS) for Programs and Projects: Adoption of and demonstrated compliance with human rights principles should be a prerequisite for companies seeking WBG support for extractive industries.	See responses to III.1 and III. 4 above, and II. 6 below.
6.	IBRD and IDA should adopt the CLS as contractual requirements for project financing by including them as mandatory elements of the WBG's Standard Bidding Document. IFC and MIGA should adopt all four, not just two, of the Core Labor Standards as part of their Safeguard Policies. The WBG should work with governments, trade unions, industry groups, and other organizations, as well as the ILO, to promote the implementation	The WBG supports good practice related to all core labor standards (CLS). IFC and MIGA have specific policies relating to child labor and forced labor. This recommendation goes beyond the WBG's activities in the EI sector, and the broadening of WBG adoption of the CLS will be considered under the reviews of the approach to human rights in IFC and IBRD/IDA (see III.1 above). The WBG works closely with all stakeholders on labor issues. In the context of IDA12, a toolkit on CLS was developed by IBRD/IDA for use in the PRSP process, with a greater focus on CLS in IDA's work in general.

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	and enforcement of the standards.	WBG cooperation with unions is improving, with programs of secondments of union staff to the WBG and regular consultations globally (with the ICFTU) and at country level. IFC's draft Performance Standard addressing this issue, add proposed provisions concerning workers organizations and non-discrimination to existing provisions concerning child labor and forced labor. These proposals were made public for comment from August 16 th 2004.
7.	Recognize Indigenous Peoples and Their Land Rights: IBRD and IDA should work with governments to clarify and strengthen, where necessary, the legal basis for resource and tenure rights.	The IBRD/IDA Indigenous Peoples policy is currently being revised and is expected to go to CODE for review in the second half of 2004. The revised policy is expected to give greater focus to recognition of rights of Indigenous Peoples to land and territories traditionally owned, customarily used or occupied by them.
8.	The WBG should not support extractive industry projects that affect Indigenous Peoples without prior recognition of and effective guarantees for their rights to own, control, and manage their lands, territories, and resources.	See response to III.7 immediately above and I.15-17.
9.	The WBG's Safeguard Policies should become an explicit tool for ensuring that the WBG respects human rights.	See response to III.1 above.
10.	IBRD/IDA Safeguard Policies and other operational approaches should clearly recognize the rights of women through a commitment to nondiscrimination, but also through ensuring that social management, community development, and consultation plans and exercises reach out to women.	Gender issues in EI are important and need to be considered in appraisal, consultation, and project design and operation to the greatest extent possible. Gender is a specific consideration in IFC's approach to review and assessment in its review of its safeguards. Women may be the most vulnerable group, especially in remote communities. They may suffer disadvantages while being less likely to benefit directly from access to new and better-paid employment. Social arrangements may be disturbed to their disadvantage. The WBG has started working with stakeholders to review this issue in the EI context (e.g., the recent Women in Mining Conference in Papua New Guinea), and to develop best practices. Consultation processes, community plans, and operation of EI projects need to take better account of gender issues. WBG gender policies and guidelines do provide guidance but these need to be supplemented by awareness of EI-specific issues.
11.	The current draft Safeguard Policy on Indigenous Peoples (OP 4.10) should be reviewed and there should be high-level discussions with Indigenous Peoples on its revision, including a legal roundtable on making the policy consistent with internationally guaranteed human rights.	IBRD/IDA has initiated a series of meetings with Indigenous Peoples' leaders on a broad range of issues, including the draft revised draft OP 4.10 on Indigenous Peoples. Part of this process included roundtables with Indigenous Peoples leaders and a meeting held between representatives of the international Indigenous Peoples community and the Legal Department of IBRD/IDA in New York in May 2004. In the specific area of best practice in EI projects involving Indigenous Peoples, the WBG plans additional meetings with Indigenous Peoples' leaders during the second half of 2004 to further this dialogue.

Part IV. WBG Institutional Priorities

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1.	Make Necessary Institutional Changes: The WBG does not appear to be set up to effectively facilitate and promote poverty alleviation through sustainable development in extractive industries in the countries it assists.	The WBG recognizes that it should continue to evolve and make institutional changes to be more effective in pursuing its mission to fight poverty and improve the living standards of people in the developing world. Examples of recent changes include the increased devolution of work to client country-based offices and closer coordination between IBRD/IDA and IFC in key sectors (including EI). To improve effectiveness and address global trends, IBRD/IDA implemented a wide-ranging internal reorganization in 1997-98, and IFC was reorganized in 2001. In the EI sector, IFC and IBRD/IDA put their activities into a single joint department to help ensure better coordination. This is under review and lessons drawn will be made public and implemented.
2.	Adjust Staff Composition and Incentives: Success indicators for career development need to be improved: instead of putting an emphasis on quantitative lending targets, staff should be rewarded for contributions to ensuring compliance with Safeguard Policies and maximizing poverty alleviation impacts.	The WBG agrees that staff need to work toward goals that are consistent with those of institution as a whole. WBG staff evaluations must indeed be based on individual and team contributions to the WBG's mission to fight poverty and improve living standards of people in the developing world. However, evaluations need to consider that there may be a period of several years between providing advice or making loans and measurable poverty alleviation impacts. Most WBG staff do not work in posts where quantitative financing targets are relevant, but are involved in advisory and TA work, aid mobilization and coordination, economic analysis, environmental and social assessment, and other nonfinancing work. Given the nature of the WBG, multiple intermediate objectives are likely to be needed that reflect the practical and measurable goals of individuals and units. An example of this is IFC's "Departmental Scorecards" that set departmental targets across a range of indicators, including both contribution to sustainable development and the volume of investments.
3.	The whole range of staff incentives should be considered when adjusting staff incentives, including awards and reprimands, promotion and demotion, pay raises and cuts, and hiring and firing. Given the time lag between project cause and effect, retroactive performance adjustments may be necessary.	The WBG, in common with most other large organizations, has a well-developed staff policy that includes a range of incentives and sanctions. These are continually reviewed, and include consultation with WBG staff (through their Staff Association), under the oversight of the WBG Board. A staff member's track record and employment history are fully taken into account in considering promotions or other staffing actions. IFC is currently piloting an innovative long-term performance assessment scheme that links rewards to the outcome of projects undertaken in the past five to seven years.
4.	The WBG should adjust the skill mix of its staff, including the staff of consulting firms, to increase the ratio of people with knowledge of social, environmental, and human rights aspects of development.	Management agrees that the WBG staff mix should adjust to the demands it faces. For example, IFC's environmental and social staff numbers have increased substantially in the last ten years, despite a level of EI business that is relatively unchanged, allowing a greater focus on social and labor issues in particular. The WBG has undergone major changes in organization structure and staffing to more effectively fulfill its mission. In addition, it is not possible to assess the overall effort that the WBG puts into a sector by staff numbers alone. Much environmental and social assessment work is done by outside consultants, supervised by WBG staff. Hence the

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		numbers of environmental and social staff, relative to other specialist groups, is often not a good indicator of the composition of inputs into project preparation and evaluation.
5.	Monitor Projects Effectively by Involving External Parties: In addition to internal staff, monitoring systems should involve the public and outside experts to provide early warning of any previously unforeseen social or environmental impacts of an extractive industry project.	The WBG is increasingly involving outside parties with appropriate authority and expertise to advise on and monitor large and complex projects. Such arrangements are in place for the Chad-Cameroon Pipeline Project and the BTC Pipeline Project.
6.	Improve Coordination Across the Different Arms of WBG: The activities of IBRD/IDA, the IFC, and MIGA need to be much better coordinated. Coordination might best be provided through the Country Assistance Strategy (CAS) process.	Much has been done in the past to strengthen coordination, but it is also recognized that there will always be scope for improvement. CASs are a key way to do this and many CASs are formally joint IBRD/IDA/IFC documents. Among other measures to improve coordination in the EI sector is the joint Oil, Gas, Mining and Chemicals Department, that brings staff from IBRD/IDA and IFC together under a single joint IBRD/IDA-IFC Director, who in turn reports to both IBRD/IDA and IFC Vice Presidents. This arrangement is now being reviewed and lessons learned will be addressed. See IV 1.
7.	Enhance Social and Environmental Accountability for Joint WBG-IMF Operations: The World Bank Group should enhance social and environmental accountability and collaboration between WBG and IMF lending operations in countries with significant extractive industries. To begin with, the WBG should institute a monitoring mechanism of poverty, social, and environmental management indicators to complement the IMF's macroeconomic monitoring.	The WBG cooperates closely with the IMF on all areas involving country economic and financial management, performance, and basic lending policies. Improvements in this cooperation are continually being sought. IBRD/IDA undertake regular monitoring of each country's poverty, social, and environmental management indicators, and these are essential inputs into the CASs that are prepared regularly for all active borrowers. Poverty, social, and environmental policies are evaluated annually in the Country Policy and Institutional Assessment (CPIA).
8.	Systematically Address Challenges of Extractive Industry Sectors in CASs: CASs of countries with significant or planned extractive industries need to address the challenges posed by these sectors regardless of whether the WBG is involved directly in them in a given country. The CAS should outline clearly what governments need to do to assure that the conditions are in place for extractive industries to contribute to poverty alleviation and sustainable development.	To take into account the challenges posed by EI in a systematic manner, the WBG proposes that for all "resource-rich" countries where EI are crucially important, the CAS should address relevant EI sector issues and that the IBRD/IDA program at the country level should take these issues into account. For countries with "significant resources," where EI do not dominate the economy to the same extent but are nevertheless important, the CAS should identify key sector issues and seriously consider addressing these.
9.	Strengthen Environmental and Social Protection in IBRD/IDA Policy Lending: Poverty and the environment should be accorded strategic importance in designing and implementing structural reform programs that involve extractive industries.	The WBG agrees that environmental and social issues need to be considered in all operations. Environmental and social impacts of operations should be addressed in program design and implementation, to the extent practical for each project. IBRD/IDA's approach to treatment of environmental and social issues in adjustment lending is under review, with public consultation on updating the relevant Operational Policy having taken place in 2003.
10.	Update, Implement, and Ensure Compliance with Safeguard Policies Relevant to Extractive Industries: Serious efforts should be made within the WBG to review, improve, and update the	Compliance with the safeguard policies is vitally important for EI projects supported by the WBG. Safeguard policies are complemented by guidance and practice in the sector. Preparation of the Precious Minerals Mining Guidelines, for

Part IV. WBG Institutional Priorities

	Recommendation of EIR Report	Management Response
	Safeguard Policies relevant to the extractive industries within the framework of poverty alleviation through sustainable development. This effort should include the active involvement of relevant stakeholders.	example, is being undertaken with the involvement of relevant stakeholders. In addition, the WBG will continue to work with stakeholders to develop and advance industry best practice. The WBG recognizes the need to update its safeguard policies, with involvement of relevant stakeholders, in light of evolving best practice in all sectors. IFC is currently undertaking a complete review of its safeguard policies, and the recommendations of the EIR will be fully considered in this process.
11.	Report on Lessons Learned: The WBG should systematically report on lessons learned, good or bad, from its interventions in the extractive sector. Such a report should be linked to monitoring of impacts and should be readily available to staff preparing similar projects to ensure institutional learning and prevent the repetition of mistakes. Lessons learned should also be reported systematically in Annual Reports to assure institutional accountability. Adjustments in individual projects as well as project concepts should be made promptly when the lesson that is learned is that a project had unintended negative impacts.	The WBG agrees on the critical importance of learning lessons from current and past activities, and reporting on these. The WBG undertakes evaluation of projects through OED (IBRD/IDA), OEG (IFC), and OEU (MIGA), as well as other internal units (CAO, QAG, etc.). The internal evaluation of EI that took place in parallel to the EIR is an example of the type of work that is regularly done by these groups for the sectors, countries, and projects in which the WBG operates. In addition to special reports focusing on sectors, regions, or projects, the internal evaluation departments produce Annual Reports that provide an assessment of performance in all WBG operations and work, and allow regular monitoring of performance and lessons for the EI sector (and all other areas). Adjustments to individual projects are often made to reflect lessons learned, both positive and negative, during implementation.
12.	Actively Promote Sustainable Energy Policies, Energy Efficiency, Recycling, and Cleaner Fuels, Especially Renewables: IBRD and IDA should position themselves to help governments adopt sustainable energy strategies that address the energy needs of the poor and that minimize climate change.	The WBG is willing to engage and help governments promote sustainable energy policies and activities, including energy efficiency and demand-side management, recycling, and cleaner fuels. A key component of WBG energy policy work is the need to ensure that the poor get access to more convenient and less unhealthy fuels. In addition, the development of long-term energy plans that are integrated into overall development goals may be a way for the WBG to help its member countries prepare for long-term issues, including the threat of climate change. The WBG work in helping promote carbon trading, supporting energy efficiency, and improving countries' legal and regulatory frameworks will help improve the terms of the necessary trade-offs.
13.	Countries should be helped to remove subsidies from carbon-based fuels.	Agreed that subsidies for carbon fuels, except where a part of a targeted, selective approach to serve the poorest, should be removed whenever possible. A consistent feature of WBG policy advice and interventions in the sector is to encourage governments to remove subsidies from energy prices and replace them with social transfer payments to the poor where needed. The issue of applying externalities, such as possible global costs of climate change, is more complex, given the absence of any agreed consensus by the WBG member countries about the application of such costs to national benefit analysis, and significant uncertainty about appropriate economic values for GHG emissions. The WBG will encourage governments to calculate the potential impacts of GHG emissions, as a way of identifying low carbon alternatives that may be able to access carbon trading credits.

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	Recommendation of EIR Report	Management Response
14.	WBG lending should concentrate on promoting the transition to renewable energy and endorsing natural gas as a bridging fuel.	Encouraging gas and renewables including solar and wind power as well as improved energy efficiency development is an important part of WBG energy policy. The WBG possesses a large and active renewable energy and energy efficiency portfolio, and is intending to scale up its activities further through a significant effort with partners to foster more effectively the promotion of renewable energy. With the agreement of partners, the WBG will aim to play a leadership role in helping better address critical needs including policy, finance, governance, knowledge, and political commitment to increase the take-up of renewables in developing countries. The WBG will ensure staff capacities are strengthened and that staff have the needed resources. It will report annually on progress. Gas will be an increasingly important fuel for developing countries. In the case of the IFC, for example, it is expected that an increased share of its financing will be for gas. In many countries, though, gas resources are modest, or completely absent, and other fuel options need to be considered in light of countries' needs and endowments, and the economics of supply. Gas will not always be the preferred fuel on economic efficiency grounds, or indeed in terms of net GHG emissions. Poverty reduction will usually be best served by the most readily available and lowest cost fuel. The transition to renewable, or fully sustainable, energy sources must occur on a global scale in the long term, but fossil fuels will remain a critical part of global energy resources for the next few decades.
15.	The WBG should phase out investments in oil production by 2008 and devote its scarce resources to investments in renewable energy resource development, emissions-reducing projects, clean energy technology, energy efficiency and conservation, and other efforts that de-link energy use from greenhouse gas emissions. During this phasing out period, WBG investments in oil should be exceptional, limited only to poor countries with few alternatives.	The WBG is active in supporting renewable energy and increased efficiency investments and will work with partners to increase the importance of these in its member countries (See IV.14 above). The WBG believes that adopting a policy of withdrawal from coal and oil would not enhance this effort and would not be consistent with its mission to fight poverty and improve the living standards of people in the developing world, for the following reasons: (a) there would be no reduction in global oil use, and consequent greenhouse gas emissions, since oil supplies would either be produced without WBG financing (which is a very small proportion of the total) or would be made up from surplus OPEC capacity; (b) where the WBG could not engage in projects, despite requests from governments and private sponsors, the result would be a potentially lower quality of project compliance with key environmental and social safeguards; (c) it would unfairly penalize small and poor countries that need the revenues from their oil resources to stimulate economic growth and alleviate poverty (e.g., Chad); and (d) it would not free up additional WBG resources for financing for renewable energy, efficiency, and related projects, since such financing is not limited by financial resources but rather by the availability of suitable projects.
16.	The WBG has for the last few years not invested in new coal mining development. This should continue.	WBG investment in new coal capacity has been very low in recent years and most of its investment in the sector has actually been helping the transition countries close uneconomic

Part IV. WBG Institutional Priorities		
	Recommendation of EIR Report	Management Response
		coal mines (see 15). The WBG believes that, as in the case of a phase-out of oil investments, adopting this policy would not be consistent with its mission, for the following reasons: (a) it would have a negligible effect on global use of coal and consequent greenhouse gas emissions, and (b) it may prevent the WBG from funding developments that improve the efficiency of coal industries and thus helps reduce local and global pollution. The coal industry is a major current and expected future source of energy for many developing countries, such as China, India, and South Africa. In such countries there is likely to be substantial investment in capacity renewal and growth, regardless of WBG policy. WBG involvement is more likely to lead to the development of environmental and social best practices, and to greater efficiency of production and use.
17.	IBRD and IDA should accelerate the help given to countries to phase out uneconomic and environmentally unsound coal mining by helping them address any negative economic impacts of a phase-out and bridge a transition to cleaner energies. Mine closure strategies should recognize the high dependence of mining communities on this source of income and employment and should provide adequate compensation, job creation, and training to affected workers and communities beforehand. Any such strategies should be designed and implemented with the participation of local governments and workers.	The WBG agrees that the phasing out of uneconomic and environmentally unsound coal mining, with appropriate social, environmental and economic mitigation measures, is an important policy priority in many of its member countries. The vast majority of WBG financing to the coal sector in the past decade has been for mine closures and associated social and community programs. This is expected to continue, and the WBG will work to increase its involvement in this area through dialogue with its member countries. It will also continue to work with local governments, workers, and other stakeholders in the preparation and implementation of these types of operations.
18.	When a mine is to close, a "just transition fund" could be created to finance programs for community development, retraining, and social safety nets. The fund could be supported by trust funds from industrial countries, in light of their contribution to climate change problems. This model could also be explored to help countries address the social and economic impacts on the poor of removing subsidies to carbon-based fuels.	The WBG will examine the proposal for such a "just transition fund," as one of the means of improving interventions in this area. There are already several mechanisms that can be used to mitigate the impact of mine closures, and the WBG has applied these in its projects. (See IV.17 above.)
19.	Using materials more than once is another form of efficiency, and the WBG should help governments develop economic instruments, policies, and incentive systems that promote materials recovery and recycling through effective collection systems and the creation of markets, education, and incentives for waste separation. Recycling needs to be regulated to ensure it is conducted in a way that is both socially and environmentally responsible.	The WBG agrees with the importance of materials recovery and recycling, and stands ready to provide assistance in this area, according to demand from its member countries.
20.	The WBG should aggressively increase investments in renewable energies by about 20 percent annually.	The WBG will respond to increased demand for financing for renewables from both governments and private sector. Its proposed strengthened approach to renewables (see 14 and 15) is intended to increase effective demand by helping remove policy and other barriers and also, where possible, by

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	Recommendation of EIR Report	Management Response
		mobilizing resources to assist countries address remaining cost gaps. On this basis, subject to the approval of its Board, it will commit to an average growth in its annual commitments in renewable investment and energy efficiency of 20%.
21.	The promotion of renewable energy should be done by setting up a specialized WBG unit or team for renewables and energy conservation.	The WBG agreed that proper organization is key to capturing the many dimensions of renewable energy and conservation investment. While there is no centralized renewable energy and conservation unit in the WBG, a number of units have provided support in this area. The WBG believes that this multi-unit approach that can, for example, link up more effectively with country programs, together with central coordination, is most effective in mainstreaming renewables and efficiency in member countries, but it will keep this approach under review, especially as a part of its renewed approach to renewables. The units currently involved include IFC's Environmental Group, IFC's Infrastructure, General Manufacturing, and Agribusiness Departments the six Regional energy units in IBRD/IDA, the Prototype Carbon Fund and other carbon finance activities in IBRD/IDA and IFC, the Energy Sector Management Assistance Program (ESMAP), and special initiatives and programs in Asia and Africa. These units work closely with agencies outside the WBG, such as the Global Environment Facility (GEF). A high degree of coordination is provided by devices such as the Energy and Mining Sector Board that has membership from across the WBG and the joint production of the WBG energy strategy.
22.	The WBG should take the initiative to coordinate research globally on sustainable energy development.	The WBG does have a role in coordinating activity and research on sustainable energy development in its areas of expertise, that include policy and energy economics, energy regulation, rural energy supply, and energy financing. However, the WBG does not have a comparative advantage in research into the technical aspects of sustainable energy development (see 14). The WBG actively engages in capacity building and knowledge management and dissemination on sustainable energy in its client countries. The WBG takes a lead in these areas, in part through ESMAP (which is administered by the WBG and funded jointly with other donors), and this lead will be strengthened by its proposed strengthened approach to renewables in partnership with others. Between 1997 and 2004, US\$14 million in ESMAP funding supported 60 studies, pilot programs, and policy advice activities on sustainable energy in WBG member countries.

Part V. Conclusion and Follow-up

	Recommendation of EIR Report	Management Response
1.	A global consultation workshop should be held in 2005 to assess the extent to which the World Bank Group has succeeded in moving the extractive industry sector on to a sustainable development path that contributes to poverty alleviation	Management agrees that a progress review should be undertaken, as is its usual practice. It proposes to report back to its Board every year and to establish a working level advisory group that would meet annually with our Global Oil, Gas, Mining and Chemicals Department and other relevant WBG groups such as IBRD/IDA and IFC environmental and social specialists (ESSD and CES). The advisory group would be made up of representatives from governments, industry, and civil society. This group would provide input and perspectives on specific EI issues and would help identify and promote appropriate best practice. Contacts and discussions about progress could continue to be held with stakeholders in the interim period. In addition, in a number of areas the WBG will continue to work with stakeholders to advance issues.

**EXTRACTIVE INDUSTRIES AND SUSTAINABLE DEVELOPMENT:
AN EVALUATION OF THE WORLD BANK GROUP'S EXPERIENCE
(REPORT ON THE INDEPENDENT EVALUATIONS BY OED/OEG/OEU)**

WORLD BANK GROUP MANAGEMENT RESPONSE

SEPTEMBER 17, 2004

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ABBREVIATIONS AND ACRONYMS

AAA	Analytic and advisory activities
AFTPS	Africa Region Private Sector Unit
ASM	Artisanal and small-scale mining
BTC	Baku-Tbilisi-Ceyhan Pipeline Project
CAO	Compliance Advisor/Ombudsman
CAS	Country Assistance Strategy
CO ₂	Carbon dioxide
CASM	Communities and small-scale mining
CES	IFC Environmental and Social Department
COC	IBRD/IDA/IFC Oil, Gas, Mining and Chemicals Department
CODE	Committee on Development Effectiveness
DFID	Department for International Development
EI	Extractive industries
EIR	Extractive Industries Review
EITI	Extractive Industries Transparency Initiative
ENH	Empresa Nacional de Hidrocarbonetos
FY	Fiscal year
GGFR	Global Gas Flaring Reduction Initiative
GHG	Greenhouse gas
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	Inter-government 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

DRAFT WORLD BANK GROUP MANAGEMENT RESPONSE TO THE JOINT OED/OEG/OEU EVALUATION

I. INTRODUCTION

1. This paper presents the response of the Managements of the World Bank, IFC, and MIGA to a four-volume evaluation of the World Bank Group's (WBG's) activities in the extractive industries (EI)—oil, gas, and mining—by their respective independent evaluation units, the Operations Evaluation Department, Operations Evaluation Group, and Operations Evaluation Unit (OED, OEG, and OEU).¹ The evaluation was completed in June 2003, and was considered at a meeting of the Committee on Development Effectiveness (CODE) on July 9, 2003. At that meeting, Executive Directors agreed that Management should delay its response to the evaluation pending the receipt of the report of an independent Extractive Industries Review (EIR) consultation. The EIR report has now been received and a draft Management Response to it has been prepared.

2. *A Thorough and Timely Review.* Management welcomes the joint evaluation report. It provides a thoughtful and thorough review of the WBG's activities in EI. A particular contribution of the evaluation was its careful assessment of the impact of WBG activities through a review of a wide range of IBRD/IDA, IFC, and MIGA projects, which included country and project visits in many cases. The report makes an important contribution to understanding the development issues that are key for the WBG's activities in the sector, provides a valuable reference source, and offers a comprehensive set of recommendations that can help guide future WBG activities in EI. It is especially timely because attaining the Millennium Development Goals (MDGs) in the poorest countries is a pressing challenge that will require a substantial commitment of resources by the international community. In many developing countries, especially those in sub-Saharan Africa, well-managed development of natural resource endowments can make a vital contribution toward reducing poverty and attaining the MDGs.

II. OED/OEG/OEU FINDINGS

3. The joint evaluation report shows that, on balance, WBG activities in the EI sector have added value and have contributed to the development of the countries concerned. Indeed, EI projects have performed at least as well as projects in other sectors: nearly 80 percent of IBRD/IDA's EI projects have been at least moderately satisfactory. IFC's and MIGA's operations in support of private sector activities in EI were as successful as other operations in their development outcome and financial performance dimensions, despite the fact that EI investments were typically in more difficult country environments. Against this background, OED/OEG/OEU's independent evaluation lays out specific areas for attention and provides important perspectives on key issues for each institution and for the WBG as a whole with regard to its support for EI development.

¹ Volume I is the overall summary of a joint OED/OEG/OEU sector review of the World Bank Group's activities; Volume II is OED's review of the Bank's activities; Volume III is OEG's review of IFC's activities; and Volume IV is OEU's review of MIGA's activities.

4. **Summary of Key Messages.** Management has noted the following key messages from OED/OEG/OEU's independent evaluation:

- Extractive industries have contributed to sustainable development when projects met appropriate economic and environmental criteria.
- The private sector is usually the most appropriate vehicle for new investment.
- The WBG's support for EI projects has generally been effective.
- The WBG has added value in the environmental and social aspects of its projects.
- The WBG social and environmental policies and experience with their implementation have been useful to others and have helped set industry standards.
- The WBG should remain engaged across the whole of the EI sector, in support both of governments and of private sector investment.
- In a number of important areas the WBG can improve its performance and help ensure that its EI activities make a more effective contribution to sustainable development.

5. **Areas of Overlap with EIR.** As was expected, the EIR covered many of the issues raised by OED/OEG/OEU, although with different emphases. Notably, the EIR is more broad-ranging in its coverage of human rights and governance issues and global environmental concerns. The Management Response to the EIR thus complements the Management comments presented below and provides a wider context for the WBG's strategy.

III. MANAGEMENT COMMENTS

6. This section sets out Management comments on the WBG's strategy, project implementation issues, and approach to partnerships with sector and project stakeholders—the three broad categories of recommendations in the OED/OEG/OEU evaluation report. Management broadly accepts the recommendations of the report in these areas and has already begun moving to implement them. Complementing the comments in this section, the Annex provides detailed responses to the specific recommendations of the overall report and of the individual OED, OEG, and OEU components.

7. **Other Work Under Way.** In some cases, the precise nature of the ultimate WBG response will depend on the outcomes of other processes now under way, such as IFC's revision of its safeguard policies and guidelines, and its review of its disclosure policy. In other areas, such as the recommendation that the WBG should give increased attention to the human rights dimensions of activities benefiting from its support, Management proposes to wait for the outcomes of ongoing IBRD/IDA and IFC reviews of this issue. However, in the case of EI-specific issues such as, for example, use of security forces to protect private EI project sites, Management proposes to move now to establish appropriate WBG requirements.

A. World Bank Group's Strategy

8. The OED/OEG/OEU evaluation, the EIR consultation process and reports, and other recent documents,² constitute a major body of work that reviews trends, issues, and the role of the WBG in the EI sector and provides the foundation for the WBG's strategy in the sector. The OED/OEG/OEU evaluation, in particular, emphasizes that the WBG should take a broader, more integrated approach to its activities in EI that should (a) address the ultimate impacts of projects in terms of how the revenues from projects are used for poverty reduction and economic and social development; (b) ensure that Country Assistance Strategies (CASSs) for resource-rich countries explicitly address the sector's economywide linkages and focus on policy and institutional capacity development; and (c) continue to support private sector development and environmental sustainability. Across all of these activities, OED/OEG/OEU recommends that WBG involvement should be guided by governance capacity at the sector and national levels.

9. ***Sector Contribution to Development Goals and WBG Role.*** For many developing countries, especially the poorest countries that risk failing to reach the MDGs, the EI are a valuable asset that can and should generate some of the resources that are urgently needed to spur poverty reduction and support economic and social development. Because of the important promise that EIs hold for the economic and social development of many poor countries and because each of the WBG's constituent institutions (IBRD/IDA, IFC, and MIGA) can add substantial value in this process, all of the WBG institutions will aim to remain engaged in EI development by providing financing, technical assistance, and analytic and policy advice in line with their respective mandates and specializations. As developing countries succeed in reducing poverty, their people will increase their consumption of goods and services that are produced with EI inputs, enjoying greater warmth, light, and mobility because of their access to modern sources of energy.

10. ***Sector Development Vision Based on Private Sector Financing.*** In most country circumstances, the appropriate sector development model will continue to be one based mainly on private enterprises, in which all or most investments are financed by private investors and projects operate within an appropriate framework of government oversight to ensure maximum contribution to the sustainable development of affected communities and the country. However, the WBG will support Overall levels of WBG financing are likely to be broadly in line with those of recent years, that have accounted for less than 5 percent of total WBG financing and 3 percent of investments in EI in developing countries. The WBG can and should help advance improved industrywide approaches to environmental and social practice, making an impact well beyond the modest investments that benefit from the WBG's support. To enhance its effectiveness in this regard, the WBG will leverage its impact by establishing partnerships with stakeholders and supporting demonstration projects that test new standards and approaches.

11. ***Emphases in WBG Activities.*** Because in most countries much of the investment for EI development can be mobilized from the private sector, IBRD/IDA's emphasis will be on helping governments create appropriate policy frameworks and build capacity for improved sector management. Financing of public sector extractive industry investments is likely to remain rare. In IFC and MIGA, support for private sector investment will focus on local, regional, and

² See *Background Paper - World Bank Group Activities in Extractive Industries*, Oil, Gas, Mining and Chemicals Department, World Bank/IFC, August 2001. This paper and other documents relevant to the WBG strategy are available at www.worldbank.org/ogmc.

smaller companies (including service companies), gas, and local energy supply projects. Support for larger projects will be concentrated where WBG involvement can make a significant contribution to sustainability. In all of its operations, the WBG will work with project sponsors to help encourage and facilitate broader and more sustainable development impacts at the community level.

12. ***An Integrated Approach.*** Management agrees that the WBG needs to take an integrated view of its activities in EI. This will require as a starting point that, in all the projects that the WBG supports, Management will always consider their ultimate impact on communities, the environment, and the macro economy. Management will exercise selectivity in this regard: for each project for which WBG support is proposed, there should be a strong case for WBG involvement and a demonstrable value-added in terms of enhanced sustainable impact. In addition, whenever possible, the WBG will seek to actively engage with countries to help them address their EI issues, even when the WBG is not engaged in EI specifically. Management also agrees that for all its activities, governance issues and risks need to be taken into account during project design and appraisal.

13. ***Criteria for Engagement.*** The overriding objective of WBG engagement in EI is to promote poverty reduction through sustainable development. IBRD/IDA, IFC, and MIGA will refocus on this objective in their work on project design, appraisal, supervision, and reporting. In selecting and implementing projects, the WBG will be guided by its safeguard policies and guidelines, good practice approaches, and its best judgment. While limiting WBG support for EI development would not serve the interests of WBG clients, the design and implementation of projects in EI need to be fully informed by the national, local, and sector governance risks. The assessments of these risks and, where appropriate, measures to address them will be an integral part of the criteria the WBG will use to determine the extent and form of its involvement.

14. ***Focus on Governance at the Country Level.*** As detailed in the Annex, Management will sharpen its focus on governance issues and risks in countries that are heavily dependent on EI. In particular, CASs for such countries should identify and consider how best to address key EI issues, including related governance issues, and should also provide an overall framework for any WBG activities in the EI sector. Management's proposed approach is to adopt a two-tier classification of countries to recognize differences in terms of resource dependency and focus attention on the most resource-dependent countries where improvement in governance promises to have the largest development impact.³

15. ***Mitigation of Governance Risks.*** In large projects, the WBG will require that specific measures be put in place to address the risks that revenues will not be well used. For smaller projects, WBG's appraisal and decision processes will evaluate and report on the governance risks to projects; if they are high and cannot be adequately mitigated, the WBG will not support

³ *Resource-rich* countries are those in which EIs account for, or are expected soon to account for, more than 50 percent of government revenues and potentially include, for example: Algeria, Angola, Azerbaijan, Botswana, Chad, Congo (R), Congo (DRC), Equatorial Guinea, Gabon, Iran, Iraq, Kazakhstan, Libya, Nigeria, Oman, Syria, Sao Tome, Sudan, Timor-Leste, Turkmenistan, Venezuela, and Yemen. Countries with *substantial resources* are those in which extractive industries account for, or are expected soon to account for, 30 to 50 percent of fiscal revenues or exports and include potentially, for example: Bolivia, Cameroon, Central African Republic, Chile, Colombia, Ecuador, Egypt, Ghana, Guinea, Guyana, Indonesia, Jamaica, Jordan, Kyrgyz Republic, Mali, Malaysia, Mauritania, Mexico, Mongolia, Mozambique, Namibia, Niger, Papua New Guinea, Peru, Russia, Sierra Leone, South Africa, Suriname, Tanzania, Togo, Trinidad and Tobago, Ukraine, Uzbekistan, and Zambia. The usefulness of the two-tier approach and relevance of the specific thresholds will be reviewed in light of implementation experience; the corresponding country groupings will be periodically updated as necessary.

the project. Governance risks are more likely to be acceptable in EI projects that generate small fiscal revenues. In some instances, WBG support will be warranted even in weak governance environments, if projects are expected to generate real benefits.

16. ***Sequencing of WBG Assistance.*** OED/OEG/OEU raised concerns about the sequencing of governance capacity building and emphasized the importance of addressing capacity weaknesses at the sector and national levels. While Management agrees that governance capacity building, which is a priority for the WBG, can be an uncertain and lengthy process for which the risks need to be weighed and mitigated to the extent possible, the WBG also needs to be able to make judgments based on the specific circumstances of the country and the project, as well as likely development outcomes with and without its engagement. This judgment will be guided by analysis of a country's economic policies and institutions, evaluation of quantitative and qualitative indicators of governance capacity, and assessment of the performance of ongoing WBG and IMF-supported programs. When expectations about project outcomes and decisions about WBG support depend on such a judgment, Management will lay out clearly the rationale for its proposed approach.

17. ***Resource Implications.*** As was stated above, the overall level of WBG activities in EI is not expected to change materially from current levels; new financing commitments in support of projects should remain in line with recent experience and will be concentrated in IFC and MIGA. However, the focus of activities will shift in accordance with the priorities described in para. 11 and in response to changes in country demands reflected in new CASs, which set out the amount of financing commitments to a country in view of competing alternatives and priorities for WBG engagement. As CASs for resource-dependent countries focus increasingly on EI issues, WBG activities in EI could increase—especially analytic and advisory services, economic and sector work, and TA operations to address, for example, management of EI revenues and related governance issues. Such activities will be coordinated with (or often directly integrated into) related initiatives in support of improved economic policymaking and strengthened public financial accountability and management.

18. ***Shift Toward Environmental and Social Development Expertise.*** As IFC and MIGA have increased their focus on environmental and social issues in recent years, there has been a significant increase in staff with skills in those areas. In IBRD/IDA, the number of environmental and social staff working on policy and technical issues has also increased in recent years. The major shifts have largely occurred, but stronger focus on ensuring sustainable impacts will require appropriate resources for the WBG project teams in particular EI projects. Project teams will often require earlier and more extended involvement of environmental and social specialists to ensure implementation of safeguard policies; resources for enhanced disclosure and community consultations; and resources for appraising and supervising value-added activities to increase local benefits and participation in projects. Whether some or all of the additional costs can be recovered from clients will depend on the institution and the project. Management will ensure that project budgets are based on an evaluation of these factors and will make realistic allowances for the costs of staff involved in more detailed preparations and supervision.

B. Project Implementation Issues

19. OED/OEG/OEU offer challenging recommendations to enhance the development impact of WBG operations in support of EI development. Because the vast majority of recent and future projects are or will be supported by IFC and MIGA, in line with the WBG's strategic emphasis on supporting private sector development, the following sections are concerned mostly with recent developments and ongoing initiatives in IFC and MIGA.

20. ***Screening and Classification of Projects.*** Management is aware that the implementation of WBG projects could be improved by carrying out more effective screening and classification of projects, involving environmentalists and social specialists throughout the project life, enhancing the reporting of results from projects, and evaluating the sharing of benefits from projects more explicitly. OED's finding that some IBRD/IDA projects were incorrectly classified and consequently inappropriately supervised reflects, in part, the process of significant change in the WBG's adoption and implementation of safeguard policies and guidelines over the period covered by the evaluation. With the lessons of experience and proposed revision of guidelines, these problems are being addressed. The close involvement of environmental and social specialists in EI projects through the project life cycle is a key part of WBG engagement in these projects. Management's clear objective will be to ensure that the excellent levels of compliance noted by OEG in some areas of the IFC's EI activities become the norm for all WBG activities in the sector.

21. ***Growing Contribution from Environmental and Social Specialists in IFC and MIGA.*** In IFC and MIGA, which account for most of the new EI investment projects financed by the WBG, the resources devoted to environmental and social due diligence and additional work with clients have increased considerably over the last 10 years. In both IFC and MIGA, Management is taking steps to ensure that environmental and social specialists are more productively integrated with investment staff. While maintaining an independent quality assurance function, IFC has also begun to mainstream environmental and social responsibility so that investment departments see it as a core part of their activities and responsibilities. In May 2004, MIGA added environmental and social staff to its risk management staff, so that a more holistic view will now be possible in assessing projects.

22. ***Sustainability Initiatives in IFC.*** IFC's overall corporate sustainability initiative has increased staff's focus on sustainability issues. Most EI sector staff have now taken part in specialized sustainability training to enhance their awareness of issues and best practice. The contribution that projects can make in the environmental and social arenas, including through enhanced local development, has become a key component of IFC's business in EI. Enhanced analysis of the benefit sharing, which will be part of project design, will further increase this focus and will be applied in IBRD/IDA and MIGA as well. However, the WBG will need to carefully balance attention to social and environmental dimensions against the extra burden such attention imposes on developing country clients and the additional supervision and appraisal costs it entails. IFC's EI activities already account for a disproportionate share of IFC's budget for environmental and social specialists. EI operations are also intensive users of resources for other development impact-enhancing activities, such as small and medium enterprise and corporate governance initiatives.

23. ***Recent Changes in MIGA.*** Management underscores the important changes that have taken place in MIGA since May 1999, when the Board approved MIGA's own specific

environmental assessment and disclosure policies and procedures, and May 2002, when MIGA adopted its own interim issue-specific safeguard policies. Although MIGA's clients have found these safeguard policies to be helpful, Management recognizes that further improvements can be made as WBG views evolve.

24. ***Revision and Updating of MIGA Safeguard Policies.*** Management has made a serious effort in the past five years to address a range of widely acknowledged difficulties in determining how to apply safeguard policies to private sector investors and what is meant by compliance with safeguard policies (see, for example, recent CAO reports on the subject).⁴ Differences among experienced professionals in interpreting and implementing safeguard policies can pose a serious challenge, one that is of particular concern to MIGA because of the unique legal and financial implications of denying a claim or canceling a guarantee for noncompliance. MIGA staff will work with IFC staff on updating IFC's safeguard policies, and will take the opportunity to clarify safeguard policy applicability and implementation issues in MIGA-supported operations. Once IFC's updating process is completed, MIGA will revise and update its own safeguard policies in an equivalent manner, in line with the commitment MIGA Management made to the Board in May 2002.

C. Partnerships for Wider Reach

25. OED/OEG/OEU recommended a number of ways to enhance the impact of WBG activities on industrywide practice, well beyond the small number of operations that the WBG supports directly. Management agrees with OED/OEG/OEU recommendations in this regard. The WBG will seek to use its international convening power more effectively by making its safeguard policies and guidelines more relevant and accessible, promoting the disclosure of fiscal revenues, developing and monitoring indicators of sustainable development with other stakeholders, and increasing local community participation in projects through meaningful consultation throughout project life.

26. ***Setting Industry Standards in Partnership with Others.*** A number of important initiatives are under way that will help enhance WBG's impact on industry practice. First, IFC has begun the two-year process of revising its safeguard policies and guidelines, and is giving priority to EI-related issues. For example, revised *Precious Minerals Mining Guidelines* were available in draft for public comment from July 2004. The updated safeguards will be key for sustaining the catalytic role that IFC has assumed in its important partnership with the Equator Banks. Second, IBRD/IDA's proposed revised policy covering Indigenous Peoples (OP 4.10) is expected to be considered by its Board by end 2004, and will contain provisions to help ensure that Indigenous Peoples benefit from development. Finally, the WBG will work in partnerships with governments, industry and civil society to advance best practice and contribute to the sustainable impact of EI development more broadly in initiatives such as the Global Gas Flaring Reduction Partnership, which set voluntary global standards for addressing gas flaring.

27. ***Growing Emphasis on Revenue Transparency.*** Transparency about government revenues and expenditures generally is an important dimension of the macroeconomic policy dialogue between borrowing governments and IBRD/IDA; in this respect, a priority area for IBRD/IDA assistance is to help increase government capacity and accountability. In the area of

⁴ See *A Review of IFC's Safeguard Policies*, CAO, January 2003, *Insuring Responsible Investment?*, CAO, December 2002, and other reports accessible at: www.cao-ombudsman.org

transparency about EI revenue, the WBG has joined with the UK Department for International Development (DfID) and other partners to support the Extractive Industries Transparency Initiative (EITI), which aims to promote EI revenue transparency at the country level. At the project level, the WBG will now require disclosure of EI revenues and the key terms of relevant contracts for all large projects that benefit from its support; for smaller projects, in two years the WBG will require disclosure of material EI-related payments to governments except when there is a compelling reason to not do so.

28. ***Reporting on Outcomes.*** Management recognizes the need for enhanced reporting on the outcomes of WBG activities in EI and its rationale for engagement. In IFC's ongoing review of its disclosure policy, Management will establish new requirements for investors to make more information about projects available to communities, will enhance the reporting on IFC activities in the sector, and provide for greater disclosure of its rationale for supporting new EI projects. As a part of this process, IBRD/IDA and IFC will continue to work with other stakeholders to develop meaningful, consistent indicators of the contribution of EI to sustainable development.

29. ***Focus on Community Involvement.*** Appropriate consultation with people who will be affected by projects is a core WBG requirement for sustainable development, especially for EI projects that take place in remote areas and may have relatively large effects on local communities. The WBG proposes to adopt use of a process of free, prior and informed consultation with affected communities that leads to broad acceptance by the affected community of the project as a condition for its involvement and will work with investors to promote best practice in this respect, and to generally enhance the involvement of and benefits to communities in the context of EI developments that benefit from WBG support.

IV. CONCLUSIONS

30. Altogether, the WBG has embarked upon a fundamental change in its approach to EI investments. Its past mode of operation presumed that expected overall potential benefits to countries (energy resource development and revenue generation) justified new investments. In its new mode of operation, concerns about the ultimate developmental impacts, including the management of revenues generated by EI projects and the specific, realizable benefits to communities, are regarded as the starting point for discussions of WBG involvement. In moving forward, Management will continue to encourage coordination among activities in IBRD/IDA, IFC, and MIGA, with each institution serving its respective clients, pursuing objectives in line with its mandate, and using its own business models and processes. Coordination among the three institutions has already benefited from preparation of this joint Management Response and will continue to be facilitated by the joint IBRD/IDA/IFC Oil, Gas, Mining and Chemicals Department which ensures strong links between IBRD/IDA and IFC, and by the Energy and Mining Sector Board, which ensures links to Regional and country programs and MIGA. At the country level, enhanced attention to EI issues in the CAS will serve to strengthen coordination with the WBG's country assistance programs.

31. ***Tracking Progress in Implementation of the New Approach.*** Management expects to measure implementation of the comprehensive set of reforms implied by the new approach as follows:

Short-Term Indicators – within one year

- a. New guidance and processes that address EI-specific safeguard issues such as mine closure/decommissioning; use of security forces; monitoring and disclosure of environmental, social, and economic impacts; transparency requirements for new investments; gas flaring; acid rock drainage; and HIV/AIDS.
- b. New guidelines and processes for disclosure of information about WBG-supported EI projects and about activities in EI, including development of sustainability indicators.
- c. Development of a database for all IFC projects that indicates position regarding all key sustainability indicators (including mine closure/decommissioning plans, safeguard compliance, gas flaring, and use of security forces).
- d. Clearer guidelines for WBG environmental categorization of projects.
- e. CASs for resource-rich countries and countries with significant resources start to address relevant EI-related issues.

Three-Year Indicators

- f. The extent to which new CASs have dealt with extractive industry issues in resource-rich countries and countries with significant resources.
- g. Effective implementation of partnership initiatives (including GGFR, CASM, and EITI) involving civil society, industry, and governments, and outcomes of these partnerships in terms of contributing to the development of sector best practice.
- h. Revenue transparency improvement through effective implementation of programs in participating countries under the EITI.
- i. Support for sustainable new private sector EI investment at average levels broadly comparable to those of the recent past.
- j. Continuing levels of IBRD/IDA financing in line with recent average with a focus on:
 - i. Oil and gas: environmental management, TA (especially for transparency, revenue management), and gas industry development.
 - ii. Mining: coal sector restructuring, TA, and mining sector policy reform.
 - iii. Capacity building for social and environmental monitoring in both sectors

32. Management proposes to report on progress on its activities in EI every year. It also proposes to set up a working level advisory group with representative of governments, industry, civil society, and other parts of the WBG to provide inputs and perspectives on the WBG's activities in EI.

Annex

Recommendations of the Joint OED/OEG/OEU Evaluation and Management Response Matrix

A. RECOMMENDATIONS OF THE OVERVIEW REPORT

	Recommendation of the Overview Report of the Joint OED/OEG/OEU Evaluation	Management Response
1	Formulate a Sector Strategy	
1a	The WBG needs to design and implement a sectoral strategy that closely integrates resource extraction with sustainable development through the effective management of EI revenues in support of developmental priorities and the reliable mitigation of adverse environmental and social impacts. Where macro and sectoral governance are weak, the WBG's assistance should focus on strengthening governance. In such cases, the WBG should carefully assess and report on the risks that EI fiscal revenues may not be used for development priorities. The WBG should not support significant sector expansion unless it can adequately mitigate these risks. Where macro governance is sound but sectoral governance is weak, the WBG should focus on improving sectoral governance, and should only support the sector in conjunction with adequate provisions to overcome sectoral governance weaknesses.	Management accepts this recommendation. The overall approach to EI activities, as set out in this Management Response and in responses to individual recommendations, provides a framework for the WBG's activities in EI that gives a central place to promotion of good governance and increased transparency. Management has identified indicators of implementation progress for its strategy, and it will monitor them. Management will strengthen its efforts to promote use of fiscal revenues for development priorities and to mitigate risks due to poor governance. The ultimate objectives are sustainable impacts at the local, national and global levels. The appraisal reports for new EI projects in countries with weak governance will clearly assess the risks that EI fiscal revenues may not be used for development priorities. See also responses to OED 1a and OEG 1b. Overall, the level of activities of the three institutions in EI is not expected to increase materially and will not demand additional resources. Resources are expected to continue to be allocated to EI activities through the country and regional resource allocation processes on the basis of country and regional priorities. Trust funds and partnerships will continue to be an important source of additional resources for EI activities, especially for programs outside the scope of single-country programs and specific projects.
	Address EI Issues in CASs	
1b	For all resource-rich countries the WBG should explicitly address extractive industries in the CASs. The CAS should explicitly discuss the sector's current and potential contribution to sustainable development (for example, the importance of government revenues, their management, distribution, and use for development priorities) and reference the underlying governance assessment. This should guide future project design, facilitate monitoring and evaluation, and provide an agreed framework for WBG-wide coordination and collaboration in the EI sector. The different agencies of the WBG should routinely work together to enhance the development impacts of EI projects, for example in the form of public-private partnerships with respect to community development programs.	Management accepts this recommendation and has developed a two-tiered approach to improving the focus of CASs on relevant EI issues. This approach uses a higher cut off for <i>resource-rich</i> countries (more than 50 percent of government revenues derived from EI) than that used by the Evaluation (15% of exports) so as to exclude relatively less EI-dependent but to include non-exporting countries. With limited staff and country resources and competing priorities, the WBG will thus focus on the most resource-dependent countries and on countries where it can have the most impact. The proposed approach already targets more than 50 countries (with substantial overlap with the evaluation list). CASs for resource-rich countries will be expected to address relevant EI issues and related governance issues. In countries with substantial resources (where 30-50 percent of government revenues or exports are from EI), the CAS will be expected to identify key EI sector issues and whether and how IBRD/IDA will be involved in addressing them. This does not rule out CAS discussion on EI issues in other countries where they are important, and the thresholds and guidelines will be reviewed in the light of experience. Where possible, IBRD/IDA, IFC, and MIGA will work together as recommended by OED/OEG/OEU. Moreover, IBRD/IDA will encourage resource-rich countries and countries with substantial resources to address relevant EI issues in their own overall development strategies, such as PRSPs. The WBG institutions will work pro-actively in

	Recommendation of the Overview Report of the Joint OED/OEG/OEU Evaluation	Management Response
		the EI sector to identify opportunities for cooperation. COC will continue effective implementation of major partnership initiatives such as the Gas Flaring Reduction Partnership, CASM, and the EITI, and report on their progress.
	Governance	
1c	Promote Governance Improvements: The Bank should compensate for the lower level of lending that may be appropriate for resource-rich countries with weak macro and sectoral governance, by devoting greater management attention and administrative budget for advisory and analytical activities aimed at improving the policy, institutional, and governance framework for EI. This would enable the Bank to establish and maintain continuity of engagement and facilitate responding quickly to opportunities for assistance when they arise.	Management accepts this recommendation. Where the WBG is not involved in financing operations but where EI issues are important and where governance is weak, the WBG will aim to devote greater resources to technical assistance and analytic and advisory activities that can, for example, help countries manage their resource industries more effectively, including addressing relevant broader policy, institutional, and governance issues. The CAS for resource-rich countries with weak macro and sectoral performance will identify the needs for TA in this area, and will discuss whether and how IBRD/IDA should be involved in meeting these needs. Implementation of this recommendation may require additional IBRD/IDA administrative budget resources for certain countries. Including its activities relating to transparency, over the next three years, Management will aim to increase the level of nonlending activities aimed at policy improvements compared to the past three.
	Support Private Sector Development and Environmental Sustainability	
1d	In all countries, the World Bank Group should continue its support to close uneconomic mines, reform and privatize state-owned enterprises, and mitigate pre-existing environmental and social problems.	Management accepts this recommendation. There remains an important role for IBRD/IDA to assist governments to restructure their mining and coal industries, including helping to close uneconomic coal mines and to mitigate social and environmental problems. Much of the world's oil industry is government-owned and, where appropriate, IBRD/IDA will consider supporting government efforts to improve the effectiveness of these operations, where governments have ruled out privatization for the foreseeable future.
1e	Where appropriate, the World Bank Group should help integrate artisanal and small-scale mining (ASM) with the formal sector and internalize their environmental and social impacts, while at the same time creating alternative employment opportunities and supporting the consolidation of ASM activities for greater efficiencies and economies of scale.	IBRD/IDA will continue to work with others, particularly through CASM, to develop effective approaches and best practices. Given country differences, the CAS for countries where ASM is important will be expected to consider approaches that are integrated effectively into overall country and poverty reduction strategies. Clearly an important component of any overall approach is to create better opportunities for those involved in other parts of the economy. COC will aim over a three-year period to develop three or more operations that aim to integrate ASM into the broader economy and/or improve its social, environmental, or economic outcomes.
2	Improve Project Screening and Monitoring	
2a	The World Bank Group should provide clearer and more consistent guidance for the categorization of projects, the identification of applicable safeguards at the initial project screening, the appropriate scope and nature of the EA instruments, and the reporting and evaluation of safeguards implementation. This needs to be followed up through the entire implementation framework, from good practice guidelines to appropriate monitoring and training.	WBG will provide updated guidance for the categorization of projects concerned with EI. This guidance will address project screening and the use of appropriate assessment instruments. Sectoral approaches will be used for periodic reporting and evaluation of safeguard aspects of EI projects. This information will be disseminated through periodic training activities for staff from the WBG, clients, and other parties.

Involve Specialists Throughout		
2b	The World Bank Group should provide adequate resources and incentives for the participation of qualified environmental and social specialists at the preparation, appraisal and supervision of all projects that are likely to have adverse impacts. This will ensure that such impacts are adequately addressed through the upstream design of appropriate mitigation strategies or project alternatives, as well as through the retrofit of timely remediation measures should unexpected impacts materialize during project implementation.	This is agreed and is dealt with more specifically in the responses to recommendations of OED (2b), OEG (2a, 2b) and OEU (1b, 2a, and 3c) below.
Enhance Reporting of Results		
2c	The Bank should strengthen reporting of its results by ensuring that project completion reports include an ex post economic rate of return or net present value or, where that is not feasible, a cost effectiveness analysis to determine whether the project represented the least-cost solution to attain its objectives. IFC should develop and use a reporting template for environmental and socio-economic sustainability indicators, building on industry initiatives. MIGA needs to adopt more standardized and timely reporting mechanisms on environmental and social safeguards compliance and ex post development outcomes. The WBG should prepare completion reports for every significant non-lending/guarantee issuance activity.	Management accepts this recommendation, as is detailed in the response to the recommendations of OED (2c) and OEG (2c). As noted in responses to the OEU recommendations (see 1a, 2a, and 2d below), MIGA is taking steps to implement more standardized and timely reporting mechanisms on safeguard compliance and development outcomes, especially of Category A projects. Management will ensure that an "activity completion summary" or equivalent for all significant nonlending EI activities in IBRD/IDA, IFC, and MIGA is prepared.
Evaluate the Sharing of Benefits		
2d	Evaluate the sharing of benefit: At appraisal and during supervision, the WBG should systematically estimate the distribution of project benefits among different stakeholder groups (government at different levels, private companies, and local communities), evaluate its sensitivity to different scenarios, and discuss the acceptability of benefit-sharing with key stakeholder groups.	Management agrees that an analysis of the distribution of the benefits of extractive industries developments should be part of the WBG's project evaluation and supervision work. The appraisal report for EI projects will be expected to assess the sensitivity of distribution to different assumptions about key project variables. The extent of discussions of benefit-sharing with key stakeholder groups will need to be considered carefully in the project and country context, given the role of governments (and sometimes constitutions) in setting the distribution of EI revenues.
3 Update Policy Framework		
3a	In consultation with its stakeholders, the WBG should periodically adjust its policy framework for extractive industries to ensure that it remains up-to-date with evolving industry practice. It should resolve remaining inconsistencies such as those between requirements for different mine types (such as funding for mine closure), onshore versus offshore oil projects, safety of dams, and involuntary resettlement. It should address identified gaps such as those related to consultation and disclosure, community development, social issues of mine closure, security, hazardous materials management, acid rock drainage, gas flaring, and transportation of oil. It should also recognize the expanding	Agreed. See responses to recommendations of OED (3a), OEG (3a), and OEU (3c) below.

	awareness of the human rights dimension of WBG policies and projects, and explore possible avenues for addressing the issues, especially where it lags industry best practice such as, for example, regarding site security.	
Promote Disclosure of Revenues from EI		
3b	The WBG should vigorously pursue country- and industry wide disclosure of government revenues from EI and related contractual arrangements (such as production sharing agreements, concession and privatization terms). The Bank should work toward and support disclosure of EI revenues and their use in resource-rich countries. IFC and MIGA should also strongly encourage (and consider requiring) their private sector clients to publish their payments to governments.	Management accepts this recommendation because increased transparency about resource revenues is an important step toward better governance and the use of resources in resource-rich countries. IBRD/IDA is now actively supporting the EITI led by DfID, and in this context, is working in a number of pilot countries. In addition, the WBG will support other initiatives as appropriate, and will work for greater transparency of revenues and expenditures within its country programs. In the context of new EI investment operations, WBG support will be conditional on transparency commitments by investors. Disclosure of payments to governments will be required effective immediately for major projects and will be expected for all projects in two years, when appropriate implementation modalities are expected to have been developed and tested under the EITI and similar activities. Over the next three years, IBRD/IDA will aim to complete five or more EITI pilots with countries and will aim to mainstream the approach to revenue transparency more broadly in the WBG.
Develop and Monitor Sustainability Indicators		
3c	Together with other stakeholders, the World Bank Group should develop indicators of economic, social and environmental sustainability, establish baseline data, provide for adequate monitoring over the life of the project, and report and evaluate the results during supervision and in project completion reports. The World Bank Group should also encourage more independent outside monitoring, ideally using local capacity (that may have to be developed).	Management accepts this recommendation. The WBG will work with stakeholders to define appropriate sustainability indicators that can be used to monitor and report on outcomes. OP 4.01 requires the collection of baseline data. IFC has recently produced a good practice note (<i>Addressing the Social Dimensions of Private Sector Projects</i>) that provides guidance on collection of baseline data; a similar exercise is planned for environmental data. These notes can also serve to guide IBRD/IDA and MIGA. The development of independent local capacity for monitoring the impact of EI projects is important. Capacity building within governments is already a key objective of IBRD/IDA activities in the sector. Development of community/civil society capacity can help with project monitoring and can often be considered in the project context. In the case of very large projects (such as in the Chad-Cameroon pipeline or BTC pipeline projects), the creation of independent monitoring groups may be practical and effective, and will be considered. In some cases it may be appropriate to develop local capacity to play a role in such forms of oversight. In addition, see the responses to the recommendations of OEG (2a) and (3c) below.
Increase Local Community Participation		
3d	The WBG should support enhanced community consultation and participation throughout the life cycle of EI-projects. The WBG should assist countries to increase involvement by local communities in EI decision-making processes, and ongoing consultation throughout the project life cycle, including closure.	Management agrees with this recommendation. Enhanced community consultation and participation in EI projects is a key area of evolving best practice for the WBG. See the response to recommendation of OEG (3d) for details.

B. RECOMMENDATIONS OF THE OED EVALUATION REPORT

	Recommendation of the OED Evaluation	Management Response
1	Formulate a Sector Strategy	
1a	<p>The Bank, together with other members of the WBG needs to design and implement a sector strategy that closely integrates resource extraction with sustainable development through the effective management of EI revenues in support of developmental priorities and the reliable mitigation of adverse environmental and social impacts. Where macro and sectoral governance are weak, the Bank's assistance should focus on strengthening macro and sectoral governance. In such cases, the Bank should carefully assess and report on the risks that fiscal revenues may not be used for development priorities. The Bank should not support significant sector expansion unless it can adequately mitigate these risks. Where macro governance is sound but sectoral governance is weak, the Bank should focus on improving sectoral governance.</p>	<p>Management accepts this recommendation. The overall approach to EI activities, as set out in this Management Response and in responses to individual recommendations, provides a framework for the WBG's activities in EI that gives a central place to promotion of good governance and increased transparency. Management has identified indicators of implementation progress for its strategy, and it will monitor them. Management will strengthen its efforts to promote use of fiscal revenues for development priorities and to mitigate risks due to poor governance. The ultimate objectives are sustainable impacts at the local, national, and global levels. The appraisal reports for new EI projects and relevant sector reforms in countries with weak governance will clearly assess the risks that EI fiscal revenues may not be used for development priorities. See also OEG 1b.</p>
	Address EI issues in CASs	
1b	<p>For all resource-rich countries the Bank should explicitly address extractive industries in the CASs. The CAS should discuss the sector's economy wide linkages (such as the importance of government revenues, their management, and distribution) and reference the underlying governance assessment. This should guide future project design, facilitate monitoring and evaluation, and provide an agreed framework for WBG-wide coordination and collaboration in the EI sector.</p>	<p>Management accepts this recommendation and has developed a two-tiered approach to improving the focus of CASs on relevant EI issues. This approach uses a higher cut off for <i>resource-rich countries</i> (more than 50 percent of government revenues derived from EI) than that used by the evaluation (15% of exports) so as to exclude relatively less EI-dependent but to include non-exporting countries. With limited staff and country resources and competing priorities, the WBG will thus focus on the most resource-dependent countries and on countries where it can have the most impact. The proposed approach already targets more than 50 countries (with substantial overlap with the evaluation list). CASs for resource-rich countries will be expected to address relevant EI issues and related governance issues. In <i>countries with substantial resources</i> (where 30-50 percent of government revenues or exports are from EI), the CAS will be expected to identify key EI sector issues and to discuss whether and how IBRD/IDA will be involved in addressing them. This does not rule out CAS discussion of EI issues in other countries where they are important, and the thresholds and guidelines will be reviewed in the light of experience. Where possible, IBRD/IDA, IFC, and MIGA will work together as recommended by OED/OEG/OEU. Moreover, IBRD/IDA will encourage resource-rich countries to address relevant EI issues in their own overall development strategies, such as PRSPs. The WBG institutions will work proactively in the EI sector to identify opportunities for cooperation, and to develop private-public partnerships. A good-practice note on EI issues will be prepared and disseminated as part of the guidelines for CASs and engagement in LICUS.</p>
	Governance	
1c	<p>Promote Governance Improvements: The Bank should compensate for the lower level of lending that may be appropriate for resource-rich countries with weak macro and sectoral governance by devoting greater management attention and</p>	<p>Management accepts this recommendation. Where the WBG is not involved in financing operations but where EI issues are important and where governance is weak, the WBG will aim to devote greater resources to technical assistance and analytical and advisory activities that can, for example, help countries</p>

	Recommendation of the OED Evaluation	Management Response
	administrative budget for advisory and analytical activities aimed at improving the policy, institutional, and governance framework for EI. This would enable the Bank to establish and maintain continuity of engagement and facilitate a quick response to opportunities for assistance when they arise.	manage their resource industries more effectively, including addressing relevant broader policy, institutional, and governance issues. The CAS for resource-rich countries with weak macro and sectoral performance will identify the needs for TA in this area, and will discuss whether and how the WBG should be involved in meeting these needs. Implementation of this recommendation may require additional administrative budget resources for certain countries. Over the next three years, Management will aim to increase the level of nonlending activities aimed at policy improvements (including those related to revenue transparency) compared to the past three.
	Support Private Sector Development and Environmental Sustainability	
1d	In all countries, the Bank should be ready to support the closure of uneconomic mines, privatization of state-owned enterprises, and mitigation of pre-existing environmental and social problems.	Management accepts this recommendation, as there remains an important role for IBRD/IDA to assist governments to restructure their mining and coal industries, including helping to close uneconomic coal mines, and mitigating social and environmental problems. Much of the world's oil industry is in state hands and, where appropriate, the Management will consider whether IBRD/IDA should become involved, for example, to help governments improve the effectiveness of these operations, where governments have ruled out privatization for the foreseeable future.
1e	Where appropriate, the Bank should help integrate artisanal and small-scale mining (ASM) with the formal sector and internalize their environmental and social impacts, while at the same time creating alternative employment opportunities and supporting the consolidation of ASM activities for greater efficiencies and economies of scale.	IBRD/IDA will continue to work with others, particularly through CASM, to develop effective approaches and best practices. Given country differences, the CAS for countries where ASM is important will be expected to consider approaches that are integrated effectively into overall country and poverty reduction strategies. Clearly an important component of any overall approach is to create better opportunities for those involved in other parts of the economy. COC will aim over a three-year period to develop three or more operations that aim to integrate ASM into the broader economy and/or improve its social, environmental, or economic outcomes.
2	Improve Upstream Project Screening	
2a	The Bank should provide clearer and more consistent guidance for the categorization of sectoral adjustment and technical assistance projects, the identification of applicable safeguards at the initial project screening, the appropriate scope and nature of the EA instruments, and the reporting and evaluation of safeguards implementation. This needs to be followed up through the entire implementation framework, from good practice guidelines to appropriate monitoring and training.	IBRD/IDA will provide updated guidance for the categorization of sectoral adjustment and technical assistance projects concerned with EI. This guidance will address project screening and the use of appropriate assessment instruments. Sectoral approaches will be used for periodic reporting and evaluation of safeguard aspects of EI projects. This information will be disseminated through periodic training activities for staff from the Bank, clients, and other parties.
	Provide for Adequate Specialist Involvement	
2b	The Bank should strengthen the implementation of its safeguard policies by providing adequate resources for the participation of qualified environmental and social specialists at the preparation, appraisal, and supervision of all projects that are likely to have adverse impacts. This will ensure that such impacts are adequately addressed through the upstream design of appropriate mitigation strategies or project	Is it agreed that project teams should have effective participation of environmental and social specialists at all stages of the project process, particularly for projects likely to have adverse impacts. Project budgets will need to be set adequately to ensure this.

	Recommendation of the OED Evaluation	Management Response
	alternatives, as well as through the retrofit of timely remediation measures should unexpected impacts materialize during project implementation.	
	Enhance Reporting of Results	
2c	The Bank should strengthen the implementation of its completion reporting requirements by (i) ensuring that project completion reports include the calculation of an ex-post economic rate of return or net present value or, where that is not feasible, a cost-effectiveness analysis to determine whether the project represented the least-cost solution to attain its objectives; and (ii) preparing an activity completion summary for every significant non-lending activity.	It is agreed that project completion reports should provide these quantitative estimates of impacts wherever possible, and should state the reasons where this is not possible. An activity completion summary should be prepared for every significant non-lending activity.
	Evaluate the Sharing of Benefits	
2d	At appraisal and project completion, the Bank should systematically estimate the distribution of project benefits among different stakeholder groups—government at different levels, private companies, and local communities—evaluate its sensitivity to different scenarios, and discuss its acceptability with key stakeholder groups.	Management agrees that distribution of the benefits of extractive industries developments is important. The appraisal and project completion reports for EI projects will be expected to assess the sensitivity of distribution to different project scenarios. The extent of discussions of benefit-sharing with key stakeholder groups will need to be considered carefully in the project and country context, given the role of governments (and sometimes constitutions) in setting the distribution of EI revenues. See also the response to OEG recommendation 2d below.
3	Update Policy Framework	
3a	In consultation with its stakeholders, the Bank should periodically adjust its policy framework for extractive industries to ensure that they remain up-to-date with evolving industry practice. It should resolve remaining inconsistencies within the WBG and address identified gaps. It should also recognize the expanding awareness of the human rights dimension of Bank policies and projects, and explore possible avenues for addressing the issues, especially where it lags industry best practice.	In the context of the overall WBG approach to these issues, Management will evaluate and help develop best practice approaches to EI-specific issues. Current opportunities include the ongoing review of IFC safeguard policies, the revision of the IBRD/IDA Indigenous Peoples policy, and the consideration of approaches to human rights by IFC and IBRD/IDA (where a Senior Adviser on human rights has been appointed).
	Promote Disclosure of Revenues from EI	
3b	The Bank should vigorously pursue country- and industry wide disclosure of government revenues from EI and related contractual arrangements (such as production sharing agreements, concession and privatization terms). It should work toward and support disclosure of EI revenues and their use in resource-rich countries.	Management accepts this recommendation because increased transparency about resource revenues is an important step toward better governance and the use of resources in resource-rich countries. IBRD/IDA is now actively supporting the EITI led by DfID, and in this context, is working in a number of pilot countries. In addition, the WBG will support other initiatives as appropriate, and will work for greater transparency of revenues, expenditures, and contracts (where feasible and appropriate), within its country and sector programs. Notably, AAA such as public expenditure reviews and country financial accountability assessments, and related policy dialogue, will be the main vehicles for promoting transparency. In the context of new EI investment operations, WBG support will be conditional on transparency commitments by investors. Disclosure of payments to governments will be required effective immediately for major projects and will be expected for all projects in two years, when appropriate implementation modalities are expected to have been developed and tested under the EITI and similar activities. Over the next three years, Management will aim to complete five or more EITI pilots with countries and will aim

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		to mainstream the approach to revenue transparency more broadly in the WBG.
	Define and Monitor Sustainability Indicators	
3c	Together with other stakeholders, the Bank should define indicators of economic, social, and environmental sustainability, establish baseline data, provide for adequate monitoring over the life of the project, and report and evaluate on the results during supervision and in project completion reports. The Bank should also encourage more independent outside monitoring, ideally using local capacity (that may have to be developed).	Management accepts this recommendation. The WBG will work with stakeholders to define appropriate sustainability indicators that can be used to monitor and report on outcomes. OP 4.01 requires the collection of baseline data. IFC has recently produced a good practice note (<i>Addressing the Social Dimensions of Private Sector Projects</i>) that provides guidance on collection of baseline data; a similar exercise is planned for environmental data. These notes can also serve to guide IBRD/IDA and MIGA. The development of independent local capacity for monitoring the impact of EI projects is important. Capacity building within governments is already a key objective of IBRD/IDA activities in the sector. Development of community/civil society capacity can help with project monitoring and can often be considered in the project context. In the case of very large projects (such as in the Chad-Cameroon pipeline or BTC pipeline projects), the creation of independent monitoring groups may be practical and effective, and will be considered. In some cases it may be appropriate to develop local capacity to play a role in such forms of oversight. In addition, see the responses to the recommendations of OEG (2a) and (3c) below.
	Increase local community participation	
3d	The Bank should support enhanced community consultation and participation throughout the life cycle of EI-projects. The Bank should assist countries to increase involvement by local communities in EI decision-making processes, and ongoing consultation throughout the project life cycle, including closure.	Management agrees with this recommendation. Enhanced community consultation and participation in EI projects is a key area of evolving best practice for IBRD/IDA, in line with evolving experience in IFC. See the response to recommendation of OEG (3d) for details.

C. RECOMMENDATIONS OF THE OEG EVALUATION REPORT

	Recommendation of the OEG Evaluation	Management Response
1	Formulate an Integrated Strategy	See response to the Overview, 1a above.
1a	IFC should work closely with other parts of the WBG to ensure that CASs for resource-rich countries explicitly discuss the EI sector's contribution to sustainable development (e.g., importance of fiscal revenues, their management, distribution, and use for development priorities) and obstacles for enhancing its contribution. The CAS should provide an agreed framework for WBG-wide cooperation, with a particular focus on close interaction between IFC and the World Bank's country departments. IFC and the World Bank should routinely work together to enhance the development impacts of EI projects, for example in the form of public-private partnerships with respect to community development programs. IFC and the WBG should build on existing initiatives such as Business Partners for Development and the Comprehensive Development Framework to enlist the help of other stakeholders, such as the IMF, other bilateral and multilateral institutions, industry and civil society.	IFC Management supports this recommendation, and proposals in this respect are set out in the detailed responses to recommendations of the Overview and OED reports and in the overall Management Response. IFC will work proactively in the EI sector to identify opportunities for cooperation with IBRD/IDA and MIGA, and to develop private-public partnerships as appropriate in the context of individual projects.
1b	Where country governance is weak, increase transparency and address the weaknesses: Together with the World Bank and other stakeholders, IFC should analyze all aspects of country governance quality and the risks that poor governance may detract from sustainable development. In particular, IFC should encourage enhanced transparency and disclosure concerning contractual agreements between investors and governments, the amount of fiscal revenues generated and their distribution. IFC — together with the World Bank and other stakeholders — should encourage such transparency sector wide in the country.	Weak governance can lead to poor oversight of the EI sector and poor management of, and use of revenues from, resource projects. The IFC approach to this issue will be to work with IBRD/IDA to ensure that EI issues are addressed in the CAS (see response to recommendation of the Overview 1b above) and to generally support IBRD/IDA efforts on transparency initiatives, such as the EITI.
1b (cont)	When financing projects whose major expected development contribution is the generation of revenues to governments, IFC should carefully review and discuss the governance risk that these revenues will not be used productively. Where such governance risk is high, and the project's revenues are significant, IFC should work with the government (in partnership with the World Bank and IMF) to put in place mechanisms to reduce this risk, including possibly ring-fencing of project revenue management. For all proposed EI investments, IFC should address these issues in Board Reports.	For significant new projects (typically, those large enough to generate 10 percent or more of host government revenues), IFC will require adequate mitigation measures to be put in place to reduce the risks that revenues will be wasted, and it will require transparency about EI-related payments to governments and the terms of key contracts with governments that are of public interest (such as Host Government Agreements, IGAs). For smaller projects, the IFC will evaluate carefully the risks that revenues will not be used properly, and compare these and other risks against expected benefits, and evaluate the value of its involvement. Where risks are too high, it will not proceed. As a part of its Summary of Project Information that is usually published 30 days before a project goes to its Board for approval, IFC will summarize this risk review. Within two years IFC will expect EI payments to governments to be disclosed for all EI projects with which IFC is involved. In some areas that are not essential for the public interest, companies may need to maintain confidentiality to protect their legitimate commercial interests, and IFC will work with them to ensure

	Recommendation of the OEG Evaluation	Management Response
1c	<p>IFC should focus on projects that can serve as role models for environmental and social performance, transparency, and disclosure. Where laws and regulations—or their enforcement—are weak, IFC should insist on special measures to ensure a project's sound environmental and social performance. Such measures could include building local monitoring capacity, and disclosure of independently audited and publicly disclosed monitoring reports. They could also include an explicit assessment of the risk of conflicts, and measures to deal with them.</p>	<p>this.</p> <p>IFC will continue to support only projects that, at a minimum, meet the requirements of its evolving social and environmental policies and guidelines. In addition, it will aim to make an added contribution to the sustainable impact of such projects and, where possible, help make the projects role models for activities in the sector and country. Where local capacity outside of the project is weak, IFC will work with sponsors to mitigate this with project design and operation/supervision processes, etc. When appropriate, it will work with other stakeholders (including IBRD/IDA) to increase capacity outside of the project in local and national government and otherwise (see response to recommendation 2a below). Annual monitoring reports are independently audited and disclosed now in some large projects. Independent auditing is not feasible for small projects; but in the context of IFC's review of its disclosure policy (now under way), IFC plans to require for all new EI projects regular disclosure to local communities by investors of appropriate information about the environmental, social, and economic impacts of projects. When it is appropriate, IFC will assess the potential for conflict.</p>
2	Focus on Implementation	
2a	<p>IFC should continue to require high-quality environmental impact assessments that establish baseline data for relevant environmental and socio-economic impact indicators. These indicators—compared to the baseline—should be consistently tracked and aggregated for IFC's management. Appropriate requirements to allow IFC to adequately mitigate risks and monitor all its projects should be included for all investments, particularly equity. Where IFC finds poor environmental and social systems or performance, it should address them proactively and vigorously.</p>	<p>Management agrees with the need for high-quality environmental impact assessments that establish appropriate baseline indicators. OP 4.01, Environmental Assessment, the principal safeguard policy for project environmental impact assessments, requires the establishment of baseline data. In Dec. 2003, the staff of the IFC Environmental and Social Department (CES) published a good practice note to improve the social component of the environmental impact assessment. Since 2000, IFC has used an Environmental and Social Risk Rating (ESRR) system to prioritize supervision, and rate project performance. A rating of 4 (substandard) requires a site visit by CES staff/investment officers. IFC has improved the effectiveness of its environmental and social functions by mainstreaming the work within operational departments, as well as by adopting a policy of active portfolio management. Management will work with CES and COC to develop an appropriate database for all projects, including portfolio projects, to help monitor key indicators. When issues are discovered, corrective action plans to remedy problems are prepared and agreed with the sponsor. Ultimately IFC can use loan agreements to try to ensure cooperation. Performance indicators are being developed in the review of IFC's safeguard policies and the sustainability framework. The issue of requirements for equity investments is one that applies to all sectors; IFC will address this issue in the context of the current revision of safeguard policies and guidelines.</p>
2a (cont)	<p>IFC's investment officers and nominees to company boards should be co-responsible with technical specialists for the environmental and social performance of their projects. Where possible, IFC should also develop and use local monitoring capacity.</p>	<p>In the broadest sense, responsibility for project outcomes lies with the Investment Department Management. However, the different responsibilities of the investment officer, who is the overall "task manager" for the project, and the environmental and social specialists, who provide technical input and ensure compliance with IFC guidelines (with reporting relationships to IFC CES), are important ones. The latter's own reporting lines and budget provide a valuable</p>

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		degree of independence. IFC is now mainstreaming environmental and social responsibilities are "mainstreamed" to Investment Departments, but with CES retaining responsibility for quality assurance. The outcome of this experience will guide future arrangements (see response to recommendation 2b below). It is agreed that when possible, IFC should promote the development and use of local capacity to monitor projects. The IFC nominees to company boards can support Investment Department Management in ensuring IFC requirements are met and its views understood, and that company issues and concerns in this respect are brought to Management's attention.
2b	<p>IFC needs to ensure that its environmental and social specialists are consulted throughout the project life and as early as possible and that investment officers fully share relevant information. To that end, investment officers need to be better trained to identify risks and opportunities. Also, changing the incentive structure by making the investment officer and department explicitly accountable for environmental performance would likely provide better incentives for calling in the experts as early as possible, not after a problem has materialized.</p>	<p>It is agreed that the early involvement of environmental and social specialists is warranted. Beginning with its first environmental review procedure in March 1990 and continuing through subsequent procedures (1992-1993 and 1998), IFC has developed a culture of ensuring that its environmental and social specialists are involved as early as possible in the project cycle and throughout appraisal and supervision. Following the adoption of the 1998 "Procedure for Environmental and Social Review of Projects" a corporate-wide training program was conducted to apprise investment officers of project environmental and social requirements, as well as risks and opportunities. Sustainability training began in the spring of 2002 on a departmental basis, and it covers issues of governance, environment, and social matters. For about two years, environmental and social specialists have been co-located in the Oil, Gas, Mining, and Chemical Department's mining and oil and gas divisions; this has fostered coordination and early involvement in projects. As mentioned in response to recommendation 2a above, the environmental and social mainstreaming initiative at IFC explicitly places accountability and responsibility for environmental and social inquiry, decision making, and performance on line management. CES will retain an independent quality assurance role. IFC has also pioneered "Departmental Scorecards" that set departmental targets across a range of indicators, including development impact and the volume of investments. IFC also recognizes outstanding environmental and social work in its performance awards system.</p>
2c	<p>IFC should develop a reporting template that specifies for each portfolio project which safeguard policies and guidelines apply, whether the company is in compliance with them, and how it performs with respect to key sustainability indicators for the industry. Where relevant, IFC should also include "beyond the fence line" issues, such as transportation and project-related security issues.</p>	<p>The recently introduced iDesk system for IFC project information includes such a provision for each new project on which safeguard policies and guidelines apply. Compliance with these policies and guidelines for portfolio projects are tracked by the ESRRs (see response to recommendation 2a above). IFC will supplement this with a consistent internal management database for all IFC projects that indicates the status of all key sustainability indicators (including mine closure/decommissioning plans, safeguard compliance, gas flaring, use of security forces, etc.). Work is underway to improve key sustainability indicators and enhance their usefulness (see responses to recommendations 1c, 2a, and 3c). COC, in conjunction with CES, will also review iDesk to ensure that it can provide Management with appropriate information and indicators for all projects (see response to recommendation 2a). IFC will review "beyond</p>

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		the fence" issues where it is appropriate to do so and will make this explicit. All future IFC-supported projects will require that investors meet a set of requirements relating to the use of security forces along the lines of the Voluntary Principles on Security and Human Rights that were developed through a process of dialogue between the Governments of the U.K and the U.S., EI companies, and NGOs.
2d	IFC should develop global comparators for the distribution of benefits from EI—among investors, governments at different levels and local communities. For its projects, IFC should analyze the distribution and compare it to other EI projects. At appraisal, IFC should include the distribution effects in its sensitivity and risk analysis (e.g., distribution of benefits at different levels of output and prices), track actual distribution during the project life, and aggregate the data at the country and sector level.	IFC already reviews the split of resource project net benefits between investors and government. It also reviews the ways investors obtained access to resources. Management will follow the recommendation to review more explicitly and to test the distribution of benefits to different stakeholders, including levels of government. Wherever feasible it will compare the distribution of benefits to government and others with international comparators using established reference sources, evaluated against different assumptions about key variables such as oil prices and production. IFC's annual project supervision reports now track key development outcomes, and where revenue distributions are an important expected outcome, it will track these also.
3	Engage Stakeholders	
3a	In consultation with stakeholders, IFC should continuously update its environmental and social safeguard policies, guidelines, and processes in line with evolving good practice in the industry. The WBG should use its convening power and the help of its member governments to promote their use by governments, industry, and other financiers. IFC should develop, update or clarify policies and guidelines on Indigenous Peoples (or "vulnerable people"), safety of dams, natural habitats (or biodiversity), security and human rights, HIV/AIDS prevention, mining (closure—funding and social issues, acid rock drainage, precious metal mining), and oil and gas (gas flaring, downstream transportation of oil).	Management has taken its response to the recently completed CAO Safeguard Policies Review to CODE, and IFC has embarked on a program to revise its safeguards. This revision will take into account CAO and OEG views on EI and recommendations such as those for safety of dams, mine closure, acid rock drainage, etc. Within the WBG, there is agreement that IFC will take the lead in the updating of the 1998 PPAH. One objective of the updating is to eliminate the inconsistencies in the PPAH. Ongoing collaborations between the WBG and MFIs, as well as the adoption of the "Equator Principles" by a growing number of commercial banks that will use IFC safeguards for their project finance lending in developing countries, demonstrate that other financiers find the safeguards useful and relevant. Industry and governments also often refer to the safeguard policies and guidelines, and the updating of the safeguards and the PPAH will make them more attractive to these stakeholders.
3b	IFC should encourage—and consider requiring—its clients to publish information in 3a above. Where client confidentiality undertakings initially restrict disclosure, IFC could report results on an aggregate country, regional or sectoral level and participate in initiatives advocating such disclosure. IFC needs to balance client confidentiality with its own accountability as a public institution and the public's desire to know more. On balance, increased communication and transparency is likely to help IFC and its clients and reduce misconceptions, distrust, and criticism.	See responses to recommendation 1b above concerning transparency of EI revenue payments and recommendation 1c concerning regular publication of information about projects by investors. IFC is currently reviewing its disclosure policy; it is likely that this review will lead to changes in its general approach. In the case of EI projects IFC proposes to require new investors to provide information on a regular basis concerning the environmental, social, and economic impacts of IFC-financed projects. This will include, for example, appropriate information that is now contained in Annual Monitoring Reports. IFC will work with investors to agree on an effective and meaningful approach to such information provision. As a part of the review of its disclosure policy, IFC will consider how it can better provide information about its aggregate activities in EI.
3c	In consultation with other stakeholders, IFC should develop and track key sustainability indicators and	See responses to recommendations 1b, 1c, 2a, 2c, and 3b above. IFC is developing an improved process to collect

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	consider disclosing them to demonstrate the economic, social and environmental impacts of its EI projects. Reporting on credible sustainable development indicators will help overcome the current inability to systematically demonstrate results achieved.	relevant baseline socioeconomic data for its projects, and it will collaborate with IBRD/IDA in this work and with external stakeholders. The size of projects (including their ability to bear the cost of such analysis) and their range of potential impacts will inform the choice of indicators and baseline data. IFC already monitors key development outcomes expected from projects and reports on these in its internal annual project monitoring reports. It will discuss its approach with others and take note of best practice in the sector, as appropriate, given the nature of IFC's portfolio and its objectives. It will consider whether and in what form relevant information from these can be disclosed.
3d	This evaluation found strong evidence that improved community consultation is in the best long-term interest of our clients. IFC should thus make community development programs with ongoing consultations the norm for EI projects. Such programs should start with a participatory assessment of the community's situation and long-term development needs. They should include ongoing consultations, focus on sustainable solutions to meet these needs, and prepare communities for the time after the extractive operations cease. Good communication is also likely to improve results—by listening to people and being exposed to public scrutiny and challenge.	It is agreed that good, ongoing consultation with communities is important and should be the norm, and this approach will be applied to new EI projects within two years. In 2000, IFC prepared a community development resource guide for companies ("Investing in People: Sustaining Communities through Improved Business Practice"). This guide provides IFC clients and private investors with practical advice on establishing community development programs. IFC will encourage existing clients to engage in ongoing consultations and will disseminate its community development resource guide to clients. In parallel, the practice of CES for high impact EI projects is to focus on community development opportunities. For example, the requirement for resettlement action plans in OD 4.12 is normally complemented with actions for broader community development plans. Also, vulnerable groups under OD 4.20, Indigenous Peoples, and OD 4.30, etc., are now the focus of community development plans. IFC's Corporate Citizenship Facility works with IFC clients and other stakeholders to develop capacity at the community level. In cooperation with IBRD, as appropriate, IFC will aim to work with investors to develop as a pilot a "sustainable community development plan" that would involve all stakeholders, including communities, local governments, and investors as envisaged in the MMSD report, Breaking New Ground. COC is currently developing proposals for a sustainable EI development facility that will aim, through project interventions and partnerships with stakeholders, to broaden the practical application of best practice to EI projects.
3e	IFC should routinely share best practice among clients and encourage them to apply it. IFC should communicate its information needs better to its clients, for example by tailoring reporting to their own requirements. Clients very much appreciated assistance they had received from IFC staff, but were eager for more. IFC should build on its various initiatives to add value and further facilitate exchange of ideas among its clients, for example by organizing conferences and further developing toolkits on how to best address environmental and social issues.	IFC will institute a more systematic approach to advising clients of updates/changing best practices and encourage them to apply these even when they are not obliged to. The new relationship with the "Equator Banks" provides an important additional way for IFC to communicate beyond its direct client base. IFC needs to ensure that client reports cover at least its minimum requirements in terms of safeguards. It will work with sponsors to ensure reporting is as effective as possible for both IFC and the client, given specific project needs. As noted (see response to recommendation 3a above), IFC is now responding to the CAO review of its safeguards, and updating and revising safeguards may offer the opportunity to make these more "customer friendly" without diluting their key objectives. Management agrees that it can (often as a WBG approach) use its convening power and range of clients to promote the

	Recommendation of the OEG Evaluation	Management Response
		exchange of ideas and best practices and it will do this selectively. A schedule for best practice notes, lessons learned, and good practice notes is under preparation for FY05; this will cover areas relevant to EI.

D. RECOMMENDATIONS OF THE OEU EVALUATION REPORT

	Recommendation of the OEU Evaluation	Management Response
1	Strategy and Rules of Engagement: MIGA needs to recognize and promote the potential benefits it brings to EI projects through its internationally recognized and comprehensive set of safeguard policies and its environmental and social impact mitigation services. MIGA's engagement with EI projects should move beyond compliance with its environmental and social safeguard policies toward the promotion and achievement of the development effectiveness of these projects.	MIGA Management is committed to implement this recommendation and will look for such opportunities to promote the potential benefits it brings to insured projects through its internationally recognized and comprehensive set of safeguard policies and its environmental and social impact mitigation services. Management is committed to promoting projects with the greatest development impact and that are economically, environmentally, and socially sustainable. MIGA's new organizational structure will facilitate this. Management reviews will focus on development effectiveness, and these reviews now will be done early in the project process cycle. See responses below concerning specific recommendations in this subject area.
1a	Recognizing that MIGA has the opportunity to add value to EI projects by adopting an explicit business strategy focused on providing proactive environmental and social advice to its guarantee clients that brings EI projects closer to best practices in the industry, with the goal of achieving sustainable development. This requires strengthening the economic and social components in MIGA's work in addition to the environmental component. This calls for a more proactive, forward looking approach to servicing clients that goes beyond the current practice of intervening only when events warrant it.	Management fully recognizes that MIGA should be more proactively involved in the social and economic aspects of EI projects. MIGA this year has hired a senior social specialist as part of MIGA's Environment group. A senior manager, whose responsibilities include reviewing the economic, environmental, and social aspects of MIGA projects, has also joined the MIGA Management team as Director and Chief Economist in the newly formed Economics and Policy Group. This expansion of MIGA's in-house capacity and additional economic, social, and development impact training of staff will enable MIGA to take a more proactive approach to EI clients. Moreover, MIGA has just undergone a major reorganization of its functional groups, to better integrate environmental, social, and economic analysis, to offer a more holistic approach to assessment of developmental impact of prospective projects, and to integrate the guarantees program and technical advisory services to better serve clients. MIGA will adopt a more proactive approach to offer advice and support to EI projects, especially sensitive or complex projects. The budgetary implications of providing proactive support subsequent to issuing coverage will need to be analyzed further, and MIGA will seek to secure support of a Trust Fund to enable a more intensive focus on such work.
1b	Strengthening the upstream involvement of environmental and social issues in MIGA's underwriting decision-making process. This entails consistently identifying applicable safeguard policies to clients as early as possible in the underwriting process, and using risk assessments early on to identify where failures in the safeguard system may occur to avoid adverse impacts on the environment and local communities.	Management concurs that it is advantageous to strengthen the upstream involvement and consideration of these issues. Management will notify clients as early as possible about applicable MIGA safeguard policies. Management notes that in recent years experienced EI investors tend to be well aware of these policies before coming to MIGA. It should be noted that a large majority of guarantee applications arrive at MIGA with the environmental assessment process already completed and the environmental impact assessment approved in the host country.
	MIGA needs to make a greater effort to work with clients to ensure compliance with its environmental and social safeguard policies and guidelines at the time of Board approval.	Management concurs with the thrust of this recommendation, and the recent hiring of a social specialist will facilitate this. Management notes that its business model (and the Operational Regulations) provides scope for including as conditions of guarantee, the completion of proposed or ongoing critical safeguard tasks, subject to Board approval. As has been done since MIGA adopted its own environmental policies and

Recommendation of the OEU Evaluation		Management Response
		procedures in 1999, Management's commitment is to notify the Board of any outstanding, significant concerns that will need to be addressed as part of contractual requirements in the guarantee(s) for the project. The expansion of MIGA's in-house environmental and social expertise will lead to greater effort in monitoring subsequent compliance for projects that have high risk during implementation.
	in addition, MIGA needs to consider how its work in assessing, underwriting, and supervising its guarantee projects can go beyond the monitoring of compliance with safeguards toward promoting development effectiveness in its projects.	Management will offer prospective clients advisory support to enhance the developmental impacts of projects, to go beyond compliance with safeguards and promote sustainable development. A model of this might be work done over the past four years by MIGA's environmental specialist in the context of the Antamina Mine in Peru. The budgetary implications of this proactive support will need to be analyzed further as Management gains additional experience in this effort to add value to clients.
1c	Associating with investors committed to sustainable development and avoiding those who are unable to provide MIGA with timely environmental and social monitoring reports during implementation.	Management associates with investors that are committed to sustainable development, but also notes that this recommendation poses some challenges for lenders or minority partners. The majority of MIGA guarantees that have been issued have been held by lenders or minority partners, clearly demonstrating the value of MIGA's products to this type of investor. The implications for these investors will need to be carefully assessed in the context of how their investments contribute to outcomes of sustainable economic and social development. Proactive measures (e.g., working through the best efforts of the investor or lender to implement best practices, distribution of best practices, etc.) can be taken. In this respect, MIGA will take comfort in those lenders that have committed to the "Equator Principles." Management also notes that great care will be needed to ensure that "South-South" investments are not discriminated against.
	MIGA should satisfy itself before engaging in new EI projects that the investor understands its environmental and social responsibilities and demonstrates ownership at the top management level to community development and mitigating environmental and social impacts. The project enterprise's organizational structure, policies, and stated mission should be consistent with these goals.	Management agrees with this recommendation and has put in place an upstream review process for all projects, to address this and other issues. Management takes into account client reputation, and assesses indicators of the likely risk for noncompliance during implementation and the associated risks of faulty implementation.
2	Policies, Procedures, and Enforcement Mechanisms MIGA should strengthen its internal policies and support them by appropriate procedures and guidelines to staff to ensure accountability.	See responses 2a, 2b, 2c, and 2d below.
2a	Establishing internal requirements for MIGA's timely engagement and systematic monitoring to maximize environmental and social benefits.	See response to recommendation 4a. Management accepts that it could do more in this area (see response to recommendation 1a). In particular, MIGA will encourage investors in EI projects to approach MIGA at a very early stage. Management has had internal guidance with respect to the selection and prioritizing of site monitoring over the past four-five years. In July 2003, Management implemented a more standardized approach to monitoring compliance and performance of all new EI projects.
	This will entail avoiding projects where MIGA can not address environmental or social issues to improve the outcome due to its late participation.	Management will avoid projects whose net outcomes are not anticipated to be positive.
	Site visits by MIGA's environmental and social	Under the newly reorganized structure of the Agency, project

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	experts should be required as early as possible in its involvement in category 'A' and other high-risk projects to assess which policies are applicable. MIGA should not rely exclusively on assessments and reports of non-WBG institutions.	teams will normally visit the project site prior to any decision to recommend approval of the project to the Board. MIGA's Environmental and Social Review Procedures call for a site visit as part of the environmental and social review and due diligence during the underwriting of Category A projects; these also will be carried out as early as possible. The procedures allow for the site visit to be carried out by qualified MIGA or FC experts or by a qualified consultant (whose work will be reviewed by qualified staff).
2b	Incorporating standards recognizing the rights of individuals relating to security arrangements at EI projects into its policies and Operational Regulations.	In the context of the overall WBG approach to these issues, Management will evaluate and help develop best practice approaches to EI-specific issues.
2c	Making better use of MIGA's Contracts of Guarantee to enable the Agency to facilitate compliance with its policies and standards. In addition to the current requirement to comply with safeguard policies and environmental and health and safety guidelines, for future projects MIGA should ensure that the contracts clearly and explicitly state which environmental and social safeguard policies and guidelines apply to the project under guarantee and establish thresholds and conditions for timely and effective compliance.	With respect to environmental guidelines, MIGA's practice for the past five years has been to attach the appropriate guidelines to the contract as conditions of coverage. With respect to safeguard policies, see response to the next part of this recommendation.
	When applicable, contracts should also specify requirements for implementation of Environmental Management Plans (EMPs), Resettlement Plans (RPs), Community Development Programs (CDPs), and Indigenous Peoples Plans (IPPs).	Management agrees with this recommendation. Management sees this approach as the mechanism by which project-specific requirements of the safeguard policies can be addressed by binding and legally sound contract requirements. Management takes care that any contractual requirements are clearly defined in a way that failure to comply can be reasonably assessed in the event of arbitration arising over the decision by MIGA to deny a claim or unilaterally cancel coverage due to noncompliance.
	As required by the involuntary resettlement and Indigenous Peoples policies, MIGA should ensure that investors prepare RPs, CDPs, and IPPs before project approval rather than leaving them to implementation.	Management agrees that these plans should be prepared before project approval. However, these are not static plans and require adaptation to evolving circumstances. Also, Management believes its business model provides scope for including, as conditions of guarantee, the completion of proposed or ongoing critical tasks, subject to Board approval. In such cases, MIGA conducts necessary follow-up and monitoring to ensure compliance.
2d	Establishing necessary mechanisms to ensure systematic, timely, and regular monitoring and supervision of safeguard compliance of MIGA EI guarantee projects (e.g., MIGA should require in its Contracts of Guarantee timely environmental and social monitoring reports from its guarantee holders during the project implementation phase).	Management believes it is obtaining information in timely and cost-effective ways for sensitive projects (e.g., Category A), and not levying excessive demands on guarantee holders for Category B projects. Management believes these judgments are important contributions to the Agency's efficiency and effectiveness, as noted in paras. 49-51 of the OEU report. Nevertheless, in response to this recommendation, Management has implemented a more standardized approach to monitoring compliance and performance of all new EI projects.
	MIGA should also require sponsors to set up environmental and social project management systems at a sufficiently early stage to effectively monitor impacts, including during the construction stage.	Management identified this matter in 2000 as a lesson learned from its experience with Antamina project in Peru. Management now considers this in all prospective EI projects where it has been identified as a potentially significant concern and risk.
3	Internal Organization MIGA should update its business model by clearly	See responses below to specific recommendations in this subject area. MIGA has just undergone a major reorganization

	Recommendation of the OEU Evaluation	Management Response
	assigning the locus of responsibility for better integration of economic, environmental, and social issues in MIGA operations. This is needed in order to support other departments in the achievement of these objectives and to provide guidance to operational staff, as well as, for the analysis and monitoring of economic, environmental, and social issues in an integrated manner.	that created a unit to integrate the assessment of economic, environmental, and social issues in MIGA operations, and to approach developmental impact assessment in a more holistic fashion.
3a	Scaling up the analysis of developmental impacts of prospective projects integrating new concepts in harmony with the rest of the WBG. In so doing, MIGA should closely cooperate with the other members of the WBG to benefit from synergies, complementarities, and expert knowledge, with the objective of promoting a holistic approach to EI projects.	MIGA Management supports the recommendation and has made significant steps over the past few years to more closely cooperate with other members of the WBG (e.g., work on CASSs, sector strategy papers, the Extractive Industries Review, etc.) to benefit from synergies, complementarities, experience, and expert knowledge. Efforts will continue to be made to scale up these actions.
	This will also require building internal capacity by both recruiting needed economic skills and appropriate training to current staff.	MIGA Management has built and intends to further build its internal capacity in these areas. Initial training of underwriters has already been conducted by an IFC economist, who has subsequently joined MIGA's staff as senior manager (Director and Chief Economist) for country assessment, policy, economics and strategy (Economics and Policy Group).
3b	Establishing an internal system that allows a more integrated and timely monitoring of developmental impacts of guaranteed projects.	The recent reorganization of functional groups, and the intent to increase site visits to prospective projects, will offer opportunities to increase timely monitoring of guaranteed projects in MIGA's portfolio. The planned closer collaboration with OEU will enhance this.
3c	Upgrading and expanding the role of environmental and social specialists and, at the same time, building internal social skills capacity to effectively enable the application of social safeguards in MIGA projects.	As previously noted, an experienced social specialist has been hired as part of MIGA's Environment group (which has now been incorporated into the newly formed Economics and Policy Group) to augment and build internal capacity.
3d	Formalizing the practice of ensuring that MIGA environmental staff are involved in projects beyond the submission of clearance memos, and requiring that MIGA environmental and social staff to provide inputs to guarantee and legal documentation to incorporate any environmental and social concerns. In addition, MIGA underwriting staff should be required to keep environmental and social specialists apprised of all relevant changes beyond Board approval and contract signing.	Management agrees with this recommendation and is making changes in its internal procedures to enhance the timeliness and extent of its environmental and social specialists involvement in these and other operational areas.
4	Active Projects MIGA needs to review its portfolio of active EI projects to identify potential or actual deficiencies in the application of safeguard policies and to swiftly take appropriate remedial actions.	See responses below to specific recommendations in this subject area. MIGA has taken and will take appropriate remedial actions to address deficiencies that are identified.
4a	Identifying projects that may not be consistent with safeguard policies. In particular, where resettlement and land acquisition has taken place without follow-up audits to determine compliance with WBG policies regarding resettlement, third-party audits should be required. Similarly, where Indigenous Peoples have been affected without the provision for Indigenous Peoples Plans to mitigate the impacts, sponsors should be asked to prepare and implement such plans. Providing briefings on potential problems with sensitive projects, a system currently	Management notes that since late 1997 MIGA has extensively and regularly identified "higher risk" projects vis-à-vis safeguard policies. This identification has been used to develop a monitoring program of site visits, which has included eight EI projects in the course of a three-year period. MIGA plans to expand this effort. Also, soon after the Office of the CAO was established in 2000, MIGA provided a list of all projects in MIGA's portfolio that involved involuntary resettlement or Indigenous Peoples, discussed the risks of each project with the CAO, and described the monitoring that MIGA directly had been carrying out or had been relying on to track the projects'

	Recommendation of the OEU Evaluation	Management Response
	used by MIGA, is useful but not sufficient. MIGA should take appropriate remedial actions to address existing safeguard deficiencies in extractive industry projects that are still active in MIGA's portfolio.	compliance issues. Briefings of the CAO on sensitive projects in the pipeline and the portfolio have been regularly provided (approximately quarterly) since then, as have exchanges of information with the IFC on common projects. MIGA continues to review regularly the project portfolio and identify priority projects for monitoring visits, focusing particularly on projects with higher risk. Management will consider on a case-by-case basis the need for a third-party audit of compliance with MIGA's policies. Management believes that it has taken care to ensure that, when Indigenous Peoples are at risk for significant adverse impacts, plans have been established and implemented to effectively mitigate those impacts.
4b	Making every effort to encourage consistency with MIGA's safeguard policies in active extractive industries projects with reinsurance agreements pre-dating the new MIGA practice. New agreements require that environmental and social standards applied by partners are consistent with MIGA's own safeguard policies and guidelines.	There are no longer any remaining active reinsurance contracts of this type. As noted by OEU, this matter has been addressed in new contracts.

**EXTRACTING SUSTAINABLE ADVANTAGE?
(REPORT ON THE CAO REVIEW)**

WORLD BANK GROUP MANAGEMENT RESPONSE

SEPTEMBER 17, 2004

Management Response to CAO Report: Extracting Sustainable Advantage? A Review of how sustainability issues have been addressed in recent IFC/MIGA extractive industry projects

Introduction

As a contribution to the WBG's review¹ of its role in extractive industries, the CAO's office conducted an assessment of how sustainability issues were addressed in recent IFC/MIGA extractive industry projects. The specific objectives of the report were to consider whether the interpretation and application of Safeguard policies and guidelines had enhanced project sustainability and whether all relevant issues were considered during project appraisal. The basis of the review was an examination, including some country visits, of eight recent IFC and MIGA EI projects that were too recent to have been included in the OEG and OEU evaluations of IFC and MIGA activities in EI.

The review did not assess the net sustainable contribution of the projects, it was too early in their life, and, the review was not intended to do that. It considered how IFC and MIGA had approached the appraisal and review of projects from the perspective of a comprehensive set of sustainability dimensions. Some of these dimensions had mandatory criteria that needed to be addressed in existing safeguard policies and guidelines and others that did not. Typically, specific mandatory criteria exist for environmental and social processes and standards, and not for broader economic and governance dimensions

Report Findings and Recommendations

The report had a number of key findings and made a number of recommendations for how IFC and MIGA could better address key sustainability issues. As the report makes clear, it was intended to be forward looking and to assess to what extent the two institutions were addressing sustainability issues beyond those mandated in their safeguard policies and guidelines. Overall, the review found that, against, "a review methodology that holds all projects to a very high standard", the institutions scored highest in addressing environmental and social dimensions where there were mandatory criteria and least well in addressing economic and governance dimensions where there were no mandatory criteria.

It also found that there was significant variability between specific projects and that in a number of areas there was scope for IFC and MIGA to refine or develop guidelines and processes and also to improve implementation.

¹ These reviews consisted of: *Extractive Industries and Sustainable Development: An Evaluation of the World Bank Group's Experience*, OED/OEG/OEU, June 2003, available at www.worldbank.org/oed
Extracting Sustainable Advantage?, CAO, April 2003, available at www.cao-ombudsman.org.
Striking a Better Balance, EIR, January 2004, available at www.eireview.org.

Proposed Response

Management welcomes the report that provides valuable insights and suggestions about how IFC and MIGA's activities in EI can be enhanced. It has some concerns about the lessons that can be drawn from a small sample size of projects, particularly in the case of MIGA where only two recent projects were reviewed. In addition, it believes that in some areas, consideration of issues such as governance and political risks was more extensive than identified by the review process, because it was done in a more informal way than, say, the review of specific, mandatory environmental and social criteria. Overall, however, it sees the review as a useful exercise and welcomes it as one that can help guide IFC and MIGA's approach to EI in the future. It helps identify the broadening concept of sustainability and scope for value added that is consistent with Management's own thinking, and the direction in which IFC and MIGA activities in EI have been heading.

Detailed responses to the recommendations of the report are attached in Annex 1. Many of the specific and general issues raised in the CAO review have been covered in the EIR report, and the joint OED/OEG/OEU Evaluation of WBG activities in EI. An extensive discussion of the issues in, many cases, is given in the Management Responses to these reports.

As is the case with these other reviews, the full implementation of Management's response to this reports recommendations will depend on the outcome of other processes of review that are now underway. In areas such as the recommendation that the WBG should recognize increased awareness of the human rights and labor rights dimensions of WBG activities, Management proposes to wait the outcomes of ongoing IBRD/IDA and IFC reviews of this issue. In this respect, IFC presented proposals addressing labor rights to CODE in July 2004 in the context of its proposed revision of its safeguards.

Since the delivery of the CAO report, Management has produced its response to the broader CAO review of IFC's safeguard policies² and has embarked on the process of revising IFC safeguards policies and guidelines. This process, will give priority to EI related issues, will address many of the CAO's specific recommendations. IFC's ongoing review of its disclosure policy will provide an overall framework for greater disclosure to communities about the economic, social and environmental impacts of projects that affect them.

² A Review of IFC's Safeguard Policies. Core Business: Achieving Consistent and Excellent Social and Environmental Outcomes. January 2004 available at www.cao-ombudsman.org.

ANNEX 1

DETAILED MANAGEMENT RESPONSES

Recommendations of the CAO Report

	Recommendation of the CAO	Management Response
1	IFC and MIGA have a more considered approach to tackling the environmental and social development dimensions of sustainability than the economic and governance dimensions. IFC and MIGA should reinforce their existing guidance to more clearly encompass a wider set of sustainability concerns. As the sustainability agenda is evolving, a flexible approach to introducing revisions should be adopted. This should enable both organizations to update internal guidance efficiently and systematically in response to emerging best practice, in support of continuous improvement. Where appropriate, the guidance should clearly identify mandatory requirements.	The review by IFC of its safeguard policies and response to the CAO report will provide an overall revision of scope, content, and approach to safeguards. This is now underway and an overall framework will be considered by CODE in June. The process will identify areas where it is considered appropriate to include new safeguard policies and guidelines. In addition, Management proposals to give greater focus to governance issues and more explicitly address governance risks will also help address concerns in this respect. In practice, IFC does update its policies and guidelines periodically as needed. MIGA is working with IFC in the update of the IFC safeguard policies. The effort will be valuable to MIGA, and following its completion, MIGA will revise and update its own safeguard policies, as per MIGA's commitment to the Board in May 2002.
2	The rating of individual projects against the sustainability review criteria was highly variable, although IFC's category B projects outperformed MIGA's. MIGA's management should consider and take a position on this disparity: either it maintains the status quo whereby MIGA projects subscribe to the standard of do-no harm (which the Safeguard Policies are primarily concerned with), or it takes action to ensure closer convergence with IFC's broader sustainability remit.	MIGA has just undergone a major reorganization of its functional groups, to integrate better its environmental, social, and economic analyses. With this new organizational structure, MIGA Management is committed to promoting projects with the greatest development impact, that are environmentally, socially, and economically sustainable.
3	IFC and MIGA lack sector-specific guidance on how to undertake comprehensive risk assessments. IFC and MIGA should develop sector specific guidance on how comprehensive environmental risk assessments should be undertaken. In addition, IFC should finalize and fully implement its draft guidance on cyanide handling.	IFC will finalize and implement its international best practice guidance on cyanide in its draft Precious Minerals Mining Guidelines (July 2004) that are being revised as a component of the revision of its safeguards. It will consider IFC-wide guidelines on comprehensive risk assessment as a part of this process, and MIGA, with its recent reorganization, will reassess its approach to comprehensive risk assessment.
4	Despite the existence of the Natural Habitats and Environmental Assessment Policies, there is insufficient guidance on ecological assessment and mitigation. IFC and MIGA should develop and implement improved guidance on ecological assessment and mitigation.	The ongoing IFC review that will consider the updating of this, and the other safeguard policies will be used to review measures for addressing these challenges. As noted in (1) above, MIGA will follow with its own review
5	While at least some financial provision is made for closure of mining projects, this is not the case for oil and gas projects. IFC and MIGA should strengthen the available guidance on closure to apply to all extractives projects, and include a requirement to ensure that social considerations are taken into	IFC will produce guidelines for a consistent approach to mine closure. Key aspects of this will be requiring investors to have a mine/oil and gas field closure plan that deals with environmental and social issues and is regularly updated to account for changed circumstances; public awareness of closure plans; and appropriate financial

	Recommendation of the CAO	Management Response
	account. They should also develop and implement measures to ensure that funds allocated to closure during their involvement with a project are ring-fenced, even after they exit.	provision for closure consistent with country requirements and nature of project. In this latter respect, ring-fenced funding or equivalent will be put in place, when feasible. MIGA intends to act in consonance with the expected revisions and modifications to IFC guidelines.
6	While most clients are undertaking pre-approval consultation well, there is little or no acknowledgment of the influence that public consultation has had on the design and implementation of projects. IFC and MIGA should more explicitly acknowledge and report on the influence that public consultation has had on the design and implementation of projects. The benefits of ongoing consultation and engagement throughout a project's life cycle should routinely be articulated to clients, and required for the period of IFC or MIGA's involvement.	IFC/MIGA agree that, when possible, it will advise those involved of the outcome of consultations. New IFC projects will be required to provide information to local communities and establish an appropriate program of consultations. MIGA will review its guidelines on the information to be provided local communities and on the consultation process with local communities.
7	The communities in the vicinity of IFC and MIGA projects would benefit from an explicit adoption by both organizations of a commitment to promote more sustainable community development projects and programs by its clients. IFC and MIGA should ensure that all clients are familiar with IFC's Investing in People guidance, and understand the importance of direct community participation and explicit consideration of the longer-term sustainability of community investment projects.	IFC and MIGA agree that all EI clients should be made familiar with IFC's "Investing in People" good practice manual. A major component of the IFC approach to sector activities is to add value. Programs such as the SME Linkages are one such effort. Encouraging sponsors to develop meaningful community relationship programs with longer-term sustainability objectives is another.
8	Neither IFC nor MIGA systematically consider the broader human rights and labor rights issues associated with extractives project. Instead, IFC and MIGA should more systematically consider potential risks to human rights at the project level, take appropriate steps to mitigate them, and provide clearer guidance to clients on both of these aspects. Where relevant, these aspects should be reported on at the project level.	There are many aspects to the human rights issue. Project appraisal should identify immediate issues that may directly impact project outcomes. How far to go beyond this stage in terms of identifying risks to human rights and mitigating them needs to be set by the broader WBG approach to human rights. Both IFC and IBRD/IDA are now in the process of reviewing their approach to these issues and the outcome will provide a framework for activities in EI. IFC presented draft proposals for an approach to labor rights in the context of its safeguards revision that was discussed by CODE in July, 2004. In the specific context of EI, IFC/MIGA will expect new investors to follow a guideline relating to the use of security forces along the lines of the "Voluntary Principles on Security and Human Rights" that were developed through a multi-stakeholder process of dialogue between the Governments of the U.K. and the U.S., extractive industry companies, and NGOs.
9	A number of other social issues are not systematically assessed and mitigated across all projects. IFC and MIGA should develop improved guidance on how to deal with these issues, and integrate it into improved guidance on social assessment, as recommended by the CAO Safeguard Policy Review.	IFC's Good Practice Note, "Addressing the Social Dimensions of Private Sector Projects" (December 2003), will assist in identifying, analyzing, and addressing social issues. It will be an integral part of IFC's environmental and social assessment process. Since Board approval of MIGA's safeguard policies and their implementation framework in May 2002, MIGA has been applying an

	Recommendation of the CAO	Management Response
		integrated approach to the safeguard policies, positioning the EA process (and the EA Policy) as a key “integrator.” In this approach, the issue-specific safeguard policies become the norms by which one evaluates if the proposed mitigation/compensation measures identified in the project’s EA are reasonable and acceptable, while retaining at the minimum that the project must do no harm to directly affected parties. This approach to integrating MIGA’s issue-specific safeguard policies and MIGA’s environmental guidelines through the EA process (and under the umbrella of the EA Policy) was identified by the DGO in the May 2002 Board discussion of MIGA’s interim safeguard policies, as a model of a holistic, multidimensional approach to incorporating safeguard policies in assessments. The environmental and social assessment for the project also is the opportunity to assess social concerns and needs to done so that MIGA’s clients can determine appropriate ways of going beyond compliance to further sustainable community development.
10	Revenue management and distribution is a critical issue for the future involvement of the World Bank Group in these sectors, and neither IFC nor MIGA have a coherent strategy on how to respond to this challenge. IFC should consider revisiting the current definition of high-impact to be more inclusive. It is currently based on the relative contribution of a single project to fiscal incomes, whereas it might be extended to include large projects (above a defined threshold) in countries where the sector as a whole makes a significant contribution to GDP. For high-impact projects, IFC should report on the steps taken to mitigate adverse impacts and enhance revenue management and distribution. For low-impact projects, IFC and MIGA should report on their rationale for providing support to such projects, having fully considered the potential positive and adverse economic, social and environmental impacts. IFC and MIGA should also continue to collaborate with the World Bank on the inclusion of these aspects in Country Assistance Strategies (CAS), and engage with the Bank and IMF to seek coordination of work programs that address public expenditures management, which are beyond the mandate of IFC and MIGA.	<p>Weak governance can potentially lead to poor oversight of the EI sector and poor management and use of revenues from EI. IFC and MIGA’s approach will be to (a) work with IBRD/IDA to ensure that EI issues are addressed in the CAS (see response to recommendation of the Overview report 1 b above); (b) support IBRD/IDA efforts on transparency initiatives such as EITI; (c) for “significant” new projects (usually large enough to generate 10 percent or more of government revenues) to require adequate mitigation measures to be put in place to reduce the risks that revenues will be wasted; (d) have smaller projects carefully evaluate the risks that revenues will not be used well compared with other expected benefits and review issues in the Summary of Project Information (SPI); (e) to require transparency about EI payments to governments and the terms of key contracts with governments for all “significant” new projects; and (f) within two years, to expect transparency about material EI payments for all IFC- and MIGA-supported projects.</p> <p>IFC/MIGA will also work with and support the IBRD/IDA, as appropriate, in preparation of CASs, transparency initiatives, and IBRD/IDA initiatives on revenue management.</p>
11	IFC has no systematic basis for reporting the significance of public corruption, political instability, and conflict during project preparation, and neither IFC nor MIGA have the leverage to take proactive action on these issues. IFC and MIGA should collaborate closely with the World Bank to ensure that these issues are explicitly dealt with in the appropriate operational instruments (e.g., Public Expenditure	As IFC and MIGA adopts the approach to dealing with governance and EI projects set out above, they will need to mitigate or evaluate the impact of governance (including but not limited to corruption, etc.) on project outcomes. In their project appraisal, both IFC and MIGA will review and follow any indications of project-related corruption. They will work with IBRD/IDA in helping to identify sectors/issues and in identifying appropriate responses. A

	Recommendation of the CAO	Management Response
	Reviews, CAS) of the countries where they are likely to support oil, gas and mining. In addition, the investment and underwriting departments should collaborate with their environmental and social counterparts to more explicitly analyze and report the potential for in-country corruption, political instability, or conflict to result in adverse impacts at the project level, or to increase as a result of the project.	major part of IBRD/IDA activities in poor-governance countries is focused on dealing with such governance issues (such as, for example, IBRD/IDA's approach to LICUS (low income countries under stress) countries). The status of IBRD/IDA (and IMF) programs in the country and the CAS will also be taken into account in IFC and MIGA evaluations of country-level governance issues. And in addition, a range of WBG and other qualitative and quantitative indicators (such as IBRD/IDAs CPIA assessments (country policy and institutional assessment) will be reviewed.
12	While IFC and MIGA voluntarily consider issues like maximizing local, regional, and national procurement and employment opportunities, there is further scope to maximize economic opportunities arising from extractive sector projects. IFC and MIGA should clarify where the responsibility lies for ensuring that economic development issues (such as employment, procurement, and basic economic infrastructure) are dealt with. They should develop improved guidance, both for internal use and for clients, on the economic development issues that should be considered and how, the obstacles that often exist to maximizing potential opportunities, and how to overcome such obstacles to gain the maximum advantage from extractives projects.	Mainstreaming environmental and social issues and growing experience and awareness among investment officers about SME linkage programs, etc, will help IFC to add value in terms of broadening the impact of projects financed. IFC is considering preparing guidance notes for staff and others to help identify opportunities in different sectors. MIGA recently added staff expertise in social and economic impact assessment and in the recent reorganization has consolidated responsibility for such assessments in one group. Core responsibility for decisions involving employment, procurement, and basic economic infrastructure should continue to be with the private sector investors, and not lenders or insurers.
13	Sustainability innovations are emerging – albeit in an ad hoc manner. Although informal sharing of ideas between specialists takes place, IFC and MIGA should explore more formal mechanisms to record and share experiences.	IFC does put in a lot of effort in spreading information among staff about sustainability issues. The ongoing IFC sustainability-learning program that almost all staff in the Oil, Gas, Mining and Chemicals Department have been through is one example. MIGA has recently reorganized to consolidate its work in this area, and has augmented this with recently acquired staff capacity in social and economic impact assessment.
14	If the business case for sustainability is to be made persuasively, the concept that sustainability innovations have a return on investment should be demonstrated. IFC and MIGA should develop mechanisms to buy-down or reduce the perceived incremental costs of higher risk sustainability innovations where the returns on investment are not readily demonstrable. Such mechanisms should avoid the provision of any subsidy to the project, while supporting innovation.	See responses to recommendations 12 and 13 above. IFC has a sustainability database that provides investors with examples of developing country projects that benefit from a sustainability approach. In 2004, MIGA intends to explore the possibility of such mechanisms further.
15	MIGA's response to the challenge of enhancing the sustainability of extractives projects is limited by the 'do no harm' focus of its procedures, which in turn is linked to its business model. MIGA should consider whether the broader advisory services capacity on sustainability within the Bank Group could be harnessed and applied where MIGA clients express an	In 2004, MIGA intends to explore ways in which an investment insurer may offer added value to its clients, with the recent reorganization of its functional groups as a mechanism to exploit these opportunities as they are identified.

	Recommendation of the CAO	Management Response
	<p>interest, as an extension of its advisory services.</p> <p>MIGA should also more systematically assess clients' capacity for social and environmental management.</p>	

