THE WORLD BANK GROUP, THE EXTRACTIVE INDUSTRIES REVIEW (EIR) AND GOVERNANCE:

Evaluating the Bank Group's implementation of its commitments

January 2006

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Executive summary

The Extractive Industries Review (EIR)—a three-year, independent evaluation of the impact of World Bank Group support for the oil, gas and mineral sectors—found that in countries with weak governance, increased investment in oil, gas and mining is unlikely to contribute to poverty reduction. Despite the commitments made in its response to the EIR more than a year ago, the World Bank Group has done little to effectively and transparently factor governance considerations into its support for extractive industry (EI) projects and strategies. A review of five country strategies and six EI projects approved or proposed during the past year reveals that the Bank Group has failed to apply a *comprehensive and consistent methodology* for governance assessment; has not based its governance assessments on discernable EI-specific or other core governance indicators; and has failed to make an explicit connection between governance risks and Bank Group decisions on EI engagement.

This paper examines the implementation of the main commitments that Bank Group management made to its Board of Directors in response to the EIR governance recommendations. The authors discuss the Bank Group's progress to date in assessing EI-related governance issues and basing decisions about EI engagement on these governance assessments. To evaluate the Bank Group's progress, the authors reviewed a representative sample of country strategies, "Summaries of Project Information" for International Finance Corporation (IFC) projects, and Multilateral Investment Guarantee Agency (MIGA) project documents prepared since the Bank Group's Management Response to the EIR. The authors assessed only information contained in these documents—which reflect the majority of the Bank Group's EI governance commitments—and did not consider project or program implementation. The country strategies and project documents that were selected reflect a range of EI-activities and country contexts including:

- Four Country Assistance Strategies (CASs) or Country Partnership Strategies (CPSs) for <u>resource-rich countries</u> (Kazakhstan, Nigeria, Sao Tome and Timor Leste) and one CAS for a <u>country with substantial resources</u> (Sierra Leone).[2]
- Five Summaries of Project Information (SPIs) for four IFC EI projects <u>in countries with very "weak governance"</u> (Kolwezi Kingamyambo Copper-Cobalt Tailings Mine in the Democratic Republic of the Congo (DRC), the Kupol Gold and Silver Mine in Russia, the Chimoré Natural Gas Project in Bolivia and the Petrofalcon Oil and Gas Project in Venezuela), and one project <u>in a country with relatively "good governance"</u> (Newmont's Ahafo Gold Mine in Ghana).[3,4]
- The "Report to the President" on a <u>MIGA political risk guarantee</u> for the Anvil Dikulushi Copper-Silver Mine in the DRC.[5]

[2] The authors used the Bank Group's definitions as presented in its Management Response to the EIR. Resource-rich countries are those where 50% or more of revenues are expected to come from EI. Countries with substantial resources are those where 30-50% of revenues are expected to come from EI.

[3] According to the Project Documents database on IFC's website, as of December 2005, SPIs have been posted for 12 EI projects in the Russian Federation (three projects), Ghana, Bolivia, Argentina, MENA Region, Gabon, the Democratic Republic of Congo (DRC), the Africa Region, Venezuela and Oman.

[4] Of the 12 IFC EI projects in eight countries for which SPIs have been disclosed, the authors reviewed projects from four countries with the "weakest governance" as indicated by WBI Governance Indicators 2004 percentile rank across the six categories; namely, DRC, Venezuela, the Russian Federation and Bolivia. The authors also reviewed one project in the country that had the "strongest governance" (Ghana) according to the WBI Governance Indicators 2004 percentile rank across the six categories. This project was also selected because it has not yet been approved by the IFC Board, and thus an analysis of the governance assessment could contribute to the ongoing project preparation. The selected Russian project was chosen because it is Category A, while the other two Russian projects are Category B. The MENA and Africa regional projects were excluded.

[5] Unlike IFC, MIGA does not disclose any general information (other than environmental assessments for Category A projects) on its proposed guarantees prior to project approval. To assess MIGA's project, the authors reviewed a leaked copy of the document submitted to the Board for guarantee approval: "Report from the President on the proposed guarantee to Anvil Mining for the Dikulushi project in the DRC," September 10, 2004, MIGAR2004-0058.

To analyze the assessments of governance issues and risks in these documents, the authors asked a set of questions which reflect the commitments made by the Bank Group in its Management Response to the EIR. The five country strategies and six EI projects were reviewed to determine: how comprehensive the governance risk assessment is; on what indicators the assessment is based; and what impact the governance assessment has had on EI sector engagement and project selection or design.

This analysis shows that the Bank Group has largely ignored the findings of the EIR final report and its own Operations Evaluation Department (OED). Where governance issues are discussed in project and strategy documents, the Bank Group often focuses on revenue transparency and economic management, ignoring other elements of governance that are particularly relevant to the extractive industries, such as risk of conflict, human rights protection, and capacity to mitigate and manage the impacts of EI development.

The Bank Group has not engaged in a participatory process to develop or select EI-specific governance indicators to address such issues. Country Policy and Institutional Assessments (CPIA), which continue to be the Bank Group's primary governance evaluation tool, are formulated without public input and concentrate primarily on fiscal or economic policies and the regulatory environment. Although the World Bank Institute (WBI) Governance Indicators present a more comprehensive view of core governance—inclusive of political and civil rights—they have no prescriptive power over decisions about Bank Group support for projects and country strategies.

Furthermore, the Bank Group's governance discussion in country strategies and project documents has no *explicit* connection to decision-making about the sequencing or selection of EI activities. Even a recent draft IFC "check list" for investment officers and economists on "Assessment of risks to project benefits" merely suggests issues to consider when evaluating governance risks without explaining how decisions should be made on the basis of that evaluation.

If the Bank Group intends to avoid past mistakes, it should engage in a transparent, participatory process to identify EI-specific governance indicators, and clearly link these indicators to support for EI projects and policies. This process should determine the minimum governance standards that must be met before the Bank Group will consider supporting EI investments in a particular country. Where it chooses to engage in the extractive industries, the Bank Group must be able to explain what EI-related governance risks are present, why supporting EI in that context is justified, what measures will be taken to monitor and mitigate those risks, and under what conditions governance risks or the failure of mitigation measures would lead to the denial or withdrawal of Bank Group support for EI.

Introduction

The Extractive Industries Review (EIR) found that where basic conditions of good governance are absent, extractive industries have no record and little hope of contributing to poverty reduction.[6]

The EIR was completed in 2003. Its final report presented a series of recommendations, including that the World Bank Group should not support EI investment in countries where pro-poor governance is inadequate. In August 2004, the World Bank Group's Management responded to the EIR by proposing modifications to its EI operations and related policies. The Bank Group's modest reform commitments were grouped under the headings of governance, revenue and contract transparency, information disclosure, environmental and social impacts, and poverty alleviation.

An examination of World Bank Group operations over the past year reveals that the Bank Group has failed to fully implement its commitment to take governance into account in EI project selection and design. Furthermore, the Bank Group's decision-making processes seem to neglect consideration of the most essential elements of good governance—such as the ability of citizens to hold their government accountable or the absence of conflict—in favor of a focus on a country's economic policies and natural resource revenue management.

This report briefly recalls the basis for the EIR recommendations regarding governance, analyzes the Bank Group's own stated commitment to integrating governance factors into its EI operations, examines the extent to which those commitments have been implemented, and highlights some critical lessons and key recommendations for future Bank Group involvement in the EI sector.

This report does not attempt to define "good governance" nor encourage the Bank Group to do so independently.[7] The authors are not calling for the Bank Group to invest in "governance-building," but rather to consider governance conditions when deciding whether and when to promote or support the extractive industries in a given country. The report starts from the premise that EI development has not and will not achieve positive development outcomes in countries lacking basic conditions of stability, political freedoms, human rights protections and some level of demonstrated institutional capacity to manage the sector's environmental and social impacts.

I. Governance considerations and the Extractive Industries

Oil, gas and mineral extraction frequently contribute to conflict and corruption, and take a heavy toll on people and the environment. The EI sector consists predominantly of enclave, capital-intensive activities that provide few direct opportunities for poverty reduction. Revenue generation is often the only, or at least the most prominent, anticipated benefit of EI development for host countries. However, the highly concentrated revenues from EI projects are frequently captured by the elite and diverted to political cronies, rather than used to benefit ordinary citizens. These risks are apparent in the Chad-Cameroon Oil

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[6] Public reaction against the negative social, environmental and economic impacts associated with many EI projects prompted the Bank to reexamine its role in these sectors. In 2001, pressure from civil society finally led Bank Group management to initiate the EIR, a multi-stakeholder process that sought to assess the Bank's support for EI sectors to date and determine the appropriate level of involvement in the future. The central question posed by the review was whether Bank Group-supported EI investments can benefit the poor while managing, minimizing and justifying their social and environmental risks. The EIR final report and World Bank Group's response can be found at:
web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTOGMC/0,,contentMDK:20605112~menuPK:336936~pagePK:148956~piPK:216618~theSitePK:336930,00.html

[7] Notable concerns have been raised about international financial institutions' interpretation of the term "governance" and their use of it to justify extending their reach into policy-making and institution-building in developing countries.

Development & Pipeline Project, where the Chadian government's recent decision to direct more of the country's oil windfall to immediate spending on security has undermined a revenue management system that the Bank Group had hailed as a model. (See "Chad-Cameroon: Governance and sequencing lessons writ large" on page 17.)

Given the significant economic, social and environmental risks of EI development, the EIR recommends that the World Bank Group: "tailor and sequence [its EI] interventions" based on an assessment of the "existing adequacy of governance" in the host country and that the criteria for assessing governance adequacy "should be developed transparently and with the involvement of all stakeholders and should include minimum core and sectoral governance criteria." The EIR final report states that governance criteria should include: *inter alia* 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 and willingness to publish and manage revenues transparently, allow independent audits and ensure effective revenue sharing.[8]

Furthermore, with regard to the selection and sequencing of Bank Group operations, the EIR recommends that the World Bank Group should not support EI investments in countries where these minimum good governance conditions do not exist. Its final report states, "The IBRD and IDA should not promote increased private investments in extractive industries through country-wide reform programs…where governance is inadequate," and that "[e]xplicit core and sectoral governance requirements should be met before a project qualifies for IFC or MIGA funding."[9]

II. Governance commitments in the Bank Group's Management Response to the EIR

"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."[10]

The September 2004 Management Response to the EIR outlined the World Bank Group's proposed policy changes to address the EIR recommendations. Despite the Bank Group's rhetorical support for the EIR, it failed to commit to concrete reforms in response to the EIR's fundamental recommendation—namely, good governance *first*, EI development *second*, if at all.[11] However, the Bank Group did commit to certain minimal measures designed to enhance consideration of governance issues in its EI operations:

- "[A]ll future Country Assistance Strategies (CAS) for resource-rich countries will systematically address extractive industry issues. We will carefully assess governance risks in deciding whether and how to support extractive industries development, including the sequencing of Bank Group activities."[12]

[8] "Striking a Better Balance: The World Bank Group and the Extractive Industries," Final Report of the Extractive Industries Review, December 2003, Vol 1, p. 48-49
[9] Ibid, p. 49
[10] "World Bank Group Management Response" to the Final Report of the Extractive Industries Review, September 17, 2004, p. iii
[11] In a meeting with NGOs (September 26, 2005), Mr. Rashad Kaldany, Director of the Bank Group's Oil, Gas, Mining and Chemicals Department, mentioned that projects in Uzbekistan and Guinea had not moved forward because of governance concerns. He did not specify which governance criteria were used in these cases nor the reason for not applying the same criteria to all Bank EI-related investments. Bank staff have previously mentioned Equatorial Guinea as a country where governance issues have prevented Bank Group EI investments.
[12] "World Bank Group Management Response" to the Final Report of the Extractive Industries Review, September 17, 2004, p. 2

- "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." [13]

- "Established governance indicators will help assess risk and gauge developing country capacity. … Moreover, the WBG, in consultation with stakeholders, will consider development of additional EI-specific governance indicators."[14]

- "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."[15]

- "…judgments made by [World Bank Group] 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 [the International Finance Corporation (IFC)], for example, the summary of project information or equivalent document, that is released to the public at least 30 days before investments are considered by its Board, reviews all relevant EI governance-related issues."[16]

[13] Ibid., p.39
[14] Ibid, p. 3
[15] Ibid, p. iv
[16] Ibid, pp. 3-4

Governance and EI:
A review of OED findings

In its submission to the EIR, the World Bank's Operations Evaluation Department (OED) identified the quality of governance as the key factor in determining project success: *"…good governance is the prerequisite for enhancing the positive linkage between increased fiscal revenue flows and sustainable development."*[17]

OED's evaluation of the role of governance in activities related to the extractive sector emphasizes the critical role of the rule of law: *"Without the rule of law, the government is unable to implement legal, regulatory, and policy solutions that would allow it to control the costs and risks. There does not seem to be much of an argument in favor of developing or expanding the EI sectors in such environments."*[18] The OED adds: *"…no current Bank analytic product allows an evaluation of the rule of law…"*[19]

Based on its case studies, OED concludes that when the rule of law is weak:

- The government lacks the ability to address sectoral issues through legal and institutional reforms;
- Environmental regulations are likely to be ignored or used as an opportunity for bribe collection;
- Compensation schemes are likely to go awry.[20]

According to the OED, good governance with its focus on transparency, accountability and participation is not only seen as a development goal in itself, *"…but also as a prerequisite for the effective use of aid."*[21] Political-economic analysis, including of the rule of law, has to be central to assessing the quality of governance.

The OED points out that the CPIA is only a useful proxy for the quality of governance if the ratings are unbiased, but that bias maybe a problem *"…inasmuch as the allocation of resources on the basis of the CPIA may create a conflict of interest for staff surveyed."*[22]

The OED recommends that governance constraints be considered as fixed over the life of the project and that decisions should therefore be based on the quality of governance as *"… it exists and as it has historically been, rather that as the Bank hopes governance will one day be."*[23]

The World Bank Group's November 2005 report on the Implementation of the Management Response predicts that high commodity prices may precipitate a scramble for resources and lead to an increase in Bank engagement in the sector, especially with regard to policy advice and other assistance. It appears therefore all the more important to heed OED's warning: *"Should progress in attracting investment outstrip progress in establishing the governance prerequisites for good development outcomes, the Bank risks facilitating the wastage of the country's new renewable resources, as well as contributing to environmental damage, violence, and weakening of the quality of governance itself."*[24]

[17] Operations Evaluation Department, "Extractive Industries and Sustainable Development – An Evaluation of World Bank Group Experience," Washington, D.C. 2003, p. 7
[18] Operations Evaluation Department, "Evaluation of the World Bank Group's Activities in the Extractive Industries – Factoring in Governance," Washington, D.C. September 1, 2004, p. 7
[19] Ibid. p. 23
[20] Ibid.p. 19
[21] Ibid. p. 11
[22] Ibid. p. 23
[23] Ibid. p. 17
[24] Ibid. p. 15

III. The Bank Group's approach to governance and EI

While the World Bank Group has devoted more attention to researching governance issues in the past several years, these efforts have had little demonstrable impact on its decision-making regarding EI lending operations and involvement in resource-rich countries. Key factors protecting the interests of the poor are still neglected in project selection and the design of sector engagement. For example, the World Bank Institute (WBI) "Governance Indicators" rate countries on the basis of:

- Voice and accountability;
- Political stability and the absence of violence;
- Government effectiveness;
- Regulatory quality;
- Rule of law; and
- Control of corruption.[25]

While the WBI indicators present a relatively comprehensive view of core governance, inclusive of political, civil and human rights, they have no prescriptive power.[26] Instead, the Bank Group relies on the CPIA as its primary governance assessment tool – and as the basis for its aid allocations – despite the fact that the CPIA contains relatively few indicators directly related to critical governance issues.[27]

The Bank Group's latest thinking on EI and governance is reflected in an internal document produced for investment officers and economists, entitled "Assessment of risks to project benefits—check list."[28] The document lists a number of sources that staff should reference when assessing the governance-related *risks to EI benefits*, and suggests questions to consider when carrying out this assessment. However, there is no guidance provided about how decisions regarding sequencing, selection or design of EI activities should be based on the governance assessment. Furthermore, the emphasis on governance conditions that could impact anticipated project benefits means that assessments are likely to focus heavily on risks to revenue generation, which is the primary expected benefit of most EI projects supported by the Bank Group. As if to reaffirm the possibility of Bank Group support for EI projects in the absence of good core governance, the document notes that "Governance risks to project benefits may be small—even in countries with very weak governance and capacity overall."

According to its November 2005 report on implementation of the Management Response to the EIR, the Bank Group has also developed guidance notes for the preparation of CASs for resource-rich countries

[25] Kaufmann, Kraay, and Matruzzi, "Governance Matters IV: Appendices," May 2005.

[26] A brief comparison of country CPIA rankings and WBI governance indicators reveals that the two often do not correspond. In some cases there are major discrepancies in WBI governance indicator rankings for countries in the same CPIA quintile. For example, in the second quintile, Pakistan, Yemen and Indonesia rank very low whereas Benin, Madagascar and Mali rank relatively high in WBI governance indicators. Additionally, some countries with extremely low governance rankings—such as the Democratic Republic of Congo—are not in the lowest CPIA quintile. The discrepancies between the rankings that each give for the same country suggest that the CPIA does not consistently reflect the quality of a country's governance, particularly as it pertains to such key issues as voice and accountability, political stability or rule of law.

[27] World Bank, Operations Policy and Country Services, "Country Policy and Institutional Assessments: 2004 Assessment Questionnaire," December 6, 2004. The CPIA ratings are used in the determination of IDA allocations to the Bank's poorest member countries. They do not have the same impact on portfolio allocations to IBRD countries. While most of the 16 criteria focus heavily on economic management and the regulatory environment, Criterion #10 on Social Protection and Labor, Criterion #11 concerning environmental management and sustainability, Criterion #12 on Property and Rule-based Governance, and Criterion #16 on Transparency, Accountability and Corruption in the public sector, each contain clauses that address protection of human and environmental health, labor standards, or citizen rights to hold their government accountable. The presence or absence of conflict is not addressed in the CPIA.

[28] Undated documented, distributed by IFC to NGOs in November 2005.

and a reference note for staff working on Low Income Countries Under Stress (LICUS). In addition, the Bank has reportedly devised a "template to guide systematic review of governance issues" and trial indicators.[29] None of these documents was developed through a participatory, transparent process nor have any of them been made public.

IV. Evaluating the Bank Group's implementation of its governance commitments

To evaluate the implementation of the Bank Group's commitments to address governance issues, the authors reviewed a representative sample of country strategies, "Summaries of Project Information" for IFC projects, and MIGA project documents prepared since the Bank Group's Management Response to the EIR.[30] The authors assessed only information contained in these documents—which reflect the majority of the Bank Group's EI governance commitments—and did not consider project or program implementation. The country strategies and project documents that were selected reflect a range of EI-activities and country contexts, and include:

- Four Country Assistance Strategies (CASs) or Country Partnership Strategies (CPSs) for resource-rich countries (Kazakhstan, Nigeria, Sao Tome and Timor Leste) and one CAS for a country with substantial resources (Sierra Leone);[31]
- Five "Summaries of Project Information" (SPIs) for four IFC EI projects in countries with very "weak governance (Kolwezi Kingamyambo Copper-Cobalt Tailings Mine in the Democratic Republic of the Congo [DRC], the Kupol Gold and Silver Mine in Russia, the Chimoré Natural Gas Project in Bolivia and the Petrofalcon Oil and Gas Project in Venezuela), and one project in a country with relatively "good governance" (Newmont's Ahafo Gold Mine in Ghana);[32,33]
- The "Report to the President" on a Multilateral Investment Guarantee Agency (MIGA) guarantee for the Anvil Dikulushi Copper-Silver Mine in the DRC.[34]

Although country strategies and SPIs are distinct documents prepared for different types of Bank Group operations, the commitments made by management to address governance issues in these documents are similar. For that reason, the authors applied an analogous set of questions based on these commitments, to analyze the assessments of governance issues and risks in these documents.

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[29] World Bank Group, "Implementation of the Management Response to the Extractive Industries Review," November 22, 2005, p. 17

[30] Additionally, one MIGA project was reviewed. See footnote 34.

[31] The authors use the Bank Group's definitions, as presented in its Management Response to the EIR. Resource-rich countries are those with 50% or more of revenues expected to come from EI. Countries with substantial resources are those where 30-50% of revenues are expected to come from EI.

[32] According to the Project Documents database on IFC's website, as of December 2005, SPIs have been posted for 12 EI projects in the Russian Federation (three projects), Ghana, Bolivia, Argentina, MENA Region, Gabon, the Democratic Republic of Congo (DRC), the Africa Region, Venezuela and Oman.

[33] Of the 12 IFC EI projects in eight countries for which SPIs have been disclosed, the authors reviewed projects from four countries with the "weakest governance" as indicated by WBI Governance Indicators 2004 percentile rank across the six categories; namely, DRC, Venezuela, the Russian Federation and Bolivia. The authors also reviewed one project in the country that had the "strongest governance" (Ghana) as indicated by WBI Governance Indicators 2004 percentile rank across the six categories. The selected Russian project was chosen because it is Category A, while the other two Russian projects are Category B. The MENA and Africa regional projects were excluded.

[34] Unlike IFC, MIGA does not disclose any general information (other than environmental assessments for Category A projects) on its proposed guarantees prior to project approval. To assess MIGA's project, the authors reviewed a leaked copy of the document submitted to the Board for approval of the guarantee: "Report from the President on the proposed guarantee to Anvil Mining for the Dikulushi project in the DRC," September 10, 2004, MIGAR2004-0058.

The five country strategies and six EI projects were reviewed to determine: how comprehensive the governance risk assessment is; on what indicators the assessment is based; and what impact the governance assessment has had on EI sector engagement and project selection or design. While the same questions were asked of all Bank Group operations examined, two more targeted questions regarding the Bank Group's attention to investment-level risks and mitigation measures were added for the analysis of IFC and MIGA project documents. The findings are presented in Table 1 and Table 2.

TABLE 1. Evaluating the Bank Group's implementation of its governance commitments: Review of country strategies for resource-rich countries or countries with substantial resources

	QUESTIONS	Nigeria Country Partnership Strategy [WBG and DFID] (FY05-09)	Kazakhstan Country Partnership Strategy (August 10, 2004)	Timor-Leste Country Assistance Strategy (FY06-FY08)	Sierra Leone Country Assistance Strategy (FY06-09)	Sao Tome Country Assistance Strategy (FY06-08)
Understanding Governance	**1.)** Are governance issues mentioned?	Yes	Yes	Yes	Yes	Yes
	2.) Are non-economic governance issues evaluated?	Yes	No. Non-economic issues are mentioned briefly in the country context section, but the focus throughout CPS is on economic and fiscal management. Select performance indicators listed in an annex do not include measures of political conditions or conflict, for example.	Yes	Yes. Mention of war and regional turmoil, institutional capacity.	Yes. Prominent discussion of political history and emerging tensions related to oil, as well as risk to political stability posed by oil contract bonuses. However proposed risk mitigation measures focus on economic management.
	3.) Is there a dedicated governance section in the document?	No. However, the governance situation is discussed in various sections, including "Political Economy and Social Context."	No	Yes	No. However, a box entitled "Extractive Industries" contains a paragraph on "Governance and Transparency."	Yes

NB: 1. In this analysis "governance issues" refers to all factors captured by the WBI governance indicator categories: voice and accountability, political stability and the absence of violence, government effectiveness, regulatory quality, rule of law and control of corruption.
2. The authors are referring to an assessment of the existing governance situation in a country, not to the Bank Group's plans to strengthen governance and/or finance capacity building.

	QUESTIONS	Nigeria Country Partnership Strategy [WBG and DFID] (FY05-09)	Kazakhstan Country Partnership Strategy (August 10, 2004)	Timor-Leste Country Assistance Strategy (FY06-FY08)	Sierra Leone Country Assistance Strategy (FY06-09)	Sao Tome Country Assistance Strategy (FY06-08)
Governance Indicators	**4.)** Were any governance indicators *directly referenced* in the document?	No	Yes. The CPS annex lists selected government program effectiveness indicators, including four governance indicators (at least two of which are drawn from WBI indicators).	Yes. Post-conflict Performance Indicators were referenced.	No. CAS cites CPIA scores as factors in aid allocation to SL, but there is no specific reference to CPIA governance component or WBI indicators.	No
Connection to selection or sequencing of EI project or country strategy	**5.)** Does the document make an EXPLICIT connection between the governance assessment and EI project selection or sequencing of engagement in the EI sector?	Not explicit. CPS focuses on promoting good governance and non-oil sources of growth, and indicates the type of "selective" oil and gas investments IFC and MIGA might consider supporting in Nigeria. However, the link between governance risks and the proposed strategy is not explicit.	Not explicit. CPS focuses on TA and knowledge-building linked to low country demand for financing, but not clearly to governance assessment. Bank engagement tied to government priorities and dependent in future on performance indicators (including on governance), but no specific mention of level of involvement in oil sector.	Not explicit. CAS focuses on promoting good governance and "creating the conditions for growth outside the petroleum sector." However, the link between governance risks and the proposed strategy is not explicit.	Not explicit. CAS priorities include governance reform, but also growth in mining sector. Supports strategic EA for mining sector and legal framework around mining rights. Also aims to increase volume of mineral exports and foresees greater IFC and MIGA mining engagement. There is no explicit connection between governance risks and the level of engagement in EI.	Not explicit. CAS focuses on improving governance in preparation for the coming oil era, particularly through support for the oil revenue management law and transparent management of the oil sector. Absent specific indicators, there is no explicit link between governance assessment and degree of engagement EI sector.

Conclusion about governance assessments in country strategies for resource-rich countries

The Bank Group's guidelines for the consideration of governance issues in the development of country strategies are not public, so it is not possible to assess CASs (or equivalent documents) against those stated criteria. However, an examination of country strategies produced in the last year for Nigeria, Kazakhstan, Timor Leste, Sierra Leone and Sao Tome indicates that there is significant discrepancy in the manner and rigor with which EI-related governance issues are addressed. While governance is mentioned in all five country strategies reviewed in Table 1, there is no consistent approach to the analysis of EI-related governance conditions, nor is there an *explicit* link between the assessment of governance risks and the proposed level of Bank Group involvement in the EI sector.

The prominence of governance issues varies significantly across country strategies. While one would expect a degree of country specificity, the absence of a standard methodology for factoring governance assessments into Bank Group strategies in resource-rich countries or in countries with substantial resources means that Bank EI operations continue to rely on staff discretion instead of on consistent minimum governance standards as recommended in the EIR. General governance indicators were referenced in only two of the country strategies reviewed.

In several of the country strategies, the Bank Group devotes significant attention to the importance of non-EI sectors and identifies substantial governance risks related to EI revenue management. However, the acknowledgement of these issues does not necessarily translate into a lesser emphasis on promoting EI development until they are addressed, or conditions improve. Where the Bank Group has chosen to focus only on capacity-building in the EI sector or not to be directly involved in EI, it does not make an *explicit* connection between this decision and the identified governance risks. As with private sector projects turned down by IFC or MIGA, there is no way to know whether governance factors were decisive in the choice not to engage. Furthermore, supporting "good governance" and capacity-building (potentially in parallel with support for EI investment) is not the same thing as using clear governance criteria to determine the level of Bank Group support for the EI sector.

In summary, the review of the country strategies above indicates that:

- Governance is addressed, but there is no consistent methodology for factoring EI-related governance risks into strategies for resource-rich countries.

- The degree of attention given to governance varies significantly across country strategies, with some containing dedicated governance sections, and others simply mentioning qualitative observations about governance in various parts of the document. More often than not, governance assessments are heavily focused on economic management and resource revenue transparency.

- Most country strategies do not *directly reference* any governance indicators.

- The country strategies do not make *explicit* connections between governance assessments and decisions about the level of the Bank's engagement in the EI sector.

The Appendix contains samples of more detailed county strategy reviews for Sierra Leone and Kazakhstan.

TABLE 2. Evaluating the Bank Group's implementation of its governance commitments: Review of SPIs for IFC EI projects and report to board for MIGA EI project

	QUESTIONS	Chimoré Natural Gas Project, Bolivia (SPI disclosed: 6/05)	Kolwezi Kingamyambo Copper-Cobalt Tailings Mine, DRC (SPI disclosed: 3/05)	Anvil Dikulushi Copper-Silver Mine, DRC [MIGA]? (Report: 9/04)	Petrofalcon Oil and Gas Project, Venezuela (SPI disclosed: 11/04)	Kupol Gold and Silver Mine in Russia (SPI disclosed: 9/05)	Newmont Ahafo Gold Mine, Ghana (SPI disclosed: 8/05)
Understanding Governance	1.) Are governance issues mentioned?	Yes	Yes	Yes	Yes	No. There is a section entitled "Governance Context" but it does not address governance issues.	Yes
	2.) Are non-economic governance issues evaluated?	No	No	Yes. As part of its Standard Description of Risks for its political risk guarantee, MIGA considers "war and civil disturbance."	No	No	Yes
	3.) Is there a dedicated governance section in the document?	Yes	No	No	Yes	Yes. See question 1.	Yes
Governance Indicators	4.) Were any governance indicators *directly referenced* in the document?	No	No	No	No	No	No
	5.) Are any "EI-specific governance indicators" referenced?	No	No	No	No	No	No

	QUESTIONS	Chimoré Natural Gas Project, Bolivia	Kolwezi Kingamyambo Copper-Cobalt Tailings Mine, DRC	Anvil Dikulushi Copper-Silver Mine, DRC (MIGA)	Petrofalcon Oil and Gas Project, Venezuela	Kupol Gold and Silver Mine, Russia	Newmont Ahafo Gold Mine, Ghana
Connection to selection or sequencing of EI project or country strategy	**6.)** Does the document make an EXPLICIT connection between the governance assessment and EI project selection or sequencing of engagement in the EI sector?	No. SPI states that IFC should support the project given the benefits relative to governance risks, but does not include an adequate governance assessment illustrating how IFC arrived at that conclusion.	No	No	No. SPI states that IFC should support the project given the benefits relative to governance risks, but does not include an adequate governance assessment illustrating how IFC arrived at that conclusion.	No. SPI states that given the governance situation and expected benefits, it should support the project, but does not include an adequate governance assessment illustrating how IFC arrived at that conclusion.	No. SPI states that IFC should support the project given the benefits relative to governance risks, but does not include an adequate governance assessment illustrating how IFC arrived at that conclusion.
	7.) Has the Bank Group explained how governance risks will be sufficiently mitigated and monitored for the Bank Group to proceed with its proposed project?	No	Indeterminate. SPI only refers to revenue transparency as a means to mitigate risk of revenue mismanagement.	Indeterminate. MIGA only outlines mitigation measures for the threat of "war and civil disturbance" to the investor (rather than the population); does not address other governance issues.	No	No	Indeterminate. SPI refers to revenue transparency but does not link it to a risk of revenue mismanagement.

NB: 1. In this analysis, "governance issues" refers to all factors captured by the WBI governance indicator categories: voice and accountability, political stability and the absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption.
2. The authors are referring to an assessment of the existing governance situation in a country, not to the Bank Group's plans to strengthen governance and/or finance capacity building.
3. Question 5 refers to the Bank Group's Management Response to the EIR and the commitment to consider additional "EI-specific governance indicators."

Conclusion about governance assessments in SPIs or related documents for IFC and MIGA projects

The analysis of IFC and MIGA EI projects presented in Table 2 shows that governance assessments are inadequate and have not had a discernable impact on project selection or design. The SPIs (or MIGA project document) for the Chimoré Natural Gas Project in Bolivia, the Kolwezi Kingamyambo Copper-Cobalt Tailings Mine and the Anvil Dikulushi Copper-Silver Mine in DRC, the Petrofalcon Oil and Gas Project in Venezuela, the Kupol Gold and Silver Mine in Russia, and Newmont's Ahafo Gold Mine in Ghana:

- Do not include comprehensive governance assessments and do not specifically address governance issues beyond revenue transparency (or, in the case of MIGA's guarantee, the risk of "war or civil disturbance," which is considered material to its political risk assessment). There is virtually no discussion of sector-specific governance capacity, such as the level of environmental and social regulation and impact management, in project documents;

- Do not include more substantial discussions of governance issues in countries with significantly weaker governance such as the DRC, than in countries with relatively better governance such as Ghana;

- Do not *directly reference* any governance indicators;

- Do not make an *explicit* connection between the governance assessment and EI project selection; and

- Do not explain how the project design or accompanying measures sufficiently mitigate governance risks, other than the risk of revenue mismanagement, in order to justify the Bank Group's support.

Although SPIs provide the only general project description disclosed before IFC approves financing, they contain only cursory information about the overall governance context and proposed risk mitigation plan for EI investments. MIGA does not disclose any general project information in advance of guarantee approval so it is impossible to systematically evaluate the quality of their governance assessments for EI projects.

IFC and MIGA should ensure that the "review of all relevant EI governance-related issues" and their "basis for [judgments about engagement and sequencing]" which "will be publicly disclosed in project documents" address: the level of public participation involved in the governance assessment; the governance risks that were identified; the corresponding risk mitigation measures and monitoring system planned; and the triggers for recourse mechanisms, including suspension or withdrawal of support, if risk mitigation measures fail during project implementation.[35] This information should not be hidden in a confidential contract or other undisclosed document but clearly presented before project approval in the publicly disclosed SPI and an equivalent MIGA document.

In the controversial IFC-supported Marlin Gold Mining Project in Guatemala—which was approved in June 2004, after the EIR final report but just before the Bank Group issued its response—the failure to

[35] "World Bank Group Management Response" to the Final Report of the Extractive Industries Review, September 17, 2004, pp. 3-4

adequately consider governance issues was noted by the Bank Group's Compliance Advisor/Ombudsman (CAO). The CAO concluded that a "[t]horough consideration of the governance and country context and the balance of risks and benefits accruing as a result of this investment" by IFC could have helped to address issues raised by the community.[36] The CAO also recommended that "IFC 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."[37]

A more detailed assessment of the SPIs and the MIGA document for these EI projects is presented in the Appendix.

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[36] IFC/MIGA Compliance Advisor/Ombudsman, "Assessment of a complaint submitted to CAO in relation to the Marlin Mining Project in Guatemala," September 7, 2005, p. 39
[37] Ibid, p. 40

Chad-Cameroon: Governance and sequencing lessons writ large

Before the World Bank Group approved financing for the Chad-Cameroon Oil Pipeline in 2000, civil society organizations in Chad and abroad called for a moratorium on the project until minimum conditions of good governance, respect for human rights and capacity to manage the petroleum sector were in place. They stressed that in a country with weak democratic practices and widespread impunity for government officials, encouraging the development of the oil sector could pose a risk to the people of Chad, over 80% of whom live on less than $1 a day. Rather than heed this warning, the Bank Group decided to support the project, maintaining that government capacity could be built in tandem with pipeline construction and that a law on the management of oil revenues would provide an adequate safeguard. Since then, the World Bank has claimed that Chad's revenue management system is a "model" that might be worthy of replication in other extractive industries projects.

The experience with the project over the past five years demonstrates that government capacity cannot be built as quickly as a pipeline. Oil development has far outpaced needed changes in governance. The events of recent months highlight just how risky this "two-speed" approach can be.

In December 2005, the Chadian government passed legislation in the National Assembly that substantially modified Law 001, the legal framework governing the use of the country's new oil wealth. Claiming that it faces both a financial and a security crisis, the government of Chad amended the law in order to increase its access to revenues for discretionary use. The changes essentially stripped the law of its strongest components by:

- Increasing from 15% to 30% the amount of revenues deposited into general government coffers, bypassing the joint government-civil society revenue oversight committee (the Collège);
- Eliminating the Future Generations Fund (FGF) and using the money accumulated for immediate expenditures; and
- Redefining "priority sector" expenditures to include spending on security.

Despite their stated opposition to the modification of the law, civil society groups in Chad had few means to prevent the administration from enacting these changes. The lack of government accountability to the people and the weak judiciary mean that there is little more than donor influence and diplomatic pressure to hold the government to the agreed-upon scheme of using oil revenues for poverty reduction today, and securing the welfare of future generations in the post-oil era.

The recent events reveal the pitfall of ignoring the OED's recommendation regarding sequencing—good governance first, increased EI investment second, if at all. It is much easier to construct a pipeline than it is to engineer "good governance" through technocratic solutions like Law 001, and these measures are not a substitute for a solid foundation of public accountability and rule of law. The Chad-Cameroon project exposes the danger in the Bank's heavy focus on revenue transparency to the neglect of other essential components of good governance, such as an impartial judiciary, free and fair elections, and press freedoms. In countries, like Chad, where the citizens have few means of holding their own government accountable, there is little guarantee that revenues from oil, gas or mineral development will benefit the poor. Government accountability to the population and respect for human rights are key elements of the governance conditions that must be in place before the World Bank supports oil, gas and mineral development.

Conclusion and recommendations

While the Bank Group has increased its discussion of governance issues since the EIR, it has failed to effectively and transparently integrate governance criteria into its decisions about support for EI projects and the oil, gas or mining sectors in a given country. The Bank Group has not met the governance commitments it made in response to the EIR, including:

- *Systematically* addressing EI issues in CASs for resource-rich countries;
- Basing EI engagement and sequencing decisions on governance risk assessments and disclosing the rationale behind those decisions;
- Using established governance indicators and considering the development of EI-specific indicators in consultation with stakeholders; and
- Reviewing all relevant EI governance issues in SPIs (or equivalent project documents).

The World Bank Group should develop a transparent and consistent methodology for assessing governance issues with regard to its own lending operations based on clear EI-specific governance indicators, disclose governance assessments and *demonstrate* that decisions about EI engagement will be taken on the basis of those assessments. The Bank Group should also identify minimum governance standards, such as freedom from conflict, respect for human rights and capacity to manage environmental and social EI risks, that must be met before it will consider supporting EI investments in a particular country.

The EI-specific governance indicators used to guide Bank Group activities in the sector should be objective and readily verifiable by independent parties, such as the residents of project host countries in particular. *To identify such indicators, the Bank Group should facilitate a time-bound, participatory process involving civil society organizations, academics and other experts.* These indicators should assess key EI-related components of governance, such as rule of law, human rights, conflict, and a country's ability to manage and mitigate the economic, social and environmental risks of Bank Group-supported extractive industries, in order to promote poverty reduction. The WBI's Governance Indicators recognize the importance of these factors and include pertinent criteria. The Bank Group needs to do the same when contemplating its support for the extractive industries—a sector historically linked to corruption, conflict, environmental degradation and human rights abuses.

Furthermore, the Bank Group needs to demonstrate its willingness to walk away from projects where conditions are not appropriate. The Bank Group has not shown that it will turn down EI projects that are technically and commercially viable but will not have a positive development impact because governance risks are too high and the chance of mitigation small. In countries where minimum governance standards are not met, any World Bank Group assistance to these sectors should focus only on programs that improve sectoral governance and management capacity.

The Bank's OED notes, *"Perfect governance is not needed for an extractive industry project to be beneficial, but some minimum standards must be met to help ensure that the benefits of EI projects are not squandered and the citizens left with costs that can include environmental damage, health risks, and war."*[38] Until the World Bank Group transparently identifies minimum core and sector-specific governance standards and links financing decisions to those standards, governance matters will have little impact on Bank Group EI operations.

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[38] Operations Evaluation Department, "Evaluation of the World Bank Group's Activities in the Extractive Industries Background Paper: Factoring in Governance," September 1, 2004, p.4

Appendix: Reviews of specific country strategies and SPIs

Country strategies

Sierra Leone

In May 2005, the Bank released its CAS designed to guide its lending and non-lending activities in Sierra Leone over the period FY2006-2009. Although Sierra Leone is emerging from a lengthy civil war that was driven and sustained at least in part by the country's mineral wealth, the World Bank Group seems to ignore the link between conflict and the extractive industries in the CAS. Governance issues figure prominently in the document, but their relationship to, and implications for, the development of the EI sector, which the Bank considers one of the key drivers of economic recovery, is scarcely discussed. Furthermore, there is no discrete assessment of governance nor is it clear in the document what criteria or indicators the Bank used to formulate its remarks about the quality of Sierra Leone's governance.

In terms of core government capacity, the document acknowledges challenges including a "fragile judiciary system, corruption and weak capacity," and risk of regional turmoil. The Bank also notes the inadequate watchdog role of civil society and the media in Sierra Leone and lack of awareness among officials of civil rights.[39] *However, there is no clear indication of a connection between any of these observations and decisions taken regarding Bank engagement in the EI sector.*

The Bank seems to take the country's poor governance conditions as a cue to lend more for governance-related projects and activities, but not necessarily as a cue to refrain from encouraging investment in the EI sector until conditions improve. "Growth in pro-poor mining" is listed as an element of the CAS's strategic priorities, but it is not clear how the targeted outcomes will benefit the poor. Objectives are centered on increasing revenues for government and individual miners, increasing the volume and value of mineral exports and securing mining rights.[40] *Aside from committing to support a strategic environmental assessment on EI, the Bank's stated objectives in the mining sector make no mention of environmental and social regulations or revenue and contract transparency.*

The CAS includes a text box on extractive industries that contains short paragraphs on the following EIR-derived topics: governance and transparency; ensuring EI benefits reach the poor; mitigating social and environmental risks; and protecting the rights of people affected by EI investments. Here there is a passing reference to the role that minerals played in Sierra Leone's civil war: "'blood diamonds'…have fueled many conflicts, including Sierra Leone's." On governance and transparency, the Bank focuses almost exclusively on factors affecting governance of resource revenues, and legal and fiscal regulation of the mining sector. The only reflection on Sierra Leone's capacity to address EI governance issues is a reference to the government's participation in the Kimberly Process and request to join the Extractive Industries Transparency Initiative (EITI).

The CAS does not refer to any indicators or criteria that have been used to judge the quality of governance in the EI sector. While acknowledging that the impacts on local communities and the environment often go unmitigated, the CAS only notes government efforts to *provide advice* on social and environmental responsibilities; it does not identify efforts to *regulate* impacts.

[39] World Bank, *Country Assistance Strategy for the Republic of Sierra Leone*, Report No. 31793-SL, May 5, 2005, p. 15
[40] Ibid, p. 41

The Bank Group seems to base its decision to continue to support an expanded mining sector on this incomplete discussion of EI issues and Sierra Leone's governance situation. The CAS indicates that Bank Group support for the sector aims to increase the value and volume of mineral exports and secure mining rights, and predicts that "As strategic infrastructure and mining sectors are opened to private participation, IFC may also play a direct financing role," and MIGA will see an increased demand for its services in infrastructure and mining.[41] According to the CAS, future IDA assistance will be scaled up on the basis of improved performance as measured by the CPIA and annual portfolio review. *Aside from increased transparency of the government budget and spending process, the suggested actions that would "trigger" increased levels of Bank support do not include any core governance or EI-related measures*. Neither the CPIA ranking for Sierra Leone nor the WBI's governance indicators are included in the CAS document or annexes.

Kazakhstan

The case of Kazakhstan is somewhat unusual, as the Bank prepared a Country *Partnership* Strategy, rather than a Country *Assistance* Strategy, focused less on financial support than on technical assistance and joint research with the government. The nature and extent of the World Bank's involvement in Kazakhstan is determined less by its assessment of the governance conditions and institutional capacity in the country than by the relatively minimal need for external financing.

It is interesting to note that while the Bank clearly states the need for "guidelines as to when and where-and for how long -the Bank should be engaged in Kazakhstan" (in part to manage the reputational risk it faces operating in the country), the set of indicators it will use to judge progress in policy reform and governance omit certain critical elements. With respect to governance, the indicators identified are limited to Transparency International's corruption perception index, and to three of the WBI's Governance Indicators: control of corruption, government efficiency and regulatory quality.[42] Conspicuously, the selected criteria do not include the other three WBI Governance Indicators on voice and accountability, political stability and the rule of law. The identified risks to implementation of the strategy include the threat that oil dependence will affect macroeconomic stability and be a deterrent to policy reforms. *There is no mention of the consequences of oil development on political stability, civil freedoms or the government's accountability for impacts*

SPIs

Chimoré Natural Gas Project, Bolivia

In June 2005, IFC posted its SPI for the Chimoré project in Bolivia. IFC support would help the Bolivian company, Chaco, finance the expansion and further development of its natural gas operations in Cochabamba, primarily in its Chimoré I block, for domestic use and export.

Since 2003, two Bolivian presidents have resigned in the wake of massive protests focused on the government's hydrocarbon policies. The WBI's Governance Indicators rank Bolivia substantially below the regional average for political stability, government effectiveness and control of corruption. However, IFC's brief discussion of "governance" in the SPI for the Chimoré project, does not reference the WBI indicators or address the political situation directly related to natural gas development in Bolivia.

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[41] Ibid, p. 28; p. 41

[42] IBRD and IFC, *Country Partnership Strategy for The Republic of Kazakhstan,* Report No. 29412-KZ, August 10, 2004, p. 11; Annex 2, p. 21

The SPI includes one paragraph under the heading "Governance Context." The paragraph briefly mentions World Bank and IMF involvement in fiscal and financial sector reforms in Bolivia and notes, "[w]ith the exception of a brief gap between June 2002 and April 2003, Bolivia has been in a continuous sequence of IMF arrangements since 1986." The paragraph contains only one passing reference to the political situation: "…but most importantly authorities successfully avoided a financial crisis, even in the face of extreme political unrest." Despite the lack of any discussion of specific governance risks – beyond economic management – and their implications for the project, IFC concludes: "Given IFC's role, development impact, and benefits from the projects to the community and government relative to the governance risks from this transaction, IFC believes that this is a project it should support."

Kolwezi Kingamyambo Copper-Cobalt Tailings Mine, DRC

In May 2005, IFC's Board approved $5.9 million in equity and shareholder loans to the Kingamyambo Musuonoi Tailings SARL Company for the Kolwezi copper-cobalt tailings project in the Democratic Republic of Congo's Katanga province. While IFC's financing would support only the preparation of feasibility studies and an environmental and social impact assessment, the development rationale for the project—and IFC involvement—depends exclusively on the operational phase. Additionally, IFC's equity option leaves open the possibility of investing in the company's mineral extraction in the future.

Control over mineral resources has been at the heart of an eight-year war in the DRC and serious questions have been raised about the role of foreign companies involved in the extraction and export of the country's mineral wealth. Instability plagues the transitional government and violent conflict continues in parts of the country.

The government's institutional capacity is weak and there are significant questions about its ability to manage revenues, including those generated by its rich natural resources. The DRC ranks extremely low in all categories of the WBI's Governance Indicators.[43]

IFC's SPI for Kolwezi says nothing about the risks of conflict, corruption and political instability, or the DRC government's lack of capacity to manage the environmental and social impacts of EI investments. In fact, the word "governance" does not even appear in the document. The SPI notes only that the DRC government has made progress in implementing IMF and World Bank-supported macro-economic reforms and other programs. It does acknowledge "a concern about the accountability for, and use of, revenues that are eventually generated by this project." To mitigate this risk, IFC says that all project revenues will be published. The SPI notes, "IFC remains proactively engaged with the World Bank to explore ways to advance mining sector reform in DRC."

Anvil Dikulushi Copper-Silver Mine, DRC (MIGA)

In September 2004, the Australian-owned Anvil Mining NL obtained a political risk guarantee from MIGA for the expansion of the Dikulushi copper-silver mine in the Katanga region of the DRC. *Unlike IFC, MIGA does not disclose any general information on its proposed guarantees prior to project approval.*[44] *Therefore, we reviewed a leaked copy of the document submitted to the Board for approval of the guarantee. If*

[43] See www.worldbank.org/governance/kkz2004/sc_chart.asp
[44] If the project requires a Category A Environmental Assessment, the document is disclosed in advance of a Board discussion.

MIGA complied with EIR commitments, this lengthier document should include a more complete treatment of governance issues and risks than the two-page summary SPIs [45].

Approximately one month after MIGA approved the Dikulushi project, several members of the armed Mouvement Revolutionaire pour la Libération du Katanga (Revolutionary Movement for the Liberation of Katanga) took control of the town of Kilwa, leading Anvil to evacuate its expatriate staff. According to a United Nations investigative report, Anvil vehicles and planes were reportedly used by government soldiers who are alleged to have killed local villagers (resulting in possibly more than 100 deaths) and looted the town. [46] In July 2005, World Bank President Wolfowitz requested the Compliance Advisor/Ombudsman to conduct a compliance review to evaluate MIGA's due diligence. The review was completed and submitted to President Wolfowitz, Anvil, and MIGA in October, but has not yet been disclosed to the public.

In the project document prepared for the Board, MIGA does note the threat of localized conflict: "The Dikulushi area, which has been generally spared from the highly publicized rebel attacks, has begun to see these forms of localized security problems, due to activities of roving bands of Mai-Mai youth. Although often very small in number, poorly led and limited of their radius of activities, Mai-Mai groups have been known to harass mining activities. Since their impact is highly localized, Government security forces often deal with them on an ad-hoc basis."[47]

In its discussion of mitigating factors against risk of "war and civil disturbance" the report addresses *risks to the investment and project assets rather than risks to local people.* For example, the report states that "Security arrangements for Dikulushi include government security detail in the vicinity of the mine. In addition, Dikulushi is within the deployment perimeter of the battalion stationed at Pweto, 60 km north of Dikulushi. The mine sits right at the border between DRC and Zambia, and all the critical operations [exporting output or importing input] are turned toward Zambia. Many of the assets are mobile and can be moved to Zambia within 72 hours [in the event of attacks, Anvil has a contingency evacuation plan for personnel and mobile assets through a company-owned barge and speedboat to the port of Nchelenge, in Zambia.]"[48] This narrow focus on risk to the investment excluded any assessment of how the Dikulushi project could exacerbate the risk of conflict as well as the risk to human rights. Had this assessment been conducted, MIGA might have decided against providing the guarantee, or at a minimum, ensured that the DRC government and the company had adequate mitigation measures in place to prevent incidents such as the one which occurred in October 2004.

Petrofalcon Oil and Gas Project, Venezuela

In December 2004, IFC's Board approved financing for a Venezuelan company, Vinccler Oil and Gas, C.A., to expand its production from existing fields and drill new exploration and production wells.

According to the WBI's Governance Indicators, Venezuela's regulatory quality, rule of law, control of corruption and political stability rank very low, especially relative to other countries in the region.[49] IFC's

[45] World Bank MIGA, "Report from the President on the proposed guarantees to Anvil Mining for the Dikulushi project in the DRC," September 10, 2004, MIGAR2004-0058.
[46]UN MONUC Kinshasa, "Report on the conclusions of the Special Investigation concerning allegations of summary executions and other human rights violations perpetrated by the Armed Forces of the Democratic Republic of Congo (FARDC) in Kilwa (Katanga Province) on 15 October 2004."
[47] World Bank MIGA, "Report from the President on the proposed guarantees to Anvil Mining for the Dikulushi project in the DRC," September 10, 2004, MIGAR2004-0058, p. 12
[48] Ibid
[49] Ibid

SPI refers to the World Bank Group's CAS for Venezuela which acknowledges some of these governance challenges. However, the SPI does not reference the WBI indicators or address how these risks influence the proposed project. While it states that the World Bank Group "suggests the country should focus on critical areas that include … expanding access to justice and combating corruption," the SPI does not evaluate how critical these reforms are to the success of EI investments in Venezuela.

The SPI's governance discussion related to the project focuses on revenue management and notes, "with regards to transparency in the hydrocarbons sector, the Venezuelan government presents a better track record." As part of IFC's vague rationale for proceeding with the project, the SPI asserts that the project revenues are small relative to the government's total revenues and concludes with the boilerplate statement, "Given IFC's role and developmental impact and benefits from the project, to the community and local government, relative to governance risk related to the benefits from this transaction, IFC believes this is a project in which it should invest."

Kupol Gold and Silver Mine, the Russian Federation

IFC's Board approved a $39 million investment in the Chukotka Mining and Geological Corporation in December 2005. The financing will support the construction and operation of this greenfield project "with major environmental, health and safety risks," in Russia's northeastern region.

Although the SPI contains a section entitled "Governance Context," the paragraph only discusses the complex taxation system in Russia. One sentence seems to refer to revenue management, but no link is made to the proposed project: "The Chukotka region has an official website that discloses the annual budget, and its sources, uses and implementation." IFC concludes the brief section with its standard assertion: "On balance, given the prevailing governance situation and the project's expected development benefits, IFC believes that this is a project in which it should invest."

Newmont's Ahafo Gold Mine, Ghana

In August 2005, IFC posted its SPI for the Newmont Ahafo gold mine in Ghana. The document includes a brief section entitled "Governance." After the opening sentence, which describes Ghana as a "stable multi-party democracy, with a free and vibrant press and strong civil society," there is no further mention of government accountability or capacity to manage the impacts of the mining sector. The remainder of the two-paragraph section talks about the generation and management of revenues from the mine, with mention of Ghana's intent to participate in the Extractive Industries Transparency Initiative. It is on the basis of this relatively cursory and economically-focused overview that the IFC states: "On balance, given the governance situation in the country and the project's expected development benefits, IFC believes that this is a project in which it should invest."

Despite the fact that Ahafo is a greenfield, open-cast, cyanide-processing gold mine with large-scale resettlement and significant impacts on local communities and ecosystems, nowhere else in the SPI, including the section on environmental and social issues, does the IFC address the issue of sectoral governance or demonstrated capacity to manage impacts. This omission is particularly troubling in a country that is suffering from the negative environmental legacy of years of mining and where the Bank Group's own evaluation department has questioned the real benefit of mining for the people.[50]

[50] World Bank, Operations Evaluation Department, "Project Performance Assessment Report: Mining Sector Rehabilitation Project," Report No. 2197, 2003, p. 23