



The World Bank Extractive Industries Review: Update and Interim Assessment

April 23, 2003

I. Introduction

The Extractive Industries Review (EIR) is an independent consultative process initiated by the World Bank Group (Bank) to consider the Bank's future role in the oil, gas and mining industries. The EIR has been tasked with:

- (1) identifying the negative impacts of the Bank's extractives operations;
- (2) assessing whether the Bank's activities in these sectors can advance its mandate of poverty alleviation and sustainable development; and
- (3) recommending whether, or under what circumstances, the Bank should continue to support extractive projects.

The EIR began operations in September 2001 under the leadership of an "Eminent Person," Dr. Emil Salim, and is now expected to release its final report in December 2003.

Friends of the Earth has been closely monitoring the EIR process since its inception. In November 2002, we released a *Midterm Assessment* of the EIR that described the most critical issues that had arisen during the first year of the Review, and assessed the key challenges that lay ahead in the coming year.¹ The *Midterm Assessment* emphasized concerns about the limited resources and capacities of the Review, the World Bank's commitment to the process, and the EIR's uneven implementation of the workplan.

Recent developments have raised fundamental concerns about the manner in which the EIR is being conducted. It now seems clear that:

- civil society's inputs into the regional consultations have been ignored or fundamentally misperceived;
- the Eminent Person has not been adequately engaged in the Review;
- the Eminent Person has not always focused on the issues that are most central to the Review, and has focused instead on issues that are, at best, only peripherally related to the EIR's mandate;
- the Review will not fulfill all of the commitments it made in its workplan;
- some of its data gathering efforts will be substandard and relatively unproductive; and

- the Review has been hampered by the failure to retain technical advisors to help direct the research agenda and effectively synthesize the data it has gathered.

These developments have eroded civil society's confidence that its views are being adequately considered, and that the EIR is in a position to deliver a final product that is sufficiently rigorous to merit the serious consideration of all stakeholders.

This report will (1) review the most important developments that have occurred since the November *Midterm Assessment*, (2) assess the EIR's proposal to restore the confidence of civil society; (3) update the EIR's progress in completing its workplan; and (4) offer some observations about the process to date and how civil society might proceed in light of recent developments.

II. Recent Developments: Release of the *Compilation of Consultation Inputs* and Civil Society's Response

In early February, the EIR released a "working paper" entitled *Compilation of Consultation Inputs*. Despite its title, however, the *Compilation* did not remotely reflect the views expressed by the civil society participants at the regional consultations with respect to the most fundamental questions of the World Bank's involvement in the extractive industries.

The *Compilation* concluded that the Bank (1) should remain involved in the extractive industries because its oil, mining, and gas projects can be a tool for poverty alleviation; (2) should *increase* its support for oil and gas projects; and (3) can be a leader in tackling the environmental and social issues associated with extractive industries. However, civil society representatives at each consultation were profoundly skeptical of the poverty reduction benefits of World Bank Group extractives activities, supported a reduction or elimination of Bank support for extractives projects, and were not persuaded that the Bank has demonstrated meaningful leadership in improving the environmental and social sustainability of these industries.²

A. Civil Society Reaction

In late March, almost one hundred civil society representatives from around the world wrote to the Eminent Person expressing their dismay that the *Compilation* so completely ignored civil society's perspective on the most critical issues of the Review.³ These civil society representatives expressed concern that:

At a minimum, the *Compilation* demonstrates that the EIR's process for receiving, recording, and considering civil society input is deeply, perhaps fatally, flawed. But it also raises profound concerns about the integrity of the EIR. The fact that the EIR seems to have already formulated its primary recommendations before all inputs have been received has fueled a growing skepticism of the wisdom or efficacy of continuing involvement

in this process, particularly among those who are considering participating in the upcoming Asia/Pacific and Middle East/North Africa consultations.⁴

The signatories also expressed concern about the way in which the *Compilation* became public:

Discussions were held with World Bank staff and industry representatives before the draft was made available to civil society, and even, we are told, before the Eminent Person had a chance to review it. Regardless of the reasons for these various missteps, this disparate treatment of different stakeholders raises serious concerns about the independence, credibility, and integrity of the EIR process.⁵

The signatories called upon the Eminent Person to repair the damage to the EIR's credibility resulting from the release of the *Compilation* by:

1. Establishing a Joint Commission of Stakeholders (JCS) to co-author the report with the Eminent Person. The signatories proposed that the JCS be comprised of four civil society representatives, two industry representatives (one from the petroleum sector and one from the minerals sector), and two government representatives. To preserve the functional independence of the EIR, the signatories insisted that no World Bank Group employees be included on the JCS. The signatories also insisted that the EIR Secretariat should have no authorial responsibility, but rather should be limited to provide support as directed by the JCS and the Eminent Person.
2. Clearly identifying stakeholder inputs by each stakeholder group in all previous and future reports on the proceedings of consultation workshops.

B. EIR Response to Civil Society

The Eminent Person responded to civil society's demands in a brief letter, and further fleshed out his response in a meeting with civil society representatives on April 16.

Advisory Panel: The Eminent Person maintained that he intends to draft the report himself, with the help of his assistant. He agreed, however, to establish a panel of stakeholders to advise him on the drafting of the report. The proposed advisory panel would have 10-12 members, and would be balanced equally between NGO representatives on the one hand, and government and industry representatives on the other. The Bank would not be represented on the panel; however at each advisory panel meeting, time would be allocated for Bank staff to present their views on the current draft. The Secretariat would not have any authorial responsibility.

A draft Terms of Reference for the Advisory Panel has been made available and will be open for comment until April 25. One notable omission in the initial draft of the TOR is that it did not provide Panelists with any assurance that their inputs would be taken into account. Given the controversy surrounding the *Compilation*, it is unlikely that civil society representatives will agree to participate on the panel without such a guarantee.

Civil society groups would have until late May to propose candidates for the panel. Civil society would not, however, have the prerogative of self-selection, as the Eminent Person has insisted upon retaining final say over the composition of the panel.

It was proposed that the panel of advisors would hold three face-to-face meetings (one each in June, July and September). Draft reports for each of the meetings, and a Final Draft report would be produced and translated into Spanish, French and Russian and be available for comment on the web site.

Concern has been expressed that a draft report is currently being prepared and is expected to be ready to be presented to the Panel at its first meeting. The substance of the report may therefore be developed before the Panel is ever convened.

The Eminent Person's proposal is mixed. On the one hand, it falls short of civil society's demand that an advisory panel co-author the report with the Eminent Person. On the other hand, the retention of an advisory panel is long overdue. The original workplan contemplated a team of expert advisors to help the Eminent Person assess the vast amounts of information that his staff is compiling.⁶ Civil society has called for the creation of a panel since the planning meeting in October 2001, and has repeatedly pointed out that the failure to appoint such a panel has meant that the Review has had inadequate support from expert advisors.

Identification of Stakeholder Inputs: The Eminent Person has agreed to this demand. The EIR staff has begun to identify inputs by stakeholder group. Different members of the Secretariat have been tasked with cataloguing the inputs of different stakeholder groups.

III. The EIR's Progress on Completion of its Workplan

A. The Workplan

The EIR's workplan⁷ commits the EIR to gathering substantive inputs from:

- four regional multi-stakeholder consultations;
- at least four regional project visits;
- in-depth community level consultations;
- commissioned research;
- a participatory assessment of the impacts of World Bank extractive activities on indigenous peoples;
- web-based discussions; and

- unsolicited inputs.

In the November *Midterm Assessment*, we noted that progress towards completion of the workplan had been uneven. This continues to be the case. It is now clear, however, that the EIR will not complete all of the work it committed to at the outset of the Review, and some of the work it will complete will not have the depth and rigor that we would have expected.

1. Regional Consultations:

a. Revised Schedule:

As of the time of the *Midterm Assessment*, the EIR expected to conclude its three remaining regional consultations by the end of March. It had scheduled consultations in Africa (January, in Maputo), the North Africa-Middle East region (February, in Beirut), and the Asia-Pacific region (November, in Bali). Due largely to circumstances beyond the EIR's control, however, only the Africa consultation has taken place. The Asia/Pacific consultation was first postponed until March after the October bombing in Bali, and was again postponed due to the commencement of war in Iraq. It has now been rescheduled for late April. The Middle East/North Africa (MENA) consultation was first delayed until late April for logistical reasons, and then postponed indefinitely due to the rescheduling of the Asia/Pacific consultations and the ongoing war in Iraq. It has now been rescheduled for June 30-July 2 in Beirut.

b. Africa Consultation:

The Africa regional consultation took place in Maputo, Mozambique in mid-January. At the close of the consultation, civil society participants produced a statement calling on the World Bank to stop supporting extractive industries until the World Bank Group makes a number of commitments, including (1) canceling debts of poor African countries; (2) requiring prior informed consultations with potentially project-affected communities; (3) protecting of ecologically sensitive zones from extractive industries; (4) refusing to finance projects in countries with poor corruption and human rights records; and (5) ensuring that extractive industry corporations publish their profits and royalty payments.

c. Asia/Pacific Consultations:

The Asia/Pacific regional consultation is scheduled to begin on April 26 in Bali, Indonesia. Some of the most prominent Asian NGOs that work on mining and finance issues have elected to boycott the EIR process due their concerns about its legitimacy. Those NGOs that have agreed to participate have raised the following concerns with the planning and structure of the consultation: 1) the proposed agenda was not entirely responsive to the most critical issues in the region, and overlooked such key issues as the impacts of structural adjustment lending and the role of government violence and repression in the sector; (2) the EIR has failed to provide participants with the background information necessary for them to prepare themselves to participate in a meaningful way; (3) the EIR needed to track inputs at the consultation by stakeholder group, so that the perspective of each category of stakeholder could be recorded; (4) the EIR publicly released the names of the individuals who will be providing testimony,

thereby putting them in jeopardy of retribution; and (5) the EIR has selected an “expert” speaker on the environmental problems associated with submarine tailings disposal (STD) who was relatively unfamiliar with STD and was biased towards the use of the seabed for disposal of wastes.

Some, but not all of these concerns have been addressed, and the civil society representatives who are slated to participate are currently discussing whether they believe that the consultation is worth participating in.

d. Middle East/North Africa Consultations:

Because the World Bank has had very limited involvement in extractive industries sectors in the MENA region, a MENA consultation was not originally contemplated in the workplan. It was subsequently added to the itinerary to complete the regional coverage and to capture lessons learned from the region’s profound country-level experiences with the effects of petroleum-led development on economic and political development. Budgetary constraints and scheduling conflicts threatened to cancel this consultation, but it was restored to the agenda after the Bank’s regional department and the Oil, Mining, Gas and Chemicals department put up the necessary funds for it to proceed.

Given the relative paucity of WB sponsored fossil fuel and mining projects in the Middle East and North Africa, the regional civil society self-selector pointed out that the consultation should not focus on specific projects, but should concentrate instead on systemic issues such as the links between petroleum dependency and authoritarianism. Nevertheless, the original agenda put forward by the EIR heavily emphasized specific World Bank projects. This agenda was withdrawn after both civil society and World Bank regional staff objected that it failed to address the key development challenges of the region.

As of this writing, the EIR has not put forward a new proposed agenda. In a flagrant violation of the principle of equal treatment of stakeholder groups, the EIR has been discussing the terms of the agenda with World Bank staff, but not with the civil society self-selector. The discussions with Bank staff resulted in a proposal that the community testimonials be eliminated from this consultation, since the consultation will not focus on project level impacts. At one point, EIR staff suggested that civil society had agreed to this idea, even though the regional self-selector had never been informed. The Eminent Person seems inclined to reject this proposal.

2. Project Visits:

a. Africa

In conjunction with the Africa regional consultation in Maputo, Mozambique, the EIR conducted a half-day project visit to the nearby Mozal Aluminum Smelter, an IFC sponsored project. Civil society did not have any input into the selection of Mozal for a site visit; indeed, civil society pointed out that because Mozal is a downstream processing facility, it is not exemplary of World Bank extractive projects in the region and is outside of the EIR’s terms of reference.⁸

This project visit has been described by knowledgeable sources as a company-led show-and-tell, in which the most important questions about the development impacts of the project were neither asked nor answered. Locally affected people did not participate and were not consulted as part of the project visit. EIR staff now describes the Mozal visit as more of a day trip from the Maputo consultation than a real project visit, and therefore not an important input into the EIR's data gathering efforts. As a result, it does not foresee producing a trip report.

In March, five months after its October 2002 visit to the Chad-Cameroon pipeline, the EIR finally produced a draft trip report. However, the draft has yet to be finalized or posted on the website. The release of the final report does not depend upon the conclusion of a comment process—as far as we know, the draft has not been distributed to those who were consulted on the project visit for feedback.

The trip report adds little to what could have been gleaned from a focused desk review of the voluminous independent assessments of the project to date. Indeed, the trip report does not address the critical issues with the kind of detail and rigor that characterize the Independent Advisory Group and Inspection Panel reports. Given that this is the most scrutinized project in the World Bank Group's portfolio, the value added of this trip is not apparent.

As we pointed out in the *Midterm Assessment*, while there are certainly lessons to be drawn from both the Chad-Cameroon pipeline and the Mozal project, neither is remotely exemplary of the projects the World Bank has typically financed, or is likely to finance, in the region.⁹ Either the EIR should have visited additional projects in the region, or it should have spent its time and resources investigating other projects.

Since no further project visits are planned for the Africa region, the EIR will complete its review without having gained any first-hand experience with the World Bank's more ordinary operations in the region. This is major failing, since Africa is the region in which World Bank extractives operations are likely to grow the fastest, and in which the Bank probably faces the most acute challenges for its extractive operations.

b. Asia/Pacific:

In addition to the Papua New Guinea project visits described in the *Midterm Assessment*, the EIR intends to visit Newmont's Batu Hijau mine in Sumbawa, Indonesia in conjunction with the Asia/Pacific consultation. This is not a World Bank financed project. Civil society has noted that this project has been plagued with significant environmental impacts, violations of human rights, and a climate of terror. They informed the EIR that on a recent visit to a village affected by this project, a number of activists had been accosted by a gang of armed paramilitaries and robbed of evidence documenting the health impacts of the mine. Civil society proposed that representatives of each stakeholder group involved in the consultation be allowed to attend the project site visit, so that workshop participants would have a common experience on which to base their discussion at the consultation.

After the EIR announced that a meeting would occur in one project-affected village, Newmont reportedly increased the level of repression in the region. To protect the villagers, civil society representatives asked the EIR to cancel the visit to the community.

c. *Latin America and Eastern Europe/Central Asia:*

Despite having committed to conduct at least one project visit in each region, the Eminent Person has decided not to conduct any further project visits. This means that no site visits will be conducted in Latin America or Eastern Europe/Central Asia. According to EIR staff, site visits in these regions will be foregone in order to free up the Eminent Person to focus on the drafting of the report.

In March, the Eminent Person elected to attend a conference of regional mining ministers in the Dominican Republic in lieu of a project visit. While this conference may well have been a useful source of information on governments' perspectives of the key sectoral challenges of the region, it is simply not a substitute for the sort of detailed, first-hand investigation of project level impacts that was contemplated in the workplan. It is also obviously biased towards the perspectives of one stakeholder.

d. *Assessment of Project Visits:*

Project visits should have been a particularly valuable source of information for the Review. These visits were an opportunity to consult directly with project affected peoples in their own communities, to acquire first-hand impressions of contested assessments of controversial projects, and to ask penetrating questions of people who are personally responsible for implementing World Bank policies and ensuring that project impacts are properly managed. Unfortunately, this opportunity appears to have been largely squandered. The project visits have not been informed by adequate civil society input (PNG and Mozal), have not been well conceived to advance the mission of the review (Mozal), have been duplicative of work done by other independent observers (Chad/Cameroon pipeline), and have focused inordinate attention on projects that are not sponsored by the World Bank (PNG and proposed Indonesia site visit). There have also been substantial gaps in the project visits (no visits in Latin America and Eastern and Europe/Central Asia, visits to atypical projects in Africa).

Given how integral the project visits were to the workplan, their shortcomings are a major failing of the Review. The EIR must bear full responsibility for these inadequacies; it has had ample time and opportunity to visit a fuller range of projects, and to use the project visits in a more edifying manner. The gaps and inadequacies in the project visits probably could have been avoided had the EIR more appropriately prioritized them, and had the Eminent Person been more directly engaged in the process since its inception.

3. *Commissioned Research:*

The EIR has commissioned only four pieces of independent research to date.¹⁰ However, it has repeatedly reaffirmed its intention to commission further research, and still maintains that more research may be commissioned.

It is difficult to understand why so little research has been supported, since commissioned research was originally understood to be one of the most important sources of input into the Review. While the EIR has cited budgetary constraints as the reason why only four proposals have been funded, at least some of that constraint should have been alleviated by the World Bank's subsequent appropriation of \$800,000. While it is still not clear how this money is being spent (see discussion below), none of it has been specifically earmarked for additional research.

B. Budget and Fundraising Issues

Since the beginning of the Review, civil society has raised concerns that the World Bank had not provided adequate funding for the EIR to complete its examination with sufficient depth and rigor.¹¹ Indeed, at the outset of the Review, the Eminent Person articulated his own concerns about the adequacy of the funding the World Bank had provided. To ensure that quality of his work would not be compromised by a lack of financial resources, the Eminent Person reached an understanding with President Wolfensohn that the Review would be free to solicit contributions from other funders besides the World Bank.

Unfortunately, concerns that budgetary constraints would compromise the work product of the Review are being realized. At one time or another, the EIR has cited a lack of resources as justification for (1) the extremely limited nature of the commissioned research; (2) the failure to retain a panel of qualified expert consultants and advisors; and (3) inadequate project visits.

Current budget constraints cannot be ascribed solely to Bank parsimony. In October, 2002, the Bank responded to the Eminent Person's request for additional financing with a new allocation of \$800,000. The EIR also expects to receive an additional allocation from the World Bank to underwrite operations over the extended duration of the Review. The Eminent Person, on the other hand, has not exercised his authority to solicit funding from other sources. The Eminent Person should not have been put in the position of having to fundraise to secure adequate resources. But having agreed to do so, he must share responsibility for any shortcomings in the scope or rigor of the Review that can be attributed to budgetary constraints.

Given the limitations of the overall budget, the Eminent Person must also take responsibility for the manner in which the resources at his disposal have been allocated. We note, for example, that the relatively extravagant venues of the regional consultations seem difficult to justify in light of the relative austerity that has governed other elements of the Review, particularly the project visits and commissioning of research. Substantial increases in the research budget, for example, could have been achieved through a more prudent selection of the locations and venues for the regional consultations.

Budget transparency also continues to be a problem. Only the most rudimentary outline of budget allocations has been posted on the EIR website. Even that does not include a

description of how the October \$800,000 contribution has been allocated. While EIR staff have explained that most of that money will be consumed by additional operating expense resulting from the extension of the EIR, they concede that there is no publicly available document that describes how the EIR intends to spend that money.

Civil society concerns about the allocation of EIR resources are shared by the World Bank Group. It is expected that the Bank will eventually audit the Review.

IV. Conclusion

The EIR has taken on a difficult, but highly important task—to assess the development impacts of the World Bank’s operations in the extractive industries, and to recommend whether, or under what circumstances, the Bank should continue with these activities. Unfortunately, the EIR has not inspired confidence that it is effectively discharging this responsibility, or that it is prepared to produce a report that is thorough, rigorous, and appropriately critical of WB operations in the sector.

Without immediate and resolute improvement, the EIR will result in little more than a colossal missed opportunity. Even with a significant course correction, it is not clear that the EIR can overcome the shortcomings of its operations to date. But if the EIR is to have any chance of delivering on its mandate, the Eminent Person must, at a minimum:

- rededicate himself completely to the Review. To date, the EIR has been severely hamstrung by the Eminent Person’s sporadic and half-hearted engagement in the process.
- retain a panel of experts and stakeholder representatives to assist the Review to best use its remaining time and resources and to help draft the final report.

A critical juncture has been reached with respect to continued civil society participation in the Review. We believe that in the near term, civil society must take stock of the Review to date, share experiences with the Review, and assess whether a common way forward should be agreed upon. It has been proposed that these issues be addressed in a global civil society meeting, to be held in Amsterdam in late-May.

¹ Friends of the Earth, *The World Bank Extractive Industries Review: A Midterm Assessment* (Nov. 2002), available at <http://www.foe.org/camps/intl/worldbank/index.html>

² See civil society declarations for each consultation at <http://www.eireview.org/eir/eirhome.nsf/EnglishOtherLinks/workshops?opendocument>

³ Civil Society Letter to Dr. Emil Salim re: The Extractive Industries Review’s Consultation Process and the Compilation of Consultation Inputs Working Paper, March 30, 2003.

⁴ *Id.*, at 2.

⁵ *Id.*, at 1-2.

⁶ In fact, the workplan that has been posted on the website for months claims that the advisory panel is already up and running:

IV. The Team of Advisors

The Eminent Person has selected a number of advisors to provide specialist guidance throughout the EIR process. These advisors have combined backgrounds representing all stakeholder groups (industry, civil society, government and the World Bank Group). They hold face-to-face meetings and communicate with the EIR team throughout the process by e-mail. Advisors were selected based on their knowledge of, and past involvement in, specific issues of particular relevance to the EIR. Suggestions for advisors were solicited in a letter to stakeholders in December 2001, which was published on the website.

[http://www.eireview.org/eir/eirhome.nsf/\(DocLibrary\)/D047C893698C963885256B68008197C8/\\$FILE/EIR%20workplan%20revised%20Nov%202002.doc](http://www.eireview.org/eir/eirhome.nsf/(DocLibrary)/D047C893698C963885256B68008197C8/$FILE/EIR%20workplan%20revised%20Nov%202002.doc)

⁷ *Id.*

⁸ See *Midterm Assessment* at <http://www.foe.org/camps/intl/worldbank/index.html>

⁹ The Chad-Cameroon pipeline is atypical in that it has received a level of due diligence and oversight that the Bank will not provide as a matter of course. Mozal is even less exemplary-- it is not an even extractives project. Since the inputs for the smelter are not mined on site, or even in country, Mozal is actually a downstream processing facility, a category of project that is explicitly excluded from the Review by its terms of reference.

¹⁰ These studies will address (1) the impacts of Bank fossil fuel and mining projects on indigenous peoples; (2) the impacts on local communities; (3) a review of the impacts of structural adjustment programs in the extractive industries; and (4) a review of the Bank's role in facilitating sustainable performance in the mining sector.

¹¹ See e.g., *Midterm Assessment*.