

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

WORLD BANK GROUP MANAGEMENT RESPONSE

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WORLD BANK GROUP MANAGEMENT RESPONSE TO THE EXTRACTIVE INDUSTRIES REVIEW

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Abbreviations and Acronyms

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

Executive Summary

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

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

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

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

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

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

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

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

Strengthening governance and transparency

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

Ensuring that extractive industry benefits reach the poor

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

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

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

Mitigating environmental and social risks

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

Protecting the rights of people affected by extractive industry investments

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

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

Promoting renewable energy and efficiency to combat climate change

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

Improving organizational coordination

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

Ongoing learning and review

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

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

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

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

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

WORLD BANK GROUP MANAGEMENT RESPONSE TO THE EXTRACTIVE INDUSTRIES REVIEW

I. Introduction

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

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

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

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

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

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

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

II. Strengthening Governance and Transparency

Governance and EI

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

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

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

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

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

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

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

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

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

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

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

Transparency

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

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

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

III. Ensuring that the Poor Benefit from Extractive Industries

Enhancing Poverty Impacts

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

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

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

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

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

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

Reporting and Measuring the Poverty Impacts of EI Projects

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

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

Artisanal and Small-Scale Mining

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

IV. Mitigating Environmental and Social Risk

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

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

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

V. Protecting the Rights of People Affected by EI Investments

The WBG and The Rights of Project Affected People.

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

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

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

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

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

29. In addition, the WBG will implement specific recommendation in the EIR on the use of security forces to protect extractive industry project sites—in line with the US/UK Voluntary Principles on Security and Human Rights. Many of the concerns about the potential abuses of the rights of people affected by EI projects arise from measures taken to ensure site security. The voluntary guidelines are designed to help protect against any abuse.

Indigenous Peoples

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

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

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

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

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

VI. Promoting Renewable Energy and Efficiency to Combat Climate Change

Climate Change and EI

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

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

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

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

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

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

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

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

The WBG and Renewables and Energy Efficiency

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

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

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

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

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

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

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

VII. Improving Organizational Coordination

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

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

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

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

VIII. Ongoing Learning and Review

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

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

IX. Future Strategy for WBG in Extractive Industries

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

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

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

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

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

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

X. Summary

52. **Our future support for investments in EI will be selective, with greater focus on the needs of poor people and a stronger emphasis on good governance and on promoting growth and poverty reduction through environmentally and socially sustainable development. In addition, we will take major steps to increase our own support, as well as to encourage and advocate for more global support, for economically viable renewable energy options and other clean fuels. Our goal is clear: to help developing countries**

provide their people with access to clean, affordable, and sustainable sources of energy and to ensure that extractive industries contribute to sustainable development and poverty reduction. In many areas the Management Response is addressing complex issues where there are strong opposing views. We will continue to maintain a dialogue with stakeholders on the issues, to learn as we go and to refine our approach in the light of experience and outcomes.

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

ANNEX. DETAILED MANAGEMENT RESPONSES TO SPECIFIC EIR RECOMMENDATIONS

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

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

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

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

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<p>directly affected by projects in order to obtain their free prior and informed consent, (b) require revenue sharing with local communities, (c) mandate the use of poverty indicators that are monitored systematically, (d) encourage the incorporation of public health components in all extractive industry projects, (e) urge NGOs to build the capacities of affected communities, and (f) help set up independent grievance mechanisms.</p>	<p>what any land owner would be entitled to in the case of commercial development on their land. As a part of this approach, the WBG does the following seven things. (a) It will require free prior informed consultation with affected communities, including Indigenous Peoples communities. Projects that are accepted by communities are going to be more effective both for communities and for developers. Discussions with communities should provide meaningful consultation and result in informed participation. (b) The Bank Group will support only those extractive industry projects that have the broad support of affected communities. This does not mean a veto power for individuals or any group, but it does mean that the Bank Group requires a process of free, prior and informed consultation with affected communities that leads to broad support for the project by the affected community. Our Indigenous Peoples policy is being revised to reflect this principle, and will be discussed by the Board of Executive Directors in the second half of 2004.</p> <p>(c) The WBG advises governments to ensure that revenue goes to the regions in which EI projects are located thereby compensating the regions for negative impacts and giving a sense of local benefit. It also advises governments to establish revenue-sharing mechanisms that are transparent and are robust enough to deliver benefits in practice. And when involved in projects, the WBG will aim to ensure that local government provisions for revenue distribution are met and will work with investors to ensure that communities benefit in some way from projects that affect them. When it comes to the specifics of the sharing of tax revenues and royalties, this is often set by national law and government policy, and varies widely between countries.</p> <p>(d) The WBG places a high priority on monitoring the sustainability outcomes of projects, and is working with stakeholders to identify appropriate indicators that can serve this purpose in the EI sector (see 20 below regarding the GRI).</p> <p>(e) EI developments in remote areas can bring health benefits to local communities not served by governments, and the WBG encourages investors to incorporate these into the design of projects and community programs. These health benefits include clinic accessibility and anti-malaria campaigns. The IFC has an active anti-AIDS program (<i>IFC Against AIDS</i>) that it has linked to some EI projects. IFC is considering public health issues in its review of Safeguard Policies. The WBG also encourages appropriate community programs that may include community funds.</p> <p>(f) NGOs can play an important role in all areas of the EI-community interface, both as watchdogs and as partners, and the WBG supports this role.</p> <p>(g) Grievance mechanisms that are trusted by local communities can serve as early indicators of problems and as forums for their solution; these will be helpful to investors and communities.</p> <p>The revised Indigenous Peoples policy is expected to incorporate</p>

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

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

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

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

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

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

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

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

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

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

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

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

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

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	and age criteria and labor standards should be required for all such vessels, along with systematic and stringent inspections.	MARPOL. However, because oil from most projects is blended with other crude streams and oil sales are often not handled by the sponsor, it is not always possible to enforce requirements on tanker usage beyond the WBG's immediate sponsor.
28.	Address the Legacy of the Past: Compensation funds should be established for people affected by past developments.	It is agreed that "legacies," such as abandoned mines or oil production facilities, are a major concern in some countries and regions. The WBG has provided considerable support for mine closure and remediation to address legacy issues, and this will continue. However, WBG involvement will largely depend upon the willingness and capacity of governments and others to finance projects, given other priorities. The WBG will consider working with stakeholders to develop effective approaches to assessing and prioritizing needs. A key priority is to avoid creation of new legacies, and in this respect proposals concerning mine closure for private clients are discussed in response to II.23 above. Compensation funds are complicated instruments, and the WBG provides support when requested by governments as a part of overall economic, environmental, and social policies.
29.	The WBG should establish a targeted program aimed at restoring degraded lands, improving the life of the poor who are affected by previous project closures, and generating employment and skills training.	This is an important issue in many areas with a long history of EI operations, and the WBG will increase its efforts to identify suitable areas for intervention and discussion with governments. The WBG already undertakes a considerable amount of work in this area and has financed some projects. However, financing of specific remediation and post-closure projects will generally depend upon the willingness and ability of governments to borrow from the WBG for such purposes.

Part III. Human Rights

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

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

Part IV. WBG Institutional Priorities

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

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

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

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

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

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

Part V. Conclusion and Follow-up

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