

**The World Bank Group and Extractive Industries:
The Final Report of the Extractive Industries Review**

Meeting of the Executive Directors, August 3, 2004

Chairman's Summary

At their meeting on August 3, 2004, Directors discussed the Draft Management Responses to the *Extractive Industries Review* (EIR) and the independent evaluations of OED/OEG/OEU and the review by the CAO, which had been made available for public comments for a period of 30 days. Comments received from governments, members of civil society, industry and others were distributed to Directors prior to the meeting.

Directors welcomed the Draft Management Responses and generally agreed that they substantively addressed the recommendations of the reviews. They highlighted that the World Bank Group's proposed strategy in extractive industries (EI) is consistent with its mandate to promote poverty reduction and sustainable growth in developing countries. They broadly agreed that the Draft Management Responses represented a balanced way to assist developing countries to benefit from their EI by helping them to strengthen governance and transparency, improve environmental protection and foster participation of local communities in the EI sector within the World Bank Group's primary mandate of poverty reduction in partnership with developing countries. As the implications of the EIR discussion related almost exclusively to the supply side of natural resources, some Directors felt that due attention be given to the demand side, for a more complete and balanced review.

Directors expressed a wide range of views on three specific issues: setting governance criteria for World Bank Group engagement; the approach to World Bank Group engagement in energy-related EI and in financing of renewable energy; and community participation. While some Directors welcomed Management's proposal to establish a working-level advisory group, others cautioned that the advisory group's activities should not result in EIR-type processes and their attendant costs.

Directors agreed with Management that, because increased access to affordable energy will continue to be important for poverty reduction and sustainable growth in developing countries, and because many developing countries need assistance with exploitation of their oil and coal deposits, the World Bank Group should remain engaged in financing oil and coal projects while doing more on renewable energy and energy efficiency. On the latter, several Directors called upon the World Bank Group to define renewable energy consistently with the internationally recognized definition that recognizes all forms of hydro-energy as indicated in the Bonn Conference on Renewable Energy. Some Directors agreed that investments in EI should continue to be selective, where the World Bank Group's involvement can help ensure that EI contribute to poverty

reduction and sustainable development. Others noted that the World Bank Group should take a more active approach to investments in EI. They argued that the 5% estimate of the likely future share of World Bank Group financing for EI should not be seen as a cap, and that the World Bank Group should not exclude financing of public sector activities.

Directors noted that World Bank Group engagement should add value by helping to address governance and social and environmental issues and by helping to ensure that communities benefit from EI activities that affect them. They also stressed the need for Management to make a clearer case in favor of the EI projects the World Bank Group proposes to support, and, to that end, present justifications based on relevant governance, poverty and social indicators and to strengthen the monitoring of poverty and social impacts.

While several Directors suggested the sequencing of the World Bank Group's engagement in EI in accordance with existing levels of governance and institutional capacity, others stressed the importance of having a minimum standard of governance in place as a prerequisite for World Bank Group engagement. Still others, while recognizing the importance of governance, cautioned against application of a rigid framework which would work to the disadvantage of the poorest countries with weak capacity that may need the World Bank Group's assistance the most. They agreed to the Management's proposal to constructively respond to what the governments are aiming to achieve, and be prepared to provide financial or technical support, when there is evidence of credible commitment to improve governance. They urged the World Bank Group to take into account the specific challenges of each country and project.

Directors welcomed the World Bank Group's support for the Extractive Industries Transparency Initiative (EITI) and Management's proposal to make World Bank Group financing conditional on project revenue transparency. Several Directors encouraged the Bank to consider a broader set of requirements concerning revenue and expenditure transparency.

Directors agreed with the principle that communities should benefit from EI projects that affect them. Several Directors expressed support for the Bank Group's efforts in strengthening its guidance on procedures for local community participation with respect to EI projects to emphasize informed participation and meaningful consultation as steps to ensuring the broad support of affected communities. A few Directors indicated their support for the application of the notion of Free Prior Informed Consent (FPIC). Many Directors stressed the importance of avoiding proposals that created veto rights against projects that were supported by national and local governments and emphasized the primacy of national sovereign law in this area. Directors noted the opinion from the General Counsel of the Bank that adoption of FPIC would be inconsistent with the Articles of Agreement. Some Directors noted that the forthcoming revision of the World Bank's Indigenous Peoples policy and revision of IFC's safeguards would provide more guidance concerning implementation of Management's proposed approach to consultations with Indigenous Peoples and affected communities, respectively.

Directors agreed with using the IFC Safeguards revision process to follow up on and address many of the specific environmental and social issues highlighted in the Management's Response, including natural habitats and "no-go" circumstances. They looked forward to Management preparing revised guidance for issues such as the use of toxic chemicals, mine closure, and emergency response for tailing pond failures.

Directors welcomed the World Bank Group's intention to scale up support for wider adoption of renewable energy and increased energy efficiency. Although some Directors felt that the initial target of increasing World Bank Group lending by 20% annually over the next five years, as proposed by Management, was modest, others saw it as a reasonable objective. Some Directors, however, argued that it is neither appropriate nor meaningful to set a numeric lending target. While many Directors agreed that it was important that any such investments should be economically and financially viable and should contribute to poverty reduction by expanding access to affordable energy, some Directors, however, stressed the need for targeted donor-funded grants if these investments were to be economically and financially viable for the countries concerned.

While recognizing that the EIR consultation process and report had laid many important issues on the table, including many which had ramifications well beyond World Bank Group activities in EI, some Directors indicated that many governments felt that their views had been inadequately represented. Others noted the asymmetry that exists in the World Bank Group's relationship with developing and developed countries in promoting the application of international conventions and protocols. They asked that the lessons learnt from the EIR process and other similar processes should be assessed and taken account of in the future.

Directors asked Management to finalize the Draft Management Response based on today's discussion and the comments received. They also welcomed Management's proposal to report to the Board on an annual basis on implementation of the measures set out in the Management Responses to the EIR and the internal evaluations.