WORLD BANK GROUP OPERATIONS EVALUATION

EVALUATION REACH

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Extractive Industries and Sustainable Development

- The World Bank Group's extractive industries projects have yielded largely positive economic and financial results. Because the WBG is well positioned to help countries overcome the policy, institutional, and technical challenges that prevent them from transforming resource endowments into sustainable benefits, it should remain involved in the extractive industries.
- To enhance the extractive industries' contribution to sustainable development, the WBG needs to formulate and implement integrated strategies at the sector and country levels that provide revenues to governments, mitigate negative environmental and social effects, and benefit local communities, while delivering adequate returns to investors. The strategies need to address governance squarely to help ensure that resource rents are effectively used to support development priorities.
- Given the potential impacts of and controversy surrounding resource extraction, the WBG needs to ensure that its safeguard policies are adapted in line with evolving good practice and rigorously implemented. The WBG also needs to more systematically define, monitor, document and report on the economic, social and environmental impacts of its projects. Key sustainability indicators, including the sharing of benefits, need to be explicitly monitored and evaluated.

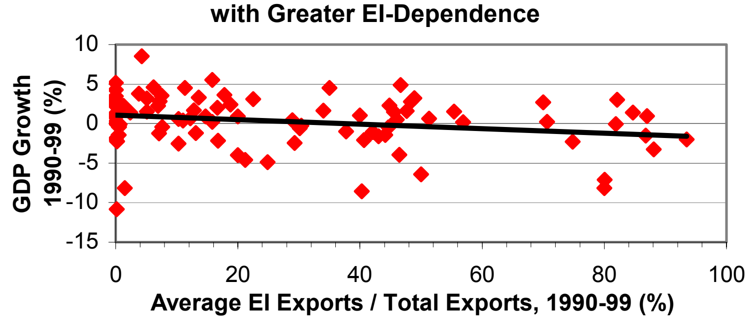
In 2000, a group of NGOs requested the WBG to stop supporting the extractive industries (EI). In their view, the adverse environmental, social, and governance impacts of developing a country's mineral resources outweigh the economic and social benefits that may accrue to the domestic economy and the poor. Others have concerns about poor governance associated with EI projects and the failure to effectively use resource rents in support of sustained economic development.

The joint study by the independent operations evaluation units of the World Bank Group (OED, OEG, and OEU) assessed the effectiveness of WBG assistance to its clients in enhancing the EI's contribution to sustainable development. The findings and recommendations provide guidance for the WBG's future role in the sector.

Findings

Surprisingly, resource-rich countries often perform worse than resource-poor countries in economic, social, and governance aspects of development (see figure). Much research, at the WBG and elsewhere, has been done to understand and address this paradox. The emerging consensus is that most of the factors that explain it result from institutional and policy failure. While the technical requirements for managing volatile and exhaustible revenue flows and investing them for sustainable development are well understood, they are difficult to implement because of poor governance. Thus, creating good governance is at the heart of the institutional and policy changes needed to sustain sound fiscal man-

Slower Economic Growth with Greater EI-Dependence



agement and maximize the benefits from the extraction of mineral resources.

However, experience also shows that building good governance takes a long time, and that working to establish good governance in parallel with, or after supporting increased investment in EI, is a high-risk strategy. At present, while the Bank's economic and sector work frequently assesses the quality of public financial management, it has no diagnostic instrument to evaluate the rule of law or the quality of sectoral governance.

Overall, the performance of WBG investments in EI has been at the average for all sectors (success rates are not comparable across institutions). Eighty percent of IDA and IBRD credits and loans have had moderately satisfactory or better outcomes, slightly above the Bank-wide average of 75 percent. Development results in IFC's EI projects were similar to other sectors with 60 percent success and about three-quarters of projects having satisfactory economic returns. The fall in metal prices since the late 1990s reduced the financial and economic returns and sustainability of MIGA mining projects, but in most cases economic returns have exceeded financial returns.

All WBG institutions were weak in monitoring and reporting on project development results. Beyond project benefits, the WBG's involvement in transforming resource riches into sustainable development has also been limited. A review of recent Country Assistance Strategies and staff surveys suggest that the WBG is aware of the underlying causes of the underperformance of many resource-rich countries. But it has not consistently formulated and promoted viable approaches to address unsound revenue management and poor governance.

A majority of reviewed IDA and IBRD projects were consistent with applicable safeguards, but safeguard implementation varied by the project's environmental category and its project cycle stage. Key shortcomings were due to inadequacies at the initial project screening and during supervision. The review of IFC investments found that oil and gas projects performed significantly better, and mining projects significantly worse, than projects in other sectors; the current mining portfolio is in line with the IFC average. About 73 percent of sampled MIGA guarantees were substantially consistent with its safeguard policies at approval, and consistency improved during implementation. Across the WBG, more timely and systematic contributions by environmental and social specialists could have led to better results. On safeguard implementation, perceptions of WBG staff were better than the evaluation results; those of outside observers worse.

Recommendations

Formulate an integrated strategy: The WBG needs to formulate and implement integrated strategies at the sector and country levels for transforming resource endowments into sustainable development. These strategies should recognize that successful EI projects have to provide revenues to governments, mitigate their negative environmental and social effects, and provide some benefit to local communities. They will need to address governance squarely and help to ensure that EI fiscal revenues are effectively used to support development priorities. These issues need to be addressed in all resource-rich countries. The WBG should support significant sector expansion only where it can adequately address them. This will require improved cooperation across the WBG and with other stakeholders.

Strengthen project implementation: The WBG needs to strengthen the implementation of its existing policy framework. The safeguard policies and guidance need to be adapted in line with evolving good practice, especially where they are inconsistent or incomplete. In light of growing concerns about the sustainability of EI development and to maintain stakeholder support for continued operations in the sector, the WBG needs more systematically to define, monitor, document, and report on the economic, social, and environmental impacts of its EI projects. Specifically, the distribution of benefits needs to be explicitly monitored and evaluated.

Engage the stakeholders: The WBG's convening role has been important because of its access to all stakeholders, its private and public development experience, and its ongoing involvement with project investment and technical assistance in the sector. But the WBG has inadequately addressed some areas — notably governance and revenue management. The WBG needs to recognize the expanding awareness of the human rights dimension of its policies and projects, and explore possible avenues for addressing the issues. The WBG should also vigorously pursue country- and industry-wide disclosure of government revenues from extractive industries. And the WBG should encourage ongoing community consultations and independent outside monitoring through the project life cycle, including closure.

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