ANNEX D: IFC EXPERIENCE

1. Introduction

Summary: Overall, IFC support for EI has been effective, but implementation can be improved, broader sustainability issues better addressed, and results better tracked and reported. Projects usually generated large revenues for governments and opportunities for people. IFC generally has added value, particularly in improving the environmental[158] and social aspects of projects, but given the sector's high-impact potential, it needs to prevent or mitigate negative impacts better and more systematically. IFC also needs to ensure that its environmental and social guidelines and procedures continue to set standards and adapt to rapidly improving industry standards, and that its projects adapt with them. In pursuit of its sustainability agenda, IFC needs to do more to address the risks that government revenues may not be used effectively for development and poverty reduction, that benefits may not be distributed transparently, and that local communities may not benefit tangibly from EI projects. To enhance the contribution of IFC's projects and the sector to sustainable development requires further improvements in project implementation, effective cooperation within the WBG, and full engagement of all stakeholders.

OEG's evaluation is based on the premise that IFC should support EI projects only if it can help improve the sector's contribution to sustainable private sector development. Promoting sustainable private sector development, and ultimately reducing poverty and improving people's lives, is IFC's mission. Some people feel that the exploitation of nonrenewable natural resources and sustainable development are an inherent contradiction. But most realize that, over the next decades and probably centuries, we will all need oil, gas, minerals, and metals, and that exploration, development, and use will continue with or without IFC and the WBG. The question is whether the WBG and IFC can improve the sector's development potential by enhancing positive and mitigating negative aspects. While IFC and the WBG finance only a small share of the sector's investment, their actual and potential influence is often much larger.

Sustainable development defined for this evaluation. Sustainable development "meets the needs of the present without compromising the ability of future generations to meet their own needs." An individual mine or oil field will eventually be exhausted, but EI projects can still contribute to sustainable development and thus provide a role model for other private investment if they are—

- economically sound, providing adequate revenues for host countries, which in turn are used for the benefit of current and future generations;
- financially sound, providing sufficient returns to reward investors for risk;
- environmentally sound, adequately mitigating negative environmental effects[159]—and, where possible, improving the environment; and
- socially sound, adequately mitigating negative social effects and providing tangible and sustainable benefits for local people.

The focus on sustainability in IFC's EI activities has increased over the past decade. IFC's sector strategy[160] has consistently emphasized the sector's contribution to government revenues and has focused on countries and projects where the value added by IFC is greatest. Initially, IFC mainly saw its role as funding projects without access to commercial finance and acting as a neutral party between government and investors. In the mid-1990s, the strategy was expanded to highlight environmental issues, later to social issues, and later still to governance and revenue management—how host countries distribute and manage the revenues from EI. In recent years, IFC's environmental and social specialists have devoted more time to the sector than to any other and have frequently improved EI projects beyond the requirements of IFC's policies and guidelines.

This increased focus on sustainability reflects the evolution in IFC and the industry. Over the past decade, environmental, social, and sustainability concerns have become more prominent in the sector. Industry has responded by developing and implementing better standards and techniques to reduce the environmental impacts of its operations.[161] Leading industry players now report on sustainability indicators—health, safety, environmental, and most recently social indicators—of their operations and are working on standardizing the reporting.[162] Industry also recognizes that it must do more to retain its "social license to operate," particularly to broaden the benefits of wealth creation and thereby contribute to poverty reduction.[163] Similarly, IFC's sustainability initiative, started in the past few years, has heightened the focus on sustainable development results within IFC and beyond. IFC's EI operations were often among the first to develop or implement new programs, such as SME linkages or IFC and AIDS. Under the sustainability initiative, IFC developed a position paper on revenue management in 2002, which recognized that large government revenues, as they typically occur in EI projects, require special attention—particularly where country governance is poor. Indeed, this is an area deserving special attention from IFC and the WBG.

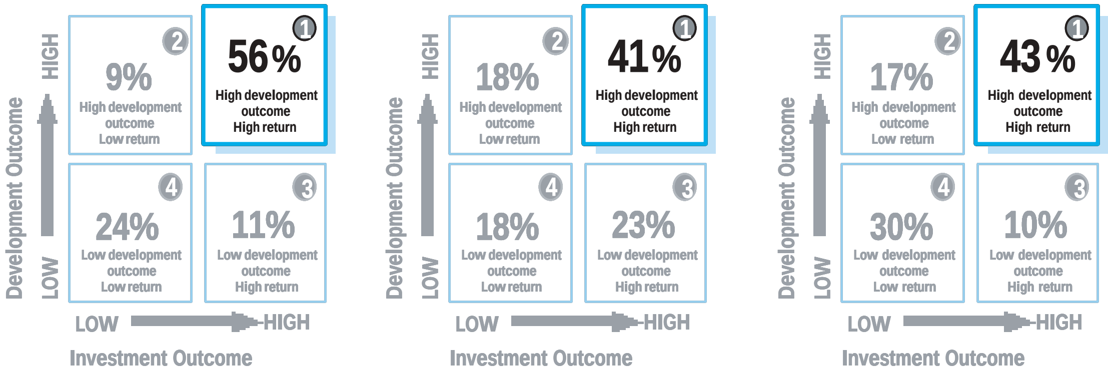
2. From Economic Benefits to Sustainable Development

Development results in EI were the same as in other sectors. IFC synthesizes development results of four indicators—economic sustainability, private sector development, business success, and environmental and social effects—into one "development outcome," which measures a project's overall impact on a country's development. Fifty-nine percent of the 22 evaluated EI projects achieved positive results, compared with 60 percent for all other IFC projects.[164] The development success rate for all 45 studied projects (65 percent) is slightly higher.[165] The "win-win" outcomes—positive development results and good investment results for IFC—are about the same when only evaluated projects are considered and slightly better for all studied projects (Figure D1). While there is room for improvement, it is important to note that this success rate has been achieved in very difficult country environments, where many development institutions are struggling to achieve positive results.[166]

About three-quarters of IFC's EI projects were economically attractive; results in mining were the same as in other sectors, those in oil and gas significantly better. Seventy-three percent of the evaluated EI projects had adequate economic returns—real economic rates of return over 10 percent—compared with 57 percent for other projects. The success rate for oil and gas (83 percent) was significantly[167] higher than that for mining (60 percent) and other sectors. Again, these results were achieved in difficult countries, but it is also important to note several limitations of the economic rate of return:

- It does not take into account the distribution of benefits—a dollar for the investor is treated the same as a dollar for government or a dollar spent on a social program for the poorest.
- It does not address how government revenues are used.
- Accounting for the depletion of natural resources in economic rate of return calculations is difficult. IFC uses a depletion premium to account for the non-renewable nature of the resource.[168]
- Compliance with IFC's environmental and social requirements was interpreted as an indication that negative externalities had been adequately mitigated; where appropriate, we imputed costs of cleanup as economic costs;

Figure D1 E I versus non-E I Projects: Similar Development, Better Investment Results



(a) 45 studied EI projects
Various approval years

(b) 22 evaluated EI projects
Approved 1991–96

(c) 286 evaluated non-EI projects
Approved 1991–96

however, it is difficult to quantify environmental and social externalities, and data are scarce.

Financial and economic project success were closely linked. All 12 projects that were financially successful also provided adequate economic returns.[169] In addition, 4 out of 10 projects that were not successful for investors still had adequate economic rates of return (greater than 10 percent). In three of them, the government retroactively changed earlier agreements, making otherwise viable projects financially unattractive.

Most projects generated large revenues for governments, sometimes even when private investors did not do well. These revenues come in many different forms[170] but usually as income taxes and royalties.[171] Governments sometimes get revenues even when investors do not do well. For example, IFC has funded projects that failed or ran into financial difficulties. Often, but not always, these companies continue to pay all taxes, including royalties, duties, and transit fees, while investors lose money. In other cases, governments faced with the potential loss of jobs and community livelihood agreed to forgo some taxes until a project turned around. In Eastern Europe, some IFC clients faced increasing tax demands that led to financial losses from otherwise viable projects. A Latin American oil company failed, but its assets were bought and rehabilitated, and the new company contributed more than $30 million in royalties in 2000. A mining company lost more than $30 million in four years, but was expected to pay about US$5.5 million in taxes.

All stakeholder groups recognize that the distribution of benefits and costs is the crucial issue in EI. We surveyed stakeholders from many backgrounds—government, industry, NGOs, and the WBG.[172] Among a wide range of questions covering economic, environmental, social, and governance aspects (Attachment 6A), equitable distribution of benefits was perceived to be the most important overall; it was also among the top two issues in every stakeholder group.

But IFC—and the WBG—has not adequately addressed distribution. In several projects, people outside and even inside the WBG questioned ex-post whether benefits of EI projects were distributed fairly.[173] For example, where governments had taken a large equity share, but commodity prices—and fiscal revenues—dropped below expectations, they were later disappointed, or where they had granted income tax exemptions for the first years—often the most profitable for a gold project. We surveyed 33 IFC staff—all EI sector investment staff and all regional economists or strategists. Only half of the respondents indicated that distribution was adequately addressed in IFC's EI projects—or in CASs. Responses by World Bank staff were similar (Attachment 6C). Recognizing the importance of distribution in EI, IFC usually identifies the share of net benefits that accrues to government. But IFC typically has not compared the benefits with other EI projects or stated whether it perceives the distribution of benefits to be reasonable—and has been criticized for this in the case of the Chad-Cameroon pipeline.[174] IFC also has not systematically tracked actual government revenues during supervision.[175] Recognizing the uncertainty about commodity prices, resource quality, and many other factors, IFC typically addresses downside risks for investors in a sensitivity analysis, but IFC did not address how such risk factors affect the distribution of benefits.

Transparency and improved analysis of the distribution may help prevent later conflicts. Because of variations in country and project characteristics (e.g., resource quality, taxation regimes, legal entitlements, country risk), some people question the reliability and relevance of distributional comparisons. But given the importance of rent distribution—and the history of conflicts over it[176]—more comparative analysis is warranted. Attempts have been made to compare distributions across countries, both in the WBG and elsewhere.[177] World Bank staff we interviewed stated that they could and should be cited to provide a frame of reference when presenting IFC projects for approval. More transparency on how the distribution was arrived at, comparing it with other projects, and testing its robustness under different scenarios would help reduce potential conflicts and disputes.[178]

"Insufficient" benefits for local communities are an important development issue—and a commercial risk—that has not always received enough attention. IFC typically has not calculated shares accruing to different levels of government or accruing directly to local communities. It is difficult to define "sufficient" benefits. At the least, they should compensate local communities for negative impacts and maintain or improve their living standards. Where local people oppose projects, businesses risk costly interruption and property damage. In EI, environmental problems often trigger the opposition. However, such opposition often can be traced to deeper social issues; for example, a long-standing perception of insufficient benefits. In such situations, companies sometimes spend a lot to build trust or defend themselves—money that could be better spent on community development. Where IFC client companies proactively engage the community and provide benefits for local people—for example, increased employment or sales, better infrastructure, schools, and housing—they reduce risk for their operations. But private companies cannot be expected to take over government responsibilities—for financial reasons, and because such a solution is not sustainable.

Benefits from government revenues do not always reach local communities. In many countries where IFC operates, government revenues are not being used effectively for the benefit of local communities. In some countries, communities received only a very small share of fiscal revenues—which led to problems. For example, in one case, the "legal" distribution to the provincial authorities was only a small share of royalties; even that was not consistently distributed, and communities accused local leaders of embezzlement. In another case, the "legal" distribution to the region was quite high but usually not forthcoming. Even where money was distributed to the provincial governments, people affected by EI did not necessarily benefit, because of mismanagement, lack of transparency and possible corruption, allocation of the money to other parts of the province, or its being used for recurrent administrative expenditures instead of invested to provide sustainable benefits.

Volatility of revenues is also a problem but may be easier to fix. The discussion during taxation conferences[179] tends to focus on managing the volatility of revenues from EI, caused by changing commodity prices and the exhaustibility of the resource. Several "technical" solutions—for example, funds for stabilization or for future generations—are well understood, but the record of such solutions is poor, owing in part to the secular decline in commodity prices and in part to poor governance.

3. Private Sector Development and Benefits to Investors

EI investments were often among the first attractive investment opportunities for private investors and IFC. In at least a dozen countries,[180] IFC's first investment was in EI. IFC's EI investment also was often the first private investment in the sector, providing important demonstration effects. Investments in other sectors—by IFC and others—often followed. In recent years, IFC has focused increasingly on enhancing SME linkages in connection with its EI investments (Box D1) and on supporting EI-related projects with trust funds.

Financial returns—for IFC and other investors—were better than for other sectors … OEG evaluates both business success—whether projects were attractive for all investors[181]—and IFC's own investment results. Business success was better in EI (55 percent positive) than in other sectors (44 percent). While this result is not significantly different, it was achieved in very difficult country circumstances. Controlling for country risk, the business success of EI projects was significantly better than for other projects, indicating that EI projects can be among the few attractive investment opportunities in difficult countries. IFC's investment results on a portfolio basis also are substantially better than in other sectors, enhancing IFC's overall profitability and helping to support IFC's activities in other sectors.

… but financial risks also were higher. For investors, the sector is riskier than others. For example, while EI projects featured more extremely positive financial results (financial rates of return > 20 percent), they also featured more financial losses (Figure D2). IFC's equity investments in EI are as likely to succeed as those in other sectors—about one-third of the time—but successful investments are more likely to result in large returns. IFC's strong portfolio results are carried by a handful of very big winners. In all of the projects, IFC invested early in the project's development, taking considerable risk. Overall, such winners tended to be concentrated in Latin America, in countries with at least reasonable governance, and in oil, gold, and copper—the largest exposures by subsector.[182]

The main drivers of project business success were quality of management and the resource, commodity prices, and the country's governance and investment climate. Among the studied projects, the following tended to be the main business success drivers:

- *Quality of management:* Strong management and a financially committed sponsor are crucial to deal appropriately with production challenges and market downturns—but were sometimes missing.
- *Quality of the resource:* Only resources that are globally cost-competitive are likely to result in attractive financial returns. IFC and the sponsors sometimes have overestimated the quality of the resource or—put differently—underestimated the difficulties and costs to extract and process it.
- *Commodity prices:* The 1990s were a decade of falling prices for many commodities. For example, from 1990 to 1998, oil prices dropped in real terms by over 40 percent, gold by over 20 percent, and copper by almost 40 percent. This has had negative effects on the projects IFC supported and shows the importance of investing in the lowest-cost producers. Several commodity prices have since recovered, so the current outlook is probably brighter than at the evaluation stage.
- *The host country environment:* Taxation regimes are an important determinant of returns to investors, as are other features of the enabling environment. In several cases, viable projects had poor returns to investors because of government actions, such as retroactively increased taxation or transit fees. Better regulatory qual-

Box D1 Value-Added SME Linkages

IFC's environmental and SME departments increasingly work with project sponsors, aid agencies, and NGOs to develop programs promoting sustainable economic development in areas affected by EI projects. Examples of programs to set up or strengthen micro-finance organizations, training programs, and technical advice for local businesses include the following:

Mozal Aluminum Smelter, Mozambique

- **IFC worked with Mozal to develop local business capacity to compete for product and service contracts—transport, catering, cleaning, and security. For these, Mozal broke its contracts down into smaller components (to attract local competition) and now spends about US$35 million annually with private local companies. As part of Mozal's Community Development Trust, which tries to maximize positive impacts for the local community, farm extension services have been provided to 1,200 farmers.**
- **An ongoing linkage supply program developed by the IFC-managed Africa Project Development Facility helps small businesses win and deliver Mozal phase II construction contracts.**

Chad-Cameroon Petroleum Development and Pipeline Project

- **The WBG worked closely with the sponsors to put in place features to ensure economic benefits for local businesses—to date more than $340 million has been spent, more than $139 million in Chad alone. Ongoing training enables SMEs to win pipeline-related contracts. IFC launched The Support and Training Entrepreneurial Program in Chad to train university graduates to consult, train, and develop small and micro-enterprises. Already 14 field officers are working with more than 150 enterprises.**
- **IFC is working with the U.S. organization Africare to implement a project to provide food to petroleum workers in the short term and to the general population in the long term. Eight enterprises have been created and more than 120 people have received training and financing.**

Yanacocha Gold Mine, Peru

- **IFC is working with Yanacocha to implement a Rural and an Urban Development program. Many program components have been implemented with NGOs, rural communities, and the city of Cajamarca. Yanacocha and external donors have provided more than $15 million and $7.3 million respectively, for this program.**
- **Local SMEs supplying goods and services participate in quality management training focused on international business practices and environmental and safety standards to improve productivity and win Yanacocha contracts. A training program equips tradesmen to participate in the construction of a housing complex that will be developed over the next five years. Also, SME suppliers of components, such as window frames, are being assisted.**
- **Another program has been established to build local farmers' capacity to supply the mine's canteen and hotels. Similarly, local artisans in ceramics and textiles have been identified for training in design, production, and marketing and are supported at local and international trade fairs.**

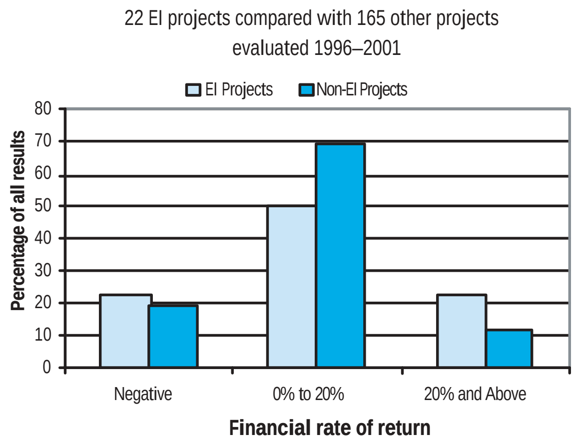
Note: **Data provided by the WBG's SME department and summarized by OEG.**

ity was significantly correlated with better financial results, as was political stability, which also was significantly correlated with better development results and environmental effects.

4. Environmental and Social Issues—From "Do No Harm" to Sustainability

IFC has continually expanded the scope of its environmental and social assessment. In 1988–89, IFC began its own reviews and appointed its first environmental advisor.[183] Initially, IFC followed the World Bank's safeguard policies, guidelines, and procedures, but gradually IFC developed its own, better adapted for the private sector. From 1993, IFC developed sector-specific guidelines for areas not covered by the World Bank's existing guidelines and adopted specific procedures for environmental review in 1992–93. In 1998, after exten-

Figure D2 Extractive Industries: Riskier than Others



sive consultation, IFC revised its review procedures and adapted several safeguard policies for the private sector. It also developed a policy statement on harmful child and forced labor (the World Bank lacks such a policy).[184] Also in 1998, the World Bank updated its *Pollution Prevention and Abatement Handbook*[185] *(PPAH),* providing industry-specific guidelines that apply to WBG projects. IFC continues to modify its operating procedures and to develop additional industry-specific guidelines.[186]

Lessons from experience lead to changes in policies, guidelines, procedures, and practices. Based on past evaluation findings, OEG has made numerous recommendations with respect to environmental and social safeguard policies, guidelines, and procedures, many of which have been implemented. IFC's Environmental and Social Development Department also feeds lessons from practical experience and research into upgrading procedures within the department. For example, IFC introduced a guideline on hazardous materials handling, in part motivated by the Yanacocha mercury spill and the Kumtor cyanide spill. IFC produced a guideline for offshore oil and gas projects before investing in Early Oil, Azerbaijan. Thus, the body of policies, documents, and procedures that codifies IFC's environmental and social operating procedures and practices is adapting constantly. The recently completed safeguard policy review by the CAO is likely to result in changes also.

IFC increased staffing in support of the increased focus on environmental and social issues. Starting with one staff member, IFC hired additional environmental, and later social, experts between 1990 and 2002 and currently employs almost 40 specialists. Their role is to appraise and supervise projects to ensure that projects financed by IFC meet the applicable environmental and social safeguard policies and guidelines and improve projects "beyond compliance." In recent years, IFC's environmental and social experts have spent more time on EI than on any other sector, highlighting the sector's high-impact potential in this area.

IFC categorizes projects on the basis of their potential environmental and social impact. When a project is first presented to IFC, the environmental and social specialists categorize it according to its potential negative impact. The categorization determines how IFC appraises and supervises a project and which actions will be sought from the clients. A Category 'A'[187] project—considered likely to have significant adverse environmental and social impacts, unless prevented or mitigated—requires peer review and triggers a detailed and disclosable assessment document (environmental impact assessment), a public consultation process, and frequent supervision throughout the life of the project. A Category 'B' project—with lesser potential impact than Category 'A'—has a narrower environmental assessment, requires only submission of an environmental summary, and, in practice, receives less direct supervision. Some NGOs have criticized IFC for "under-categorizing" projects and have argued that all EI projects should be Category 'A.' Management—and the CAO—maintains that projects should be categorized to reflect their impact potential. OEG usually found projects to be appropriately categorized, but given unclear guidance and lacking documentary explanation it is sometimes difficult to understand the rationale for categorizations.[188] Even so, IFC sometimes goes beyond the requirements for Category 'B' projects; for example, subjecting them to independent audits.

EI projects have high potential for negative environmental and social impact. About 40 percent of IFC's EI investments are Category 'A' (most others are 'B'), compared with 3 percent of IFC's non-EI investments. More than 40 percent of IFC's total Category 'A' investments are thus in EI. This indicates the high environmental sensitivity of the sector and IFC's commitment to thorough environmental review and monitoring of the sector. In support of this commitment, IFC's environmental and social specialists spent one-third of their time on the EI portfolio in fiscal year 2002.

Resource-rich countries are more likely to have problems achieving important development goals. The WBG has assessed the likelihood that countries will achieve important Millennium Development Goals.[189] OEG then analyzed whether EI-dependent countries were more or less likely to achieve the Millennium Development Goals than other developing countries. Only the goal of reduced child malnutrition was much more likely to be achieved in EI-dependent countries (likely or possible in 67 percent of countries) than in others (51 percent). EI-dependent countries were less likely to achieve almost all other goals, most notably increasing access to clean water (58 percent versus 72 percent) and reducing child mortality (46 percent versus 65 percent), maternal mortality (45 percent versus 59 percent), and HIV/AIDS (50 percent versus 63 percent). IFC recently has started an initiative against HIV/AIDS, with 6 of 14 engagements with client companies working in the EI sector (Box D2).

IFC's Results in Mitigating Negative and Enhancing Positive Impacts

Mixed environmental and social results for EI projects. Using only the random sample of detailed evaluations,[190] the results for mining (4 of 10 projects, or 40 percent rated positive) are significantly worse and those for oil and gas (11 of 12, or 92 percent positive[191]) are significantly better than those for other projects (65 percent). Using the broader, but less in-depth analysis of the entire portfolio,[192] the positive results for oil and gas (94 percent positive) are confirmed, and mining projects (62 percent positive) are not different from the IFC average (65 percent). For mining, the better performance of the broader portfolio of studied projects, compared with the evaluated sample, indicates that performance has improved.[193] To validate results from the evaluations and desk reviews, OEG staff visited 13 EI projects (Box D3). Each field visit included an environmental specialist with EI experience or a mining engineer. For the most part, the field visits confirmed the information in IFC's files.

IFC's oil and gas projects performed well, but there are issues beyond compliance. The oil and gas sector is dominated by multinationals that in recent years have stated their commitments to improve performance and enhance sustainability and are also disclosing results achieved. OEG's analysis also found that the performance of projects sponsored by major multinationals was much better than that of projects sponsored by smaller companies. IFC could transfer knowledge and disclosure standards from these companies to less progressive companies to improve overall sector performance.[194] While oil and gas projects have an

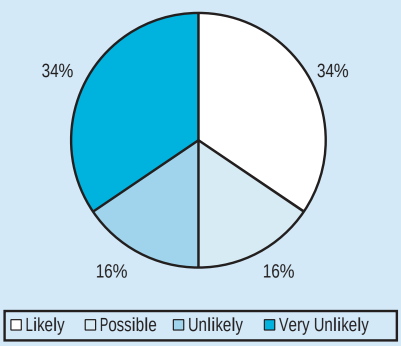
Box D2 Extractive Industries and HIV/AIDS

The majority of the private sector, including most of IFC's clients, still is not meaningfully involved in counteracting HIV/AIDS, a disease that affects communities, workers, and managers. Businesses will feel the impact of HIV/AIDS most clearly through their workforce, with direct consequences for profitability. Some sectors are more risky than others regarding HIV transmission. Extractive industries tend to be particularly at risk, because they usually pay salaries that are significantly higher than those of the general population and their operations also rely on a workforce separated from their families for long periods of time. Such conditions have contributed systematically to high-risk behavior, in extractive industries and in related activities, such as infrastructure construction and transportation. The rural settings of EI operations, which—unlike more urbanized areas—often lack government health, education, and prevention programs, further increase the risk. Thus, the communities in which extractive industries operate have a heightened AIDS risk. The figure below also illustrates that resource-rich countries are less likely to achieve the Millennium Development Goal of halting or reversing AIDS by 2015.

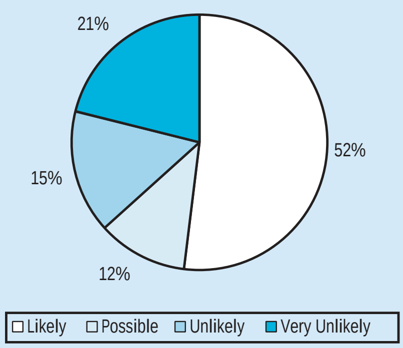
HIV/AIDS: Worse in resource-rich countries

Likelihood of achieving the Millennium Development Goal of halting or reversing AIDS by 2015

32 resource-rich countries
(Excludes 17 countries without data)



52 resource-rich countries
(Excludes 54 countries without data)



The program IFC Against AIDS guides its clients in designing and implementing education, prevention, and care programs in support of employees and the communities in which they work and live. Under this initiative, IFC has to date worked with 10 clients (4 in EI) on HIV/AIDS programs and is starting to engage with 4 more (2 in EI). With the help of trust funds, IFC also is working on putting together an HIV/AIDS toolkit that would help mining companies become effective partners in the prevention and treatment of HIV/AIDS, both for the mining workforce and the communities dependent on the mines. The assignment is to identify, evaluate, and disseminate selected examples of public-private partnership approaches to HIV/AIDS prevention and treatment in the mining sector that have proved to be workable and cost-effective. Among the clients with which IFC has worked is Mozal, an aluminum producer in Mozambique, which has a strong HIV/AIDS program that includes educating and raising awareness, voluntary testing and counseling, and supplementing medication available at local hospitals. For more information on the program, see Mozal's Health, Safety, Environment and Community Report (www.mozal.com).

Note: **For more information on IFC's initiative, see www.ifc.org/test/sustainability/docs/IFC_against_AIDS.pdf.**

Box D3 — Observations from OEG's Site Visits and Country Studies

OEG staff visited 13 projects in 6 countries.[a] Evaluators analyzed the overall country and sector context, reviewed firsthand the impact of IFC's projects (and, to a lesser extent, other projects), and asked representatives from government, civil society, industry, and the WBG about their perceptions. The main observations were as follows:

- EI projects, their relations with communities, and their impacts are extremely complex.
- For the most part, the field visits confirmed information in IFC's files, but they also found surprises—good and bad—demonstrating that, even with diligent supervision from Washington and occasional field visits, IFC will always be struggling to remain fully informed.
- IFC projects usually brought direct jobs and other opportunities; most projects improved access to infrastructure and services for many people, often in remote areas.
- Some client companies were especially proactive in trying to increase opportunities for local people by providing training for potential employees and suppliers—sometimes with IFC's help.
- Opportunities attracted people from outside the project area; their influx sometimes caused environmental and social problems for the existing community. In particular, where the capacity of local governments was weak, companies found it difficult to cope.
- Not everyone benefited, and negative environmental and social impacts were not always adequately mitigated.
- IFC-supported projects appeared to operate to higher standards than others; nevertheless, NGOs focused their criticism on projects supported by IFC, other international financial institutions, and multinational companies, perhaps because they felt they had more leverage there than at the national level.
- NGO criticism alerted IFC to problems on several occasions, but some criticism was unwarranted, and views expressed by different NGOs—for example, local versus international—sometimes differed substantially.
- The very strong contribution by IFC's environmental and social development specialists in several projects was acknowledged by clients and communities with whom they interacted.
- But these interactions often came late, responding to problems rather than preventing them proactively—which would have been more effective and cheaper; more systematic tracking of key risk factors could have prevented some problems.
- Companies that consulted early and continuously with the local community had more effective support programs that did not necessarily cost a lot but established trust and support.
- Once the trust of the local community is lost—for example, following an accident—companies find it very costly to regain it.
- Affected communities usually saw few benefits from the taxes and royalties companies paid to governments—either little money flowed back or it was not effectively used.
- Companies were expected to make up for the lack of government services, and many of them did a lot: providing roads, water, or power, or supporting education and health services for the community. But companies are wary of taking on too much: not only can it be costly and create further expectations, it also creates an unsustainable dependency on a limited-life EI project.
- Several clients asked OEG about best practices with respect to social, environmental, health, and safety issues. There is much potential to share best practices among IFC's client companies; for example, one mining company gave sewing machines to village women who, once they had developed skills making uniforms for the mine, began to export clothing.

a. Argentina, Brazil, Ghana, Kazakhstan, Kyrgyz Republic, Peru. In one country (Kyrgyz Republic), the focus was mainly on the environmental and social performance of the project.

almost spotless compliance record, OEG observed one instance of noncompliance with respect to wastewater discharges, which was later corrected. In another case, an oil pipeline (replacing truck traffic) in an area later designated as a national park raised complex environmental and social issues. When IFC exited two years after disbursement, the project was not in full compliance with IFC's requirements, but the sponsor was working toward it. Other projects raise issues beyond IFC's requirements:

- First, several projects feature routine gas flaring. When the projects were approved, this was not covered by a specific guideline. Even today, the WBG guidelines for onshore oil and gas projects are not very specific on this issue, particularly compared with more recent IFC offshore guidelines.[195] In any event, it was difficult to establish the extent of the problem, because IFC management does not systematically track gas flaring—or GHG emissions—for all portfolio projects. IFC will calculate GHG emissions for future projects (see Box D4 on climate change), but it is unclear whether they will be tracked during supervision. Also, the WBG is leading a global gas flaring reduction initiative, which includes—as a first step—tracking gas flaring, followed by a number of possible steps to reduce the problem.[196]
- Second, transportation of oil could have been addressed more thoroughly in some cases. For example, NGOs raised concerns about spills from pipelines used by, but not part of, IFC projects. In another project, OEG discovered that environmental staff were unaware that a project had started to transport oil using trucks and rail rather than the originally anticipated pipeline, and environmental management of this transport mode appeared insufficient. The environmental impact of the transportation infrastructure for IFC's oil and gas projects has not always been a focus in the past, but IFC has begun to pay more attention to this issue. However, it can be a difficult issue to address, as it is often "beyond the fence line" of control by the project sponsors.

Mining projects, particularly gold, had some environmental problems. The broad range of environmental and social issues facing mining projects requires a strong focus by the sponsoring company just to achieve compliance with IFC's guidelines. Gold mining projects—the largest share of IFC's mining projects—had a higher incidence of reported problems. Gold production usually involves toxic materials (e.g., cyanide, mercury, arsenic), and weaknesses in their han-

Box D4 — IFC's Position on Climate Change (excerpts)

IFC recognizes the long-term risk from climate change. While the Kyoto Protocol puts the main responsibility for reducing GHG emissions on developed countries, IFC believes it can have a role in reducing the GHG intensity of economic activity in developing countries. IFC requires that environmental assessments for each project consider global environmental aspects, including climate change. GHG emissions are quantified and disclosed for projects with potentially significant emissions. IFC actively promotes market-based solutions. In particular, IFC

- **Seeks to reduce methane and carbon dioxide emissions in hydrocarbon extraction projects;**
- **Will invest in cleaner coal projects that demonstrate best practice in addressing environmental and social issues;**
- **Will support low-cost energy solutions for developing countries (in parallel with WB policy reform);**
- **Pursues projects generating GHG emission reduction credits and establishes relationships with potential buyers;**
- **Uses concessional funding (Global Environment Facility) to promote renewable energy and energy efficiency where appropriate;**
- **Devotes substantial resources to find, develop, and fund projects for renewable energy;**
- **Will support funds to purchase GHG emissions credits when the market is ready; and**
- **Pursues projects that reduce losses in power transmission and distribution.**

Source: http://www.ifc.org/test/sustainability/docs/Climate_Change_IFC.pdf dling were the most frequent problem. In response, IFC has developed a hazardous materials management guide but has not yet urged all its existing client companies to follow it. IFC also participated in the steering committee developing the Cyanide Management Code.[197]

For a positive rating, projects need to be, over their lifetime, in material compliance with IFC's at-approval requirements, which are a proxy for what IFC considered acceptable environmental performance. Projects are thus not measured against current requirements, unless at-approval requirements were clearly out of line with sound environmental practice in place at the time.[198] Thus, some projects rated satisfactory would not comply with current standards. Given the rapid evolution of industry standards, IFC may consider

- Continuously updating guidelines and policies as industry standards evolve,
- Routinely advising clients when IFC updates guidelines,
- Identifying and documenting any shortfalls against the latest guidelines during supervision and urging clients to comply voluntarily, and
- Contractually requiring clients on future projects to achieve compliance with updated guidelines; however, this may be difficult to negotiate, as clients are unlikely to subscribe to a "moving target."

IFC Helping to Generate Sustainable Benefits

Community Development—the shift from "do no harm" to "doing good." IFC's previous focus on mitigating negative impacts to ensure compliance with safeguard policies is moving increasingly toward a focus on enhancing positive socioeconomic impacts in its EI projects as part of a broader sustainability initiative. For example, in 2000, IFC issued guidance on community development.[199] The WBG's Small and Medium Enterprise (SME) Department has worked with several communities to assist in the development of small businesses in connection with high-profile projects, with a particular focus on EI.[200] IFC policy encourages community development plans but has not made them mandatory for EI projects.[201]

IFC often goes beyond the guidelines and policies. OEG has observed that in many cases, IFC establishes internal procedures for appraisal and supervision of projects that go beyond the minimum standards of the published guidelines. For example, even where they were not required, IFC has

- Helped clients implement community development plans, sometimes using trust funds (see Box D5 and Attachment 5);
- Helped clients with HIV/AIDS initiatives (see Box D2);
- Requested *cumulative* EIAs; and

Box D5 — **Donor-Supported Trust Funds Contribute to IFC's Sustainability Initiative**

Since 1994, through IFC's Trust Fund Unit, donors have spent $3.5 million to support technical assistance for 22 EI-related projects—mostly in the past three years (Attachment 5). Increasingly, technical assistance supports sustainable development, including a conference in China to improve the investment climate for sustainable mining and a global initiative to disseminate examples of successful approaches to HIV/AIDS prevention. So far, the projects appear to have been broadly successful. However, because Project Completion Reports have often not been prepared, OEG was unable to assign project ratings. Technical assistance demand by the EI sector—focusing on social and environmental development—is likely to grow. Through better tracking, IFC would be in a better position to understand and communicate the impacts of its technical assistance program to its donors and the public.

- Encouraged some clients to adopt the new hazardous materials management guidelines.

The WBG has developed policies, guidelines, practices, and procedures that are setting standards and helping to improve the sector's contribution to sustainable development. Many observers—international organizations, government, industry, and NGOs—concur that the World Bank Group's requirements and guidelines set a high standard.[202] A 2001 United Nations Environment Program (UNEP) study observed that the participation of multilateral financial institutions significantly raises a project's environmental and social standards. Other multilateral (e.g., European Bank for Reconstruction and Development, Inter-American Development Bank) and bilateral institutions reference and some use IFC and World Bank guidelines. Several government officials have commented that WBG guidelines are an important benchmark when setting local standards. Industry also sees value: 95 percent of clients in EI saw IFC's requirements as primarily helpful to their long-term interest, compared with only two-thirds of all clients.[203] Some clients and even other companies list in their annual reports that they comply with IFC guidelines,[204] and several industry representatives commented that IFC's and the WBG's guidance materials—particularly on social issues—are very helpful. For example, IFC has published good practice manuals on public consultation, resettlement, HIV/AIDS, child labor, and community development.[205] By publishing guidance[206] on topics such as mine closure and community development and by hosting workshops and participating in or leading sector initiatives, the WBG is highly visible, taking a leadership role in improving environmental and social impacts. In 2003, some of the largest private project finance banks have committed to adopting IFC safeguard policies and guidelines, thus broadening their reach.[207] Nevertheless, many other financial institutions and export credit agencies still lack such standards (Box D6).

Nevertheless, some guidelines are inconsistent, incomplete, or missing. Given the WBG's high visibility, it is particularly important that its guidelines be updated regularly and conform to at least good practice standards in the industry and among financial institutions. IFC did not update its safeguard policies for several years, and some are now inconsistent with World Bank guidelines.[208] For example, staff told OEG that IFC projects now must comply with a draft, nonpublic version of the 1999 policy on safety

Box D6 — Lack of Similar Standards in Other Financial Institutions

Many businesses recognize that "addressing sustainable development is critical to their long-term survival, and to delivery of enhanced shareholder value."[a] But there is also much concern that similar standards do not apply to everyone. NGOs use WBG guidelines to point out weaknesses in other financial institutions' requirements and are concerned about a "race to the bottom."[b] UNEP noted in 2001 that, despite some progress since 1999, most export credit agencies were lacking adequate environmental and social requirements—all the more worrisome because their investment volume in the sector is much larger than that of the multilateral institutions. Some IFC investment staff expressed concerns about losing business to financial institutions with lower standards when IFC cannot convince potential clients that IFC's guidelines are in their own long-term interest. OEG found that NGOs are often vocal critics of projects supported by international financial institutions and multinational corporations but do not necessarily raise similar concerns about local or state-owned companies with worse performance.

a. *Mining & Minerals Sustainability Survey 2001:* A PriceWaterhouse Coopers survey of 32 world-class mining and minerals organizations.
b. Numerous examples include ECA-Watch (www.eca-watch.org/problems/impacts.html) demanding to "stipulate World Bank and OECD DAC [Development Assistance Committee] standards as the minimum acceptable" for export credit agencies.

of dams, not with the 1996 version on IFC's Web site, nor with the 2001 World Bank policy. Similarly, IFC does not use the "new" World Bank 2001 involuntary resettlement policy but the "old" 1990 policy, combined with a resettlement handbook, which is appreciated by practitioners but not mandatory. While OEG was told that what applies is clear to IFC's specialists, to any outsider it must appear extremely confusing. There are also numerous examples of inconsistent or incomplete IFC guidelines. For example, requirements for closure plan funding differ for different types of mines (coal, open pit mining, base metal mining). IFC promised specific guidelines for cyanide leaching in gold mining in 1998, but they have yet to be published. Ongoing consultations are seen as critical for enhanced community development but are not required. Social issues are recognized as crucial for mine closure but are not addressed in the requirements. IFC's 2001 guidelines for offshore oilfields place much more emphasis on reducing gas flaring and other sources of greenhouse gas emissions than the applicable 1998 WBG guidelines for onshore oilfields. IFC's requirements for identifying and controlling impacts of downstream transportation of oil and gas projects are generally adequate but may need to be more specific on road and rail transport of oil, oil products, and gas. Some areas, such as human rights, are not covered by IFC's guidelines but are being addressed by the industry or other bilateral or multilateral institutions.[209]

Leading EI companies have signed on to "Voluntary Principles on Security and Human Rights," but IFC has no such requirements. Human rights organizations have repeatedly noted violations of the rights of individuals in connection with EI projects, particularly in the oil sector.[210] EI projects involve large investments, often in countries where security, including the threat of war or terrorist attack, is a concern. IFC has approved projects in several such countries, where sponsors were working with the army or private security forces to protect their property. Because IFC usually leaves security issues up to client companies, there is potential for problems to develop. A few IFC clients have been accused of human rights violations, and IFC has been criticized for supporting projects that could lead to such violations. Following an initiative led by several countries, many industry leaders and NGOs have signed on to "Voluntary Principles on Security and Human Rights."[211] However, IFC currently has no policy or guidance on country-internal conflicts[212] or potential human rights abuses and does not usually specify how its client companies should protect staff and assets. Given the potential risks for people in the host country and for IFC's own reputation, this appears to be a significant gap and an area where WBG standards and guidelines do not reflect corporate best practice.

Policies, guidelines, and best practice must produce results in the field. Operational policies and guidelines provide direction to IFC staff and clients. But the ultimate test of their usefulness is whether they improve results in the field. Safeguards are useful, but identification of potential problems by investment officers is equally important so that these issues are not overlooked. Therefore, additional training of investment staff to recognize social and environmental issues in EI projects throughout the project cycle would be useful. Investment officers need not have the expertise to replace environmental and social development specialists, but they should have sufficient skills to recognize problems and the benefits of getting specialists involved in internal and external project preparation as early as possible. Particularly, investment staff intervention to bring specialists into early contact with sponsors and to encourage sponsors to retain skilled and experienced social specialists in relevant situations is of prime importance. Strong management support and recognition of investment officers who proactively engage with sponsors to address social and environmental issues are essential for improved sustainability of IFC projects.

Problems can arise when IFC's environmental and development specialists are not involved early enough. Several projects had problems that could have been prevented or more easily mitigated had there been early interaction between IFC's social specialists and the project sponsor. For example, in one Latin American project, IFC became involved in the early 1990s, but the first social development specialist input from IFC came many years later, because IFC did not hire social specialists until the mid-1990s. IFC's specialist recommended that the sponsor employ more social specialists to adequately address community issues, including conflict resolution. But this recommendation was taken seriously only after the social and environmental impacts of a subsequent spill became apparent. The sponsor now has a very proactive social department of 15 people who consult with both rural and urban stakeholders about the project.

Supervision for EI projects is better than for the overall IFC portfolio, but gaps remain. IFC's supervision for EI projects was significantly better overall than for other sectors, with 82 percent (versus 59 percent) rated satisfactory. In part, this reflects the necessity of closer supervision of environmental and social aspects, as many EI projects face complex environmental and social issues. Nevertheless, there are important gaps:

- IFC had insufficient information to assess the environmental performance of several EI portfolio projects, often where IFC had only an equity investment or in older projects preceding the introduction of IFC's 1998 procedures.[213]
- IFC was caught unaware because of weak monitoring, or less than full disclosure by companies, of problems relating to handling of hazardous materials, mine closure plans, acid rock drainage, tailings impoundments, IFC's resettlement policy, gas flaring, and transportation of oil.
- While project-level supervision overall was strong, IFC's management and information systems do not provide adequate centralized data on environmental and social issues for the portfolio. For example, management is only now starting to develop overview reporting templates specifying which safeguard policies and guidelines apply to specific projects and whether projects comply with them, which mining projects have appropriate mine closure plans and funding in place, and which oil and gas projects involve routine flaring. IFC's new management information system will address some, but not all, of these issues.

Many of IFC's EI projects are in countries with inadequate environmental and social governance; this strongly challenges IFC in terms of resource allocation, reputation risk, and responsibility. Many host countries lack adequate environmental laws, regulations, and enforcement. Previous OEG studies[214] have found significantly worse performance in such countries. EI projects are particularly concentrated there, and IFC's potential added value is thus also greatest. But substantial resources are required for IFC to ensure compliance. It is unclear whether IFC will ever—or should—be in a position to replace host country enforcement. In addition, even if IFC can ensure compliance while it is an investor, it typically cannot influence performance after exiting its investment.[215] Also, some issues (e.g., new settlement in areas of resource development) are difficult for IFC and its clients to deal with in the absence of government support. Yet IFC does not consistently assess the institutional capacity of national government agencies. In some cases there was a preceding or concurrent World Bank involvement to upgrade government capacity, but this is not the norm.[216] This raises the question whether IFC ought to seek World Bank assistance more routinely to upgrade government's environmental review capacity where it is found lacking. A complementary action that would reduce the burden on IFC would be to require that clients subscribe to international standards of independent monitoring.[217] In all new Category 'A' projects (and for some Category 'B' projects), IFC requires independent audits or at least independent verification of the Annual Monitoring Reports (AMRs). Such requirements could reduce the supervision load and reputation risk for IFC, but this has to be balanced against the higher cost for the client—who also benefits from improved performance.

Baseline data are important but were not always established or tracked sufficiently. EIAs prepared for Category 'A' projects are required to include a comprehensive baseline survey of environmental and social conditions. Yet for several past projects either this had not been completed or it did not provide enough information.[218] A detailed inventory of the environmental and social conditions before breaking ground for exploration is crucial to track development results, and it is also in the self-interest of the company. Local communities—understandably—highlight areas where they want improvements and do not necessarily give credit for past improvements achieved. It is common for the EI industry to be charged with polluting air and water, degrading land, destroying structures, and, in general, worsening livelihoods. While many claims are real, some cannot be substantiated.[219] Extensive baseline data, later tracked in ongoing monitoring programs, would help distinguish real from false claims and make it possible to appropriately compensate for negative impacts. They also would help the company—and IFC—to demonstrate positive developments.[220] On the other hand, monitoring and baseline surveys are costly. It is therefore important to establish the most important environmental and socioeconomic indicators in the EIA and identify how they should be tracked later. IFC has started to track development results more systematically in its supervision, and well-designed EIAs and AMRs could help in this respect.

Challenges in Meeting IFC's Environmental and Social Development Objectives

Funding mine closure—difficult to implement. Mine closure is a major environmental and social issue. Abandoned mines represent an environmental hazard to the country and potentially significant cumulative cleanup costs associated with long-term environmental and social damage. Since 1982, the WBG has therefore required concrete and detailed plans for reclamation and funding, with the goal of returning land to conditions supporting prior land use (or better uses). Since 1998, IFC's guidelines have required that money be reserved over the life of the mine to cover closure cost.[221] However, IFC's experience has shown in several cases that this approach can be problematic—when commodity prices declined, the ore body was less valuable and the mine life thus shorter than anticipated. While IFC eventually secured funding for mine closure in several such cases, this clearly represented a risk, and mine closure issues have not been resolved for all portfolio projects.[222] Another difficulty for implementing sustainable solutions for mine closure is that IFC generally exits from its investments when its role is completed—often well before the mine closes—and therefore loses any influence over the mine operator. The WBG has developed good practice guidance, covering different options for securing funding that may offer solutions,[223] but this guidance is not mandatory. There is clearly an urgent need to identify solutions (e.g., financial instruments) to ensure that mines will be closed properly, even if a company becomes insolvent.

Social issues related to mine closure—not covered and even more complex. The social issues surrounding mine closure are not covered in IFC's guidelines. They revolve around communities being able to deal with loss of jobs, economic activity, revenues, and services associated with mine closure. To address them requires the cooperation of multiple stakeholders, including local communities, mining companies, and different levels of government. The WBG has developed guidance on this issue, including the respective roles of different stakeholders and "checklists" on handling social and environmental mine closure issues. Like all guidance notes, they are not mandatory for IFC projects.[224]

Longer mine life—more potential for sustainable development? IFC has funded mines with estimated lives exceeding 30 years where the mining company becomes a part of the community and can justify expenditures for improved infrastructure to support its operations. This allows more time to contribute to sustainable development and prepare for mine closure but may increase the community's dependence. IFC also funds mines with relatively short lives. The compressed life can exaggerate some of the social and environmental issues associated with mining, including mine closure and reclamation risk. One African company told OEG that it wished it had invested in local community development earlier. It did not, in part because it had expected to close down within a decade, but it will now continue to operate following the acquisition of an adjacent mine.

Tailings dams—the Achilles' heel of mining projects but few problems in IFC's portfolio. In 1996, Comsur, an IFC client, experienced a tailings dam break. In the same year, IFC also discovered through an evaluation that the client of one of its older investments was discharging tailings straight into a river—without a tailings dam.[225] Following this, a 1999 draft Policy on Safety of Dams (OP4.37) was prepared that includes tailings dams. The environmental assessment must now provide information on the tailings dam. IFC's mining engineers and environmental staff are expected to review tailings dam safety at appraisal and during supervision. While there were no problems until recently, IFC just discovered a problem with a leaky tailings impoundment.[226] Tailings dams often remain following closure, posing a potential threat to the community. It is thus important to assess the public risks from potential tailings dam failure, starting from the EIA.

Private ownership can improve environmental performance, but this often means addressing the environmental legacy of past practices—a challenge. Several IFC investments have been in newly privatized but existing operations. The past practices of the former government managers had left a legacy of environmental problems (oil pits, leaking pipelines, contaminated waterways, leaking tailings dams), often passed on to the new owners charged with the cleanup. Environmental performance invariably improved under the new ownership, reversing most of the negative impacts, but in some cases bringing the operation into compliance proved difficult and prolonged.

Going beyond the fence line. Current industry practice places an imaginary fence line around the project, with activities outside the fence line not considered part of the project's impact. While there has to be a cut-off, defining the fence line is difficult. For example, a country's ability or lack thereof to clean up a spill can have effects well beyond what may be considered the confines of the project, particularly with respect to transport—by rail, road, pipelines, and sea. Transport often is contracted to or is the full responsibility of third parties. Two IFC projects experienced high-profile hazardous materials spills, Minera Yanacocha, Peru, and Kumtor Gold, Kyrgyz Republic. Both featured road transport mishaps outside what had been defined as the fence line. On the basis of these experiences, IFC has extended its appraisal and supervision reach to cover some of the operations of suppliers and shippers, applying environmental guidelines to these activities. Nevertheless, the debate will remain over the point of transfer of responsibility.

Challenges when IFC enters late in the process. IFC can have a major influence if involved in the project from inception. In several cases, however, IFC was not approached until after the sponsors had advanced the project, not always in accordance with IFC's guidelines, particularly in relation to public consultation. In such cases, IFC faces a choice between turning down a project and losing the opportunity to add value, or imposing what may be costly conditions on the client for proceeding. Current guidance on what to do in such circumstances is unclear.

Ensuring sound environmental and social performance equity investments. IFC has several equity-only investments, with little legal leverage to influence the project and no legal right to obtain Annual Monitoring Reports. IFC could use "moral suasion" but has not always done so. In some cases, the appropriate environmental and social terms and conditions were in the loan documents, but they expired upon repayment of the loan. If the company is delinquent in its environmental or social responsibilities, IFC will bear some reputation risk, whether it remains an investor or exits. Even today, IFC does not always include contractual environmental and social requirements for equity. OEG pointed out this problem in its first Annual Review in 1997. IFC management responded that it would look into this issue, but that there were complex commercial and other considerations. But IFC's 1998 environmental and social review procedures do not distinguish between investment instruments and do not address this issue. It is difficult to negotiate appropriate requirements for equity investments (e.g., shareholders' agreement, put option in case of environmental default), but lack thereof makes it difficult, if not impossible, for IFC to comply with its own procedures. Also, there are no guidelines establishing how active IFC should be as a shareholder; for example, whether IFC should routinely ask for information about a client's environmental practices and raise this issue at shareholder meetings.[227]

New approvals—similar difficulties. Since 2001, IFC has approved funding for five projects to help the EI sector with services, loans, or seed capital. These projects could create jobs, establish new ventures, and improve services. As yet, there have been few disbursements under these projects, but when they or similar projects are disbursed, they could present unique challenges for monitoring and enforcing compliance under IFC's safeguards policies and guidelines, because of IFC's indirect relation to the underlying projects and lack of contractual leverage. Similar issues apply to EI projects approved through financial markets operations, which were not covered in this evaluation.

ASM can give rise to major environmental and social problems and sometimes pose a reputation risk for IFC's clients. ASM features prominently in a number of countries where IFC has EI investments. Authorities sometimes consider ASM a stopgap measure for poverty prevention and leave it untouched, even if they oppose its practices. ASM is often illegal and involves very unhealthy and unsafe working conditions, including child labor. ASM can cause major environmental damage, degrade land beyond rehabilitation, and pollute waterways with heavy sediment, heavy metals, hazardous materials (mercury), and acid rock drainage. Sometimes ASM precedes large mines, and government regulation often requires eviction of miners; at other times, ASM is attracted by large-scale mining activity. In either case, large mining companies face a dilemma—evicting ASM operators is difficult and results in poor community relations, while letting them operate results in reputation risk—being blamed for the poor environmental and safety record of ASM.[228] In one case, an IFC client wanted to help artisanal miners with better equipment and guidance but realized that even improved conditions would still constitute too great a reputation risk. Dealing with ASM often has proved beyond the capability of industry. But governments also are struggling with it. Observers suggest a twofold solution: one, create alternative employment opportunities; two, help "upgrade" this subsector: provide assistance to transform artisanal miners into safer, small-scale miners who are regulated and abide by improved environmental standards. Experience beyond IFC's portfolio suggests that private companies can engage constructively with ASM operators (Box D7), as does other WBG work.[229]

5. Disclosure and Consultation

IFC's disclosure requirements have increased. IFC adopted its first disclosure policy in July 1994 and revised it in 1996 and 1998.[230] Under the policy, IFC balances accountability as a public institution—favoring disclosure—with the need to protect commercially sensitive information. EI projects are particularly sensitive, and IFC frequently signs confidentiality agreements. Disclosure in IFC has increased substantially since the early 1990s, when almost none was required. Recognizing the fundamental importance of accountability and transparency in the development process, IFC requires disclosure of the following:

- **Summary of Project Information**—a brief factual summary of the evolving project.
- **Environment-Related Documents**—Category 'A' projects: environmental impact assessment, released at least 60 days before the Board date; Category 'B' projects: summary of the key findings of the environmental review, released at least 30 days before.

Box D7 **Artisanal and Small-Scale Mining—Constructive Engagement by a Private Company**

Irrespective of the legality of their presence, the significance of small-scale mining activity on concessions (or potential incursions by small miners from elsewhere) should not be underestimated, either by government authorities or private companies. In particular, where small-scale mining is the main economic activity of "established" communities, any external threats to miners' livelihoods will be resisted strongly.

The "problem" of small miners can be addressed only by looking beyond the threat they present to the project. This involves developing an understanding of the reasons for their presence and the extent to which mining meets their basic needs (as a primary or supplemental economic activity) and identifying viable alternative livelihoods or opportunities to continue to mine.

The emerging policy of encouraging an intimate association between small- and large-scale mining projects has merits but should not be used as a substitute for a comprehensive government strategy towards small-scale mining.

Source: Case study on the Las Cristinas Project (Venezuela)—Lessons from the Evaluation, **by Aidan Davy and Auristela Perez, May 1999.**

Disclosure is only required before approval; public information is thus often outdated, but this aspect has improved recently. In several projects reviewed by OEG, project scope or design had substantially changed, but the publicly available information had not been updated.[231] Publicly available project documents usually addressed planned measures to address environmental effects, not whether these measures have been effectively implemented. Such issues usually would be covered in an AMR supplied by the client to IFC, but AMRs are not publicly available.[232] While disclosure has to be balanced against commercial confidentiality, lack of disclosure diminishes trust.[233] For some recent IFC projects, updated environmental and social information has been disclosed.[234]

IFC protects its clients by keeping project information confidential—but is that in their best interest? Leading industry players see value in disclosure. IFC, at EIR workshops and other consultations, has been criticized—sometimes based on misconceptions about specific EI projects. More information could diminish such misconceptions, but IFC does not disclose, even in aggregate form, noncompliance by its clients.[235] There are no guidelines on whether, or under what circumstances, IFC should notify local authorities or the public of known compliance shortfalls. Many IFC clients have started to voluntarily disclose detailed social, environmental, and financial reports, recognizing that openness and transparency increases trust and is in their long-term interest. Others, such as one client who asked OEG's advice about best practice in sustainability reporting, are considering it,. Leading industry players publish independently verified, detailed sustainability reports, including, for example, sites with independent audits and mine closure plans; injury rates; land, water, and energy use; spill incidents, gas flaring, carbon dioxide, and greenhouse gas emissions; and environmental and noncompliance incidents. IFC has begun to insist on disclosure of ongoing environmental and social information in a few high-profile projects, but this is not the norm.

In several cases, IFC clients have gone beyond the disclosure requirements.[236] One client is now the only company in the country that audits and discloses environmental performance reports. In a few recent cases, IFC has agreed with the client on independent monitoring and disclosure of the AMR. In several cases, IFC has gone beyond the minimum requirements; one example being the Chad-Cameroon Pipeline project, with a 19-volume environmental management plan and ongoing independent review. Some other IFC clients also disclose substantial amounts of information about their environmental and social activities.[237] Such information often can be found on IFC's or the clients' Web sites.

Build community trust through open, honest, respectful, and ongoing consultation. But IFC's requirements fall short of its own good practice guidance on public consultation and disclosure plans.[238] The guidance defines consultation as "a wider *continuous* process of participation of all stakeholders in the decisions *throughout* the *formulation and execution* of a project." IFC's preapproval disclosure and consultation requirements may not be enough to achieve trust in the community. In particular, ongoing consultations are not required (unless a project involves resettlement or indigenous peoples),[239] nor is disclosure.

Good communication can improve the effectiveness of assistance programs and reduce anxiety if problems occur. Unilateral company decisions on what is best for the community are likely to be misguided and expensive and cause discontent. For example, when a mining company used tanks to temporarily restore water supply to villagers without consulting them, they accused it of treating them "like refugees." But another mining company consulted extensively with the community and, for a few hundred dollars, developed a project that recycles engine oil for coastal fishermen, reduces coastal pollution, and has strong community support. Companies that communicate poorly can face the high costs of project interruptions and community relations turned sour.[240] From field visits, desk reviews, and the literature, it is clear that IFC clients that consult, disclose, and communicate well are better off than those that do it poorly.

Public consultation can be complex, confusing, and difficult for both the company and the stakeholders. Some multinationals have geared up for this important part of doing business, but others are struggling and even with the best of intentions are finding themselves running into difficulties. Some have requested assistance from IFC.[241] To consult with the companies on an equal footing, the communities and other stakeholders may need assistance and training to understand the business and technology. Independent experts can help, but who pays for them? If the sponsor provides the funding, the expert may be perceived as compromised, but alternative funding sources are scarce. IFC has worked with a number of clients and communities to facilitate the consultative process, sometimes using trust funds (Attachment 5), sometimes with the help of the CAO—and OEG has witnessed positive effects in several projects.

6. Governance and Challenges of Managing Revenues from Extractive Industries

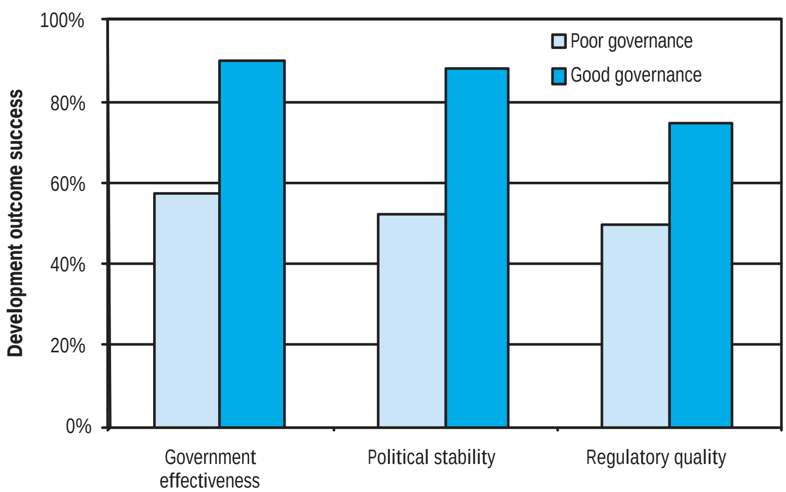
Extractive industries—large revenues for countries with poor governance. The economic sustainability section of this report indicated that most of IFC's EI investments created large revenues for host countries, particularly in oil and gas, sometimes even when investors did not achieve satisfactory returns.[242] There is abundant evidence that such large revenues, which, tend to be volatile and finite, create particular challenges for resource-rich countries. While IFC usually analyzed the financial, social, and environmental aspects of a project thoroughly, it has, in the past, not approached revenue management and distribution with the same rigor. Because IFC's EI projects are highly concentrated in risky countries that tend to suffer from weak governance, the issue becomes particularly important. Since fiscal year 1993, half of IFC's EI approvals were in countries in the worst governance quartile, compared with only one-quarter of all non-EI approvals.[243] To recommend not investing in countries with poor governance sounds tempting, but the WBG's mission is to reduce poverty and improve people's lives—and hundreds of millions of people live in resource-rich countries with poor governance. While the WBG alone may not be able to improve governance, by using its unique position as global player with the convening power to engage both public and private stakeholders, it can effect change.

Challenges of investing in countries with the poorest governance. Countries with poor governance often lack transparency, adequate laws, financial capacity, and regulations to allow regulators and judiciary systems to cope adequately with large EI projects. If corruption is an issue, customs agents, transport companies, regulators, and government officials could exert significant pressure on projects, causing delays and additional costs. From a development perspective, corruption is bad for growth and tends to reduce economic growth and private sector investment.[244] Resource-rich developing countries that are often cited among the best examples for the positive contribution of the EI sector—such as Botswana and Chile—are all considered to have relatively little corruption.[245]

Results—for development, IFC's bottom line and the environment were closely correlated with governance quality. OEG analyzed the results of the 45 studied projects using different governance indicators.[246] Development results were significantly better in countries with good government effectiveness, political stability, and regulatory quality (Figure D3). It is also worth noting that investing in countries with poor governance is not necessarily financially attractive for IFC. In fact, none of IFC's 10 most successful EI investments were in a country with the highest corruption.[247] IFC's equity returns were worst in countries with the poorest control of corruption and the best in countries with the highest control (Figure D4).[248] Environmental results were significantly better with better political stability.

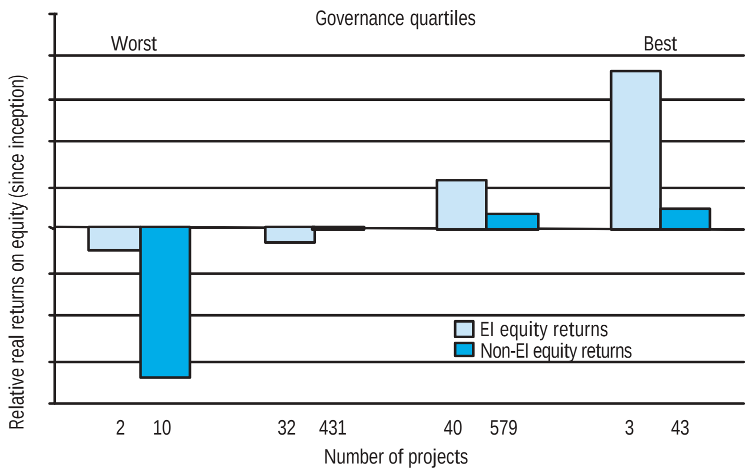
Bribes are common in EI, particularly in oil and gas. According to Transparency International,[249] the oil and gas sector is perceived as third most likely to involve bribes, following only public works contracts and arms deals. Mining ranks seventh. The Organisation for Economic Co-operation and Development (OECD) Convention on Combating Bribery of Foreign Public Officials in International Business Transactions[250] entered into force in February 1999. Thirty-five countries have ratified the convention, and most have already enacted legislation to make it a crime for businesses to bribe foreign public officials. Quite a few countries already had laws outlawing corruption abroad.[251]

Figure D3 Better Development Results with Better Governance (45 studied EI projects)



Source: WBI Grics-II

Figure D4 Better Country Governance — Better IFC Equity Returns for EI and for Other Sectors



Note: 175 countries were sorted based on the average of their respective GRICS indicators (Voice and Accountability, Political Stability, Government Effectiveness, Regulatory Quality, Rule of Law, and Control of Corruption) and divided into quartiles.
Source: World Bank Institute. Governance Research Indicators Country Snapshot (GRICS) Dataset, 2001.

Nevertheless, paying bribes still appears to be common.

IFC takes precautions against corruption, but it is clearly a risk. IFC projects provide a demonstration effect for others, and it is therefore imperative that the projects are implemented transparently and honestly. IFC usually explicitly requires sponsors to abide by host country laws and regulations, which often outlaw corruption. During appraisal, IFC typically checks the background and reputation of its sponsors and how licenses were awarded. To that end, IFC has, on several occasions, hired private investigators. IFC also typically requires that its clients' financial statements be audited, which may reduce but not eliminate the scope for irregularities. OEG reviewed project files and had informal discussions with IFC staff, project sponsors, and third parties knowledgeable about the sector. OEG found no evidence that IFC clients were paying bribes but did not conduct an audit. However, particularly because IFC projects are taking place in countries with high perceived levels of corruption, there is clearly a risk. OEG's field visits and other research showed substantial differences with respect to the transparency and handling of EI sector revenues among different countries with IFC EI investments.

Corruption is linked to revenue management but is difficult to prove. International Monetary Fund (IMF) research has found that corruption distorts allocation of resources by governments. It is associated with higher public spending but poorer quality infrastructure. In countries with poor governance, it is therefore particularly important to address how governments manage fiscal revenues from EI. OEG visited several countries where little of the government revenues was flowing back to benefit communities next to EI projects. In some countries, there was a strong suspicion that government officials at different levels were corrupt. Without transparency about the resource flows, such allegations are difficult to prove or disprove. About 70 percent of government officials surveyed (Attachment 6B) saw a need for the IFC to help improve governance and transparency (the corresponding figure for the World Bank is 83 percent). One mining minister advocated disclosure of moneys provided to local authorities to better ensure local communities benefit from it.

IFC's recent efforts to manage revenue. The Chad-Cameroon pipeline is the first IFC project to proactively tackle revenue management.[252] This effort followed IFC's recognition that projects that devolve little or no benefit to local communities present both development and commercial risks. A recent IFC position paper on revenue distribution and management[253] (Box D8) states that, in high-impact projects in countries with poor governance and weak institutions, IFC will systematically assess the risks that governments would misuse payments or that intended benefits may not reach local communities. IFC would also, together with the Bank, IMF, and sponsors, consider mitigating measures. At this point, the position paper applies only to "high-impact" projects (substantial in relation to the nation's income), and none of the mitigating measures are mandatory.

Key issues in revenue management. A joint working group consisting of industry, civil society, and WBG staff considered the following policies critical with respect to revenue management and utilization:[254] (i) the establishment of transparency and accountability with respect to revenues earned and their disposition, (ii) consultation with principal stakeholders in developing plans for the use of resource revenues, (iii) credible oversight and audit of the implementation of these plans, and (iv) serious attention to building local institutional capacity.

Disclosure of government revenues—a step toward better management? To date, neither the IMF nor the World Bank necessarily require that resource-rich countries disclose the revenues generated by EI, even though they sometimes recommend it. IFC's EI clients are also not required to disclose the revenues they generate for governments. However, several public campaigns have started to advocate disclosure of EI revenues.[255] But disclosure of government revenues can raise difficult issues. Governments in some countries even make it illegal, through confidentiality covenants in production-sharing agreements, for example. Industry is concerned that unilateral disclosure could create a competitive disadvantage. However, almost all industry representatives whom OEG interviewed in the course of this study would support industry-wide disclosure of government revenues. Most of them, however, emphasized that these were their personal, not necessarily corporate, views.

Box D8 **IFC's Position Regarding Revenue Distribution and Management—Highlights**

Revenue distribution and management in extractive industry projects are important development issues and have emerged as major risk factors for both the operation and the reputation of investors. Large revenues generated by these projects and accruing to government may be misused. Benefits from these revenues may not reach local communities. While revenue distribution and management are not issues in every IFC project, they can become problematic in high-impact projects; that is, *where revenues are substantial in relation to the nation's fiscal income.*

To deal with the problem, IFC proposes a number of steps that it may undertake for high-impact projects that will generate substantial revenues for host governments:

- **Engage with the World Bank or IMF to coordinate issues beyond IFC's mandate.**
- **Consider other mitigation measures, such as sponsor's community development programs, when coordination may not achieve the necessary level of management.**
- **Seek funds or partners to assist a sponsor with capacity-building.**

Some companies operating in the EI sector have started disclosing government revenues even against host government concerns.

7. Issues Beyond the Control of IFC and Its Clients Require Effective Cooperation and Action Inside and Outside the World Bank Group

Issues beyond IFC's control require better cooperation among financiers and development partners. IFC has been more effective in EI projects than in other sectors in addressing most issues within its own control. More needs to be done to ensure that the sector and the projects IFC supports contribute to sustainable development. IFC can address some issues with its clients; for example, helping them to improve their environmental performance, community development activities, and consultation and disclosure—to serve as role models for sustainable development. IFC has done much[256] and can probably do even more to convince its clients that better environmental and social performance, while potentially entailing short-term costs, will ultimately be in their long-term interest. But to have even greater impact, IFC also needs to work on further improving its own environmental and social policies and guidelines and their implementation and—together with its member countries—help improve those of other international financial institutions. Little would be gained if IFC alone adds requirements and its potential clients seek financing elsewhere. But many of the issues discussed in this evaluation are beyond even the control of IFC's client companies. To resolve them will require close cooperation within the World Bank Group and with other stakeholders and partners—the IMF, IFC's member governments, and other international financial institutions. The recent adoption of IFC's policies and guidelines on environmental and social issues by several internationally active banks is an important step in that direction.

Merging World Bank and IFC units has improved sectoral cooperation, but cooperation with country departments and attention to revenue distribution and utilization, governance, and transparency are still inadequate. To validate the findings of this evaluation, we surveyed all of IFC's sectoral investment staff and regional economists.[257] Almost 90 percent responded that merging IFC's and the World Bank's sector departments into one Global Product Group had improved coordination of sectoral issues. At the same time, less than half said that overall cooperation within the WBG was adequate; in their view, lack of support by the World Bank's country departments was the biggest internal constraint.[258] One likely explanation for the insufficient coordination is that the country directors lack the incentive to address EI issues: in the countries where IFC operates, the WBG's EI lending volume tends to be small, EI projects are considered environmentally risky,[259] and governments may not be receptive to WBG activity in this area. Of 24 IFC staff who responded, 63 percent considered host country governments' lack of support to be the biggest constraint to enhancing the contribution of the EI sector to sustainable development. Only about half of the IFC respondents said that revenue distribution and utilization, governance, and transparency were adequately addressed in EI operations. This response confirmed an analysis of CASs showing that weak country governance and revenue management in resource-rich countries often were not adequately addressed in CASs and subsequent WBG interventions; IFC's EI activities often were not even mentioned in CASs (see Annex C). This points to a need to address EI issues in country strategies more thoroughly, ideally in a Comprehensive Development Framework mode, also engaging other stakeholders beyond the WBG.

Perceptions of environmental and social performance differ. Well over 90 percent of IFC staff responded that environmental and social issues were adequately addressed in IFC's EI projects. This perception is better than our evaluation results suggest, but staff may have considered IFC's performance on current projects, whereas we evaluated past results. Certainly the perception of IFC staff is different from that of outside observers. Among the participants at the EIR workshops, only 44 percent (of 52) responded that IFC successfully addressed environmental impacts; 33 percent (of 48) responded positively for social impacts. Views among NGOs were the worst—15 percent and 7 percent positive, respectively. Responses from government and industry were around 50 percent positive, slightly better for environmental issues. This points to a need for improved performance compared with past results and also for much greater disclosure and engagement of stakeholders to address the poor perceptions where they are not warranted.

Even a concerted WBG effort is probably not enough. About two-thirds of IFC staff responded that the biggest factor keeping EI from contributing to sustainable development is the lack of support from the host country government. One respondent explained, "[The] main problem is governments in client countries don't want the Bank or IFC messing with their only independent source of revenues. Even when the Bank does intervene, it often does not have the leverage to engineer change." Some respondents commented that the IMF also needs to be involved and that continued engagement in the sector was important to maintain the country dialogue. An OED study also found that governance was key to successful management of fiscal revenues from EI but that government commitment or political will to address it was lacking in four out of five country cases (Annex C, Chapter 5).

The results confirm that closer cooperation is needed—within the WBG and beyond. The survey results confirm the evaluation findings—that important issues, such as revenue distribution, utilization, governance, and transparency, need to be better addressed. This will require closer cooperation within the WBG. But the WBG will also need to use its convening power and the help from its member governments, the IMF, industry, financiers, and civil society to break the resource curse and ensure that extractive industries contribute to sustainable development. Greater transparency about the resources generated for governments is likely to increase pressure on governments to account for the flow and effective use of those resources. Our evaluation results suggest that better country governance is not only likely to improve the development results of IFC's operations but also IFC's financial results.

IFC needs to better tackle transparency, government revenue distribution, and, more generally, sustainable development. Other stakeholders echoed the perceptions of IFC staff. NGOs, industry, and governments expressed a need for IFC to address these issues (Attachment 6B). But no group responded that there was enough IFC effort or success. NGOs were most critical (less than 10 percent said IFC successfully addressed these areas), but the perceptions of industry (about 20 percent) and government (about 40 percent) also indicate substantial room for improvement.

8. Conclusions and Recommendations

Overall, IFC has effectively supported EI operations, but it needs to further improve their implementation, better address broader sustainability issues, and, with its clients, better track and report on results achieved. Projects usually generated large revenues for governments and opportunities for people. IFC has generally added value, particularly in improving the environmental and social aspects of projects, but given the sector's high impact potential, IFC needs to help client companies prevent or mitigate negative impacts more effectively and systematically. IFC also needs to ensure that its environmental and social guidelines and procedures continue to set standards and adapt to rapidly improving industry standards and that its projects adapt with them. In pursuit of its sustainability agenda, IFC needs to do more to address the risks that government revenues may not be effectively used for development, that benefits may not be distributed transparently, and that local communities may not tangibly benefit from EI projects. To enhance the contribution of IFC's projects and the sector to sustainable development requires further improvements in project implementation, effective cooperation within the World Bank Group, and the full engagement of all stakeholders.

This evaluation found gaps in three areas:

strategic gaps, resulting from inadequately addressing issues such as country governance and revenue management through effective action, both within the WBG and with other partners, and clearer project selection criteria; implementation gaps, which, if addressed, could enhance the performance of IFC's EI projects and, through the demonstration effects of IFC's projects and requirements, that of EI more generally; and gaps in engaging stakeholders, which, if addressed, would allow IFC and its clients to improve performance and better demonstrate contribution to sustainable development.

Recommendation 1: Formulate an integrated strategy

Address extractive industries in CASs. IFC should work closely with other parts of the WBG to ensure that CASs for resource-rich countries[260] explicitly discuss the EI sector's contribution to sustainable development (e.g., the importance of fiscal revenues and their management, distribution, and use for development priorities) and obstacles for enhancing its contribution. The CAS should provide an agreed framework for WBG-wide cooperation, with a particular focus on close interaction between IFC and the World Bank's country departments. IFC and the World Bank should routinely work together to enhance the development impacts of EI projects; for example, in the form of public-private partnerships with respect to community development programs.[261] IFC and the WBG should build on existing initiatives, such as Business Partners for Development and the Comprehensive Development Framework, to enlist the help of other stakeholders, such as the IMF, other bilateral and multilateral institutions, industry, and civil society.

Where country governance is weak, increase transparency and address the weaknesses. Together with the World Bank and other stakeholders, IFC should analyze all aspects of country governance quality and the risks that poor governance may detract from sustainable development. In particular, IFC should encourage enhanced transparency and disclosure concerning contractual agreements between investors and governments, the amount of fiscal revenues generated, and their distribution.[262] IFC—together with the World Bank and other stakeholders—should encourage such transparency sectorwide in the country. When financing projects whose major expected development contribution is the generation of revenues to governments, IFC should carefully review and discuss the governance risk that these revenues will not be used productively. Where such governance risk is high and the project's revenues are significant,[263] IFC should work with the government (in partnership with the World Bank and IMF) to put in place mechanisms to reduce this risk, including possibly ring-fencing of project revenue management. For all proposed EI investments, IFC should address these issues in Board Reports.

Support environmental and social sustainability. IFC should focus on projects that can serve as models for environmental and social performance, transparency, and disclosure. Where laws and regulations—or their enforcement—are weak, IFC should insist on special measures to ensure a project's sound environmental and social performance. Such measures could include building local monitoring capacity and disclosing independently audited and publicly disclosed monitoring reports. They could also include an explicit assessment of the risk of conflicts and measures to deal with them.

Recommendation 2: Focus on implementation

Improve project appraisal[264] and supervision.[265] IFC should continue to require high-quality environmental impact assessments that establish baseline data for relevant environmental and socioeconomic impact indicators. These indicators—compared with the baseline—should be consistently tracked[266] and aggregated for IFC's management. Appropriate requirements allowing IFC to adequately mitigate risks and monitor all its projects should be included for all investments, particularly equity.[267] Where IFC finds poor environmental and social systems or performance, it should address them proactively and vigorously.[268] IFC's investment officers and nominees to company boards should be co-responsible with technical specialists for the environmental and social performance of their projects. Where possible, IFC should also develop and use local monitoring capacity.

Adequately involve specialists throughout. IFC needs to ensure that its environmental and social specialists are consulted as early as possible and throughout the project life and that investment officers fully share relevant information. To that end, investment officers need to be better trained to identify risks and opportunities. Making the investment officer and department explicitly accountable for environmental performance would likely provide a strong incentive for calling in the experts as early as possible, not after a problem has materialized.

Enhance reporting of results. IFC should develop a reporting template that specifies for each portfolio project which safeguard policies and guidelines apply, whether the company is in compliance with them, and how it performs with respect to key sustainability indicators for the industry. Where relevant, IFC should also include "beyond the fenceline" issues, such as transportation and project-related security issues.

Evaluate distribution of benefits. IFC should develop[269] global comparators for the distribution of benefits from EI—among investors, governments at different levels, and local communities. For its projects, IFC should analyze the distribution and compare it with other EI projects. At appraisal, IFC should include the distribution effects in its sensitivity and risk analysis (e.g., distribution of benefits at different levels of output and prices), track actual distribution during the project life, and aggregate the data at the country and sector level.

Recommendation 3: Engage the stakeholders

Update policies and guidelines. In consultation with stakeholders, IFC should continuously update its environmental and social safeguard policies, guidelines, and processes in line with evolving good practice in the industry.[270] The WBG should use its convening power and the help of its member governments to promote their use by governments, industry, and other financiers. IFC should develop, update, or clarify policies and guidelines on indigenous peoples (or "vulnerable people"), safety of dams, natural habitats (or biodiversity), security and human rights, HIV/AIDS prevention, mining (closure—funding and social issues, acid rock drainage, precious metal mining), and oil and gas (gas flaring, downstream transportation of oil).

Promote disclosure of fiscal revenues from EI. IFC should encourage—and consider requiring—its clients to publish such information. Where client confidentiality undertakings initially restrict disclosure, IFC could report results on an aggregate country, regional, or sectoral level and participate in initiatives advocating such disclosure. IFC needs to balance client confidentiality with its own accountability as a public institution and the public's desire to know more. On balance, increased communication and transparency are likely to help IFC and its clients and reduce misconceptions, distrust, and criticism.

Develop, monitor, and report on sustainability indicators. In consultation with other stakeholders, IFC should develop and track key sustainability indicators and consider disclosing them to demonstrate the economic, social, and environmental impacts of its EI projects.[271] Reporting on credible sustainable development indicators will help overcome the current inability to systematically demonstrate results achieved.

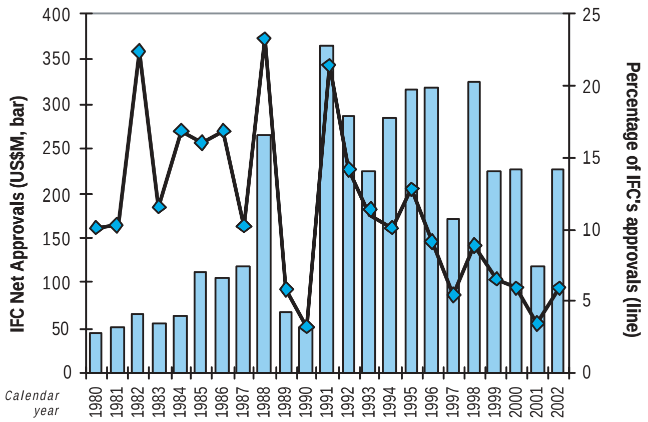
Increase local community participation. This evaluation found strong evidence that improved community consultation is in the best long-term interest of our clients. IFC should make community development programs with ongoing consultations the norm for EI projects. Such programs should start with a participatory assessment of the community's situation[272] and long-term development needs. They should include ongoing consultations, focus on sustainable solutions to meet these needs, and prepare communities for the time after the extractive operations cease. Good communication is also likely to improve results, as will listening to people and being exposed to public scrutiny and challenge.

Improve communications with clients. IFC should routinely share best practice among clients and encourage them to apply it. IFC should communicate its information needs better to its clients; for example, by tailoring reporting to their own requirements. Clients very much appreciated assistance they had received from IFC staff but were eager for more. IFC should build on its various initiatives to add value and further facilitate exchange of ideas among its clients, by organizing conferences and further developing toolkits on how to best address environmental and social issues, for example.[273]

Attachment 1 IFC Approvals at a Glance

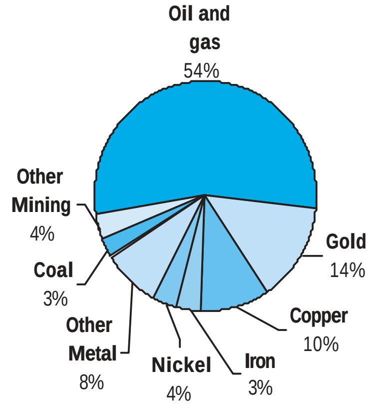
- Following a peak in 1991 ($400 million), IFC approved investments of about $250 annually in EI.
- The share of EI has declined from over 20 percent in 1991 to around 5 percent in the last three years.
- Approvals were concentrated in oil and gas (54 percent), gold (14 percent), and copper (10 percent).
- Approvals were concentrated in Latin America (34 percent) and Sub-Saharan Africa (30 percent).
- Approvals were concentrated in countries with high country risk, much more so than IFC's overall approvals; these countries also predominantly feature poor governance.
- IFC's portfolio in EI (as of June 2002) was $628 million, or 6 percent of IFC's total portfolio.
- Just over 60 percent of the EI portfolio was in mining, and just under 40 percent was in oil and gas.
- Just over half was loans, just under half was equity.

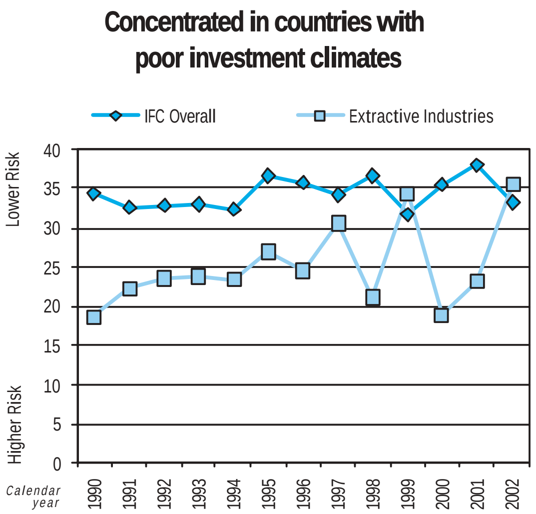
Declining share since 1992



Concentrated in oil and gas, gold and copper

IFC approvals since inception ($4.3 billion)




Concentrated in countries with poor investment climates
IFC Overall
Extractive Industries
Lower Risk
Higher Risk
40
35
30
25
20
15
10
5
0
Calendar year
1990
1991
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1998
1999
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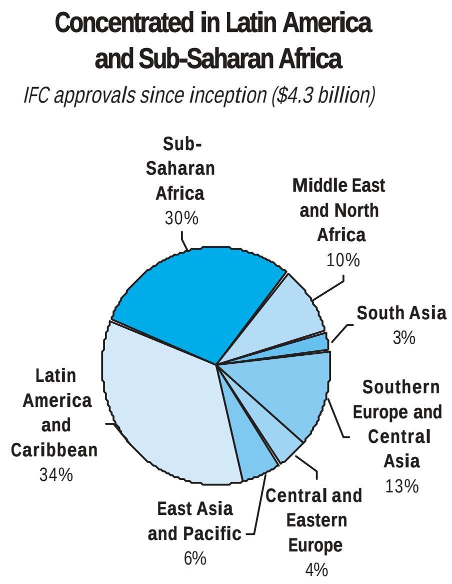
2001
2002


Concentrated in Latin America and Sub-Saharan Africa
IFC approvals since inception ($4.3 billion)
Sub-Saharan Africa 30%
Middle East and North Africa 10%
South Asia 3%
Southern Europe and Central Asia 13%
Central and Eastern Europe 4%
East Asia and Pacific 6%
Latin America and Caribbean 34%

Attachment 2 Evaluation Approach

For this study, OEG analyzed a random sample of IFC projects approved between 1991 and 1996 and evaluated at early operating maturity between 1996 and 2001. The performance of these 22 evaluated EI projects was compared with others evaluated in the same time period, using IFC's established evaluation framework (see www.ifc.org/oeg/xpsrs/xpsrs.html) under three performance dimensions: development outcome, IFC's investment outcome, and IFC's effectiveness (Attachment 4B). To validate the findings, OEG also conducted a desk review of all EI projects approved since fiscal year 1993 and older projects still in IFC's portfolio. The results of these 45 studied EI projects are summarized in Attachments 4C and 4D. OEG also reviewed IFC's strategy in the sector, technical assistance trust fund activities (Attachment 5), internal documents, and relevant literature.

OEG presented an analysis of IFC's investments in the sector in its approach paper for this study. More information can also be found in the WBG's background paper to the EIR. Both are available online. A brief summary of the analysis is in Attachment 3, and highlights are in Attachment 1.

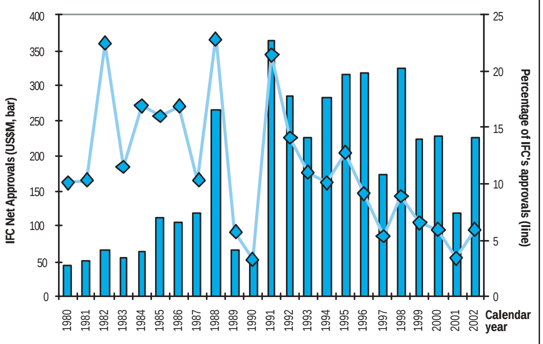
Evaluators visited more than a dozen project sites in six countries to assess development results and to talk to representatives from industry, government, and civil society (see Box D3). We surveyed participants at the EIR workshops about their perceptions: initially, about the most important sectoral issues, to help guide the evaluation (Attachment 6A); then, at the regional workshops, about the need for, and effort and success of, IFC and the WBG in the sector (Attachment 6B). OEG also asked IFC staff to what extent the WBG was appropriately addressing key issues in the sector (Attachment 6C) and whether coordination in the WBG was adequate. OEG also sought feedback from numerous stakeholders knowledgeable about the sector, inside and outside the WBG.

Attachment 3 IFC's Investment in Extractive Industries

Approvals. In the 1960s and 1970s, few developing countries considered private sector development of their EI resources. IFC funded its first EI project, a Chilean copper mine, in 1958 and only five EI projects in the subsequent 12 years, three of them in the Chilean copper sector. As countries loosened control of their natural resources and permitted private sector investment, IFC became more active in the sector. Growth was initially slow. Prior to FY1980, IFC had approved only 17 projects for US$137 million. Growth then accelerated through 1991, when IFC's net approvals reached almost US$400 million. Approvals have, since 1991, fluctuated at around US$250 million annually, with a similar amount funded through the IFC B-loan syndication program. Compared with IFC's total approvals, the importance of EI projects declined substantially from around 15 percent in the 1980s to about 6 percent today. Since 1990, IFC has approved more than 140 extractive industries projects, predominantly in Latin American and Sub-Saharan African countries (about 30 percent each).

Products and funding instruments. IFC's EI approvals—about US$3.1 billion from 1990 to the end of 2002—were particularly concentrated in oil and gas production and development (61 percent).[274] Gold (16 percent) and copper (6 percent) were also important. IFC has provided loans, equity, quasi-equity, and syndicated investments (mostly loans) to EI projects. IFC approved relatively fewer equity investments in EI (12 percent) than in other projects (16 percent) since 1990. In IFC's outstanding portfolio, however, EI had a larger share of equity (34 percent) than other projects (26 percent). IFC has been successful in attracting participant funding to EI—participants approved funding for about as much as IFC approved for its own account.

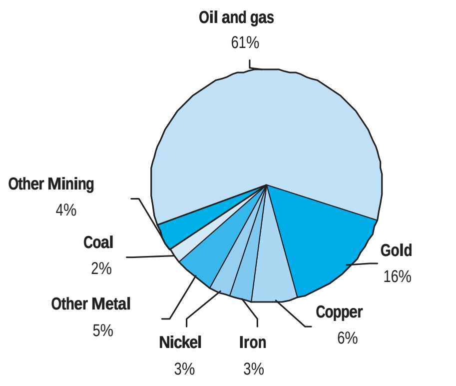
Extractive Industries: Declining Importance in IFC since 1991



Frontier countries. IFC's overall strategy does not emphasize EI as a sector. However, it does emphasize investments in "frontier countries," defined as countries with poor country credit ratings.[275] Investments in EI depend on the loca-

Concentrated in oil and gas and gold

IFC approvals 1990–2002 ($3.1 billion)



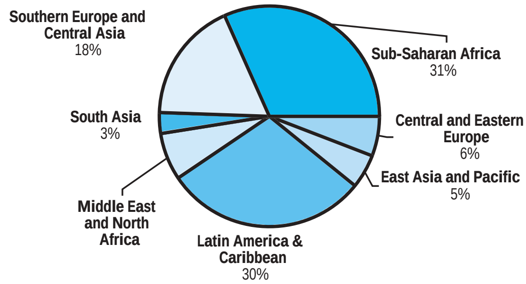
Extractive Industries - Outstanding Portfolio

June 30, 2002

		US$ millions	%
Mining	Loan	214	56%
	Equity/Quasi-Equity	170	44%
sub-total		384	4%
Change from previous year		-6%	
Oil and Gas	Loan	143	59%
	Equity/Quasi-Equity	101	41%
sub-total		245	2%
Change from previous year		5%	
All EI	Loan	357	57%
	Equity/Quasi-Equity	271	43%
sub-total		628	6%
Change from previous year		-2%	
Non-EI	Loan	6,511	65%
	Equity/Quasi-Equity	3,581	35%
sub-total		10,092	94%
Change from previous year		-1%	
Grand Total		10,720	100%

Concentrated in Latin America and Sub-Saharan Africa

IFC approvals 1990 - 2002 (US$3.1 billion)



tion of the natural resources. IFC's investments also depend on where IFC has a role to play. IFC's role and contribution in EI projects was significantly better (95 percent satisfactory or better) than in other projects (79 percent). On average, IFC's approvals in EI have been in countries 10 points riskier (on a scale of 0 to 100) than IFC's average approvals. Thus, operating in EI allows IFC to invest in risky countries, where it is often difficult to find other opportunities. For example, in at least a dozen countries, IFC's first approval was in EI,[276] and during the past decade, Sub-Saharan Africa received the largest share of IFC's EI approvals. In Sub-Saharan Africa, where foreign direct investment is scarce, IFC's extractive industries approvals have accounted for more than 40 percent of IFC's total approvals since 1956. IFC's outstanding EI portfolio on June 30, 2002, was concentrated in Latin America and Sub-Saharan Africa.

More analysis of IFC's approvals can be found in the WBG background paper for the EIR (www.eireview.org) and in OEG's approach paper (www.ifc.org/oeg). Further details on IFC's EI portfolio performance are included in the main report and in Attachment 4.

Attachment 4A Summary Results—All EI Projects

This attachment combines all EI projects that OEG reviewed: evaluated projects (Attachment 4B) using IFC's established evaluation framework (www.ifc.org/oeg/xpsrs) and studied projects (Attachments 4C and 4D) using desk reviews and the simplified binary evaluation framework (Attachment 4H). Ratings in some cases refer to multiple investments in the same company.

Note that the comparator—IFC average and non-oil, gas, and mining projects—refers to projects approved 1991–1996 and evaluated 1996–2001, whereas studied extractive industries projects include both older and newer projects.

		Development Outcome					IFC's Investment Outcome			IFC's Effectiveness			
			Project	Economic Sustainability	Environmental effects	PSD		Equity	Loan		Screening, appraisal, structuring	Supervision and administration	Role and contribution
Studied projects													
(Various approval years)													
Oil and Gas	Number rated	23	23	23	17	23	23	16	19	23	23	23	23
	Success Rate	70%	61%	78%	94%	65%	65%	50%	58%	78%	57%	83%	87%
Mining	Number rated	22	22	22	21	22	22	13	22	22	22	22	22
	Success Rate	59%	59%	59%	62%	77%	68%	46%	73%	73%	64%	86%	91%
All EI	Number rated	45	45	45	38	45	45	29	41	45	45	45	45
	Success Rate	64%	60%	69%	76%	71%	67%	48%	66%	76%	60%	84%	89%
Evaluated projects													
(Approved 1991-96, Evaluated 1996-2001)													
Oil and Gas (12)		67%	50%	83%	100%	58%	58%	25%	80%	92%	50%	92%	100%
Mining (10)		50%	60%	60%	40%	90%	70%	60%	78%	70%	70%	70%	90%
All EI (22)		59%	55%	73%	71%	73%	64%	44%	79%	82%	59%	82%	95%
IFC Average													
(Approved 1991-96, Evaluated 1996-2001)													
1996-2001 evaluations (308)	Success Rate	60%	44%	58%	65%	72%	54%	28%	73%	62%	55%	60%	80%
...of which: non-EI (286)	Success Rate	60%	44%	57%	65%	72%	53%	28%	73%	60%	54%	59%	79%

Attachment 4B Performance Ratings for Evaluated EI Projects

The 22 EI projects were part of a random representative sample of 308 IFC projects approved 1991–1996 and evaluated 1996–2001. An evaluated project's development outcome was rated as one of the following: highly successful, successful, mostly successful, mostly unsuccessful, unsuccessful, or highly unsuccessful; indicators were rated excellent, satisfactory, partly satisfactory, or unsatisfactory. For a simplified presentation, the top half of the rating scale appears in the table as 'S' (satisfactory or better, also referred to as "positive" in the main text); the bottom half as 'LS' (less than satisfactory).

In 2002, OEG updated the evaluation framework to better align it with other IFC initiatives (e.g., corporate and departmental scorecards, sustainability initiative). The major change was to reduce the development outcome indicators from six to four:

- "Economic growth" and "Living standards" were merged into one indicator—"economic sustainability"
- "Enabling environment" was merged into "Private sector development"

OEG's current evaluation framework is available at: http://www.ifc.org/oeg/xpsrs/NonfinMarkets/nonfinmktsinsts.html.

Type: **Min** = Mining; **OG** = Oil and gas
Outcomes/indicators: **S** = Satisfactory or better; **LS** = Less than satisfactory **NOP** = No opinion possible; **N/A** = Not applicable, as this operation featured none

	Type	DEVELOPMENT OUTCOME	Project business success	Growth of economy	Living standards	Environmental, social, health, & safety effects	Private sector development	IFC's INVESTMENT OUTCOME	Equity	Loan	IFC's EFFECTIVENESS	Screening, appraisal, & structuring	Supervision & administration	Role & contribution
1	Min	S	S	S	S	S	S	S	S	S	S	S	S	S
2	Min	S	S	S	S	S	S	S	S	S	S	S	S	S
3	Min	S	S	S	S	S	S	S	N/A	S	S	S	S	S
4	Min	S	S	S	S	LS	S	S	N/A	S	LS	S	LS	S
5	Min	S	S	S	S	LS	S	LS	N/A	LS	S	LS	S	S
6	Min	LS	LS	LS	S	S	S	S	N/A	S	S	S	S	S
7	Min	LS	LS	LS	S	LS	S	S	S	S	S	S	S	S
8	Min	LS	S	S	S	LS	S	S	N/A	S	LS	LS	LS	LS
9	Min	LS	LS	LS	S	LS	S	LS	LS	N/A	S	S	LS	S
10	Min	LS	LS	LS	S	LS	LS	LS	LS	LS	LS	LS	S	S
11	OG	S	S	S	S	S	S	S	N/A	S	S	S	S	S
12	OG	S	S	S	S	S	S	S	S	S	S	S	S	S
13	OG	S	S	S	S	S	S	S	N/A	S	S	S	S	S
14	OG	S	S	S	S	S	S	S	N/A	S	S	S	S	S
15	OG	S	S	S	S	S	LS	S	N/A	S	S	S	S	S
16	OG	S	S	S	S	NOP	S	LS	N/A	LS	S	S	S	S
17	OG	S	LS	S	S	S	S	LS	N/A	LS	S	LS	S	S
18	OG	S	LS	S	LS	S	S	LS	LS	S	S	LS	S	S
19	OG	LS	LS	S	S	S	LS	S	N/A	S	S	LS	S	S
20	OG	LS	LS	LS	S	S	LS	S	N/A	S	LS	LS	LS	S
21	OG	LS	LS	LS	LS	S	LS	LS	LS	N/A	S	LS	S	S
22	OG	LS	LS	S	S	S	LS	LS	LS	N/A	S	LS	S	S

Attachment 4C — Performance Ratings for Studied Oil and Gas Projects

Outcomes/indicators: **S** = Satisfactory or better; **LS** = Less than satisfactory; **NOP** = No opinion possible; **N/A** = Not applicable, as this operation featured none

	DEVELOPMENT OUTCOME	Project business success	Growth of economy	Environmental, social, health, & safety effects	Private sector development	IFC's INVESTMENT OUTCOME	Equity	Loan	IFC's EFFECTIVENESS	Screening, appraisal, & structuring	Supervision & administration	Role & contribution
1	S	S	S	S	LS	S	S	S	S	S	S	S
2	S	S	S	S	S	S	S	S	S	S	S	S
3	S	S	S	S	S	S	N/A	S	S	S	S	S
4	S	S	S	S	S	S	S	LS	S	LS	S	S
5	S	S	S	LS	S	S	S	LS	S	LS	S	S
6	S	S	S	S	S	S	N/A	S	S	S	S	S
7	S	S	S	S	S	S	S	S	S	S	S	S
8	S	S	S	S	S	S	S	LS	S	S	S	S
9	S	S	S	S	S	S	N/A	S	S	S	S	S
10	S	S	S	S	S	S	N/A	S	S	S	S	S
11	S	S	S	NOP	S	S	S	LS	S	S	S	S
12	S	S	S	S	S	S	S	LS	S	S	S	S
13	S	LS	S	S	S	S	N/A	S	S	LS	S	S
14	S	S	S	NOP	S	LS	LS	LS	S	S	LS	S
15	S	S	S	NOP	LS	LS	LS	N/A	LS	LS	S	LS
16	S	LS	S	S	S	LS	LS	LS	LS	LS	S	S
17	LS	LS	S	S	LS	S	N/A	S	S	LS	S	S
18	LS	LS	LS	S	LS	S	N/A	S	LS	LS	LS	S
19	LS	LS	LS	NOP	LS	LS	LS	N/A	S	S	S	S
20	LS	LS	LS	S	LS	LS	LS	N/A	S	S	S	LS
21	LS	LS	S	S	LS	LS	LS	LS	S	LS	S	S
22	LS	LS	LS	NOP	LS	LS	LS	N/A	LS	LS	LS	LS
23	LS	LS	LS	NOP	S	LS	LS	S	LS	LS	LS	S

Attachment 4D Performance Ratings for Studied Mining Projects

Outcomes/indicators: **S** = Satisfactory or better; **LS** = Less than satisfactory; **NOP** = No opinion possible; **N/A** = Not applicable, as this operation featured none

	DEVELOPMENT OUTCOME	Project business success	Growth of economy	Environmental, social, health, & safety effects	Private sector development	IFC's INVESTMENT OUTCOME	Equity	Loan	IFC's EFFECTIVENESS	Screening, appraisal, & structuring	Supervision & administration	Role & contribution
1	S	S	S	S	S	S	S	S	S	S	S	S
2	S	S	S	S	S	S	S	S	S	S	S	S
3	S	S	S	LS	S	S	N/A	S	S	S	S	S
4	S	S	S	S	S	S	S	S	S	S	S	S
5	S	S	S	S	S	S	N/A	S	S	S	S	S
6	S	S	S	LS	S	S	S	S	S	LS	S	S
7	S	S	S	S	S	S	NOP	S	S	S	S	S
8	S	S	S	S	S	S	N/A	S	S	S	S	S
9	S	S	S	S	S	S	N/A	S	S	S	LS	S
10	S	S	S	S	S	S	N/A	S	S	S	S	S
11	S	S	S	S	S	S	N/A	S	S	S	S	S
12	S	S	S	LS	S	S	S	S	S	S	LS	S
13	S	S	S	LS	S	LS	N/A	LS	S	LS	S	S
14	LS	LS	LS	S	LS	S	S	S	S	S	S	S
15	LS	LS	LS	NOP	LS	S	LS	S	LS	LS	S	LS
16	LS	LS	LS	LS	LS	S	N/A	S	LS	LS	S	LS
17	LS	LS	LS	S	S	LS	LS	LS	S	S	S	S
18	LS	LS	LS	S	S	LS	LS	S	S	S	S	S
19	LS	LS	LS	LS	S	LS	LS	LS	LS	LS	LS	S
20	LS	LS	LS	S	LS	LS	LS	LS	LS	LS	S	S
21	LS	LS	LS	LS	S	LS	LS	LS	LS	LS	S	S
22	LS	LS	LS	LS	LS	LS	LS	LS	LS	LS	S	S

Attachment 4E Approved Projects Reviewed by OEG—Mining

Evaluated (in bold italics) and studied projects

Approved amounts may differ from disbursed amounts (US$ millions)

Country	Project Name	ID	Approval Date	Status	Project Size	IFC Gross	IFC Net	Loan	Equity	Quasi-equity	Other	Participants	Project Type	Environ. Category	Detail Sector
Bolivia	Comsur														
	COMSUR (II)	***3956***	***Sep-93***	***Active***	***55.5***	***12.3***	***12.3***	***11.0***	***0.0***	***1.3***	***0.0***	***0.0***	***Investment***	***B***	***Zinc***
	COMSUR III	4799	Aug-95	Active	22.0	13.3	8.3	7.5	0.0	0.8	0.0	5.0	Investment	A	Gold
	COMSUR V	9670	Dec-99	Active	22.7	10.0	10.0	10.0	0.0	0.0	0.0	0.0	Investment	B	Zinc
Brazil	Codemin														
	CODEMIN SA III	420	May-78	Active	98.4	62.9	8.9	5.0	3.9	0.0	0.0	54.0	Investment	N	Nickel
	CODEMIN III	658	Feb-83	Active	4.0	0.4	0.4	0.0	0.4	0.0	0.0	0.0	Rights Issue	N	Nickel
Brazil	MBR														
	MBR (II)	2649	Jun-92	Active	266.1	60.0	35.0	25.0	0.0	10.0	0.0	25.0	Investment	A	Iron
	MBR LTDP	9343	Jun-99	Active	342.0	140.0	25.0	20.0	0.0	5.0	0.0	115.0	Investment	A	Iron
Brazil	Para Pigmentos														
	PARA PIGMENTOS	***4494***	***Jun-94***	***Active***	***183.0***	***74.0***	***34.0***	***25.0***	***0.0***	***9.0***	***0.0***	***40.0***	***Investment***	***A***	***Misc. Ores***
Brazil	Samarco														
	Samarco	5036	Jan-97	Active	44.8	39.0	23.0	23.0	0.0	0.0	0.0	16.0	Investment	A	Iron
Chile	Escondida														
	ESCONDIDA COPPER	1081	Jul-88	Active	1,143.2	85.0	85.0	70.0	15.0	0.0	0.0	0.0	Investment	N	Copper
	Escondida RI	9209	Nov-98	Active	25.0	25.0	25.0	0.0	0.0	25.0	0.0	0.0	Rights Issue	C	Copper
Chile	Refimet														
	REFIMET SMELTER	***4802***	***Feb-95***	***Closed***	***91.2***	***79.0***	***20.0***	***10.0***	***0.0***	***10.0***	***0.0***	***59.0***	***Investment***	***B***	***Copper***
	Refimet (Rev)	***7346***	***Nov-95***	***Closed***	***6.0***	***5.0***	***5.0***	***5.0***	***0.0***	***0.0***	***0.0***	***0.0***	***Investment***	***C***	***Copper***
Gabon	COMILOG II														
	COMILOG II	***2772***	***Jun-91***	***Closed***	***35.4***	***9.0***	***9.0***	***9.0***	***0.0***	***0.0***	***0.0***	***0.0***	***Investment***	***U***	***Other Metals***
Ghana	Bogosu														
	BOGOSU GOLD	973	Jul-87	Active	6.0	0.6	0.6	0.0	0.0	0.6	0.0	0.0	Investment	N	Gold
	BOGOSU (V)-RESTR	4102	Jun-93	Active	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	Rescheduling	B	Gold
Ghana	GAGL														
	IDUAPRIEM GOLD	1231	Feb-90	Active	13.5	3.0	3.0	0.0	3.0	0.0	0.0	0.0	Investment	N	Gold
	IDUAPRIEM II	2386	Jun-91	Active	55.4	48.0	18.0	8.4	0.0	8.5	1.1	30.0	Investment	B	Gold
	GAGL III	4896	Jul-95	Active	11.5	10.1	10.1	0.0	0.0	2.6	7.5	0.0	Investment	B	Gold
	GAGL IV	7261	Mar-96	Active	13.5	4.5	4.5	4.5	0.0	0.0	0.0	0.0	Investment	B	Gold
	GAGL IV-Restr	10327	Jun-00	Active	13.5	0.5	0.5	0.0	0.0	0.5	0.0	0.0	Restructuring	C	Gold
Kyrgyz Republic	Kumtor														
	KUMTOR GOLD	***3966***	***Mar-95***	***Active***	***335.0***	***40.0***	***40.0***	***30.0***	***0.0***	***10.0***	***0.0***	***0.0***	***Investment***	***A***	***Gold***
Mali	SOMISY														
	SOMISY	***2429***	***Dec-91***	***Active***	***122.6***	***23.2***	***23.2***	***0.0***	***1.5***	***21.7***	***0.0***	***0.0***	***Investment***	***B***	***Gold***
	Somisy Capex	7975	Jun-97	Active	63.8	35.0	10.0	10.0	0.0	0.0	0.0	25.0	Investment	B	Gold
	Randgold RI	9342	Nov-98	Active	34.8	2.3	2.3	0.0	2.3	0.0	0.0	0.0	Rights Issue	C	Gold
Mali	Sadiola Gold														
	SADIOLA GOLD	***4360***	***Dec-94***	***Active***	***246.2***	***64.8***	***39.8***	***35.0***	***4.8***	***0.0***	***0.0***	***25.0***	***Investment***	***A***	***Gold***
Mozambique	Mozal														
	MOZAL	7764	Jun-97	Active	1,365.0	120.0	120.0	55.0	0.0	65.0	0.0	0.0	Investment	A	Aluminum
	Mozal II	10323	Apr-01	Active	1,024.0	25.0	25.0	25.0	0.0	0.0	0.0	0.0	Investment	A	Aluminum
Peru	Buenaventura														
	BUENAVENTURA 1	446	Dec-78	Active	10.0	3.5	3.5	2.0	1.5	0.0	0.0	0.0	Investment	N	Silver
	BUENAVENTURA III	1232	Mar-90	Active	6.0	0.6	0.6	0.0	0.6	0.0	0.0	0.0	Rights Issue	U	Silver
	BUENAVENTURA IV	4070	May-93	Active	105.8	0.7	0.7	0.0	0.7	0.0	0.0	0.0	Rights Issue	B	Silver
Peru	Minera Regina														
	MINERA LA REGINA	737	Jun-84	Active	21.4	5.2	5.2	5.0	0.2	0.0	0.0	0.0	Investment	N	Other Metals
	Regina Restr II	8888	Dec-97	Active	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	Restructuring	A	Other Metals
Peru	Yanacocha														
	YANACOCHA	2983	May-93	Active	45.0	24.7	12.7	12.0	0.3	0.3	0.0	12.0	Investment	A	Gold
	MAQUI MAQUI	***4449***	***May-94***	***Active***	***53.8***	***15.9***	***10.9***	***10.0***	***0.0***	***0.0***	***0.9***	***5.0***	***Investment***	***A***	***Gold***
	Yanacocha III	9502	Jun-99	Active	121.0	110.0	30.0	30.0	0.0	0.0	0.0	80.0	Investment	A	Gold
Tajikistan	Zeravshan														
	Zeravshan Gold	***7192***	***Oct-96***	***Active***	***127.0***	***7.5***	***7.5***	***0.0***	***1.2***	***6.3***	***0.0***	***0.0***	***Investment***	***B***	***Gold***
	Nelson Gold	7911	Oct-96	Active	0.0	2.1	2.1	0.0	0.0	0.0	2.1	0.0	Investment	B	Gold
	Zeravshan-Jilau	8579	Feb-98	Active	14.7	3.0	3.0	3.0	0.0	0.0	0.0	0.0	Investment	B	Gold
	Zeravshan-NGC	8823	Feb-98	Active	9.0	3.0	3.0	0.0	3.0	0.0	0.0	0.0	Investment	B	Gold
Turkey	Cayeli Bakir														
	CAYELI BAKIR	***2448***	***Jun-92***	***Active***	***144.5***	***75.0***	***30.0***	***30.0***	***0.0***	***0.0***	***0.0***	***45.0***	***Investment***	***B***	***Copper***
Uganda	Kasese														
	Kasese Cobalt	4895	Jun-96	Active	110.0	24.6	19.6	16.0	3.6	0.0	0.0	5.0	Investment	A	Other Metals
Venezuela	Minera Loma														
	Loma de Niquel	7343	Apr-97	Active	430.0	124.5	74.5	65.0	2.4	7.1	0.0	50.0	Investment	A	Nickel
	Minera Loma RI	10398	Jun-00	Active	98.4	0.3	0.3	0.0	0.0	0.3	0.0	0.0	Rights Issue	C	Nickel
Zambia	KCM														
	KCM	8570	Feb-00	Active	334.8	30.0	30.0	0.0	7.2	22.8	0.0	0.0	Investment	A	Copper
Zimbabwe	Wankie														
	WANKIE COLLIERY2	3485	Oct-92	Closed	28.0	10.0	10.0	10.0	0.0	0.0	0.0	0.0	Investment	B	Coal Mining

Unrated projects, reviewed for issues and lessons

Approved amounts may differ from disbursed amounts (US$ millions)

Country	Project Name	ID	Approval Date	Status	Project Size	IFC Gross	IFC Net	Loan	Equity	Quasi-equity	Other	Participants	Project Type	Environ. Category	Detail Sector
Africa Region	**MACS**														
	MACS	9345	Apr -01	Active	100	74.0	34.0	30.0	4.0	-	-	40.0	Investment	B	Mining Services
Burkina Faso	**AEF FasoMine**														
	AEF FasoMine	9024	Sep-98	Active	5	1.5	1.5	1.0	0.5	-	-	-	Investment	B	Iron
China	**Daning Coal**														
	Daning Coal	10015	May -01	Active	75	30.0	15.0	13.0	2.0	-	-	15.0	Investment	A	Coal Mining
India	**Sarshatali Coal**														
	Sarshatali Coal	7984	Feb-99	Active	149	35.0	35.0	30.0	5.0	-	-	-	Investment	A	Coal Mining
Indonesia	**Dianlia**														
	Dianlia	9987	Feb-01	Active	10	5.0	5.0	4.0	-	1.0	-	-	Investment	B	Coal Mining
Mexico	**Mexcobre**														
	MEXCOBRE SX/EW	4313	May -94	Closed	75	60.0	25.0	25.0	-	-	-	35.0	Investment	B	Copper
	Pan American														
	Pan American	9800	Jul-99	Active	13	12.5	12.5	-	12.5	-	-	-	Investment	A	Silver
	La Colorada	10326	Feb-01	Active	51	28.6	10.3	4.0	-	6.0	0.3	18.3	Investment	A	Silver
	PanAme - La Colora	10856	Feb-01	Active	1	1.2	1.2	-	1.2	-	-	-	Investment	A	Silver
Peru	**Quellaveco**														
	QUELLAVECO	3823	Apr -93	Active	31	6.2	6.2	-	-	6.2	-	-	Investment	A	Copper
	QUELLAVECO - RI	7447	Mar-96	Active	27	5.3	5.3	-	-	5.3	-	-	Rights Issue	C	Copper
	Minera Q RI	10170	Jan-00	Active	3	0.6	0.6	-	0.6	-	-	-	Rights Issue	A	Copper
Russian Federation	**Julietta**														
	Julietta	10020	Sep-00	Active	77	10.0	10.0	8.5	-	1.5	-	-	Investment	A	Gold
	Bema Gold														
	Bema Gold	10655	Sep-00	Active	1	1.0	1.0	-	1.0	-	-	-	Investment	A	Gold
Sierra Leone	**Sierra Rutile**														
	SIERRA RUTILE 1	2609	Apr -92	Closed	71	20.0	20.0	20.0	-	-	-	-	Investment	A	Nickel
	SIEROMCO	3999	Jun-93	Closed	27	10.0	10.0	10.0	-	-	-	-	Investment	B	Other
	Sierra Restr	9148	May -98	Closed	0	0.0	0.0	-	-	-	-	-	Restructuring	N	Misc. Ores
Tunisia	**Miniere Bougrine**														
	MINIERE BGRN - RI	4677	May -94	Closed	8	0.9	0.9	-	-	0.9	-	-	Rights Issue	U	Zinc
Uzbekistan	**Amantytau Gold**														
	AMANTAYTAU GOLD	4323	Mar-94	Closed	6	1.2	1.2	-	-	1.2	-	-	Investment	C	Gold

Attachment 4F Approved Projects Reviewed by OEG—Oil and Gas

Evaluated (in bold italics) and studied projects

Approved amounts may differ from disbursed amounts (US$ millions)

Country	Project Name	ID	Approval Date	Status	Project Size	IFC Gross	IFC Net	Loan	Equity	Quasi-equity	Other	Participants	Project Type	Environ. Category	Detail Sector
Albania	**Patos Marizna**														
	Patos Marizna	7429	Mar-98	Active	275.2	108.5	58.5	30.0	28.5	0.0	0.0	50.0	Investment	A	O & G Production
	Patos Marizna In	10885	Jun-01	Active	197.5	10.0	10.0	10.0	0.0	0.0	0.0	0.0	Investment	A	O & G Production
Argentina	**Bridas/PAE**														
	BRIDAS 2	3078	Jun-92	Active	238.0	130.0	50.0	35.0	0.0	15.0	0.0	80.0	Investment	B	O & G Production
	BRIDAS III	***5093***	***Jun-95***	***Active***	***221.3***	***70.0***	***30.0***	***20.0***	***10.0***	***0.0***	***0.0***	***40.0***	***Investment***	***B***	***O & G Production***
	Cadipsa														
	(SOP) CADIPSA	***2979***	***Oct-92***	***Closed***	***83.0***	***40.0***	***20.0***	***10.0***	***5.0***	***5.0***	***0.0***	***20.0***	***Restructuring***	***B***	***O & G Production***
	Capsa Diadema														
	Diadema Field	***7418***	***Jun-96***	***Active***	***70.0***	***60.0***	***20.0***	***15.0***	***0.0***	***5.0***	***0.0***	***40.0***	***Investment***	***B***	***O & G Production***
	Cia.Combustible														
	CIA. COMBUSTIBLE	4067	Dec-93	Closed	251.6	80.0	40.0	25.0	15.0	0.0	0.0	40.0	Restructuring	B	O & G Production
	Huantraico / Neuquen														
	Huantraico	2764	Oct-91	Active	60.0	17.0	17.0	0.0	17.0	0.0	0.0	0.0	Restructuring	A	O & G Production
	HUANTRAICO (II)	3262	Jun-92	Active	180.4	60.0	25.0	15.0	10.0	0.0	0.0	35.0	Investment	U	O & G Production
	Neuquen	7182	Mar-96	Active	186.0	26.4	26.4	0.0	26.4	0.0	0.0	0.0	Investment	B	O & G Production
	Neuquen Basin RI	9537	Jan-99	Active	5.0	5.0	5.0	0.0	5.0	0.0	0.0	0.0	Rights Issue	C	O & G Production
Azerbaijan	**Early Oil**														
	Early Oil:Amoco	7271	Jul-98	Active	650.0	65.7	32.8	32.8	0.0	0.0	0.0	32.8	Investment	A	O & G Production
	Early Oil: Exxon	9440	Jul-98	Active	305.4	30.9	15.4	15.4	0.0	0.0	0.0	15.4	Investment	A	O & G Production
	Early Oil:LUKOil	9441	Jul-98	Active	382.7	38.6	19.3	19.3	0.0	0.0	0.0	19.3	Investment	A	O & G Production
	Early Oil:TPAO	9442	Jul-98	Active	259.8	26.1	13.0	13.0	0.0	0.0	0.0	13.0	Investment	A	O & G Production
	Early Oil:Unocal	9443	Jul-98	Active	384.7	38.8	19.4	19.4	0.0	0.0	0.0	19.4	Investment	A	O & G Production
Cameroon	**Pecten**														
	PECTEN (II)	***3815***	***Feb-94***	***Active***	***135.0***	***105.0***	***40.0***	***40.0***	***0.0***	***0.0***	***0.0***	***65.0***	***Investment***	***B***	***O & G Production***
	Pecten Itindi	7621	Feb-97	Active	115.0	95.0	20.0	20.0	0.0	0.0	0.0	75.0	Investment	B	O & G Production
	Pecten - Mokoko	8498	Mar-98	Active	265.0	265.0	75.0	75.0	0.0	0.0	0.0	190.0	Investment	B	O & G Production
Congo	**Engen**														
	ENGEN/ENGEN CONG	***4981***	***May-95***	***Closed***	***99.8***	***91.4***	***46.4***	***15.0***	***2.9***	***28.5***	***0.0***	***45.0***	***Investment***	***B***	***O & G Production***
Cote d'Ivoire	**CI-11**														
	BLOCK CI-11	***3448***	***Mar-93***	***Active***	***45.5***	***11.4***	***11.4***	***0.0***	***11.4***	***0.0***	***0.0***	***0.0***	***Investment***	***A***	***O & G Production***
	BLOCK CI-11 OIL	***4603***	***Nov-94***	***Active***	***66.0***	***27.3***	***27.3***	***0.0***	***27.3***	***0.0***	***0.0***	***0.0***	***Investment***	***A***	***O & G Production***
	BLOCK CI-11-UMIC	4975	May-95	Closed	45.0	35.0	15.0	15.0	0.0	0.0	0.0	20.0	Investment	A	O & G Production
	Block CI-II-GNR	7018	May-95	Closed	25.0	17.5	7.5	7.5	0.0	0.0	0.0	10.0	Investment	A	O & G Production
	CI-II-Pluspetrol	7019	May-95	Closed	25.0	17.5	7.5	7.5	0.0	0.0	0.0	10.0	Investment	A	O & G Production
	BlockCI-11/12 RI	8233	Mar-97	Active	5.0	5.0	5.0	0.0	5.0	0.0	0.0	0.0	Rights Issue	C	O & G Production
	Block CI-11 RI 2	9171	May-98	Active	5.0	5.0	5.0	0.0	5.0	0.0	0.0	0.0	Rights Issue	FI	O & G Production
Ecuador	**Tripetrol**														
	TRIPETROL EXPLOR	***3251***	***Jul-92***	***Closed***	***32.0***	***10.0***	***10.0***	***6.0***	***0.0***	***4.0***	***0.0***	***0.0***	***Investment***	***B***	***O & G Production***
Egypt	**Apache Qarun Concession**														
	MELEIHA OIL EXPL	873	Jun-86	Active	180.0	79.5	49.5	30.0	19.5	0.0	0.0	30.0	Investment	N	O & G Production
	MELEIHA II	995	Sep-87	Active	36.0	9.2	9.2	0.0	9.2	0.0	0.0	0.0	Investment	N	O & G Production
	MELEIHA & AGHAR	2975	Jun-92	Active	36.4	13.0	13.0	0.0	13.0	0.0	0.0	0.0	Investment	B	O & G Production
	Meleiha														
	Phoenix Resource	5127	Oct-95	Closed	10.0	10.0	10.0	0.0	10.0	0.0	0.0	0.0	Investment	A	O & G Production
	Apache Qarun	***7211***	***Oct-95***	***Closed***	***51.6***	***27.5***	***12.5***	***12.5***	***0.0***	***0.0***	***0.0***	***15.0***	***Investment***	***A***	***O & G Production***
	PRC Qarun	7422	Oct-95	Closed	93.3	55.0	25.0	25.0	0.0	0.0	0.0	30.0	Investment	A	O & G Production
Guatemala	**Basic**														
	BASIC	3888	Jun-94	Closed	33.0	20.0	14.0	10.0	4.0	0.0	0.0	6.0	Investment	A	O & G Production
	BASIC II	7407	Jul-96	Closed	73.0	25.8	13.8	12.0	1.8	0.0	0.0	12.0	Investment	A	O & G Production
India	**Triveni**														
	TRIVENI	2202	Dec-90	Closed	20.6	0.6	0.6	0.0	0.6	0.0	0.0	0.0	Investment	U	Oilfield Services
Kazakhstan	**Akshabulak/Kazgermunai**														
	Akshabulak	7416	Mar-96	Active	266.9	65.7	65.7	0.0	0.1	65.6	0.0	0.0	Investment	A	O & G Production
Pakistan	**MariGas**														
	MARI GAS II	***2837***	***Dec-91***	***Closed***	***47.9***	***19.5***	***19.5***	***19.5***	***0.0***	***0.0***	***0.0***	***0.0***	***Investment***	***B***	***O & G Production***
	PPL														
	PPL	655	Nov-82	Active	176.6	163.4	17.0	15.5	1.6	0.0	0.0	146.4	Investment	N	O & G Production
	PPL-SUI LIME	***3911***	***Jun-94***	***Active***	***72.5***	***52.1***	***31.1***	***31.1***	***0.0***	***0.0***	***0.0***	***21.0***	***Investment***	***B***	***O & G Production***
	PPL-SUI LIME INC	4907	Oct-94	Active	2.0	2.0	0.0	0.0	0.0	0.0	0.0	2.0	Investment	C	O & G Production
Poland	**Amoco Poland**														
	COALBED METHANE	3471	Mar-94	Closed	86.5	8.7	8.7	0.0	0.0	8.7	0.0	0.0	Investment	B	O & G Production
Russian Federation	**Aminex (Russia/Tunisia)**		Oct-96												
	Aminex: Tunisia	7610	Oct-96	Closed	7.2	3.1	3.1	0.0	3.1	0.0	0.0	0.0	Investment	B	O & G Production
	Aminex: Kirtayel	7624	Oct-96	Active	85.2	20.1	20.1	17.0	3.1	0.0	0.0	0.0	Investment	B	O & G Production
	Aminex RI	9623	Mar-99	Active	1.1	0.1	0.1	0.0	0.1	0.0	0.0	0.0	Rights Issue	C	O & G Production
	Bitech														
	Bitech-Silur	8902	Mar-99	Closed	65.0	25.0	25.0	17.5	7.5	0.0	0.0	0.0	Investment	B	O & G Production
	Polar														
	POLAR LIGHTS	***4040***	***Jun-93***	***Closed***	***340.0***	***60.0***	***60.0***	***60.0***	***0.0***	***0.0***	***0.0***	***0.0***	***Investment***	***A***	***O & G Production***
	Vasyugan														
	VASYUGAN	***3532***	***Jun-93***	***Closed***	***37.1***	***11.5***	***11.5***	***10.0***	***0.0***	***1.5***	***0.0***	***0.0***	***Investment***	***B***	***O & G Production***

Unrated projects, reviewed for issues and lessons

Approved amounts may differ from disbursed amounts (US$ millions)

Country	Project Name	ID	Approval Date	Status	Project Size	IFC Gross	IFC Net	Loan	Equity	Quasi-equity	Other	Participants	Project Type	Environ. Category	Detail Sector
Africa Region	**SAPTFF**														
	SAPT FF	10145	Jun-00	Active	200	80	80.0	-	-	-	80.0	-	Investment	FI -2	Trade Finance
Bangladesh	**Jalalabad II**														
	Jalalabad II	9354	Mar-00	Active	163	70	40.0	30.0	-	10.0	-	30.0	Investment	A	O&G Production
Cameroon	**ChadOil -COTCO**														
	ChadOil-COTCO	11124	Jun-00	Active	-	-	-	-	-	-	-	-	Investment	A	O&G Production
Chad	**ChadOil**														
	ChadOil	4338	Jun-00	Active	3,274	400	10	100.0	-	-	-	30	Investment	A	O&G Production
	ChadOil -TOTCO	11125	Jun-00	Active	-	-	-	-	-	-	-	-	Investment	A	O&G Production
Colombia	**Harken**														
	Harken	9484	Jun-99	Closed	158	55	30.0	20.0	-	10.0	-	25.0	Investment	B	O&G Production
Kazakhstan	**Sazankurak**														
	Sazankurak	10056	Jun-00	Active	45	20	20.0	15.0	-	5.0	-	-	Investment	B	O&G Production
Kazakhstan	**FIOC**														
	FIOC	10411	Jun-00	Active	-	0	0.0	-	0.0	-	-	-	Investment	B	O&G Production
Nigeria	**Delta Contractor**														
	Delta Contractor	10683	Jun-01	Active	30	15	15.0	15.0	-	-	-	-	Investment	FI -2	Finance Companies
Pakistan	**Lasmo Paki stan**														
	Lasmo Pakistan	10408	Jun-01	Active	120	40	40.0	40.0	-	-	-	-	Investment	B	O&G Production

Attachment 4G Reasons for Not Rating Projects or Companies

	Country	Project Name	Reason
Mining	Africa Region	MACS	No disbursement yet.
	Burkina Faso	AEF FasoMine	No disbursement yet.
	China	Daning Coal	No disbursement yet.
	India	Sarshatali Coal	No disbursement yet.
	Indonesia	Dianlia	No disbursement yet.
	Mexico	Mexcobre	Exited, loan prepaid in 1996.
	Mexico	La Colorada	Too early to evaluate. The Russian project did not proceed; Mexican project in early start-up.
	Peru	Quellaveco	No commercial activity.
	Russian Federation	Julietta Gold / OMGC	Too early to evaluate; commenced operations in late 2000.
	Russian Federation	Bema Gold	Too early to evaluate; disbursed in late 2001.
	Sierra Leone	Sierra Rutile	Original project ceased operations due to civil war. Expansion not yet disbursed.
	Tunisia	Miniere Bougrine	Project closed; no information available.
	Uzbekistan	Amantaytau	Exited original project;—a feasibility study—was closed. Follow-on project was dropped.
Oil and Gas	Africa Region	SAPTFF	No disbursement yet.
	Bangladesh	Jalalabad	No disbursement yet.
	Chad/Cameroon	ChadOil	Too early to evaluate; no first oil yet
	Colombia	Harken	Exited; no current information available.
	Kazakhstan	FIOC Sazankurak	Too early to evaluate; disbursed in late 2001.
	Nigeria	Niger Delta	No disbursement yet.
	Pakistan	Lasmo	No disbursement yet.

The companies and projects above were reviewed by OEG. They were considered inappropriate for rating purposes (i.e., too early, cancelled, insufficient information, etc.). They did provide valuable issues and lessons that have been used in this report.

Attachment 4H Evaluation Framework and Rating Guidelines for Studied Projects

I. Development Outcome Rating

The development outcome rating is a bottom-line, synthesis assessment of the operation's results, based on the following four development indicators:

- ***Project Business Success*** considers the narrow objectives supported by IFC's financing. The best measure of a project's business success is its FRR. Lacking the data to calculate an FRR, we based this rating on assessments of the inputs to an FRR—capital expenditures, cost overruns, capacity utilization, sales volumes, pricing, revenues, margins, profits, taxes, subsidies, and so forth.
  — *Rates satisfactory* when the inputs to an FRR suggest a satisfactory FRR.

- ***Economic Sustainability*** considers the project's net economic benefits to all members of society, which is best measured by an ERR. Lacking the data to calculate an ERR, we based this rating on assessments of the inputs to an ERR—the social benefits and costs, including taxes paid, benefits to suppliers, effects on competitors, consumer surplus, effects on input and output markets, and how competitive prices and quantities are determined in relevant markets. It also should capture non-quantified benefits. In particular, whether the project had a direct impact—positive or negative—on the poor or on living standards in the local community.
  — *Rates satisfactory* when the net economic benefits are positive and near expectations and, in marginal cases, where a project also has a demonstrably positive effect on society in the host country.

- ***Project's Environmental Effects*** are based on the project's compliance with WBG environmental requirements.
  — *Rates satisfactory* if the project is—*and* was over its lifetime—in material compliance with either IFC's current or at-approval requirements.

- ***Private Sector Development*** considers, as relevant, the upstream and downstream linkages to private firms, new technology, management skills and training, degree of local entrepreneurship and competition, demonstration effects, enhanced private ownership, capital markets development, and business practices as positive corporate role models. It also includes regulatory improvements, such as changes in government policy and legal, tax, and accounting frameworks and possibly project-related technical assistance or project activities that have changed the enabling environment to create conditions conducive to the flow of private capital, domestic and foreign, into productive investment.
  — *Rates satisfactory* when the project provides distinctly positive net contributions.

II. IFC Investment Outcome

— *Rates satisfactory* when no loss reserves exist, loans are not in arrears, equity investments achieve a 5 percent real return, any loan rescheduling still provides the full margin originally expected, and any loan prepayment provides greater than 65 percent of the originally expected loan income.

III. IFC's Effectiveness

- ***Screening, Appraisal, and Structuring***
  — *Rates satisfactory* if it met IFC's procedures and good practice standards.

- ***Supervision and Administration***
  — *Rates satisfactory* if IFC was sufficiently informed to react in a timely manner to any material change in the project's and company's performance.

- ***Role and Contribution***
  — *Rates satisfactory* if IFC's role and contribution were in line with its operating principles.
- ***IFC's Effectiveness* (Synthesis) *Rating***
  — *Rates satisfactory* if IFC's performance was up to a high professional standard.

Attachment 5 IFC's Technical Assistance Trust Fund Activities in EI

Trust Funds: IFC Donor-Supported TA Programs, through IFC's Trust Fund Unit, has approved TA of US$3.5 million for 22 EI projects since 1994. The majority (84 percent) of the funding was approved in the last three years and has increasingly supported sustainable development initiatives. Examples include funding for a conference to improve the investment climate for sustainable mining (China), support to bring a coal company into environmental and social compliance (Russia), dissemination of examples of successful approaches to HIV/AIDS prevention (global), and a range of programs for a gold and copper mining investment (Laos). In 2002, oil- and gas-related projects were approved to support an investment forum in Mongolia and privatization assistance in Mozambique. EI project approvals reached 12 percent of total approvals in 2002 but have accounted for only 3 percent of total approvals since 1994. It is likely, as EI projects include more social and environmental development, that demand for the Technical Assistance Trust Fund to support EI projects will grow. Because Project Completion Reports were generally not completed on the above projects, OEG did a desk review and some one-on-one consultations to better understand project results. Overall, the projects have been broadly successful, but based on the information received, OEG was unable to assign project ratings.

Year	Amount US$	%	Projects	Average %	US$	Country Region
1994	100,000	3	1	5	100,000	Brazil
1995	225,000	7	1	5	225,000	Kazakhstan
1996	115,000	3	` 2	9	57,500	Albania, Tajikistan
1997	43,460	1	1	5	43,460	Mongolia (2)
1998	—	0	0	0	—	
1999	60,000	2	1	5	60,000	Africa Region
2000	318,000	9	3	14	106,000	Tajikistan, Albania, Kyrgyz Republic
2001	800,000	23	5	23	160,000	China (2), Kazakhstan, World Region/Global, Zambia, Lao People's Democratic Republic
2002	1,795,400	52	8	36	224,425	Mongolia, Mozambique (2), Lao People's Democratic Republic (2), World Region/Global, China (2) Russia
	3,456,860	100	22	100	157,130	

Attachment 6A — Perceptions of Survey Participants at the EIR Planning Workshop

More than 50 stakeholders participated in the EIR Planning Workshop in Brussels (28–30 October, 2001): government entities (9), the private sector (15), nongovernmental organizations (21), and the World Bank Group (8). Over the course of the workshop, OED/OEG asked participants to rank the evaluative questions suggested in the approach paper by importance.

About half of the participants responded. The questions, and the final rankings based on the votes cast, are shown below:

1. ***Distribution of costs and benefits*** was ranked first overall and first or second by each group.
2. ***Environmental and social effects,*** including effects on local communities, indigenous peoples, biodiversity, and potential human rights abuses, were ranked second overall and among the top six questions by each group of respondents.
3. ***Appropriate mitigation mechanisms for environmental and social effects*** throughout the project cycle was ranked third, with some differences of opinion by the respondents.
4. ***The WBG's role in improving development impacts and minimizing risks*** was ranked fourth overall, with roughly equal importance across all groups.
5. ***Compliance with the WBG's safeguard policies*** was ranked fifth, with wider variation among the respondents.

EVALUATIVE QUESTIONS

		Rank (percentage of votes)
1.	**Project Context and Economic Effects**	
1.1	What was the share of EI of export earnings, GDP, and government revenues in the respective country of WBG operation?	22
1.2	To what extent has there been an association between EI's share of GDP and the country's economic growth and income distribution?	12 (3%)
1.3	To what extent were the project's objectives consistent with the country's current development priorities?	6 (6%)
1.4	What were the net benefits generated by a specific WBG investment operation?	11 (3%)
1.5	How are benefits and costs distributed among central government, local government, local communities, and private shareholders? Is the distribution perceived to be fair by different stakeholder groups? Are there conflict resolution mechanisms in place, and, if so, have they worked? Are there lessons to be learned about the consequences of different types of distributions?	1 (13%)
1.6	Did the operation have impacts on private sector development in the host country beyond the operation itself (e.g., demonstration effects, linkages, infrastructure development, etc.)?	17
1.7	Are royalties effectively channeled for developmental purposes? Are independent arrangements for auditing, monitoring, and evaluation in place?	9 (5%)
2.	**Environmental and Social Effects**	
2.1	What have been the environmental and social effects — positive and negative — of WBG activities in the sector? In particular, what were the effects on biodiversity, local communities (including indigenous peoples)? Have there been human rights abuses associated with WBG projects?	2 (11%)
2.2	Have WBG operations complied with relevant safeguard policies and adequate labor safety standards? How adequate are the measures taken to mitigate the most important negative environmental and social aspects, such as involuntary resettlement? How do WBG safeguard policies compare with local requirements?	5 (7%)

2.3	Have expected environmental and social effects at each stage of the project cycle (construction, operation, closure and restoration) been adequately assessed and addressed at appraisal (e.g., through environmental assessments, public consultations, and project design and implementation arrangements)?	17
2.4	Have actual effects been adequately monitored during supervision?	20
2.5	Have appropriate mechanisms been put in place to handle environmental and social effects throughout the life cycle of oil, gas and mining operations (e.g., for compensation to adversely affected communities and for mine or field closure even beyond WBG involvement)?	3 (9%)
2.6	Was the operation affected by — or did it even contribute to — civil war?	26

3. Governance and Transparency

3.1	Did the operation contribute to capacity-building at the government (central or local), corporate, or voluntary agency level?	7 (6%)
3.2	Did corruption increase or decrease over the life of the project? Is this change attributable to the project?	17
3.3	Did the operation improve the framework for property rights in EI (e.g., is it clear who owns the resource and is it possible to transfer the rights)?	21
3.4	Were exploration and development rights awarded in a fair and transparent manner?	15
3.5	Disclosure: Were the benefits from development of the resource, and their distribution, disclosed? Was the use of the generated benefits transparently disclosed? What are the issues related to public disclosure?	8 (5%)

4. Role of the World Bank Group

4.1	Was WBG financing necessary for a particular project or activity to proceed?	12 (3%)
4.2	Did the WBG help improve the development impacts and minimize the risk associated with oil, gas, and mining activities? How and to what extent did the WBG affect the impacts from the point of view of government (central and local), civil society, and the companies? In particular, has the WBG helped improve positive environmental and social aspects and reduced potential negative aspects in the operations it supported? Has the WBG helped the country address macroeconomic consequences resulting from the volatility of commodities markets?	4 (7%)
4.3a	Did the WBG help improve the efficiency of the oil, gas, and mining sector and the investment climate in the sector, …	15
4.3b	… and has this resulted in subsequent private investment without WBG support?	24
4.4	Did the WBG contribute to improved governance and increased transparency in the sector?	10 (4%)
4.5	Did the WBG assess whether the economic benefits from EI, which are retained in the host economy, are adequate compared with the value of the resources and, if so, how?	12 (3%)
4.6	Did the WBG address and influence the distribution of benefits and costs? Can one establish what impact this had on poverty reduction?	24
4.7	Has there been a trade-off between IFC profitability and development outcomes achieved in these sectors?	23

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Attachment 6B Perceptions of Survey Participants at the EIR Regional Workshops

The survey was conducted at the various EIR Regional Workshops. To date, the *Latin America and the Caribbean, Eastern Europe and Central Asia,* and *Africa* Workshops have been held in Rio de Janeiro, Brazil (April 15–19, 2002); Budapest, Hungary (June 18–22, 2002); and Maputo, Mozambique (January 13–17, 2003), respectively. Feedback from the Asia Workshop (March 2003) was not received in time to be included in this report. The purpose of the regional workshops is to engage the various regional stakeholders in the EIR. OED/OEG asked the participants to provide their impressions on the need, effort, and success of World Bank and IFC involvement in the EI in the region. The response rate for the survey was about 26 percent, as indicated in the table below.

TABLE 1. STAKEHOLDER SURVEY: RESPONDENT PROFILE

	Venue				
Respondent Category	Rio	Budapest	Maputo	Total	% of all Respondents
Local NGO	3	5	3	11	14
Global NGO	1	6	1	8	11
Industry	3	8	5	16	21
Government	11	1	19	31	41
World Bank Group	2	0	1	3	4
Other	1	4	2	7	9
No. of Respondents	21	24	31	76	100
No. of Workshop Participants	85	80	127	292	
% of Respondents to Participants	25	30	24	26	

Responses pertaining to IFC — **Perception Survey Results - All Workshops by Participant Type**

QUESTIONS	All NGO		Industry		Government		WBG		Other		Total	
Responses primarily based on:												
(1) General knowledge of WBG activities	12		13		22		1		5		58	
(2) Specific knowledge of one or more IFC projects	6		4		2		0		2		16	
(3) Specific knowledge of one or more IDA or IBRD projects	12		1		12		2		4		35	
	%+	#	%+	#	%+	#	%+	#	%+	#	%+	#
1. EXTRACTIVE INDUSTRIES DEVELOPMENT												
Need	**67%**	15	**87%**	15	**76%**	21	**100%**	2	50%	6	**75%**	59
Effort	21%	14	**64%**	14	**56%**	18	**100%**	2	33%	6	48%	54
Success	14%	14	47%	15	42%	19	50%	2	0%	5	33%	55
2. DISTRIBUTION OF PUBLIC REVENUES												
Need	**80%**	15	**67%**	15	**82%**	17	**100%**	3	**60%**	5	**76%**	55
Effort	17%	12	33%	12	41%	17	**67%**	3	25%	4	33%	48
Success	0%	10	27%	11	38%	13	33%	3	0%	5	21%	42
3. SUSTAINABLE DEVELOPMENT												
Need	**86%**	14	**71%**	14	**74%**	19	**100%**	3	**80%**	5	**78%**	55
Effort	8%	12	36%	11	50%	18	**67%**	3	**60%**	5	39%	49
Success	0%	12	13%	8	44%	16	33%	3	25%	4	23%	43
4. ENVIRONMENTAL IMPACTS												
Need	**88%**	17	**93%**	14	**90%**	21	**100%**	3	**80%**	5	**90%**	60
Effort	38%	13	**83%**	12	50%	20	**67%**	3	**80%**	5	**58%**	53
Success	15%	13	**58%**	12	**53%**	19	**67%**	3	40%	5	44%	52
5. SOCIAL IMPACTS												
Need	**88%**	17	**86%**	14	**86%**	21	**100%**	3	**60%**	5	**85%**	60
Effort	14%	14	**60%**	10	**55%**	20	33%	3	**60%**	5	44%	52
Success	7%	15	44%	9	50%	16	33%	3	40%	5	33%	48
6. GOVERNANCE AND TRANSPARENCY												
Need	**94%**	17	**86%**	14	**68%**	19	**100%**	3	**80%**	5	**83%**	58
Effort	21%	14	**64%**	11	44%	18	33%	3	33%	3	41%	49
Success	8%	13	22%	9	44%	18	33%	3	0%	4	26%	47
7. INVESTMENT CLIMATE AND ECONOMIC LINKAGES												
Need	**71%**	14	**100%**	12	**83%**	18	**100%**	3	**80%**	5	**85%**	52
Effort	30%	10	**82%**	11	**61%**	18	**100%**	3	**67%**	3	**62%**	45
Success	22%	9	33%	9	40%	15	**100%**	3	33%	3	38%	39

Response is greater than 60%

Perception Survey Results - By Workshop

QUESTIONS	Rio de Janeiro		Budapest		Mozambique		Total	
Responses primarily based on:								
(1) General knowledge of WBG activities	13		20		25		58	
(2) Specific knowledge of one or more IFC projects	2		13		1		16	
(3) Specific knowledge of one or more IDA or IBRD projects	12		13		10		35	
	%+	#	%+	#	%+	#	%+	#
1. EXTRACTIVE INDUSTRIES DEVELOPMENT								
Need	**74%**	19	**68%**	19	**81%**	21	**75%**	59
Effort	**60%**	15	**53%**	19	35%	20	48%	54
Success	**69%**	16	32%	19	5%	20	33%	55
2. DISTRIBUTION OF PUBLIC REVENUES								
Need	**87%**	15	**67%**	21	**79%**	19	**76%**	55
Effort	33%	12	24%	17	42%	19	33%	48
Success	33%	9	13%	16	24%	17	21%	42
3. SUSTAINABLE DEVELOPMENT								
Need	**88%**	16	**79%**	19	**70%**	20	**78%**	55
Effort	**67%**	12	29%	17	30%	20	39%	49
Success	45%	11	13%	15	18%	17	23%	43
4. ENVIRONMENTAL IMPACTS								
Need	**94%**	18	**80%**	20	**95%**	22	**90%**	60
Effort	**62%**	13	**67%**	18	50%	22	**58%**	53
Success	**57%**	14	**53%**	17	29%	21	44%	52
5. SOCIAL IMPACTS								
Need	**95%**	19	**75%**	20	**86%**	21	**85%**	60
Effort	46%	13	31%	16	**52%**	23	44%	52
Success	46%	13	25%	16	32%	19	33%	48
6. GOVERNANCE AND TRANSPARENCY								
Need	**78%**	18	**80%**	20	**90%**	20	**83%**	58
Effort	47%	15	44%	16	33%	18	41%	49
Success	46%	13	19%	16	17%	18	26%	47
7. INVESTMENT CLIMATE AND ECONOMIC LINKAGES								
Need	**100%**	16	**71%**	17	**84%**	19	**85%**	52
Effort	**73%**	15	**64%**	14	50%	16	**62%**	45
Success	**62%**	13	38%	13	15%	13	38%	39

Response is greater than 60%

Attachment 6C Perceptions of WBG Staff Surveyed

The survey of WBG staff included 66 questions and room for comments. The questions were designed to get the views of staff on the relative importance of issues for EI-dependent countries and to determine if they feel that the WBG addresses them adequately.

- ***Revenue Generation***—generating higher fiscal revenues from EI production activities
- ***Revenue Distribution***—fair allocation of fiscal revenues among central/federal governments, subnational (provincial/district/municipal) governments, and local communities (villages, indigenous)
- ***Revenue Utilization***—allocation of fiscal revenues from EI for developmental priorities
- ***Mitigating Negative Environmental Impacts***—from past EI activities or new ones
- ***Mitigating Negative Social Impacts***—from past EI activities or new ones
- ***Capacity-Building for EI Sector Management***—including policy/legal/technical/business issues
- ***Improving the Investment Climate***—legal/regulatory framework, property rights
- ***Improving Transparency and Governance***—more public disclosure, less rent-seeking

The survey also asked staff to provide views on the level of coordination among IFC, MIGA, and the World Bank; on risk aversion toward EI; and on the constraints on the WBG's involvement in EI. Questionnaires were sent out by e-mail, and respondents were given about a month, until February 24, 2003, to respond. The 66 persons (69 percent) who responded have, on average, worked for WBG for about eight years (10 years for World Bank respondents and about 6 years for IFC and MIGA) and indicated familiarity with 48 EI-dependent countries.

JOINT OPERATIONS EVALUATION DEPARTMENT/GROUP/UNIT
STAFF SURVEY RESULTS

	IFC Staff			IBRD Staff			MIGA Staff			Total		
Questions	Positive	High	Total	Positive	High	Total	Positive	High	Total	Positive	High	Total
1. Importance												
Revenue Generation	86%	62%	29	87%	83%	23	90%	70%	10	87%	71%	62
Revenue Distribution	86%	54%	28	77%	55%	22	88%	50%	8	83%	53%	58
Revenue Utilization	83%	59%	29	83%	57%	23	89%	67%	9	84%	59%	61
Mitigating Negative Environmental Impacts	86%	41%	29	77%	32%	22	100%	67%	9	85%	42%	60
Mitigating Negative Social Impacts	86%	45%	29	78%	39%	23	89%	56%	9	84%	44%	61
Capacity-Building for EI Sector Management	83%	38%	29	87%	39%	23	89%	56%	9	85%	41%	61
Improving the Investment Climate	93%	54%	28	88%	63%	24	90%	30%	10	90%	53%	62
Improving Transparency and Governance	93%	57%	28	88%	71%	24	90%	30%	10	90%	58%	62

2. CAS—adequately addresses EI issues													
Revenue Generation	86%	14%	21	78%	35%	23	100%	40%	5	84%	27%	49	
Revenue Distribution	*60%*	20%	20	*50%*	20%	20	80%	40%	5	*58%*	22%	45	
Revenue Utilization	65%	20%	20	71%	38%	21	80%	20%	5	70%	28%	46	
Mitigating Negative Environmental Impacts	77%	27%	22	80%	20%	20	80%	60%	5	79%	28%	47	
Mitigating Negative Social Impacts	76%	24%	21	76%	29%	21	*60%*	60%	5	74%	30%	47	
Capacity-Building for EI Sector Management	68%	11%	19	76%	0%	21	80%	0%	5	73%	4%	45	
Improving the Investment Climate	86%	32%	22	91%	27%	22	80%	20%	5	88%	29%	49	
Improving Transparency and Governance	80%	25%	20	70%	35%	23	100%	60%	5	77%	33%	48	
3. EI projects/operations—adequately addresses EI issues													
Revenue Generation	92%	36%	25	88%	35%	17	100%	78%	9	92%	43%	51	
Revenue Distribution	*46%*	8%	26	*56%*	19%	16	78%	22%	9	*55%*	14%	51	
Revenue Utilization	*54%*	13%	24	67%	28%	18	78%	0%	9	63%	16%	51	
Mitigating Negative Environmental Impacts	100%	62%	29	89%	50%	18	100%	67%	9	96%	59%	56	
Mitigating Negative Social Impacts	96%	54%	28	78%	44%	18	88%	13%	8	89%	44%	54	
Capacity-Building for EI Sector Management	83%	26%	23	88%	44%	16	89%	33%	9	85%	33%	48	
Improving the Investment Climate	67%	21%	24	82%	35%	17	90%	30%	10	76%	27%	51	
Improving Transparency and Governance	*54%*	8%	26	80%	35%	20	*56%*	11%	9	64%	18%	55	
4. Interventions outside the EI sector—adequately addresses EI issues													
Revenue Generation	69%	25%	16	74%	32%	19	86%	57%	7	74%	33%	42	
Revenue Distribution	63%	0%	16	**39%**	17%	18	100%	14%	7	*59%*	10%	41	
Revenue Utilization	47%	0%	15	42%	16%	19	86%	29%	7	*51%*	12%	41	
Mitigating Negative Environmental Impacts	89%	33%	18	63%	26%	19	100%	44%	9	80%	33%	46	
Mitigating Negative Social Impacts	88%	29%	17	*41%*	12%	17	75%	38%	8	67%	24%	42	
Capacity-Building for EI Sector Management	67%	0%	15	*50%*	6%	18	75%	13%	8	61%	5%	41	
Improving the Investment Climate	65%	12%	17	89%	39%	18	100%	0%	9	82%	20%	44	
Improving Transparency and Governance	76%	6%	17	*60%*	20%	20	89%	0%	9	72%	11%	46	
5. Non-lending interventions—adequately addresses EI issues													
Revenue Generation	75%	6%	16	67%	29%	21	75%	0%	4	71%	17%	41	
Revenue Distribution	*60%*	13%	15	*50%*	30%	20	100%	0%	4	*59%*	21%	39	
Revenue Utilization	*60%*	20%	15	65%	25%	20	75%	0%	4	64%	21%	39	
Mitigating Negative Environmental Impacts	84%	32%	19	*43%*	22%	23	100%	0%	4	65%	24%	46	
Mitigating Negative Social Impacts	84%	32%	19	*50%*	21%	24	100%	25%	4	68%	26%	47	
Capacity-Building for EI Sector Management	95%	15%	20	*55%*	18%	22	83%	33%	6	75%	19%	48	

Improving the Investment Climate	94%	6%	18	77%	36%	22	83%	33%	6	85%	24%	46
Improving Transparency and Governance	68%	16%	19	68%	41%	22	80%	0%	5	70%	26%	46
6. Coordination across WBG is adequate												
	48%	46%	25	*52%*	13%	23	100%	50%	8	57%	18%	56
7. The Global Product Group for Oil, Gas, and Mining has helped to improve the following:												
Coordination between IFC and WB on sectoral issues	88%	46%	24	71%	29%	14	88%	0%	8	83%	33%	46
Strategic integration of sectoral and macro interventions	*58%*	11%	19	*58%*	8%	12	100%	0%	7	66%	8%	38
Quality of sectoral ESW and non-lending interventions	*55%*	0%	11	67%	8%	12	100%	0%	4	67%	4%	27
Sectoral knowledge-sharing across regions	90%	40%	20	67%	25%	12	83%	0%	6	82%	29%	38
Overall quality of service to clients	76%	19%	21	67%	0%	12	80%	0%	5	74%	11%	38
Other	100%	100%	1	67%	0%	3	100%	0%	1	80%	20%	5
8. WBG avoided good projects in EI due to safeguards concerns from the following:												
WBG management	86%	14%	14	86%	21%	14	100%	50%	6	88%	24%	34
WBG task managers	70%	0%	10	**38%**	23%	13	60%	40%	5	*54%*	18%	28
Client country government	**30%**	20%	10	**29%**	14%	14	**0%**	0%	5	**24%**	14%	29
EI public agencies/enterprises	*56%*	11%	9	**21%**	7%	14	75%	25%	4	*41%*	11%	27
Private investors	*54%*	15%	13	**29%**	7%	14	*40%*	20%	5	*41%*	13%	32
9. Factors that constrain WBG's ability to assist client countries in enhancing EI's contribution to sustainable development:												
Inadequate linkage between EI sector activities and sustainable development	*42%*	4%	24	*50%*	23%	22	*56%*	0%	9	*47%*	11%	55
Inadequate availability of staff with appropriate skills	**32%**	0%	25	*59%*	27%	22	**22%**	0%	9	*41%*	11%	56
Pressure for rapid processing of credits/funding/guarantees	**38%**	5%	21	**38%**	24%	21	44%	22%	9	**39%**	16%	51
Inadequate level of support from the Bank's Country Department/ Country Management Unit	*52%*	10%	21	*55%*	20%	20	**29%**	0%	7	*50%*	13%	48
Inadequate level of support from the Global Product Group for Oil, Gas, and Mining	**8%**	4%	24	**33%**	20%	15	**0%**	0%	6	**16%**	9%	45
Inadequate level of support from the client government	63%	17%	24	**38%**	19%	21	**17%**	0%	6	*47%*	16%	51
Inadequate level of support from project implementor (sectoral agency or private sponsor)	**24%**	0%	21	**25%**	6%	16	*50%*	13%	8	**29%**	4%	45
Other	100%	0%	3	100%	100%	2	100%	100%	1	100%	50%	6

Rating Scale—Question 1:

1 = Not at all Important

2 = Moderately Important

3 = Important

4 = Highly Important

High = % responding 4. Positive = % responding 3 or 4

Rating Scale—Questions 2–9:

1 = Strongly disagree

2 = Disagree

3 = Agree

4 = Strongly agree

High = % responding 4. Positive = % responding 3 or 4

Italics = Response is less than 40%

Bold = Response is less than 60% and 40% or more

TABLE 2. STAFF SURVEY: RESPONDENT PROFILE

	Organization				% of all Respondents
	World Bank	IFC	MIGA	Total	
Task Managers	12			12	18
Investment Officers		24		24	36
Regional Economists	14	6		20	30
Underwriters		1	5	5	8
Other		4	5	5	89
Number of Respondents	26	30	10	66	100
Number of surveys distributed	51	33	12	96	
Response rate (%)	51%	91%	83%	69%	

Attachment 7 Relevant IFC Safeguard Policies, Guidelines, and Procedures

Source: http://www.ifc.org/enviro

The following social and environmental safeguards policies apply to extractive industries projects, as appropriate:

Environmental Safeguards Policies:
- OP 4.01 Environmental Assessment—October 1998
- OP 4.04 Natural Habitats—November 1998
- OP 4.36 Forestry—November 1998
- OP 4.37 Dam Safety—September 1996 (IFC now reportedly uses a 1999 draft policy, but it is not in the public domain)
- OP 7.50 International Waterways—November 1998
- OP 7.60 Disputed Territories—June 2001

Social Safeguards Policies:
- OD 4.20 Indigenous Peoples—September 1991
- OD 4.30 Involuntary Resettlement—June 1990
- OPN 11.03 Cultural Property—September 1986
- IFC's Statement on Child and Forced Labor—March 1998

OP 7.60, OD 4.20, OD 4.30, and OPN 11.03 remain as World Bank policies, while the others have been modified and updated to better correspond with the IFC business model.

Guidelines contained in the *PPAH* or updated http://www.ifc.org/enviro/enviro/pollution/guidelines.htm:
- General Environmental Guidelines (1993 and 1998)
- General Health and Safety Guidelines (1998)
- Base Metal and Iron Ore Mining (1998)
- Coal Mining and Production (1998)
- Oil and Gas Development—Onshore (1998)
- Oil and Gas Development—Offshore (2000)
- Mining and Milling—Underground (1995)
- Mining and Milling—Open Pit (1995)
- Hazardous Materials Management Guidelines (2001)

The *PPAH* also includes other guidelines on environmental management, fire safety, waste minimization, pollution prevention, air pollution control and wastewater management, cleaner production, risk assessment, trans-boundary issues (GHG), and pollution management of various chemicals—all of which may also be relevant in a specific project. A "precious metals" guideline is still pending.

IFC has specific requirements for Public Disclosure and Public Consultation, depending upon the categorization of the project.[277]

Attachment 8 Selected Sustainability Guidance Material—Consultation

Consultation could be defined as a wider continuous process of participation of all stakeholders in the decisions throughout the formulation and execution of a project leading to a sustainable development for the population in the area. Consultation, formally, is part of the environmental impact assessment of the project. In practice, it is a tool for managing two-way communication between the developer and the public, in general, and the local community, in particular.

Consultation should be understood as a means to achieve certain goals and not as a goal in itself. Its basic purpose is to improve decisionmaking and build understanding by actively involving individuals and organizations with a stake in the project. This involvement will increase the project's long-term viability and will enhance its benefits to 10 ally-impacted people and other stakeholders.

The process of consultation and participation should include precise agreements that could be adapted and monitored throughout the life of the project. Consultation should have an impact on the project design and implementation. It should be started by the appropriate government agency prior to licensing or contracting of the area and should be continued by an oil company that assumes the operation from the early seismic works through drilling operations, development and exploitation, and formal abandonment. When possible, the consultation process should be witnessed by a third party (i.e., the ombudsman office and/or an association of environmental NGOs).

Emerging Best Practices on Consultation

A list of best practices comprises the following points: Consultation requires exchange of information, collaboration, and mutual understanding of the parties involved. It often proceeds through cultural barriers, drops bad past legacies, and ends up creating confidence and trust.

It is essential to identify the representatives of key stakeholders and local authorities, including existing alliances, social structures, and possibly prevailing conflicts among local groups and/or external groups and NGOs. Where indigenous peoples have their own representative organizations, such organizations should be the channels for communicating their preferences.

Governments have an important role in establishing first contact with the indigenous population, gathering adequate social and cultural information, and introducing the new contractor. This kind of information is usually in the hands of academia and NGOs rather than the government's alone. Governments and the concerned private companies should make an effort to gather and review this information as early as possible.

Consultation should include the provision of information on the project in a timely, complete, and culturally appropriate fashion. It should lead to a meaningful dialogue and provide recorded results, including the views and recommendations of the indigenous peoples for the protection of the environment and the mechanisms put in place for their participation.

Mechanisms should be devised for direct participation by indigenous peoples in decisionmaking on aspects of the project that affect them. Such participation shall take place throughout project design, implementation, monitoring, and evaluation.

Proper consultation requires developing local capacity to interpret the technicalities of environmental studies, understanding the impact of international markets, developing long-term solutions, and being able to effectively communicate complex issues across cultural barriers. It requires time to obtain consensus on an adequate community relations program. Resulting delays could create conflicts if contract terms are not properly established.

Consultation—by the government prior to the contract or by the company as part of the environmental impact assessment of any important operation—requires the preparation of typical business plans, including identification of objectives, responsibilities, and inputs to be accomplished by each stakeholder.

Some Practical Recommendations

To organize a consultation: Designing meaningful consultations with indigenous peoples depends upon several factors, including the national, legal, and political context; the linguistic and cultural characteristics of the indigenous groups; and the degree of interaction and relationships with the regional and national societies and external social actors (that is, missionaries, school systems, local traders, and loggers). It also depends on the nature of their traditional social organizations and leadership patterns and the groups organized to represent the interests of indigenous peoples. Despite these differences, there are some general principles for organizing and conducting meaningful consultations with indigenous peoples. These include the following:

1. Using facilitators who know the indigenous languages and the indigenous cultures;
2. Creating appropriate settings and locations for the consultations, preferably in the territories and settlements where indigenous peoples live;
3. Providing background information on the proposed project in a language and format that the population understands (e.g., simple diagrams and charts in the native languages, maps, videos, 3D models);
4. Recognizing the time frames of indigenous peoples, especially in terms of decision-making, that are often different from those of outsiders;
5. Respecting indigenous leadership patterns and religious beliefs and ensuring that elders and other traditional authorities have the opportunity to express their points of view;
6. Recognizing that in some cases there may be different factions within a community with contrasting views on national development projects and establishment of methodologies for the peaceful resolution of conflicts and differences;
7. Providing resources (e.g., food, shelter, travel funds) so persons can attend the consultations from distant villages or their representatives can attend consultations in district, provincial, or national capitals;
8. Ensuring that interpreters are provided for indigenous participants when consultations are held in district, provincial, and national capitals;
9. Supporting the local and regional indigenous leadership to improve communications with their communities and to be able to follow up the consultation process; and
10. Dealing with gender issues.

To manage a consultation process: At any point of the project life, the project developer should take into consideration the following steps:

1. *Plan ahead*—to identify the project risks, the parties to be involved, and the stakeholders' interests and institutional goals; to understand past experiences, if any; and to effectively fulfill regulations.
2. *Test your proposals*—to ensure that the key stakeholders understand the project impacts and benefits and would be able to voice their concerns and input alternative approaches. Prepare good responses to obvious questions.
3. *Invest time and money*—the schedule and budget of the project should properly include the consultation effort. Involve consultants and permanent staff with appropriate qualifications.
4. *Involve senior and local managers*—their direct participation will make the entire company understand the importance of integrating the stakeholders concerns.
5. *Hire and train the right personnel*—a community liaison advisor with direct access to management and certain negotiation capacity should be appointed and would be responsible for hearing the local concerns. The advisor could also work with community liaison officers, depending on the size of the project.

6. *Maintain overall responsibility*—manage consultants and subcontractors carefully to avoid bad feelings from affected people who will not differentiate contracted personnel from the company itself.
7. *Coordinate all related activities*—to provide consistency in the information conveyed by all company staff to all outside stakeholders.
8. *Build dialogue and trust*—develop two channels of communication, preferably in the local language. Particular attention should be given to women and less powerful groups, and actively include them in a culturally appropriate way into the dialogue. It is important to maintain the personnel who interact with the stakeholders. As in personal relationships, continuity and familiarity build trust.
9. *Manage expectations*—avoid unrealistic expectations. Be clear in describing the project impact and what it could deliver, trying not to overstate the benefits.
10. *Work with governments*—inform and consult with relevant government departments regarding the activities, risks, and opportunities of the project and the required permits. Work closely with local authorities who often have long-established relations with the local communities and who could delineate responsibilities between the local municipalities, the community leaders, and the project sponsor.
11. *Work with NGOs and community-based organizations*—identify and liaise, particularly with those who represent the affected people. NGOs have vital expertise and local knowledge and could be sounding boards for project design and mitigation efforts. Initial research is important to understand local power dynamics and to ensure that NGOs truly represent and convey the community interests.
12. *Prepare an action plan*—consolidate in an action plan the agreed projects, including timing and indicators for monitoring.

Government responsibilities: Within the process of consultation, government responsibilities could be grouped in the following list:

1. To set adequate regulations
2. To provide land tenure rights
3. To keep a database with sociocultural information available to interested companies
4. To carry out the first consultation
5. To contract areas allowing enough time for preparing adequate environmental impact assessments involving effective public consultations
6. To facilitate the process of consultation between industry and indigenous peoples, ensuring due representation of the parties and providing validity to the agreements reached
7. To establish proper links between the companies' community relations program, the communities' Planes de Vidal, and the regional development plans with respect to education, health, infrastructure, defense, and the activities of other productive sectors in the region
8. To supervise the execution of agreed plans and audit accounts
9. To mediate in case of conflicts