



Extracting Sustainable Advantage?

*A review of how sustainability issues have been dealt with
in recent IFC & MIGA extractive industries projects*

Final Report, April 2003



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Executive Summary

Introduction

This review by the Office of the Compliance Advisor Ombudsman (CAO) examined to what extent the International Finance Corporation (IFC) and the Multilateral Guarantee Agency (MIGA) currently deal with broader concerns about sustainability in their extractive industries projects. The review is a contribution to the Extractive Industries Review (EIR), which has the broader mandate of drawing out the concerns and views of stakeholders on the future involvement of the World Bank Group in the oil, gas, and mining sectors.

The review focused on whether broader issues influencing the sustainability of extractives projects had been considered and adequately dealt with, both prior to Board approval and during implementation. These included:

- **Environmental dimensions:** hazardous materials management and transportation, site contamination, biodiversity protection, water and hydrology, air quality, and specific issues relating to closure.
- **Social development and impact dimensions:** migration and resettlement, land rights and indigenous peoples, conflict and human rights, consultation and community participation, community development, and labor.
- **Economic and governance dimensions:** revenue management, corruption, political stability, and linkages to local and wider economic development.

Under these three broad categories, 52 individual review criteria and 16 clusters of criteria were identified. These formed the basic analytical framework for the review. The review criteria combined those that are currently required under IFC and MIGA's Safeguard Policies and guidelines, and a wider set of criteria that are relevant to sustainable development in the extractives sectors. The provisions of Safeguard Policies and guidelines are referred to as **mandatory**

review criteria throughout the review, whereas the wider set of emerging sustainability criteria are referred to as **non-mandatory**.

The scope of the review was restricted to projects that post-date the adoption of IFC's Safeguard Policies (September 1998) and MIGA's environmental assessment policy and procedures (July 1999). The review looked at eight projects in detail; four mining projects and four oil and gas projects.

The specific objectives were to consider whether:

- The interpretation and application of these Safeguard Policies and guidelines has enhanced project sustainability.
- All relevant issues were considered during the appraisal of projects.

It is important to acknowledge that the review methodology holds all projects to a very high standard. Many of the review criteria are at the leading-edge of the sustainability debate for the extractives sectors, and more than half are not currently mandated by either Safeguard Policy or guideline provisions. These same provisions impose stringent environmental and social requirements on IFC and MIGA, and the review found that these mandatory requirements are systematically met.

The review is therefore forward looking, and asks to what extent IFC and MIGA are starting to consider a wider set of non-mandatory sustainability criteria, in addition to the provisions of Safeguard Policies and guidelines. This is an important consideration in framing the findings, emerging lessons, and recommendations (in italics throughout the text of the executive summary), as summarized below.

Findings, emerging lessons and recommendations

Variability exists in tackling the three dimensions of sustainability

In general, the mandatory social and environmental review criteria scored highly, and were systematically applied. The scores for the non-mandatory environmental and social review criteria were markedly lower. The economic and governance aspects scored lowest of the three sustainability dimensions, but none of the review criteria in this category were mandatory (section 3.1). Both IFC and MIGA also contend that some of these issues are routinely factored into project decision-making, but that this is not captured in the project documents. Encouragingly, however, some non-mandatory review criteria were treated fairly comprehensively in each of the three dimensions of sustainability, despite the absence of supportive policies and guidelines.

Some projects performed better than others and the variability between projects was high (section 3.2). A number of factors appear to have had an influence. The commitment and capacity of clients were important, and sustainability scores were higher where these two were strong. Project categorization was less significant; the range and adequacy of consideration of environmental and social issues was not markedly different for category A and B projects.

The level of effort by IFC and MIGA staff was critical, and a more hands-on approach by environmental and social staff enhanced sustainability scores. Compared to MIGA, the IFC business model and related environmental and social review procedures provides for a more in-depth and longer-term relationship between clients and environmental and social specialists (particularly for category B projects). This increases the prospects for constructive engagement and exerting a positive influence.

MIGA's management should consider and take a position on this disparity: either it maintains the status quo whereby MIGA

projects subscribe to the standard of do-no-harm (which the Safeguard Policies are primarily concerned with), or it takes action to ensure closer convergence with IFC's broader sustainability remit.

The environmental dimension

Overall the eight projects scored highly against the mandatory environmental review criteria. However, there is further scope for improvement, particularly in relation to the non-mandatory review criteria. In contrast to the governance dimension (where none of the review criteria were mandatory) and the social dimension (where many review criteria were not mandatory), only a few non-mandatory environmental criteria have been considered. The recommendations cover areas such as risk assessment, ecology, and groundwater.

Hazard and risk assessment

Overall the mandatory review criteria scored very highly and the non-mandatory criteria also scored well. However, the World Bank Group's internal guidance on hazard and risk assessment is dated and not directly relevant to the extractive sectors (section 4.1). In the past decade, more sophisticated and pragmatic approaches to environmental risk assessment have been adopted by leading companies in these sectors than the internal guidance reflects.

IFC and MIGA should develop sector specific guidance on how comprehensive environmental risk assessments should be undertaken. In addition, IFC should finalize and fully implement its draft guidance on cyanide handling.

Ecological assessment and mitigation

Despite the existence of the natural habitats policy, there is a need to strengthen the guidance on ecological assessment and mitigation. In particular, the attention to ecological issues was variable, perhaps because not all projects involved significant conversion of critical natural habitats. There was also a tendency to accept impacts on rare, protected, threatened, or endangered species as unavoidable, and not develop mitigation (section 4.4).

IFC and MIGA should develop and implement improved guidance on ecological assessment and mitigation.

Closure and decommissioning

The requirements for closure in the various guidelines on mining are inconsistent, while oil and gas projects make no financial provision for closure (section 4.2). There is also no mechanism for ensuring that clients continue to finance closure once IFC or MIGA no longer have an interest in a project.

IFC and MIGA should strengthen the available guidance on closure to apply to all extractives projects, and include a requirement to ensure that social considerations are taken into account. They should also develop and implement measures to ensure that funds allocated to closure during their involvement with a project are ring-fenced, even after they exit.

Social development and impact dimensions

Overall the eight projects scored very highly against the mandatory review criteria. However, there is further scope for improvement, particularly in relation to sustainability criteria that are not mandated by policy or guideline provisions.

Public consultation

Pre-approval mandatory public consultation was very well handled for all IFC projects and was undertaken to some extent for both MIGA projects (despite there being no mandatory requirement that MIGA clients undertake public consultation for category B projects). However, it is not always clear from the available documentation what influence (if any) consultation had on the projects (section 5.4). This is important if consultation is to retain credibility as a mechanism for proactive and constructive involvement of those who are potentially affected by projects. There is no explicit commitment to ongoing consultation post-approval of projects, which is very important for extractives projects.

IFC and MIGA should more explicitly acknowledge and report on the influence that

public consultation has had on the design and implementation of projects. The benefits of ongoing consultation and engagement throughout a project's life cycle should routinely be articulated to clients, and required for the period of IFC or MIGA's involvement.

Community development

Although none of the community development review criteria were mandatory, these issues were fairly comprehensively dealt with. Community development projects or programs can be made more sustainable by being responsive to a participatory diagnosis of a community's development needs, by actively involving beneficiaries in implementation, and by considering their longer-term sustainability. Yet despite IFC's detailed guidance on investing in communities, these principles are often not incorporated into the community development programs and projects of many extractive sector clients (section 5.5).

IFC and MIGA should ensure that all clients are familiar with IFC's Investing in People guidance, and understand the importance of direct community participation and explicit consideration of the longer-term sustainability of community investment projects.

Human rights and labor issues

With the exception of child labor and forced labor, IFC and MIGA have no policy framework pertaining to these issues. Yet many leading-edge companies in the extractives sectors are adopting specific policy commitments on human rights, for example on the use of security forces. It is noteworthy that some other multilateral agencies have also made more explicit commitments to all four International Labor Organization (ILO) core labor standards. Neither IFC nor MIGA systematically consider the broader human rights and labor rights issues associated with extractives project.

Many of these issues were not relevant to all eight extractives projects reviewed, although in some cases, conflict related issues ought to have been more systematically considered in the light of a project's context, as part of a comprehensive risk assessment. Positive

relations with communities will not always provide sufficient protection against conflicts (section 5.6). This is not to suggest that wider human rights concerns in individual countries should serve as a barrier to entry to IFC or MIGA (unless this is the stated policy of the World Bank Group).

IFC and MIGA should more systematically consider potential risks to human rights at the project level, take appropriate steps to mitigate them, and provide clearer guidance to clients on both of these aspects. Where relevant, these aspects should be reported on at the project level.

Internal migration, induced development, and wider health concerns

A number of other non-mandatory social review criteria were not systematically assessed and mitigated across all projects. For example, there was rarely any discussion about the social implications of internal migration or induced development (section 5.1.), or of the wider impacts of projects on health (section 5.7.). The loss of access to environmental resources on customary or state-owned land was often ignored (section 5.2.), as were measures to deal with unanticipated archaeological finds (section 5.3.). In part, the lack of attention to these review criteria may reflect the projects reviewed – these issues were not relevant in many instances, and have been explicitly dealt with in some larger IFC projects outside of the review sample. But in other cases, it was difficult to judge whether these issues were not dealt with by design or by omission.

IFC and MIGA should develop improved guidance on how to deal with these issues, and integrate it into improved guidance on social assessment, as recommended by the CAO Safeguard Policy Review.

There is significant scope for improvement in tackling economic and governance dimensions

IFC and MIGA are concerned with both the returns to investors or financial rate of return (FRR) of projects and the wider societal benefits, some of which are captured by the

economic rate of return (ERR). However, the ERR often cannot capture all social and environmental costs and benefits, and does not include distributional aspects. It also assumes that the revenues paid to governments will be used for development purposes, which is not always the case. The broader criteria of revenue management, corruption, political stability, and potential to stimulate economic development, have a profound influence on project sustainability, and were therefore considered in the review.

It is important to acknowledge however, that IFC and MIGA only support projects in countries that the World Bank has identified as having an overall acceptable level of governance. It should also be emphasized that none of the review criteria for this dimension of sustainability are mandated by Safeguard Policies or guidelines.

Revenue management

Macro level and distributional issues relating to revenue management are emerging as a critical issue for the future involvement of the World Bank Group in the extractive sectors (section 6.1), and there is widespread appreciation of their importance amongst IFC and MIGA staff. IFC staff asserted that these factors are routinely considered by project teams in the early stages of project planning, sometimes at length, but the outcome of such deliberations is rarely documented and is not publicly reported.

This may be partially addressed by a draft guidance note prepared by IFC's Operational Strategy Group (*Revenue Distribution and Management in IFC projects*), but this applies only to high-impact projects (where revenues are substantial in relation to a nation's GDP) and there is no procedural basis for its implementation. For lower-impact projects, neither IFC nor MIGA consider that they have sufficient leverage to effectively address revenue management. IFC and MIGA should more systematically and transparently factor these issues into project decision-making.

IFC should consider revisiting the definition of high-impact projects, which may be too restrictive. It is currently based on the relative

contribution of a single project to fiscal incomes, whereas it might be extended to include large projects (above a defined threshold) in countries where the sector as a whole makes a significant contribution to GDP. For high-impact projects, IFC should report on the steps taken to mitigate adverse impacts and enhance revenue management and distribution. For low-impact projects, IFC and MIGA should report on their rationale for supporting such projects, having fully considered the positive and adverse economic, social and environmental impacts. IFC and MIGA should also continue to collaborate with the World Bank on the inclusion of these aspects in Country Assistance Strategies (CAS), and engage with the Bank and IMF to seek coordination of work programs that address public expenditures management, which are beyond the mandate of IFC and MIGA.

Corruption, political instability, and conflict

Both IFC and MIGA go to some lengths to ensure the soundness and integrity of clients, and there are practical limits to the extent of disclosure on these aspects. However, the significance of public corruption, political instability, and conflict are not reported on at the project level (section 6.2). IFC has no systematic approach to considering the impact of these issues on project sustainability, although IFC staff asserted that they are routinely discussed in some detail during project preparation. Neither IFC nor MIGA, however, have the leverage to proactively address these issues, and their clients have almost no leverage to mitigate any related impacts. Ideally, these factors are best tackled at the country level.

IFC and MIGA should collaborate closely with the World Bank to ensure that these issues are explicitly dealt with in the appropriate operational instruments (e.g. Public Expenditure Reviews, CAS) of the countries where they are likely to support oil, gas and mining. In addition, the investment and underwriting departments should collaborate with their environmental and social counterparts to more explicitly analyze and report the potential for in-country corruption,

political instability, or conflict to result in adverse impacts at the project level, or to increase as a result of the project.

Economic Development

Encouragingly, economic considerations (such as maximizing procurement and employment opportunities) are fairly comprehensively considered in IFC and MIGA's extractives projects, despite the absence of any mandatory requirements to do so (section 6.3). There is further scope to maximize economic opportunities, particularly through more proactive approaches to procurement, employment, and reinforcement of economic infrastructure. This will require clearer allocation of responsibilities between investment and underwriting and environmental/social staff.

IFC and MIGA should clarify where the responsibility lies for ensuring that socio-economic development issues (relating to employment, procurement, and economic infrastructure) are dealt with. They should develop improved guidance, both for internal use and for clients, on the economic development issues that should be considered and how, the obstacles that often exist to maximizing potential opportunities, and how to overcome such obstacles to extract the maximum advantage from extractives projects.

Sustainability innovations are emerging – albeit in an ad hoc manner

For most projects, proactive initiatives – sustainability innovations – were taken that moved the project beyond 'do no harm'. While innovation varied widely between projects and often followed internationally recognized good practice, all went beyond the basic requirements of IFC and MIGA (section 7.2.).

Some innovations are client led and triggered by the potential for adverse local reaction, or by the recognition of local needs. The benefits to the local community (in terms of job creation, community development and involvement of communities) are maximized in the interest of maintaining good relations. In other cases, IFC or MIGA specialists identified potential problems or needs and encouraged

clients to go beyond compliance. In general, higher anticipated levels of environmental and social impact are a stimulus to greater innovation.

One possible obstacle to sustainability innovations is receptiveness of the client. Another is the absence of prior experience or knowledge by IFC or MIGA specialists of specific innovations that might be applicable.

Although informal sharing of ideas between specialists takes place, IFC and MIGA should explore more formal mechanisms to record and share experiences.

If the business case for sustainability is to be made persuasively, the concept that sustainability innovations have a return on investment should be demonstrated, building upon the body of experience highlighted in 'Developing value: The business case for sustainability in emerging markets' (section 7.2.3.).

IFC and MIGA should develop mechanisms to buy-down or reduce the perceived incremental costs of higher risk sustainability innovations where the returns on investment are not readily demonstrable. Such mechanisms should avoid the provision of any subsidy to the project, while supporting innovation.

Policies and guidelines help to underpin sustainability – but commitment is also important

Less than half of the 52 review criteria were mandated by Safeguard Policy or guideline provisions. For the environmental and social dimensions of sustainability, the sustainability ratings for policy or guideline mandated review criteria was better than for all the review criteria combined. There were few instances where all applicable policies and guidelines had not been considered, and most omissions were thought to be of fairly minor significance in terms of sustainability outcomes.

If extractives projects are to be made more sustainable, this implies a need for greater clarity on a wider set of sustainability

concerns. A number of gaps have been highlighted in the review and referred to above, which need to be filled to make project outcomes more sustainable.

IFC and MIGA should reinforce their existing guidance to more clearly encompass a wider set of sustainability concerns. As the sustainability agenda is evolving, a flexible approach to introducing revisions should be adopted. This should enable both organizations to update internal guidance efficiently and systematically in response to emerging best practice, in support of continuous improvement. Where appropriate, the guidance should clearly identify mandatory requirements.

Commitment is also very important, both on the part of clients and IFC or MIGA staff. In some cases, IFC environment and social staff worked extensively with project sponsors to develop innovative programs or projects. MIGA's ability to have such interactions with clients is limited by the 'do no harm' focus of its procedures, and the relatively shorter processing times of its projects (section 7.2.2.).

MIGA should consider whether the broader advisory services capacity on sustainability within the Bank Group could be harnessed and applied, where its clients express an interest, as an extension of its advisory services. MIGA should also more systematically assess clients' capacity for social and environmental management.

1 Introduction

The World Bank has recently initiated an in-depth independent review of its future role in the extractive industries (oil, gas and mining) with concerned stakeholders (www.eireview.org). The Extractive Industries Review (EIR) aims to produce a series of recommendations that will guide the future involvement of the World Bank Group in the oil, gas and mining sectors, and will be informed by wide-ranging consultations with stakeholders. The EIR is taking place in the context of the Group's overall mission: to reduce poverty and to promote sustainable development.

In response to a request from IFC's Senior Management, the Office of the Compliance Adviser Ombudsman (CAO)¹ committed to making a contribution to the Extractive Industries Review, consistent with its advisory mandate². The overall objective was to explore the extent to which broader sustainability concerns relevant to the oil gas and mining sectors had been dealt with in recent IFC and MIGA projects.

1.1. IFC and MIGA's commitment to sustainability

To varying degrees, both IFC and MIGA have committed to pursuing sustainable development in their investment, underwriting, and advisory services. IFC's mission explicitly refers to promoting sustainable private sector investment. In the Strategic Directions paper approved by IFC's Board in May 2001, reference is made to the concept of sustainability and a move towards a sustainability approach to measuring performance (economic prosperity, environmental quality, and social equity). More recently, IFC articulated a view of sustainability that also includes corporate governance. These four aspects of sustainability have been integrated into IFC's Sustainability Framework, which has been designed to assess the added value of IFC projects and support IFC's efforts to promote the business benefits of sustainability to clients.

There is no specific mention of sustainability in MIGA's mission, which is to promote foreign direct investment in order to improve people's lives and reduce poverty. However, it is MIGA's view that acceptable environmental performance, sustainability with respect to natural resource management, and social soundness are critical factors in the "...economic soundness of the investment and its contribution to the development of the host country" (as mandated by MIGA's Convention). MIGA evaluates projects in terms of its own environmental policies and guidelines, and its review procedures refer to the need to "ensure that projects meet MIGA's commitment to environmentally sustainable and socially responsible projects". MIGA therefore has a project level commitment to sustainable development, and its review procedures are primarily aimed at the avoidance of environmental or social harm. MIGA's view is that its activities supplement those of the rest of the World Bank Group and are one element in a wide range of initiatives that promote sustainable development and reduce poverty.

1.2. Sustainability and the extractive industries

There is a growing awareness and emerging consensus on some of the factors that influence the sustainability of oil, gas and mining projects. These have been incorporated into the

¹ The CAO is an independent office that reports to the President of the World Bank Group. Its mandate is to help IFC and MIGA address complaints made by people who are or may become directly affected by projects in which IFC or MIGA play a role, and to enhance social and environmental outcomes (www.cao-ombudsman.org).

² The CAO has three distinct roles: the Ombudsman, Compliance, and Advisory roles. The third of these is to be a source of independent advice to the President.

analytical framework for this review. This comprised issues that are currently required under IFC and MIGA's Safeguard Policies and guidelines, and issues that, while not required, are nonetheless relevant to sustainable development in the extractives sectors. These are distinguished throughout the review by references to mandatory and non-mandatory review criteria (see Box 1). It should also be noted that some people consider extractive industries to be inherently unsustainable.

The emphasis has been on reviewing whether the broader issues (mandatory and non-mandatory) influencing the sustainability of extractives projects have been considered and adequately dealt with prior to Board approval and during implementation. This has included the following three broad categories:

- **Environmental dimensions:** including issues relating to hazardous materials management and transportation, site contamination, biodiversity protection, water and hydrology, air quality and specific issues relating to closure.
- **Social development and impact dimensions:** including issues relating to migration and resettlement, land rights and indigenous peoples, conflict and human rights, consultation and community participation, community development and labor.
- **Economic and governance dimensions:** including issues relating to revenue management, corruption, political stability, linkages to the local economy and wider economic development.

Under the umbrella of these three broad categories, 52 individual review criteria and 16 clusters of criteria were identified that formed the basic analytical framework for the review, which is described in chapter 2.

1.3. Scope of the review

The scope of the review was restricted to IFC and MIGA's experience with extractive industries projects that have received Board approval subsequent to IFC adopting its safeguard policies (September, 1998), and the adoption of MIGA's environmental assessment policy and procedures (July, 1999). The review looked at eight projects in detail; four mining, and four oil and gas.

With the overarching objective of exploring the extent to which broader sustainability concerns relevant to the oil gas and mining sectors had been addressed in recent IFC and MIGA projects, the CAO considered whether:

- The interpretation and application of IFC and MIGA's Safeguard Policies and guidelines has enhanced the sustainability of recent extractive industry projects;
- All relevant issues were considered during the appraisal of recent extractive projects.

Given the recent nature of the projects under consideration (i.e. FY2000-2002), the review did not include any in-depth consideration of financial sustainability or the broader development impact of the projects; this is the primary focus of a separate OED/OEG joint evaluation³. The

³ This focus on current practice within IFC and MIGA is complementary to a joint evaluation of World Bank Group activities in extractives industries by the Operations Evaluation Department (OED) of the World Bank, the Operations Evaluation Group (OEG) of IFC, and Operations Evaluation Unit (OEU) of MIGA. Their evaluation will mainly consider projects that have been approved for at least 5 years and focus on how effective the World Bank Group has been in maximizing the sector's sustainable development potential (see [www.eireview.org/eirhome.nsf/\(doclibrary\)/](http://www.eireview.org/eirhome.nsf/(doclibrary)/) for an approach paper).

broader question of whether individual projects would have (on balance) a positive development impact was therefore not considered. Additionally, the lack of maturity of the projects restricted an assessment of the implementation stage of the project cycle, particularly in relation to areas such as local community development. The focus was therefore on how the preparation of projects paved the way for more sustainable project outcomes.

Box 1. What distinguishes mandatory from non-mandatory review criteria?

During the appraisal of a project, IFC and MIGA identify the Safeguard Policies and guidelines that are applicable*. If they proceed to invest in (IFC) or provide a guarantee to (MIGA) the project, its performance is monitored against the applicable standards. Projects are expected to comply with all applicable Safeguard Policies and guidelines, as well as applicable local, national, and international laws. Hence for the purposes of this review, the provisions of Safeguard Policies and guidelines are referred to as **mandatory** review criteria. This includes the following policies:

- OP4.01 Environmental Assessment (October 1998)
- OP4.04 Natural Habitats (November 1998)
- OP4.36 Forestry (November 1998)
- OP4.37 Safety of Dams (September 1996)
- OP7.50 International Waterways (November 1998)
- OD4.20 Indigenous Peoples (September 1991)
- OD4.30 Involuntary Resettlement (June 1990)
- OPN11.03 Cultural Property (September 1986)
- Policy Statement on Child and Forced Labor (March 1998)

The following guidelines of relevance to extractives were also considered mandatory:

- Oil and Gas Development (Onshore) (July 1998)
- Oil and Gas Development (Offshore) (December 2002)
- Mining and Milling (Underground) (August 1995)
- Mining and Milling (Open pit) (August 1995)
- Base Metal and Iron Ore Mining (July 1998)
- General Health and Safety guidelines (July 1998)
- Hazardous Materials Management Guidelines (December 2001)

In addition, a wider set of emerging issues, which are not currently addressed by any of the above policies or guidelines, have an influence on the sustainability of oil, gas and mining projects. These have been incorporated into the analytical framework for the review, but are referred to throughout the report as **non-mandatory** review criteria. Just over half of the 52 individual review criteria fall into this category.

***Note:** With the exception of an Environmental Assessment policy, MIGA has not yet adopted its own set of issue specific Safeguard Policies. However, it is MIGA's policy that the projects it insures are consonant with the IFC's policies, and the guidelines are common to both MIGA and IFC.

The review did not assess whether individual projects evaluated as part of the review are in compliance with relevant Safeguard Policies. The intent of the review has been to learn from the range of experiences across a number of projects, rather than to comparatively evaluate

individual projects against one another. This is consistent with the CAO's mandate of enhancing outcomes.

1.4. Context of the review: looking to the future

It is important to acknowledge that the review methodology holds all projects to a very high standard. Many of the review criteria are at the leading edge of the sustainability debate for the extractives sectors, and more than half are not currently anchored in either Safeguard Policy or guideline provisions. These same provisions impose more stringent environmental and social requirements on IFC and MIGA than perhaps any other international financial institution, and the review found evidence that these mandatory requirements are being systematically met.

The review is therefore forward looking, and considers to what extent IFC and MIGA are starting to consider this wider set of sustainability criteria, in addition to the provisions of Safeguard Policies and guidelines. In this respect, it goes far beyond many of the social and environmental requirements that IFC and MIGA currently subscribe to, and which are embodied in their Safeguard Policy and guideline commitments. This is an important consideration in framing the findings, emerging lessons, and recommendations.

1.5. Target audience for the report

This report is first and foremost intended as a contribution to the EIR process, to help inform the participants and other interested parties of the most recent practices within IFC and MIGA for a range of projects, examined through the application of a set of sustainability 'filters'. Secondly, the report should be of interest to IFC and MIGA who are a key stakeholder in the EIR process, and who have a vested interest in its outcome. It may also be of interest to a wider set of stakeholders who have an interest in the EIR process, including Non-Governmental Organizations (NGOs) and extractive sector companies.

1.6. Route map to the report

This introductory chapter is followed in chapter 2 by a detailed description of the analytical framework applied to the review, some basic details on the individual projects that were considered in the review, and a discussion of methodology. Chapter 2 also describes some of the limitations associated with the framework and methods, and the significance of these limitations.

The next five chapters explore the extent to which the review criteria were met in the projects which were reviewed. They adopt an issue-based rather than a project-based focus, and discuss how well the projects performed when rated against mandatory as well as non-mandatory review criteria. Of particular interest was the variation in scores:

- Between the different dimensions of sustainability.
- Across the range of projects.
- Across the clusters of review criteria within each of the three dimensions of sustainability.

Chapter 3 begins with a comparison of the performance⁴ of IFC and MIGA for each of the three broad dimensions of sustainability (section 3.1), followed by a discussion of the variability in performance between individual projects (section 3.2).

⁴ Performance in this context refers to how the projects scored against the review criteria on a scale of 0-3, as opposed to financial or economic performance.

The next three chapters assess the performance of the eight projects against the sustainability review criteria under three headings: environmental dimensions (chapter 4); social development and impact dimensions (chapter 5); and economic and governance dimensions (chapter 6).

Chapter 7 discusses assurance mechanisms and sustainability innovations. Finally, the recommendations for IFC and MIGA emerging from the review are summarized separately in chapter 8.

2 Analytical framework and approach

This chapter describes the analytical framework and approach to the review. The stages in the review were as follows:

- Identify the sustainability review criteria relevant to the extractive sectors and subject these to peer review and comment.
- Develop an analytical framework to consider the applicability of the review criteria to individual projects, and the extent to which relevant review criteria were adequately dealt with.
- Identify criteria for selecting a sample of extractives projects from the portfolio, and select eight projects.
- Apply the analytical framework to the eight projects, based on a combination of desk-reviews, interviews, and field visits.
- Determine the extent to which IFC and MIGA policies, guidelines, and procedures provided a basis for addressing broader sustainability review criteria, the relevance of other factors, and the significance of any gaps or deficiencies.

Some of the key stages are discussed in greater detail below, or in associated Annexes.

2.1. Basis for selecting review criteria to be addressed and projects

An initial list of review criteria was produced, based on a review of the literature, consideration of the provisions of the safeguard policies and guidelines, and the perspectives of the review team. This was refined with the input of an internal steering group⁵ to 52 individual review criteria, which were grouped into 16 clusters of criteria. These were in turn grouped under the three broad headings of: (i) environmental dimensions; (ii) social development and impact dimensions; and (iii) economic and governance dimensions. The full list of review criteria is included in Annex 1.

These review criteria include, but are not limited to, the provisions contained within IFC and MIGA's policies and guidelines. Whereas the Safeguard Policies and guidelines aim to ensure IFC and MIGA's projects 'do no harm'⁶, the wider remit of this review required a broader set of issues and concerns to be addressed (for example, revenue management, conflict, human rights, and community development). The Terms of Reference for the review (which listed the review criteria to be considered) was also submitted to the CAO Reference Group⁷ for comment.

⁵ This included staff from CES (IFC's Environment and Social Development Department), OEG (IFC's Operations Evaluation Group), COC (the World Bank/IFC Oil, Gas, Chemicals and Mining Department) and MIGEV (MIGA's Policy and Environment Department). The steering group provided guidance to the review based on in-depth sector-specific experience.

⁶ The term 'do no harm' is somewhat misleading, as Safeguard Policies and guidelines set limits on the magnitude and extent of harm that is permissible. Furthermore, some Safeguard Policies intend to 'do good' as well.

⁷ The Reference Group includes a number of individuals from all stakeholder groups that interact with the CAO including NGOs, participants from industry, and staff of the World Bank Group (see <http://www.cao-ombudsman.org/>).

The selection of projects was designed to ensure a wide geographic distribution of projects, a balanced sectoral spread between mining and oil and gas, and a range of types of investment. Some basic details on the projects selected are given in Table 2.1.

Table 2.1 Details of projects included within the scope of the CAO Review				
Country	IFC/ MIGA	Sector	Description	Environmental Assessment category
Russia	MIGA	Oil and gas	Expansion of onshore oil field	B
Kazakhstan	IFC	Oil and gas	Expansion of onshore oil field	B
Guinea	MIGA	Mining	Modernization of bauxite mine and processing plant	B
Mexico	IFC	Mining	Rehabilitation and expansion of silver mine	A
Pakistan	IFC	Oil and gas	Expansion of gas field	B
Brazil	IFC	Mining	Expansion of iron ore operation	A
Lao PDR	IFC	Mining	Greenfield gold mine	A
Gabon	IFC	Oil and gas	Offshore oil field	B

2.2. Development and application of the analytical framework

An analytical framework was derived in matrix format based on the ‘short-list’ of 52 review criteria referred to above (see Annex 1). The framework was designed to: (i) assess the relevance of each issue to a given project, (ii) review the extent to which each issue had been adequately assessed, mitigated, or managed, and (iii) assign a scoring based on a simple numeric scale (see table 2.2), which reflected how comprehensively review criteria had been addressed. Individual matrices were completed for each of the eight projects, which provided much of the basic data for the review.

An overall rating of comprehensiveness was assigned to each issue (for each project). The guidance in Table 2.2 assisted with the rating of comprehensiveness, supplemented by more issue specific guidance in Annex 1.

Table 2.2 Guidance on comprehensiveness rating of review of criteria	
Rating	Guidance on rating
N/A	Issue not considered as it is not applicable to the project
0	Issue not considered, but it ought to have been as it is relevant to the project
1	Cursory treatment of the issue in assessing significance and developing mitigation measures or management plans
2	Fairly comprehensive treatment of the issue, although some aspect of the assessment of significance, or development of mitigation measures or management plans should have been more robust
3	Comprehensive treatment of the issue

Separate ratings were allocated to each issue based on whether it had been considered, its significance appreciated, and mitigation measures developed (where applicable). These were aggregated to provide one overall score for each issue. In practice, it was not always easy to

un-bundle the assessment of significance from the adequacy of mitigation measures, and vice versa. Overall the review was concerned with whether there was a link between the level of due diligence that had been undertaken, and that which ought to have been applied. This fundamental consideration helped to guide the allocation of ratings.

2.3. Ground-truthing the results of desk reviews

For three of the eight projects that were fully operational, site-visits were undertaken to ground-truth the results of the desk reviews. In almost all cases the adequacy ratings assigned by field-based and desk-based review team consultants (who were not appraised of each other's results) were identical. The minor differences observed resulted from the availability of supplementary information at the project sites, or differences in professional judgment.

2.4. Assessing the extent to which review criteria had been addressed

The final step involved analyzing the results of the desk reviews and reports of site-visits to determine the extent to which the wider set of review criteria (i.e. sustainability issues) had been addressed. In addition, the factors influencing the consideration of review criteria were explored.

2.5. Basis for project selection and methodological limitations

The selection of a representative cross-section of projects was considered critical to the validity of the review. The approach adopted was to identify all recent IFC and MIGA projects in the oil, gas and mining sectors (23 projects between FY2000-2002), and to apply a set of selection criteria to produce a sample of eight projects. Three of these projects had been closed and were excluded. A further 7 projects were subject to some other type of review or evaluation (either an Ombudsman process, Safeguard Policy Review field visit, or Inspection Panel process). From the remaining short-list of 13 projects, a wide geographic distribution of projects was sought, with a balance between oil and gas and mining. No Financial Intermediary (FI) projects were included in the sample⁸.

While the selection criteria aimed to produce a representative range of projects, it resulted in a number of unintentional biases. For example, some more controversial projects were excluded from the sample because they were subject to an Ombudsman or Inspection Panel investigation. This limited the number of Category A projects that were left for inclusion in the final sample (three out of eight). But it also eliminated the Chad-Cameroon pipeline project, which is illustrative of a more innovative (albeit as yet unproven) approach to issues such as revenue management.

The sample size is not sufficiently large to provide for detailed statistical analysis. The results represent a snapshot of current practices rather than a complete and comprehensive picture. However, given the total number of possible sample projects, this limitation would have applied even had all 23 projects been reviewed. Furthermore, some of the review findings stem from the absence of systematic approaches to dealing with or reporting on some aspects of sustainability. In this respect, such findings are independent of sample size and therefore valid. Other methodological limitations are discussed in Annex 2. In the opinion of the review team, the inherent biases do not compromise the overall value of the review nor adversely influence the conclusions.

⁸ While some IFC and MIGA supported FIs may invest in extractives companies, the exclusion of FI projects reflects the limited availability of sub-project information for the purposes of review. The recently completed IFC Safeguard Policy Review report makes specific recommendations pertaining to FIs.

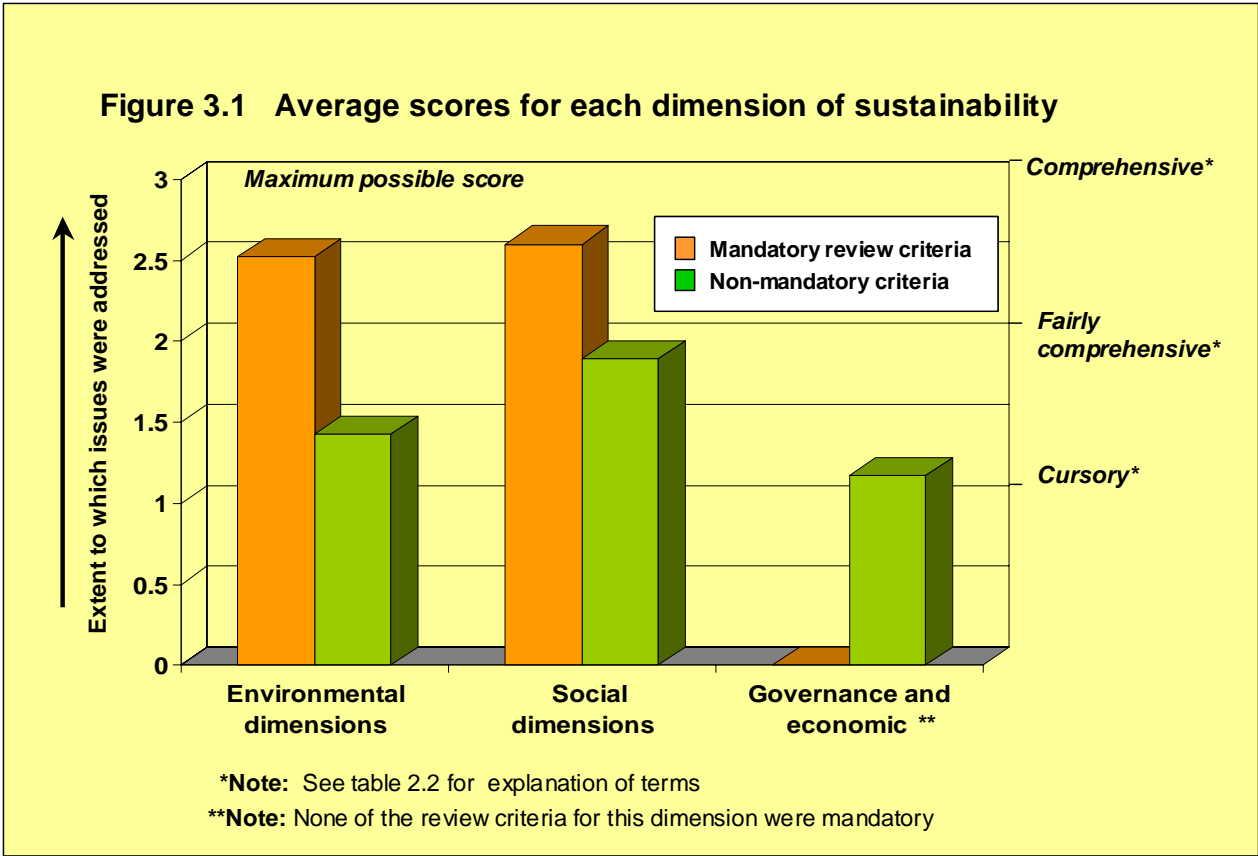
The discussion throughout the following chapters refers to the scoring system explained in Table 2.2 above for comparative purposes, so familiarity with this table is a prerequisite to understanding the narrative and interpreting the scores. The scores reflect the extent to which review criteria had been considered, their significance appreciated, and mitigation measures developed. A score of 0 indicates that an issue was not considered, but ought to have been as it was relevant; 1 indicates that an issue was only cursorily treated; 2 indicates that an issue was fairly comprehensively dealt with; and 3 that it was comprehensively treated. The scores for mandatory and non-mandatory review criteria are presented separately, to enable a comparison between how IFC and MIGA are performing with respect to the review criteria that are mandatory, and those that are emerging as important for the sector.

3 Variations between dimensions of sustainability and between projects

This chapter begins with a comparison of the performance of IFC and MIGA for each of the three broad dimensions of sustainability (section 3.1), followed by a discussion of the variability in performance between individual projects (section 3.2).

3.1. Variation between different dimensions of sustainability

The review considered how well IFC and MIGA performed with respect to the three broad dimensions of sustainability: environment, , social development and impact, and economic and governance. This is illustrated in Figure 3.1, which compares the average scores per review criteria for each of these three dimensions. Overall, the average scores for the mandatory social and environmental review criteria were both markedly higher and similar (2.6/2.5), while the scores for the non-mandatory social dimensions averaged 1.8, somewhat higher than for environment (1.4). The scores for the economic and governance dimensions were lowest (1.2), but it is important to note that none of the review criteria for this dimension were mandatory. The performance of these three dimensions is discussed in detail in subsequent chapter, but a few overall observations are worth noting.



Firstly, the overall average scores for the mandatory social and environmental review criteria of 2.6/2.5 (out of a maximum of 3) indicate that these review criteria are generally treated comprehensively. In practice, this means that such issues are systematically considered, their

significance is adequately assessed, and that mitigation measures or management plans have been developed. The marginally higher scores for the social dimension are interesting, given that IFC and MIGA have had a longer history of dealing with environmental as opposed to social issues. One possible explanation is that a relatively higher proportion of the mandatory social review criteria were rooted in Safeguard Policy provisions as opposed to guidelines (as review criteria embedded in policy provisions scored marginally higher than those in guidelines), but the overall difference between social and environmental scores was negligible.

There was an apparently marked difference between the scores for the non-mandatory environmental review criteria and social review criteria, with the average scores for environmental criteria falling below half the maximum (1.4 out of 3). This is primarily because only two of the five clusters of environmental requirements had non-mandatory review criteria, and the average scores for one of these were very low. So the 'marked difference' is to some extent exaggerated by the very low numbers of non-mandatory environmental requirements, and is not thought to be significant. This aspect is discussed in greater detail in chapter 4.

With respect to the economic and governance dimensions the scores indicate that on average, this cluster of criteria has only been considered to a limited extent (or cursorily) during project preparation, based on a review of the available documentation. One obvious explanation is that neither IFC nor MIGA have any Safeguard Policies or guidelines that require them to consider such issues. Furthermore, both organizations contend that the scores fail to reflect that some of these issues are in fact considered, but that this is not necessarily shown in the project documents.

While MIGA routinely considers issues relating to in-country corruption and political stability as an integral part of its business model (which was reflected in MIGA's reporting on such issues and related scores), it has no mandate to actively mitigate these risks through specific actions; their analysis is used in the determination of political risk insurance premiums. The lower scores for the economic and governance dimension may also reflect the perception by IFC that these issues are not relevant to many of the sample projects, given their relatively modest contribution to government incomes and the limits this places on IFC's leverage. These aspects are explored in greater detail in chapter 6.

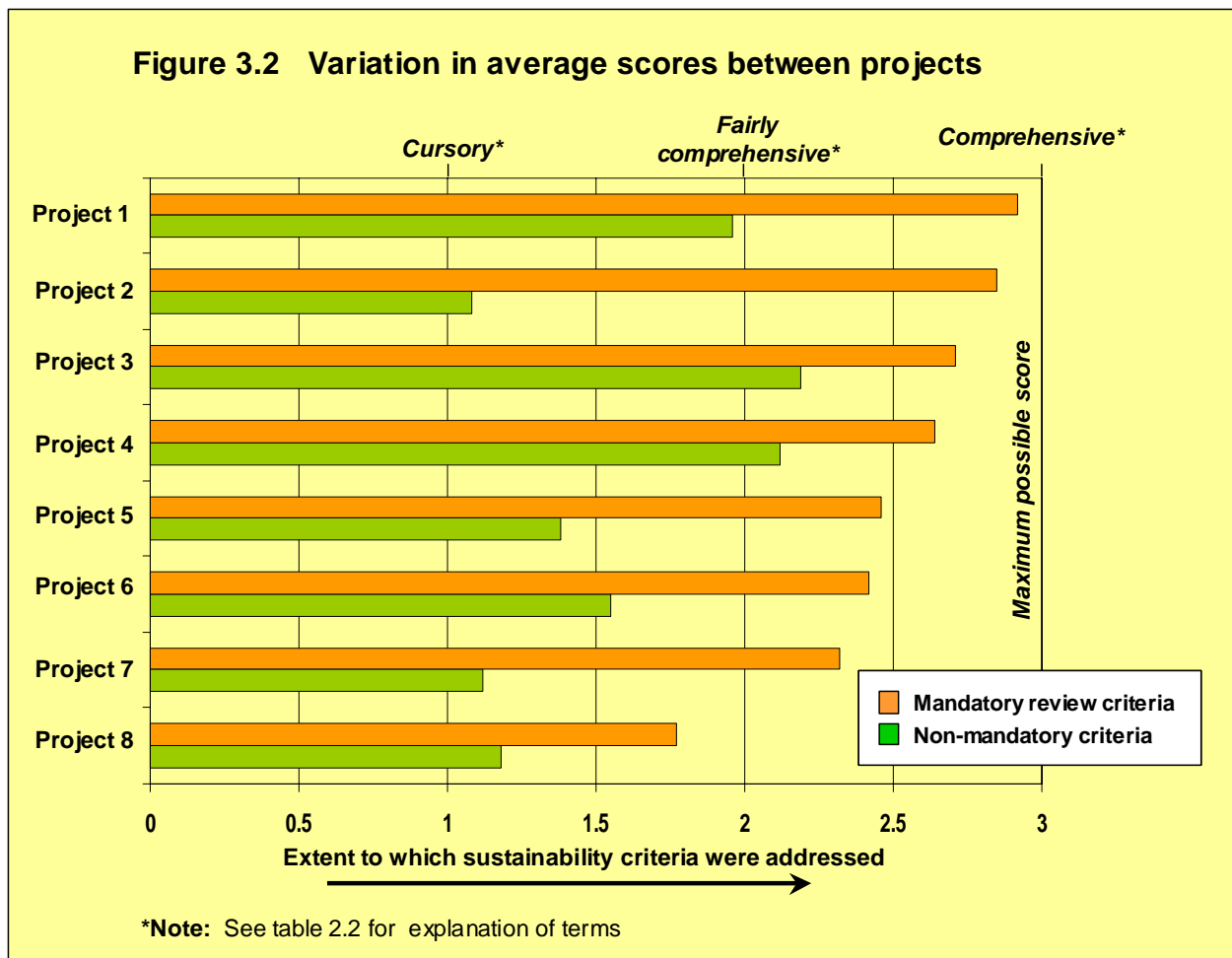
Overall less than half of the individual review criteria were mandated by Safeguard Policy or guideline provisions. Given the higher average scores for mandatory social and environmental review criteria, the existence of policies and guidelines appears to have a positive influence in ensuring that review criteria are met – which is supported by the strong culture of compliance within IFC and MIGA. This effect appears to be marginally stronger for policies than for guidelines, as the average score for all Safeguard Policy mandated review criteria is 2.51 compared with 2.45 for guideline mandated review criteria.

3.2. Variability between projects: were some better than others?

It is interesting to note the range of variability in scores between projects, and to consider the sources of this variability. The distribution of scores for individual projects (excluding review criteria that were not applicable) is illustrated in Figure 3.2. The variability in average scores per issue between projects was high, with scores for mandatory review criteria averaging 1.8 – 2.9 (out of a possible maximum of 3) and for non-mandatory review criteria averaging 1.1 – 2.2. With one exception, the average scores for mandatory review criteria exceeded 2.3 and the average score for all review criteria across all projects was 2.1. So on balance, most review criteria were fairly comprehensively dealt with.

Why did some projects perform much better than others against the review criteria? A number of factors appear to have had an influence, although their subjective nature makes a definitive prioritization difficult. The commitment and capacity of the client appears to have been very significant. Even where the client's capacity for environmental and social management was limited, in almost all cases they exhibited a strong resolve to do the right thing, which manifested itself in positive actions on the ground. For example, in two of the projects visited, clients were unaware of some specific requirements of IFC or MIGA, but had nonetheless made considerable efforts that exhibited a strong social or environmental commitment. Where commitment was matched by capacity, the overall scores improved.

Public consultation (and in particular public involvement) may also have been important, as the higher scoring projects overall also scored highly on this aspect. Environmental Assessment (EA) categorization appears to have been a less important factor. One might have expected a greater level of attention to a wider set of review criteria with the three IFC category A projects (compared to category B projects), but this was not the case. As both MIGA projects were category B, there was no basis for internal comparison between As and Bs. However, MIGA's Category B projects scored less well than those of IFC. This reflects MIGA's almost exclusive focus on Safeguard Policy compliance, which means that it pays limited attention to value-added activity (through consideration of the non-mandatory criteria).



The investment of effort by IFC and MIGA's environmental and social staff in individual projects would also appear to be very important. Some specialists adopted a more hands-on or hand-holding approach than others, which appears to have paid dividends. The scale of the potential impacts was sometimes important; for example, the greater the potential impacts the more leverage IFC or MIGA may have had to push for a higher standard of mitigation. Some smaller clients had less capacity to deal with environmental and social issues (although commitment may have been high), so the size of the project may also have been a factor.

Higher scores imply more sustainable project outcomes. The highest scoring projects are also those in which IFC has worked collaboratively with sponsors to enhance project sustainability. However, one of the lowest scoring projects had a significant development benefit, at least in the short-term (as it prevented an enterprise from closing, which would have had wide-ranging social impacts, and provided a revenue stream to finance much needed environmental investments). While this project represents an exception, it illustrates the importance of considering the broader context and the potential value of applying appropriate weighting or ranking criteria (which were not applied for this review).

In summary, a range of factors influenced the attention to environmental and social issues, some of which were unique to clients or projects and some that pertained to IFC and MIGA. The following chapters discuss IFC and MIGA's performance against the three dimensions of sustainability in greater detail.

4 The environmental dimension

Five groups of review criteria were considered under the environmental dimension of sustainability, including issue clusters (in brackets below) designed to ensure the consideration of:

- The handling, storage, transport and overall management of hazardous materials, site contamination, and the disposal of wastes (**Hazardous materials and site contamination**);
- Mine closure or facility decommissioning, including financial provision for closure and action in the event of unanticipated closure (**Closure and decommissioning**);
- The protection of surface and subsurface waters and hydrology, and whether key safeguards on either Dam Safety (OP4.37) or International Waterways (OP7.50) are triggered (**Water and hydrology**);
- Biodiversity protection including provisions for rare and endangered species, as well as broader ecological impacts (**Ecological assessment and mitigation**); and
- The protection of air quality, both in the immediate vicinity of the project and in relation to global concerns such as ozone depleting substances and greenhouse gases (**Air quality**).

These five issue clusters encompass a range of mandatory and non-mandatory review criteria, which are linked to environmental sustainability. However, in contrast to the economic and governance dimension (where all the criteria were non-mandatory) and the social development and impact dimension (where many review criteria were non-mandatory), only a few non-mandatory environmental criteria have been considered. This is because most of the emerging issues for the extractives sectors are in the governance and social arenas, whereas environmental due-diligence is better established. An overview of the performance of the eight projects against these review criteria has been given in section 3.1. A more detailed discussion of the scores for each cluster of review criteria is given below, with a distinction between mandatory and non-mandatory review criteria. The distributions of scores are illustrated in Figure 4.1.

4.1. Hazardous materials and site contamination

This broad category of review criteria asked whether the following had been considered:

- The identification of all environmental hazards and assessment of related risks (mandatory under the guidelines on Hazardous Materials);
- The handling, storage and overall management of hazardous materials (mandatory under the guidelines on Hazardous Materials);
- The disposal of hazardous and other waste materials (mandatory under the provisions of guidelines for mining and oil and gas projects);
- The presence of site contamination and potential for future contamination of soil or groundwater and any interactions with contamination from neighboring projects (non-mandatory).

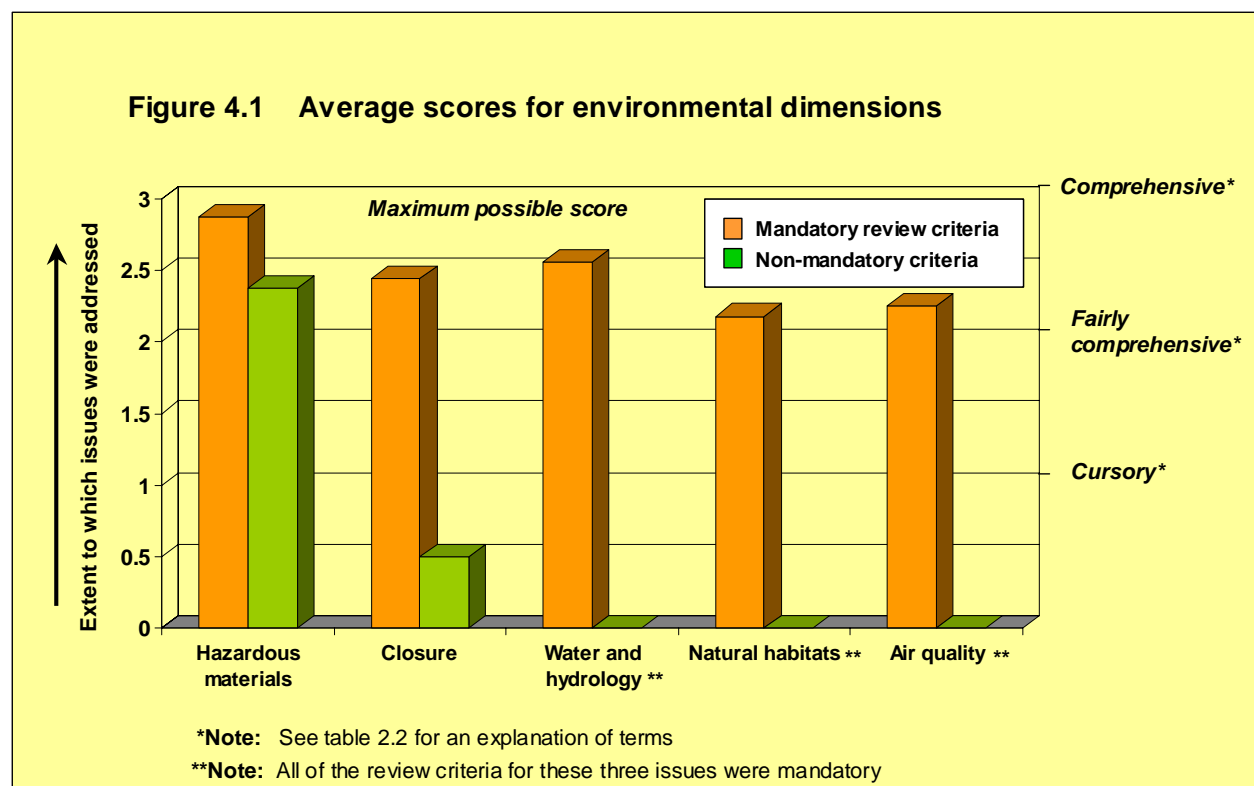
Discussion of review findings

With few exceptions, the mandatory review criteria under this cluster were addressed comprehensively, with an average score of 2.9 across the eight projects (see Figure 4.1). One exception was the absence of any mention of Operational Policy 4.09 on Pest Management for any of the projects. This aspect is not considered to be very significant however, and has therefore not been reflected in the overall scoring. Encouragingly, the non-mandatory aspects

also scored well with scores averaging 2.4, indicating that these issues were dealt with fairly comprehensively.

There was considerable variation in the level of assessment in the project documentation (for mandatory and non-mandatory criteria) and in the details provided for different projects. A certain amount of latitude has been given by the review team in scoring individual projects. For example, some projects provide details on the management procedures for specific hazardous materials, whereas others mention that detailed emergency response plans (or spill prevention plans) have been or will be developed. As these aspects are often dealt with within separate documents that were not available to the review team, the relatively high scoring reflects the benefit of doubt. However, in light of historical incidents related to hazardous materials within the sector (and IFC/MIGA's portfolios), there is no cause for complacency.

While environmental risk assessments have become accepted industry practice⁹ (particularly within the oil and gas sector), the World Bank's guidance on *Techniques for Assessing Industrial Hazards* (Technical Paper Number 55, 1988) appears to be no longer in common usage nor is it up to date.



4.2. Closure and decommissioning

This cluster of review criteria was concerned with ensuring that:

- All residual environmental impacts had been considered in preparing plans for mine closure or facility decommissioning (mandatory);

⁹ For example, Standards Australia's *Environmental risk assessment: principles and process (HB203:2000)* outlines such an approach.

- Adequate financial provision was made for closure (mandatory for mine closures but not for oil and gas¹⁰);
- Consideration was given to the potential for unanticipated closure to compromise final closure commitments (non-mandatory).

The handling of closure can profoundly influence the long-term environmental and social sustainability of extractives projects. Unless closure is carefully planned, many potential benefits of extractives projects can be undermined in the longer-term. While closure planning should be concerned with social as well as environmental concerns, the discussion here is limited to environmental matters (as many of the social aspects have been addressed more broadly elsewhere). Given that all of the projects reviewed are either very recent or have recently expanded, closure is not imminent. The review was concerned with the existence of closure planning processes and related financial provisions.

Discussion of review findings

The average scores for the mandatory review criteria (2.4) indicate that closure planning is fairly comprehensively addressed (see Figure 4.1). The adequacy of closure provisions was difficult to assess however, as detailed closure plans are not available at the outset of projects. While not explicitly considered as part of the review criteria, most mining projects made some reference to the inclusion of socio-economic considerations in mine closure plans.

The non-mandatory review criterion questioned whether IFC and MIGA had considered the potential for unanticipated closure to compromise final closure commitments. The scores for this issue were low (averaging 0.5). Although some extractives companies address such issues (for example through posting a financial surety or bond), in other cases funding for closure may accrue throughout the lifetime of a project. This may be important where early closure has the potential to cause significant adverse environmental impacts, and there are insufficient closure funds to mitigate these impacts.

Within the mining industry, closure estimates typically increase in the latter stages of mining. There are currently no provisions for ensuring that clients continue to make financial provisions for closure once IFC or MIGA have exited a project.

4.3. Water and hydrology

All the review criteria under this heading were treated as mandatory, as they are either required under Safeguard Policy provisions, or extractives guidelines. These included whether consideration had been given to:

- Adverse impacts on surface water, hydrology, and ground waters (including impacts on competing water users);
- Impacts on International Waterways (under Operational Policy 7.50), which was applicable to one of the projects;
- Impacts relating to construction and operation of tailings dams (historical ambiguities regarding the applicability of OP4.37 on Safety of Dams to tailings dams have been addressed by the IFC with the issue of a September 1999 Draft Policy).

¹⁰ The Base Metal and Iron Ore Mining guideline specifies requirements for mine closure and restoration plans, and includes a requirement to make financial provision for closure over the life of the mine. In the absence of specific guidelines for other metals (such as copper and gold) or any mention of financial provision in the interim Mining and Milling Open Pit or Underground guidelines, all four mining projects included either provisions to set money aside for closure on an ongoing basis (3 projects) or for ongoing reclamation (1 project). The Oil and Gas Development (Onshore) guideline also requires the preparation of a reclamation and closure plan, but there is no requirement on financing closure.

Discussion of review findings

The average scores for the review criteria of 2.6 indicate that they are treated comprehensively. The main areas for improvement relate to more thorough assessment of the impacts on groundwater and on competing water users, which were not consistently assessed.

4.4. Ecological assessment and mitigation

This cluster of mandatory review criteria is concerned with the protection of biodiversity, and in particular whether the following have been considered:

- Impacts on biodiversity and especially on critical natural habitat, rare, protected, threatened, and endangered species (as mandated by OP4.04 Natural Habitats);
- Potential impacts on forestry resources (in line with OP4.36 Forestry);
- Any other impacts on ecology (which should be routinely considered as part of the environmental assessment).

Discussion of review findings

With the exception of one project, the impacts on biodiversity were fairly comprehensively considered with scores averaging 2.2 (see Figure 4.1), and OP4.04 and OP4.36 were followed where appropriate. However, the level of assessment varied between projects, both in terms of the assessment of the ecological value of affected habitats and the identification of rare, protected, threatened, or endangered species. The latter was often not reported on in any detail.

Where valuable habitats are affected, there is not always adequate provision for mitigation measures. Where impacts on rare, protected, threatened, or endangered species were identified, there was a tendency to accept these impacts as inevitable, rather than develop proactive mitigation measures. Neither the Natural Habitats nor Environmental Assessment policies provide clear guidance on how to approach ecological impact assessment and mitigation.

4.5. Air quality

The mandatory review criteria asked whether the broader impacts on air quality (including contribution to greenhouse gas emissions and ozone depleting substances) had been considered. These issues were fairly comprehensively covered (average scores of 2.2). Only three of the eight projects explicitly considered greenhouse gases. However, in all instances the documentation confirmed that the projects would meet (or were currently meeting in the case of sites visited) prescribed emission limits.

Gas flaring is a major contributor to global CO₂ emissions, which is the rationale behind the Global Gas Flaring Reduction Public-Private Partnership¹¹ announced at the World Summit on Sustainable Development in Johannesburg, August 2002. Two of the four oil and gas projects had minimized flaring of associated gas by recovery for power generation. In another oil project, gas was initially flared but investments were underway for processing and export. In one gas project, a limited amount of non-recoverable gas was flared.

¹¹ See www.ifc.org/ogc/global_gas.htm for more information.

5 The social development and impact dimension

Eight clusters of review criteria were considered under the social development and impact dimension of sustainability. These include a combination of issue clusters (in brackets below) designed to ensure the consideration of:

- People who may have been resettled as a consequence of a project or who may have been impacted by project-related migration or induced development (***Migration and involuntary resettlement***);
- Indigenous peoples or access to land or environmental resources of any people (***Land rights and indigenous peoples***);
- Sites of religious, cultural heritage or archaeological significance (***Cultural property***);
- Consultation with affected communities and others, disclosure of project information, and the involvement of affected people in project decision-making (***Public involvement and disclosure***);
- The local development needs of communities affected by the project (***Community development***);
- The potential for a project to exacerbate conflicts or adversely affect human rights (***Conflict, human rights and labor***);
- The health and safety of the workforce and wider public health implications of the project (***Health and Safety***); and
- The potential for a project to cause a nuisance to nearby communities (***Nuisance and visual aspects***).

These eight issue clusters encompass a range of mandatory and non-mandatory review criteria, which have the potential to impact the well-being and development of communities in the vicinity of extractives projects. An overview of the performance of the eight projects against these review criteria has been given in section 3.1. A more detailed discussion of the scores for each cluster is given below, with a distinction between mandatory and non-mandatory review criteria. The distributions of scores for these clusters are illustrated in Figures 5.1 and 5.2.

5.1. Migration and involuntary resettlement

The review criteria under this heading are concerned with minimizing the adverse social consequences of involuntary resettlement, internal migration, and induced development. These included:

- Whether resettlement occurred or the project involved loss of or disruption to livelihoods, and whether the wider social consequences were adequately dealt with (mandatory where applicable in line with OD4.30 Involuntary Resettlement);
- Whether the potential for internal migration or induced development had been considered, and their related impacts (non-mandatory, but could be covered in environmental or social assessments).

Discussion of review findings

In general, the scores for the mandatory review criteria were very high (averaging 2.8), which indicates that they are comprehensively dealt with where applicable (see Figure 5.1). The average scores for non-mandatory review criteria were lower (2.3), which indicates that there is some scope for improvement in dealing with issues relating to internal migration and induced development. In contrast to resettlement, there is no guidance on how to deal with these specific issues, which may have contributed to the lack of consistency in tackling them.

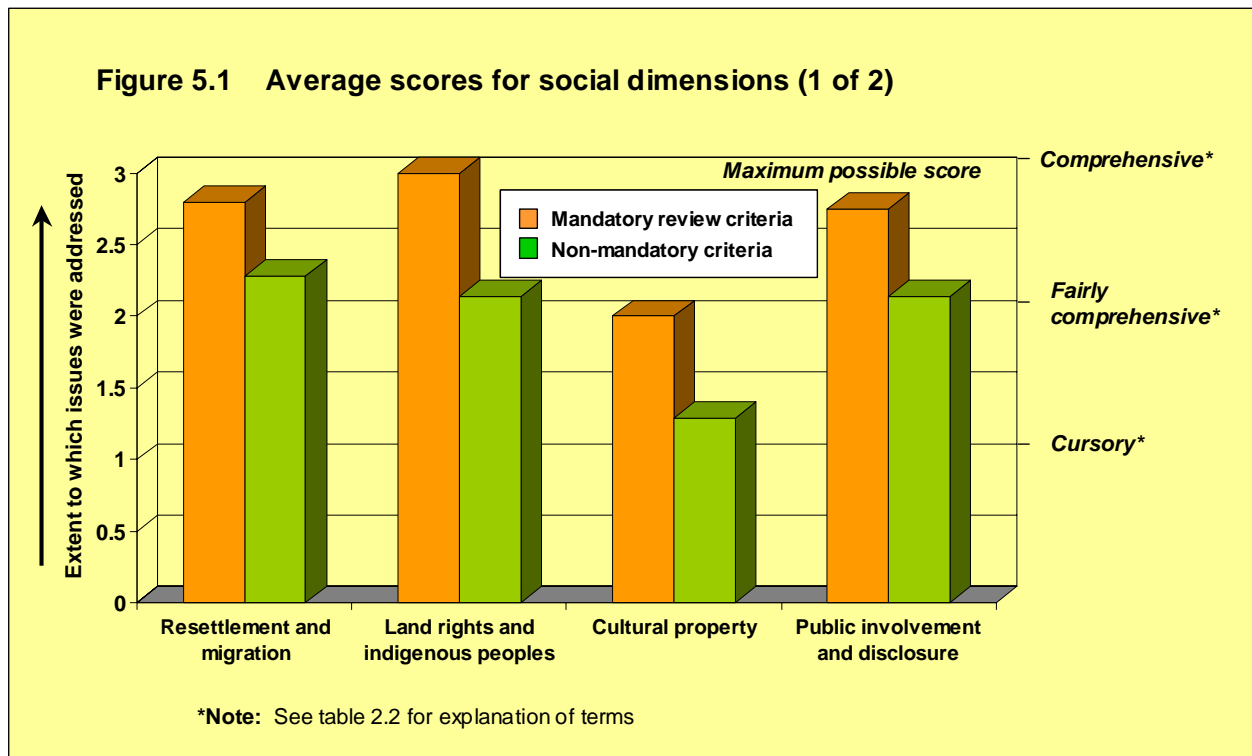
5.2. Land rights and indigenous peoples

The review criteria considered whether:

- Indigenous peoples had been affected and their specific needs taken into account (mandatory where applicable, in line with OD4.20 Indigenous Peoples);
- The broader impacts of disruption of access to land had been considered, irrespective of whether legal or customary tenure applied (mandatory under OD4.30 Involuntary Resettlement), including loss of access to environmental resources (non-mandatory, but could be covered in environmental or social assessments).

Discussion of review findings

In general, scores were very high for the mandatory review criteria (averaging 3.0), despite practical obstacles with more than one project (see Figure 5.1). For example, in two cases local governments refused to acknowledge the legitimacy of all those claiming an interest in land, and intervened to prevent full compensation. In both cases, mechanisms were found to provide surrogate forms of compensation. The non-mandatory review criteria were fairly comprehensively addressed (average of 2.1), but the scores were affected by the inconsistent consideration of loss of access to environmental resources (such as water or forage crops) on state-owned land. However, the attention to these issues was very good where direct loss or impairment of access to titled land occurred. While these review criteria were clearly not relevant to some projects, in one or two cases it was difficult to judge whether the criteria were not adequately dealt or were not applicable.



5.3. Cultural property

The review criteria were concerned with whether consideration had been given to:

- The potential impacts on sites of religious or cultural significance or known archaeological significance (mandatory under OPN 11.03 Cultural Property);
- The discovery of unanticipated finds and how to deal with them (non-mandatory, but especially relevant to some projects).

Discussion of review findings

The scores for the mandatory review criteria were variable (see Figure 5.1), and ranged from full consideration of cultural property to none on one project (with scores averaging 2.0). In other cases, a simple statement was made in the environmental assessment that no cultural property had been affected, but no supporting evidence was provided; in two such cases, site visits confirmed that a more thorough level of assessment had been undertaken but had not been fully reported on. Overall, the level of assessment between projects varied widely, and appeared to be unrelated to the potential value of the affected cultural property.

While efforts were often made to identify and avoid visible sites on the land surface or known sub-surface sites, the discovery of unanticipated finds was explicitly dealt with in only a few cases. The scores for this non-mandatory criterion averaged 1.3. This is likely to be important for some projects, for example where deposition of alluvial sediments may have obscured sub-surface archaeology in culturally sensitive areas. It was difficult to judge whether these issues were not dealt with intentionally, or by omission.

5.4. Public involvement and disclosure

The review criteria applied under this category are concerned with:

- Ensuring that the views of affected and interested parties are listened and responded to (mandatory for IFC projects under the Environmental and Social Review Procedures Guidance Note F, but not for MIGA's category B projects);
- Ensuring that an appropriate level of information disclosure had taken place (mandatory for IFC's category A and B projects, but not for MIGA's category B projects);
- Involving affected parties in social and environmental decision-making (non-mandatory).

Discussion of review findings

Scores were very high for the mandatory review criteria (averaging 2.8), which reflects most clients' understanding of their importance and IFC's insistence on its required levels of consultation and disclosure (see Figure 5.1). It also reflects the growing body of experience and emerging good practice on such issues, particularly within IFC. The scores for the non-mandatory review criteria were fairly comprehensive and were in part depressed by not consistently involving affected parties in decision-making. Another area for improvement is making more explicit the links between consultation outcomes and project decision-making. It was not always clear that the feedback from consultation had an influence on the project, i.e. resulted in design changes that benefited the community or the natural environment.

Most of the review criteria focused on pre-approval consultation, yet the incremental disruption associated with extractives projects, particularly mines, throughout operation, means that ongoing consultation post-approval is also very important.

5.5. Community development projects and programs

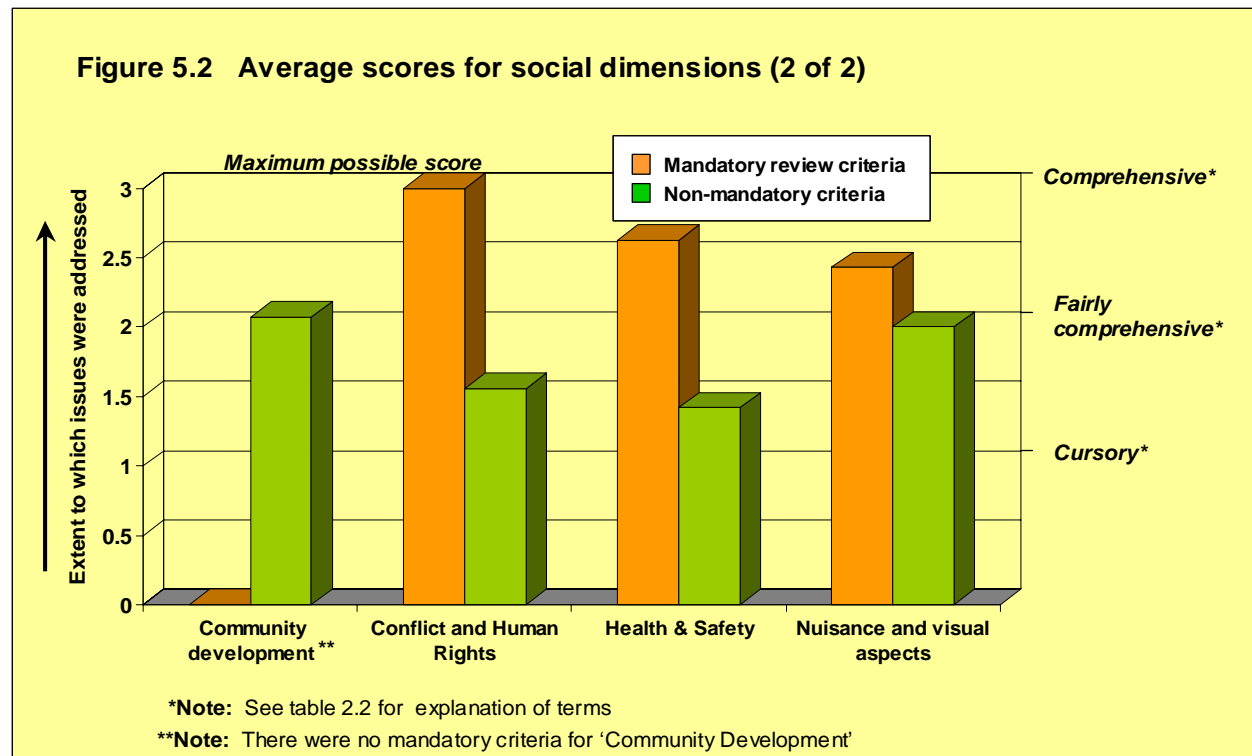
This cluster of review criteria is concerned with the local development needs of communities affected by the project, and the extent to which:

- The companies concerned had implemented projects or programs that benefited the community in terms of social and economic infrastructure (and that are supplementary to any required compensation or mitigation measures);
- Whether such projects and programs responded to the expressed needs of the communities concerned, and whether consideration has been given to ensuring their longer-term sustainability.

It is commonplace for extractives companies to invest in community development initiatives, but the relevance, value, participatory nature, and sustainability of such projects or programs varies widely. The review considered the extent to which projects had invested in community development, and adopted measures that enhanced the longer-term sustainability of such investments.

Discussion of review findings

Although none of these review criteria were mandatory, as illustrated in Figure 5.2, the average scores (2.1) indicate that they were fairly comprehensively dealt with. Given that there are no mandatory requirements for this cluster, this is encouraging. However, in some cases there was no diagnosis of the development needs of the community or no involvement of the community in the diagnosis. The longer-term sustainability of many community projects had either not been considered, or was not reported. In one project, a well-intentioned proposal to support a fish-farming enterprise was made to a community with no such tradition or interest. While most of the community investment projects proposed appeared to be well conceived (as opposed to just well-intentioned), it was not possible to make a qualitative distinction in all cases.



5.6. Conflict, human rights and labor

This cluster of review criteria is concerned with whether the following have been considered:

- The potential for forced labor or child labor and whether the clients were made aware of their obligations (mandatory under the IFC policy on Harmful Child and Forced Labor, and equivalent MIGA provisions that are standard conditions of contracts of guarantee);
- The potential for projects to cause an increase in local disputes, more serious conflicts, and related abuses of human rights (non-mandatory);
- Any measures for the protection or promotion of human or labor rights in the workplace (non-mandatory, other than provisions relating to forced and child labor).

The review criteria for this cluster encompassed a wider set of concerns than IFC and MIGA's mandatory obligations on child labor and forced labor as, perhaps more than any other industrial sector, extractives projects in general have become the focus of concerns relating to human rights. The links between human rights and the use of security forces to protect personnel and assets is one specific area of concern, which a number of governments, companies and NGOs have explicitly acknowledged with the adoption of the US/UK Voluntary Principles on Security and Human Rights¹². It is also noteworthy that a number of other multilateral and bilateral development institutions have publicly expressed support for all core labor standards¹³ (which includes the elimination of discrimination, freedom of association, and effective recognition of the rights to collective bargaining).

Discussion of review findings

The review criteria relating to child labor and forced labor achieved the maximum score of 3 for all projects (see Figure 5.2). However, these issues are included as standard terms in the covenants for IFC's loan agreements and MIGA's Guarantee contracts. The average scores for other non-mandatory conflict, human rights and labor rights review criteria was 1.5. This is not to suggest that all projects are failing as a consequence, but in at least some cases conflict related issues and potential interfaces with human rights ought to have been more explicitly considered in light of the project's context (i.e. in a conflict zone).

The promotion and protection of core labor rights beyond child and forced labor were seldom considered in project documents, and working practices were mixed at the projects visited. For example, in one instance a company had implemented progressive employment practices for directly employed workers, but over half the workforce was contracted and did not benefit from these conditions. In another, while employment conditions were generally good, a recent strike had been suppressed by the military, which imprisoned the strike leaders.

¹² The Voluntary Principles on Security and Human Rights were developed through a process of dialogue between the Governments of the UK and the USA, extractive and energy sector companies, and NGOs with a common interest in human rights and corporate social responsibility. They provide guidance on risk assessment, and on interactions between public or private security forces (including the reporting by companies of any credible allegations of human rights abuses by public security).

¹³ For example, the European Bank for Reconstruction and Development (EBRD) includes an explicit reference to all ILO core labor standards in its recently revised exclusion list, and the Asian Development Bank's (ADB) Social Protection Strategy acknowledges core labor standards as an integral part of its development mission. Similarly, the UK's Department for International Development (DfID) and Germany's Deutsche Investition- und Entwicklungsgesellschaft (DEG) are also supportive of ILO core labor standards.

5.7. Health and Safety in the workplace and surrounding community

The review criteria considered included:

- The health and safety of employees and subcontractors (mandatory);
- Broader potential public health and safety impacts, both positive and negative, such as increased prostitution and sexually transmitted diseases (STDs) including HIV/AIDS, and improved access to medical care (non-mandatory);
- Broader social impacts with a bearing on health such as increased alcoholism, domestic violence, or violence against women (non-mandatory).

The combination of worker health and safety with wider public health concerns is justified on the basis that they are inextricably linked. The potential negative impacts are increasingly well understood, while there is also an emerging body of best practices in areas such as HIV/AIDS by some leading-edge extractives companies. While worker health and safety is frequently managed by a combined Environment, Health and Safety (EHS) function in extractives companies, this cluster of review criteria has been considered under the social rather than the environmental dimension of sustainability.

Discussion of review findings

The overall scores for the mandatory review criteria indicate that worker health and safety was treated comprehensively (averaging 2.6), consistent with the importance placed on these issues within many extractives companies. The scores for the non-mandatory review criteria were much lower (averaging 1.4). While the public health risks of industrial hazards scored highly, the broader public health risks from social impacts such as prostitution, STDs and HIV/AIDS, were rarely considered in any detail.

5.8. Nuisance and visual aspects

This included consideration of:

- Whether nuisance issues such as noise and dust had been addressed (mandatory where referred to in guidelines);
- Whether impacts on the visual environment had been considered (non-mandatory, but may be relevant in some projects).

Discussion of review findings

The mandatory nuisance aspects have been treated fairly comprehensively (with scores averaging 2.4). The impacts on aesthetics and the visual environment (which were non mandatory) were less comprehensively dealt with, with average scores of 2.0. The latter should be factored into environmental and social assessments, particularly where there are nearby communities or where the project is in an area of high amenity value for landscape.

6 Economic and governance dimension

The private sector interpretation of economic sustainability is often simplistically and narrowly equated with financial profitability, measured as the internal or financial rate of return (IRR/FRR). As institutions with a broader development mandate, IFC and MIGA are also concerned with the social returns of projects as expressed by the economic rate of return (ERR), but even this measure may fail to account for all social and environmental externalities and does not include distributional aspects. More importantly, it also assumes that revenues paid to governments will be used for development purposes, which is not always the case. In IFC and MIGA, ERR does not take into consideration the broader governance factors that influence the potential positive benefits of extractives projects' revenues (or so-called second round economic effects), such as government capacity for revenue management, corruption, political stability, and potential to stimulate wider economic development. As these factors can have a profound influence on the sustainability of extractives projects, this review focuses on how IFC and MIGA account for them at the project level.

It is important to acknowledge however, that IFC and MIGA's extractives projects take place in countries where the World Bank has identified an acceptable level of governance. To this extent, IFC and MIGA projects are consistent with the World Bank's Country Assistance Strategies (CASs). In some instances, IFC asserts that this has meant not pursuing potential opportunities in countries where the World Bank has either withdrawn its support (e.g. Equatorial Guinea), or has a limited program of activity (e.g. Angola). Nonetheless, IFC and MIGA's experience in the extractives sectors may highlight issues that could help to shape the CAS process (as discussed below).

It is equally important to acknowledge that none of the review criteria under discussion within this chapter are mandatory. The distributions of scores from 0-3 for the three clusters of criteria reviewed under the economic and governance dimension (revenue management; corruption, political stability and conflict; and economic development) are illustrated in Figure 6.1.

6.1. Revenue management¹⁴

Each project was reviewed against a number of criteria of relevance to revenue management, which included whether consideration had been given to:

- The contribution of the extractive sectors to government revenue, GDP or export earnings, and the impact this had on economic development or diversification, or investments in social and human capital;
- The capacity of governments to manage revenues and the existence of any legal provisions to direct revenues toward investments in social and human capital;
- The disclosure of revenues paid to government (in support of transparency and accountability);
- The prevention of revenues being used to support armed conflicts, the suppression of certain sectors in society, and the encouragement of rent-seeking behavior and poor governance are also of concern (see 6.2).

¹⁴ Revenue comprises project-related taxes, royalties, and other transfers paid by extractive companies to government. Revenue distribution refers to the allocation of these payments among the central, regional, and local levels of government. Revenue management pertains to how these payments are utilized by the public sector to support development at national, and increasingly, at regional and local levels. (Source: Revenue Distribution and Management in IFC projects, monograph of IFC's Operational Strategy Department)

There is no scope to fully explore the relative importance of revenue management within this report. There is however an emerging consensus that revenue management – both at the macro level (in terms of contribution to government revenues and whether these are directed to development priorities), and distributional aspects (between national, regional, and local governments, as well as project affected people) – is a critical issue for the future involvement of the World Bank Group in these sectors. A key consideration is whether the income from non-renewable sub-surface resources can be directed towards economic diversification and enhancing social and human capital, and in the process achieve a sustainable lasting benefit.

The importance of revenue management is driving the *Publish What You Pay* initiative (www.publishwhatyoupay.org) which calls for greater transparency on multinational corporations payments to host countries, and is supported by a coalition of over 40 NGOs including the Open Society Institute in the USA and Global Witness in the UK. Their importance is also highlighted on the website of IFC's Oil, Gas and Chemicals Department (which as of July 2002 also incorporates Mining). IFC's Executive Vice President Peter Woicke has also called on extractives companies to disclose payments in the interests of greater transparency.

Discussion of review findings

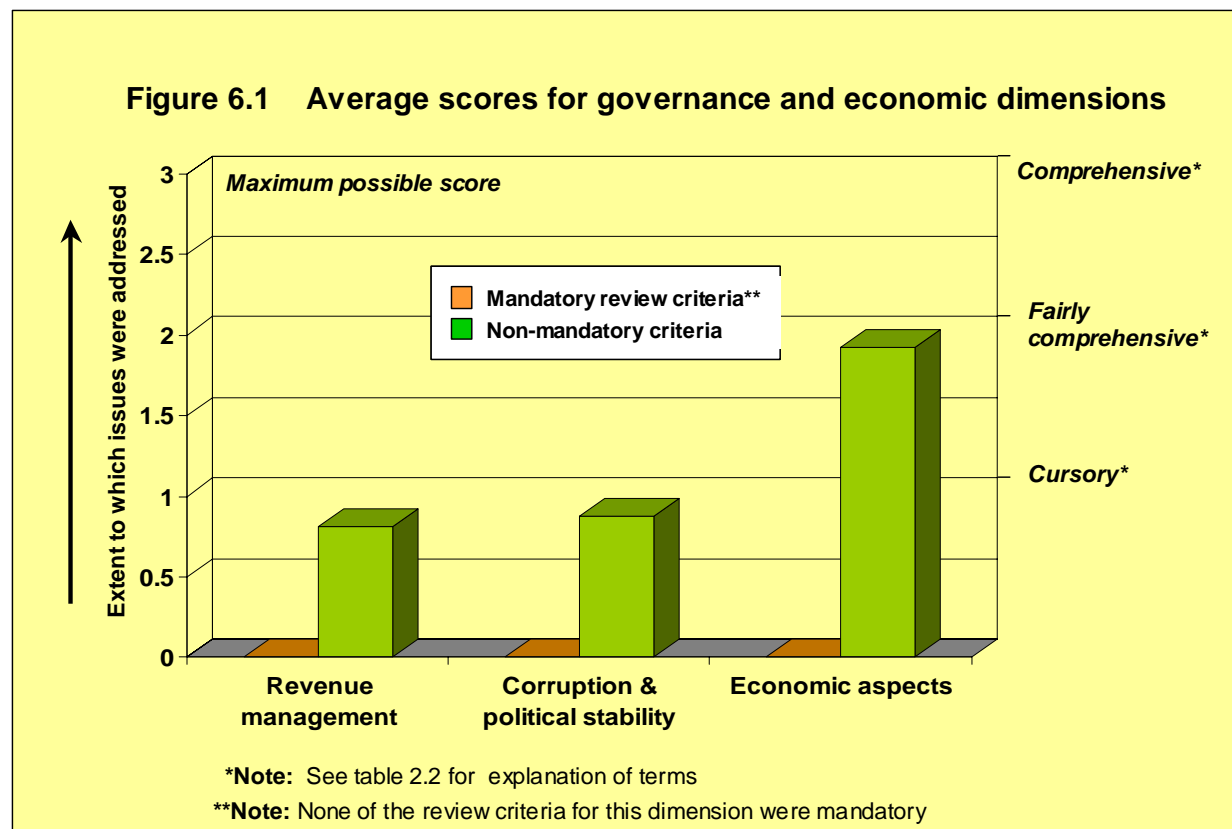
The average scores for revenue management were low (0.8), which either indicates that these review criteria are treated cursorily during project preparation (see Figure 6.1), or that IFC and MIGA's reporting on how such issues have been considered is at best cursory. While there is widespread appreciation among IFC and MIGA staff dealing with extractives projects of the importance of revenue management, the review identified only limited written confirmation that these aspects are factored into project decision-making. IFC staff have asserted that these factors are routinely considered by project teams in the early stages of project planning, sometimes at length, but the outcome of such deliberations is rarely documented and is not publicly reported.

A one page guidance note has recently been produced by the Operational Strategy Group of IFC which commits to the following: *"When dealing with high-impact projects¹⁵, IFC will systematically assess the risks that a government would misuse the large payments or that intended benefits may not reach local communities"*. While this meets some of the concerns surrounding revenue management, there is as yet no procedural basis for ensuring that it is practiced. The definition of high-impact (see footnote 15) is also restrictive, as it considers the relative contribution of a single project to government incomes, as opposed to the contribution of the sector as a whole.

In Laos the mining sector is in its infancy, but is viewed as a potentially significant contributor to social and economic development, and considerable efforts have been made by IFC with respect to revenue management at the project level. In three other countries in which projects were reviewed, the extractives sectors dominate the economy (Guinea, Gabon and Kazakhstan), and are very significant in two other cases. In Guinea, a MIGA supported project restored a previously state-run enterprise to profitability and is also reported to have had a positive impact in reducing revenue losses through corruption. In Gabon and Kazakhstan, the projects supported by IFC are small relative to the sector as a whole (and are therefore not considered to be high-impact projects).

¹⁵ High-impact projects are those where the revenues from that project (as opposed to the sector as a whole) are substantial in relation to a nation's fiscal income.

The current limited guidance of IFC gives no indication of what ought to be done for low-impact projects (where revenues are not substantial in relation to a nation’s fiscal income), but it is important to acknowledge that IFC and MIGA have only limited leverage in such cases. However, this same lack of leverage means that they should very clearly articulate the anticipated benefits of such projects, given their inability to influence the management of project revenues. Overall, neither IFC nor MIGA have a coherent strategy on how to respond to these challenges.



6.2. Corruption, political stability and conflict

The review criteria considered whether IFC and MIGA factor the following into their decision-making on extractives projects:

- Whether the level of public corruption¹⁶ undermines positive economic and social outcomes and impedes poverty alleviation;
- Whether potential political instability or conflict impacts on the project.

The World Bank Group is actively involved in tackling public corruption and poor governance in many countries, and these issues are significant in some countries where IFC and MIGA supports extractives projects. This is important, given the correlations (and causal linkages) between economies dominated by the extractive sectors and poor governance, widespread corruption, and rent-seeking behavior. It is also relevant as extractive revenues have been used in some other countries to support intra- and inter-state conflicts. These factors have the

¹⁶ The emphasis is on public corruption, as both IFC and MIGA go to some lengths to ensure the integrity of their clients.

potential to undermine the economic sustainability of extractives projects, and in extreme cases may indirectly result in impacts at the project level (such as attacks on project facilities or personnel, or attacks on local people by state security forces that may be compelled to protect strategic assets). These in turn could have significant reputational as well as financial consequences for IFC and MIGA.

Discussion of review findings

The average score for this cluster of review criteria across the eight projects was less than 0.9 (see Figure 6.1). This either indicates that neither IFC nor MIGA address these issues in any detail during project preparation, or that IFC and MIGA's reporting on how such issues have been considered is at best cursory. In IFC, these review criteria are reported to routinely form part of the project decision-making process, but this is neither undertaken on a consistent basis nor is it reflected in any detail within project documents. As an integral part of the underwriting process, MIGA systematically considers risks arising from political instability, conflict and corruption. But the diagnosis of risk becomes a factor in deciding whether a guarantee ought to be issued and the related premiums, and is not tied to mitigation. It should be acknowledged that endemic corruption, political instability, and conflict are all risk factors that may adversely influence projects, but over which IFC and MIGA's clients have almost no influence. So there is no basis for IFC or MIGA to impose any mitigation requirements on clients, nor do they have any leverage with host-governments, which partly accounts for the low scores in this category.

Some of these factors were instrumental in the decision by the World Bank to support a sound revenue management program for the Chad-Cameroon project¹⁷, which IFC has also invested in. Ideally, these factors are best tackled at the country level.

6.3. Economic development

The cluster of review criteria under the heading of 'economic development' are concerned with maximizing the economic opportunities arising from extractive sector projects, while minimizing the potential adverse impacts. These include:

- Whether procurement and employment opportunities had been maximized at the local, regional and national levels (and the related question of whether the basic economic infrastructure supported entrepreneurial activity);
- Whether the negative local economic impacts had been considered (such as displacement of labor from other productive or essential sectors).

IFC and MIGA routinely estimate the economic rate of return (ERR) of projects, which includes such wider societal benefits as the impacts on suppliers. But except in circumstances where a project is intimately dependent upon local sourcing (e.g. a food processing plant), there is no presumption in favor of local or regional suppliers. The labor requirements of oil, gas and mining projects (post-construction) are often low compared to the manufacturing sector, and so the greatest employment potential is often within the supply chain (as opposed to direct employment). In many instances, the requisite skills to gain either direct or supply chain employment are limited, and may require proactive measures on the part of clients or relevant government agencies. The negative economic consequences of such projects are not always considered.

Discussion of review findings

As illustrated in Figure 6.1, economic development review criteria were fairly comprehensively dealt with (average scores of 2.1), with the exception of one offshore oil and gas project

¹⁷ For more information on this project see <http://www.worldbank.org/afr/ccproj/>

(involving no new onshore infrastructure) where such issues were not thought to be relevant. This is an encouraging finding, given that there is no mandatory requirement to address such issues. In general, some consideration had been given to employment and procurement aspects, although there was scope for improvement in most projects. The primary focus of the project teams was on employment, but in only a few cases did investment and social staff collectively consider local economic infrastructure or supply chains in any depth.

The prospects for strengthening the economic development aspects of the sustainability of IFC and MIGA projects are perhaps better than for other aspects of the 'economic and governance dimension', as there is a body of experience to build upon. Also, both organizations are explicitly required to consider economic development issues, at least to some extent. One obstacle is that the review criteria straddle the responsibilities of investment staff and social development staff, and may 'fall between the cracks'. They also go beyond the traditional social assessment approach and require a sustainability mindset (discussed under section 5.5 above).

7 Assurance and innovation

This chapter discusses IFC and MIGA's assurance mechanisms to ensure that environmental and social concerns are factored into project decision-making. This includes consideration of: the quality of environmental and social assessment work; the client's capacity to implement social and environmental commitments and associated management systems; monitoring and supervision arrangements; and legal provisions relating to environmental or social aspects. The chapter concludes with a discussion of some of the sustainability innovations observed during the review, which go beyond the requirements of specific Safeguard Policies or guidelines.

7.1. The chain of environmental and social assurance

Both IFC and MIGA have a number of assurance mechanisms in their respective environmental and social review procedures. These are intended to underpin compliance with specific Safeguard Policy, guideline, or procedural requirements. While the terminology and mechanisms may differ slightly between IFC and MIGA, the following assurance instruments or mechanisms are common to both: environmental and social assessment and management (as mandated by Operational Policy 4.01); assessment of client capacity for management of social and environmental issues; compliance monitoring; and conditions embedded in the covenants to the loan agreement or guarantee contracts. This review refers to them collectively as the chain of environmental and social assurance, and they were all treated as mandatory for the purposes of the review.

The significance of these mechanisms is that collectively they establish the basis for:

- Assessing impacts and developing mitigation and management plans;
- Ensuring that clients have the capacity and skills to effectively manage environmental or social issues and maintain ongoing compliance;
- Ensuring that IFC and MIGA monitor compliance with their environmental and social requirements;
- Providing a legal basis for clients to comply with IFC and MIGA's environmental and social requirements.

The average scores for these assurance mechanisms for the eight projects are illustrated in Figure 7.1.

7.1.1. Environmental and social assessment

The review criteria included under this heading considered whether:

- The environmental and social assessment (EA) was appropriate to the nature, scale and potential impact of the project;
- Cumulative impacts, and impacts from associated facilities, were considered.

The extent to which analysis of alternatives took place was not considered, as the fixed nature of oil and mineral reserves places some constraints on the location of project facilities; however, there is scope for considering alternative processing methods and locations for key project facilities such as processing plants or tailings dams, as well as the macro-level 'no-project' alternative (but these aspects were not dealt with in the review). Three of the projects were Category A and five Category B.

The average score of 2.2 indicate that most EAs were fairly comprehensive, but there is still considerable variation in the quality of EAs submitted to (and accepted by) IFC and MIGA. Part of this variation may be explained by the timing of IFC or MIGA involvement. The best EAs were those prepared in close collaboration with the sponsor, where the EA work had not been largely completed prior to IFC or MIGA involvement. This highlights the benefit of early and ongoing interaction between environmental and social specialists of IFC/MIGA and clients.

Discussion of review findings

In all but one case, the level of assessment was appropriate to the scale and nature of the project, yet most projects fell short of the highest rating in some respect. For example, mitigation was not always tied to impacts, and residual impacts were not clearly identified; the level of attention to social matters was sometimes inadequate; the significance of reported impacts were not specified; or the impacts from associated facilities were not fully addressed. Cumulative impacts were also rarely considered, but the remote nature of many of the projects meant that this had little bearing on the overall ratings.

The capacity of clients to conduct or oversee environmental and social assessment is an important factor influencing the quality of information provided to IFC and MIGA. Where capacity is low, this has a direct impact on the effort required by IFC or MIGA to ensure an adequate level of due diligence. However, there are limits to the number of times a client can reasonably be asked to improve upon the quality of an EA as long as the important aspects have been considered. Despite these limitations, the EAs (and related Environmental Management Plans or Corrective Action Plans as applicable) provided a reasonable basis for assessing and managing social and environmental impacts, with one exception, where the documentation was inadequate.

7.1.2. Client capacity and environmental management systems

At issue is whether the capacity of clients to implement environmental and social requirements has been considered, as well as the effectiveness of any environmental management system they may have in place.

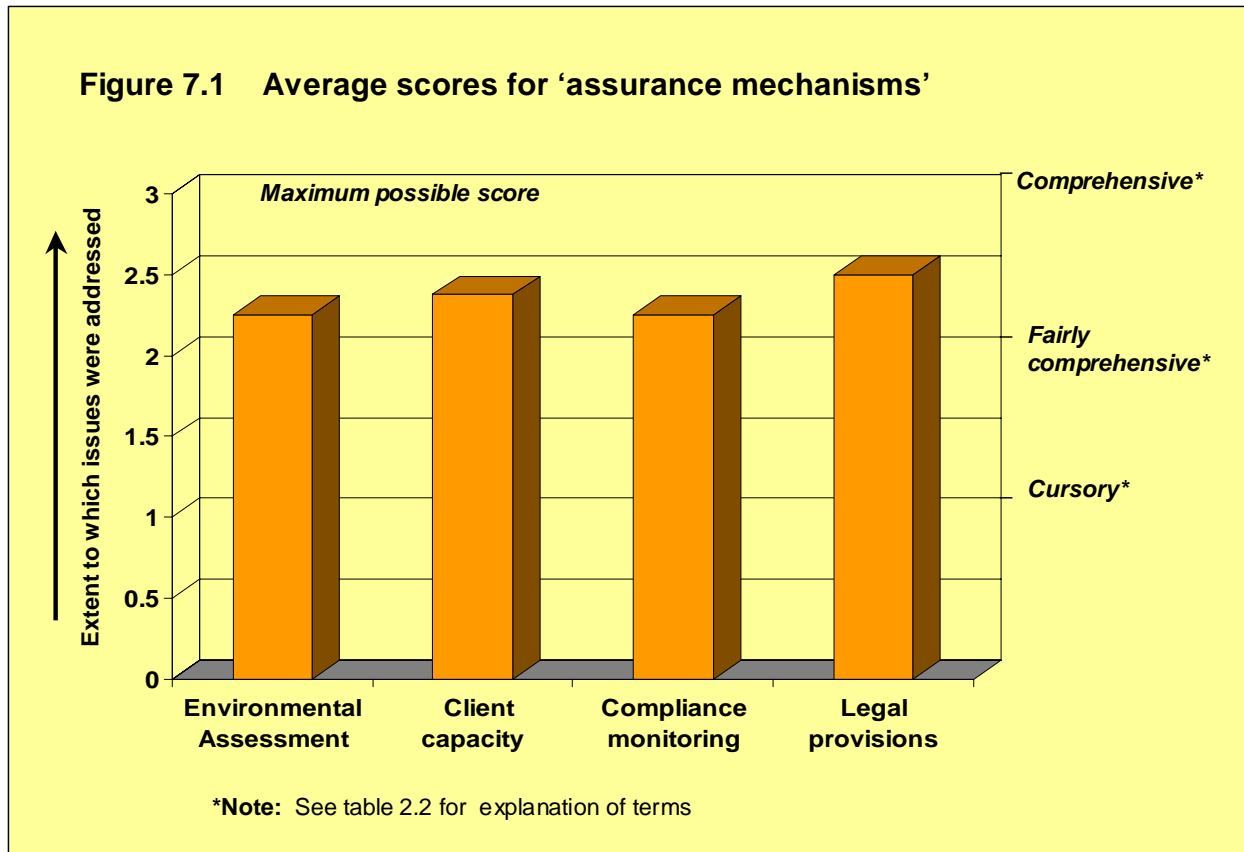
The overall scores for client capacity were fairly high, with an average of just under 2.4. In all cases at least some level of assessment of the client's capacity was undertaken (albeit of a rudimentary nature for both MIGA projects). For half of the projects this was comprehensive and where concerns were identified, remedial action was taken to improve capacity and understanding, e.g. encouraging employment of environmental specialists or directing trust funds to educate existing employees on specific environmental or social issues.

Discussion of review findings

In all but two instances, project operators had implemented (or were developing) Environmental Management Systems (EMS) or had produced Environmental Management Plans (EMPs), and had allocated responsibility for some environmental or social aspects. In one project, an environmental management plan had been prepared but there was no information on implementation responsibilities. The Corrective Action Plan for another project was inadequate.

IFC developed a Management Capability questionnaire in 2001 (to be sent to sponsors during appraisal), which is intended to improve the quality of information provided in future projects and the basis on which judgments about capacity are made.

Figure 7.1 Average scores for ‘assurance mechanisms’



7.1.3. Compliance monitoring

At issue is whether monitoring arrangements for ensuring that clients honor their environmental and social commitments have been established and are being followed through. IFC requires monitoring information for all category A and B projects. MIGA has no standard monitoring requirements that apply to category B projects, and either relies on warranties provided by the insured client regarding compliance, or monitors compliance with specific conditions of contracts.

The average score for monitoring indicate that monitoring was fairly comprehensive (2.2). In most cases, monitoring arrangements were clearly specified and consistent with the requirements of either Operational Policy 4.01 on Environmental Assessment or MIGA’s contracts of guarantee. However, in one instance the site visits found that monitoring was not proceeding according to plan. This indicates that in at least some cases, monitoring arrangements can be improved¹⁸.

7.1.4. Legal provisions to underpin environmental and social responsibility

Legal assurances are provided through covenants to loan agreements (for IFC) and through MIGA’s guarantee contracts. At issue is whether the eight projects had adequate environmental and social provisions to ensure that clients could be held accountable for their implementation.

¹⁸ Additional recommendations on project monitoring are presented in the recently completed IFC Safeguard Policy Review.

These aspects were thoroughly addressed and scores averaged 2.5 across the eight projects. The only departures from the maximum scores resulted from minor omissions. For example, an audit for one project was not covenanted to the loan agreement. Most of the audit commitments were incorporated into the EMP (which was covenanted), but not all.

As only one of the eight projects involved an equity investment by IFC, there was no basis for comparing the conditionality associated with equity agreements.

7.2. Sustainability innovations, origins and incentives

For most projects, initiatives were taken that moved the project beyond the Safeguard Policy provisions. These are described here as sustainability innovations. The extent of innovation varied widely between projects and many 'innovations' in effect followed internationally recognized good practice. This section explores what motivated these innovations, the obstacles that might have prevented such innovations occurring more widely, and incentives that might be used to encourage more widespread innovation.

7.2.1. Some examples of innovative practices

Maximizing the local economic benefits of projects received a lot of attention and was achieved in two ways. The first was favoring the direct employment of local people, and this was actively pursued in the majority of projects. In order to secure employment for local people, most of the projects included sponsor funded training programs to develop local skills. The second approach was to maximize supply chain benefits. When there was clear potential for secondary benefits, but the necessary skills and/or infrastructure were not in place for local communities to capitalize on this potential, specific measures were sometimes put in place to overcome such obstacles.

For example, in one project one percent of the operating budget was set aside annually to send local employees to leading developed-country institutions for training. In another, the IFC SME department assisted in the creation of new income generating opportunities through the development of support businesses to the indigenous mining industry. This program included skills training on business management. A variety of client-funded programs in a different project assisted the development of support businesses such as a micro-credit scheme, a computer training center and an agricultural improvement scheme. In another project, trust funds were mobilized to strengthen local development planning capacity and to finance pilot projects to build local government capacity, stimulate transparency in the tracing of mining revenues, and expand the localized economic impact of the project to the wider district.

Some innovative approaches to the development of **community programs and community liaison** were also developed. A few projects established a fund for community development. For example, one client implemented a community welfare program in partnership with the local community, with the intention of the programs continuing after closure (in areas such as health, education, and training). This enabled the community to participate in project decision-making.

There were a number of cases of **mitigation being developed that went beyond the requirements** of Safeguard Policies or guidelines. For example, in one case there were concerns over the potential for trade in artifacts of cultural value that excavations might uncover. It was agreed that an archaeologist would be retained on-site during construction, and employees were encouraged to report finds. For two projects where there was historical contamination or land degradation that pre-dated any involvement by IFC and MIGA's clients, the companies agreed to clean up the contamination, tackle the causes of problems, and

rehabilitate any degraded land. At another project, a client sought to offset the loss of secondary forest of low biodiversity value. As the land of highest ecological value in the area was already a designated national park that was under threat, the sponsor agreed to the preparation of a management plan for the park. Trust funds were found to pay for the development of the plan and for training of staff to monitor and implement it.

7.2.2. Origins of innovative practices

Many innovations are client led and may either result from concerns relating to actual or potential adverse local reactions, or from identified local needs. The benefits to the local community (in terms of job creation, community development, and community involvement) are maximized in the interest of maintaining good relations with communities. In other cases, IFC or MIGA specialists identify potential problems or needs and encourage clients to go beyond compliance. In general, higher anticipated levels of environmental and social impact appear to stimulate greater innovation.

The success of IFC or MIGA led innovations depends on the relationship with the client and their willingness to go beyond 'do no harm'. Concerns regarding client or Government capacity to implement projects in an economically, environmentally, or socially responsible way, has led to the creative use of trust funds in some cases, e.g. training sponsor staff and government officials or working closely with the sponsor on identification and assessment of impacts.

7.2.3. Creating incentives for innovation

Many innovations stem from problems or potential non-compliances with Safeguard Policies or guidelines that are identified during project design and may prevent the project from receiving financing or being issued with a guarantee. Demonstrating the benefits is also a mechanism to incentivize innovation. This can in part be achieved through internal publications such as *Investing in people* or *Developing value: The business case for sustainability in emerging markets*. But it requires an effort on the part of project teams to actively promote these benefits.

Where financing innovations is problematic, mechanisms such as trust funds should be explored to support innovative good practices. However, if the business case for sustainability is to be made persuasively, the concept that sustainability innovations have a return on investment should be demonstrated.

8 Summary of findings and recommendations

It is important to reiterate that the review methodology holds all projects to a very high standard. Many of the review criteria are at the leading edge of the sustainability debate in the extractives sectors (and are not mandated by either IFC or MIGA's Safeguard Policies or guidelines). While the overall performance of projects against mandatory review criteria was high, the review found several systematic weaknesses in IFC and MIGA's approach to dealing with a number of non-mandatory yet important aspects of sustainability across the sample of eight projects. It also identified a number of areas for improvement with respect to mandatory review criteria. This section makes a series of recommendations to address these weaknesses, and better position IFC and MIGA in meeting their commitment to more sustainable projects.

The recommendations complement the findings and recommendations of the joint evaluation by OED/OEG and the work of the EIR, and are a contribution for both IFC and MIGA to consider in preparing their response to the final report and recommendations of the secretariat to the EIR. A summary of emerging lessons is included below (in bold), linked to recommendations (in italics) on how these might be addressed.

The recommendations are not presented in any order of priority, but follow the order of the discussion in the main body of the report, from which they are derived. Some of the recommendations are easier for IFC and MIGA to implement than others, because of factors such as the level of effort involved and the extent of institutional acceptance of the recommendations. Furthermore, some are likely to have a more immediate impact on enhancing sustainability outcomes than others. However, it will be for IFC and MIGA to determine the order of priority, having fully considered the final reports of the EIR and the joint evaluation of OED, OEG and OEU.

IFC and MIGA have a more considered approach to tackling the environmental and social development dimensions of sustainability than the economic and governance dimensions. This is thought to be due to the relative experience of both institutions in dealing with these three dimensions, and the degree to which each dimension is currently mandated by policy or guideline provisions. For example, the existence of Safeguard Policies and guidelines has a demonstrable positive influence in ensuring that review criteria are addressed. It may also reflect the perception that some economic and governance dimensions were either not relevant to particular projects, or that IFC and MIGA (or their clients) have no leverage to address these issues. *IFC and MIGA should reinforce their existing guidance to more clearly encompass a wider set of sustainability concerns. As the sustainability agenda is evolving, a flexible approach to introducing revisions should be adopted. This should enable both organizations to update internal guidance efficiently and systematically in response to emerging best practice, in support of continuous improvement. Where appropriate, the guidance should clearly identify mandatory requirements.*

The rating of individual projects against the sustainability review criteria was highly variable, although IFC's category B projects outperformed MIGA's. Contributing factors included the commitment and capacity of the clients, and the level of effort by IFC and MIGA staff. The IFC business model and related environmental and social review procedures provides

for a more in-depth and longer-term relationship between clients and project teams than MIGA (particularly for category B projects), which in turn increases the prospects for constructive engagement and exerting a positive influence. *MIGA's management should consider and take a position on this disparity: either it maintains the status quo whereby MIGA projects subscribe to the standard of do-no harm (which the Safeguard Policies are primarily concerned with), or it takes action to ensure closer convergence with IFC's broader sustainability remit.*

IFC and MIGA lack sector-specific guidance on how to undertake comprehensive risk assessments. In the past decade, more sophisticated and pragmatic approaches to environmental risk assessment have been adopted by leading companies in these sectors than the World Bank Group's internal guidance reflects. *IFC and MIGA should develop sector specific guidance on how comprehensive environmental risk assessments should be undertaken.* In addition, *IFC should finalize and fully implement its draft guidance on cyanide handling.*

Despite the existence of the Natural Habitats and Environmental Assessment Policies, there is insufficient guidance on ecological assessment and mitigation. In particular, the attention to ecological issues was variable (perhaps because not all projects involved significant conversion of critical natural habitats). There was also a tendency to accept impacts on rare, protected, threatened, or endangered species as unavoidable, and not develop mitigation. *IFC and MIGA should develop and implement improved guidance on ecological assessment and mitigation.*

While at least some financial provision is made for closure of mining projects, this is not the case for oil and gas projects. The requirements for closure of mining projects are inconsistent between different guidelines, while oil and gas projects make no financial provision for closure. There is also no mechanism for ensuring that clients continue to finance closure once IFC or MIGA no longer have an interest in a project. *IFC and MIGA should strengthen the available guidance on closure to apply to all extractives projects, and include a requirement to ensure that social considerations are taken into account. They should also develop and implement measures to ensure that funds allocated to closure during their involvement with a project are ring-fenced, even after they exit.*

While most clients are undertaking pre-approval consultation well, there is little or no acknowledgment of the influence that public consultation has had on the design and implementation of projects. It is not always clear from public consultation what influence (if any) affected communities have had. This is important if consultation is to retain credibility as a mechanism for proactive and constructive involvement of those who are potentially affected by projects. Similarly, the benefits of ongoing consultation and engagement throughout a project's life cycle should be routinely articulated to extractives industries clients. *IFC and MIGA should more explicitly acknowledge and report on the influence that public consultation has had on the design and implementation of projects,. The benefits of ongoing consultation and engagement throughout a project's life cycle should routinely be articulated to clients, and required for the period of IFC or MIGA's involvement.*

The communities in the vicinity of IFC and MIGA projects would benefit from an explicit adoption by both organizations of a commitment to promote more sustainable community development projects and programs by its clients. These issues are currently fairly comprehensively dealt with, despite the absence of supportive policies or guidelines. Community development projects or programs can be made more sustainable by being responsive to a participatory diagnosis of a community's development needs, by actively

involving beneficiaries in implementation, and by considering their longer-term sustainability. Yet despite IFC's detailed guidance on investing in communities, these principles are often not incorporated into the community development programs and projects of many clients. *IFC and MIGA should ensure that all clients are familiar with IFC's Investing in People guidance, and understand the importance of direct community participation and explicit consideration of the longer-term sustainability of community investment projects.*

Neither IFC or MIGA systematically consider the broader human rights and labor rights issues associated with extractives project. This is not to suggest that wider human rights concerns in individual countries should serve as a barrier to entry to IFC or MIGA (unless this is the stated policy of the World Bank Group). *Instead, IFC and MIGA should more systematically consider potential risks to human rights at the project level, take appropriate steps to mitigate them, and provide clearer guidance to clients on both of these aspects. Where relevant, these aspects should be reported on at the project level.*

A number of other social issues are not systematically assessed and mitigated across all projects. For example, there was rarely any discussion about the social implications of internal migration or induced development, or of the wider impacts of projects on health. The loss of access to environmental resources on customary or state-owned land were often neglected, as were measures to deal with unanticipated archaeological finds. *IFC and MIGA should develop improved guidance on how to deal with these issues, and integrate it into improved guidance on social assessment, as recommended by the CAO Safeguard Policy Review.*

Revenue management and distribution is a critical issue for the future involvement of the World Bank Group in these sectors, and neither IFC nor MIGA have a coherent strategy on how to respond to this challenge. This is partially addressed by a draft guidance note prepared by IFC's Operational Strategy Group, but this does not tackle all extractives projects (in particular low-impact projects) and there is no procedural basis for its implementation. IFC and MIGA should more systematically and transparently factor these issues into project decision-making. *IFC should consider revisiting the current definition of high-impact to be more inclusive. It is currently based on the relative contribution of a single project to fiscal incomes, whereas it might be extended to include large projects (above a defined threshold) in countries where the sector as a whole makes a significant contribution to GDP. For high-impact projects, IFC should report on the steps taken to mitigate adverse impacts and enhance revenue management and distribution. For low-impact projects, IFC and MIGA should report on their rationale for providing support to such projects, having fully considered the potential positive and adverse economic, social and environmental impacts. IFC and MIGA should also continue to collaborate with the World Bank on the inclusion of these aspects in Country Assistance Strategies (CAS), and engage with the Bank and IMF to seek coordination of work programs that address public expenditures management, which are beyond the mandate of IFC and MIGA.*

IFC has no systematic basis for reporting the significance of public corruption, political instability, and conflict during project preparation, and neither IFC nor MIGA have the leverage to take proactive action on these issues. Ideally, these factors are best tackled at the country level. *IFC and MIGA should collaborate closely with the World Bank to ensure that these issues are explicitly dealt with in the appropriate operational instruments (e.g. Public Expenditure Reviews, CAS) of the countries where they are likely to support oil, gas and mining. In addition, the investment and underwriting departments should collaborate with their environmental and social counterparts to more explicitly analyze and report the potential for in-*

country corruption, political instability, or conflict to result in adverse impacts at the project level, or to increase as a result of the project.

While IFC and MIGA voluntarily consider issues like maximizing local, regional, and national procurement and employment opportunities, there is further scope to maximize economic opportunities arising from extractive sector projects. This will require clearer allocation of responsibilities between financial and environmental/social staff, as well as improved guidance on identifying and overcoming potential obstacles to maximizing opportunities for more sustainable economic development. *IFC and MIGA should clarify where the responsibility lies for ensuring that economic development issues (such as employment, procurement, and basic economic infrastructure) are dealt with. They should develop improved guidance, both for internal use and for clients, on the economic development issues that should be considered and how, the obstacles that often exist to maximizing potential opportunities, and how to overcome such obstacles to gain the maximum advantage from extractives projects.*

Sustainability innovations are emerging – albeit in an ad hoc manner. Some innovations are client led. In other cases, IFC or MIGA specialists identified potential problems or needs and encouraged clients to go beyond compliance; or suggested innovations based on their experience and knowledge. *Although informal sharing of ideas between specialists takes place, IFC and MIGA should explore more formal mechanisms to record and share experiences.*

If the business case for sustainability is to be made persuasively, the concept that sustainability innovations have a return on investment should be demonstrated. *IFC and MIGA should develop mechanisms to buy-down or reduce the perceived incremental costs of higher risk sustainability innovations where the returns on investment are not readily demonstrable. Such mechanisms should avoid the provision of any subsidy to the project, while supporting innovation.*

MIGA's response to the challenge of enhancing the sustainability of extractives projects is limited by the 'do no harm' focus of its procedures, which in turn is linked to its business model. *MIGA should consider whether the broader advisory services capacity on sustainability within the Bank Group could be harnessed and applied where MIGA clients express an interest, as an extension of its advisory services. MIGA should also more systematically assess clients' capacity for social and environmental management.*

Annex 1. Relevance and adequacy tests for review criteria

Each of the short-listed issues was posed as a question, which are listed in the left-hand column of this matrix. The second column identifies relevance tests for each issue, to help determine whether they are relevant to a given project. The relevance tests are simple – in some cases, an issue was considered relevant to all projects. In others, the test for relevance depended on project-specific demographic or geographic considerations.

The third column details the adequacy tests, which follow the basic format of: was the issue considered; was the significance of the issue assessed; and were appropriate mitigation measures put in place or management plans developed. In many cases more specific guidance on interpretation is provided, with reference to safeguard policies, guidelines or procedures as appropriate. An overall rating of adequacy is entered in the fourth column of the project matrices, in line with the generic guidance given in Table 2.2 and specific guidance included in the matrix below.

Issues and aspects that may need to be addressed	Relevance test	Data Source	Is Adequacy an issue?	Guidance on Adequacy tests
1. Economic dimensions and governance (at each stage of the project cycle)				
Revenue management	Has the relative contribution of EIs revenues to export earnings or GDP been considered?	Relevant (see adequacy column)	Economist Intelligence Unit; WDI; USGS	No <i>Relevance test: Is percentage contribution of EI sector to GDP significant (may need definition of significance – canvass views of O&G and Min professionals for this and all other questions)</i>
	Has the contribution of EI revenues to economic development/diversification or investments in human and social capital been considered?	Relevant	UNCTAD Commodity Index Reports ceased in 1995: EIU; USGS; Oxfam Stats; etc	No Difficult to establish 'conversion rate' from natural to social or human capital, therefore need surrogate indicators. Might look at some basic social indicators (HDI, education, health, child mortality, income inequality) and link to earnings/revenue from EI sector over time. Alternatively, look at changes in relative proportion of spending on education, health, defense as surrogate measure
	Has government capacity for revenue management been considered?	Relevant	Project Documents; Question for project team WBI governance research; EIU country reports	Yes Adequacy of assessment of Government capacity (national/regional) <ul style="list-style-type: none"> • Was track record of Government considered? • If there were capacity concerns were remedial measures considered? • Were specific actions identified and implemented? Also refer to WDI measure of government effectiveness
	Is there a regulatory/legal framework in place to direct revenues toward investment in human and social capital?	Relevant (see adequacy column)	Project Documents; IBRD Legal; MMSD Report;	No <i>Relevance test: Examine in-country legal framework and determine whether specific provisions apply to revenue allocation</i>

	Has the value of disclosure of revenues paid to Government by the operators (in terms of transparency & accountability) been considered?	Relevant	Project Documents	No	(Yes/No question with comments). Might also want to consider what has happened in other EIs projects in-country in the past
	Have provisions to ensure that some project revenues are directed to social development and poverty alleviation been considered?	Relevant	Project Documents (e.g. have mechanisms been established such as trust funds or foundations and how are they directed)	Yes	Adequacy difficult to determine in terms of numbers, but should consider: <ul style="list-style-type: none"> • What mechanisms have been established to channel revenues to social development and poverty alleviation? • Do the Governance structures ensure/encourage effective management? • Is there representation of beneficiaries in decision-making? • Is the nature of investments supported consistent with objectives?
Corruption & Political Stability	Has the level of corruption in-country been considered and related potential to subvert positive economic and social benefits and impede poverty alleviation?	Relevance dependent upon level of corruption based on data search	Transparency International corruption index; WBI control of corruption index; EIU	Yes	<ul style="list-style-type: none"> • Was the potential for corruption to impact upon revenue management considered? • Were remedial measures developed – at least at a project level? • Have these measures been implemented or is an action plan in place?
	Have potential impacts on project implementation and operation resulting from corruption or political instability been considered?	Relevance dependent upon level of corruption and political stability based on data search	Transparency International corruption index; WBI control of corruption and political stability indexes; Project and other IBRD documents (CAS)	Yes	<ul style="list-style-type: none"> • Were potential impacts on the project considered, e.g. unforeseen costs, problems getting/transporting supplies/equipment, problems getting/renewing permits, etc.? • Were mitigation measures developed? • Have these measures been implemented or is an action plan in place?
	Has the effect of existing or potential conflict, either international or domestic, been considered?	Relevant dependent on political stability, rule of law, etc.	WBI Political stability and rule of law indices; Uppsala University Conflict Data; Project and other IBRD documents (CAS); WB work on conflict (Paul Collier)	Yes	<ul style="list-style-type: none"> • Were potential impacts on the project considered such as disruption of access routes, threats to people or assets, etc? • Were mitigation measures identified/developed (e.g. conflict prevention or resolution processes)? • Have these measures been implemented or an action plan put in place?
Economic development	Has the potential to maximize procurement & employment opportunities been considered so as to strengthen local and regional economies?	Relevant	Project documents	Yes	<ul style="list-style-type: none"> • Are proactive procurement & employment policies in place? • Have skills assessments been undertaken or training programs initiated in response to skills shortages? • Is there any information on % local/regional/national employment (predicted/actual) and procurement?
	Has the potential for basic economic infrastructure provision (e.g. finance, electricity, etc.) to limit entrepreneurial activity been considered?	Relevant	Project Documents (E/S); World Bank Docs; links from IDS	No??	<ul style="list-style-type: none"> • Was consideration given to status of basic economic infrastructure • Were measures proposed to enhance infrastructure and to encourage entrepreneurial activity? • Have these measures been implemented and are they having the desired effect?

	Have potential negative local economic impacts been adequately considered (such as price rises)?	Relevant unless communities not present	Project documents (E/S)	Yes	<ul style="list-style-type: none"> Were potential impacts of the project considered such as price rises, increases labor costs or displacement from other sectors, etc.? Were mitigation measures identified/developed? Have these measures been implemented or an action plan put in place?
2. Social Development and impact dimensions (at each stage of the project cycle)					
Migration and resettlement	Has the potential for internal migration been considered?	Relevance is based on geographic & demographic factors	Project documents (E/S)	Yes	<ul style="list-style-type: none"> Was the likelihood of the project attracting significant number of economic migrants considered? Were the impacts on existing communities and the environment considered and remedial measures identified? Has an action plan been developed to deal with identified impacts?
	Has the project involved resettlement of people and has this been considered?	Relevance is based on proximity of people to project site	RAP/project documents (E/S)	Yes	<ul style="list-style-type: none"> Was the avoidance or minimization of resettlement through project design considered? Was a RAP developed and implemented? Was guidance on RAP preparation provided and followed? Were displaced settlers appropriately compensated? Were displaced settlers able to share in the benefits of the project? Were displaced settlers assisted in their efforts to improve their living standards? Was there community participation in the resettlement? Were resettlers assisted in the move and their integration with their new communities? (OD4.30)
	Has the project involved loss of or disruption to livelihoods or assets and have systems of redress been instituted?	Relevance is based on geography, demographics and proximity to livelihoods	RAP/project documents (E/S)	Yes	<ul style="list-style-type: none"> Was avoidance through project design considered? Was appropriate compensation provided? Has an action plan for redress been developed and implemented and had the desired outcome?
	Has the potential for induced development (positive and negative aspects) been considered?	Relevance is based on demographic and economic factors	Project documents (E/S)	Yes	<ul style="list-style-type: none"> Were the potential adverse consequences of induced development for people and the environment considered? Were mitigation measures proposed? Have the proposed mitigation measures been implemented and did they have the desired outcome?
Community development	Has the status of socioeconomic infrastructure been evaluated and potential for enhancement been considered?	Relevant if communities are present	Project documents (E/S)	Yes	<ul style="list-style-type: none"> Was there any assessment of the need/potential for enhancing socioeconomic infrastructure? Were local people involved in the process? Has there been any action taken as a consequence?
	Have any community development provisions been made and have local needs and priorities (determined by communities) been considered?	Relevant if communities are present	Project documents (E/S)	Yes	<ul style="list-style-type: none"> Was a diagnosis of the local development needs undertaken (with involvement of local people) ? Were community development projects responsive to local needs? Was the sustainability of community development projects considered through involvement of local people, NGOs or government?

Domestic, public and worker health & Safety issues	Have the potential public health and safety impacts (both positive and negative) been considered, e.g. increased prostitution and STDs, HIV/AIDS specifically, improved access to medical care, etc?	Relevant if communities are present	Project documents (E/S)	Yes	<ul style="list-style-type: none"> • Have the potential risks to the health and safety of the public been considered (both from industrial hazards, STDs, HIV, etc.)? • Have appropriate preventative & response measures been identified (e.g. medical examinations, treatment, counseling and support)? • Is a medical service provided to workers/families/wider community? • Have communities been informed of the existence of hazmats and potential risks to their health from contact with them (both in the vicinity of the project and along transport corridors)?
	Have issues such as increased alcoholism, domestic violence, discrimination/violence against women and other impacts on family dynamics been considered?	Relevant if communities are present	Project documents (E/S)	Yes	<ul style="list-style-type: none"> • Were the adverse domestic social consequences of this development considered? • Were any remedial measures proposed such as education and awareness programs, etc.? • Are these measures being implemented?
	Has appropriate consideration been given to the health and safety of workers, including sub-contractors?	Relevant	Project documents (E/S)	Yes	<ul style="list-style-type: none"> • Has the sponsor adopted a Health and Safety Policy? • Is this policy rigorously implemented, both for employees and contractors? • Have training programs been established for all workers on safety and environmental issues. • Are IFC's guidelines complied with (i.e. protective equipment, equipment design, noise, air quality, heated areas, confined spaces)?
Nuisance and visual aspects	Have nuisance impacts (such as noise, dust and increased traffic flows) been considered?	Relevant if communities are present	Project documents (E/S)	Yes	<ul style="list-style-type: none"> • Have all practicable measures been taken to minimize noise and vibration and dusts (consistent with IFC guidelines) during design? • Have appropriate mitigation measures been implemented (noise attenuation, dust controls, etc.)? • Has the impact of the development on local transportation networks been considered and mitigation measures developed?
	Have the impacts on aesthetics and the visual environment been considered?	Relevant if communities are present or tourism is important	Project documents (E/S)	Yes	<ul style="list-style-type: none"> • Is landscape and visual impact likely to be a significant issue? • If yes, has a landscape and visual impact assessment been undertaken for the project? • Have mitigation measures been developed?
Land rights and indigenous peoples	Have any indigenous peoples been affected by the project and have indigenous concerns been considered?	Relevant if indigenous peoples are present	Project documents (E/S)	Yes	<ul style="list-style-type: none"> • Has the affected group been consulted about potential impacts? • Have they participated in the development of mitigation measures? • Has an IDPD been developed and implemented? • Does the content of the IDPD follow guidelines in OD4.20? • Will indigenous people benefit from the investment? (OD4.20)
	Have any adverse affects on access to lands been considered, where either legal or customary tenure applies?	Relevant if communities are present	Project documents (E/S)	Yes	<ul style="list-style-type: none"> • Has it been established what legal or customary rights people have to the land? • If land to which they have a right has been affected have they been adequately compensated or were they given proper value for the land? • If they have been given new land do they enjoy security of tenure? (OD4.30)

	Has loss of access to environmental resources (e.g. water, grazing lands, forest products, etc.) been considered?	Relevant if communities are present	Project documents (E/S)	Yes	<ul style="list-style-type: none"> Was the severing of traditional routes of access to environmental resources considered and avoided wherever practicable? If access to environmental resources has been affected, has this been compensated for or preferably mitigated?
Conflict, human rights and labor	Has the potential for an increase in local disputes or distorting political structures been considered?	Relevant if communities are present	Project documents primarily; WBI Political stability and rule of law indices	Yes	<ul style="list-style-type: none"> Were potential impacts of either local disputes (e.g. wrt compensation arrangements) or distorting political structures considered ? Were mitigation measures identified/developed (e.g. conflict prevention, community investment programs, etc.)? Have these measures been implemented or an action plan put in place?
	Has the potential for more serious conflict and adverse impacts on human rights been considered(e.g. as a result of the use of security forces)?	Relevant if communities are present	WBI Political stability and rule of law indices; Human Rights Watch reports; State Department Reports; Amnesty International Reports	Yes	<ul style="list-style-type: none"> Were potential impacts on human rights considered? Were measures considered for the protection or promotion of human rights (e.g. in relation to use of security forces to protect installations or ensure access, etc.)? Have these measures been implemented or an action plan put in place?
	Have measures been considered for the protection or promotion of human rights in the workplace?	Relevant	Project documents (E/S)	Yes	<ul style="list-style-type: none"> Have previous working practices of the operator been examined? Has the sponsor set in place a labor policy, or made other provisions that ensures fair treatment of workers, and dispute resolution mechanisms? Are these provisions being implemented?
	Has the potential use of Child Labor or forced labor been considered and has the sponsor been made aware of their obligations?	Relevant	Project documents (E/S)	Yes	<ul style="list-style-type: none"> Was the Forced Labor and Harmful Child Labor Policy Statement sent to the sponsor? Has the sponsor confirmed that no children will be working in exploitative, hazardous or harmful conditions? Has the sponsor confirmed that no forced labor will be used?
Cultural property	Has the potential impact upon sites of religious or cultural heritage or known archaeological significance been considered?	Relevant	Project documents (E/S) (state limitations where rely solely on project docs); UNESCO World Heritage Lists	Yes	<ul style="list-style-type: none"> Was the potential for impacts upon cultural heritage assessed? Could impacts on sites of cultural heritage significance have been avoided or minimized through project design? Has the protection and enhancement of these sites been considered as part of the project design? (OPN 11.03)
	Has consideration been given to the potential discovery of unanticipated finds and how these will be dealt with?	Relevant	Project documents (E/S)	Yes	<ul style="list-style-type: none"> Has the potential for unanticipated finds in the development site been considered? Where finds may be uncovered, are mitigation measures in place (e.g. investigation, removal and preservation as appropriate)?

Public Involvement & Disclosure	Has consideration been given to consultation with interested and affected parties (e.g. local communities and NGOs)?	Relevant if communities are present	Project documents (E/S)	Yes	<ul style="list-style-type: none"> • Have interested and affected parties been identified? • Was a PCDDP developed consistent with ESRP guidance note F? • Were they consulted (i) before TOR for the EA was finalized (ii) once draft EA had been prepared (iii) throughout implementation? • Is there an ongoing program of consultation? • If EA was prepared prior to IFC involvement was the adequacy of consultation reviewed by IFC? • Where it was found to be inadequate has supplementary consultation been carried out? • Was a report on public consultation and disclosure released? (ESRP guidance note F) (OP 4.01 requirements)
	Has the value of public involvement in social and environmental decision-making been considered?	Relevant if communities are present	Project documents (E/S)	Yes	<ul style="list-style-type: none"> • Where the environmental assessment identified different approaches to resolving environmental and social issues were local people given the opportunity to feed into the decision-making process? • Were opinions expressed during consultation taken into account in the development of mitigation measures? Is this clearly recorded in project documents. (PCDDP ESRP guidance note F)
	Has the appropriate level of information disclosure been considered? Note: Defined disclosure requirements at that time: policy statement 1998 ERS disclosure guidance for Bs	Relevant if communities are present	Project documents (E/S)	Yes	<p><i>Cat A projects</i></p> <ul style="list-style-type: none"> • Was the EIA disclosed through the WB Infoshop for a minimum of 60 days prior to board approval? • For disclosure post July 2000 was the Executive Summary and details of where documents were available disclosed via the IFC web site? • Was the EIA translated and disclosed at appropriate locations locally for a minimum of 60 days prior to board approval? <p><i>Cat B projects</i></p> <ul style="list-style-type: none"> • Was the ERS disclosed through the WB Infoshop for a minimum of 30 days prior to board approval? • For disclosure post July 2000 was ERS disclosed through the IFC website • Was the ERS translated and disclosed at appropriate locations locally for a minimum of 30 days prior to board approval?

3. Environmental dimensions (at each stage of the project cycle)					
Hazardous materials, site contamination and waste	Have all environmental hazards been identified and the related risks considered?	Relevant	Project documents (E/S)	Yes	<ul style="list-style-type: none"> Are hazardous materials involved at any stage in the project? If yes, has the characteristic and threshold quantity of the hazmat been screened? If quantities or characteristics are sufficient has a hazardous materials management program been established? Was a hazard or risk assessment carried out? Have appropriate preventive or emergency preparedness and response plans been prepared? Has the potential for use of pesticides been considered in site preparation and maintenance, and avoided where possible through Integrated Pest Management approaches? (OP4.09) (Guidelines on Hazmat)
	Has the handling, storage, security, transportation and overall management of hazardous materials been considered?	Relevant if any hazmats	Project documents (E/S)	Yes	<ul style="list-style-type: none"> Do preventive and emergency preparedness and response plans cover the handling and transportation of materials? Are management roles and responsibilities clearly defined? Are the materials all stored in secure, banded locations specifically designed for this task? Are workers trained and provided with appropriate protective clothing and apparatus for handling chemicals? (Guidelines on Hazmat)
	Has contamination (historical, present, future) of soil or groundwater been considered?	Relevant	Project documents (E/S)	Yes	<ul style="list-style-type: none"> Has an investigation been made of previous uses of the site? Where contamination may be an issue has a site investigation been carried out to identify whether any contamination exists on the site or in the ground water? Has an assessment been made of whether the operations could result in contamination of soil or groundwater? Have appropriate mitigation measures been developed and implemented?
	Has the potential impact of contamination (historical, present, future) from neighboring projects been considered?	Relevant if neighboring projects	Project documents (E/S)	Yes	<i>As above, but in relation to neighboring projects</i>
	Is the disposal of hazardous and other waste adequately addressed?	Relevant	Project documents (E/S)	Yes	<ul style="list-style-type: none"> Have plans been developed for the disposal of hazardous wastes? Is the disposal of wastes carried out in accordance with specifications in the guidelines? Are waste water discharges adequately managed? For mining projects is the disposal of tailings adequately considered? (guidelines)

Closure and decommissioning	Have all residual impacts been considered in preparing initial mine closure plans or facility decommissioning plans?	Relevant	Project documents (E/S)	Yes	Do the plans cover: <ul style="list-style-type: none"> disposal of waste materials, particularly hazardous waste (Onshore O&G guidelines)? site restoration to conditions capable of supporting prior use (Mining guidelines) or alternative use reclamation of tailings and waste rock (Mining guidelines) restoration of the visual environment prevention of future contamination of site or surrounding environment sustaining investments in social infrastructure
	Has financial provision for ongoing cleanup costs and final closure costs been considered in the closure or decommissioning plans?	Relevant	Project documents	Yes	<ul style="list-style-type: none"> Is the amount of money provided for appropriate to the nature of operations and complexity of environmental issues (mining guidelines)? <p><i>This will be based on the availability of evidence to support the financial provisions for closure</i></p>
	Has consideration been given to future unanticipated closure or sale of the company that may result in the dilution of closure or decommissioning commitments?	Relevant	Project documents	Yes	<i>Yes/No question</i>
Water and hydrology	Have the impacts on surface and subsurface waters been considered, including impacts on competing water users?	Relevant	Project documents (E/S)	Yes	<ul style="list-style-type: none"> Have the impacts on water resources been assessed (in terms of quality and quantity), as well as effects on water users? Have mitigation measures been developed (e.g. for offshore O&G projects have practices outlined in the guidelines been followed; has acid drainage from mines, tailings ponds or waste heaps been mitigated)? Are plans in place to ensure that water use is minimized and water is recycled as far as possible? (guidelines)
	Have measures to prevent surface hydrology from being adversely impacted been considered?	Relevant	Project documents (E/S)	Yes	<ul style="list-style-type: none"> Has the potential for alteration of drainage patterns and related erosion been considered in project design? (mining guidelines) Have measures been taken to prevent erosion?
	Does the project affect any international waterway and, if yes, have appropriate consultation procedures been considered?	Relevant if near international waterway or using waterway	Project documents (E/S)	yes	<ul style="list-style-type: none"> Should OP7.50 have been followed for this project? If yes, was it? Was the beneficiary state asked to notify other riparians about the project? Did either the beneficiary state or IFC notify the other riparians? Did IFC establish whether the riparians had entered into any agreement relating to the waterway? Were any objections raised by the other riparians? If yes, was an independent expert appointed to examine the issues? <p>(OP7.50)</p>

	If the project involves construction of any impoundments or dams (e.g. for water supply or tailings disposal), are the associated impacts fully considered?	Relevant	Project documents (E/S)	Yes	<ul style="list-style-type: none"> • Have dam safety measures been designed? • Have local complexities, such as seismicity, propensity to flood or problematic ground conditions, been assessed? • For dams over 15m in height or between 10m and 15m with design complexities: have reviews been carried out at key design stages by an independent panel of experts?; have necessary plans been prepared?; has pre-qualification of bidders been undertaken?; are periodic inspections of the dam carried out after completion? (OP4.37) (New draft policy dams)
Biodiversity	Have biodiversity concerns been considered (terrestrial and aquatic), including effects on critical natural habitat?	Relevant	Project documents (E/S); UNEP-WCMC Protected Areas Database; IUCN/WWF/FFI/CI	Yes	<ul style="list-style-type: none"> • Does the project involve the conversion or degradation of any critical natural habitat? • Could this have been avoided through project design, including alternative site selection? • Have mitigation measures been developed and implemented, including minimizing habitat loss, restoration, establishing a new protected area? • Has the sponsor's capacity to implement mitigation measures been established? • Have opportunities to improve natural habitat quality been recognized and taken? (OP4.04)
	Has the potential threat (direct or indirect) to rare or endangered species been considered?	Relevant	Project documents (E/S) Could check IUCN Red Data books	Yes	<ul style="list-style-type: none"> • Is there a threat to rare or endangered species resulting from a loss of habitat? • Have mitigation measures, such as providing replacement habitat, been put in place? • Have rare or endangered species been indirectly affected through interference with migration routes or feeding grounds? • Have appropriate mitigation measures been developed? (OP4.04)
	Has the potential impact of the project on forestry resources been considered?	Relevant if near or utilizing forestry	Project documents (E/S)	Yes	<ul style="list-style-type: none"> • Will the project result in disruption to primary tropical moist forest or forest areas of high ecological value? • Does the project involve the loss of forest resources? • If yes, could this have been avoided and have appropriate mitigation measures been developed? • Were local communities consulted? (OP4.36)

Air Quality	Have all impacts on air quality been considered (including contribution to greenhouse gas emissions, SO ₂ , NO _x , particulates, ozone depleting substances etc.)?	Relevant	Project documents (E/S)	Yes	<ul style="list-style-type: none"> • Has an assessment been made of potential impacts on air quality? • Are guideline levels set for concentrations of airborne contaminants both inside and out with the project boundary and is the basis for selection of these levels justified in the EA? • Has technology been installed to minimize emissions to air? • For offshore O&G developments are the practices outlined in the guidelines followed? • Does the sponsor monitor whether these are met? • Was an assessment made of the contribution of the project to GHGs? • Are any ozone depleting substances used (e.g. in fire safety equipment or refrigeration) and if yes, could alternatives have been found? (Guidelines)
4. Environmental & Social Assessment and Management and Conditionality					
Environmental Assessment	Has consideration been given to whether the EA was appropriate to the nature, scale, and potential environmental impact of the proposed project?	Relevant	Project documents (E/S)	Yes	<ul style="list-style-type: none"> • Was the EA undertaken in accordance with OP4.01? • Was the content of the EA appropriate to the nature, scale and potential impact of the project? • Was the EA process appropriate to the nature, scale and potential impact of the project? • For cat A projects were independent experts retained for the EA? • If the cat A project was contentious was an advisory panel established? (OP4.01) (ESRP guidance notes A&B)
	Were impacts from associated infrastructure/facilities considered?	Relevant	Project documents (E/S)	Yes	Were impacts of all associated facilities outwith the physical boundary of the project that are linked to the project considered? Such as: <ul style="list-style-type: none"> • Access roads • Supporting facilities • Pipelines • Electricity pylons Is it clear on what basis the decision was made regarding whether a facility was associated or not? (Informal CES guidance)
	Were cumulative impacts considered?			Yes	<ul style="list-style-type: none"> • Did the EA consider cumulative impacts of the proposed project and realistically define existing and future projects? • <i>If the assessment identified significant environmental impacts, were these addressed in the EA for this project?</i> (ESRP Guidance note G)
Institutional Capacity	Has the adequacy of the sponsor's environmental and social capacity to implement commitments been considered?	Relevant	Project documents (E/S)	Yes	<ul style="list-style-type: none"> • Did the project team investigate whether the sponsor had the resources either in-house or through consultants to implement environmental and social obligations? • Did the sponsor show a clear understanding of their environmental and social commitments? • Was the track record of the company evaluated?

	Has the effectiveness of the sponsors' Environmental and Social Management System been considered?	Relevant	Project documents (E/S)	Yes	<ul style="list-style-type: none"> Does the sponsor operate a management system certified to ISO or equivalent standards through which environmental and social responsibilities can be managed? (<i>note: EHS Management System required for Cat A O&G</i>) Does the sponsor operate a well developed and implemented management system not yet certified through which environmental and social responsibilities can be managed? If the sponsor does not operate a management system were they asked to develop either an EMS or a project level EMP? If there is no management system is it clear who has responsibility for implementing each environmental and social commitment? Is implementation being monitored? Is there an EAP for the project derived from the management system clearly setting out environmental and social commitments (required for O&G cat. As)? <p>(EAPs = ESRP Guidance Note C)</p>
Monitoring	Have monitoring and reporting arrangements to facilitate effective project supervision been considered?	Relevant	Project documents (E/S)	Yes	<ul style="list-style-type: none"> Has the sponsor's environmental monitoring and reporting requirement been set out in the Investment Agreement? Were these requirements discussed and agreed with the sponsor during project appraisal? Is the monitoring program in accordance with those specified in the relevant guidelines? <p>(ESRP) (QSI #13 & 16)</p>
Conditionality	Does loan conditionality ensure that important environmental and social requirements will be complied with by the sponsor (e.g. mitigation, monitoring, design)?	Relevant	Project documents (E/S)	Yes	<ul style="list-style-type: none"> Does the loan agreement contain specific provisions relating to the key commitments of the project sponsor as set out in the EIA ? Is implementation of the EAP referred to in the loan agreement? Are specific actions identified as CODs?

Annex 2. Some methodological limitations and their significance

The methodology was designed to provide a valuable, robust, timely, and cost-effective contribution to the EIR process. It was not intended to be comprehensive and all-inclusive: time and budgetary constraints did not provide for desk reviews of, or field visits to, a larger number of projects. While the Office of the CAO stands behind the findings of the review, it is only right to point out the methodological limitations.

Firstly, the sample size is not sufficiently large to provide for anything other than fairly rudimentary statistical analysis. The results represent a snapshot of current practices rather than a complete and comprehensive picture. However, given the total sample size of projects that have been approved post 1999, this limitation would have applied had all 23 projects been reviewed. The recent nature of these commitments also has limited the review to considering how well the way has been paved for project sustainability, as opposed to actual outcomes.

Secondly, there is an inherent methodological bias associated with holding all projects hostage to a very high standard. Many of the review criteria pose questions that are at the cutting edge of an emerging view of sustainable development for extractives sectors. While it was never expected that all projects would rate highly against all the review criteria, the predominance of ratings below the maximum of 3 might be (wrongly) interpreted as indicating that the projects may be mediocre at best. The reality is that the projects perform well against policy and guideline mandated review criteria, which is where IFC and MIGA currently set the bar of compliance.

Thirdly, the exclusion of some of the more controversial projects from the sample has prevented the in-depth consideration of lessons learned through adversity. In the same way that some of the greatest technological advances have historically coincided with periods of conflict, some 'sustainability innovations' within the extractives sectors might also have emerged in difficult circumstances. The mediation process that emerged from the Ombudsman investigation of the Yanacocha mine in Peru, or the efforts to ensure sound stewardship of project revenues in the Chad-Cameroon pipeline project, are two such examples. Nonetheless, some innovations do come through from the sample under review.

Fourthly, the analysis and presentation of results involve a degree of abstraction. In the place of project names, a reductive numeric approach has been applied which is based on the rating system of 0-3 (described in Table 2.2). This is partly the result of the need to honor assurances to clients regarding the confidentiality of project-specific information. But more importantly, there was the need to synthesize a large amount of qualitative data for comparative purposes, by the application of simple, objective semi-quantitative data.

Fifthly, the analytical framework assigned no order of priority to the clusters of issues or individual issues within a cluster, whereas clearly some clusters are more important than others (e.g. revenue management is far more important than nuisance concerns). This has not been corrected for by applying a weighting system to the individual scores presented.

Sixthly, the focus of the desk-reviews on historical information in project documents (supplemented by interviews) meant that some decisions regarding the relevance of particular issues might not have been included. For example, an issue might have been considered at a preliminary stage (but eliminated as not relevant), but not recorded in the project related

correspondence. There were one or two examples of this that were highlighted during the field visits.

Finally, not all the desk reviews of projects were followed up by field visits. The field visits were intended to ground-truth the results of the desk-based reviews, and as a check on whether agreed mitigation measures or value-added initiatives were being implemented. Initially, four visits were proposed (the maximum that might have yielded valuable information, given the stage of development or location of the other projects), but one was ultimately dropped. The results of the first three visits confirmed the efficacy of the work conducted based on desk reviews and conversations with members of the project teams. In the judgment of the review team, the fourth visit would have yielded little additional information.