

PAH NEWS PIX

- *HELP WANTED: COAL MINERS*
- *NO OFFERS FOR LIMAMAYO DEPOSIT*
- *COLOMBIA WANTS MINES AND ENERGY MINISTRY*

C A L E N D A R

- **China Mining 2004 Congress and Exhibition**
November 16–18, 2004
Beijing Hotel and Conference Centre
Beijing, China
email: max.hare@china-mining.com
- **Mines & Money London 2004**
November 30 – December 2, 2004
London West Hotel and Convention Centre
London, United Kingdom
email: jane.burman@mining-journal.com
- **Northwest Mining Association's 110th Annual Meeting**
December 6–10, 2004
Red Lion Hotel at the Park
Spokane, Washington
email: pheywood@nwma.org
- **Mineral Exploration Roundup 2005 – Discovering Our Future**
January 24–27, 2005
Westin Bayshore Resort & Marina
Vancouver, B.C., Canada
email: roundup@chamborofmines.bc.ca

A Synopsis of the Independent Review of the World Bank Group's Extractive Industries Policies Part 1

The World Bank Group activities are significant to the mining industry through financial participation in industry development, providing political risk insurance to projects, and through the establishment of environmental guidelines and standards that are frequently applied to mining projects in countries with developing regulatory programs. The World Bank Group's role and policies concerning extractive industries has recently been the subject of an independent third party review. The objective of this article is to present an overview of the World Bank Group operation and to summarize (without comment) the conclusions and recommendations from the review process. A second part of this article will be presented in the near future to include industry response, NGO responses and the World Bank response to these results.

World Bank Background

Makeup

The World Bank is composed of the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). The World Bank Group (WBG) incorporates the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for Settlement of Investment Disputes (ICSID) with the two banks. The five institutions of the World Bank Group have the mission to fight poverty, improve living conditions and encourage economic development.

Roles of the Five World Bank Group Institutions

The IBRD provides loans, policy advice, and technical assistance to low and middle-income countries with interest rates lower than rates available from commercial sources. The income that IBRD

generates allows funding of developmental activities and ensures its own financial strength. The IBRD was established in 1945 and is composed of 184 member countries. In 2004 the IBRD will loan \$11 billion for 87 operations in 33 countries.

The IDA provides grants and interest free loans to poor countries for poverty reduction activities, including measures to encourage accountable governance, improve the private investment climate, boost the education and health services to the poor. IDA was established in 1960 and has 165 member countries. In 2004, the IDA has committed \$9 billion to 158 operations in 62 of the world's poorest countries.

The IFC invests in sustainable private enterprises in countries where access to capital is limited and markets are considered too risky for commercial investors in the absence of IFC participation. The IFC provides equity, long-term loans, structured finance and risk management products, and advisory services to the private sector. Established in 1956, the IFC has 176 member countries. IFC has \$4.8 billion committed to 217 projects in 65 countries for 2004.

The MIGA helps encourage foreign investment in developing countries by providing foreign investors with guarantees against losses from non-commercial risks such as expropriation, breach of contract, war and civil disturbances. MIGA also provides technical assistance and advisory services to international businesses looking for investment opportunities in developing countries. MIGA was established in 1988 and is comprised of 164 member countries. \$1.1 billion of guarantees will be issued in 2004.

The ICSID encourages foreign investment and mutual confidence between states and private foreign investors by providing a forum for the

■ **HELP WANTED: COAL MINERS**

U.S. Coal mining companies are suffering a labor shortage and the future doesn't look very bright. The number of coal miners nationwide dropped from 159,777 in 1990 to 99,358 at the end of 2003. According to coal producers and the U.S. Labor Department the real crunch will occur in five to seven years when the industry faces a massive wave of retirements. More than half of today's coal miners are older than 50 and replacements for them would have to be found before the end of the decade. Recruiters are raiding other companies, searching high schools and trades schools for recruits, renting billboards and paying for banner-towing planes at beach resorts offering generous pay and benefits. Universities are looking to reopen mining programs at their institutions and The United Mine Workers Career Center, Inc. has just applied for federal funding to begin training new coal miners. But efforts are still falling short of the need. Dozens of mining communities saw much of the next generation of miners leave years ago when there were few prospects for jobs in area where coal is mined. Now that coal is in demand because of higher prices for oil and natural gas, coal producers are in a labor shortage. The shortage has also reached the federal level. The Mine Safety and Health Administration needs employees familiar with mine work and has been holding recruitment drives.

■ **NO OFFERS FOR LIMAMAYO DEPOSIT**

Despite the interest of eleven mining companies, there were no bidders at the auction of Peru's Limamayo copper-zinc prospect. The Limamayo deposit, located near Las Bambas, is believed to be similar in size with a resource estimated at more than 500 million tonnes grading at least 1.5 percent copper. In August, Xstrata paid \$121 million for the Las Bambas deposit, three times the base price, prompting the Energy and Mines Ministry to push the auction date forward. Interested parties reportedly included BHP Billiton, Canadian companies Southwestern Resources, Inmet Mining, Cambior and Andresmin Gold, Switzerland's Glencore, Mexico's Penoles, Brazil's Vale do Rio Doce, Peru's Atacocha and U.S. companies Phelps Dodge and Apex Silver. The companies wanted extra time to prepare their proposals and visit the project, but the Energy and Mines Ministry did not want to extend the deadline. Peru will also sell the San Antonia de Poto gold project and the Michiquillay copper porphyry project.

conciliation and arbitration of international investment disputes between the governments and investors. Established in 1966, the ICSID is composed of 140 member countries. In 2004 the ICSID has registered 30 cases.

The World Bank is run like a cooperative with a president who is a national of the largest shareholder, the United States. The ultimate decision making body is the Board of Governors who meet once a year. The day-to-day decision-making is delegated to the 24 Executive Directors who work onsite at the bank. The bank employs approximately 10,000 people from 160 different countries. The president is responsible for overall management of the bank and is elected on a five-year term. The current president is Mr. James D. Wolfensohn, who has been president since 1995.

Extractive Industries Review Process

Initiation

At the Year 2000 World Bank Annual Meetings in Prague, a variety of stakeholders, primarily environmental and human rights organizations, expressed concerns related to the WBG roles and policies in oil, gas, and mining projects, referred to as the extractive industries (EI). The questions and concerns included environmental and social sustainability, revenue sharing, protection of human rights, and the effects of EI projects on local communities. Mr. Wolfensohn replied, " I would be happy to sit down with you to (...) take a look at the actualities of the extractive industries, the pros, the cons, the pluses, the minuses, and see if together we can come up with something that will either lead to an exclusion or to an inclusion on certain terms of what we are doing. "

The Extractive Industries Review began approximately one year later, July 2001, with the WBG appointment of Dr. Elim Salim as Eminent Person to oversee and administer the review process. The review was designed to engage all stakeholders including governments, nongovernmental organizations, indigenous peoples organizations, industry, academia, affected communities and community-based organizations, international organizations, the World Bank Group and others. The review included worldwide workshops, six research projects, four project site visits, international conferences, and informal consultations.

Makeup

Dr. Salim is the former State Minister for Population and Environment, Indonesia. As the Eminent Person he was granted a budget of \$4.8 million, with full budget authority, and a report delivery date of December 31, 2003. Offices were maintained in Jakarta, Indonesia, and Washington, D.C., with a full and part time secretariat estimated to vary from ten to fifteen personnel assisted by consultants on short-term assignments. An Advisory group composed of ten individuals, supported the report writing process and ensured that the final report was credible and reflected all stakeholder views.

Objective

According to the Executive Summary of the Extractive Industries Review, the process addressed the basic question, "Can extractive industries project be compatible with the World Bank Group's goals of sustainable development and poverty reduction?" The somewhat more definitive objectives as laid out in the Terms of Reference were:

- 1. To better obtain and understand the views of stakeholders about the best future role of the World Bank Group in the Extractive industries if it is to promote sustainable development and poverty alleviation.
- 2. To identify possible areas of consensus on the role of the World Bank Group and the relevant issues, and to identify significant alternatives or dissenting view in this respect.
- 3. To make recommendations on the basis of such better understandings to focus redesign, or reconsider, as needed, future World Bank Group policies, programs, projects, and processes in the sector.

Findings and Recommendations of the Extractive Industries Review

Preface

The final report of the Extractive Industries review titled "Striking a Better Balance" was delivered to the World Bank Group President January 2004. In the preface of the report Dr. Salim took final responsibility for the content and recommendations. The preface also contained the following introductory remarks.

- ◆ Although governments are consulted directly and continuously by the WBG ... and companies are clients of the WBG ... civil society is left out and has no direct links ...

- ◆ But it is civil society - local communities, indigenous people, women, and the poor – who suffer the negative impacts of extractive industrial development, such as pollution, environmental degradation, resettlement, and social dislocation.
- ◆ I have ... duly recorded and reflected civil society's criticisms and aspirations. The WBG needs to know that genuine development requires partnership not only with government and companies, but with civil society as well.
- ◆ I accepted this task with full confidence that the WBG is genuinely willing to move away from ... "business as usual" approach into sustainable development ... means mainstreaming economic, social, and environmental considerations into sustainable development – with the alleviation of poverty as the economic goal, the enhancement of human rights as the social goal, and the conservation of the ecological life-support system as the environmental goal.
- ◆ This report makes four major recommendations on how to restore that balance (world) in the WBG:
 - promote pro-poor public and corporate governance in the extractive industries;
 - strengthen environmental and social components in the extractive industries;
 - respect human rights;
 - rebalance WBG institutional priorities.
 These four recommendations have the ultimate goal(s):
 - to lift up civil society so it is balanced in the triangle of partnership between governments, businesses, and civil society;
 - to raise social and environmental considerations so they are balanced with economic considerations in efforts at poverty alleviation through sustainable development; and
 - to strive for human-rights-based development that balances the material and spiritual goals for life.

Executive Summary

The Executive Summary contained the following comments, findings, recommendations and statements.

... the Extractive Industries Review believe that there is a role in the oil, gas, and mining sectors – but only if its interventions allow extractive industries to contribute to poverty alleviation through sustainable development. And that can only happen when ...

- pro-poor public and corporate governance ...
- much more effective social and environmental policies;
- respect for human rights.

Pro-poor Governance

The more specific building blocks of governance recommended for extractive industries include the following:

- ◆ Promote transparency in revenue flows,
- ◆ Promote disclosure of project documents,
- ◆ Develop capacity to manage fluctuating revenues,
- ◆ Develop the capacity to manage revenues responsibly,
- ◆ Help governments develop modern policy and regulatory frameworks,
- ◆ Integrate the public in decision-making process at local and national levels.

... when the IFC and MIGA consider investing in oil, gas, or mining project(s) ... only support projects when a country's government is prepared and able to withstand the inherent social, environmental and governance challenges.

WBG to promote partnerships ... as well as the creation of financial instruments such as performance bonds, mandatory insurance, and fines.

IFC and MIGA should only support projects that benefit all affected communities including vulnerable ethnic minorities, women, and the poorest members of the community. To ensure that local communities receive benefits ... the WBG should:

- ◆ Require ... free prior and informed consent,
- ◆ Require revenue sharing with local communities,
- ◆ Mandate the use of poverty indicators ...,
- ◆ Encourage the incorporation of public health components ...,
- ◆ Urge NGO's to build the capacities of affected communities,
- ◆ Help set up grievance mechanisms.

At the country level, in light of the potential of artisanal and small-scale mining (ASM) ... help governments develop policies that recognize this as a distinct sector and that distinguish between community based and itinerant miners, giving communities clear priority over mining rights.

Social and environmental regulations should go hand in hand with the legalization of the sector (ASM), addressing such issues as gender imbalances, child labor and environmental management.

■ COLOMBIA WANTS MINES AND ENERGY MINISTRY

The Norte de Santander department of the Colombia government is planning to decentralize the region's mining control and obtain permission to create a mines and energy ministry in an effort to improve the mining business. The proposal provides permanent consulting services for companies who come to work in the department in order to avoid problems stemming from them being unfamiliar with the environment and getting entangled in domestic issues. The proposal also includes an improvement plan for the area's road infrastructure. The department has 264 mines and in 2003 production reached 1.7 million tons, of which 80 percent was exported, mainly to the United States and Europe. Production is expected to exceed \$390 million this year. In Colombia, coal is averaging \$60/tonne and the price of gold is \$401/ounce.

Minerals Corner—

Kovdorskite Mg₅(PO₄)₂CO₃(OH)₂ – 4.5H₂O, Hydrated Magnesium Phosphate Carbonate Hydroxide

Kovdorskite is an obscure mineral found in a rare type of rock called carbonatite. A carbonatite is an igneous rock composed mostly of dolomite and calcite. From the time of its discovery in 1969, kovdorskite was almost completely unknown to the mineral community and has just now become available to collectors. Kovdorskite is considered a handsome mineral and its color is often pale blue, greenish blue or absent and crystals are usually well formed and striking. It's monoclinic, blocky to prismatic habit is similar to some feldspars with angular faces forming complex terminations. Kovdorskite is named after the Kovdor Massif on the Kola Peninsula in arctic Russia, the only place where it can be found. Kovdorskite's formula is sometimes written without the carbonate group (CO₃) and is written as Mg₅PO₄(OH) – 3H₂O. This is the older version of the formula, but the carbonate group should be included to give a more accurate expression of the mineral's chemistry.

Government capacity to deal with this sector (ASM) could be improved through (country) exchange programs with ... where a legalized ASM sector has clearly contributed to poverty alleviation.

Environmental and Social Components of WBG Interventions

The second enabling condition that will allow extractive industries to contribute to poverty alleviation through sustainable development involves strengthening of environmental and social components ... revision of current WBG policies ... new requirements or guidelines ...

- ◆ Require integrated environmental and social impact assessments. ... identifying cumulative impacts of project and socioeconomic linkages to environmental issues. Extractive industries should be categorized as Category A project – likely to have significant adverse environmental impact – unless there are compelling reasons to the contrary.
- ◆ Update and fully implement the Natural Habitat Policy. The WBG should not finance any ... activities that might affect current official protected areas or critical natural habitat or areas that officials plan to designate in the future as protected. ... “biological hot spot” must undergo additional development studies. Clear “no-go” zones ... should be adopted.
- ◆ Update and Fully implement the Resettlement Policy. ... free prior and informed consent before resettlement takes place. ... only voluntary resettlements not forced ones. Compensation and project derived benefits should lead to genuine improvements, assessed by independent reputable third parties ...
- ◆ Revise the Disclosure Policy. The WBG Disclosure Policy should be broadened to include a series of documents currently protected. (From the body of the report– “The WBG should promote the disclosure of production sharing agreements, economic and financial assessments, environmental and social assessments, monitoring and evaluation results, and information on accident prevention and emergency response.”)

- ◆ Develop sector-specific guidance for Tailings Disposal, Waste Management and the Use of Toxic Substances. The WBG should develop a list of criteria for tailings placement for all mining projects. ... no WBG-supported mining project should use riverine tailings disposal. Submarine tailings disposal should not be used until balanced and unbiased research ... demonstrates its safety. WBG support for mines using toxic materials such as cyanide and mercury should be minimized ... The WBG needs to revise its cyanide effluent guidelines to be consistent with the most advanced guidelines in Canada, the United States ...
- ◆ Develop guidelines for Integrated Closure Planning. IBRD and IDA should ... require ... fund to be built up in the balance sheet for closure from the start of any new development. IFC and MIGA policies should specify the outlines of the integrated closure planning process ... acid drainage potential that is acceptable ... and the creation of a fund or guarantee mechanism that will ensure resources are available to pay end-of-life social and environmental costs ...
- ◆ Develop Guidelines on Emergency Prevention and Response. ... encouraged in reforms of national legislation and regulation.
- ◆ Address the Legacy of the Past. IBRD and IDA should ... helping governments tackle the legacy of extractive industry projects. Compensation funds ... for people affected by past developments. ... the WBG should establish a targeted program aimed at restoring degraded lands, improving the life of the (affected) poor..., and generating employment and skills training.

Human Rights

IBRD and IDA should ... clarify and strengthen ... the legal basis for resource and tenure rights. Their (indigenous peoples) resettlement should only be allowed if the community has given free prior and informed consent ... The WBG's Safeguard Policies should ... recognize the rights of women ... social management, community development,

and consultation plans and exercises reach out to women and protect them from gender-based human rights violations ...

Institutional Priorities

The WBG should adjust the skill mix of its staff, including consulting firms, to increase the ratio of people with knowledge of social, environmental, and human rights aspects of development.

WBG priorities within the energy sector need to be rebalanced. ... help governments adopt sustainable energy strategies that address the energy needs of the poor and that minimize climate change. Countries should be helped to remove subsidies from carbon-based fuels. WBG should phase out investments in oil production by 2008 and devote its scarce resources in renewable energy resource development, emissions reducing projects, clean energy technology, energy efficiency and conservation, and other efforts that delink energy use from greenhouse gas emissions. The WBG for the last few years has not invested in new coal mining development. This should continue.

The WBG should aggressively increase investments in renewable energies by about 20 percent annually ...

To follow up on the recommendations in this report, a global consultation workshop should be held in 2005 to assess the extent to which the World Bank Group has succeeded in moving the extractive industry sector on to a sustainable path that contributes to poverty alleviation worldwide.

To limit bias, the findings, statements and comments have been excerpted with minimal paraphrasing from the EIR, NGO response, industry comment, and WB comment to the review. However, the bias of the reviewer is evident and unavoidable in the selectivity of the excerpts. The reader is advised to read the original reports if the extent of the bias is unacceptable.

Lonnie Mills, Senior Environmental Specialist
lonnie.mills@pincock

References available at www.worldbank.org



PINCOCK ALLEN & HOLT
Delivering smarter solutions