ANNEX E: MIGA'S EXPERIENCE

1. Introduction

MIGA has supported investments in EI projects since its inception in 1988 by providing guarantees to foreign investors against political risks[278] and, to a lesser extent, by offering technical assistance and advisory services. The involvement of foreign investors in EI projects has the potential for great benefits to the host countries and can significantly contribute to the private sector development agenda of resource-rich developing countries. At the same time, such investments have given rise, in some instances, to concerns about potential negative impacts on environment and affected communities, as well as about the sustainability of positive impacts. In that regard, MIGA, like the rest of the WBG, has come under increased scrutiny by its stakeholders.

In order to review the WBG's past experience and to inform its future strategy for the sector, the WBG's three evaluation units[279] have conducted a joint evaluation of Bank Group activities in EI. This independent evaluation reviews the WBG assistance to the development of EI and its contribution to economic, social, and environmental outcomes. The objective is to evaluate the development effectiveness of WBG activities in the EI sector and to draw lessons from the WBG experience to inform its future role in the sector. The study covers the process of extracting oil, gas, coal, minerals, and metals from the earth and their initial processing or concentration. The downstream utilization of these resources or issues related to the global impact of the consumption of EI products were not examined.[280] In parallel to this joint evaluation, WBG management commissioned an external EIR to advise the Bank Group on its future role in EI, in response to stakeholder concerns.

This report by MIGA's OEU presents the findings of an evaluation of MIGA guarantee projects in the EI sector. Section 1 describes the evaluation process and criteria for evaluation and methodologies used. It also presents an overview of the characteristics and evolution of MIGA's EI portfolio. Section 2 assesses the consistency of MIGA EI projects with environmental and social safeguard policies. Section 3 assesses the development impacts of a sample of evaluated EI projects. Section 4 reviews MIGA's role and effectiveness in the EI sector. Section 5 presents conclusions of the evaluation and makes recommendations for MIGA's future involvement in EI projects.

Evaluation Methodology and Approach

OEU's evaluation activities for this joint evaluation consisted of the following:

- An overview of MIGA's EI portfolio,
- A review of safeguard policy consistency for a sample of MIGA EI projects,[281]
- An update and validation of previously evaluated projects,
- Two case studies of mining sector projects, and
- A staff survey of underwriters involved in EI projects.

The overview of MIGA's EI portfolio covered 100 percent of projects guaranteed in the EI sector (with active and inactive guarantees) from FY90 through the first half of FY03 (December 31, 2002). These 31 projects (corresponding to 61 guarantee contracts) were used to describe the evolution and salient features of MIGA's EI portfolio.[282]

The objective of the safeguards review was to assess the consistency of MIGA guarantees in the EI sector since inception of operations in FY90 with current relevant environmental and social safeguard policies and the adequacy of measures to mitigate adverse environmental and social impacts. OEU evaluated the consistency of projects with MIGA's interim safeguard policies and procedures at two points for each project: at approval and during implementation (under guarantee or, if the guarantee had been cancelled, at the time of cancellation).

For the safeguards review, OEU selected a sample of 12 MIGA projects[283] in the EI sector (or 39 percent of EI sector projects with a total of 26 guarantees) with characteristics representative of MIGA's EI portfolio. Thus, OEU reviewed both early and more recent projects underwritten by MIGA, spanning a period of 12 years (FY90–01). The sample consisted of nine mining sector projects, of which four were gold, one cobalt, three copper (/zinc), and one coal, as well as three oil and gas projects. Projects in environmental categories 'A' (nine) and 'B' (three) were reviewed. The sample included projects in which other development institutions or insurers were involved (such as IFC, European Investment Bank, Overseas Private Investment Corporation, Export Development Corporation, and Export Finance and Insurance Corporation) and some in which MIGA was the sole participant. The review covered projects where MIGA guaranteed majority owners as well as minority owners or lenders. Finally, the sample was balanced in terms of projects with active guarantees (five) and those cancelled by the investor or lender (seven).

In addition to the safeguards review, OEU carried out a desk review to update and validate evaluations of six mining projects undertaken by MIGA's former evaluation unit. These six projects, five gold mines and a facility extracting cobalt from tailings, had been visited in FY90–FY00. These relatively mature projects were underwritten by MIGA in the early to mid-1990s (FY92–FY96). This desk review, using the most recent information available, sought to address four evaluation criteria: (i) the project's financial sustainability, (ii) the project's economic sustainability, (iii) the project's contributions to private sector development, and (iv) MIGA's role and effectiveness. The update and validation consisted of a review of MIGA underwriting and evaluation files and information available in the public domain relating to various aspects of the projects.

OEU also undertook two evaluation case studies, both in Latin America, that involved site visits. The first case applied OEU's new guarantee project evaluation methodology, including a cost-benefit analysis, whereas the second case study focused on environmental, social, and community aspects.

Finally, OEU conducted a survey of a group of MIGA staff involved in underwriting EI projects, soliciting staff's perceptions on important issues in EI and obstacles to more MIGA involvement in the EI sector to compare those perceptions with OEU's findings from project evaluations. (OED and OEG have used the same survey to obtain views from World Bank and IFC staff.)

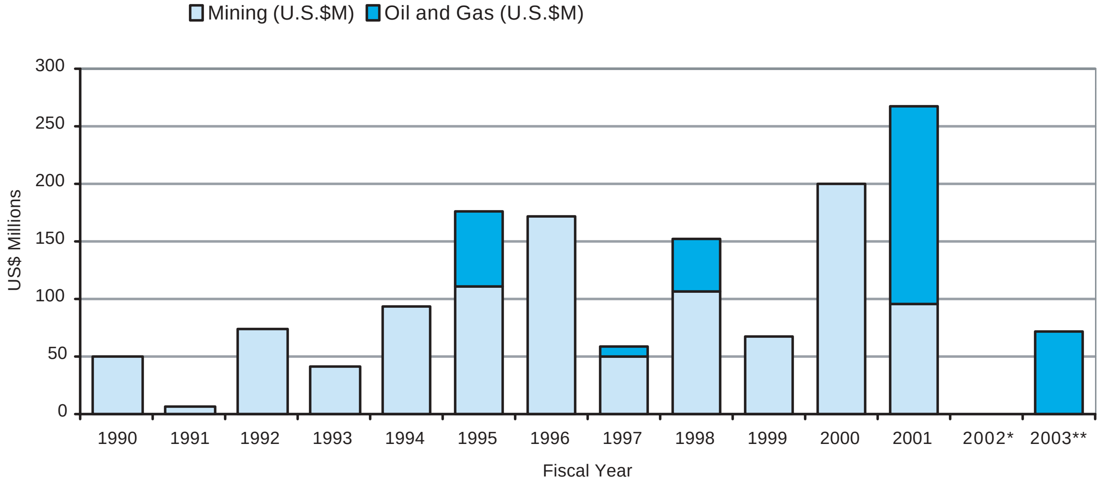
Altogether, OEU covered 15 out of 31 MIGA EI projects through the safeguards review, validation and update, or case studies. This is equivalent to 48 percent of MIGA's EI portfolio. Attachment 2 provides an overview of the projects reviewed by OEU.

Portfolio Overview: MIGA Activities in the Mining and Oil and Gas Sectors

MIGA began supporting mining projects in 1990, at the start of its operations. In fact, the first two projects ever to receive MIGA coverage were in the mining sector, and in its first year of operations, mining accounted for 76 percent of MIGA's aggregate liability.

As of December 31, 2002, MIGA had insured 24 mining and 7 oil and gas projects, for a total of 31 EI projects.[284] (A complete list of MIGA EI projects since its inception are in Attachment 1.) MIGA was relatively active in mining in the 1990s but has not insured mining projects since FY01. By contrast, MIGA began insuring oil and gas investments relatively late, in the mid-1990s (see Figure E1). In terms of MIGA's cumulative aggregate liability, mining has overshadowed oil and gas (of the total liability issued in EI of almost $1.5 billion, mining accounts for 74 percent and oil and gas for 26 percent). Overall, 13 percent

Figure E1 MIGA Guarantees Issuance in Mining and Oil and Gas

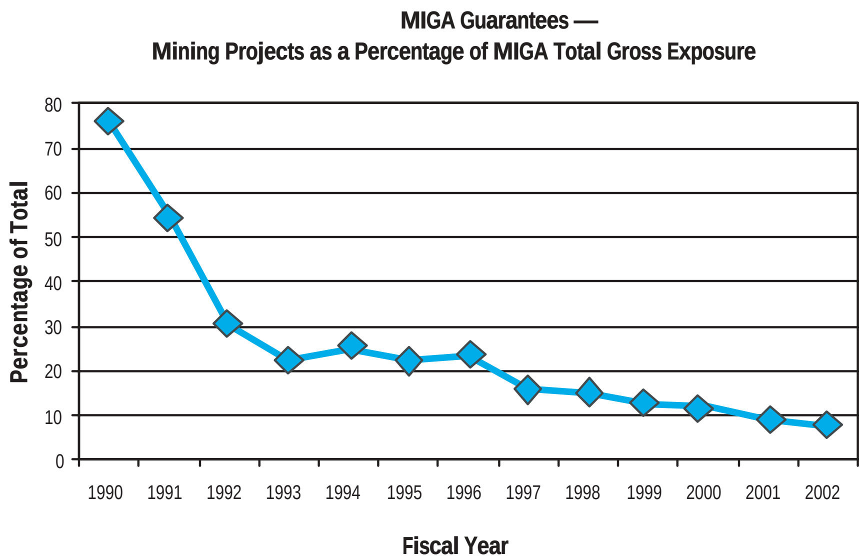


* No guarantees issued in EI
**As of 12/31/2002

of MIGA's cumulative issued liabilities were in EI. As MIGA operations grew and it diversified its portfolio into other sectors, fewer EI projects were underwritten, and as existing coverage expired or was cancelled, the share of EI in MIGA's outstanding portfolio gradually decreased (see Figure E2). As of December 31, 2002, this figure dropped to approximately 11 percent (6.6 percent for mining and 4.3 percent for oil and gas), or $552 million, in absolute terms.

MIGA coverage corresponded to an estimated foreign direct investment (FDI) of $10.2 billion

Figure E2 MIGA Exposure in Mining Declining



for mining projects and an estimated $5.1 billion for oil and gas. The total FDI facilitated in EI accounts for 32 percent of the overall estimated FDI facilitated by MIGA since its inception.

Extractive industries projects, especially greenfield projects, often entail large capital investments. Even privatizations and modernizations, which represent about half of the mining projects that MIGA has insured, required significant investments. This tends to produce a higher level of MIGA exposure per project, $47 million on average, compared with the MIGA average ($28 million). MIGA's exposure ratio, measured as the share of its gross exposure to the FDI facilitated by MIGA projects, is about 10 percent for EI (mining: 11 percent, oil and gas: 7 percent), whereas the overall ratio for MIGA is 23 percent. MIGA has extensively used possibilities for reinsurance and coinsurance with public or private political risk insurers for its projects in the EI sector, thereby limiting MIGA's net exposure.

Half of MIGA's mining projects have been gold mines (12 projects), and another 8 have been copper mines. In terms of coverage issued, MIGA mining projects have been concentrated in Latin America and the Caribbean (45 percent) and Africa (27 percent), followed by the transition economies in the former Soviet Union (16 percent). About half of the mining projects in Latin America have been privatizations or expansions, whereas almost all other projects in other regions have been greenfield operations. All mining projects in Africa have been located in IDA-eligible countries. Two more mining operations were located in IDA-eligible countries in Europe and Central Asia and Latin America and the Caribbean.

The majority of oil and gas projects insured by MIGA were new investments in existing production fields. Regionally, oil and gas projects have been fairly evenly distributed, in terms of MIGA's liability, between Latin America, Europe and Central Asia, Middle East and North Africa, and Africa, and have been evenly distributed between onshore and offshore fields.

MIGA's EI portfolio was concentrated in countries with a higher risk profile, because demand for MIGA coverage originates from investors' unfavorable perception of political risk in host countries. There is often a correlation between the perceived risk in a country and governance; that is, political risks are likely to be more prominent in weaker governance environments. This in turn means that the need for MIGA guarantees is higher in countries where governance tends to be weaker. While there are no generally accepted governance ratings, Transparency International's (TI) corruption perception index provides a proxy for one dimension of governance in countries where MIGA had EI project guarantees. The 2002 TI rankings include 20 countries in which MIGA has had EI projects. The unweighted average score for countries with MIGA EI involvement is 3.58 (on a scale of 0 to 10, with MIGA EI scoring from 1.9 to 7.5), which is identical to the average score of all developing countries (79) covered by the corruption perception index. This means that MIGA EI projects, on average, were in countries where perceived governance levels were similar to the average level in its developing member countries. Governance issues are important for EI-dependent countries and are addressed by the joint evaluation at both the sectoral and country levels in the OED/OEG/OEU Overview report.

Since FY00,[285] MIGA has not supported any new mining projects, and it has insured only three new oil and gas projects. While the reasons for this slowdown were not systematically assessed by this evaluation, it is likely due to (i) a decline in the number of applications received by MIGA (signaling either a lack of private investor interest or investment opportunities in these sectors given the fall in metal prices and other adverse global developments, or political risk insurance not being critical for their investment, or lack of attractiveness of MIGA instruments to investors) and (ii) a need for more rigorous project assessments during underwriting and, thus, delayed decisionmaking. MIGA may have been more careful and selective as well, given that EI sector projects often mean high underwriting costs, increased scrutiny, complex environmental and social issues, and some criticism by stakeholders or nongovernmental organizations with potential risks and implications for MIGA's reputation.[286]

A MIGA Contract of Guarantee, the agency's key legal instrument, is issued for a period of 3 to 15 years, subject to the needs of the investor. Most contracts have a minimum duration of three years, after which the investor may cancel the guarantee on the premium anniversary date, with 30 days' advance notice to MIGA.

Cancellations of MIGA EI Projects

As of December 31, 2002, 299 of the cumulative total of 619 contracts issued by MIGA (i.e., 48 percent) remained active. In the extractive industries, 21 of the 61 contracts (i.e., 34 percent) were still active. These correspond to 11 projects out of a total of 31 extractive industries projects that obtained MIGA guarantees since 1990, implying a high cancellation rate of 66 percent for MIGA EI projects. This is most likely due to the relative seniority of extractive industries projects (especially mining projects) in MIGA's portfolio (most contracts have outlasted the three-year minimum contract period).

Contracts in the extractive industries, associated with 20 projects in all, that were cancelled by investors or expired remained active for a median time of 4.0 years, with a range of 0.66 to 7.25 years.[287] As of December 2002, the oldest EI project in MIGA's portfolio, a mining project, had been insured for 11 years.

Reasons for observed cancellations of guarantee contracts for EI projects include, in decreasing order of occurrence, the following: (i) self-insurance (investors become comfortable with the host country political risk level, which means that the MIGA guarantee has served its useful purpose), (ii) replacement of MIGA insurance with private or national insurers, (iii) repayment of loans, (iv) commercial failure of the project enterprise, (v) transfer of shares by the guarantee holder to investors who have not requested a guarantee from MIGA, and (vi) financial restructuring, leading to replacements of existing contracts.

Technical Assistance, Advisory and Mediation Services, and Claims

MIGA's technical assistance and advisory services have focused on mining and in the past have aimed at assisting countries in formulating strategies and techniques to attract FDI in the sector. The program consisted of three core activities. The objective of the first, capacity-building, was to improve the effectiveness of the host country's mining promotion agencies through strategy workshops and policy seminars for government officials. Second, investment facilitation activities, including six conferences on African Mining Investment, brought together potential investors and government leaders to catalyze projects in Africa. Finally, in information dissemination, using a predominantly Internet-based approach (such as the Investment Promotion Agency Network[288]), MIGA provided information on mineral potential, policy and legislation, infrastructure, financial services, basic country information, investment opportunities "who's who," new developments, and geological maps. Because MIGA's technical assistance and advisory services have not been evaluated, OEU is not able to report on the effectiveness of these activities.[289]

MIGA has not received or paid any claim related to an EI project. It has mediated two investment disputes involving mines, in Angola and Ukraine, for investors without MIGA guarantees.

2. Review of MIGA's EI Projects for Consistency with Safeguard Policies

This section summarizes the findings of a review to assess the consistency[290] of MIGA's extractive industry projects with current applicable environmental and social safeguard policies and the adequacy of measures to mitigate adverse environmental and social impacts.[291] This evaluation has focused on safeguard policies because the project's environmental and social performance is one of the most critical aspects of EI projects, and a failure to comply with applicable safeguards may have negative impacts on communities and the environment, thus undermining MIGA's development mandate. The section identifies specific issues emerging from the sample of projects reviewed in relation to (i) the application of the safeguards to the private sector, (ii) MIGA's unique mandate (within the WBG) as an insurer of political risks, and (iii) the adequacy of the safeguard oversight framework that has been adopted by MIGA management. The review is based on a comprehensive evaluation methodology that was developed and tested in a parallel OED study. It covers a sample of 12 MIGA EI projects in the mining and oil and gas sectors[292] approved between FY90 and FY01.

MIGA's framework for assessing the compliance of its guarantee projects with environmental policies and guidelines has evolved significantly over time. Prior to adopting its own policies and guidelines, MIGA applied World Bank environmental and social policies[293] and guidelines to its projects. An internal document indicated that MIGA had committed to "ensure that [its projects] conform to the environmental standards adopted by other members of the World Bank Group" since 1991 and initially did so using specialized IFC staff. The creation of an in-house environmental unit by MIGA in late 1997 was an important milestone for improving the Agency's capacity to address environmental issues. This unit has been responsible for setting up in-house procedures, formulating and revising policies, undertaking project assessments, and selective monitoring.[294] In May 1999, the Board approved MIGA's own specific EA and disclosure policies and procedures that reflect its business as an investment insurer for the private sector. They took effect with all-new definitive applications received after July 1, 2000. In May 2002, MIGA's Board approved the adoption of its own interim issue-specific Safeguard Policies. MIGA's Web site[295] notes, "In carrying out its review and evaluation, MIGA considers:

- the project's ability to comply with the appropriate guidelines found in the World Bank Group's *Pollution Prevention and Abatement Handbook;*
- compliance of the project with host country environmental requirements; and
- consistency of the project with MIGA's safeguard policies regarding the following specific issues: natural habitats; forestry; pest management; dam safety; projects on international waterways; involuntary resettlement; indigenous peoples; and physical cultural resources."

Until late 1997, IFC environmental and social specialists were used to review MIGA projects for WBG safeguard policy consistency, as MIGA did not have its own in-house capacity due to its small size.[296] Even after MIGA's environmental unit was created, IFC experts continued to be called upon for their advice on certain projects. In some mining projects that were reviewed, IFC was also an investor and/or lender, and MIGA deferred to IFC experts on safeguard compliance matters in such cases. From an evaluation perspective, including projects for which IFC experts carried out, MIGA's due diligence has provided valuable insights into the functioning of this earlier arrangement and its efficacy for MIGA, which could also be useful for future MIGA projects in which IFC may be involved.

The WBG safeguard policies contain a long list of requirements. For the purposes of this independent evaluation of consistency of MIGA projects with safeguard policies and guidelines, a set of basic criteria was developed reflecting key policy requirements and the necessary steps involved in meeting them. These criteria are summarized in Attachments 3a and 3b. This approach is similar to the one developed and used for a sample of World Bank EI projects by OED[297] in evaluating the compliance with WBG safeguards policies. They are based on MIGA's specific environmental assessment and disclosure policies and procedures, as well as the interim issue-specific safeguards,[298] as approved by MIGA's Board in 1999 and 2002, respectively, which differ somewhat from those of the World Bank to reflect MIGA's business model. MIGA's 2002 safeguards have adapted World Bank safeguards to the private sector. This has involved some simplifications and clarifications and in no case a tightening of World Bank safeguards.

This review was the first of its kind for MIGA projects and was undertaken to determine the status of a representative sample of EI projects on environmental and social fronts, using current standards. Using the most recent MIGA policies as criteria for consistency, rather than WBG policies and guidelines in effect at the time of approval of guarantees, enabled OEU to review the entire sample using the same criteria. OEU recognizes that the application of the safeguard policy framework has evolved considerably in MIGA since issuing the first guarantee in 1990 and that not all of the policies had the same degree of specificity. Furthermore, the Bank's and MIGA's procedures evolved over time as well. MIGA, as a member of the WBG, had subjected itself to WB policies and guidelines since the inception of the Agency and more explicitly since 1991, prior to adopting its own policies. Therefore, all projects covered by this review were subject to the WB policies at the time of their Board approval. MIGA's Board had the expectation that the projects it concurred with were fundamentally consistent with applicable WB policies and guidelines. For reasons of methodological soundness, this report does not refer to compliance (in its strict or legal meaning) across a period of 12 years (MIGA's operational history), but rather it assesses projects' consistency. The intention of this study was to learn about the extent to which MIGA EI projects were (and are) consistent with current applicable MIGA safeguard policies and guidelines. This approach also reflects the forward-looking nature of this evaluation and can inform decisions about possible future EI projects MIGA may be involved in.

The review focused on consistency with safeguards at two phases in the guaranteed investment cycle:

- *Consistency with Safeguards at Board Approval:* To what extent did the guaranteed investment comply or agree with the requirements of the current MIGA safeguard policies and guidelines at the time of Board approval?
- *Consistency with Safeguards under Guarantee:* To what extent did the project fulfill or agree with the conditions and requirements of the safeguard policies and guidelines (currently in force) during investment implementation and adequately implement the safeguard management/action plans that had been identified at approval?

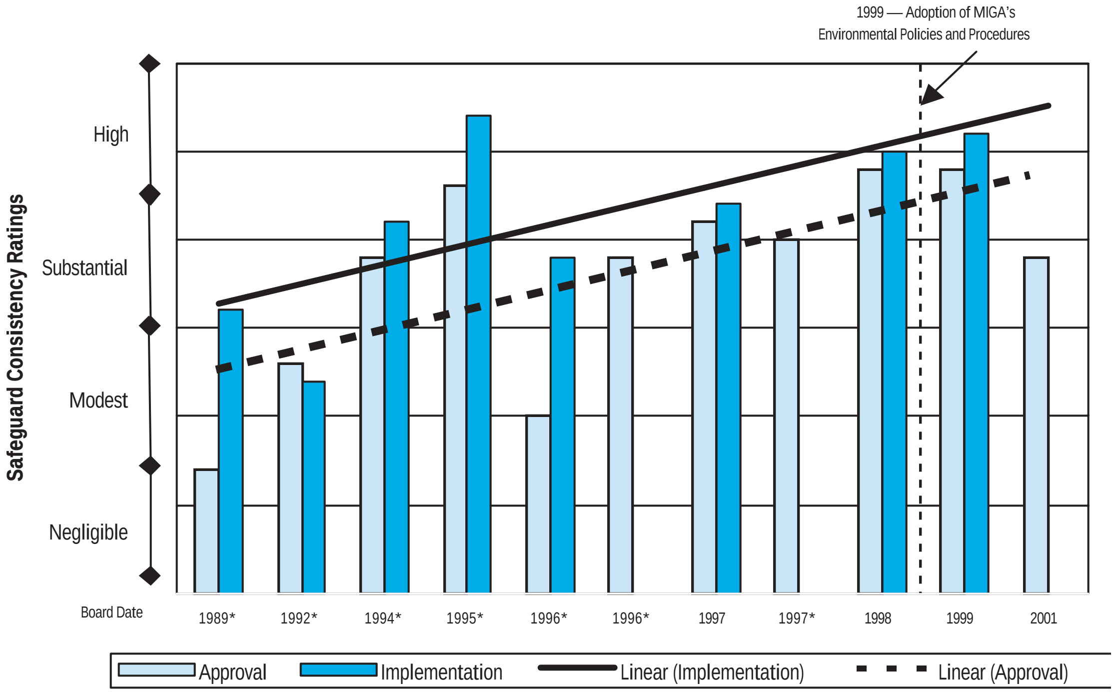
The review found that 73 percent of the EI projects in the sample were substantially[299] consistent with current MIGA safeguard policies at the time of MIGA Board approval. This ratio increased to 88 percent during implementation, while the project was still under guarantee or at the time of cancellation of the guarantee. Moreover, safeguard policy consistency showed an improving trend over the period of 1990–2001 for the sampled projects, for both stages—at approval and during project implementation (see Figure E3).

Safeguard Issues Prior to Board Approval

For 82 percent of the projects, the EAs, including analysis of alternatives and baseline studies, were well prepared by the time of Board approval.[301] However, this has not always translated into well-prepared EMPs or Environmental Management System (EMS) provisions in the sponsor's project organization and contracting arrangements during construction, which are the principal means for operationalizing the protective measures proposed under the EAs. The main problems of safeguard consistency identified at approval (see Table E1 and Attachment 5a) are (i) poor public consultation and disclosure in approximately half of the projects, (ii) inadequate provisions for safeguard compliance in Contracts of Guarantee in more than two-thirds of the projects, and (iii) deficiencies in application of issue-specific safeguards, where relevant, such as involuntary resettlement (two-thirds of the projects), indigenous peoples (in all projects), natural habitats (in two-thirds of the projects), and dam safety (one-quarter of the projects).[302]

The projects reviewed included cases where (i) specific safeguards were not explicitly identified in the documents in the files, or were identified late in project processing (sometimes even after Board approval); (ii) instructions given to clients regarding specific safeguard requirements were not clear; (iii) requirements were not adequately communicated to consultants preparing EAs; and (iv) internal documents and clearances for Board approval were not sufficiently clear about which safeguard policies or environmental guidelines were applicable. The more common reasons for these problems identified by the review were (i) MIGA getting involved too late into the process; (ii) lack of social sector expertise in identifying applicable safeguards; (iii) underwriters not having the experience or necessary background, leading to poor initial communications with clients before

Figure E3 Safeguard Consistency Ratings for MIGA Projects Show an Improving Trend[300]



* Guarantees for projects noted with an asterisk (*) are no longer active.

environmental staff got involved; (iv) institutional pressures to meet guarantee volume objectives for the fiscal year, which may have prevented some critical environmental verification (e.g., updating previous clearances if time elapsed was significant, additional site visits when needed); and (v) changes in project scope and design between Board approval and issuance of Contracts of Guarantee without further safeguard evaluation. The potential value added MIGA could provide tends to be downplayed at the underwriting and marketing stages of a prospective guarantee. It is unclear why in some of the projects reviewed safeguard policies were not triggered early enough—or at all—in the underwriting process. Reviewed projects also provide some positive examples, suggesting that when safeguard policy issues are handled expeditiously and efficiently with clients, MIGA's intervention provides value added and a level of comfort.

The EAs that were reviewed varied in quality from relatively mediocre to the highest international standard. The scope and comprehensiveness of 82 percent of the EAs reviewed met basic MIGA requirements, as outlined in Attachment 3a. Some were developed over several years with many refinements and improvements added in the process and included extensive inputs from a variety of independent experts and reviews by competent regulatory authorities, as well as project-affected communities and NGOs. Cases were noted where MIGA (or IFC) experts provided important inputs during the process of EA review, which considerably improved their quality. There were other examples where their inputs were too late and had to be addressed after project approval. In one case, independent consultants hired by the major lenders identified a long list of deficiencies in the EA, which was initially prepared by one of the investors.

Table E1 Safeguard Consistency Summary for MIGA EI Projects at Board Approval (Based on Review of 11 MIGA EI Projects)

Criterion	Applicable to (No. of Projects)	Addressed Substantially or Higher (Percent of Projects)[a]
Cultural Property Protection Proposed	7	100%
Comprehensive Environmental Assessment	11	82%
Comprehensive Environmental and Social Baseline Survey	11	82%
Comprehensive Dam Safety Measures Proposed	4	75%
Adequate Environmental Action Plan Proposed	11	73%
Adequate Analysis of Feasible Alternatives	11	73%
Project Sponsor's Environmental Management System Adequate	11	64%
Public Disclosure/Consultation Addressed	9	56%
Comprehensive and Implementable Resettlement Plan/Community Development Program Prepared	9	33%
Natural Habitats Protected or Offsets Provided	6	33%
Contract of Guarantee for Implementation of Safeguard Policies/Guidelines Adequate	11	27%
Comprehensive and Implementable Indigenous Peoples Plan Prepared	3	0%
Overall Safeguard Consistency	11	73%

Note: Four projects could not be reviewed as no monitoring reports were on file.

a. Four rating categories were used: negligible, modest, substantial, and high. See Attachment 3a for more details.

Addressing Mine Closure. The main issue in the application of the 1995 *Mining and Milling Guidelines*—Open Pit noted during the review was the requirement for preparation of a Mine Closure and Restoration Plan. It was not clear in the guideline when such a plan had to be prepared, at what level of detail, and when the investor needed to start accumulating funds for mine closure (as required in the 1998 version of this guideline). In some of the cases reviewed, the plan was required at the time the EA was prepared, but in others it was not until later, during project implementation, that MIGA (or IFC) made it clear that the plan was needed. Some clients argued that it was too early for them to prepare such plans at the final feasibility stage and include them in the EA, while others recognized that mine reclamation should be a progressive process and incorporated into the mine development plans (and financial plans) to minimize costs and reduce environmental (and social) impacts. In these cases, the plans were revised and adjusted during the operational phase as more experience was gained.

Public consultation and disclosure of environmental and social impacts was one of the weakest areas of safeguard consistency for the reviewed projects, with only about half substantially meeting MIGA's requirements.[303] In some projects, MIGA and IFC experts took great care to ensure that the clients were aware of their EA public disclosure obligations. In other cases, insufficient guidance was provided, and, as a result, too little attention was given to this matter. Some EAs were deficient in describing the public consultation process, while others were forthcoming and noted improvements that resulted from the process. Cases were noted where project decisions had already been made and the public disclosure process was seen as a pro-forma exercise, defeating the purpose of the MIGA policy. There were no cases where the MIGA disclosure policy delayed guarantee processing.

The review found that only one-third of the projects had adequate provisions for safeguard enforcement in the Contracts of Guarantee,[304] although even these did not refer to the individual safeguards that applied. In three more recent cases, the specific applicable Environmental Guidelines were indicated and attached to the contracts. The review of clearance memos also indicated a lack of clarity on the specific safeguard policies that applied to projects prior to approval. In only a few cases has MIGA included any specific environmental and social reporting requirements by its clients in its contracts.

OEU did not include ratings for one project selected for the safeguard review because of a lack of relevant information verifying the adequacy of the project's environmental classification. MIGA Management has taken action to provide the documentation, and OEU will complete the review of this project upon receipt of the relevant documents.

Safeguard Issues During Project Implementation

As noted above, there was notable improvement in the safeguard performance of the sample of extractive industry projects during their implementation (see Table E2 and Attachment 5b). Of particular note is the high level of performance in (i) implementing Environmental Action Plan (EAP)/EMPs, (ii) carrying out environmental and social monitoring,[305] (iii) operating Environmental and Health and Safety Management Systems, and (iv) generally improved consistency with specific safeguard policies, with the exception of the natural habitats policy. Public consultation and disclosure, a key area, continued to fall short of good practice in one-third of the projects reviewed, in particular in three Category 'A' projects underwritten before FY00, when MIGA's Environmental Review Procedures and Disclosure Policies went into effect. Reporting on safeguard policy consistency by clients and monitoring and evaluation by MIGA could also be improved.

The most important factor in ensuring safeguard compliance is a committed investor with the capacity to implement the environmental, health and safety, and social mitigation and monitoring programs that are required under the project and spelled out in the EAs.

One case illustrated what can go wrong if management and organizational structure set up for project management during the construction phase become too autonomous and disconnected from the environmentally and socially responsible policies and procedures of the individual investors. The case also showed that a company can learn from experience. It was only after receiving public complaints against the project that MIGA came to realize the seriousness of the situation and fielded a mission to assist the investor in restoring its public image and helping it to act as a responsible corporate citizen. This case also clearly illustrates both MIGA's positive contribution in this process and the need for MIGA to take a more proactive approach in evaluating clients' organizational and management arrangements to satisfy itself that they are adequate for implementing responsible environmental and social policies from the very start of project construction. Risks and costs associated with consequences for inadequately addressed social and environmental issues, for both MIGA and the investors, are high and increase throughout the life of the project (see Box E1).

Environmental Management Plans/Environmental Action Plan. Environmental and

Table E2 Safeguard Consistency Summary for MIGA EI Projects Under Guarantee (Based on Review of 11 MIGA EI Projects)

Criterion	Applicable to (No. of Projects)	Addressed Substantially or Higher (Percent of Projects)[a]
Environmental Action Plan/Environmental Management Plan Fully Implemented by Sponsor	8	100%
Environmental and Social Monitoring Fully Implemented by Sponsor	8	88%
Sponsor's Project Implementation Environmental Management System Effective	8	88%
Resettlement Plan/Community Development Program Fully Implemented	7	86%
Full Compensation of Project Affected People	6	83%
Cultural Property Protected	6	83%
Dam Safety Measures Implemented	4	75%
Indigenous Peoples Plan Fully Implemented	3	67%
Continuing Public Disclosure and Consultation	8	63%
Reporting on Safeguard Policies by Sponsor Adequate	10	60%
Monitoring and Evaluation of Safeguard Policies by MIGA Adequate	10	60%
Natural Habitats Protected or Offsets Provided	6	50%
Overall Safeguard Consistency	8	88%

Note: Four projects could not be reviewed as no monitoring reports were on file.

a. Four rating categories were used: negligible, modest, substantial, and high. See Attachment 3b for more details.

social action plans are the key outputs from the preparation and approval stages of MIGA projects. There are good examples among MIGA projects reviewed where these action plans have been taken seriously by investors—usually those in which the investors were directly involved in their preparation and finalization. There were other cases where the action plans were prepared by independent consultants without full endorsement by investors. EMP/EAPs were substantially implemented by all of the investors for the projects reviewed, in some cases with persistent prodding by MIGA's (or IFC's) environmental and social experts. Some investors incorporated the EMPs into their EMS monitoring and auditing programs to ensure that they were fully implemented. In such cases, variances from the plan were noted, as were action plans drawn up to fulfill these requirements.

Land acquisition and resettlement was substantially accomplished according to the requirements of MIGA's involuntary resettlement policy

Box E1 A Company Learns How to Handle Social and Environmental Issues

The evolution of this project's handling of social and environmental issues, and MIGA's role in the process, provides important lessons. During the early construction phase of 1998–99, priority was given to earliest possible project completion and cost efficiency. The contractor coordinated only with the project management side and had no line of communication with the company's operations side, which was responsible for the eventual operation of the mining facility, including environmental protection and community relations. As a result, concerns and messages coming from the company's operations side during the construction phase were not addressed by the project management, resulting in a gap between expectations of the local community and actions of the project. It also generated several social and environmental problems:

- An accelerated resettlement program of more than 40 indigenous families carried out inadequately during March and April 1999, which led to social discontent, was a clear indication that a culture of social responsibility had not yet permeated project management and organization.
- In terms of governance, not much effort was devoted to strengthening local organizations.
- Economic linkages to the local economy were not activated, as no initiatives were taken to implement programs of local employment, training, or procurement.
- No appropriate mechanism was implemented to ensure timely advice to those communities and persons who received substantial amounts of money for their land in a noncash economy.

This situation led to complaint letters to MIGA, which sent a mission to the field to investigate the matter in May 2000. Reacting to the widespread dissatisfaction in neighboring communities, the company began working on community relations and took corrective action in early 2000. MIGA's involvement at this precise time appears to have had a positive effect, changing the priorities and attitude of project management with respect to community and environmental issues. However, the management structure was modified only after project construction was completed in mid-2001. In mid-2002, one year after production start-up, the company implemented a new organizational structure more consistent with the social and environmental concerns of a modern mining company. Under the new structure, the chief executive officer is responsible for the operational, financial, and environmental aspects, as well as community relations. This new unified structure facilitates coordination and teamwork among different departments and the articulation of a common objective for operational and social and environmental areas. It should enable the company to address environmental and social issues more proactively in the future.

in 86 percent of the projects reviewed. This was a great improvement over the situation at project approval, when only 33 percent of the projects had adequately prepared resettlement plans. It reflects a conscientious effort by MIGA (and IFC) to bring these projects into conformance with the social safeguard policies during the implementation phase. However, there were deficiencies in applying the policies, which should be noted for future reference and attention. In regard to those projects where land acquisition and resettlement occurred before MIGA involvement, the policy requires monitoring and evaluation of its implementation and then, upon completion, an assessment of the outcomes to see if the objectives of the policy have been met in the process. This was not carried out.

In two-thirds of the projects, investors were active in implementing community development activities to mitigate the impacts of their operations on local communities. In projects where IFC was also involved, it promoted these activities to investors, while MIGA played a critical catalytic role in one project. The community development programs have focused on improving services such as health, education, and water supply and sanitation services in project-affected communities, and they have promoted economic development, including job creation, training, and credit for small-scale business activities and improved agricultural practices.

With regard to other specific safeguards, closer attention by investors to indigenous peoples' issues during implementation resulted in substantial consistency in two of the three projects with the requirements of this safeguard policy. Tailings dam safety has been a concern that has been highlighted by well-publicized failures, so it is not surprising that most mining companies are sensitive to this issue and take it seriously. Seventy-five percent of the projects reviewed with dam heights in excess of 10 to 15 meters were substantially consistent with this safeguard policy at Board approval, as well as during implementation. The most serious concerns during implementation were leaking dams and sealing problems at abutments, which required pump-back of the leaked tailings water; failure in one case to remove trees and tree roots from the tailings impoundment, which compromised the integrity of the dam foundations; poor construction practices without adequate supervision; and poor operating practices that allowed ponding in front of dam walls. One of the mining projects previously evaluated by MIGA experienced a tailings dam failure while under MIGA guarantee, releasing large quantities of cyanide-contaminated water into a downstream river system. In this case, MIGA was a reinsurer, and it lacked the legal ability to apply and monitor its safeguard policies.[306] In another instance, crates of cyanide fell into a river in a traffic accident while being transported to the mine site. Since these incidents, MIGA has paid closer attention to safety matters in the transportation of hazardous substances for EI projects.

The only safeguard for which the consistency outcomes were not appreciably improved during implementation was the natural habitats policy. Only half of the projects substantially conformed with this policy during implementation, although one project was taking steps to meet the requirements when it was prematurely shut down and put on a care and maintenance basis.

The review also found that three MIGA-guaranteed projects were vulnerable to social unrest, which may have been exacerbated by security-related incidents leading to claims of violations of individual rights. In those three projects, MIGA did not separately consider issues related to conflict in the context of the projects as part of its underwriting. However, MIGA's development mandate encompasses a concern for such potential negative impacts on individuals in host countries. This is also a political risk issue with the potential to affect both the project (increased conflict) and MIGA (claims brought under war and civil disturbance coverage, as well as reputational risk). Another MIGA project entailed a dispute with a neighboring country regarding ownership of the resource. MIGA treated this issue thoroughly in its political risk assessment.[307]

The variety of reporting mechanisms that were noted in the projects provide good lessons on the quality and usefulness of the information provided for assessing environmental and social risks and safeguard consistency of projects under guarantee. Examples of good reporting were provided by (i) independent experts hired by senior lenders, (ii) independent auditing experts hired by the investor, (iii) investor head-office auditing teams, (iv) monthly or quarterly reporting by clients to lenders and MIGA, and (v) MIGA and IFC environmental and social specialists in mission reports and internal memos. MIGA does not require AMRs from its clients. Reporting on social impacts and compliance with social safeguards continues to be weak in MIGA's reporting system, although there were some good examples in the case studies of independent auditing of involuntary resettlement and indigenous peoples plans.

There was a frequent and steady flow of monitoring reports from clients or independent consultants hired by senior lenders or bilateral investment insurers in 60 percent of projects reviewed. In about half of the projects, MIGA benefited from an independent review of the project EA by consultants hired by senior lenders or bilateral investment insurers. The independent review requirements of the senior lenders and bilateral investment insurers focused only on the environmental and health and safety aspects of the proposed investments, except in one case in which social issues were also addressed. In none of the cases did MIGA hire outside independent expertise to carry out its due diligence work on the projects reviewed, relying on the investor, or other external agencies, to finance this work. The downside to this arrangement is that MIGA does not have any control of the scope of the consultants' work, the quality of the consultants hired, or the frequency and timeliness of their reporting. The main deficiencies in the independent assessments have been on the social issues, except in a few cases where such expertise has been specifically hired by investors to evaluate their resettlement and social programs. There were no monitoring reports in MIGA files for one Category 'A' project and one Category 'B' project, even though they had been under implementation for more than three years.

MIGA has limited in-house capacity to adequately monitor and influence social safeguard outcomes. For the sampled projects where IFC was involved in the financing arrangements, MIGA delegated monitoring of environmental and social aspects to IFC, which carried out a systematic supervision of the projects, including site visits (on behalf of both MIGA and IFC). Social specialists have been involved in field visits from the beginning of project processing in only one case. The observed pattern has been a delayed involvement (including field visits), often after Board approval, resulting in increased project cost and delays and generating dissatisfaction among project stakeholders. Investors have benefited considerably from environmental and social specialists' site visits and advice in IFC/MIGA projects. Investors have expressed their appreciation for these inputs, in particular for dealing with land acquisition, resettlement, and community development issues, where the WBG has substantial experience and competitive advantage.

3. Development Impacts of MIGA EI Projects

The findings on the development impacts of MIGA EI projects presented in this section are drawn from six MIGA projects in the EI sector evaluated between FY99 and FY00 and one case study conducted in FY02–03. The six have been updated and validated through a desk review to arrive at rating categories consistent with OEU's new evaluation methodology, whereas the case study applied this new methodology for the first time to a project evaluation.[308]

All projects, most of them gold mines (and one copper and one cobalt extraction/processing), were approved in the early to mid-1990s, when gold prices were higher than $350 per ounce. Metals prices, including gold, fell precipitously in the second half of the 1990s. The price of gold fell to below $300 per ounce toward the end of the 1990s, greatly reducing, and in some cases totally eliminating, returns to equity investors.

Quality of underwriting and risk assessment: An analysis of the underwriting of the seven projects found that MIGA's assessment of the projects' financial viability was generally thorough and based on the best information available from the clients at that time, although assumptions on metals prices, volume, and quality proved to be optimistic. All seven project assessments also provided an estimated ERR, but none of the cases explained the underlying assumptions of the ERR calculation, so that it was not possible to judge their validity (or calculate a comparable ex-post ERR). Some instances were noted where backward linkages appeared somewhat overestimated (e.g., in the purchases of fuel or electric power, where value added is extremely low), as was the case for infrastructure improvements (some deterioration in infrastructure was neglected, whereas other improvements had very little impact due to the remoteness of the location). In another case, credit was claimed for health and educational services available only to employees, which is considered a standard compensation package. On risk assessments, all project analyses went into substantial detail on the three major political risks MIGA insured, and most of the problems related to these risks were fully identified and appraised. However, there was no discussion of the potential risk from a low financial return if the government owned a significant share of the company (one project).

In general, during the underwriting of the reviewed projects, there was a compartmentalized approach defined by the source of the information. For example, financial analysis and projections, as well as anticipated economic data, were provided by investors; partial development analysis was carried out by MIGA underwriters; environmental and social issues were addressed by investors with MIGA inputs; and risk analysis was undertaken by MIGA underwriters. EI projects reviewed were complex, involved large investments and revenues for the host governments, and had important environmental and social implications, subjecting them to close public and international scrutiny. Thus, they required a more up-front and in-depth analysis and a holistic understanding of financial, economic, social, and environmental aspects from a developmental perspective.

The Risk Management Committee, established as a result of the Guarantees Business Process Review undertaken in 1998, brings together guarantees and legal, environmental, financial, and risk aspects during the decisionmaking stage for potential guarantees. While it has provided a forum for the discussion of many aspects of the newer EI projects covered in this evaluation, these discussions are not adequately informed by full assessments of the social issues and developmental impacts frequently encountered in complex projects in the EI sector.[309]

Business Performance and Financial Sustainability: Low Metals Prices Suppressed Profitability of EI Projects

Financial returns in all seven projects were affected by the fall in metals prices. In assessing financial benefits, all projects had assumed that metals prices would remain stable over the project lifetime. The commodity price margins within which the projects were expected to be profitable widely varied. Only one of the projects was still financially profitable at the gold prices that prevailed during the latter part of the 1990s and through mid-2002. The evaluated cobalt project was hit hardest and placed on care and maintenance in late 2002 until such time as the metal's price returned to near its pre-project level. Two of the evaluated projects had moderately satisfactory ratings for financial sustainability, two were rated moderately unsatisfactory, and three had an unsatisfactory rating.

Revenues to host governments from equity holdings have been disappointing, and little is known about their use. Low metals prices, coupled with significant cost overruns and/or lower-than-anticipated ore quality in some projects, resulted in low financial returns to equity holders. In cases where governments held equity in compensation for providing a proven gold reserve, this has had a profound impact on their return to equity and expectations of significant revenues were not fulfilled. In at least some cases, governments have been aggrieved that they have received little or no benefits from the valuable natural resources that they have allowed foreign companies to exploit. Clearly, the more a government relies on proceeds from equity ownership rather than taxes and royalties, the greater its dependency on good financial outcomes of the mine. Analyses of the developmental impacts of EI projects by MIGA underwriters, in general, have made no attempt to assess the use of EI revenues by governments, focusing mainly on the private investment project itself. (The Overview Report of this joint OED/OEG/OEU evaluation addresses the issue of the use of EI revenues by governments for the World Bank Group.)

Economic Sustainability: Financial Performance Limits Economic Benefits

Overall, economic sustainability was marginally better than financial sustainability for these projects, with two projects rated moderately satisfactory, three others rated moderately unsatisfactory, and two rated unsatisfactory for economic sustainability.

Economic sustainability of these projects also largely depended on the price of the mineral resource, moving in parallel with financial sustainability and profitability. This is because the profitability of the project not only influences the amount of resources the project has available for supporting local community initiatives, but, more importantly, it is a major determinant of the mine life. The volume of economically mineable resources (and therefore the number of years that the mine will operate and provide jobs and other benefits to the country/community) is highly dependent on the price of these resources.

The most important benefits of these projects to their host countries were in the areas of employment creation, often in remote and depressed areas; training; and government revenues. The seven projects created, on average, 710 jobs, with a range of 0^{310} to 1,375. Except for two projects, local employment at the time of evaluation was higher than initially anticipated. One of the exceptions is an operation that was put on care and maintenance due to its unprofitability under current metal prices. All evaluated projects allocated resources to training (an average of US$1,200 per employee per year). Although aggregated annual government revenues fell short of initial expectations by more than 50 percent, the contributions to local and central government budgets were still significant (averaging between US$5 and US$10 million per year) for most projects. Within the scope of this evaluation, OEU did not assess the effectiveness of the use of EI revenues by the host country governments (nor was there a baseline analysis of these issues in MIGA underwriting documents), as it is beyond the reach of private sector projects that MIGA guarantees. All evaluated projects have supported local government financing and local initiatives to varying degrees. In more general terms, projects with a nearby labor pool and communities were more successful in generating direct economic benefits for those communities. There is evidence that projects that allocated more funds to local authorities and affected populations were more favorably viewed and had fewer social problems than those where most of the funds went to central government activities.

Private Sector Development: Supporting Countries' Private Sector Development Agendas

The majority of the evaluated projects made positive contributions to private sector development in their host countries. Five projects were rated moderately satisfactory, and two were rated moderately unsatisfactory.

All of the projects were consistent with and supported the private sector strategies of their host countries. Most projects under review were in countries where private investors had been hesitant to make large investments, either because there had been only limited experience working with new governments, or because investors' experience in previous projects with earlier governments had led to significant difficulties. In another case (see Box E2), the project was the first and largest mining development in the country, following a comprehensive sector reform, with an important demonstration effect for other projects. Each investment was expected to generate a substantial increase in private investment in the country's mining sector.

Government relations with project entities remained good in all the projects reviewed, and, other things being equal, the experience of the projects would have supported further investment in the sector. However, this expectation has not been fulfilled, probably because of the fall of metals prices through most of the late 1990s and the more recent global slowdown, which curbed investor interest in this complex sector. However, there was evidence that some mining investments guaranteed by MIGA in a particular country were viewed as pioneer investments, thereby changing foreign investors' perceptions about its investment climate and leading to increased foreign investments in other sectors in the country.

In addition to demonstration effects and follow-up investments in some cases, the projects all enhanced private ownership in the host countries and contributed, to varying degrees, to the development of downstream linkages. Some projects had local business development programs in place to increase the amount of local purchases, as significant backward linkages were rarely automatic, and specific programs appeared to be needed to maximize such linkages. In addition, evaluated projects supported some infrastructure improvements, some of which benefited adjacent communities and regions.

Box E2 Demonstrating the Viability of Mining

This project, underwritten in the second half of the 1990s, is the largest mining project in the host country involving mining and copper/gold ore processing at the mine site to recover copper and gold in concentrate, as well as gold doré. It was the first mining project following a major change in government policy designed to encourage development of a mining industry and to diversify the economy and exports. MIGA provided coverage against losses due to transfer restriction, expropriation, and war and civil disturbance for a minority equity investor and a shareholder loan. The MIGA coverage was part of a much larger political risk insurance package provided by national insurance agencies, covering commercial risks. MIGA's political risk insurance coverage supported a loan package on highly favorable terms, which encouraged the equity investors to make large investments in a new mining country. MIGA's role in facilitating this investment was thus rated *satisfactory*.

The project's objectives were consistent with the World Bank's strategy and support for mining sector reform, which helped set up a legal and fiscal framework—considered best practice—to encourage the development of the mining industry. Development of the sector, however, was hampered by the economic downturn and declining metals prices, leading to a drop in investment in the sector. However, the ability of the project to establish and operate a large-scale mine, albeit at relatively modest financial and economic returns, has given confidence to other potential investors in the industry. This has encouraged additional exploration and investment in other mining projects. Overall, the PSD impact of the project was rated *moderately satisfactory.*

The project's financial rate of return is expected to be below the rate initially estimated by the investors. This difference is due to (1) cost overruns in constructing the mine and processing facilities, (2) lower ore content, and (3) lower-than-expected metals prices. The estimate for the economic rate of return was similarly revised downward, but it is somewhat higher than the financial rate of return because of taxes paid (although these were lower than anticipated) and is enhanced by wage payments to previously unemployed workers and by the training provided. The project's economic sustainability was rated *moderately unsatisfactory.* A number of additional benefits arose from the mine: an electrical connection for a nearby city, making electricity available at lower prices; rehabilitation of transport infrastructure linking the region with a port, which is usable by others; and social expenditures for education and community programs.

The main environmental concerns were related to the selection of the right-of-way for support infrastructure, where it was necessary to avoid sensitive and important natural habitats, as well as cultural heritage sites. The mining operations are well designed for total capture and evaporation in the tailings reservoir of process tailings water and all-site run-off water. The tailings dam has been designed and is being operated and inspected to conform to MIGA dam safety standards. The environmental performance of this project was rated *moderately satisfactory.*

Although the social impact of the mine has been relatively benign, the expectations of the local population for employment opportunities and backward linkages to local businesses have remained unfulfilled. This reflects, in part, a failure of national and regional governments to prepare the local population to take advantage of opportunities created by the development and operation of the mine and the failure of the company to initiate a dialogue with adjacent communities and the government to build stakeholder support and to reach a consensus on human and regional development the project could foster.

4. MIGA's Role in EI Projects: Contribution, Effectiveness, and Staff Perceptions

One of the objectives of this evaluation was to assess MIGA's role in EI projects. The safeguard review, update and validation of previously evaluated projects, and case studies all looked at MIGA's contribution and effectiveness. MIGA's business is distinct from that of the Bank and IFC. "MIGA neither invests, grants nor lends money to investors, nor does it propose or design projects. Like any other form of insurance, investors and lenders who want this coverage pay premiums."[311] Clearly, because MIGA offers political risk insurance, a primary dimension of its contribution is expected to be the facilitation or enabling of FDI in countries and sectors where perceptions of political risk are high. However, as a member of the WBG, MIGA's potential to add value is broader than that of a traditional insurer and encompasses environmental, social, and developmental impacts of the projects it insures. In reference to this role, MIGA has also noted that "in order for investments to provide development opportunities for local communities, the projects must be environmentally and socially sound. Therefore, in carrying out its mission, it is MIGA's policy that all the foreign investments that it insures are carried out in an environmentally and socially responsible manner."[312] Against this background, defining the value MIGA adds, as a member of the WBG, is even more important.

With respect to the environmental and social dimensions of EI projects, MIGA's role has evolved over the period covered by this evaluation, with a clearly improving trend. More recently, the concept of MIGA's role has been more appropriately articulated as its "value added" to the projects it guarantees. The findings of this evaluation indicate that there are areas where MIGA has added substantial value for some projects, while for others, MIGA's role has been more that of a traditional insurer (i.e., limited to providing political risk coverage). The latter is more likely when guarantee holders are lenders or minority partners and less so if they are majority owners or operators.

MIGA's Contribution and Effectiveness

This subsection draws on findings from the evaluated projects to assess to what extent and in which ways MIGA had contributed to their improvement or success. These findings show that MIGA's role and the degree and nature of its contributions varied widely, as the agency changed its approach over the period covered by this evaluation.

Where Was MIGA's Value Added Lowest?

Business performance of projects. As expected from its Operational Regulations and role as an insurer, this review has found that MIGA plays no direct role in the financial performance of EI projects, although the agency provides a potential safety net against the impact of political risks. (While a reduction in political risks may have the potential to lower the cost of capital and enhance financial performance indirectly, an analysis of this relationship was not carried out in the scope of this evaluation.) As an insurer with the primary mandate to facilitate investment, MIGA does not participate in the operational or financial management of the project, and, thus, its room for action is very limited. Nevertheless, the financial viability of its guarantee projects is highly relevant for MIGA's long-term financial sustainability, as poor financial performance can lead to early cancellation of guarantees.

Project development impact/outcome. The development impacts of evaluated projects, as presented in previous sections, have varied. Once a guarantee is issued, MIGA does not normally influence the development impact of the project and has not done so in any of the projects reviewed. (In one project, MIGA had a positive role in community and environmental issues. See Box E1.) Moreover, no follow-up development information about the reviewed projects existed in MIGA's files, except if it had an ex-post evaluation (i.e., the six validated projects). The key role is therefore for MIGA to select projects with high potential development impact through the underwriting process.

Where Was MIGA's Value Added Highest?

Facilitating foreign investments. The provision of political risk insurance is a core tool for MIGA to facilitate FDI and the basis for the agency's most important value added. Evaluated EI investments were primarily in countries in which private foreign investors had been reluctant to make large investments because of either limited experience with new governments or difficulties faced by previous investments in that country or sector. In these cases, MIGA's political risk insurance was important for enabling investment flows into the mining and oil and gas sectors and in some cases has led the way for other investments in the host countries. MIGA has acted as a facilitator of investments, often with other partners, that otherwise would have been delayed or avoided. MIGA insurance was essential for most projects evaluated, given their location in countries with high political risks and low governance scores, and large sunk costs associated with investments in EI projects. In some cases, investments would not have gone forward without MIGA's involvement.

Environmental and Social Safeguards. Apart from reducing political risk for investors, the other area where MIGA has added value was in the incorporation, and/or enforcement of safeguards in EI projects and the advice MIGA experts (or those performing this function on MIGA's behalf) have provided to clients. All EI projects reviewed have to some degree benefited from the incorporation of environmental and social safeguards, even though not all of the projects have attained a level of full consistency with MIGA safeguard policies. The association with the World Bank Group has been perceived by most investors both as an umbrella for their projects and as a source of knowledge and best practice on environmental and social aspects. In some cases, international investors have applied their own high standards consistent with international best practice.

In one case (a high-profile project with environmental and social ramifications), because the sponsor requested that MIGA provide coverage that would address land rights disputes, MIGA (with advice from IFC) followed the land negotiations process in great detail and obliged the sponsor to provide detailed information on both the consultation process and the results of the land usage agreement. MIGA then verified the validity of the process and results with government and civil society organizations at national, regional, and local levels. In another case, MIGA's value added came during project implementation rather than at the design stage (see Box E1).

In some projects, MIGA delegated environmental and social safeguards aspects to its partners, who took the responsibility for due diligence. These arrangements worked reasonably well (and were cost-effective) for MIGA when the partner adhered to similar environmental and social policies and guidelines (e.g., IFC). However, when a partner carrying out due diligence on MIGA's behalf had lower standards than MIGA, it led to unsatisfactory results. This was the case in one project reviewed, where MIGA's reinsurance agreement predated the new MIGA practice by which the reinsured project must adhere to MIGA's environmental standards.

The results from several projects also demonstrate that well-designed plans for minimizing social impacts can greatly reduce social conflicts, thereby reducing the occurrence of some of the risks MIGA guarantees. Thus, there is a strong business case for MIGA to add value by remaining engaged and providing more proactive social and environmental advice to its clients involved in extractive industries projects.

Staff Perceptions

WBG EI staff survey results: Divergence of Operations Evaluation Unit findings from MIGA staff perceptions. The WBG EI survey was administered to relevant Bank, IFC, and MIGA staff. In MIGA, all current MIGA staff who have been directly involved with EI projects (either as underwriters or project managers) were asked to respond to the survey (the same set of questions was given to World Bank and IFC staff involved in EI sector projects).[313] MIGA responses to the survey (Box E3) show some important differences from OEU evaluation findings of EI projects. One notable divergence is in the area of addressing environmental and social aspects of EI projects: all (9 out of 9) MIGA staff who responded felt that the issue of mitigating environmental and social impacts was highly important and, at the same time, all (9 out of 9 who responded) also felt that these issues had been adequately addressed in MIGA-guaranteed EI projects. However, OEU's safeguards review indicated that about 27 percent of EI projects had substantial gaps and were not fully consistent with environ-

Box E3 Main Messages from Responses by MIGA Staff in WBG EI Survey

The survey was administered to all MIGA staff (12) previously involved in EI projects, with a response rate of 83 percent (10 out of 12). While the absolute numbers are small (as MIGA itself is small, with a total of 78 International staff), it represents the statistical population of MIGA staff who have worked on the EI sector projects. In parallel, the same survey was sent to 51 World Bank staff, with 26 responding (51 percent of EI staff), and to 33 IFC staff, with 30 responding (91 percent). (Because not all respondents provided answers to all questions, the total number of respondents to specific questions are noted below.)

Importance of EI-related issues for EI-dependent countries: **Almost all MIGA and WBG respondents agreed with the importance of all EI issues the survey questionnaire had identified. In particular, *all* (9 out of 9) MIGA respondents agreed with the importance of mitigating negative environmental and social impacts. On the other hand, the investment climate and governance and transparency were considered highly important by only one-third (3 out of 9) of MIGA respondents, whereas a higher share (two-thirds) of IFC and World Bank respondents felt these were highly important in EI projects.**

Extent to which EI projects address EI-related issues: **The majority of MIGA respondents and about two-thirds or more of all WBG respondents felt that WBG projects collectively and adequately addressed all major issues, except the improvement of transparency and governance. Moreover, all (9 out of 9) MIGA respondents felt that the mitigation of negative environmental impacts (same proportion for IFC) and revenue generation had been adequately addressed in past EI projects.**

Coordination across WBG for the EI sector: **All (8 of 8) MIGA respondents considered the coordination across the WBG as adequate, while only 48 percent of IFC respondents and 52 percent of World Bank respondents considered the level of coordination as sufficient.**

Avoidance of EI projects due to safeguards concerns: **Among the possible sources of avoidance of potential EI projects due to safeguard concerns, MIGA respondents identified WBG management (6 out of 6) and EI public agencies/enterprises (3 out of 4) as the top two leading causes. While all WBG respondents also cited WBG management as a primary cause, only 21 percent of World Bank respondents and 56 percent of IFC respondents considered EI public agencies/enterprises an important factor.**

Factors constraining the ability of WBG staff to assist client countries in EI sector: **More than half of MIGA respondents (5 out of 9) cited the inadequate linkage between EI sector activities and sustainable development as the major factor constraining their ability to assist host countries in the EI sector. In addition, less than one-third of MIGA respondents cited inadequate availability of staff with appropriate skills, inadequate level of support from the Bank's Country Department/Country Management Unit, and inadequate level of support from the client government.**

mental and social safeguards.[314] One possible explanation for this divergence is the relatively short tenure of the respondents in MIGA. This could have influenced their views in focusing on the current, rather than historical, perspective. However, 7 out of 10 MIGA respondents were also directly involved in five projects covered in this review, increasing the relevance of their answers.

The joint WBG evaluation (as reflected in the Overview Report) identified the lack of adequate coordination among the three WBG organizations as a problem that constrains the delivery of better results in EI projects. However, all (8 out of 8) MIGA respondents indicated that, in their view, the level of coordination was adequate, which may suggest a desire to preserve MIGA's operational "autonomy" (i.e., not getting too involved with WBG operations/processes). These results are also likely to be a reflection of the differences in products, clientele, and procedures between the Bank and MIGA, where staff see opportunities for coordination as inherently limited to policy and strategy matters. Similarly, very few (2 out of 7) MIGA staff felt that there was a need for better support from

World Bank country units, in contrast to IFC's staff perceptions.

MIGA respondents (6 out of 6) also felt that WBG (World Bank, IFC, and MIGA) management is the most likely cause for avoiding good EI projects due to perceived risks and the time needed to address safeguard concerns. These responses indicate that staff find WBG management is overly cautious and also some (4) believe that public agencies interfere with, rather than facilitate, MIGA's work. On the other hand, none of the respondents felt that concerns from host countries about safeguards were a source for avoiding good EI projects.

5. Findings and Recommendations

MIGA's activities in the extractive industry sectors have evolved significantly in the period under review (in particular since 1997), improving its operations at approval and during implementation and learning from its experience in underwriting 31 projects. Noteworthy milestones are its Business Process Review, the creation of an in-house environmental unit, the environmental assessment and disclosure polices, the approval of interim issue-specific safeguard policies, and the updating of its guarantee contract language and reinsurance practice.

MIGA's approach over the years has followed the guidance of its Convention, Article 2 of which states that "the objective of the Agency shall be to encourage the flow of investments for productive purposes." Article 12 requires the Agency to satisfy itself as to "the economic soundness of the investment and its contribution to the development of the host country" and to the "consistency of the investment with the declared development objectives and priorities of the host country." These objectives also underpin MIGA's need to use environmental and social standards for the projects it insures. As standards for successful development have become more complex and sophisticated, MIGA has adapted its safeguard policies and its analyses of the development impact of projects. MIGA continues to refine and augment the scope of its selection criteria. The findings and recommendations listed in this section are intended to contribute to this process.

Findings

Portfolio

Extractive industry projects and guarantees constitute a declining share of MIGA's portfolio. Mining was originally the largest share of MIGA's guarantees, making up more than half of its portfolio. Extractive industries now constitute about 11 percent (6.6 percent mining and 4.3 percent oil and gas), and MIGA continues to be engaged in the sector.

Application of Environmental and Social Safeguards

Consistency of project performance with safeguards has generally been greater during implementation than at approval, and the trend in safeguard performance has been improving over time. On average, the rate of substantial consistency with MIGA's safeguard policies of EI projects improved from 73 percent (at Board approval) to 88 percent (during implementation or at guarantee cancellation). This likely reflects the expansion of MIGA's efforts and of its capacity in safeguard areas since 1997.

- **At Board approval, the greatest areas of weakness in safeguard performance** have been in consultation and disclosure, inadequate incorporation of safeguard issues in contracts of guarantee, and in specific elements, including resettlement, indigenous peoples, natural habitats, dam safety, and lack of clarity on mine closure provisions.
- **During implementation, the greatest areas of weakness in safeguard performance** have been in consultation and disclosure, final assessment of resettlement implementation, and natural habitats. Reporting on social impacts and social safeguard compliance has also been weak.

Insufficient attention paid to consistency with social safeguards is the most sensitive and critical issue in extractive industries projects. Only one-third of the sampled projects that involved indigenous peoples and resettlement and community development issues had prepared a comprehensive and implementable Resettlement Plan (RP) or Community Development Program (CDP). Not a single reviewed project (where these safeguards were applicable) had a comprehensive and implementable IPP at Board approval.

None of the contracts issued for the projects under review specified the safeguard policies that applied, and only a few indicated the WBG's environmental, health, and safety guidelines that applied. Although all recent MIGA contracts allow MIGA to terminate the contract if the project does not comply with MIGA's environmental polices and guidelines and there has been a more consistent effort to reference to this requirement since 1999, this may not be sufficient to ensure investors' awareness of specific applicable policies and guidelines.

MIGA has not consistently required environmental and social monitoring reports from its guarantee holders in its contract of guarantee. In two-thirds of the reviewed projects, senior lenders, bilateral agencies, or the major investors provided regular monitoring reports on environmental (and sometimes social) issues that allowed MIGA to monitor safeguard compliance. However, in four projects there were no follow-up monitoring reports from investors, leaving MIGA in a vulnerable position regarding safeguards implementation.

Committed investors with the capacity to implement mitigation and monitoring programs have been an important factor in ensuring better safeguard compliance.

Internal Capacity

Environmental performance was treated more thoroughly by MIGA in the second half of the 1990s than in the first half, especially after the creation of an environmental unit. MIGA relied on environmental and social experts of IFC or of other parties in the project before establishing its own unit. In 6 of 12 projects reviewed, independent monitoring and reporting initiatives were taken by either senior lenders or other insurers and not by MIGA. In some earlier projects, there was no explicit contractual obligation and no recourse to MIGA for the project to comply with safeguard policies. MIGA environmental specialists visited 5 of the 12 projects reviewed, following the establishment of the in-house environmental unit. MIGA could have had greater impact on improving project performance had it taken a more proactive approach earlier in its history.

MIGA's due diligence model (and current capacity) is not sufficient to adequately address social aspects of extractive industries projects. The current MIGA approach of gearing the processes of monitoring and supervision, directing its resources and staff selectively to projects after problems emerge, is not appropriate for dealing with complex social issues often associated with EI sector projects. Systematic and proactive monitoring, including site visits by MIGA experts, to identify the nature of possible gaps in safeguards and potential problems is a critical element of the due diligence process. It is particularly important to assess the social risks at critical project cycle milestones, which cannot be adequately done through desk reviews.

MIGA's delayed involvement in extractive industries projects has meant missed opportunities to add value or to improve projects' environmental and social performance. One consequence is that projects' environmental and social management systems are not in place at the start of project construction; this can lead to adverse social and environmental impacts due to the lack of control over the work of contractors. This is the most critical period for investors in their relationship with project-affected communities, and any good will that has been generated during their previous dealings (and promises) with the community can quickly sour, leaving investors with a difficult legacy to overcome when the project becomes operational.

Development Impacts and Underwriting

The evaluated extractive industries sector projects generally have produced positive economic impacts in host countries, but investor returns have been disappointing. Actual financial returns to investors were lower than originally anticipated, due to decreasing metals prices in the late 1990s, as well as cost overruns and lower ore quality than expected. The projects provided jobs, training, revenues to the government, and funds to community initiatives and had demonstration effects for private sector development. Host governments have received less revenue than they expected because of the poorer-than-expected economic and financial performance of extractive industry projects.

MIGA's underwriting for extractive industries projects reviewed was generally thorough, and project assessments were based on the information available from the clients at that time, although their components could have been better integrated. Analysis was compartmentalized by the sources of the information (e.g., investors, MIGA underwriters, and environmental specialists). While most elements are combined when projects are assessed, economic and social analyses and impacts have not been well integrated. EI projects reviewed were complex, involved large investments and revenues for the host governments, and had important environmental and social implications, subjecting them to close public and international scrutiny. Thus, they required a more holistic understanding of financial, economic, social, and environmental aspects from a developmental perspective.

Security-related incidents in MIGA-guaranteed extractive industries projects involving allegations of rights of individuals violations can pose particularly high risks for MIGA. Some reviewed MIGA projects experienced incidents where alleged rights of individuals violations occurred in connection with site security. Such violations can increase risks to MIGA-guaranteed projects (increasing conflict and affecting operations) and to MIGA itself (reputational risk, as well as claims brought under civil war and disturbance and expropriation coverages). Even though issues related to human rights are part of MIGA's due diligence process when they have an impact on covered risks, greater awareness during underwriting by MIGA staff and ensuring that they are adequately dealt with by investors would better address such risks.

Lack of a systematic and post-contract follow-up of developmental impacts in extractive industry projects. MIGA does not have a system that monitors developmental impacts to identify shortcomings after contract signing and to manage risks from the developmental perspective.

MIGA's Role in Extractive Industries Projects

Most of the evaluated projects were in difficult countries with weak governance, as well as high perceived political risks, where MIGA's political risk insurance was deemed essential for investments to go forward. Thus, MIGA provided value added as an insurer, by facilitating and enabling foreign direct investment in these large and complex projects.

Surveyed MIGA staff who have been involved in underwriting extractive industry projects are supportive of MIGA's environmental and social standards and feel that MIGA is doing a sound job in applying these standards to its projects. These staff see no need for increased coordination with the Bank and IFC on extractive industries projects.

In some projects, MIGA delegated environmental and social safeguard due diligence to its partners. These arrangements worked well when the partners adhered to similar policies and guidelines. But if a partner had lower standards than MIGA (such as in an older reinsured project), it led to unsatisfactory results and left MIGA vulnerable.

MIGA's particular value added as an insurer of extractive industries projects is

in the environmental and social standards it brings with its guarantees. This aspect of its insurance is appealing to many investors, as it helps them manage their own nonfinancial project risks. Hands-on assistance and advice is possible and desirable in extractive industries projects, and it is appreciated by clients.

There is a strong business case for MIGA to add value by providing substantive and continued social and environmental advice to extractive industries clients after contract signing. The results from several projects demonstrate that well-designed plans for minimizing social impacts can greatly reduce social conflicts, thereby mitigating the political risks MIGA guarantees, whereas their absence can lead to serious problems.

Recommendations

MIGA's support to EI sector projects has the potential to generate positive development results. MIGA should continue underwriting EI projects while strengthening its value added to meet stakeholders' expectations. MIGA's safeguard policies provide the basis, and an opportunity, for contributing to the development effectiveness of EI projects it guarantees.

Recommendation 1: Strategy and Rules of Engagement

MIGA needs to recognize and promote the potential benefits it brings to EI projects through its internationally recognized and comprehensive set of safeguard policies and its environmental and social impact mitigation services. MIGA's engagement with EI projects should move beyond compliance with its environmental and social safeguard policies toward the promotion and achievement of the development effectiveness of these projects. This requires the following:

Recognizing that MIGA has the opportunity to add value to EI projects by adopting an explicit business strategy focused on providing proactive environmental and social advice to its guarantee clients that brings EI projects closer to best practices in the industry, with the goal of achieving sustainable development. This requires strengthening the economic and social components in MIGA's work in addition to the environmental component. This calls for a more proactive, forward-looking approach to servicing clients that goes beyond the current practice of intervening only when events warrant it.

Strengthening the upstream involvement of environmental and social issues in MIGA's underwriting decisionmaking process. This entails consistently identifying applicable safeguard policies to clients as early as possible in the underwriting process and using risk assessments early on to identify where failures in the safeguard system may occur to avoid adverse impacts on the environment and local communities. MIGA needs to make a greater effort to work with clients to ensure compliance with its environmental and social safeguard policies and guidelines at the time of Board approval. In addition, MIGA needs to consider how its work in assessing, underwriting, and supervising its guarantee projects can go beyond the monitoring of compliance with safeguards toward promoting development effectiveness in its projects.

Associating with investors committed to sustainable development and avoiding those who are unable to provide MIGA with timely environmental and social monitoring reports during implementation. MIGA should satisfy itself before engaging in new EI projects that the investor understands its environmental and social responsibilities and demonstrates ownership at the top management level to community development and mitigating environmental and social impacts. The project enterprise's organizational structure, policies, and stated mission should be consistent with these goals.

Recommendation 2: Policies, Procedures, and Enforcement Mechanisms

MIGA should strengthen its internal policies and support them with appropriate procedures and guidelines for staff to ensure accountability. This requires the following:

Establishing internal requirements for MIGA's timely engagement and systematic monitoring to maximize environmental and social benefits. This will entail avoiding projects where MIGA cannot address environmental or social issues to improve the outcome due to its late participation. Site visits by MIGA's environmental and social experts should be required as early as possible in its involvement in Category 'A' and other high-risk projects to assess which policies are applicable. MIGA should not rely exclusively on assessments and reports of non-WBG institutions.

Incorporating standards recognizing the rights of individuals relating to security arrangements at EI projects into its policies and operational regulations.

Making better use of MIGA's Contracts of Guarantee to enable the Agency to facilitate compliance with its policies and standards. In addition to the current requirement to comply with safeguard policies and environmental and health and safety guidelines, for future projects MIGA should ensure that the contracts clearly and explicitly state which environmental and social safeguard policies and guidelines apply to the project under guarantee and establish thresholds and conditions for timely and effective compliance. When applicable, contracts should also specify requirements for implementation of Environmental Management Plans, RPs, CDPs, and IPPs. As required by the involuntary resettlement and indigenous peoples policies, MIGA should ensure that investors prepare RPs, CDPs, and IPPs before project approval rather than leaving them to implementation.

Establishing necessary mechanisms to ensure systematic, timely, and regular monitoring and supervision of safeguard compliance of MIGA EI guarantee projects (e.g., MIGA should require in its Contracts of Guarantee timely environmental and social monitoring reports from its guarantee holders during the project implementation phase). MIGA should also require sponsors to set up environmental and social project management systems at a sufficiently early stage to effectively monitor impacts, including during the construction stage.

Recommendation 3: Internal Organization

MIGA should update its business model by clearly assigning the locus of responsibility for better integration of economic, environmental, and social issues in MIGA operations. This is needed in order to support other departments in the achievement of these objectives and to provide guidance to operational staff, as well as for the analysis and monitoring of economic, environmental, and social issues in an integrated manner. This requires the following:

Scaling up the analysis of developmental impacts of prospective projects and integrating new concepts in harmony with the rest of the World Bank Group. In so doing, MIGA should closely cooperate with the other members of the WBG to benefit from synergies, complementarities, and expert knowledge, with the objective of promoting a holistic approach to EI projects. This will also require building internal capacity by both recruiting needed economic skills and providing appropriate training to current staff.

Establishing an internal system that allows a more integrated and timely monitoring of developmental impacts of guaranteed projects.

Upgrading and expanding the role of environmental and social specialists and, at the same time, building internal social skills capacity to effectively enable the application of social safeguards in MIGA projects.

Formalizing the practice of ensuring that MIGA environmental staff are involved in projects beyond the submission of clearance memos, and requiring that MIGA environmental and social staff provide inputs to guarantee and legal documentation to incorporate any environmental and social concerns. In addition, MIGA underwriting staff should be required to keep environmental and social specialists appraised of all relevant changes beyond Board approval and contract signing.

Recommendation 4: Legacy of Active EI Projects

MIGA needs to review its portfolio of active EI projects to identify potential or actual deficiencies in the application of safeguard policies and to swiftly take appropriate remedial actions. This should involve the following:

Identifying projects that may not be consistent with safeguard policies. In particular, where resettlement and land acquisition has taken place without follow-up audits to determine compliance with WBG policies regarding resettlement, third-party audits should be required. Similarly, where indigenous peoples have been affected without the provision for Indigenous Peoples Plans to mitigate the impacts, sponsors should be asked to prepare and implement such plans. Providing briefings on potential problems with sensitive projects, a system currently used by MIGA, is useful but not sufficient. MIGA should take appropriate remedial actions to address existing safeguard deficiencies in extractive industry projects that are still active in MIGA's portfolio.

Making every effort to encourage consistency with MIGA's safeguard policies in active extractive industries projects with reinsurance agreements predating the new MIGA practice. New agreements require that environmental and social standards applied by partners are consistent with MIGA's own safeguard policies and guidelines.

Attachment 1

MIGA Guarantee Projects in the Extractive Industries, FY1990–2003 (as of December 31, 2002)

Project Enterprise	Guarantee Holder	Host Country	Sector	Fiscal Year	MAL	Status	FDI
1. Freeport Indonesia, Inc.	Freeport-McMoRan Copper & Gold, Inc.	Indonesia	Mining	90	50,000,000	Cancelled	499,813,000
2. Compania Minera Mantos de Oro	Placer Dome, Inc. (Export Development Corporation [EDC])	Chile	Mining	90	49,770,000	Cancelled	335,000,000
3. Compania Minera Cerro Colorado S.A.	Rio Algom Limited	Chile	Mining	91	5,000,000	Cancelled	310,000,000
	OPIC (Citibank/Credit Suisse)			92	22,500,000		
4. Omai Gold Mines Ltd.	Cambior Inc. (EDC)	Guyana	Mining	92	36,720,000	Active	162,000,000
	Cambior Inc. (EDC)			92	13,158,000		
5. Alumina Partners of Jamaica	Hydro Aluminum Jamaica a.s.	Jamaica	Mining	93	20,223,000	Cancelled	336,974,000
6. Kasese Cobalt Company Limited	La Source Compagnie Miniere SAS.	Uganda	Mining	93	5,000,000	Cancelled	95,400,000
	La Source/Mine or S.A./ Barclays Metals Ltd.			93	5,000,000		
	La Source			96	3,600,000		
	Banff Resources Ltd.			98	1,908,020		
	Banff Resources Ltd. & La Source SAS			98	47,480,000		
7. Ghanaian-Australian Mines Limited	GSM Gold Limited	Ghana	Mining	93	9,850,000	Cancelled	71,600,000
8. Minera Yanacocha	Compagnie Miniere Internationale or	Peru	Mining	94	1,404,000	Cancelled	82,081,387
	Newmont Mining Corporation			94	2,160,000		
	Newmont Mining Corporation			94	5,616,000		
	Compagnie Miniere			94	5,040,000		
	Internationale or Union Bank of Switzerland			94	18,961,000		
	Union Bank of Switzerland			95	5,700,000		
	Newmont Mining Corporation			95	14,408,387		
	Mine or S.A.			95	6,404,000		
9. Compania Contractual Minera Candelaria	Sumitomo Corporation	Chile	Mining	94	19,800,000	Cancelled	527,400,000
10. Newmont-Zarafshan Joint Venture	Newmont Gold Company	Uzbekistan	Mining	94	40,000,000	Cancelled	110,000,000
	Newmont Gold Company			95	10,000,000		
11. Sociedad Minera Cerro Verde, S.A.	Cyprus Climax Metals Company	Peru	Mining	95	50,000,000	Cancelled	141,000,000

Project Enterprise	Guarantee Holder	Host Country	Sector	Fiscal Year	MAL	Status	FDI
12. British Gas Overseas Holdings (British Gas Tunisia)	British Gas plc	Tunisia	Oil & Gas	95	65,000,000	Cancelled	627,000,000
13. Magma Tintaya S.A.	BHP Copper Inc.	Peru	Mining	95	24,000,000	Cancelled	328,000,000
14. Southern Gold (Bahamas) Limited, Lihir Gold Limited	R.T.Z. Overseas Holdings Limited (Rio Tinto Zinc—RTZ)	Papua New Guinea	Mining	96	10,000,000	Cancelled	892,000,000
	Union Bank of Switzerland			96	66,600,000		
15. Kumtor Gold Company	Cameco Corporation (EDC)	Kyrgyzstan	Mining	96	45,000,000	Active	335,000,000
	Cameco Corporation (EDC)			2001	39,330,000		
16. Societe d'Exploitation des Mines d'Or de Sadiola S.A.	AngloGold	Mali	Mining	96	50,000,000	Cancelled	267,000,000
17. Drummond Limited	Drummond Company, Inc.	Colombia	Mining	97	35,000,000	Cancelled	235,000,000
18. Minera Alumbrera Limited	Minera Alumbrera Ltd. (Export Finance Insurance Corporation [EFIC])	Argentina	Mining	97	12,000,000	Active	1,033,000,000
	Rio Algom Limited			97	2,000,000		
19. Hydrocarbon Research Block Rhourde Yacoub	Compania Espanola de Seguros de Credito a la Exportacion S.A.	Algeria	Oil & Gas	97	10,000,000	Cancelled	240,000,000
20. Zafiro Offshore Field	UMC Equatorial Guinea Corporation	Equatorial Guinea	Oil & Gas	98	24,000,000	Cancelled	995,500,000
21. Cerro Vanguardia S.A.	Minorco S.A.	Argentina	Mining	98	5,000,000	Cancelled	202,600,000
22. Minera Los Pelambres	Marubeni LP Holding B.V.	Chile	Mining	98	31,263,750	Cancelled	1,114,000,000
23. Companias Asociadas Petroleras S.A.	El Paso Energy International Company	Argentina	Oil & Gas	98	22,580,000	Active	538,000,000
	El Paso Energy International Company			98	17,617,500		
24. ICV-Inertes de Cabo Verde, Ltda.	Secil-Companhia Geral De Cal e Cimento, S.A	Cape Verde	Mining	98	540,000	Active	1,709,000
	Secil-Companhia Geral De Cal e Cimento, S.A			98	660,000		
	Sociedade de Empreitadas Adriano S.A.			98	540,000		
	Sociedade de Empreitadas Adriano S.A.			98	660,000		
25. Compania Minera Antamina S.A.	Citicorp	Peru	Mining	99	60,702,000	Active	2,106,000,000
	Noranda Inc.			99	2,550,000		
	Rio Algom Limited			99	2,550,000		
	Teck Corporation			99	1,700,000		
	Mitsubishi Corporation			2000	16,250,047		
	Mitsubishi Corporation			2000	23,709,953		
26. Omolon Gold Mining Inc.	Kinam Gold, Inc.	Russia	Mining	2000	27,420,000	Cancelled	226,900,000
27. Kahama Mining Corporation Limited	Societe Generale	Tanzania	Mining	2000	115,830,000	Active	505,300,000
	Barrick Gold Corporation			2001	56,250,000		

Project Enterprise	Guarantee Holder	Host Country	Sector	Fiscal Year	MAL	Status	FDI
28. Omsukchansk Mining & Geological Company	New Arian Resources Corporation	Russia	Mining	2000	2,250,000	Active	96,000,000
	New Arian Resources Corporation	Russia	Mining	2000	2,250,000	Active	96,000,000
	Standard Bank London Limited			2000	14,900,000		
29. Barracuda & Caratinga Leasing Company, B.V.	Itochu Corporation, Mitsubishi Corporation	Brazil	Oil & Gas	2001	12,000,000	Active	1,740,000,000
	Deutsche Bank AG New York Branch			2001	60,000,000		
30. ZAO Stimul	Victory Oil B.V.	Russia	Oil & Gas	2001	100,000,000	Active	71,201,160
31. ROMPCO	Sasol Gas Holdings (Pty) Ltd.	Mozambique	Oil & Gas	2003	45,000,000	Active	857,000,000
	Sasol Petroleum International (Pty) Ltd.			2003	27,000,000		
				Total	**1,479,605,657**		**15,082,478,547**

Extractive industries projects:
Active projects: 11
Cancelled projects: 20
Oil & gas projects:
Oil & gas projects: 7
Active oil & gas projects: 4
Mining projects:
Mining projects: 24
Active mining projects: 7

Attachment 2 MIGA Extractive Industries Projects Evaluated by OEU

	FY	Environmental Category	Safeguards Review	Evaluation of Developmental Impact	Case Study
1.	1990	A	✓		
2.	1992	A		✓	
3.	1993, 1996, 1998	A	✓	✓	
4.	1993	(A)[a]	✓		
5.	1994	A		✓	
6.	1996	A	✓	✓	
7.	1996	A		✓	
8.	1996	A	✓	✓	
9.	1997	A	✓		
10.	1997	A	✓		✓
11.	1998	B	✓		
12.	1999	A	✓		✓
13.	2000	A	✓		
14.	2001	B	✓		
15.	2001	B	✓		

a. No formal category was assigned. The project was assumed to have been Category 'A.'

Number of active projects: 7

Number of cancelled projects: 8

Attachment 3A MIGA Safeguard Policies—Criteria for Consistency at Approval

Criterion	Requirements
Comprehensive Environmental Assessment	Applies to both majority and minority owners and lenders (designated herein as "sponsors") —required for all 'As' and for 'Bs' if host country legislation requires: (i) comprehensively includes natural environment, social aspects, human health and safety, major hazards, transboundary/global and cumulative/induced impacts; (ii) prevent, minimize, mitigate or compensate for adverse environmental and social impacts and enhance positive impacts; (iii) potential for independent environmental advisory panel in case of highly risky or contentious project;(iv) properly defined area(s) of project impact; (v) for expansion or modernization projects the entire plant is subject to an EA (usually including an environmental audit); (vi) privatization projects require environmental audits; (vii) EAs (including environmental audits) to be carried out or reviewed by independent consultants; and (viii) compliance with more stringent of host country or MIGA environmental and health and safety standards or guidelines.
Adequate analysis of feasible alternatives	Proper analysis of project alternatives including: (i) without project alternative; (ii) where appropriate other sector alternatives; (iii) alternative sitings for facilities and routings of infrastructure corridors; (iv) alternative technologies and mitigation arrangements; and (v) analysis of feasible alternatives.
Comprehensive Extractive Industries and Sustainable Development (E&S) baseline survey	Full description (with adequate support data) of the climatic, geological, topographical, physical, chemical, biological and socio-cultural-economic environment of the area of project impact as a basis for an adequate analysis of project impacts and future monitoring of the efficacy of the mitigation measures incorporated into the project.
Adequate EAP or EMP proposed	A detailed plan of the set of mitigation, monitoring and reporting measures proposed to be taken during project implementation to eliminate adverse environmental or social impacts, offset them, or reduce them to acceptable levels—required for all 'As' and 'Bs.'
Project sponsor's EMS adequate	Comprehensiveness of environmental, social and safety management system proposed by the sponsor (including contractors) to fully implement the EAP or EMP, as well as appropriateness of proposed measures to strengthen these arrangements.
Public disclosure/consultation addressed	(i) consultation with local affected parties and local interest groups during EA process; (ii) disclosure of information in a timely manner and in a language and form understandable and accessible to local groups; (iii) for 'A' projects final EA reports disclosed locally and through the World Bank Info-shop at least 60 days before MIGA Board approval.
Comprehensive and implementable RP/CDP prepared	(i) avoid or minimize involuntary physical resettlement or economic displacement; (ii) directly affected and displaced persons should be: (a) informed of their options and rights regarding land acquisition and resettlement as well as alternatives that are available; (b) compensated for their losses at full replacement cost prior to the actual move; (c) assisted with the move and supported during the transition period in the resettlement site; and (d) assisted in their efforts to improve their former living standards, income earning capacity, and production levels, *or at least to restore them.* Particular attention should be paid to the needs of the poorest groups to be resettled; (iii) Land, housing, infrastructure, and other compensation should be provided to the adversely affected population, indigenous groups, ethnic minorities, and pastoralists who may have usufruct or customary rights to the land or other resources taken for the project. The absence of legal title to land by such groups should not

Criterion	Requirements
	be a bar to compensation; (iv) alternative or similar resources provided to compensate for the loss of access to community resources; (v) in new resettlement sites or host communities improve, restore or maintain accessibility and levels of service for the displaced persons and host communities; (vi) minimize impacts on host communities including consultation with these communities; (vii) consult and involve affected people in planning, and implementation; (viii) community level impacts require preparation of community development programs to improve the economic and social well-being of the affected communities as well as the affected households; (ix) preparation of a resettlement plan (RP), or other resettlement instrument (e.g., resettlement framework) as agreed with MIGA; and (x) disclosure of RPs involving more than 50 households or 250 people.
Comprehensive and implementable IPP prepared	Appropriate identification of indigenous groups in project area, namely those having: (a) close attachment to ancestral territories and the natural resources in them; (b) self-identification and identification by others as members of a distinct cultural group; (c) presence of customary social and political institutions; (d) economic systems primarily orientated to subsistence production; and (e) indigenous language. Ensure: (i) avoidance and mitigation of adverse impacts; (ii) informed participation of the indigenous peoples themselves; (iii) culturally appropriate compensatory measures or social and economic benefits; and (iv) in consultation with indigenous peoples preparation of an Indigenous Peoples Plan.
Natural habitats protected or offsets provided	(i) Project does not significantly convert/degrade a critical habitat; (ii) natural habitats are correctly identified; (iii) alternative analysis examines alternatives to significant conversion; (iv) if conversion can- not be avoided, impact are minimized, mitigated and offset requirements are examined.
Comprehensive dam safety measures proposed	**New Dams:** Safety measures from design to operation for dam and associated works, including for: (i) dams >15 meters in final height; (ii) for special case (flood prone, seismic area, difficult foundations, toxic materials, etc.) dams between 10 and 15 m; and (iii) for dams initially under 10 m if expected to become large dams during construction, require the following: (a) reviews by independent expertise throughout design and construction of dam and for start of operations; (b) plan for construction, supervision and quality assurance, plan for instrumentation, an Operation and Maintenance (O&M) plan, and an emergency preparedness plan; (c) construction by fully qualified companies under proper supervision; (d) periodic safety inspections after completion of construction; **Existing Dams:** (i) independent dam specialist(s) to evaluate safety status, performance history and owner's operation/maintenance procedures; and (ii) specify remedial works or safety-related measures to upgrade dam to an acceptable standard of safety. **Tailings Dams and Ash Lagoons:** (i) this policy applies to such dams in excess of 10 m if: (a) the impoundment is cross-valley structure; or (b) after construction of a starter dam, the impoundment structure is made of whole tailings; or (c) standard testing methods indicate net acid generating potential of tailings or ash. However generic safety measures designed by qualified engineers are adequate for such dams less than 10 m in height, if tailings or ash have no net acid generating potential and impoundment is: (a) located in relatively flat terrain, highly arid areas or in permafrost zones; and (b) not subject to inflow from streams or rivers: (ii) stream diversions and spillways to be designed for 100 yr. flood; and (iii) preparation of closure and abandonment plans.

Criterion	Requirements
Cultural Property protection proposed	(i) avoid harm to significant, non-replicable cultural property or with the help of qualified experts mitigate such impacts if loss is judged to be minor or otherwise acceptable; (ii) sponsor addresses protection/management of cultural property in project area including "chance finds"; (iii) sponsor meets host country regulations/laws (or adheres to best practice in the absence of host country laws); and (iv) sponsor consults with relevant stakeholders in documenting presence and significance of physical cultural resources.

The set of requirements for each criterion of safeguard policy compliance were rated according to the following scale:

- **High:** the set of requirements were fully met, or expected to be fully met, with no shortcomings
- **Substantial:** the set of requirements generally were met, or expected to be met, with only minor shortcomings
- **Modest:** the set of requirements were met, or expected to be met, but with significant shortcomings
- **Negligible:** the set of requirements were not met, or expected not to be met, due to major shortcomings

Attachment 3B MIGA Safeguard Policies—Criteria for Projects under Guarantee

Criterion	Requirements
EAP or EMP fully implemented	Assess how effectively the EAP or EMP has been implemented by the sponsor and note any gaps and deficiencies. Note how well EAP or EMP implementation progress has been documented and reported in a timely manner. Note any deviations from the original plan and if these were appropriate considering the circumstances.
E&S monitoring implemented	Assess if the EAP's or EMP's E&S monitoring plan has been implemented according to the timing proposed. Assess if the monitoring results are substantiating the effectiveness of the E&S mitigation measures or not. Note if the results are being used to take corrective measures if needed.
Sponsor's project implementation EMS effective	Determine if the sponsor has implemented the environmental, social and safety management system proposed in the EAP or EMP. Assess the effectiveness of the proposed institutional strengthening measures to improve this system and whether the system has active sponsor management support. Assess its sustainability in the longer term.
Continuing public disclosure and consultation	Determine the extent to which project affected groups and other stakeholders continue to be consulted and involved during the implementation phase of the project. Assess if there have been any complaints by project affected people and how these complaints were dealt with by the Borrower.
Full compensation of Project Advisory Panels (PAPs)	Assess if displaced persons have been: (a) compensated for their losses at full replacement cost prior to the actual move; (b) assisted with the move and supported during the transition period in the resettlement site; and (c) assisted in their efforts to improve their former living standards, income earning capacity, and production levels, or at least to restore them.
RP/CDP fully implemented	Determine if the RP/CDP has been fully implemented by the sponsor. Assess if the sponsor has adequately monitored and evaluated the activities set forth in the RP/CDP. If upon termination of the contract of guarantee the RP/CDP has not been fully implemented assess what follow-up actions the sponsor proposes to meet the objectives of the plan and if these are adequate.
IPP fully implemented	Determine if the IPP has been fully implemented by the sponsor. Assess if the sponsor has adequately monitored and evaluated the activities set forth in the IPAP. If upon termination of the contract of guarantee the IPAP has not been fully implemented, assess what follow-up actions the sponsor proposes to meet the objectives of the plan and if these are adequate.
Natural habitats protected or offsets provided	Assess if sponsor has taken all necessary measures to limit any significant conversion/degradation of critical natural habitat and/or provide offset requirements as proposed in the EA. Assess the sustainability of these measures once the project has been implemented.
Dam safety measures implemented	For new dams covered by the policy, assess if the safety measures recommended by the independent dam expert(s) throughout investigation, design and construction of dam and start-up of operations were implemented. Evaluate effectiveness of plans for construction, supervision and quality assurance, as well as for instrumentation, O&M and emergency preparedness. Assess the results of periodic safety inspections after completion of construction. For existing dams, assess if the safety measures proposed by the independent dam specialist(s) have been implemented as proposed and note any deviations.

Criterion	Requirements
Cultural property protected	Assess if appropriate measures were taken by the sponsor to avoid harm to significant, non-replicable cultural property and provide protection/management of cultural property in project area including “chance finds” according to best practice or host country regulations/laws.
Reporting on safeguard policies by sponsor adequate	Determine if MIGA has specified a comprehensive set of safeguard policy performance indicators that are appropriate for the project under implementation. Assess the timeliness and effectiveness of the reporting of indicators and their evaluation by the sponsor and MIGA, noting any deficiencies. Assess if the following requirements have been met: (i) MIGA ensures that contract of guarantee includes an obligation to carry out the EAP/EMP and includes as additional conditions specific measures under the EAP/EMP, as appropriate for facilitating effective monitoring on EMP implementation; and (ii) the sponsor’s obligations to carry out the RP/CDP and/or IPP (or other instrument agreed with MIGA) and to keep MIGA informed of implementation progress are provided for in the contract of guarantee.
Monitoring and Evaluation (M&E) of safeguard policies by MIGA adequate	MIGA reviews regular monitoring reports on safeguard compliance provided by the sponsor and notes any areas of concern for follow-up with sponsor. MIGA bases supervision of the projects environmental/social/safety aspects on the findings and recommendations of the EA, including measures set out in the legal agreements, any EMP and other project documents, and ensures that supervision missions contain adequate environmental and social expertise. During supervision MIGA reviews sponsor’s implementation progress (incl. progress reports) and assesses Borrower’s compliance with agreed environmental actions, particularly the implementation of environmental and social mitigation, monitoring and management measures. If compliance is unsatisfactory, MIGA discusses with sponsor actions necessary to correct non-compliance and follows-up on the implementation of such actions.

The set of requirements for each criterion of safeguard policy compliance were rated according to the following scale:

- **High:** the set of requirements were fully met, or expected to be fully met, with no shortcomings
- **Substantial:** the set of requirements generally were met, or expected to be met, with only minor shortcomings
- **Modest:** the set of requirements were met, or expected to be met, but with significant shortcomings
- **Negligible:** the set of requirements were not met, or expected not to be met, due to major shortcomings

Attachment 4 MIGA Safeguard Policy Triggers

Safeguard Policy	Trigger
Environmental Assessment—Category 'A' (May 1999)	Adverse environmental and social impacts that are sensitive, diverse or unprecedented and likely to be significant beyond the project fenceline.
Environmental Assessment—Category 'B' (May 1999)	Projects whose impacts are limited in number, less adverse than those of Category 'A,' and can be addressed by compliance with MIGA's environmental guidelines or through application of recognized pollution prevention and abatement measures (or recognized best management practices).
Natural Habitats (Interim 2002 policy)	Significant conversion or degradation of natural habitats, or loss or modification of habitat in protected areas.
Involuntary Resettlement (Interim 2002 policy)	Involuntary taking of land resulting in (i) relocation or loss of shelter; (ii) loss of assets or access to assets; or (iii) loss of income source or means of livelihood.
Indigenous Peoples (Interim 2002 policy)	Conflicts with or adverse impacts on indigenous peoples, tribes or ethnic minorities whose social and economic state restricts their capacity to assert their interests and rights in land and other productive resources.
Dam Safety (Interim 2002 policy)	Safety of new or existing dams, including tailings dams > 10 meters in height.
Forestry (Interim 2002 policy)	Sustainable forestry practices.
Cultural Property (Interim 2002 policy)	Adverse, irreversible impacts on cultural or natural sites having archeological, paleontological, historical, religious or unique natural aesthetic value.
Pest Management (Interim 2002 policy)	Significant use of pesticides.
Projects on International Waterways (Interim 2002 policy)	Notification of projects with significant and adverse impacts on international waterways in respect to the quantity and quality of water flows to other riparian states, or will significantly and adversely affect present or likely future water use by other riparian states.

Attachment 5A Safeguard Policy Consistency Ratings of MIGA EI Projects at Approval

	Project Name										
Description	**M**	**O**	**A**	**F**	**J**	**D**	**H**	**L**	**C**	**I**	**K**
EA Category[1]	**A**	**B**	**A**	**A**	**A**	**A**	**A**	**A**	**A**	**A**	**B**
MIGA Client Category	**Maj**	**Maj**	**Maj**	**Maj**	**Min**	**Maj**	**Maj**	**Maj**	**Maj**	**Maj**	**Min**
Comprehensive Environmental Assessment[2]	S	S	M	H	H	S	S	H	M	S	S
Adequate analysis of feasible alternatives	H	H	N	H	S	M	S	H	M	S	H
Comprehensive E&S baseline survey	S	S	N	H	S	S	S	S	M	S	S
Adequate EAP proposed	H	S	N	H	H	M	S	H	M	S	S
Project investor's EMS adequate	S	M	M	H	S	M	S	H	H	M	S
Public disclosure/consultation addressed	S		M	S	M	M	S	H	M	S	
Contract of Guarantee for implementation of safeguard policies/guidelines adequate	H	S	N	M	M	M	M	S	M	M	M
Comprehensive and implementable RP/CDP prepared	S	M	S	M		M	M	M	N	H	
Comprehensive and implementable IPP prepared			M	M				N			
Natural habitats protected or offsets provided			M	S	M	M		H	M		
Comprehensive dam safety measures proposed					H		S	H	N		
Cultural property protection proposed	H	S		H	H	S	H	H			
Average Score[3]	**3.4**	**2.9**	**1.7**	**3.3**	**3.1**	**2.3**	**2.9**	**3.4**	**2.0**	**2.9**	**3.0**
Overall Rating	**S**	**S**	**M**	**S**	**S**	**M**	**S**	**S**	**M**	**S**	**S**

High (H); Substantial (S); Modest (M); and Negligible (N)

1. An EA may include an environmental impact assessment, environmental audit, and hazard or environmental risk assessment or a combination of these instruments.

2. MIGA's guarantee holders identified as Maj = Major project investor; Min = Minor project investor.

3. Scoring system used: H=4; S=3; M=2; N=1. If average score is > or = 2.5, then "S"; if < 2.5, then "M."

Attachment 5B Safeguard Policy Consistency Ratings of MIGA EI Projects under Guarantee

	Project Name										
Description	**M**	**O**	**A**	**F**	**J**	**D**	**H**	**L**	**C**	**I**	**K**
EA Category	**A**	**B**	**A**	**A**	**A**	**A**	**A**	**A**	**A**	**A**	**B**
MIGA Client Category[a]	**Maj**	**Maj**	**Maj**	**Maj**	**Min**	**Maj**	**Maj**	**Maj**	**Maj**	**Maj**	**Min**
EAP/EMP fully implemented by investor	S		S	H	H	S	S	S	S		
E&S monitoring fully implemented by investor	H		S	H	H	M	S	H	S		
Investor's project implementation											
EMS effective	S		S	H	S	M	S	H	H		
Continuing public disclosure and consultation	H		M	H	M	M	S	S	S		
Full compensation of PAPs	S			H		M	S	S	S		
RP/CDP fully implemented	H		H	H		M	S	S	S		
IPP fully implemented			M	S				S			
Natural habitats protected or											
offsets provided			M	H	S	M		H	M		
Dam safety measures implemented					H		S	H	M		
Cultural property protected	H			H	H	M	S	H			
Reporting on safeguard policies											
by investor adequate	H		M	S	M	S	S	H	S	N	N
M&E of safeguard policies by											
MIGA adequate	S		M	S	S	M	H	S	S	N	N
Average Score	**3.6**		**2.6**	**3.7**	**3.2**	**2.2**	**3.1**	**3.5**	**2.9**		
Overall Rating	**S**		**S**	**S**	**S**	**M**	**S**	**S**	**S**		

a. MIGA's guarantee holders identified as Maj = Major project investor; Min = Minor project investor.

ENDNOTES

1. Climate change has been covered in other WBG publications and evaluations. See www.worldbank.org/climate change and www.ifc.org/test/sustainability/docs/Climate_Change_IFC.pdf. The WBG's environmental strategy for the energy sector—*Fuel for Thought* (www.worldbank.org/html/fpd/energy/eee/FuelforThought.htm)—aims to mitigate the effects of and vulnerability to climate change.

2. For more information on the EIR, see www.eireview.org.

3. Concurrently, the CAO has been examining the extent to which IFC and MIGA have addressed sustainability concerns in recent extractive industries projects. See www.cao-ombudsman.org.

4. The Approach Paper and other supporting documents for this evaluation study are available on the Internet (www.ifc.org/oeg/EIEvaluation/eievaluation.html).

5. This evaluation focuses on the impacts of extractive industries on developing countries. It does not address issues of downstream consumption, including important global impacts such as climate change, except for climate change impacts related to production, such as gas flaring.

6. This phenomenon—resource-rich countries falling far short of their developmental potential and even being worse off than resource-poor countries—has been termed "the paradox of plenty."

7. This relationship, which is statistically significant at the 95 percent confidence level (t-statistic = –2.39), illustrates a conclusion that is widely accepted in the literature. No claim is made that EI dependence is the sole determinant of a country's economic growth.

8. "Borrower" includes all countries eligible for borrowing from the WBG with a population greater than one million as of 2000, for which data is available. When nonborrower countries are included, the slope is also statistically significant (t-statistic = –2.82), and steeper (–0.038 vs. –0.032).

9. Seminal papers by Richard Auty (ed., 2001), Gelb (1988), Isham (2002), Sachs and Warner (1997), have discussed the evolution of thinking on the subject in recent years. See References in Annex C, Attachment 5.

10. Analysis in the 1960s focused on how to manage the macroeconomic impacts of resource export income, which raised domestic prices and made other exports less competitive internationally (the so-called Dutch disease). More recent analysis emphasizes poor use of fiscal revenues from resources.

11. The portfolio of projects chosen for review consists of all EI projects approved during or after fiscal year1993, the first full financial year after the WBG adopted revised safeguard policies. OED reviewed 76 Bank projects, comprising 48 closed (24 oil and gas, 24 mining) and 28 active projects (15 oil and gas, 13 mining).

12. The Bank's project completion reports are usually expected to assess economic benefits by calculating an economic rate of return or using a cost-effectiveness criterion to determine whether the project represented the expected least-cost solution to attain the identified benefits, but only 35 percent of the completion reports did so. Another 27 percent contained some quantification and valuation of benefits but no analysis of their cost effectiveness.

13. See Annex C, Chapter 3.

14. OEG's review is based on in-depth evaluations of a random, representative sample of 22 projects approved in calendar years 1991–96 (12 oil and gas, 10 mining), supplemented by "mini" desk-evaluations of all other projects either approved after fiscal year1993 or still in IFC's portfolio. In total, OEG studied 45 projects or companies (23 oil and gas, 22 mining). Immature projects and projects with insufficient information (usually where IFC had exited early) are not included in these numbers, but OEG used them also to draw lessons and highlight issues.

15. See, for example, *WBG Work in Low-Income Countries Under Stress: A Task Force Report,* World Bank (2002).

16. See also Annex D, Attachment 4 for the perceptions of stakeholders outside and inside the WBG.

17. OEU reviewed six previously evaluated projects, all in mining (five gold, one cobalt) and conducted two additional in-field case studies of mining projects. Most of the projects were underwritten by MIGA in the early to mid-1990s. OEU also reviewed the consistency with safeguard policies of 12 projects (3 oil and gas, 9 mining). In total, OEU reviews covered 15 MIGA projects with active or cancelled contracts of guarantee (out of a total of 31 that MIGA guaranteed since 1990).

18. See Annex C, Chapter 5.

19. The CAS is the central vehicle for Board review of the WBG's assistance strategy for its borrower countries. The CAS is expected to (a) describe the WBG's strategy based on an assessment of the priorities in the country, and (b) indicate the level and composition of assistance based on the strategy and the performance of the country's project portfolio.

20. See Annex D, Attachment 4c for complete results of the staff survey.

21. See Annex C, Figure C10. However, following the launch of the WBG's Low-Income Countries Under Stress (LICUS) program in 2002, additional budget for activities designed to improve the policy and institutional framework has been allocated to many of these countries.

22. See Annex C, Chapter 5.

23. See Annex D, Chapter 6.

24. The sample of 38 projects was purposely chosen from the EI portfolio of 76 projects to include projects that were likely to have adverse environmental or social impacts and included 19 oil and gas and 19 mining projects. See Annex C, Chapter 4.

25. The policy on Environmental Assessment (OP 4.01) defines project categories as follows:
'A': likely to have significant adverse environmental impacts that are sensitive, diverse, or unprecedented
'B': potential environmental impacts are less adverse than for 'A'
'C': likely to have minimal or no adverse environmental impacts

26 In the absence of an established approach for assessing a project's degree of consistency with safeguards policy requirements, the evaluation has synthesized the policy requirements into a set of basic criteria and used it for the subject review. The criteria for consistency have been benchmarked against those used by the Inspection Panel reports on EI projects and discussed with the Quality Assurance and Compliance Unit (QACU) and the Legal Department. See Annex C, Chapter 4.

27. See Annex C, Chapter 4.

28. See Annex D, Chapter 4, "IFC's Results in Mitigating Negative and Enhancing Positive Impacts," which also explains the difficulties comparing the two data sets.

29. The review of safeguard policy compliance for MIGA EI projects covered 12 out of 30 MIGA projects with active and cancelled guarantees issued since MIGA's inception. The review was commissioned from an external expert and is the first of its kind for MIGA.

30. The project was rated "consistent" when the policy requirements were generally met, or expected to be met, with only minor shortcomings.

31. See Annex D, Chapter 4, "IFC Helping to Generate Sustainable Benefits."

32. Halting or reversing the spread of AIDS is one of the Millennium Development Goals. Initiatives in the WBG address HIV/AIDS, but addressing the issue in specific EI-projects is not mandatory. See also Annex D, Chapter 4 and Box D2.

33. See Annex C, Chapter 4, and Annex D, Chapter 3 and Box D1.

34. For example, the May 15, 2002, Toronto Declaration of the International Council of Mining and Metals (ICMM) states (on behalf of the mining industry): "orphan site legacy issues are important and complex. However, they are beyond the capacity of ICMM to resolve. Governments and international agencies should assume the lead role in addressing them."

35. Here again, this relationship is statistically significant at the 95 percent confidence level (t-statistic = 2.44) and illustrates a conclusion that is widely accepted in the literature. No claim is made that EI dependence is the sole determinant of a country's quality of governance.

36. In Figure 2, Chile and Botswana are shown at the top of the graph, near the center and toward the right, respectively.

37. For a definition of macro and sectoral governance, see Annex C, Chapter 6.

38. See Annex C, Chapter 6.

39. Corruption, one particular public financial management shortcoming, is a possible proxy measure.

40. That is, the use of public power in accordance with the law.

41. At this point, the position paper (www.-ifc.org/test/sustainability/docs/Revenue_Distri_Mgmt.pdf) focuses only on projects generating substantial revenues compared with the country's overall fiscal revenues, and the suggested steps are optional, not mandatory.

42. For all EA Category 'A' projects, the borrower is expected to consult project-affected groups, local NGOs, and so forth and disclose relevant material in a timely and culturally appropriate manner. The requirements are somewhat more rigorous for 'A' than for 'B' projects, and IFC requires public consultation only for some Category 'B' projects.

43. The "Extractive Industries Transparency Initiative" and an NGO campaign—"Publish What You Pay"—advocate disclosure.

44. Given the size and complexity of the WBG, and the diversity of issues that needs to be addressed, it is expected that the responsibility for following up on these recommendations will not rest exclusively with the sector specialists; that is, the Energy and Mining Sector Board and the Oil, Gas, Mining and Chemicals Global Product Group. The Management Response is expected to identify the unit(s) responsible for following up each recommendation.

45. "Significant" should be considered both in absolute terms and in relation to total sector production, based on analysis of past experience, and may vary by country. Supporting increased investment could be either through investments by IFC, guarantees by MIGA, or assistance from the World Bank, in making the investment code more attractive, for example. A possible mitigating measure could be "ring-fencing" of fiscal revenues from EI projects for development purposes. MIGA should consider adopting a position on revenue management and distribution similar to IFC's.

46. For example, the Bank should help countries establish appropriate laws and regulations to mitigate negative environmental and social effects and build capacity to enforce them. Private sector projects supported by IFC and MIGA could serve as role models for environmental and social performance, transparency, and disclosure, and thus raise sector performance.

47. This recommendation also applies to countries that are expected to become resource-rich, through a large, WBG-supported project, for example. In all resource-rich countries, the WBG should also encourage client countries to include EI in their Poverty Reduction Strategy Papers.

48. In line with the Bank's performance-based allocation of IDA credits.

49. This recommendation is consistent with the LICUS approach mentioned in notes 11 and 17.

50. For example, for sectoral adjustment and technical assistance.

51. Such as, for example, advisory work funded by trust funds.

52. For example, in project completion reports for the Bank and in project supervision reports for IFC.

53. See Annex D, Chapter 4, "IFC Helping to General Sustainable Benefits" for more details.

54. Several stakeholders have already sought IMF and WBG assistance in advocating or requiring disclosure and in developing a reporting framework.

55. Such indicators could include, for example, health and safety statistics, gas flaring (or greenhouse gas emissions), adequacy of mine closure preparations (including funding) and oil transportation arrangements, hazardous materials management and emergency response plans, availability of infrastructure and services (e.g., health and education), and revenues generated for governments.

56. See *Extractive Industries Review: Progress Report* (SecM2003-0266, IFC/SecM2003-0031, June 5, 2003).

57. *Extracting Sustainable Advantage*—A review of how sustainability issues have been dealt with in recent IFC and MIGA extractive industry projects (April 2003).

58. *A Review of IFC's Safeguards Policies* (January 2003).

59. Friends of the Earth (2001).

60. Ross (2001). However, it is important to note that while the issue of "whether or not mining *usually* promotes economic development remains unresolved, there is widespread agreement that rich mineral deposits provide developing countries with opportunities, which in some instances have been used wisely to promote development, and in other instances have been misused, hurting development." Davis and Tilton (2001).

61. Letter from Friends of the Earth International to Mr. James D. Wolfensohn, President of the World Bank Group (October 30, 2000).

62. The OED of the World Bank (IBRD and IDA), the OEG of the IFC, and the OEU of MIGA.

63. The EIR is headed by Dr. Emil Salim, former Minister of Environment for Indonesia. Additional information on the EIR can be found at www.eireview.org.

64. Seminal papers by Auty (2000), Gelb (1988), Isham (2002), and Sachs and Warner (1995), have discussed the evolution of thinking on the subject in recent years.

65. See Attachment 3 for an explanation of OED's project ratings scale.

66. The Approach Paper and other supporting documents for this evaluation study are available on the Internet (www.ifc.org/oeg/EIEvaluation/eievaluation.html).

67. The portfolio of projects chosen for review by this study consists of all extractive industries projects approved during or after FY93, the first full financial year after the WBG adopted revised safeguard policies. A total of 76 projects were reviewed, comprising 48 completed (24 oil and gas, 24 mining) and 28 active projects (15 oil and gas, 13 mining). Detailed discussion and statistical tables on the main characteristics of the project portfolio are provided in the background paper "Review of the Portfolio of World Bank Extractive Industry Projects."

68. See Attachment 4 for the complete list of background papers.

69. The five countries were chosen based on the relative importance of extractive industries in their economies, the intensity of Bank assistance they received, and for regional diversity.

70. The staff survey questionnaire was sent to 95 WBG staff involved in extractive industries projects and countries (WB: 51, IFC: 33, MIGA: 12) and responses were received from 69 percent (WB: 51%, IFC: 91%, MIGA: 83%).

71. The stakeholder survey questionnaire was distributed to 292 participants of the EIR's LAC, ECA, and AFR regional stakeholder workshops, and the response rate has been 26 percent (Rio: 25%, Budapest: 30%, Maputo: 24%). The EIR designed the regional workshops to be representative of WBG stakeholders. The participants represented governments: 25 percent, industry: 21 percent, civil society: 30 percent, the WBG: 11 percent, and others (academia, other multilateral organizations, etc.): 13 percent. Survey respondents represented government: 41 percent, industry: 21 percent, civil society: 25 percent, the WBG: 4 percent, and others: 9 percent.

72. World Bank (1984).

73. World Bank (1992).

74. The Bank has 10 safeguard policies: 8 deal with environmental and social concerns (OP/BP 4.01, *Environmental Assessment;* OP/BP 4.04, *Natural Habitats;* OP 4.09, *Pest Management;* OP/BP 4.12, *Involuntary Resettlement;* OD 4.20, *Indigenous Peoples;* OP 4.36, *Forestry;* OP/BP 4.37, *Safety of Dams;* and OPN 11.03, *Cultural Property*) and 2 deal with legal matters (OP/BP 7.50, *Projects on International Waterways* and OP/BP 7.60, *Projects in Disputed Areas*).

75. Fox, Onorato, and Strongman (1998).

76. Van der Veen et al. (1996).

77. The outcome rating denotes the extent to which the project's major relevant objectives were achieved, or are expected to be achieved, efficiently.

78. The institutional development impact denotes the extent to which a project improved the ability of a country or region to make more efficient, equitable, and sustainable use of its human, financial, and natural resources.

79. For projects completed during 1980–86, only 53 percent were rated for institutional development impact under the older performance ratings. They are therefore excluded from this comparison.

80. The sustainability rating denotes the resilience to risk of the project's net benefit flows over time.

81. For this review, the EI portfolio includes projects that are not primarily classified under the oil and gas or mining sector headings of the Bank's classification system but nevertheless contain significant EI-related components.

82. A more detailed discussion on the Bank's changing role, portfolio objectives, and quality of lending for the extractive industries is the "Review of the Portfolio of World Bank Extractive Industry Projects."

83. Under WB's OP 4.01 for Environmental Assessment, Category 'A' projects are those that are likely to have adverse environmental and social impacts that are sensitive, diverse, or unprecedented; Category 'B' projects are those with adverse impacts on human populations or environmentally important areas; Category 'C' is a residual category.

84. See Attachment 3 for an explanation of OED's project ratings scale.

85. That is, whether the project creates more net benefits to the economy than other mutually exclusive options. See OP 10.04: *Economic Analysis of Investment Operations,* World Bank (September 1994).

86. See OP 13.55: *Implementation Completion Reporting,* World Bank (July 1999).

87. The four completed structural adjustment loans in the sample were excluded from this analysis given the Bank's practice of not estimating ERRs or quantifying benefits for such projects.

88. *Guidelines for Preparing Implementation Completion Reports,* World Bank (1999). The earlier Bank policy on Project Completion Reports also required the preparation of an ex-post economic analysis.

89. This figure includes one Emergency Recovery Loan.

90. That is, a proxy for the opportunity cost of capital.

91. The fourth remaining SIL, Ethiopia's Calub Energy Project, was closed prematurely, precluding any meaningful ex-post economic analysis.

92. This figure includes one GEF grant.

93. The ERR for the Guinea Mining Sector Investment Promotion Project was estimated for the appraisal and re-estimated for the ICR.

94. This figure includes one Rehabilitation Investment Loan.

95. There is no reason to believe that the performance of extractive industries projects in this regard is different than that of projects in other sectors.

96. The May 15, 2002, Toronto Declaration of the International Council of Mining and Metals states (on behalf of the mining industry): "orphan site legacy issues are important and complex. However, they are beyond the capacity of ICMM to resolve. Governments and international agencies should assume the lead role in addressing them."

97. Since the start of fiscal year 1993, the World Bank has approved 76 projects in the extractive industries or with significant components relating to extractive industries. As of June 30, 2002, 48 projects have been completed (24 oil and gas, 24 mining) and 28 projects are still active (15 oil and gas, 13 mining).

98. The purposive selection of projects that were likely to have significant adverse environmental or social impacts is consistent with the objective of the Safeguards Review, as the WBG's safeguard policies are applicable only to such projects. As a result, the validity of the findings is limited to such projects and should not be extended to those Category 'C' projects that were likely to have minimal or no adverse impacts or SALs, which are not covered by the safeguard policies.

99. As stated in the Bank's policy on Environmental Assessment (OP 4.01), to fall under Category 'A,' a project is deemed to be likely to have significant adverse environmental impacts that are sensitive, diverse, or unprecedented. Category 'B' is assigned to projects whose potential environmental impacts are less adverse than those for Category 'A.' Category 'C' is for projects that are likely to have minimal or no adverse environmental impacts. SECALs have been covered by the policy only since 1999. Earlier SECALs were uncategorized.

100. These requirements are recorded in Annex 1-A and 1-B of the Safeguards Review.

The list is based on the latest version of the policies (as of June 30, 2002).

101. The individual project review worksheets were sent to the relevant project managers for fact checking.

102. It should also be noted that the extractive industries portfolio includes a higher share of TA and SECAL projects, whose classification has been subject to differing interpretation.

103. Given the small size of the sample, it was not feasible to evaluate any impact from the Bank's enhanced safeguards compliance system established in 1999.

104. See note 13 for additional information about the survey. The complete results are provided in Annex D, Attachment 6b.

105. The adequacy of the initial project screening and of Bank supervision were not themselves criteria for evaluating the adequacy of safeguards compliance at the project approval or implementation stage but factors that were tracked and assessed in parallel as part of the safeguards review.

106. That is, the process by which the EA category is assigned, the nature and extent of the EA or environmental analysis is decided, and the applicable safeguard policies are identified. Responsibility for the initial project screening resides with the project's task team, under the supervision of regional management, subject to clearance by the regional safeguards coordinator, under the oversight of the central QACU. Before 2000, responsibility for initial project screening was shared between the project's task team and the Bank's regional environment divisions.

107. Of the 11 projects, 6 were 'B' projects that should have been more appropriately categorized as 'A,' and 5 were 'C' projects that should have been more appropriately categorized as 'B.'

108. The Bank's Operational Manual lists seven investment lending instruments: SIL, Learning and Innovation Loan, TAL, Emergency Recovery Loan, Financial Intermediary Loan, Sector Investment and Maintenance Loan, and Adaptable Program Loan. The manual lists the following six adjustment lending instruments: Programmatic Structural Adjustment Loan, Poverty Reduction Support Credit, SECAL, SAL, Special Structural Adjustment Loan, and Rehabilitation Loan.

109. EIA, Sectoral EA, Regional EA, Environmental Audit, Hazard/Risk Assessment.

110. The five SECALs in Russia, Poland, and Ukraine were subject to careful environmental and social review. The remaining one is the Madagascar Sector Reform Project, which should also have been categorized as an 'A' because of proposed new port facilities.

111. The mine closures supported by these SECALs were unprecedented in scale, diversity of environmental conditions, and the complexity of environmental, safety, and social issues. The past environmental and social neglect of these mining operations further aggravated the problems involved in their closure.

112. World Bank (1991).

113. As indicated earlier, there is no implication that the treatment of extractive industries projects in this regard is different from the Bank's practice in other sectors at the time, which was to interpret the EA Source Book with great flexibility. In recent years, management, the Inspection Panel, and the Bank's legal department have clarified that the EA Source Book is to be followed. The Safeguards Review is in line with this position.

114. However, Poland's Ministry of the Environment has not endorsed this conclusion.

115. *Environmental Assessment Sourcebook Update No. 2: Environmental Screening,* Environmental Department, World Bank, Washington, D.C. (April 1993).

116. Thailand: Second Gas Transmission Project.

117.The issue was settled amicably, but it took some time.

118. Cameroon: Chad-Cameroon Pipeline Project; Chad: Petroleum Sector Capacity Management Project.

119. As mentioned in Chapter 4, this may be related to the fact that many of the projects had been assigned to lower EA categories or applicable safeguards were not triggered at the initial project screening.

120. The PSR for the India Coal Sector Rehabilitation Project dated March 28, 2001, records a "Highly Unsatisfactory" rating in respect to

compliance with the safeguard policy for Involuntary Resettlement (OD 4.30), prior to receipt of a complaint by the Inspection Panel (RQ01/2) on June 21, 2001.

121. The Bank's EA policy requires comprehensive environmental and social baseline surveys only for Category 'A' projects.

122. World Bank (2001d).

123. However, some allowance needs to be made for the evolving more rigorous interpretation of these policies, in a world that is ever more concerned about sustainable development, as noted in Chapter 2.

124. Here again, there is no reason to believe that the performance of extractive industries projects in this regard is different than that of projects in other sectors.

125. Other potential economic benefits include financial flows accruing to private investors, employees, local communities, and so forth, which represent compensation for risk capital, labor, and social and environmental services.

126. Beyond the allocation of fiscal revenues in line with national development priorities, an assessment of the efficacy of public expenditure for achieving sustainable development and poverty reduction was outside the scope of this evaluation. Such assessments are regularly included in OED's Country Assistance Evaluations.

127. As stated in BP 2.11, "The Country Assistance Strategy (CAS) is the central vehicle for Board review of the World Bank Group's assistance strategy for IDA and IBRD borrowers. The CAS document (a) describes the World Bank Group's strategy based on an assessment of priorities in the country, and (b) indicates the level and composition of assistance to be provided based on the strategy and the country's portfolio performance."

128. That is, those with negative GDP/capita growth during the 1990s.

129. The percentage was higher for better performing EI-dependent countries at 80 percent and lower for non-EI dependent countries.

130. Many of these countries fit the description of LICUS. As stated in the *LICUS Task Force Report* (World Bank 2002): "Low-income countries under stress are characterized by very weak policies, institutions, and governance. Aid does not work well in these environments...Yet neglect of such countries (by the development community) perpetuates poverty and may contribute to the collapse of the state, with adverse regional and even global consequences."

131. The five countries were chosen based on the relative importance of extractive industries in their economies, the intensity of Bank assistance they received, and for regional diversity.

132. Of the 60 CASs that were reviewed, 26 covered EI-dependent countries, and 4 of these were joint Bank-IFC-MIGA CASs.

133. Since 2002, the Bank's LICUS program (see note 72) has led to the allocation of additional budget to eligible countries for activities designed to improve the institutional and policy framework.

134. This relationship, which is statistically significant at the 95 percent confidence level (*t*-statistic = 2.44), illustrates a conclusion that is widely accepted in the literature. No claim is made that EI dependence is the sole determinant of a country's quality of governance. The figure includes all countries eligible for borrowing from the WBG with a population greater than one million as of 2000, for which data is available.

135. In Figure C11, Chile and Botswana are shown at the top, near center and to the right hand side, respectively.

136. *Governance and Development,* World Bank, Washington, D.C. (1992).

137. For example, the Bank has set up a project Web site with a comprehensive set of documents including (i) the Project Appraisal Documents for the three projects, (ii) the full set of Environmental Assessments and Environmental Management Plan documents, (iii) the Loan and Credit Agreements, (iv) Environmental Compliance Monitoring Group and International Advisory Group reports, and (v) up-to-date progress reports on project implementation. Many of these reports are in English and French to make them more broadly accessible. See http:www.worldbank.org/afr/ccproj/project/pro_document.htm.

139. The six countries were chosen for variation in region, size and importance of the EI

sector, quality of governance, and intensity of Bank intervention in the sector.

139. For additional information on GRICS, see http://www.worldbank.org/wbi/governance/data.html#dataset2001.

140. Because abuse of individual rights, mostly in connection with site security arrangements for project sites, has been alleged in connection with some EI projects—albeit none in connection with projects in the Bank portfolio under review—the Bank needs to consider its position on these issues. While extractive industry leaders and some governments subscribe to Voluntary Principles on Security and Human Rights, the Bank has no comparable guidance.

141. In recent years, the Bank's governance-related public expenditure and financial accountability sector work has rapidly evolved. Public Expenditure Reviews, Country Financial Accountability Assessments, and Country Procurement Assessment Reviews are now part of core economic and sector work in all borrowing countries. Follow-up to these core diagnostics in terms of policies and institutions and capacity-building is part of regular CAS preparation discussions.

142. The Mining TA project includes, among others, components for (a) policy and regulatory institutional strengthening of the Department of Mining and (b) institutional strengthening and capacity-building for the Internal Revenue Commission. The Gas TA project includes, among others, components to (a) enhance the monitoring and regulatory capacity of the Department of Petroleum and (b) facilitate the participation of local communities.

143. Notably a weak legislature and civil society, lack of freedom for the media, and lack of transparency of public accounts.

144. That is, the use of public power in accordance with law.

145. For example, through AAA, technical assistance projects, and other instruments that are primarily aimed at strengthening governance and management of environmental and social risks.

146. Given the Bank's very modest record with fiscal revenue management in EI-dependent countries (see Chapter 5) the number of such "test cases" is expected to be small.

147. The Management Response is expected to identify the unit(s) responsible for following up each recommendation.

148. Aspects to be addressed should include, inter alia, key policy issues, the Bank's role, and business implications (including resource issues and WBG coordination).

149. Management accepts the need to factor governance into its support for extractive industry activities and will work to improve its approaches, based on country circumstances. However, it does not feel that mandating for an entire set of countries a specific program to ensure that fiscal revenues are used for development priorities would be a practical solution.

150. "Significant" should be considered both in absolute terms and in relation to total sector production, based on analysis of past experience, and may vary by country.

151. In resource-rich countries, the WBG should also encourage client countries to include EI in the Poverty Reduction Strategy Papers.

152. In line with the Bank's performance-based allocation of IDA credits.

153. This recommendation is consistent with the LICUS approach mentioned in Chapter 5.

154. Such as on mine closure, safety of dams, forced and child labor.

155. Such as those related to consultation and disclosure, community development, security, hazardous materials management, acid rock drainage, gas flaring, and transportation of oil, for which the good practice guidelines that have been issued need to be complemented by supporting language in the policies.

156. Several stakeholders have already sought IMF and WBG assistance in advocating or requiring disclosure and in developing a reporting framework.

157. Such indicators could include, for example, health and safety statistics, gas flaring (or greenhouse gas emissions), adequacy of mine closure preparations (including funding) and oil transportation arrangements, hazardous materials management and emergency response plans, availability of infrastructure and services (e.g., health and education), and revenues generated for governments.

158. As in IFC's guidelines, "environmental" aspects include worker health and safety.

159. Environmental effects could be local (e.g., impacts on water quality) or global (e.g., contribution to greenhouse gases through gas flaring).

160. IFC does not have a Board-approved sector strategy for EI, but its investment departments discuss their strategies annually with IFC management. While these sector strategies are not normally disclosed, IFC has started to publish regional strategies for mining (www.ifc.org/mining/region/region.html). IFC ceased to invest in oil and gas exploration in fiscal year 1992, but this was due to poor results and the difficulties of assessing exploration risks. Exploration projects in mining are very rare, but IFC has invested at very early stages (exploration or pre-feasibility study).

161. See, for example, *The oil and gas industry from Rio to Johannesburg and beyond—contributing to sustainable development* (2002), by the International Association of Oil and Gas Producers (OGP) and the International Petroleum Industry Environmental Conservation Association (IPIECA). Other initiatives in the mining sector, for example, the Mining, Minerals and Sustainable Development Project (MMSD), came to similar conclusions.

162. For example, the ICMM is working with the Global Reporting Initiative (GRI) to develop sustainability indicators for the mining industry. Ultimately, this is expected to result in a consistent and coherent module for reporting on sustainable development for mining companies.

163. Mining and Minerals Sustainability Survey (2001).

164. This and other comparisons of "evaluated" projects relate to a random, representative sample of 22 IFC projects (12 oil and gas, 10 mining) approved 1991–96 and evaluated 1996–2001 (results in Attachment 4b) using IFC's standard evaluation framework. For desk reviews of all 45 "studied" projects—22 oil and gas and 23 mining projects approved since fiscal year 1993 or still in IFC's portfolio—a similar but simplified ratings framework was used (Attachment 4e, results in Attachments 4c and 4d).

165. The results of all studied projects are not strictly comparable, as they have a different maturity profile—older and younger—than the evaluated projects. Also, there are no comparators in IFC's portfolio, as IFC does not track and rate development results on a portfolio basis. The number of projects is too small to analyze trends.

166. See, for example, *World Bank Group Work in Low-Income Countries Under Stress: A Task Force Report* (2002), http://www1.worldbank.org/operations/licus.

167. "Significantly" used in this report implies statistically significant using a 90 percent confidence interval.

168. Until 1996, IFC effectively valued resources at zero. Since then, IFC has started to deduct the net present value of the economic benefits generated from the resource over the projected life as depletion premium. This may differ substantially from how governments or investors might value the resource, which will depend on many factors, such as country and resource risk.

169. Adequate economic returns do not always mean large government revenues. See below on distribution.

170. There are many different taxation regimes. For an excellent overview, see *Global Mining Taxation Comparative Study* (J. Otto, 2000) or *Review of Legal and Fiscal Frameworks for Exploration and Mining* (Koh Naito, Felix Remy, John P. Williams, 2001). On oil and gas, see www.ifc.org/ogmc/pdfs/DanielJohnston.pdf.

171. Oil features higher royalties—and other forms of "rents"—than mining. Royalties in mining affect the cutoff grade and can thus easily make otherwise attractive deposits unviable; in oil this is less likely, as marginal costs are low compared with the resource value. Rents are the excess of pre-tax benefits over cost, including the minimum return on capital required to attract investment.

172. We surveyed over 50 people at the EIR Planning Workshop, and about half responded (Attachment 6a). Broad and balanced representation of stakeholders was one of the workshop's goals.

173. Examples include questioning the appropriateness of favorable tax exemptions and swap arrangements.

174. The Inspection Panel for the Chad-Cameroon pipeline claimed "it was unable to find any analysis justifying the allocation of revenues between Chad and the Consortium [of investors]." World Bank management stated that it was not a party to the confidential agreement between Chad and the Consortium, but that the reasonableness of the agreement had been independently studied, and that it had made certain Chad received independent expert advice.

175. This appears to be changing. IFC has started to track development results in supervision, and some recent Board Reports for EI projects identify government revenues as one of the indicators to be tracked.

176. See, for example, *Breaking the Conflict Trap: Civil War and Development Policy,* draft WBG Policy Research Report (2003), http://econ.worldbank.org/prr/CivilWarPRR.

177. *Review of Legal and Fiscal Frameworks for Exploration and Mining* (Koh Naito, Felix Remy, John P. Williams, 2001) compares the fiscal regimes of 23 countries. *Global Mining Taxation Comparative Study,* Institute for Global Resources Policy and Management and Colorado School of Mines (second edition, March 2000, James Otto et al.) compares the effects of taxation on "model" copper and gold mines. An unofficial note on the WBG's Web site, "Best Practices in Dealing with the Social Impacts of Oil and Gas Operations," on management of government revenues, cites numerous reference documents and concludes that international practice of the government's "take" in oil and gas is about 45 percent to 50 percent at the low end and 80 percent to 85 percent at the high end.

178. For example, a host government has requested an independent "fairness" assessment of an existing contract with an IFC client company. Routinely providing a resolution mechanism where conflicts between governments and investors arise may help settle disputes, and is now often incorporated in agreements between investors and governments. However, years after the contract was signed, it is even more difficult to assess how reasonable a distribution is, and renegotiating contracts later will also discourage potential future investors. Annex C (Chapter 5 and Box C11) discusses issues related to the acceptability of benefit distribution.

179. The WBG hosted a workshop on petroleum revenue management (www.ifc.org/ogmc/petroleum.htm) in October 2002; the IMF hosted a similar conference in June 2002.

180. Chad (2000), Chile (1957), Gabon (1982), Ghana (1984), Guinea (1982), Guinea-Bissau (1989), Kyrgyz Republic (1995), Mauritania (1968), Russian Federation (1993), Tajikistan (1996), Uzbekistan (1994), Zimbabwe (1981). EI projects have been among the first investments in several other countries.

181. The benchmark for a satisfactory business success is whether the real (inflation-adjusted), after-tax financial rate of return exceeds a company's estimated weighted average cost of capital.

182. Attachment 3 contains more information on IFC's EI investment activities.

183. Before that, the World Bank reviewed the environmental aspects of IFC's projects, using guidelines initially published in 1984 and revised in 1988.

184. Available online at http://www.ifc.org/enviro/EnvSoc/childlabor/childsafeguard.htm.

185. Available online at http://www.ifc.org/enviro/enviro/pollution/guidelines.htm.

186. Ibid.

187. Category 'A' projects are "likely to have significant adverse environmental impacts that are sensitive, diverse, or unprecedented." They require EIAs that normally cover (a) environmental and social baseline conditions; (b) potential environmental and social impacts (direct and indirect), including opportunities for enhancement, cumulative impact, and other anticipated developments; (c) systematic comparison of feasible alternatives, sites, technologies, and designs; (d) preventive, mitigating, and compensatory measures; (e) capacity for environmental and social management and training programs; (f) detailed results of the public consultation and disclosure program; and (g) monitoring. They usually quantify capital and recurrent costs, environmental and social staffing, training, monitoring requirements, and the benefits of proposed alternatives and mitigation measures. See www.ifc.org/enviro/EnvSoc/ESRP/esrp.htm.

188. For example, a feasibility study for a project that would—if implemented—be categorized as 'A' was categorized as 'C' (no impact); an exploration project potentially affecting a nature reserve and indigenous people was categorized as 'B.' The CAO's safeguard policy review found that decisions about categorizations "may be inconsistent and non-transparent." IFC's Environment and Social Development Department conceded that consistent categorization was difficult. This suggests a need for better guidance, transparency, and peer review.

189. For a more detailed description of the Millennium Development Goals, see www.developmentgoals.org. We did not have sufficient data to analyze performance for the important goal of poverty reduction. Also, OEG's analysis did not control for other factors that may affect achievement of Millennium Development Goals, such as, for example, income per capita.

190. Twenty-two projects were approved 1991–96 and evaluated 1996–2001, 10 in mining and 12 in oil and gas.

191. There was insufficient information to rate the twelfth project, as IFC had exited from the investment.

192. The portfolio analysis is mainly based on desk reviews, even though some of the results were verified through OEG's 13 field visits. It excludes 14 projects that were considered immature and 5 projects from which IFC had exited and insufficient information for an overall assessment was available. It also summarizes ratings for multiple projects in the same company and takes into account longer-term developments than the typical five-year span of the more detailed evaluations. See Attachments 4e and 4f.

193. Ratings for the sample of evaluated projects were not updated to incorporate new information, to remain comparable with those of non-EI projects in the same sample and allow for meaningful statistical analysis. For the studied projects, such new information was incorporated. For example, in several cases, material problems had later been corrected and OEG considered that the earlier shortfalls were not material enough to warrant a rating less than satisfactory. Also, the evaluated sample included 1991–92 projects, some with environmental problems, that were no longer considered in the studied portfolio (approvals since 1993 and current portfolio).

194. For example, some companies have established a zero flaring goal. Shell's and BP's sustainability reporting is considered among the best in the oil industry. See www.sustainability.com for the Top 50 corporate reports.

195. IFC's 2001 offshore guidelines require the following: minimize low pressure and eliminate high pressure flaring (or justify where this is not possible), eliminate continuous venting and minimize emergency venting, and calculate GHG emissions annually. The World Bank's 1998 onshore guidelines simply state, "minimize flaring" but "flaring is preferable to venting."

196. See www.worldbank.org/ogmc/global_gas.htm.

197. The code can be found at www.cyanidecode.org/thecode/thecode.PDF.

198. IFC's policy requires that "all its operations are carried out in an environmentally and socially responsible manner."

199. *Community Development Resource Guide for Private Companies,* IFC (2000), http://www.ifc.org/enviro/Publications/Community/IFC_CDR_Guide.pdf. Also, the World Bank Mining Department hosted a conference on Local Management of Mineral Wealth, June 2002.

200. Examples of SME linkage programs in EI include Chad-Cameroon Pipeline; Kyrgyz Republic—Kumtor Gold Mine; Mozambique—Mozal Aluminum Smelter; Nigeria—Niger Delta Contractor Credit Facility.

201. An IFC specialist for social development expressed some frustration that investment staff sometimes resist community development plans because they are not mandatory (unless the project involves resettlement).

202. A UNEP study, *The Role of Financial Institutions in Sustainable Mineral Development* (2002), recommended benchmarking projects against international standards, such as the WBG guidelines (www.mineralresourcesforum.org/docs/pdfs/zemek.pdf). A 2001 study for Japan's Ministry of the Environment considered WBG guidelines to be the highest among international financial institutions (http://www.env.go.jp/en/jeq/v006-04.pdf). Industry associations

(OGP/IPIECA's 2002 study, *Key questions in managing social issues in oil & gas projects,* www.ipieca.org/downloads/social/impact_assessment.pdf) recognize that WBG policies and guidelines set de-facto standards where others do not exist—for example on resettlement. These positive views were confirmed by OEG's own evaluations, research, and interviews.

203. *The Environmental and Social Challenges of Private Sector Projects: IFC's Experience* (2002), http://www.ifc.org/publications/pubs/loe/loe8/loe8.html.

204. This can put IFC in a difficult position, because it does not disclose the environmental performance of projects. For example, one client claimed compliance even though an evaluation had just established material noncompliance. Clearly, IFC cannot verify claims of nonclients.

205. Available online at http://ifchq14.ifc.org/Apps/OSD/IOToolkit.nsf/Resource?OpenFrameSet.

206. See, for example, the guidance notes at www.ifc.org/enviro/EnvSoc/ESRP/Guidance/guidance.htm.

207. Banks adopting the so-called "Equator Principles"—a voluntary set of guidelines based on the social and environmental policies of IFC and the World Bank—are ABN AMRO Bank, N.V.; Barclays PLC; Citigroup, Inc.; Credit Lyonnais; Credit Suisse Group; HVB Group; Rabobank; Royal Bank of Scotland; WestLB AG; and Westpac Banking Corporation.

208. IFC did not update safeguard policies during the CAO review of these policies.

209. Interestingly, many of these issues are covered in the best practices for oil and gas compiled with input from different stakeholder groups and hosted on the World Bank's Web site. However, these best practices (www.worldbank.org/ogsimpact) are unofficial and not even well known within IFC.

210. www.hrw.org/corporations.

211. www.state.gov/www/global/human_rights/001220_fsdrl_principles.html.

212. The World Bank's Operational Policy 7.60 (OP 7.60, June 2001), *Projects in Disputed Areas,* relates to disputes among countries, not within a country.

213. No assessment of the environmental effects of eight projects was possible: in five, IFC no longer had an investment and had insufficient information before exiting; in one, the sponsor does not have the contractual obligation to report because IFC has only an equity investment; in two, projects had not begun commercial operations. Even for newer equity investments, IFC is not always able to contractually require compliance with its environmental policies and guidelines—but IFC's review procedures do not distinguish between investment instruments.

214. For example, OEG's *Annual Review of IFC's Evaluation Findings: FY2001, in OEG Findings* (April 2003) (http://www.ifc.org/oeg/OEG_Findings_042103.pdf).

215. An exception is one project where IFC had put in place funds for mine closure before exiting and controlled their use even after the exit. IFC is now handing over the responsibility to oversee use of the funds to the local regulatory agency.

216. For example, World Bank sector adjustment loans in Ghana and Peru helped support capacity-building for proper environmental governance in EI. But due to insufficient funds, it is unclear whether the monitoring regimes will be sustainable.

217. For example, by securing International Standards Organizations (ISO) 14001, BS8800, and/or National Occupational Safety Association (NOSA) ratings.

218. For example, one IFC client did not complete a baseline study and thus experienced major difficulties when faced with claims of pollution, and land and agriculture degradation; another client reportedly completed a baseline study but was subsequently unable to locate it.

219. For example, villagers claimed a company had not compensated for the destruction of a long-standing village, but photographic evidence showed the village did not exist before mining activities were announced; numerous claims of stream and drinking water pollution could be disproved by evidence of prior conditions.

220. NGOs have criticized IFC, saying that it cannot demonstrate that EI projects reduce poverty and improve living standards. In the past,

IFC has not consistently tracked changes in environmental and, particularly, socioeconomic indicators. OEG observed negative impacts in some projects it visited—but clear improvements in others.

221. While these guidelines apply in principle only to coal, iron ore, and base metal projects, IFC has in practice also applied them to other mining projects. Reserving money is not required in the general 1995 open pit and underground mining guidelines, another example illustrating the need to update IFC's guidelines. These are the guidelines relevant for precious metal mining, the largest share of IFC's mining portfolio.

222. For example, in one portfolio project it was doubtful whether and how funding for mine closure could be secured, and in another IFC did not know whether a mine had been closed in line with IFC requirements. Supervision documents do not consistently address whether mine closure plans and funding are in place.

223. In *It's not over when it's over: Mine closure around the world* (2002), the mining policy group of the WBG's global product group has suggested several options for dealing with this problem, such as "closure bonds," warranties, securities, and insurance.

224. Ibid. The publication recognizes that many aspects of mine closure are beyond the private sector's control but recommends several steps that mining companies should undertake.

225. IFC asked the client to redress the problem, but the client chose to prepay IFC's loan instead.

226. In another project, the reputation of an IFC client suffered because of a tailings dam break at an adjacent mine.

227. For example, while IFC has strongly advocated the *Business Case for Sustainable Development,* IFC's guidance for nominees to corporate boards does not specify whether they are expected to promote the sustainability concept.

228. For example, ASM is a major issue in several mining projects in Africa.

229. See Annex C on what the World Bank has done and can do with respect to ASM, the collaborative group on ASM (http://wbln1018.worldbank.org/IFCEXT/casmsite.nsf) in which the WBG participates, and the MMSD working paper on ASM (www.iied.org/mmsd/activities/small_scale_mining.html).

230. For IFC's current disclosure policy, see www.ifc.org/enviro/enviro/Disclosure_Policy/disclosure.htm.

231. IFC's disclosure policy is ambiguous: it requires that the summary of project information and environmental review summary be updated when there are material changes, but it does not specify whether this also applies after Board approval. In practice, IFC did not always update these documents where later changes occurred.

232. In its current form, the AMR is highly technical, sometimes running into hundreds of pages and would not necessarily lend itself for publication. A less technical summary of key indicators of environmental, social, health, and safety performance (standardized to the extent possible) may be preferable.

233. Trust and validity can be increased when the community participates in the monitoring activities and in the design of the baseline data collection, gets trained in sampling and analytical techniques, and participates in the recording and archiving of the data. Such measures could proactively increase trust or may be necessary once trust is lost.

234. Examples include an updated environmental action plan for La Colorada (Mexico) and an updated environmental management plan for Konkola Copper Mine (Zambia).

235. This is true not only for EI, but for IFC's entire portfolio.

236. For example, Kumtor in the Kyrgyz Republic (www.cameco.com/operations/gold/kumtor/index.php) or MBR, a Brazilian company: (www.mbr.com.br/eng/meioambiente/meioambiente.asp).

237. Disclosure of financial information, including revenues generated for governments, is covered in the next section.

238. Available from the WBG bookstore or online at www.ifc.org/enviro/Publications/Practice/practice.htm.

239. For Category 'A' projects, IFC's 1998 procedures require that "The project sponsor continues to consult with relevant stakeholders

throughout project construction and operation, *as necessary*, to address environmental assessment related and other issues that affect them. IFC requires the project sponsor to report on ongoing consultation as part of its annual reporting requirements" (emphasis added).

240. For example, one IFC client did not effectively consult the community and key players at the outset. An accident with hazardous material spill soured community relations, cost the company millions of dollars, and created major and costly problems; it may result in preventing them from developing an important deposit on the concession. The company started an active social assistance program, but it came late.

241. IFC has prepared a checklist for improved public consultation, "Doing Better Business through Effective Publish Consultation and Disclosure: A Check Sheet" (Attachment 6).

242. This is particularly the case where governments get revenues based on production or revenue (e.g., royalties), not on profitability. In addition, in several projects, notably in Europe and Central Asia and Africa, the government retroactively changed fiscal rules or contractual arrangements.

243. OEG used the 2001GRICS published by the World Bank Institute. It measures perceptions of a large number of respondents, and, as with any such indicator, individual country rankings are subject to large margins of error. Countries were sorted using a composite of the average ratings for voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and control of corruption, and then were divided into quartiles. Results are similar using Transparency International's 2002 Corruption Perceptions Index. However, IFC staff attested that IFC had not invested in several projects due to country governance concerns.

244. For example: IMF Economic Issue 6: *Why worry about corruption.* (Paolo Mauro, 1997). Also: IMF Economic Issue 12: *Roads to nowhere: How corruption in public investment hurts growth* (Hamid Davoodi and Vito Tanzi, 1998).

245. Transparency International ranks them in the top third on corruption, ahead of several industrialized countries.

246. "Good" control of corruption—government effectiveness, voice and accountability, political stability, and rule of law—was defined as the top half of the World Bank Institute's "GRICS-II" data. Too few (4 of 45 studied projects) of IFC's EI investments were in countries with good control of corruption to conduct meaningful statistical analysis.

247. Ranking in terms of "successful" was based on returns (in NPV terms). "Highest corruption" countries were those in the bottom quartile of Transparency International's 2002 Corruption Perception Index.

248. Rankings for control of corruption by quartile of the World Bank Institute's "GRICS-II" data.

249. Bribery in business sectors: www.transparency.org/cpi/2002/bpi2002.en.html#sectors.

250. See www.oecd.org and the section on corruption.

251. For example, the United States with the Foreign Corrupt Practices Act of 1977.

252. For more details, see www.worldbank.org/afr/ccproj.

253. Revenue distribution and management in IFC projects: www.ifc.org/test/sustainability/docs/Revenue_Distri_Mgmt.pdf.

254. See http://www.ifc.org/ogmc/socialandeconomicimpact.htm.

255. The "extractive industries transparency initiative" (www.dfid.gov.uk/News/News/files/eiti_guide.htm) and "publish what you pay" (www.publishwhatyoupay.org) advocate disclosure.

256. See, for example, IFC's publication, *The Business Case for Sustainability* (www.ifc.org/test/sustainability/docs/TheBusinessCase.pdf) and its *2002 Sustainability Review* (http://www.ifc.org/ar2002/review/sustainability.html). See also the work of the Natural Resources Cluster of Business Partners for Development (www.bpd-naturalresources.org).

257. Over 90 percent of 33 staff responded. We did not survey managers and directors but interviewed them individually.

258. Fifty-two percent of IFC respondents saw this as a problem. Their comments included, "The big issue is that the WB country departments rarely give adequate priority to mining issues."

"IFC/WB coordination happens only on an individual basis at staff level and on the director level, but the former is not very consistent."

259. Eighty-eight percent of 34 WBG respondents stated that the WBG avoided good EI projects due to safeguard concerns. This confirms the 2001 *Fourth Quality-At-Entry Assessment* by the WBG's Quality Assurance Group, which found that risk aversion resulted in dropping environmental components of projects. An anonymous World Bank survey respondent put it bluntly: "The World Bank Management is extremely sensitive to developed country social and environmental NGOs."

260. This recommendation also applies to countries expected to become resource-rich, through a large IFC-supported project, for example, and where IFC intends to make investments more generally.

261. One form of public-private partnerships, as recommended in the WBG's *Private Sector Development Strategy* (2002) is "output-based aid" (OBA). OBA would use public funding, at least in part, but feature private provision of services. Some taxation schemes allowing tax credits for community development expenditures are similar to OBA.

262. For example, IFC should encourage disclosure of production-sharing agreements, concession, and privatization terms, as well as payments made to governments at different levels. Given that providing this information is even illegal in some countries and investors may have justified concerns about unilateral disclosure, the WBG should encourage country- or industrywide disclosure.

263. "Significant" should be considered both in absolute terms and in relation to total sector production, based on analysis of past experience, and may vary by country.

264. IFC should continue to appraise projects by comparing their global competitiveness and review in-depth geological and metallurgical characteristics. IFC should also diligently check the background of sponsors and how concessions were awarded.

265. Current supervision of EI projects is significantly better than average, and these recommendations build on this strength.

266. This requirement should apply to all portfolio companies. For example, IFC should routinely ask clients for Annual Monitoring Reports, even where they are not required.

267. The requirements should encompass environmental and social risks, as well as financial risks (e.g., from hedging) and parallel what IFC normally addresses in its loan covenants.

268. IFC should encourage its clients to improve their practices in line with evolving good industry practices. Where clients do not correct important shortfalls, IFC should call the loan, raise the issue at shareholders' meetings, or inform the local regulatory agency, or the press. IFC should consider developing guidelines on how active it should be as a shareholder.

269. Together with the World Bank and other stakeholders.

270. The policies and guidelines need to be comprehensive enough to capture all important environmental and social effects, local, regional, and global, as well as short- and long-term. Yet, they also need to be practical and reflect IFC's industry experience: they need to be realistic (achievable at reasonable cost), client-driven (adaptable to the client's other reporting requirements), and monitorable (sufficiently specific). To be practicable, the policies and guidelines should meet the business case for sustainability, that is, implementing them should be in a company's long-term commercial interest.

271. IFC could build on existing industry initiatives. Information on industry-specific indicators should include, for example, fiscal revenue generation, health and safety statistics (including HIV/AIDS prevention), gas flaring (or greenhouse gas emissions), adequacy of mine closure preparations (including funding) and oil transportation arrangements, hazardous materials management, and emergency response plans. It could also include data to capture private sector contributions beyond compliance, such as infrastructure, health, and education services. The reporting requirements should also include relevant sustainable development indicators, such as water quality, access to potable water or schooling, and income levels. Other documentation, such as aerial photography and videotaping of the site and surrounding areas, could

help to later document improvements or deteriorations, and potentially reduce later disputes.

272. Such an assessment should be conducted as early as possible, and IFC should prepare guidance on what IFC and its clients should do when early consultations were not carried out or were insufficient.

373. For example, IFC could review the mine closure plans of all existing clients and share best practices among them.

274. From 1983 until 1991, IFC also financed oil and gas exploration, but the amounts involved were small ($60 million). It ceased to do so, mainly because of disappointing initial results.

275. Institutional Investor country credit ratings below 30 or without a rating. In this report such countries are referred to as "risky" countries.

276. Chad (2000), Chile (1957), Gabon (1982), Ghana (1984), Guinea (1982), Guinea-Bissau (1989), Kyrgyz Republic (1995), Mauritania (1968), Russian Federation (1993), Tajikistan (1996), Uzbekistan (1994), Zimbabwe (1981).

277. http://www.ifc.org/enviro/enviro/Disclosure_Policy/disclosure.htm.

278. The first guarantee issued by MIGA (1990) was in mining.

279. OED for the Bank, OEG for IFC, and OEU for MIGA.

280. See *Joint OED/OEG Evaluation of WBG Activities in the Extractive Industries Sector—Approach Paper*, p. 4 ff.

281. "MIGA project" refers to a MIGA-insured investment project. A single project may have several contracts of guarantee, depending on the number of investors/lenders requesting coverage, the type of investment insured (equity, debt), and the risks insured (expropriation, war and civil disturbance, transfer restriction, breach of contract, or a combination thereof). Because contracts of guarantee have a limited lifespan, the term "MIGA project" in this report also refers to a project that was insured by MIGA but for which coverage was either cancelled or has expired.

282. All 31 projects conform to the definition of EI sector projects in the context of this joint WBG evaluation, which is consistent with the classification used by MIGA.

283. For one project selected for the review, only a partial evaluation could be made.

284. In total, MIGA issued 51 Contracts of Guarantee in support of 24 mining projects and 10 contracts for 7 oil and gas projects.

285. Contracts of guarantee issued in FY01 in mining were for existing MIGA projects.

286. Also see results of MIGA staff survey.

287. The mean was 3.9 years and the standard deviation 1.55 years.

288. Accessible at www.ipanet.net or www.miga.org.

289. MIGA's early work in this respect was cited in the *Mining Journal* (January 1997) as an important factor leading to the resurgence in mineral exploration and mining project planning in Africa in the mid-1990s.

290. Because MIGA had not officially adopted its own safeguard policies from its inception, it is more appropriate to evaluate the "consistency" of its projects with these polices rather than "compliance."

291. Based on a review of MIGA EI projects' consistency with safeguard policies undertaken in conjunction with this evaluation.

292. Nine mining and three oil and gas projects, with one project undergoing incomplete review. Therefore, graphs in this section present the results for 11 projects.

293. The World Bank has 10 safeguard policies, of which 7 are covered in the present review: (OP/BP 4.01, *Environmental Assessment;* OP 4.30, *Involuntary Resettlement;* OD 4.20, *Indigenous Peoples;* OP 4.04, *Natural Habitats;* OP 4.37, *Safety of Dams;* OPN 11.03, *Cultural Property;* and OP/BP 7.50, *Projects on International Waterways.* The following three policies are not covered in the present review: OP 4.09, *Pest Management;* OP 4.36, *Forestry;* and OP/BP 7.60, *Projects in Disputed Areas.*

294. Shortly after MIGA obtained its in-house environmental expertise, a review of the portfolio was conducted to identify high-risk projects from an environmental and social standpoint, as well as priorities for potential monitoring site visits.

295. In its description of *Framework for Safeguard Policies at MIGA.*

296. IFC or WB environmental and social specialists reviewed 10 out of 12 projects covered in this safeguards review.

297. Roger J. Batstone, *Review of Implementation of Safeguard Policies of World Bank Extractive Industries Projects,* OED Background Paper World Bank (2003).

298. A list of MIGA safeguard policy triggers is shown in Attachment 4.

299. OEU rated consistency with safeguard policies using a scoring system with four categories: negligible, modest, substantial, and high, as defined in Attachments 3a and 3b. Projects were *substantially* consistent when the "set of requirements generally was met, or expected to be met, with only minor shortcomings."

300. While one guarantee project was approved by MIGA's Board in 1992 to cover the initial stages of project development, OEU's assessment of the consistency with safeguard policies was based on documents available when the project was approved by IFC's Board in 1996, as the scope and design of the project changed appreciably between 1992 and 1996. Assessment ratings were based on the full feasibility study and comprehensive EA, which were completed in 1995.

MIGA Management notes that if this unique case was excluded from the scoring in Table 1, the ratings would have been significantly higher in many categories.

OEU notes that it has selected a representative sample covering 39 percent of MIGA guaranteed projects and including various types of partnerships and arrangements for MIGA guarantees.

301. Assignment of environmental categories ('A' or 'B') was appropriate for all sampled projects, with the possible exception of one project 'N' for which documentation was incomplete.

302. MIGA Management notes that there is clear documentation in the files that shows that all the key concerns of the Indigenous Peoples Policy and the Involuntary Resettlement Policy were addressed at the planning level, at the minimum, in well over half of the applicable projects.

303. MIGA's EA disclosure policy requires that, "For all Category 'A' projects during the environmental assessment process, MIGA will require the project investor to consult, or to have consulted, project-affected groups and local nongovernmental organizations about the project's environmental impacts, and to take their views into account. The project investor should initiate such consultations as early as possible, and consult with such groups throughout project implementation, as necessary, to address project-related environmental and social issues that affect them." There is no requirement for public consultation in MIGA-approved Category 'B' projects.

304. MIGA's General Conditions of Guarantee have been revised over the course of the period that MIGA has been in existence and, hence, over the period that is covered by the projects under review. For all guarantee issued since 1999, MIGA has the right to terminate the contract if the project does not comply with MIGA's environmental policies and guidelines.

305. Due mainly to monitoring requirements of senior lenders and other bilateral insurance agencies.

306. The reinsurance agreement covering this project pre-dates the current reinsurance practice by which MIGA's environmental and safeguard policies must be adhered to if MIGA is to act as an reinsurer. In particular, MIGA will require that the primary insurer change its contract wording, if necessary, to meet MIGA's standards. All current MIGA reinsurance contracts include MIGA's right to terminate the reinsurance contract if the investor is not in compliance with MIGA's environmental and social policies and guidelines.

307. Unlike the World Bank, MIGA does not have a Projects in Disputed Areas safeguard policy.

308. The new evaluation framework approved by CODE in 2002 introduces systematic cost-benefit analysis to the evaluation of individual guarantee projects and harmonizes evaluation standards with those used by OEG. The development outcome of guarantee projects is evaluated in four different categories: Business Performance of the project, Economic Sustainability, Environmental and Social Impact, and Impact on Private Sector Development. OEU uses the following rating scale: Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, and Unsatisfactory.

309. Internal MIGA staff workshops undertaken in 2003 have identified similar shortcomings of the RMC process and other MIGA decisionmaking committees.

310. For a recently closed down project, OEU assumed a net job creation of zero.

311. From *Framework for Safeguard Policies at MIGA.* MIGA's external Web site: www.miga.org.

312. Op. cit. Ibid.

313. It should be noted that given the size of the Agency, the survey was administered to the entire population of current MIGA underwriters and project managers involved in EI projects. Thus, it was sent to 12 MIGA active staff, with a response rate of 83 percent (10 staff).

314. The CAO report *Insuring Responsible Investments? A Review of the Application of MIGA's Environmental and Social Review Procedures* (CAO03/07/2003, accessible at www.cao-ombudsman.org) also deals with the treatment of environmental issues but addresses procedural compliance rather than the more in-depth examination of compliance with individual safeguard policies, which OEU considered. Thus, it is not directly comparable with this staff survey, which specifically asked about the treatment and application of environmental issues in EI projects.