The National Mining Association
Comments on the
World Bank Management Response
To
The Extractive Industries Review External Report
July 19, 2004

These comments on the Draft World Bank Group Management Response to the Final Report of the Extractive Industries Review, "*Striking a Better Balance – The World Bank Group and Extractive Industries: The Final Report of the Extractive Industries Review"* (EIR) are submitted on behalf of the National Mining Association (NMA). NMA represents companies that produce metals, minerals and coal within the United States as well as globally. The association appreciates the opportunity to offer our comments on the Management Response to the EIR.

As stated in NMA's February 2004 comments on the final EIR Report, we fully support the goals that the Report has laid out for the Bank's activities in the extractive industries (EI) area: an improvement in public and corporate governance, more effective social and environmental policies, and respect for human rights. We strongly agree with the Report's conclusion that the Bank should have a continuing role in supporting the extractive industries sector. The World Bank's participation in each of the areas outlined enhances the ability of mining and other extractive industries to offer economic opportunity and value to the community and the nation through development of the natural resource base while simultaneously assuring that this development contributes to long-term sustainability and the alleviation of poverty.

NMA concurs with many of the observations and comments included in the Bank's Management Response to the EIR. We believe that the Bank has recognized the many important issues that the EIR raises and has offered a fair and balanced response to the majority of the recommendations proffered by the Report. We would like to offer our comments and suggestions on only a few of the areas.

Strengthening Governance and Transparency

Good governance is critical for the economic development that is a prerequisite for achieving the Bank's primary objectives – to help the poorest countries "build capacity, grow and reduce poverty." Good governance is necessary for the long term success of extractive industry projects and is equally important to encourage investments in all other forms of business activity. Good governance provides the certainty that investors need to maximize economic potential. We applaud the EIR's recognition of the importance of good governance and the fact that the Bank is in a unique position to make certain that countries develop and implement policies that will lead to more accountability of governments on all levels – local, regional, and national.

The Bank's Management response is correct in pointing out that governance risks must be taken into account before deciding whether and how to support extractive industry projects. It is important, as the Bank suggests, to include this assessment in Country Assistance Strategies as they are prepared. The Bank has recognized, however, that this can be a "chicken or the egg" situation and that development is sometimes a prerequisite for establishing good governance and revenue management policies. As the Bank's response said: "Judgments will need to be made…" about whether the level of governance that exists in each nation is appropriate for a project to go forward. This will depend on individual country circumstances including government structure, culture and the level of development of each different nation. Thus, there cannot be a predetermined set of criteria which must be met before the World Bank can become involved in financing development. This must be approached on a flexible basis.

Good governance helps to assure that the financial benefits of extractive industries projects are shared with the communities in which the projects are located with a special emphasis on making certain that these benefits reach the poor. Transparency on the part of both government and industry makes an important contribution in advancing good governance. Both the EIR and the Bank's response recognize the importance of the UK Extractive Transparency Initiative which is joined by a similar and coordinated project sponsored by the U.S. government. The US effort is broader than the UK initiative in that it does not focus exclusively on extractive industries, but focuses on all industry, on governments, and on both the sources and uses of funds.

National Mining Association strongly supports these transparency initiatives and is working with the US State Department to develop appropriate pilot projects in such mining countries as Peru. It is important that these transparency initiatives include both industry and government at all levels and that transparency extend to the use, as well as the source, of funds. We support the World Bank's expectation that transparency should accompany new investments in the extractive sector stressing that this should include all parties involved.

Ensuring that the Benefits from Extractive Industries Projects Reach Communities and the Poor

NMA agrees with the conclusion of the World Bank management response that extractive industries can contribute to the goals of the World Bank through well implemented EI projects that assure that the rights of affected peoples are preserved and the benefits generated by the projects are well used. Extractive industries can bring major economic, social and environmental benefits to the communities in which they are located. The transparency initiatives just referenced will help assure that these benefits reach all levels.

The modern EI demands educated, trained, and efficient employees and suppliers in order to compete in an international marketplace. Because many EI projects are developed in remote areas, infrastructure, including utility services, transportation access, educational, medical and housing facilities, are essential to such projects. Integration of the infrastructure development into regional and national development plans benefits not only the communities involved, but also improves the opportunity for other business investment.

Strong governance capacity, transparency in government, lack of corruption, and capable sector-specific governance all tend to minimize the risk of conflict and to reduce the risk of investment – conditions which all businesses favor. As noted in the management response, improving these conditions is necessarily a multilateral process (item III. 16). Other institutions, such as the United Nations, the International Monetary Fund, and individual donor countries, have capacity in the critical areas of governance and transparency that the World Bank and individual project sponsors do not. Restricting the lending activities of the World Bank will not lead to improvements in governance and transparency. To the contrary, restricting World Bank lending will discourage investment and foreclose opportunities for multilateral efforts to improve governance and transparency. The Bank's management response recommends that the aforementioned institutions engage with appropriate government entities (see recommendations III. 16 and 18, IV. 28 and 29). This is an appropriate action that we strongly support. As a clearinghouse for best practices and success stories, the World Bank can facilitate stronger and more effective relationships between international institutions with expertise in capacity building and local, regional and national communities. Ultimately, the communities will benefit from economic investment only if they responsibly evaluate and define their needs and allocate the resources available to them to constructive progress toward the goals they have established. World Bank involvement in EI projects can assume that the communities have the capacity to do this.

Our members engaged in developing extractive industries projects welcome the Bank's proposal to work with industry, the community and other stakeholders to ensure that these benefits are long term and, through infrastructure development and capacity building, extend far beyond the life of the extractive industries projects.

We encourage the Bank to work with the stakeholders in the affected communities and the industries that are developing projects in those communities to develop the indicators that are needed to identify needs and track progress in meeting those needs. We recognize the need for some basic consistency in these measuring tools. But, due to national and cultural diversities there is no one set of indicators that can automatically be applied in their entirety to meet all situations. Although it is challenging to develop tools for each individual circumstance, we urge the Bank to be flexible when developing these tracking indicators and to be ready to tailor these indicators to national and local situations if necessary.

Mitigating Environmental and Social Risks

The principle of "go-no-go" areas is recognized in both the EIR and in the World Bank's response. As NMA stated in our comments on the EIR, the mining industry recognizes that there can be resource areas where mining may not be appropriate from a social or environmental perspective even if it is economically feasible. Decisions on areas that are unsuitable for mining should be decided on a case by case basis in consultation with the community and all stakeholders involved.

The EIR endorses the concept of utilizing risk assessment techniques to analyze potential impacts of facilities on a site specific basis. This concept is important because it acknowledges that different sites have different conditions that may render certain environmental management techniques that are totally appropriate for one site inappropriate for another. Thus any blanket ban on the use of any particular technology or method would be inappropriate in and of itself. Projects should be analyzed on a case by case basis taking into account all feasible environmental management alternatives and the most appropriate under the individual circumstance.

Frequent review of the safeguards that are in place is important as the applicability of each safeguard may change with changing social, economic and technical factors. At the current time the International Finance Corporation (IFC) is reviewing and updating its safeguard policies and guidelines with respect to mitigating environmental and social risks. Many of the EIR recommendations in this area are being considered by this review. This is the appropriate forum to develop an updated set of policies related to specific technologies such as cyanide, tailing management, mine closures, etc. as outlined in the response document.

Engagement with Communities

NMA supports full and transparent engagement with communities in which the extractive industries operate through all stages of the mining lifecycle from pre mining exploration to post mine closure activities. We did not, however, support the concept of "prior informed consent" taken to its extremes as was the case in the EIR through which one person or small group of interests could halt any project. We fully support the World Bank's Management Response to the EIR in that it recognizes that there should not be a veto power for any group or individual but instead that free, prior and informed consultations should take place.

NMA supports the suggestion that the US/US Voluntary Principles on Security and Human Rights be incorporated into World Bank policies.

Establishing a Multi-Stakeholder Advisory Group in Extractive Industries

NMA welcomes the Bank's suggestion that a multi-stakeholder advisory group on extractive industries be established provided that the mandate and role of the group is very clear and provided that the membership of such a group is carefully balanced. This last point is extremely important as, unfortunately, the stakeholder group responsible for preparation of the EIR was not a balanced group. We would like to point out however, that there are already many groups and initiatives that have already been established and the expertise of these groups should not be overlooked. If the multi-stakeholder group is established it would be best utilized if it were asked to focus on specific issues that have been well defined by the World Bank Board.

Investment in Coal Projects

The World Bank is correct in recognizing that fossil fuels, and in particular, coal and petroleum, will be used to supply energy needs throughout the world well into the future. Coal currently accounts for about 23% of world total primary energy supply and is the most widely used fuel for electricity generation with a 38% share of world electricity output. According to the International Energy Agency's latest World Energy Outlook (released in 2002) through the forecast period, 2030, coal is expected to remain the largest source of electricity generation. Further, the greatest increase in energy demand – and in coal use – will be in the developing world. China and India will account for the greater share of the expected 1 billion ton increase in coal use, but most of the developing world will use more coal as it is indigenous to most nation's and is the lowest cost fuel to produce the electricity needed for economic growth and poverty reduction.

The use of coal will not be stopped if the World Bank does not participate in funding coal projects. Coal development and use will continue regardless. It is the interests of all that the economically attractive fuel, coal, be used more efficiently and with a lower emission profile. World Bank participation in coal projects can ensure that these objectives are met while at the same time meeting goals of economic development and poverty alleviation.

World Bank participation in the mining sector can ensure that the highest safety standards are met and that the projects proceed in a way that is compatible with environmental protection, maintaining a clean water supply, and reclaiming surface mined land for productive use such as agriculture. World Bank participation in coal fired electricity projects can assure that clean coal technologies – that have low sulfur and nitrogen oxide emissions – are chosen and built.

World Bank leadership can also assure that carbon emissions associated with coal use are reduced. Many of the aforementioned clean coal technologies are more efficient and thus reduce emissions of carbon dioxide per unit of electricity produced when compared with existing coal generating technologies. Additionally, there are many terrestrial sequestration projects that are on the ground now, including forest management projects, that will lower carbon dioxide. Geological sequestration technologies – or the capture and storage of carbon – are in the research and development stage with some being tested now in conjunction with clean coal projects. Coal can be used with lower carbon emissions and World Bank encouragement of the use of technologies to accomplish this will also help address any climate concerns associated with coal use.

The World Bank's Management response to the EIR stresses the need to use clean energy. We agree and want to emphasize the coal can be part of the solution to providing for the growing energy needs of developing countries if is used with the latest and cleanest technologies. We note that the Bank Group intends to convene a steering group of nations, academic and research institutions, civil society and industry to help frame a broader agenda on renewable energy. Renewable energy will, and should, play an important role in the energy mix. However, renewable energy alone will not be able to meet these demonstrated growing energy requirements and we would like to suggest that this steering group be expanded to include all forms of energy including coal as all forms of energy will be required well into the future as economies grow and energy use expands. New technologies make possible the use of all forms of energy, including coal, while still reducing the emissions profile. World Bank leadership can make certain that these latest technologies are considered and used wherever possible, contributing to the goals of sustainable development that include economic growth, environmental protection and social advancement.

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