The Extractive Industries Review (EIR)

Regional Consultation Workshop for
Eastern Europe and Central Asia

Budapest, Hungary
June 19-22, 2002

Draft
Testimonials and Consultation Report
Notes
The Extractive Industries Review Regional Consultation Workshop for Eastern Europe and Central Asia, was held in Budapest, Hungary from 19-22 June, 2002. This report was prepared by the EIR Secretariat and it summarizes the views of workshop participants, neither endorsing nor contradicting them.

As in common usage, unless otherwise indicated, use of the terms ‘World Bank’ or ‘the Bank’ refers to the entire World Bank Group. This comprises the International Bank for Reconstruction and Development (IBRD), International Development Agency (IDA), the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA).

Abbreviations
BTC  Baku-Tbilisi-Ceyhan (pipeline)
CAO  Compliance Adviser and Ombudsman
CPC  Caspian Pipeline Consortium
EBRD  European Bank for Reconstruction and Development
EIR  Extractive Industries Review
GDP  Gross Domestic Product
IBRD  International Bank for Reconstruction and Development
IDA  International Development Agency
IFC  International Finance Corporation
ILO  International Labour Organization
IMF  International Monetary Fund
IPO  Indigenous Peoples’ Organization
KTK  Caspian Pipeline Consortium
MMSD  Mining, Minerals and Sustainable Development
MIGA  Multilateral Investment Guarantee Agency
NAMR  National Agency for Mineral Resources (Romania)
NGO  Non-Government Organization
OECD  Organisation for Economic Co-operation and Development
OPEC  Organization of the Petroleum Exporting Countries
UNEP  United Nations Environment Program
WBG  World Bank Group
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Further information on the EIR website (www.eireview.org)
Executive Summary

Overview
The Extractive Industries Review (EIR) Consultation Workshop, for the countries of Eastern Europe and Central Asia, was convened in Budapest, Hungary, June 19-22, 2002. This was the second in a series of regional multi-stakeholder consultations; the first, for Latin America and the Caribbean, took place in Rio de Janeiro, Brazil, April 2002.

The process was guided by the EIR’s Eminent Person, Prof. Dr. Emil Salim, as an exercise to explore the proper role of the World Bank Group with respect to the extractive industries in the region, in particular whether the projects they sponsor contribute to poverty alleviation and sustainable development. Its task was to look to the future to see whether a role for the World Bank Group was still necessary in the extractive industries and, if so, whether this role should be improved.

The workshop attracted over 80 participants from civil society (non-government organizations, community-based organizations and labor unions), government, the oil, gas and mining industry, academia, and the World Bank Group itself. The workshop was organized into two parts: the first comprising a two-day open forum for civil society testimonials and a voluntary information session by the World Bank Group, and the second comprised of a formal three-day consultation with a limited number of invited, or ‘self-selected’ representatives from each stakeholder group. Participants presented case studies relating to regional oil, gas and mining projects, followed by focused group discussions on the positive and negative environmental, social and economic impacts of the extractive industries.

The Consultation identified a number of cross-cutting themes where change was deemed necessary if the World Bank Group were to continue their involvement in the extractive industries in Eastern Europe and Central Asia. The themes reflected recent experiences of Bank-supported policies and projects, particularly of coal mining in Russia and the Ukraine, gold extraction in Kyrgyzstan, and oil and gas production in the Caspian Sea region. The main issues of concern included social mitigation, environmental clean-up, governance, revenue management, transparency, community development, no-go zones, technologies to be avoided and the importance of private sector involvement. There was general agreement on addressing the World Bank Group’s activities in the context of region-specific policies for transition from command to market economies.

Privatization should take place in the context of adequate legal regulatory and judicial frameworks and, in the case of mines, of properly financed close-down strategies. Participants wanted the World Bank Group to target corruption, establish socially acceptable conditions for price liberalization, ensure continuity of social services previously provided by state enterprises, and create micro-finance schemes. The use of oil funds should be prioritized in favor of affected areas and this made a condition of oil sector investment. Participants felt social mitigation should be part of both the country assistance strategies, project design and implementation. Recognizing the problem of environmental legacy found throughout Eastern Europe and Central Asia, participants enjoined the World Bank Group to fund clean-up activities in all its projects and to consider financing projects to clean-up old mines, including uranium mines. It should also work with governments to create social safety nets in advance of mine closures.

1 ‘Self-Selection’: the selection of civil society representatives attending the formal 3-day session of the consultation workshop was coordinated with the help of Petr Hlobil, of CEE Bankwatch Network. The self-selection process gave civil society the responsibility of nominating twenty-five suitable participants from a variety of non-governmental organizations to represent their interests at the workshop.
Participants urged the World Bank Group to embrace specific policies on good governance at the level of country assistance strategies. Also of concern was whether the Bank’s own standards, guidelines and monitoring were fully adequate for the complete life cycle of projects. Regarding revenue management, suggestions included making revenue disclosure by governments and companies a standard loan condition. One proposal was to forbid the use of highly toxic methods in mining and oil exploration, and to ban operations that generated hazardous waste, or dumped waste into water.

**Civil Society Testimonials**

Open forum testimonials by civil society covered three areas: concern over the environmental and social consequences of coal restructuring; the impact of mining activities; and experiences of oil and gas projects.

**Coal Mining**

In the coal sector, testimonials documented under-funding at the expense of social and environmental concerns. Presenters felt the World Bank Group had given bad advice to governments, such as establishing single companies to monopolize mine closure programs. It was felt projects had not always been suitably categorized compared to their real impacts, inappropriate models for restructuring had been used, and too little time had been left between pilot and follow-up programs for lessons to be learnt. NGOs thought the World Bank Group’s monitoring of the restructuring process had not always been sufficient. A lack of analysis of the energy sector meant coal had been stock-piled and economically-viable mines closed, despite the belief of many that they would be needed in the long term.

**Mineral Mining**

Testimonies on gold mining highlighted social, environmental and governance problems arising from a cyanide spill at the Kumtor gold mine, Kyrgyzstan, in 1998. Speakers pointed to an insufficient emergency response plan, lack of access to information, reports of intimidation, and health concerns resulting from the spill. The local community was also concerned about the structural integrity of the company’s tailings dam and potential hazards it could cause for the village and its water supply. The testimony called on the World Bank Group to consider the effect on communities before it supported similar projects, especially where interests lay in different development paths, such as agriculture and tourism. Other testimony concerned the World Bank Group’s preliminary discussions to support the development of an open-pit gold mine in Rosia Montana, Romania. Despite its preliminary status, the Canada-based company was promoting its local position by citing compliance with World Bank directives, while ignoring local demands for a referendum. In addition to environmental concerns and forced resettlement, there were no known plans for sustaining the local economy after extraction was complete.

**Oil and Gas**

One presentation linked the efforts of the World Bank Group to reform national legislation relating to the oil and gas industries in developing countries to the desire of Western governments to diversify their energy supplies. Others claimed project goals to attract foreign investment had not succeeded in halting the decline in per capita GDP, improving unemployment levels or alleviating poverty, and structural adjustment programs had left some governments with no alternative to oil exploitation. It was felt World Bank Group involvement in oil field rehabilitation had not mitigated environmental problems, there was a lack of transparency regarding project information, the Bank had underestimated the level of democracy underlying local decision-making, and ignored warnings of funds misallocation. Many local communities continued to suffer energy shortages despite Bank-sponsored petroleum developments. Noting that Bank participation was crucial to oil
and gas investments, speakers felt the World Bank Group should attach conditions to loan agreements with government and industry to ensure environmental and social safeguards were followed. Bank participation should also require transparency over financing and comprehensive environmental assessments. As with coal restructuring, World Bank Group oil and gas projects in the region should always be category A and there should be independent panels to monitor their social and environmental impacts.

**Indigenous people**

Indigenous people’s associations from Russia testified to their critical situation as a consequence of oil and gas extraction. Ethnic development should be included alongside economic, environmental and social concerns in the concept of sustainable development. Although the World Bank Group had specific policies for indigenous peoples, speakers wanted an ongoing dialogue, full participation from the inception of projects and a full moratorium on new oil developments. They also wanted the interests of indigenous people taken into account in World Bank Group country strategies for Russia.

**World Bank Group Presentations**

In a voluntary information exchange, Bank staff reported on the Group’s global and regional outlays and the changing focus of its projects. Environmental and social standards were now more important, but the Bank wanted to go beyond this to a more holistic approach to sustainable development and poverty reduction. The Bank espoused the Millennium Development Goals, championed globally important development issues and coordinated the efforts of bilateral and multilateral development institutions and agencies.

**Outlays**

World Bank Group outlays in 2001 totaled between $22 and 23 billion, with the region of Eastern Europe and Central Asia accounting for between 13 and 18 per cent. Bank instruments comprised of loans and grants for investment projects, technical assistance and structural adjustment programs. For the extractive industries, the Bank expected resource projects to contribute to overall economic development. It saw the best role of government as that of regulator and administrator, and its emphasis in the past decade had been on reforming legal and regulatory frameworks, with increasing attention given to fiscal management and large structural adjustment operations. The Bank had also had a role in promoting dissemination of best practices in areas such as revenue management.

**Strategy and Projects**

In Eastern Europe and Central Asia, the transition from command to market economies raised major issues in the restructuring of energy and resource markets. The focus had been on reform, privatization and aligning the sector with international market prices. World Bank Group investments amounted to $2 billion for mining and $1 billion for oil and gas. IFC and MIGA had worked together to create frameworks for the competitive development of the newly privatized oil, gas and mining sector. In addition to sector reforms and privatization, the Bank had promoted good governance and proper social and environmental safeguards. The private sector welcomed IFC involvement to mitigate the political risk in higher risk countries, or for complex projects. In the past decade, the World Bank Group had moved to a policy approach more focused on governance, transparency, disclosure, poverty alleviation and other aspects. Future challenges would involve working with small companies to add developmental value to extraction activities at the local level and improve corporate governance and social responsibility. Current strategy sought to close down the huge excess capacity in the region’s mining sector, which was both a drain on national budgets and inhibited the competitiveness of viable mines. The Bank sought to bring about mine closure in an environmentally responsible way and mitigate social impacts.
World Bank Group Case Studies
A World Bank case study on the Early Oil project in the Caspian Sea pointed to the significant benefits of the development. These included increased revenues for the participating governments, an increase in upstream investments, growth of business for local shipyards, and greater regional integration. The Bank’s offshore oil and gas guidelines had improved environmental protection in the area and taken a step toward dealing with the legacy of contamination. In a second case study, World Bank representatives examined mine closure in Romania, where a program had been jointly designed with the Government to mitigate past, present and future problems relating to closure.

Civil society organizations challenged Bank representatives on a number of issues. Most people remained poor despite World Bank Group support for oil and gas developments, they argued. Job creation programs had been inadequate, many local people had no supply of energy, and there was a lack of transparency and dialogue from the perspective of those affected by extractive industry developments. In many cases, environmental problems had not been solved, land use was in dispute, living standards had fallen, revenues were not equitably redistributed, old technologies were still in use, and emergency response plans were lacking. NGOs queried the emphasis on extractive industries in Eastern Europe and Central Asia given that price trends for mineral and energy commodities, compared to manufactured goods, would keep countries relatively poor. Noting the attendant risk of mono-culture economies, they called for diversification including greater support for downstream industry to create knowledge-based markets.

Case Studies
Twelve case studies documented experiences of extractive industry projects in Eastern Europe and Central Asia from the perspective of civil society, industry, government, academia and other organizations.

Oil and Gas
A case study on a 1993 oil and gas field rehabilitation project in Kazakhstan, pointed to the general neglect in region, the few benefits realized for the local community from the oil development, and high levels of corruption in the sector. World Bank staff explained that the project reflected old policies and procedures. Another study reviewed the role of the World Bank Group in the Early Oil project in Azerbaijan and Georgia. Dependence on petroleum development pointed to evidence of “Dutch disease” in the Azeri economy, and many people in both countries remained below the poverty line and suffered energy shortages. There was also concern that World Bank environmental safeguards were not rigorous enough for the Caspian Sea. In Azerbaijan, NGOs complained of lack of transparency regarding key project documents and the management of the oil fund. World Bank staff explained that they would be working further with the Government and IMF to establish procedures for spending the $600 million so far accumulated in the fund. Bank staff affirmed that environmental monitoring had shown no impediment to the ecology surrounding the offshore facilities, though, on land, conditions had improved but there was a huge legacy of contamination. Another case study reported on an NGO inspection of the area surrounding the 1994 Komi oil spill in Northwest Russia. NGOs questioned the actions of the companies charged with the clean-up: restricted access to contaminated areas, inadequate equipment for clean-up operations and health risks posed to workers. They judged the ecological components of World Bank programs throughout Western Siberia and Komi as unsuccessful and felt the Bank should fund re-cultivation of polluted territories where they were involved in projects. NGOs also called on the World Bank Group to instate an independent panel of international NGOs to monitor projects.
Taking a broader view, the International Association of Oil and Gas Producers (OGP) presented a report, prepared for the World Summit on Sustainable Development, on 70 case studies representing industry best practice in twelve areas identified by UNEP. Preservation of biodiversity was exemplified by projects in Azerbaijan and Kazakhstan, and capacity building in projects in the Caspian Sea where oil firms had promoted small and medium-sized enterprises. In addition to ensuring the availability of affordable, environmentally sound and socially acceptable energy products to a growing world population, the study foresaw the oil industry further contributing to poverty alleviation by broadening the benefits of the wealth it created.

Coal Mining
Case studies on World Bank Group involvement in coal industry reconstruction contrasted failures in Ukraine with relative successes in Russia. In Ukraine, the failure of reforms and endemic corruption led the World Bank to withdraw its support; up to half the funds allocated for the social and environmental mitigation of mine closure was embezzled and none of the Bank’s requirements complied with. It was felt the World Bank was in part to blame for encouraging the closure policy which led to such extreme ecological, social and economic impacts. The government still subsidized the mining sector and its agencies had failed to control disbursements to workers. Other concerns were the lack of dialogue, lack of transparency and lack of active monitoring procedures. World Bank staff agreed the situation was grim and explained that remedial measures had been under discussion with the government at the time. Another study analyzed World Bank coal sector restructuring in Russia. Economic data showed a rise in sector growth and labor productivity, and a decline in state subsidies. On the other hand, only 50 percent of the social component of the project had been fulfilled. Defending the closure program, a Russian research institute added that the decommissioning of loss-making mines was crucial for building new ones required to meet the forecasted demand for coal.

Mineral Mining
A presentation by the National Agency for Mineral Resources (NAMR), Romania, underlined the contribution of the agency, which was established by the World Bank Group in advance of petroleum and mining rehabilitation projects, to the mineral resources sector. As an independent regulatory authority, the agency had contributed to development of the new legal framework and the preparation of petroleum and mining laws, including a prospective law obliging mine closure plans to be in place from the start of projects. Among the environmental programs funded, a sectoral environmental assessment study analyzed the past, present and future effects of the mining as the basis of a national plan for mitigating the environmental impacts of the sector.

Two case studies referred to the Ovacik gold mine, and the Cayeli copper and zinc mine, in Turkey. The Cayeli project had introduced high standards to the Turkish mining industry and was recognized as a model mining project: it was the first to use submarine tailings disposal, there were no signs of acid rock drainage, spillage or mishandling of waste materials. The Ovacik gold mine was another example of good industry practice following previous mistakes, such as inadequate community consultations and environmental assessments. The project had since been upgraded and World Bank staff confirmed Ovacik was now a showcase project.

Four other case studies raised issues relating to the cyanide spill at the Kumtor Gold Mine, in Kyrgyzstan. Major concerns regarding the circumstances of the spill included the operating company’s failure to implement an emergency response plan, the low degree of public consultation and transparency, and the effects of cyanide contamination on public health and the local environment. More general concerns related to the long-term impact of the mine, including its preparations for closure and questionable security of its frozen tailings dam. Due to the mine, local farmers had reduced water supplies for irrigation and communities were concerned that dust
particles from the mine explosions could contaminate future water supplies from the glacier above
the village. A representative from the local Community and Business Forum (CBF), set-up after the
Kumtor spill, documented longer-term social concerns including the communications gap,
sustainability of benefits from projects and support for small, local projects. Their work was aimed
at improving public access to information, increasing employment opportunities, and supporting
for new, local enterprises.

World Bank Role
Presenting some recommendations for the mining sector, also applicable to the oil and gas sectors,
UNEP highlighted the need for the continued involvement of the World Bank Group. Market
forces neglected environmental and social costs, and the World Bank and other organizations,
needed to come up a mechanism to internalize these costs. Lessons learnt from major mining
accidents in the developed and developing world, since 1975, proved inadequate preparation, poor
waste control, insufficient emergency response plans, lack of public consultation, lack of
recognition of potential impacts, inadequate monitoring, and poor maintenance. UNEP had four
recommendations for consideration: environmental impact assessments should be living documents
for the life of a project; emergency response plans in place from the beginning; local and national
issues should be considered to ensure both community and government support; and corporate
environmental management tools should be assessed in project approval and evaluation.

Sector-Specific Recommendations
The Consultation drew up sector-specific recommendations for the coal, mineral, and oil and gas
sectors, grouping them according to three scenarios: (1) the World Bank Group maintaining, or
expanding, existing policies; (2) changing, or modifying, them; (3) withdrawing from the extractive
industries in the region completely. For all sectors, the majority of recommendations focused on
changing, or modifying, current practices rather than simply expanding, or withdrawing, World
Bank Group support.

Changing, or Modifying, Existing Policies
The World Bank Group should remain engaged in its financing role as a means of enabling the
participation of national industries, setting standards, and promoting good practice, governance and
transparency in the extractive industries. The Bank should ensure all stakeholders are involved
from the earliest stages of projects, and promote partnerships between all parties. Transparency
should be a priority in project design and implementation, and project steering committees
established, with real accountability, representing all stakeholder groups. World Bank Group
leverage would be used to effectively bring governments into the consultation process. There
would also be a mechanism for implementation of all declared ‘good intentions’ of best practice,
such as the OECD guidelines and ILO conventions. In Eastern Europe and Central Asia, all
projects should be considered as category A, eliminating the less rigorous category B procedures.
Bank processes should be simplified, and shortened, without compromising fundamental
conditions.

Economic Development
Relating to mine closure, the group suggested that restructuring and financing be synchronized and
based on an agreed, comprehensive program drawn up in consultation with all major stakeholders.
Projects would be financed with more favorable terms and the Bank would negotiate with
governments to channel funds to impacted areas to promote sustainable economic activity after
mine closure. Investment, though IFC loans and World Bank guarantees, should also target the
development of profitable mines. After project completion, there should be measurement of the
impact of project on the macro-economy. In the oil sector, priority should be given to energy
efficiency and renewable resource projects; the Bank would favor gas development at the expense
of oil. Projects should minimize fiscal incentives and maximize the development of domestic, downstream industry. The Bank should undertake capacity-building, and further develop existing programs for small and medium businesses in the area of the extractive industry, with job creation as a major component of every project. Local governments should receive specific revenue allocations in project agreements, incremental to those normally received from the central government.

**Social And Environmental Impacts**

The World Bank Group should only invest in projects able to maximize benefits to a country, ensuring poverty eradication and improved living standards for its people. To that end, the Bank would promote broad consultation at the national level with the participation of all stakeholders, particularly local communities and indigenous peoples. The rehabilitation of existing sites would be a priority, including clean-up operations and the mitigation of environmental, and social, problems. Baseline indicators for poverty, health and the environment should be developed and the Human Development Index (HDI) used in preference to GDP to evaluate the benefits of extractive industry developments. The Bank would implement social and environmental monitoring through dynamic coordination with local communities and other stakeholders. Closure plans would be mandatory, and loan agreements would include models of best international practice for mine closure i.e. transparent with public controls, social and environmental mitigation. Sanctions should be taken against companies who fail to deliver on these requirements. The Bank would insist that emergency response plans be developed with concerned communities, in place from the beginning of a project and be periodically reviewed as a condition of financing. The Bank should define, and implement, environmental, safety and technical standards and recognize that its standards are independently valuable for use as ‘generally accepted international standards’ acceptable to host governments and used by companies.

**Governance**

At all stages of the project cycle, the Bank needed to develop, and maintain, clear procedures for facilitating public partnerships; the role of civil society should be increased in decision-making and project implementation and local governments engaged in community consultations from the start of projects. The Bank would promote transparency regarding information on production sharing agreements and on its own project evaluations. It would insist governments provide details on how royalties and tax revenues were spent, e.g. receipt and expenditure reports, and oil funds would be independently audited. The Bank would look for synergies with other initiatives, such as the Soros Initiative.

**Withdrawal from the Extractive Industries**

For a scenario in which the World Bank would phase-out their involvement in the extractive industries, it should avoid financing new coal mining capacities, including open pit extraction. In mineral mining, the Bank would observe a ban on all new mines in sensitive areas, such as near mountains, national reserves, indigenous people, and subsistence communities. Its projects would ban the use of cyanide and other toxic technologies, and an objective criteria would be developed to identify ‘no-go zones’, which would be respected.

**Final Recommendations: Cross-Cutting Themes**

The Consultation formulated final recommendations in the context of nine cross-cutting themes: governance; transition policy; closure policy and cleaning-up the past; standards, guidelines and monitoring; disclosure policy and information sharing; revenue management and distribution;

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2. [www.publishwhatyoupay.org](http://www.publishwhatyoupay.org)
impacts and benefits at community level; institution building and regulatory frameworks; and
social mitigation.

**Good Governance:** the World Bank Group should address this firstly through Country Assistance
Strategies by means of legislative frameworks and measures to address human rights issues and to
build democracy. Noting that the World Bank Charter presently prohibited it from interfering in
political processes, the Bank would also try to change its own charter along the lines the EBRD’s
Article 1. The Bank would monitor levels participation and ensure action on issues that arose. It
would strengthen its resident missions so that they could facilitate public participation in countries
with undemocratic governments.

**Transition Policy:** the World Bank Group should target the development of effective legal and
regulatory frameworks prior to privatizing oil, gas and mining industries. The Bank would help to
formulate and finance close-down strategies for non-profitable state companies. Micro-finance
schemes, training programs and proper pension schemes would have priority in Country Assistance
Strategies. The World Bank Group should promote anti-corruption campaigns and link such action
to loan agreements with host governments. This called for strong coordination with the IMF. Price
liberalization would be effected in a socially acceptable way and implemented as a partnership
between the private sector, governments and communities. The Bank should help develop services
and value-added sectors through the promotion of small and medium enterprises. Use of oil funds
should be prioritized to sustain services in the affected areas and investment in the municipalities
could be facilitated through local tax schemes.

**Closure Policy and Cleaning-Up The Past:** closure plans should be in place from the start of new
mining developments and be a condition of World Bank Group financing. For ongoing projects, the
Bank should insist on adequate closure plans being developed. Detailed decommissioning plans
would be published in the language of the country, costs of closure would be met and the World
Bank Group and governments would work together to ensure a social safety net was in place in
advance of mine closure. To deal with environmental legacy issues, the World Bank should
consider funding clean-up of projects, including old uranium mines. Funding could be in the form
of grants, low interest clean-up loans or the mine reclamation funds now being required by law in
some countries. There would be full transparency and public control.

**Standards, Guidelines and Monitoring:** the World Bank Group should issue sets of guidelines
covering all environmental and social aspects of projects. Borrowers should pre-qualify by
demonstrating use of best practice, including OECD guidelines on corporate governance and the
ILO conventions on minimal acceptable standards. A project governance board could be
established with representatives from each stakeholder groups given accountability for the
monitoring of various aspects of projects. For monitoring, general indicators on social,
environmental, safety, and financial issues would be developed for all World Bank Group projects.
Borrowers not following guidelines or maintaining standards would black-listed.

**Disclosure Policy And Information Sharing:** environmental and social impact assessments should
be fully disclosed, as well as annual monitoring reports. Disclosure would also cover
environmental action plans, emergency response plans, accident and response reports. Product
sharing agreements should also be released to the extent feasible. Disclosure of all government
revenues should be incorporated into environmental and social impact assessments and actual
payments recorded in annual monitoring reports. Disclosure would also track the impact of
revenues flowing to local communities. There would be a base-line from which to track human
development indicators at both the local and national level, independently validated by civil society
experts.
Revenue Management and Distribution: all revenues should be disclosed by companies and governments and dedicated funds, such as oil funds, be established to channel revenues from the extractive industries into development. Oil funds should be subject to regular independent auditing by a steering committee including public representatives. The committee would conduct regular public and parliamentary hearings on the use of the fund’s resources. The Bank was recommended to establish best practice guidelines for oil funds and to take a leading role in ensuring such funds work. The manual would address the amelioration of environmental and social impacts from the extractive industries and black-list what the funds should not finance under any circumstances, such as weapons purchases. To support revenue management, the Bank would condition loans on disclosure of revenues by governments and companies, and to that end would amend its own disclosure, and other, policies.

Impacts and Benefits at the Community Level: the World Bank Group should consistently take steps to provide advantages to the local population whenever it embarked on a project. The Bank should assess the situation at the local level and, with such knowledge, not fund projects that destroyed traditional ways of life or damaged existing conditions at the local level. Procedures would require all concerned parties, including nomadic populations, to be identified, consulted and brought into agreement on project preparations. The Bank could use its leverage to require governments to guarantee, for example, compensation and insurance (including ecological insurance) to local communities. A jointly agreed plan would minimize the negative impacts of a project on the local community, while providing programs for community development. Preservation and protection would be a distinct component of every project, and continuous public monitoring of social and economic impacts, and benefits, would be ensured with the results evaluated in the context of the community development plan.

Institution Building and Regulatory Frameworks: opportunities for local business development would be identified from the start of projects to ensure the sustainability of the local economy after extraction activity came to an end. A strategic plan, aimed at building the capacity of local businesses and developing locals skills, would be reflected in community consultations from an early stage and implemented through cooperation between the government and the community. This would be underpinned by an effective regulatory framework and a methodology would be identified for monitoring the progress of local businesses.

Social Mitigation: would commence before, or in parallel, with project development. Early consultation with all stakeholders was required to ensure all sensitive factors were addressed. The World Bank should sponsor training and education programs and increase efforts to involve local governments. In co-ordination with other international financial institutions, a set of guidelines should be created on local economic development and social mitigation. These guidelines should be reflected in country assistance strategies.

Conclusions
Closing remarks for the Consultation were made by representatives of the World Bank Group, industry, and civil society, respectively, and the Eminent Person to the EIR, Dr. Emil Salim.

World Bank Group
On behalf of the World Bank Group, the Director for Oil, Gas and Mining confirmed that poverty reduction and sustainable development were the sine qua non of Bank activities. Many region-specific issues had been raised by the Consultation that presented particular challenges; the region was in transition, and its democracies evolving. The importance of disclosure, transparency, good governance and community development were concerns all stakeholders shared. The Bank were
willing to admit shortcomings, to learn from the past and to improve future practices. At the same time, there was a danger of setting standards so high that it would result in two unintended consequences, which should be taken into consideration: first, internally, the World Bank Group felt there were limits to what it, and its partners, could do. There was an increasing aversion to risk, and the Bank may not want to be involved in difficult projects. Second, from an external point of view, if standards were set too high, the World Bank Group would not be seen as a useful partner. However, the Bank would continue to work with all stakeholders in succeeding workshops and assess all recommendations thoroughly.

**Industry**

An industry representative proposed two additions to the set of recommendations. First, there should be a clear recommendation on how to attract private sector investment for future projects; most of the discussions had focused on how to mitigate the impacts of ongoing projects. Second, was an issue raised in the preparatory workshop in Brussels, and not followed through - namely the energy mix. Promoting a shift from other energy sources to natural gas was a golden chance for the World Bank Group; it could assist countries with the gasification of their energy sectors. This change in the energy mix, which had not been addressed, was extremely important from the point of view of sustainability at the local, national and global level.

**Civil Society**

A civil society representative proposed the addition of a further recommendation on how various modalities of development should be balanced within the World Bank Group. Bearing in mind its limited capital for loans and guarantees, was it better to use money to promote development through the extractive industries, or promote development through other sectors, such as agriculture? This should at least be a topic for consideration in the following Consultations.

**Eminent Person**

Sustainable development combined three objectives at once: economic, social and environmental development. If the World Bank Group was to stay engaged in the extractive industries, it should do so along the path of sustainable development, minimizing the negative social, environmental and economic impacts of the past. First, social demands must be met; one such demand was poverty eradication. Second, it was important to recognize the demands placed on the environment; resources in the world were limited yet supported an ever-growing global population. Third, came economic considerations; quality of life should be raised, irrespective of an increasing world population. The triangle of government, industry and civil society, represented by the World Bank, were responsible for the realization of sustainable development. Market and policy failures should be remedied through consultation and consensus building. In Eastern Europe and Central Asia, stakeholders had agreed on the need for good governance, without which development objectives would fail. Could extractive industries be a part of sustainable development, when oil, gas and minerals were non-renewable resources? Only if in the process of exploiting non-renewable resources, an investment was made in renewable resources i.e. education, capacity building, the protection of ecosystems and communities. The question was how to translate this into action; the success of the EIR would depend on the goal of sustainable development being embraced by all - industry, government, civil society, and the World Bank Group itself.
1. Introduction
The Extractive Industries Review (EIR) Regional Consultation Workshop for Eastern Europe and Central Asia was held in Budapest, Hungary, June 19-22, 2002. This was the second in a series of four multi-stakeholder consultations to discuss the role of the World Bank Group in the extractive industries. The agenda for the workshop was to analyze the involvement of the World Bank Group in the oil, gas and mining sectors of the region and whether these activities were compatible with their overall mission of poverty reduction and sustainable development. Over eighty participants attended the workshop, representing civil society (non-governmental organizations, community-based organizations and labor unions), government, the oil, gas and mining industry, academia, and the World Bank Group itself.

The formal three-day consultation was preceded by a two-day open forum for civil society testimonials (chapter 3) and a voluntary information exchange with World Bank Group representatives (chapter 4). Provision was also made for an ‘Information Market Place’, where participants were able to exhibit additional information on their organizations and activities. The subsequent workshop sessions were closed to participants who had been invited or ‘self-selected’\(^3\). These sessions featured presentations from the World Bank Group on its procedures, safeguards, and standards for extractive industry projects (chapter 7), as well as case studies from stakeholders on the environmental, social and economic impacts of oil, gas and mining projects in the Eastern Europe and Central Asia region (chapter 8). Drawing on these presentations, participants identified sector-oriented recommendations concerning the role and impact of the World Bank Group in the extractive industries in the region (chapter 9). These were expanded into a set of action-oriented recommendations on key issues of concern if the World Bank were to continue actively supporting oil, gas and mining projects in the region (chapter 10). The final recommendations were the subject of a post-Consultation statement agreed to by selected representatives from each stakeholder group.

The entire process was guided by the Extractive Industries Review’s Eminent Person, Prof. Dr. Emil Salim. Dr. Salim will use the conclusions of the Consultation as inputs for the final EIR report, to be presented to the World Bank Group President, James D. Wolfensohn, in September 2003. In line with the EIR mandate, note was taken throughout the workshop of dissenting views, which will be taken into account in the final report.

Additional material from the Budapest consultation, including case studies, testimonials and World Bank Group presentations, can be found on the EIR website: www.eireview.org

\(^3\) ‘Self-Selection’: the selection of civil society representatives attending the formal 3-day session of the consultation workshop was coordinated with the help of Petr Hlobil, of CEE Bankwatch Network. The self-selection process gave civil society the responsibility of nominating twenty-five suitable participants from a variety of civil society organizations to represent their interests at the workshop.
**Part One: Open Forum**

2. **Welcome From Eminent Person Prof. Dr. Emil Salim**

Welcoming participants to the open forum of the Consultation, Eminent Person, Dr. Emil Salim, underlined the purpose of the workshop; to explore the role of the World Bank Group in the extractive industries, whether such a role was appropriate, and if so, how should it be improved? The aim was to assess how the World Bank Group could contribute to poverty alleviation through development that was environmentally, socially and economically sustainable; development by the people, for the people. In that context, the open forum, consisting of testimonials and the World Bank Group information session, was an opportunity to hear the community voice, assess their experiences and address their concerns relating to extractive industry projects in Eastern Europe and Central Asia.

3. **Civil Society Testimonials**

Dr. Salim emphasized that the testimonial sessions were designed to obtain input from the viewpoint of those people directly impacted by oil, gas and mining development. As the basis of deciding how things could be improved, he needed to know how civil society felt about the World Bank Group, government and industry. The purpose was to listen rather than discuss, and interventions during the testimonial presentations were therefore confined to clarifying the points raised. He expressed appreciation to the fifteen organizations and individuals who submitted testimony, describing them as frank, honest, and straight to the point. He particularly noted their concern over mine closures and the role of large oil companies.

a. **Coal Industry Restructuring**

Three testimonials took up the theme of restructuring the region’s coal industry and the social and environmental consequences of the associated mine closure schemes. Two testimonies described experiences in Ukraine and one described experiences in Russia.

**Ukraine**

In Ukraine, large-scale mine closure commenced in the mid-1990s after the Ukrainian Cabinet decided to restructure the sector. A state-owned company was set up through which all cash funds for the restructuring were subsequently allocated. In the case of the presenter’s home area, Lugansk Oblast, the mine closure funds amounted to only 25-30% of those required. All funds were therefore used in the physical liquidation of the mines (closing fifty-four with another forty-six in the process of closure), and insignificant funds were allocated to tackle social and environmental issues.

A review of the liquidation process determined that the mines were closed in contravention of Ukrainian legislation relating to water codes, air protection and waste handling, and there were instances where project controls had not been in place. After the mine closures, there were other unanticipated problems such as under-flooding, methane contamination, and radioactive slime contamination. The situation deteriorated in the region as the social impact of the mine closures became apparent: miners demanding payment for wages in arrears; wages being paid in kind, e.g. the distribution of bread instead of cash; and a lack of fuel for heating, leading people to extract coal manually, to sell or to use themselves.
Separate testimony from the Ukraine National Ecological Center noted that the mine closure program was only initiated by the Ukrainian Government following guidance from the World Bank. The World Bank orchestrated the operation, advising the Ukrainian Government on the procedure for mine closure, so were therefore viewed to have had a significant role in the restructuring of the coal sector and the ensuing problems experienced.

The trade union representative agreed the sector had certainly needed reform, but that restructuring had worsened the situation in the very aspects that had been the concern of the program, namely social and environmental mitigation. The mine closure programs, even if well developed, had not received sufficient financing to address the future of the mining towns after the actual closure of the mines had been achieved. The quality of life for local communities had sharply decreased, worsened by the disappearance of public services. Other problems were attributed to the company set up to deal with mine closure, on advice from the World Bank. The firm was essentially a monopoly and proved to be non-transparent, undemocratic and unaccountable to the public or workers. Some of its staff were accused of taking bribes and the Ukrainian Parliament had investigated an alleged misuse of approximately $14 million in funds allocated for the creation of new jobs for ex-miners.

The presenter asserted that the World Bank’s categorization of the mine closure projects was unsuitable, considering the impact they had on the region. In countries like Ukraine, where there was a lack of both public participation and government accountability, such projects should have been billed as ‘category A’ rather than ‘category B’ in order to ensure adequate community consultations and environmental assessments were undertaken. Another concern was the short timeframe, of less than one year, between the pilot mine closure projects and the development of secondary projects. It was suggested that, in many cases, environmental assessments of the mines selected for closure had not been undertaken. It was only after this issue had been raised by NGOs that the authorities undertook such assessments of previous mine closure programs.

Supporting testimony from the Ukraine Coal Mining Union emphasized Ukraine’s dependence on coal, which supplies half the country’s energy. Since Ukrainian independence, coal production had been cut by a factor of two and the mine closures had led to an environmental catastrophe, hitting whole regions in the Ukrainian East. Of 380 spoil heaps, eighty were currently burning, emitting sulfur oxides contributing to acid rain. In the past, there had also been sub-surface nuclear explosions carried out at two Ukrainian mines, which had since been closed and the situation there beyond control.

Over the previous eleven years, $500 million had been allocated for all activities related to mine closure, but this proved to be only a third of the project requirements, which amounted to $1.5 billion. The World Bank Group allocated funds for coal sector restructuring in two tranches totaling $300 million but, it was claimed, the funds had been used by the Government to pay its debts to Russian and Turkmen energy carriers. Nevertheless, the Government had complied with Bank demands that the coal industry be restructured, closing 106 out of 280 active mines, without relevant funds to support the process. The mines had simply been flooded, causing neighboring mines to also close as the shafts were interconnected.

A World Bank mining expert explained that it had been the responsibility of the government and its agencies to manage the mine closure process, while the Bank had a supervisory role, advising the government when necessary. However, if the government did not want to cooperate with the World Bank, as had occurred in the Ukraine, there was little it could do and, for this reason, the Bank had not been engaged in Ukrainian mining sector since 2000. When the Bank was involved, a
social safety net had been in place to ensure unemployed workers received back wages, severance pay, and, for a limited time, unemployment benefits. The situation had since deteriorated without its involvement. The Bank would not support the program as it now stood, where the government insisted on increasing production levels and subsidies. In the long-term, this situation would become unsustainable and workers would be worse off.

**Russia**

Testifying to Russia’s experience of World Bank-led coal sector restructuring, the Independent Coal Employee’s Union of Russia explained that the Government had negotiated two loans for the process. The first, for $500 million, was released in 1996; the second, for $800 million, covered the period from 1998 to 2001. The restructuring was intended to establish a competitive coal-mining industry and resolve social problems within the sector.

It was suggested World Bank experts evaluated the restructuring program favorably as the sector had almost broken even, efficiently producing 270 million tons of coal, as compared to 290 million tons at the start of restructuring. But, in reality 183 enterprises had been liquidated, more than 400,000 people laid off and the social situation in mining regions had become extremely strained. For example, only ten percent of initial employment targets were achieved, with only 4,000 to 5,000 people, out of a total of 400,000, able to find adequate new jobs; another 40,000 found alternative employment but not that which necessarily matched their expertise. Despite the apparent provision in the World Bank programs for dealing with such problems, they were not viewed to have been implemented effectively.

Meanwhile, ten million tons of coal remained unsold in mine storage yards, leading to some cost-effective mines being taken out of production, further contributing to the sharp displacement in Russia’s energy sector. It was argued this occurred because the electric power and the gas markets were regulated by the government, unlike coal. As a result, domestic gas prices were four to seven times lower than the world price, and significantly lower than the price of coal, which was sold at a comparable price in both the domestic and foreign market. The competitiveness of coal was undermined, as power producers chose gas.

With the Russian coal sector severely depressed, large capital investments would only be effective after several years, but the Russian coal industry had not received substantial investment for five years and the accumulated depreciation of the sector’s basic assets amounted to seventy percent. The World Bank, emphasized the presenter, had contributed to the mistake of utilizing domestic gas rather than coal which led to the liquidation of coal mines that were just beginning to break even. But Russia’s current supply of coal would eventually be exceeded by demand, requiring the equivalent of 440 million tons of coal to be replaced by other energy sources, as the scaled-down industry would no longer be able to produce such an quantity.

The presenter admitted that the World Bank was not involved in correcting the energy price distortions in the Russian market. Its role had purely been to adjust the programs implemented in the coal sector. But the Bank imposed some adjustments which were viewed unsuitable. For example, the mining union was in conflict with the World Bank over the Bank’s strong opposition to the signature of a sectoral tariff agreement. The Bank maintained that the government should not participate in owner-employee relations in a sector where up to 90 percent of coal-producing enterprises were privatized. But the union argued the tariff agreement would encourage owners take certain steps, such as stimulating sectoral investments. Further, they said that it was the trade union, not the Bank, who had encouraged employers to assume a certain set of social responsibilities towards their workers and the Government to consider what further steps should be taken to solve economic and social problems.
Liquidation did not just lead to unemployment, but also raised the issue of relocation, as many localities were geared to serve a single enterprise, coal mining. Yet, the relocation program was only being implemented for ten percent of mine workers, which meant the alleviation of social problems in the coal-mining sector were estimated to take another twenty to thirty years. While the involvement of the World Bank had been important for coal sector restructuring, the presenter emphasized that if the Bank failed to comprehensively monitor the process, key goals leading to the stabilization of the national economy, rather than just a single industry, would not be achieved as the social costs would be too great to overcome.

Environmental consequences of mine closure included profuse gas emissions from the predominantly older mines in the Russian Donbass region (the Don Coal Basin). Asphyxiating and explosive gases had penetrated cellars and basements in buildings and highly acidic mine water from abandoned mines had risen to the surface and contaminated potable water reservoirs. Subsidence in the areas surrounding former mines was another problem.

As asked by the EIR Secretariat whether the World Bank had had a positive or negative impact on mine closure, bearing in mind the extreme conditions from 1993 to 1996, and 1998 compared to the present, the presenter commented that a whole package of actions could have been adopted to save mining enterprises. However, the Government had opted to simply liquidate problem mines, with wage arrears only partially covered by the federal budget. In 1996, the average backlog in wage payments had reached six to eleven months in regions like the Russian Donbass. The trade unions did not directly condemn the World Bank Group for the problems experienced with restructuring, as particular decisions were made by the government. But it was perceived that World Bank Group guidelines had been blindly followed.

b. Gold Mining

*Cyanide Spill in Kyrgyzstan*

A testimony entitled "Impact of the Kumtor Gold Mine on the Life of Nearby Village of Barskoon" presented the consequences of the 1998 cyanide spill in the area of the Kumtor Gold Mine, in Kyrgyzstan. The Kumtor mine was situated high up, in the glacier zone, some 4,000m above sea level. It was financed with loans from the IFC ($40 million) and EBRD ($40 million).

Presenters emphasized the community’s concern that the 20-ton truck involved in the accident lay in the Barskoon river for six hours before the company released information to the public. In the meantime, local people had used the water supply for their usual activities, unaware of the possible contamination. Although the Canadian company denied there was any poisoning, the presenter had evidence stating that many people had suffered from cyanide acid poisoning. People were still sick even today and the mortality rate was seen as unusually high: 15 people had died in the January and February after the incident. The doctors were unable to properly diagnose the causes of all these deaths, though four had clearly died of cancer. Two women suffered miscarriages and others were advised to have abortions for fear of fetal abnormalities.

In the aftermath of the spill, local people blocked the company’s access road, demanding fair compensation. The company subsequently paid partial compensation of 1,000 soms per adult ($20) and 500 soms per child ($10). It also promised to compensate the negative effects on the 1998-99 harvest though, to date, this had not happened. Aside from the cyanide spill, the local community were also concerned about the Kumtor tailings facility. Earthquakes in the area were frequent and they feared the dam was unlikely to withstand a strong tremor which could lead to disastrous consequences for villages downstream of the mine site. Another public health concern was the dust
from mine explosions settling on the glaciers that were the source of drinking water for the local community. The presenter called on the World Bank to think about the impacts on local communities before supporting such projects. The community was interested in different paths of development, such as organic farming and tourism.

In subsequent questioning, the EIR noted that an International Scientific Commission of independent experts had analyzed the impacts of the cyanide accident, and whether it would have lasting effects. Commenting on its work, the director of the Human Rights Bureau in Kyrgyzstan recalled the Commission’s recommendation that scientific research should compare data five years prior to the accident to the data of the five years afterwards. However, there was no evidence that such a monitoring process was in existence.

According to other testimony, calcium hypochlorite decontamination was carried out after the cyanide spill by both the company and the Government’s Ministry of Health. Those measures turned out to be excessive and exacerbated the cyanide contamination. The speaker had also independently determined that, while international experts said there was no evidence of poisoning, up to 23 percent of those who requested hospital assistance had traces of cyanide in their blood and urine. In order prevent such situations occurring again, government agencies should ensure an emergency action plan is in place. As of now, this had only been partially developed in Kyrgyzstan.

**Mining Potential in Romania**

Three testimonials referred to a $400 million proposal, reportedly under consideration for funding by the World Bank Group, to develop an open-pit gold mine in Rosia Montana, Romania. This would be the largest such pit in Europe and would directly affect some 2000 people, many from 750 family farms. It was noted that the tailings from the planned method of cyanide leaching would create a 600 ha cyanide lake with a capacity of 250 million tons retained by a 180-m high dam. Rain in Romania’s Rosia Montana area was acidic enough to form gases at the lake that could be of concern to health and there was a risk of cyanide leaking into soil and underground water. Meanwhile, the Baia Mare accident had already shown that the Romanian authorities were unable to cope with a major leakage, alleged the speakers. They also feared for the capacity of the Romanian Government and local authorities to enforce mining and other regulations.

One NGO testified that although there had been a World Bank Group fact-finding mission to Rosia Montana its members had not been contacted. The IFC was currently still in preliminary discussions with the company, a 80:20 joint venture between Toronto-based Gabriel Resources and Minvest, the Romanian state company. There was considerable opposition to the project as it would force the resettlement of people in several villages. This was despite Gabriel Resources’ advertised claim that it was abiding by the World Bank directives, including that on resettlement. Many people were reluctant to move as the average small, family farm measured 450 sq m whereas the company were only offering 200 sq m.

At public consultations organized by the company, those who opposed the development had two requests: a referendum for every affected community; and abandoning the plan to use cyanide leaching on an unprecedented scale. As a consequence, the company had cancelled the initial series of consultations for a meeting at which miners from the nearby mining town had shouted in favor of the development as they feared the privatization of Minvest would jeopardize their jobs, said the presenter.

Another presentation, by a geological engineer, drew attention to the impact of the mine on the very poor mountain communities who rely on the surrounding territory for their livelihoods, but would have to be resettled if the mine went ahead. Even if employed by the mine, many people,
having forfeited their traditional livelihoods or being too old, would be unable to find new jobs once the mine closed in 10 years and small economic initiatives were likely to fail due to a lack of business training. Locals feared their land and forests becoming contaminated by cyanide, a profusion of waste heaps, and the disappearance of the lake as a water source for the community. It was alleged that a huge amount of money was being spent on security for the mine rather than investing for local development, and miners were known to have been paid by the company to demonstrate and support their interests.

A third presentation focused on the exploitation license which had by-passed the 1998 mining law, that calls for environmental and social impact assessments and post-closure rehabilitation programs to be undertaken prior to the project. Despite this, no assessments had yet appeared and the exploitation license allowed the company to start the project any time they wished. Due to problems with corruption in Romania, locals feared the company had influenced the government decision to declare Rosia Montana a disadvantaged zone in 1999. This granted concessions to the Canadian company, such as no VAT payments for ten years, no significant export duties, a corporate tax holiday, and indemnification against environmental damages caused by previous owners.

In answer to questions from the EIR, one presenter said IFC support was essential for the project to continue. They pointed out that, while 50 percent of people had refused to express an opinion about the mine proposal, this did not mean they supported it. In Romania, people were still intimidated to speak out and at the time, some people were in the process of contesting property rights for land lost during the Ceaucesceau period. Bad governance and corruption were viewed at the top of the list of problems.

c. Oil and Gas Extraction

World Bank Policy
Testimony from the Institute for Policy Studies suggested that the context for the World Bank’s involvement in oil projects in Kazakhstan was their assistance in reforming national regulations and legislation. Technical co-operation programs for the former Soviet Union and its republics (including Kazakhstan) had provided expert legal and technical assistance to help develop international standards, and contractual and physical frameworks. The underlying policy had been set out by the Senior Vice President and General Counsel of the World Bank in 1995: "In any productive sector, the presence of an enabling legal and physical framework is an important catalyst for new investment and especially for the inflow of foreign investment”.

This was particularly the case in the petroleum sector where investments were typically long-term and high-risk. In other words, the structural and legal changes encouraged in developing countries by the World Bank and the IMF had much broader implications. For a fraction of the cost of large extractive industry projects, long-term changes had quietly been worked into countries’ legal and regulatory systems favoring deregulation and privatization, and the overall liberalization of the market. Such changes had improved the prospects for further investment by multinational oil and gas companies based primarily in the United States and Europe. The rationale for them had little to do with poverty alleviation or sustainable development.

In 1981, a U.S. Treasury report prescribed the measures the World Bank should take, noting they should increase investment in the oil and gas sector in order to "expand and diversify global energy supplies, to enhance security of supplies and reduce OPEC market power over oil prices”. The influential U.S. Treasury also wanted to ensure developing countries were able to service their debt payments to northern commercial banks. Thanks to the World Bank, many new areas of the world,
including the former Soviet Union, were now opening up their energy supplies to the United States and Europe. The legislative and regulatory reforms encouraged by the Bank's staff set the stage for billions in investment from export credit agencies, other international financial institutions, and private capital.

Since 1980, World Bank investments in oil and gas had succeeded in servicing developed countries who were, incidentally, large contributors to the World Bank, while not benefiting to the same extent the developing countries where the petroleum was drilled. While the industry could generate revenues and satisfy U.S. public demand for oil products, this was not necessarily conducive to poverty alleviation. If the EIR was to be true to its mandate, such investments, and the policies that enabled them, should be comprehensively reviewed, the speaker urged.

**Oil Projects in Kazakhstan**

Continuing the testimony with particular reference to Kazakhstan, the speaker remarked that since 1993, per capita GDP had dropped by 40 per cent, poverty had increased, human development indicators had worsened, and public financial accountability had remained very poor. All this despite a near tripling of foreign direct investment, mainly in the oil and gas industry. While it was not argued that such results were the fault of the World Bank, some projects had not helped:

a. The Uzen oilfield rehabilitation project was financed with $109 million from the IBRD in 1996. The project was strategically important due to its size and initial plans to develop an eastern terminus for an undersea trans-Caspian pipeline and the development had the potential to make a vital contribution to the economy of Kazakhstan. However, with Soviet era pipes and rigs still present in Uzen today, there is no visible evidence that the loan was put to good use. Neither workers nor locals knew of any foreign, or World Bank-related, activities and no improvement in field and environmental conditions have been observed. In addition, tanker traffic could increase by 300 percent if the Baku-Ceyhan project went ahead, so this was an area that needed to be looked at in terms of an environmental impact assessment, said the speaker.

b. A recently approved $150 million IFC project in the north of Kazakhstan would create a new oil export route from a new terminal in Karacharognoruk to the CPC (Caspian Pipeline Consortium (KTK) project) in Utteral. This was a cause for concern as the Bank needed to look at the environmental implications of not only the first pipeline, the CPC, but of building a second pipeline alongside it. Communities along the CPC claimed environmental legislation, and other regulations, had been ignored in the construction of the first pipeline and were demanding to be relocated. Although the loan was approved recently, there had been no public hearings and no information was readily available for the community.

c. In 2000, the IFC extended a $20 million loan to the First International Oil Company for the development of the southern Karakh oil field. This was a small oil field with an output amounting to around 8,000 barrels per day, exported entirely by tank cars. According to the speaker, it was one of the worst managed fields ever seen; video footage showed inadequate waste disposal, excess oil being dumped into unlined drains with spills overrunning onto the ground.

In conclusion, the speaker reported on comments reputedly made by the IMF mission chief for Kazakhstan, that poverty reduction by no means the main purpose, nor necessarily the result, of World Bank Group investment in the oil and gas sectors in Kazakhstan. This contrasted with the World Bank's own conclusions from a recent evaluation of its programs in the country, which stated that poverty alleviation should be their top priority in Kazakhstan. Regulatory and legislative changes had been specifically designed to increase petroleum sector investment in this region and it was therefore important to evaluate the impact of such investments in the broader
context of the work of the World Bank in the region. In other words, structural adjustment loans may lead a country to develop its natural resource sector as means of servicing their debt to the World Bank.

*Environmental and Social Concerns:* Testimony from the Global Institute on Ecology analyzed the first tranche of World Bank funding for Kazakhstan - $60 million for oil and gas remediation work. This was allocated to improve environmental aspects of the extraction activities and the living environment for the people. The Global Institute understood that, in line with the mission of the World Bank, the larger portion of its loans had the objective of alleviating poverty in the region.

The region itself was seen as a ‘new oil province’ with colossal oil projects being implemented by significant market players, who clearly had key interests of their own and foresaw large financial gains. Observing the oil developments, local communities remained pessimistic about their sustainability and doubted the opportunity existed to benefit from either current, or future, projects. The old oil field in the region had been in production for quite some time and gave a poor impression regarding its compliance with environmental laws and the quality of work carried out. For this reason, the Global Institute, together with several international organizations, put together the Caspian Caravan program (also financed by the World Bank) to inspect the oil fields, including the well-known Uzen oilfield.

The Uzen field had produced oil for several decades, completely razing the surrounding area, with little remaining of the former landscape. The field burned up to 70 flares, with nothing done to suppress gas or carbon emissions, and employed outdated methods of extraction, for example using oil sumps, which caused pools of oil to become trapped in niches in the ground, turning to asphalt. The inspectors believed they would see at least some progress as a result of World Bank influence, but what they had found was much worse than anticipated. The Caspian Caravan Program were surprised to find a similar situation at another oilfield, Sazan-Kurak, which had been in operation since 1998. Despite being a new development, the joint venture, between the First Oil Company and Kazakhoil, also used outdated practices, such as oil sumps and gas flaring, and the surrounding landscape had been razed with no re-vegetation. Although the World Bank had invested $20 million in the project for environmental mitigation, the technical director of the oil field did not know of the existence of such funds nor had been assigned any tasks concerned with soil rehabilitation, or gas and soot suppression.

The presenter contrasted the wages of several thousand local oil workers with those workers in nearby towns. The comparatively high wages of the oil field employees had caused local inflation, particularly in housing and food prices. Overall, this had led to a deterioration in the quality of life for the majority of the local population, despite payments by the oil companies to the local budget. There were other examples of communities where the benefits of nearby oil developments had not been realized at the local level. The Mangyshlak peninsula territory was an area of adverse climatic conditions where special allowances had previously been given to local inhabitants to compensate living there. Due to budgetary problems, such allowances had been suspended, cutting salaries of people like teachers by 50 per cent. This meant towns, near the richest oil fields in the region, were unable to provide a monthly allowance of $20 per teacher. In villages near the Korchegonag field, where the IFC recently allocated a loan for the construction of an oil pipeline connecting to the KTK network, local authorities had requested that the oil companies resettle people elsewhere due to health concerns. The presenter claimed this indicated that the oil companies had failed to enlighten the World Bank of this potential problem when the project was under review for funding.
The construction of the 1580-km KTK pipeline, which carries oil from the Kantiginad oil field, had given rise to massive public discontent and its operation was the source of many environmental and social problems, said the presenter. The most critical point was where the pipeline reached the Black Sea shore near an historically developed recreation area. The Global Institute had found the majority of the population against both the existing pipeline and the construction of a second. In his view, when the strategic decisions about the pipeline construction were made, the sustainable development principles that should be of concern to the World Bank, were not thought through as they should have been.

The Global Institute’s recommendations for the whole Caspian Sea basin called for recognition of the area’s uniqueness as regards the diversity of renewable resources and the implications this has from a sustainable development perspective. The profusion of plans by large companies to drill for oil in the Caspian Sea and facilitate large-scale commercial production of oil by 2005 posed a serious environmental threat. Historically, fishing had been a regular business for all communities living around the Caspian Sea; indeed the area was known for its unique sturgeon population. The recreational potential of the sea was also huge. Alternative energy sources should also be explored in the Caspian region as the potential aggregate capacity of wind and solar energy generation would be enough to provide electricity to more than just local communities. The presenter urged that financing parties, including the World Bank, should work out a regional development strategy for the Caspian Sea basin prior to funding any local project, whether for oil production or for restructuring, such as port development.

Asked by the EIR about the responsibility of the World Bank for the shortcomings experienced, the presenters strongly recommended the Bank recognize the level of corruption within oil companies in Kazakhstan when embarking on business discussions.

Oil and Gas in Azerbaijan and Georgia

Azerbaijan: Testimony from the Environmental Law Centre (ECOLEX) focused on the Early Oil Project in Azerbaijan, contrasting the World Bank’s $2 billion funding for research into oil development with the $1.5 million extended for agricultural development. The setting for current problems was 1,800 hectares of contaminated land and abandoned oil wells inherited from the USSR when Azerbaijan achieved independence in 1992.

Azerbaijan is a unique territory of only 90,000 sq km, exhibiting 9 of the 13 climatic zones of the planet, and with a population of 8 million. The country has significant oil resources and since petroleum production began in 1873, the amount extracted has since equaled the amount of oil produced by Kuwait over 45 years. But Azerbaijan failed to become another Kuwait as the country was under the continual influence of the Russian Empire, then the Soviet Union and now transnational corporations.

The first contract after independence was signed in 1994 when the Azerbaijan International Oil Company was established. Among the shareholders, Amoco and BP held a 44 percent share and BP had become the main operator. The World Bank extended a $200 million loan to BP to develop the Chirag oil field, surprising in the view of the speaker, as the company had assets worth more than $240 billion. Out of the $200 million the World Bank allocated, only $1.5 million was extended for the construction of a sturgeon hatchery facility. At the time, the political and economic climate in Azerbaijan was unsettled, with high levels of corruption and a lack of democracy. The situation today is much the same with Azerbaijan currently rated the third most corrupt nation in the world. There was a perception of a lack of transparency surrounding the project, as documents were not disclosed to the public, and the World Bank did nothing to
enlighten the Azerbaijani people of the project. Nor had they required either the Government, or the companies involved, to inform the public of their activities asserted the speaker.

When the contract was signed, the Azeri people were reassured that, in addition to oil, the country would receive supplies of associated gas from the Chirag oil field (1 billion cubic meters of gas per year, worth $1 million dollars). But, that gas was now being flared, meaning 1/12th of the total annual gas consumption of Azerbaijan was being wasted (the country’s total gas requirement was 12 billion cubic meters per annum). This was at a time when more than 5 million people in rural areas had no gas at all. Instead, they had to cut forests and use wood as fuel. As a consequence, Azerbaijan was gradually being desertized and together with some other areas of Transcaucasia, the country was considered one of the most vulnerable territories according to the International Convention on Desertification. Few would believe Azerbaijan had undergone a fuel crisis in the last year, when 80 percent of the population in 80 percent of the territory had neither gas nor electricity.

One of the prerequisites suggested by international financial institutions was the establishment of an Azeri oil fund, which currently holds more than $500 million. However, the money has not been spent to meet the needs of the population. While $80 million went to refugees displaced from the conflict in Nagorni Karabak, funds have neither been used for the development of the oil sector nor for agriculture. International finance institutions are not seen to have sufficiently supervised the process, but were planning on extending further funds to Azeri oil companies and the Government.

Despite these shortcomings, the presenter was not recommending that the extractive industry should not be financed. On the contrary, his organization proposed a different approach. The World Bank should set out certain conditions for the Government and oil companies:

- Projects must be environmentally safe and all equipment dismantled on completion. Under the production sharing agreement (PSA) for the Chirag field, the Azeri people would acquire ownership in 30 years by which time oil resources would be exhausted. But the World Bank had not made the company assume responsibility for the dismantling and liquidation of the facility. This meant, in the long run, the Azeri people would become owners of useless pieces of steel.
- There should be agreement that 90 percent of employees should be local people while the remaining 5 to 10% would be international personnel.
- The World Bank should insist on transparency when financing further projects, and should take more responsibility in monitoring how the revenues, generated by the oil projects, are spent.

The reason his organization did not oppose the World Bank funding future oil projects was because the Bank was seen as having the leverage to encourage the Government to be more democratic. Currently, outspoken newspaper editors and political opponents were tried in court, NGOs could not get the accreditation they needed and the public opinion was largely ignored.

Questioned by the EIR as to whether the World Bank or IFC were required for the oil developments, the presenter agreed it was a process that could not be stopped. But two large-scale projects were about to be launched in the territory of Azerbaijan: construction of the Baku-Dzhikha oil pipeline and Baku-Tbilisi-Erzrum gas pipeline. The companies making up the consortia involved in the construction process would not invest their own funds. Instead, the more influential companies would approach the World Bank for funding. The presenter’s organization proposed those companies should receive a list of the Bank’s conditions and that the terms should be in line with the needs of the people living in the territory.
Regarding whether World Bank projects classified as category A came with conditions that were too onerous, the presenter linked the $200 million invested in the Chirag project with the company’s declared production cost of $1 per barrel and its selling price of $25 per barrel. The Chirag oil rig, built with World Bank money, produced 120,000 barrels a day which would imply the funds are available to ensure rigorous standards are met.

It should be a condition of new projects, urged the presenter, that companies research all ecological impacts. Everyone should provide documentation on the effect the industry had had on the local ecology. Gas and oil pipelines would go through regions of Azerbaijan that had no gas or oil and the companies concerned should be required to give some of these resources to the people impacted, the presenter maintained. Under current circumstances, the Bank should make it a prerequisite that companies carry out comprehensive assessments of the environment, e.g. in connection with the proposed Baku-Dzhikha and the Shakhdonis pipeline. But the presenter’s organization was also calling for a comprehensive environmental assessment because oil was also transported by the Baku-Supsa pipeline and by railroad through the same territory. How would all those transportation routes impact on the environment?

On the social side, the influence of the World Bank was also important. The gas pipeline would cut across the whole of Azerbaijan—a territory that had no gas supply and no electricity. It should be a condition that the Government and the company supply gas to those situated in the territory. The current proposal to sell gas to Azerbaijan at world prices, is not acceptable.

Georgia: The Greens Movement of Georgia recalled that the Chirag Early Oil project had been the first designed by the IFC and EBRD as a means of fostering development in the countries involved. Their aim had been to attract foreign direct investment with the intention of improving the livelihood of people in the area. Unfortunately this had not happened, either in the resource country, Azerbaijan, or the transit country, Georgia.

Problems included a lack of transparency, despite the IFC and EBRD requirements to make public environmental impact assessments, environmental monitoring plans and oil spill response plans. The transparency issue was more problematic because Azeri people are not always aware of their rights by law. Ratified by the Parliament of Azerbaijan, the production sharing agreement had been the basis of British Petroleum-Amoco operations in the region and local people had very restricted access to the document.

In Georgia, the main problems resulted from interactions between civil society and BP, local governments and the central government. Civil society had not had access to environmental monitoring plans, nor had local people had the opportunity to raise their concerns with the company. Another issue was access to energy, with some 80 percent of Georgian people experiencing fuel poverty. Roads, which were particularly bad in Georgia, had been made worse by the oil company. Instead of repairing them, the company had sent un-needed notebooks and pens for the local school. Finally, there was an issue of the low salaries paid during construction and maintenance, from 30-60¢ an hour; agricultural activities paid better. However, land had been damaged by the development and people were not satisfied with the compensation they had received. Some local governments were more corrupt than others. The people had fought for their land rights, and local and national level officials had tried to buy them off. Several times they had appealed unsuccessfully to the Georgian International Oil Company, the responsible state agency that was heavily financed by the World Bank.
The NGO, the Black Sea Eco-Academy, gave testimony on the implementation of the Baku-Supsa oil pipeline, in Georgia from 1999. They recalled the initial expectations voiced by local economists and politicians: the project would build a basis for energy independence and security in the region; create a footing for other projects aimed at improving the energy sector, the economy and quality of life; and create jobs for the local population. These expectations had been evaluated by a survey of stakeholders over the period 2000 to 2002 carried out by the organization. The economic review of the Kolkhida areas where the Supsa Terminal was located was based on data gathered in the course of the survey. It gave a realistic picture of future changes to the area, the economic background of project implementation and the way the Supsa Terminal functioned. Prior forecasts by economists had proved incorrect and problems had arisen:

- The implementation of the project had not created job opportunities for local unskilled workers. The share of local population in the total workforce of the terminal amounted to only 1 percent and they were exclusively low-pay support personnel.
- The Supsa Terminal project occupied land in an important agricultural region where farming was the only significant source of income. The terminal paid 1.5 lary per sq m to use the land, whereas income from growing corn in that area amounted to 15 lary, i.e 10 times more than that paid by the Supsa Terminal management.
- Local people believed they had been deceived as the land on which the terminal was based was worth more than twice that paid to them. Neither the initiation of a number of lawsuits, or efforts on the part of the World Bank, had prompted any reaction.
- Supsa inhabitants were unhappy that the multiple promises the management of the Supsa terminal had given regarding water and electricity supplies to their village had come to nothing. People had taken to protesting in an attempt to be heard.
- Intensive traffic during the construction of the terminal, and its operation since, had significantly damaged local roads leading inhabitants to take action such as setting up roadblocks to demand improvements. There had been no response from either the local government or the management of the Supsa Terminal.
- Negative environmental effects were evident around the Supsa Terminal and the neighboring wetlands which are listed as wetlands of International Importance under the Ramsar Convention. The construction of the terminal had impeded the successful implementation of the Kolkheti National Park project.
- Powerful lighting installed for security at the terminal had caused thousands of migrant birds, such as quails, to die in transit. Due to the high noise levels, several rare species, including roe deer, had left the territory.

In answer to questions from the EIR, the presenter confirmed that the World Bank was financing the Baku-Supsa pipeline project, adding that one of the biggest problems the survey had revealed was that the World Bank had not informed or surveyed the population prior to approving project funding.

**Russian Pipelines**
Testifying to its own investigations in Russia, Greenpeace underlined the importance of oil and gas production for Russia and the significant scale and environmental impact of Russia’s oil spills.

In one notorious accident, there was a spill of more than 100,000 tons of oil in the Komi Republic, in Northwest Russia, in 1994. Later that year, the World Bank extended a $99 million loan for the clean-up operation and put in place preventative measures to guard against future oil spills. Greenpeace visited the area in 1999 and 2000 and found the situation alarming. According to official data at the time, the contaminated area was more than 700 hectares: current data reported
60 hectares of land that remained contaminated, with another 20 hectares used for the storage of oil detritus. Less than half the 1994 spill had been cleared away, leaving around 75,000 tons on the ground surface from that time. However, the total amount of oil on the ground amounted to 200,000 tons due to further spills after 1994.

The World Bank had not responded to Greenpeace’s suggestion for a joint visit to the Komi Republic to evaluate progress of the project, and at a meeting in Spring 2000 in Moscow, Greenpeace was told that the project had been assessed as ‘on the whole quite successful’. Greenpeace had specifically suggested the visit to Komi where a larger portion of the funds seemed to have been stolen. It was also important that independent technological experts participated in such visits as, otherwise, World Bank representatives would only be shown ‘clean’ areas and thus be deceived.

Meanwhile, the Lukoil Company recently went to Komi to implement a $25 million five-year decontamination plan. In April this year, Greenpeace held a round-table meeting with other technological organizations such as VVF and Aisara. The World Bank had been invited but failed to attend. Greenpeace’s own investigations showed the conditions under which people were working to extract the oil: they wore no masks and there was an absence of other safety equipment, wages were low and they worked an average of 10 hours a day for months at a time.

The Komi oil developments had been certified long before the pipelines were leaking and the production technologies bad. Had the World Bank acted fast enough and were the companies they had provided assistance to now in a better shape than those which had had no assistance? Greenpeace said that in the case of Komi, there had been a request for help as soon as possible and if the World Bank had arranged some independent supervision of the project, everything would have been much more effective.

In 1993 and 1994, the World Bank had allocated “oil rehabilitation” loans of $500 million and $610 million to Russian companies Lukoil, Yukostrans and Neftesedanko. Part of these funds were intended for environmental mitigation such as reducing oil spills and for the clean-up of contaminated areas. However, during the Greenpeace visit to the West-Siberian oilfields of Lukoil and Yukos, they saw a large number of oil spills and came across areas where access was limited to pass-holders only, despite the fact the areas between the oilfields and the roads were federal property. In general, Greenpeace found their access to contaminated areas, and relevant data pertaining to them, limited by the oil companies in Western Siberia and Komi. This included the areas where the World Bank had financed the projects. Private conversations with individuals revealed the money had primarily been used to set up checkpoints on public roads to limit access. The companies had then placed sand on the oil-contaminated areas that adjoined the roads and built high sand dams along the roads so nothing could be seen from vehicles traveling along them. Such actions definitely had nothing to do with the environmental rehabilitation and clean-up process, Greenpeace pointed out.

In 2000, the Dutch consulting company, IWACO, were contracted by Greenpeace to carry out an assessment in West Siberia. They found between 700,000 to 840,000 hectares of the land were contaminated with oil. Their report was available in English and an abridged Russian translation had been passed to the World Bank Moscow Office. Greenpeace consequently undertook numerous actions to mitigate the oil contamination, such as organizing a ‘camp’ at the Samotlor oilfield close to Nizhnevartovs, West Siberia in August 2000. With shovels and buckets, volunteers attempted to remove the oil. They succeeded in removing 50 tons in three weeks, demonstrating that oil companies could do the same, if not more with their financial resources and specialist equipment. They had not done so, neither with their own money, nor with funds from the
World Bank. Satellite photographs were available that showed the scale of the contamination in the West Siberia to be so extensive that it could be seen from the outer space.

Greenpeace was also concerned about projects on the island of Sakhalin being financed by the IBRD, or under review by the IFC, and the impacts on small indigenous groups in the area. The livelihood of the entire population of Sakhalin would change drastically as 99.9 percent of the people earned their living by salmon fishing and salmon eggs production—excluding a tiny portion of the population paid by oil companies in the form of bribes. The salmon population, which was the economic basis of the island, would be put at risk from oil spills, waste discharges and the construction of an oil pipeline.

There was the similar threat to the last one hundred gray whales of the Okhotsk-Korean population, due to Exxon’s exploration for oil in the region. The threat of oil spills, discharges from drilling agents, and the intensification of air and sea traffic would cause these protected mammals to migrate from their habitual feeding grounds and they may gradually die out. Greenpeace and a number of other organizations had written many letters to the Government and to the companies involved demanding they stop the exploration, but to no avail.

Greenpeace believed the West should be responsible for the environmental crimes committed in Russia in the course of producing oil, as the oil was mainly exported to the West and served as a basis for the well-being of the western economy. Greenpeace also believed there should be independent controls for all projects. Environmental and social impacts needed to be monitored by an independent organization, otherwise company officials would lie, steal the money and give inaccurate impressions of how the money had been spent.

**Indigenous People and Oil**

The Director of the Russian Association of Indigenous Peoples of the North (RAIPON) gave testimony on the situation in the northern part of Russian territories, where there was a population of more than 200,000 people living between Kola Peninsula (Murmansk Oblast) and the far Chukotka territory in the Far East. In an area of severe climactic conditions, to which the indigenous people had adapted to over many years, the oil and gas developments in the Russian Federation had greatly impacted on their traditional way of life.

These indigenous groups were fully dependent on their local environment and particularly vulnerable. Due to the remoteness of the communities, the lack of developed infrastructure, lack of training and their non-involvement in any business activities, the people were in a desperate social and economic condition. Despite living in territories rich with gold, gas and oil reserves (the source of 80 percent of Russian oil), such resources had not improved their lives. The main reason for their situation was a lack of clear-cut federal legislation and mechanisms to implement the rights of indigenous peoples, said the speaker. Sustainable economic, social and environmental development always forgot ethnic development, he continued. Ethnic cultural survival was one of the cornerstones of their sustained development as, due to their paucity, these peoples were at the limits of physical survival. The largest group numbered more than 30,000, the smallest no more than 100.

Acknowledging that the World Bank was one of the few financial institutions with its own policy towards indigenous peoples, the Association’s proposals called for:

- Ongoing dialogue with the Bank
- Full moratorium to be declared on any new development and construction of oil pipelines that may result in impacts to the ecosystem and biodiversity of the Arctic area.
For projects the World Bank planned to implement, communities should have the right to be informed of projects from the first stage of negotiations rather than from the final stage of approvals and notifications.

Indigenous peoples interests to be considered in the development of World Bank country strategies for the Russian Federation, including the use of assessments by independent public experts to evaluate environmental and social impacts, i.e. an expert ethnological assessment, developed jointly with the Russian Federation.

Asked by the EIR about the proposed involvement of the indigenous people in the World Bank’s strategic policy, the presenter explained that his Organization had already taken part in negotiations between World Bank and Russian Government regarding a 3-year cooperation plan with the Russian Federation and with the Ministry of Trade. At the Ministry’s request, the Association was preparing a section of the document with proposals for involving indigenous peoples and their organizations from the inception phase of developing projects for their territories.

Nenets people of Yasavey: the President of a regional branch of RAIPON testified on behalf of the Nenets people who live in the territory of the Nenets Autonomous District, located in the European part of the Russian North. Their livelihoods were traditional, mainly limited to deer-raising and fishing. Intensive oil development, that commenced in the 1960s, had left 253 abandoned derricks with unexhausted wells beneath. They were partially being rehabilitated and two oil projects there had been financed by the World Bank Group.

Further developments were taking place with a joint Conoco-Lukoil project, in the Ardalin fields, where the loan had been repaid. The experience of the project had been good from an environmental standpoint. The company applied advanced technologies and had probably the most environmentally friendly practices of any company in the region. Nevertheless, there were social and economic issues to be resolved between the company and the indigenous people. No permanent mechanism for assistance or formulated approach had been observed so far, bar short-term help in the form of snowmobiles and food.

Oil development and production conflicts had recently taken a new turn, the presenter said. Pipeline and rig construction had changed the traditional migration routes of deer droves, meaning new passageways would need to be built. Unfortunately, deer raisers did not know how, and of what materials, those passageways would be made. Some oil companies had tried to minimize costs by proposing inexpensive and ineffective designs, claiming the deer raisers had agreed to them. There were many examples of uncompleted deer passageways on sites where a 50 to 60-kilometer long pipeline had been built. Some had been designed for vehicles and deer, but deer would not use them. In other places the companies claimed, incorrectly, that there was no need for passageways as deer could not pass under the pipe.

This led the Association to start an open dialogue with the companies in order to settle the dispute. Round-tables brought together oil company managers, community leaders, representatives of deer-raising farms and deer drivers. The aim was a joint solution, recognizing the link between the Russian Federation’s policy of oil production and the economic development of the region. Indigenous people wanted consultations with the World Bank, and other international organizations, at the earliest stage of discussions, whenever support or financing was first proposed for a project. RAIPON aimed to assist by finding its own solutions for the region as it was in the initial stages of resource development and should avoid the damage already caused in West Siberia.

Asked by the EIR if the organization were objecting to the pipeline and calling for a moratorium on oil and gas projects, the presenter replied that many pipeline projects were already in discussion,
with a host of licenses being signed. Were these projects not implemented, it would cause larger problems than those already present. But, importantly, if the companies and governments did not learn to work together, they may as well abandon all their efforts.

4. World Bank Voluntary Information Exchange

Overview
The World Bank Group made a series of presentations in the voluntary information exchange at the open part of the workshop. These explained the structure of the Group, the size of its financing and insurance business, the cycle of activities leading to country assistance strategies and projects, and the main changes in procedures over the past ten years.

Specifically, speakers set out the opportunities for developing countries with respect to oil, gas and mining, and the risks they ran with promoting the extractive industries. With these kinds of development, the IBRD/IDA focused on policy advice, sector reform, restructuring, creating the framework for effective private investment, capacity building for governments and developing their partnership/leadership roles on key global issues, and providing advice on selective investments. IFC and MIGA undertook investments and risk insurance, and added value in areas of environmental, social, economic and political concern where possible.

Oil, gas and mining projects made up only 4 percent of the Group’s portfolio, compared to 29 percent on infrastructure projects and 23 percent on social development. During the past 7-8 years, the level of activity in the region by the World Bank Group had progressively declined, though MIGA’s investments were growing. On the mining side, things had been slow because of a cyclical downturn and, reflecting consolidation within the industry, the amount of overall exploration and project development had fallen off dramatically. MIGA showed a contrary trend, with mining accounting for 13 percent of its new business in 2001. Examples of non-financial support for the extractive industries were its global gas flaring reduction initiative, its work with indigenous people’s groups and the Government in Peru, and its support of initiatives such as the MMSD to develop the sustainable element of mining practices.

Introducing the session, the Bank’s Director for Oil, Gas and Mining cited the Millenium Development Goals as the organization’s overall aim: the World Bank was committed to improving education, people’s health and people’s overall quality of life. Oil, gas and mining provided affordable energy, income to governments and improved infrastructure. Fiscal revenues from extractive industries could contribute to these overall goals of the World Bank Group. But the Bank was also aware of the many impacts such industries had on communities and the environment. These obviously had be limited, or mitigated, and the question was how this could be achieved. When considering the various stakeholder groups involved with the extractive industries, the IBRD/IDA was more closely connected to governments for which it provided guidance on capacity building and assistance in dealing with past legacies, while the IFC/MIGA worked with the private sector, providing international project finance. The World Bank Group worked hard to ensure the concerns of civil society were met, such as setting high environmental standards and resolving community needs. In this respect, there had been a great change in policies and standards over the last two decades. But the Bank wanted to go beyond social and environmental safeguards towards a more holistic approach. More than anything, the World Bank Group wanted to ensure its activities were sustainable. The Bank had a role in coordinating the efforts of bilateral and multilateral institutions, and other agencies, active in the field of development. Its own projects had been standard setters, for governments, other banking institutions and industry players.
Bank Outlays
In 2001, the Bank spent a total of $22-23 billion dollars which, though substantial, paled in comparison to private sector flows to developing countries. Some $10 billion came from the IBRD/IDA, $7 billion from the IFC, and $5 billion from MIGA and the IFC. Of this, between 13 and 18 percent were funds extended to Eastern Europe and Central Asia.

In the previous ten years, work on reforming the legal and regulatory frameworks in many countries had been especially important in the extractive industries sector. Governments in the region were the owners of the resources in the ground and, therefore, the ones that granted access through their mining codes or oil legislation. It was part of the Bank’s work to provide an interface between government and the private sector, increasing the capacity of government to execute its functions with respect to monetary, environmental and social policies, and effectively administrate the extractive sectors.

The World Bank Group in the Transition Economies of the ECA Region
As the countries of Eastern Europe and Central Asia went through transition to become market economies, their governments were confronted with the issue of major restructuring in their energy and resource markets. Large sectors, such as the coal industry, were neither cost effective nor competitive. Mining had become a large drain on government budgets due to the high level of subsidies, for example, Ukrainian coal industry absorbed 3 percent of GDP in subsidies. Governments, with the assistance of the World Bank, embarked on a process of reform, privatizing nationalized industries and bringing prices into line with international markets. New trading relationships needed to be established and social problems addressed, as well as tackling the legacy from years of environmental neglect. The coal sectors in Russia, Ukraine, Romania and Poland gave rise to particularly severe social problems due to the high levels of unemployment following the implementation of adjustment programs and mine closures.

To start, the World Bank financed a number of investments, before providing assistance on fundamental sector reforms, and capacity building at the government level. The oil and gas sectors, and in a large part, coal mining also, were seen as economically viable industries in the long term. It was therefore imperative to ensure the right rules were established regarding access to natural resources and with respect to revenue management.

Financing Private Sector Projects
Clarifying the roles of IFC and MIGA in relation to private sector investments in oil, gas and mining, World Bank staff explained that IFC extended direct financing and guarantees for projects, while MIGA provided risk insurance. Together they could create a framework for the competitive development of the private sector.

The IFC use a number of financial instruments, extending long-term loans in U.S. dollars and other currencies, with some project financing lasting up to 15 years. Increasingly popular are the IFC’s guarantees for local currency borrowing as a way of reducing foreign exchange risk. However, given the volume of work going into projects, the IFC would not generate adequate earnings from their loans. They were, therefore, also involved on the equity side, where companies were happy to see the presence of the IFC.

The IFC was also recognized for syndicating loans under its own name, so-called B loans, which gave added comfort to international commercial banks. They felt that if there were problems with payments being made in a country, very often those due to the IFC would be honored. In such
cases, the IFC liked to become involved early in the process so that its own people could look at financing from several aspects—technical, environmental, social, insurance and economic. They could raise the right issues and try to address the risks and concerns early on, putting together a structure that would be acceptable not only to itself but to other institutions. Many financial institutions looked to the IFC and respected their involvement, as opposed to investment banks which were seen to merely structure the deals, take their fees and disappear.

As the private investment side of the World Bank Group, the IFC was needed foremost in higher risk countries, where the private sector did not want to invest alone. Consistently, companies said that even though they might be able to finance investments directly themselves, their concerns about political risk meant the involvement of the World Bank Group gave a certain degree of comfort and protection. This was the case with cross-border projects where there was substantial risk and substantial external funding; foreign partners then encouraged World Bank Group private sector participation. IFC was generally seen as a preferred creditor in countries with bad debt and restructuring requirements as the IFC would continue to do business where, often, private sector investment would dry-up. On the other hand, some companies preferred to keep the World Bank Group from funding small projects, in the belief they would face far less criticism from NGOs who were vigilant in monitoring Bank activities.

One of the biggest challenges was how to obtain more leverage and work more closely with local businesses as a way of adding developmental value to the extractive industries. The IFC therefore tried to work on a greater scale with service contract companies on large projects. Another area where the Bank added developmental value was corporate governance: how companies were run, decision-making processes, acknowledging minority shareholder rights and revenue management. Extractive industry companies paid high levels of taxes and royalties and the challenge lay in ensuring governments used these revenues in an effective way. Companies were more aware of this today than they were in the past, and were increasingly looking for ways to work with governments to ensure revenues flowed back to benefit the region.

Criteria for Involvement
World Bank staff classified recent projects in the region into two categories: public and private sector projects. Since 1994, 15 projects had been undertaken with governments, ranging from a $525 million loan for coal mine closure in Russia, to $1 million to assist Georgia negotiate pipeline projects. With the private sector, the Bank had sponsored 16 projects, ranging from a $200 million investment in Azerbaijan and Georgia for the Early Oil project, to $9 million to assist Poland recover methane from the Silesian coal beds.

The criteria for deciding whether the World Bank Group should support particular extractive industry projects was reflected in the Bank’s assessment of the benefits and risks presented for the country in question. Benefits included: revenues gained from taxes and foreign exchange; income growth and an increase in employment levels; growth of small businesses; development at the local level, such as improved infrastructure (electricity and roads), education and skill-training; public services (sanitation, health and education) and sources of affordable energy. The risks included: environmental damage; health hazards; bad governance (corruption, poor revenue management); macroeconomic distortions causing currency instability (‘Dutch disease’); and socio-cultural impacts (affects on indigenous communities; change to traditional livelihoods). There was also the risk of enclaves developing around large projects, and eventual resource depletion, leading to painful readjustments.

Discussions: During questions, World Bank staff agreed with comments made by the NGO, CEE Bankwatch Network, that public sector projects could theoretically be more effective. Friends of
the Earth queried the assertion that companies paid considerable money in taxes as, in Eastern Europe and Central Asia, they generally enjoyed tax holidays, and benefited from loopholes in regulatory frameworks, and a lack of enforcement of laws. In response, staff said the World Bank did analyze projects in terms of the preferential treatments, negotiated concessions, and tax benefits governments may use to attract investors. But its financial and economic analyses excluded these considerations, as many companies went bankrupt when such concessions disappeared.

Resource taxation, the Bank agreed, was important as a country's natural resources were part of its patrimonial heritage. There was only one objective for natural resource taxation from a country perspective: to ensure the country maximized its share of the net benefits of resource development. Companies may be offered an attractive rate of return to compensate for the risks they took. Or, as in the U.K., for example there were low rates of taxation for companies involved in North Sea oil and gas extraction, as projects were difficult technically, in an area becoming depleted of good resources.

The IFC did look at the benefit split between governments and the private sector. In their experience, governments were very effective at obtaining large revenues, particularly from the oil industry. There were often sophisticated taxation systems, profit-related rates and so on. The Bank’s evaluation group looked at what actually happened to revenues in practice; it was possible large amounts of revenue would flow overseas, perhaps to repay debt. But ultimately a very large net present value from the project was secured by governments. But the IFC did not choose to support projects purely on the basis of greatest net present value to the country. It supported projects that were brought to it for financing; while there were oil and gas projects in their portfolio, this did not stop them supporting projects in other sectors. If the IFC believed a project had good potential and could meet their standards, they would support it, but decisions regarding privatization, for example, would have already been made by the government involved.

Commenting on the criteria the Bank used for sponsoring extractive industry projects, the Ukraine National Ecological Centre commented that they could find no fit with reality in the case of the Baku-Supsa pipeline. Energy for local development had not been supplied and associated gas was flared from the oil platforms. Just a few people from thousands in the local communities had benefited from employment, or entrepreneurial, opportunities. Those who were employed, often had contracts lacking social guarantees and workers were often paid less than expected. Despite what was said about large projects developing the local infrastructure, this had remained inadequate both in Georgia and Azerbaijan. There were examples where local services had been disrupted during the construction of the pipeline, for example, in Georgia, where the community itself had to pay for repairs to the local water supply. Revenues may well be generated for the government, but it was necessary to see how the funds were used for the benefit of the people in Azerbaijan.

In reply, the Director for Oil, Gas and Mining, at the IFC, agreed there was considerable gas flaring related to the Baku-Supsa pipeline project. The original understanding was for the Government to use the gas, but they had had difficulty building the infrastructure to do so. Meanwhile gas flaring had been reduced from 40 percent to 25 per cent, and it was projected to be eliminated completely over the next few years. This had been the responsibility of the Government, which had been slower addressing the issue than the Bank had hoped.

The issue of job creation came up in regard to many projects. During the construction phase, there were generally many employment opportunities for local people, but this declined once construction was completed. The Bank was very much focusing on this problem: indeed, new projects, currently being financed by the Bank, were almost making the maximization of local
employment a condition of its involvement. It was necessary to think ahead of the construction period, and build the capacity of the local community to develop other sustainable businesses surrounding the projects in question.

With regard to revenues, Bank staff pointed out the difference between Georgia and Azerbaijan. In Azerbaijan, much of the revenues went to the oil fund, which was carefully monitored by the IBRD, IFC and the IMF, who worked together to ensure revenue streams were transparent. There was also wide representation on the oversight committee. The Ukraine National Ecological Centre objected, however, that only one person made decisions regarding the oil fund in Azerbaijan: the President.

**Project Environmental and Social Review**
In the past ten years, the Bank’s policy approach had moved from pure compliance with policies, guidelines and procedures to dealing with issues such as governance, transparency, disclosure, oil funds and poverty alleviation, explained the IFC’s Environment and Social Development Department. Evaluation issues were dealt with on a project-by-project basis, whereas previously the IFC were only policed on their compliance with policies and guidelines.

**Policies and Guidelines**
The umbrella policy, for environmental and social assessments, was common to MIGA, IFC and IBRD/IDA. Environmental assessments covered natural habitats, forestry, pest management, safety of dams, international waterways and disputed areas. Social assessments included involuntary resettlement, indigenous peoples and cultural property, forced labor and, specific to the IFC, child labor.

Guidelines differed from policies in that they provided specific numerical values, for example, in terms of emissions or water quality. Guidelines were articulated in a number of documents such as the 1998 Pollution Prevention Abatement Handbook, the IFC Interim Guidelines and the Occupational Health and Safety Guidelines. An exclusion list prevented Bank involvement in the production or trade in radioactive materials. The Handbook was a joint World Bank Group consultation document that set out guidelines for working with the extractive industries. It included project guidelines on coal mining, onshore oil and gas development, and lead and zinc smelting. The IFC’s 1995 Interim Guidelines covered oil and gas development offshore, and both underground and open cast mining. Bank representatives emphasized the flexibility of environmental and social policies to address new issues. Gas flaring in Azerbaijan, for example, was subject to a production sharing agreement with the state energy company: it had to be in line with the Bank’s onshore/offshore guidelines that committed the IFC to reduce gas flaring.

**Procedures**
Where the World Bank institutions differed was over their environmental and social review procedures and disclosure policies. It was a responsibility of the Board, the Bank staff and the sponsor to ensure environmental due diligence. Bank staff undertook review to ensure project compliance with policies and guidelines. It began with environmental screening to determine the environmental assessment category as A, B, C or FI. Categorization depended on the project type, location, sensitivity, scale and the applicability of other safeguard policies. Most extractive industries projects were category A because of their potential environmental impacts, which could be unprecedented or irreversible. Category B addressed issues that were site specific, for example, wastewater treatment, or control of emissions etc. Most, if not all, MIGA guarantees for the extractive industries were for category A projects. There were very few category C projects. In addition, some 40 to 50 percent of World Bank lending went to financial intermediaries, where the
Bank lent money to a financial institution, which then funded sub-projects, some of which concerned the extractive industries.

When projects came to the respective organizations they went through an appraisal process. If deemed commercially viable, and compliant with the Bank's safeguard policies and guidelines, they were presented to the World Bank Board for approval. Thereafter the project was supervised to ensure the implementation of all obligations in the investment agreements and compliance with host country requirements. The Board, the sponsor and (in MIGA's case) the applicant were responsible, not only for environmental and social due diligence in project preparation but for community consultations and for implementing all the provisions within investment agreement. Within each Bank institution there was a core environmental and social team responsible for appraising the project, providing environmental and social clearance and supervision of the project. In addition to staff supervision, the Operations Evaluation Department (OED) in the IBRD and Operations Evaluation Group (OEG) within IFC and MIGA were responsible for project appraisals with all projects of five years or more, going through their evaluation procedure.

Benefits in Question

During discussions, the Environmental Law Centre from Azerbaijan challenged the Bank on its 'responsibility' for projects. If the Bank was 'not liable for the efficiency of the governments' with which it dealt, how could it justify funding a project where, for example, the government was responsible for supplying gas to the Azeri population, but did not do so. While people died from cold and hunger, the Bank willingly provided $200 million to an oil company, the government benefited from revenues and the Bank received its interest payments. Why not give that money directly to the people? The NGO explained that as little as 10 years ago, Azerbaijan had been quite a developed nation, with a skilled workforce. It was one of the first countries to produce commercial oil, but generations of oil workers were now leaving because the projects funded by the World Bank did not oblige the borrowers to secure jobs for locals. The loans were used to outsource foreign contractors.

Further, regarding the reduction of gas flaring, the World Bank has been misinformed: when phase I of production started, it would be fed through the pipeline currently used to transport oil from Chirag. It did not matter to the Bank whether the gas was burned, sold or simply frozen underground or underwater, but it did matter to the Azeri people, said the speaker. Replying, the World Bank Oil, Gas and Mining Director agreed that although the project did benefit Azerbaijan and Georgia, the Bank would probably do it better today. Revenues were going to an oil fund for the Azeri government, and the Bank hoped it would be used properly. Georgia was receiving revenues from the transit fees, and so was also benefiting. Future projects being considered by the Bank would approach them differently. It was looking not only to meet its own safeguards and policies, but also seeking to secure employment opportunities at the local level, not just those directly linked to the projects but beyond that, to ensure overall community development.

Another speaker asked why the coherent system of environmental and social assessment, appraisal and monitoring established and tested elsewhere, had failed in Azerbaijan, Georgia and Kazakhstan? World Bank staff explained that one of the biggest issues in the Caspian region and northern Russia, was the environmental legacy from Soviet times.

Kazakhstan

Community development: A representative from Atyrau, a city in the Caspian Region of Kazakhstan, challenged the assertion that World Bank investments brought about improvements, particularly to the local community. Testimonials showed that the funding of oil operations in New Uzen (Akshabulak) had brought results opposite to those anticipated. She wanted to know if the
Bank was planning to put representatives of community organizations on its panels so it had access to more objective, and accurate, local information. A Bank representative, while not familiar with the project raised, acknowledged the problem when there was a decline in people's standard of living, but this had to be seen in the context of enormous changes in the region. The projects supported by the World Bank hopefully stimulated new investments, a growth in income and employment. The Bank had had several objectives for the Uzen oilfield project: to keep up production, to assist in the reorganization of the company and to provide training for local people.

**Better results:** The representative of the World Bank agreed that their investments in the oil and gas industry in Azerbaijan, Georgia and Kazakhstan could have had better results, for example, transparency. The Komi oil spill was also not an ideal situation, the Bank Oil, Gas and Mining Director agreed. The question was, what difference had the World Bank made? It had provided a loan to assist in the clean up operation. Would the areas have been worse off if the Bank had not been present? Could the Bank do better in terms of monitoring? Yes, but overall, the World Bank was clearly trying to help. The same applied to mining projects: they were complex, but the Bank had been trying to assist the affected communities. The question was whether the involvement of the World Bank Group was better than none at all? He suspected the answer was yes, it was better the Bank was engaged, although there were obvious improvements that could be made in these projects.

**Azerbaijan and Georgia**

A participant from Georgia asked whether the World Bank was tracing the distribution of the revenues earned by the Georgian government from the Baku-Supsa pipeline. The answer was no, the funds were going to the central budget. At the time, 1997 to 1998, the World Bank was not focusing on that issue as their involvement in Georgia was part of an overall dialogue with the Government under the country assistance strategy. One question raised the issue of current litigation over the ownership of 12 hectares of land on which the Supsa terminal now stood. A Bank representative stated that a recent supervision mission of the project had not raised any issues of that nature. But, if it were the case that this was directly related to involuntary resettlement as a result of the project and people had not been compensated, it was an issue the Bank could follow up on if the speaker could identify the village in question.

**Best available technology:** Questioned on the use of best available technology at the Supsa terminal (in particular, wastewater facilities) Bank experts explained that Supsa had met World Bank guidelines. When the IFC developed its guidelines on mining and offshore oil and gas developments, in 1995, the underlying premise was not to require best available control technology. Admittedly, this could be a possible recommendation of the EIR, they agreed. The World Bank Group should be a standard setter by implementing the best available technology in its guidelines: the revision of the 1998 Pollution Prevention Abatement Handbook may be an opportunity to do so. For the Early Oil project in the Caspian, the Bank had not required best available control technology, but it did require the operators to identify toxicity levels for discharges into the Caspian, to ensure they were at acceptable levels. Monitoring reports confirmed that the ecological impact from those discharges was not significant. It, therefore, did not follow that without the best available control technology, you would have an ecological disaster.

**Emergency Response Plans:** Another participant asked why there was still no emergency response plan in place, at the national or company level, to deal with possible oil spills in the Caspian Sea from a project jointly funded by the World Bank Group and the European Bank for Reconstruction and Development (EBRD). In response, the EBRD representative commented that major offshore oil spills were of significant concern to all the international financial institutions involved in projects in the region. The World Bank had financed the Caspian environmental program, for
example, to address how to deal with major oil spills. The EBRD had financed a large project in Turkmenistan to help the Government develop a national response plan for oil spills. This had been completed and signed into law in Turkmenistan in 2002. The EBRD had provided grant funding to Azerbaijan for a similar project.

Confirming that there was still no emergency response plan in Azerbaijan and in Georgia, the plan was in draft, an IFC representative commented that this was a common problem. The Bank worked with governments to develop national response plans when they did not have the capacity to deal with oil spills. It had been clear with the Early Oil Project that an oil spill response plan was required that did not rely on the Government, but was tailored to the project itself, and had the capacity to handle up to two or three spills. But, ideally, it was preferable for a national response plan to be in place.

Concluding with a comment for the Extractive Industries Review team, the questioner said national oil spill response plans were not being developed quickly enough, despite the assistance of international financial institutions and multilateral organizations. Agreeing that a project based response plan was less effective without a national response plan, an IFC representative compared this issue to others routinely faced by the private sector: lack of national capacity for managing biodiversity and for dealing with indigenous peoples. These usually had to be worked on in the context of a project, and the Bank could probably do it better.

A participant commented that if the Bank put privatization as a condition for structural adjustment loans, it could make an oil spill response plan a condition for investment with oil companies. Agreeing, a Bank representative said that was why oil, gas and mining were now the responsibility of joint Bank (IBRD-IFC) departments to facilitate better coordination. However, a willing partner was key, and in this case it would have to be the Government. But, there were limits to the Bank’s leverage. In the case of the Chad-Cameroon pipeline project, the Bank had had the leverage to get certain things done that would not have been possible in many countries. But this was not always the case.

**Lessons Learnt**

A speaker asked Bank representatives to present two or three projects in the region where it had got things right from the social and environmental point of view. What were the projects where communities benefited, where the Bank had been socially responsible, where there were no environmental problems?

From a mining perspective, replied a World Bank senior mining engineer, the Bank had learned lessons from mine closures in Russia and the Ukraine. Benefits could been seen from two Bank projects: the work in Poland and also Romania. The Director for Oil, Gas and Mining referred to the Polar Lights project (financed jointly with EBRD) and the KGM project in Kazakhstan where there had been few environmental problems. A participant disagreed that Poland had been a good example: the Bank’s only interest had been to close the mines; it was the work of powerful trade unions which ensured people’s interests were represented.

Regarding possible leverage with governments, the Bank had been invited by the government in Kazakhstan to undertake a mining sector review. A year of dialogue had led to a set of recommendations for actions within the capacity of the Government for environmental management.
**Gold Mining**

One commentator raised the IFC’s potential investment in gold mining in Romania (Rosia Montana), where they would be working with a company with a dubious track record and no history in gold mining. The Romanian government and the company involved had been using the IFC name to promote the project. An IFC mining investment specialist confirmed that the Bank had had initial discussions with a Canadian company in connection with the Rosia Montana gold mine, as had the EBRD and numerous other financial institutions. Before engaging further, IFC had examined the environmental and social impacts of the project. Initial indications suggested the project could have substantial economic benefits for a very depressed region. If the IFC engaged, it would be in a position to ensure that standards were met. If it did not engage, the company may go ahead without the Bank.

Commenting on further information that the company had already started the involuntary resettlement program prior to community consultations, the Director for Oil, Gas and Mining emphasized that if the company did not comply with World Bank standards, there was nothing it could do if the IFC were not officially engaged in the project.

Questioners asked representatives from the World Bank and EBRD about the procedure for monitoring the implementation of the clean-up plan at the Kumtor mine, Kyrgyzstan. It had been stated that closure costs would amount to $5 million, but a U.S. expert had indicated this amount would be inadequate. Replying, the EBRD representative agreed closure costs would exceed $5 million, but no one had ever claimed this amount would be enough. The conceptual plan for mine closure had been developed at the earliest stages, before financing the project, and the estimated figures may need to be revised.

Another issue discussed related to projects that were co-financed over a period of time, after which the loans were paid off and the co-financiers were no longer directly involved in the project. For example, how could it be ensured that the Government appropriately use the funds accumulated for mine closure at Kumtor to benefit the local community and mitigate the effects of closure. The EBRD representative pointed out for the Eminent Person, that the region was not used to dealing with problems relating to the extractive industries, such as mine closure. The mine closure experience in the region was practically non-existent.

**Conclusions**

Commenting on the World Bank Group’s presentations, a Russian participant said it seemed the Bank sincerely believed that oil, gas, and gold mining would bring benefits to people, and remain consistent with the Bank’s mission for poverty reduction and sustainable development. Yet, he had not heard a convincing regional example; on the contrary, he had heard mostly negative comments. He added that Russia’s indigenous communities, residing in areas of vast natural resources, had seen no benefits at all. Given that oil and gas developments were a mere 3 percent of World Bank Group investments, would it not make sense to freeze all projects, at least until the completion of the EIR and appraisal in 2003. This would give an opportunity to look at deliverables and shift the focus. Replying, the World Bank Director for Oil, Gas and Mining reiterated that the Bank was not ready to put a moratorium on its activities in the extractive sector. It felt there were projects where the Bank could make a difference for the better. They were very willing to learn from the EIR and change things as it went along.

Another concern was the Bank’s work with governments in countries that had not yet evolved into truly democratic societies. If the Bank were unable to effectively monitor what governments were doing, were they not effectively contributing to the spread of corruption at the national level and fostering an even greater split between the rich and the poor? The World Bank Director for Oil,
Gas and Mining, agreed that corruption was an important issue and there were some countries where the Bank was unwilling to operate as governance was so poor. There were other countries which were not fully democratic, but where the Bank felt sufficient benefits would accrue to the country and its citizens. It was question of judgment. There were examples of countries without good governance that had done very well from their natural resources, therefore natural resources, *per se*, were not a recipe for disaster.
Part Two: Consultation

5. Keynote Speech By Prof. Dr. Emil Salim

Opening the formal Consultation, the Eminent Person to the EIR, Prof. Dr. Emil Salim pointed to three issues for consideration. What was the best future role of the World Bank in the extractive industries? What were the areas of consensus, and of dissenting views? What should be the proper recommendations for reconsidering the role of the World Bank Group in the extractive industries?

The context for this was the 50 developing countries in the World from which oil, gas and mining products were imported. There were 3.5 billion people in those countries, of whom 1.5 billion earned less than $2 a day. Most did not have access to safe drinking water, energy, adequate housing, education or health facilities. Yet, they were countries rich in natural resources - minerals, oil and gas. Of the 25 most mineral-dependent states, almost half were low in the Human Development Index (HDI) table; six were extremely low. Higher value added could produce higher income for these developing countries, specifically, from oil, gas and mining. But after 50 years of extractive industry development, there was little downstream development with most of the countries still producing, and exporting, raw materials. As a result, there had not been the growth there should have been from oil, gas and mining.

The big players in this development, were the large companies. Small, weak companies were found in developing countries where there were ineffective governments, poor legal and regulatory frameworks, bad governance, limited technical skills, and low capacity in raising domestic taxation. Such countries were underdeveloped because they had underdeveloped governance, remarked Dr. Salim.

But, while good governance was crucial, this alone would not be enough for the world economy eradicate poverty. Trade barriers created an unlevel playing field between the developed and developing world: for example, tariffs put in place in developed countries to protect their industries from imports of processed commodities from oil, gas and mining. And when import duties were raised, nobody in international financial institutions objected. Under these circumstances, the principles of globalization should be applied: free market mechanisms, free trade, privatization, perfect competition. But, the developing countries were knocked out in that battle of globalization, due to a lack of capacity, training, strength. Statistics on global development from 1970 to 2000, showed that the poorest 20 percent of the world's population suffered a decline in the share of global income, from 2.4 to 1.4 per cent. The richest 20 percent had increased their share of global income from 70 to 83 percent. Secretary-General Kofi Annan had pointed out that in those last 30 years, the top 20 percent had increased its income at the expense of the global environment. Climate change, the rise in sea-levels, loss of biodiversity, pollution were all hitting the poor in the developing countries.

Conventional economic development needed to be transformed into a single concept of sustainable development. This meant social sustainability, of which the key aspect was poverty eradication; economic sustainability, i.e. changing unsustainable patterns of production and consumption; and environmental sustainability i.e. maintaining proper functioning of ecosystems. Sustainable development was not a slogan but a necessity and required the involvement of all stakeholders.
It was in this spirit participants were invited to the EIR consultation, to open up the dialogue between business, government, civil society and the World Bank Group. The aim of the EIR was to find a solution, so Dr. Salim urged participants to speak out and put the issues on the table. He wanted the meeting to contribute to the long march from divergence to converge of development between North and South.

6. Extractive Industries Review Process

The Head of the EIR Secretariat, Bernard M. Salomé, placed the Eastern Europe and Central Asia Consultation in the context of the region’s transition from command to free market economies, and the legacy of communist rule. The first objective of the EIR process, set out in the terms of reference of the Eminent Person, was to obtain and understand stakeholders’ views on the role of the World Bank in the extractive industries. The second was to identify areas of possible consensus, and dissenting views. The third objective was to make recommendations that would focus and redesign World Bank Group policies and programs within the context of World Bank Group operations, i.e. providing finance, and sharing knowledge, as well as the direct and indirect impacts from their policy co-ordination.

The difficulty in such an exercise had been encountered in similar reviews, for example, the World Commission on Dams, or the MMSD report. Namely, how to integrate stakeholders, how to ensure all views are recorded in a balanced way, and how to make sure everyone participates. At the EIR planning workshop in Brussels the previous year, there were long discussions on who the stakeholders were, who should participate and how to perform the analysis. It had been jointly decided that there were four main groups: industry, civil society, the World Bank Group and government. It had also been agreed that priority would be given to committee-based organizations and to people directly affected by the projects or the policies of the World Bank Group.

In Brussels, stakeholders agreed on five types of activities for the EIR: (1) regional consultation workshops in four regions (Latin America and the Caribbean, Eastern Europe and Central Asia, Asia-Pacific and Africa); (2) community consultations; (3) project visits; (4) commissioned research in three phases; and (5) web-based consultations. The substantive framework would, therefore, feature project visit reports, community testimonials, research projects, and results from regional multi-stakeholder consultations.

Regarding commissioned research, the EIR had received a series of research proposals in Phase I of the research program from which a number would be selected and resources be allocated. In Phase II, there would be further discussions with stakeholders prior to commissioning research that would be based on terms of reference prepared by the EIR Secretariat. Phase III would cover issues highlighted by the Secretariat towards the end of the process. In the workshops, the EIR Secretariat aimed for a balanced stakeholder representation, active participation by participants, and discussions focused on the direct, and indirect, role of the World Bank Group in the extractive industries in order to achieve a specific set of recommendations.

Information from all these activities would be used to feed into the EIR’s Conceptual Framework, which was continually modified and published on the web. This would form the basis of a draft final report which would be discussed with stakeholders before becoming the official report of the Extractive Industries Review.

In parallel to the EIR, the World Bank Group’s Operations Evaluation Department (OED) and the Operation Evaluation Group (OEG) were conducting an internal review of oil, gas and mining
projects inside the World Bank Group. There would also be a review undertaken by the Bank’s Compliance Advisory and Ombudsman. All these studies would be included in the Consultation Report submitted to World Bank Group President, James D. Wolfensohn. The World Bank Group would then have three months to provide comments and make some management recommendations. During that time, Dr. Salim would also be in a position to provide his own comments to the management.

At the first EIR workshop in Rio de Janeiro, Brazil, in April, participants were asked whether the World Bank Group should stay in the extractive industries, withdraw, or modify its approach. The majority of stakeholders felt the World Bank Group had a role to play in oil, gas and mining activities in the region. But others expressed dissenting views during, and after, the workshop. Business as usual was not acceptable; any endorsement of World Bank Group oil, gas and mining projects were conditional on a substantial reform of their activities to ensure poverty reduction and sustainable development in the long term.

7. The World Bank In Eastern Europe And Central Asia

Overview of Regional Strategy
World Bank Group operations in Eastern Europe and Central Asia were based in a region of 30 countries and 400 million people, with an average per capita GDP of around $2,000 - below the World Bank threshold. The economies of the region faced the legacy of communist rule and political changes of the past decade. Democracies were immature, huge inefficiencies remained in the public sector, and macroeconomic policies needed strengthening. The Bank was trying to work with the relevant governments on market liberalization and institution building and, in particular, helping the heavily indebted energy sector.

The World Bank’s strategy for the region was evolving; it had been a learning process together with the countries involved. Workshop participants could be reassured that some aspects coming out of the Budapest workshop may well be built into the Bank’s future strategy. Previous projects in the region also did not reflect the Bank’s present strategy.

The primary strategy had been to close down the huge excess capacity in the extractive industries in the countries that had borrowed from the World Bank. Such excess capacities were a huge drain on national budgets and mines that were, in principle, economically viable were not as their excess capacity was being dumped on the market. The second strategy was to close down uneconomic operations in an environmentally responsible way, mitigating not only the environmental legacy from the past but mitigating possible impacts of eg mine closure. The third element was social mitigation; creating jobs for former mine workers, providing training, extending micro-credits to finance the development of small and medium sized enterprises. Fourth, was the transfer of the remaining economically viable mines to the private sector. This required the involvement of the private sector, so the mines could be operated in a more efficient manner.

Questions and Comments
Coal Industry Restructuring
A Russian trade union representative recalled that in his country over 60 percent of enterprises in the coal sector had closed down as a result of World Bank involvement. Over 400,000 had lost their jobs and only 10 percent found new employment. Of the 34,000 families to be resettled from unsafe locations, only 12 percent had actually been moved during project implementation. Why had 90 percent of processes aimed at enterprise liquidation been implemented, while such a small
percentage of social issues had been addressed? How was project performance evaluated, and how did the Bank intend to amend this situation?

Replying, a senior World Bank mining engineer explained that the Russian Government were confronted with supporting large, uneconomic industries at huge expense to the budget. Despite the deep social pain reforms would cause, it was felt there was no choice but to go ahead in order to realize improvements in the long-term. It was true that, today, the coal mining industry employed fewer people, but it was more efficient, workers were assured stable jobs, and the industry would produce coal for many years to come. At the beginning, neither the World Bank nor the Government knew the extent of trouble the Russian economy would face in the following two or three years. But, the Bank should have looked more at the social aspects at that time. These considerations had been built into subsequent programs, especially in Poland and Romania, and the Bank did not embark on joint programs with governments without now taking into account the social safety net, job creation, and training for the people.

**Economic Development**

CEE Bankwatch queried the World Bank’s strategy of putting so much emphasis on the extractive industries in the Eastern Europe and Central Asia region, where they accounted for 16 percent of the portfolio. How could the Bank guarantee the development of sustainable industries in these countries, i.e. industries not based purely on raw materials, but on finished products that would help economies become knowledge-based markets? Such markets were not so vulnerable to the price shocks inherent in the raw materials market. Other comments regarded the general nature of current World Bank policies. The debate on revenue management had focused on transparency rather than how the money would be spent in the economy. There was also too much emphasis on oil sector development in these countries, commented the speaker, and policies were resulting in a primary focus on oil funds in these countries, on which all hopes had become based.

Responding, World Bank representatives said that avoiding commodity dependency and mono-industry economies was indeed a concern. In this respect, countries in Central Asia were in a better position to balance their economies than in Eastern Europe, where mining was a dominant industry. The World Bank would like to see all these economies diversify and its component institutions were supporting a number of different projects outside the extractive industries e.g. developing financial markets, manufacturing and tourism. Revenue management was still an issue, in Azerbaijan and Kazakhstan, for example. But they were countries that had managed their mineral resources well. Together with the IMF, the World Bank was especially focusing on countries highly dependent on single commodities. The structure and management of oil funds were an important part of limiting market volatility and providing benefits for future generations.

An industry representative commented on Kyrgyzstan’s dependence on gold mining and how its economy would not develop without support from the World Bank. The role of the IFC was therefore crucial for stimulating private investment in the country. In response, the World Bank’s Director for Oil, Gas and Mining outlined the IFC’s priority sectors as five pillars: financial markets, infrastructure development, health and education, information technology, and new technologies. For the IFC to become involved on a project-specific basis in the extractive industries, the projects had to be sustainable in the sense mentioned by the Eminent Person—economically viable, environmentally sound and socially beneficial. Subject to the results of the Extractive Industries Review, the IFC would continue to support projects on a selective basis where it felt that it had a role. That role usually addressed social and environmental issues in coordination with the sponsor and governments.
An oil company executive noted the interest companies such as his own had in cooperating with the World Bank, and asked what kind of incentives the World Bank could give them. Discussions had focused on how to mitigate the negative consequences of foreign investment flows, how to define best practices, and how companies were supposed to act while investing abroad. Strategically, did the World Bank see these ideas as complementary, or contradictory, he asked. The Director for Oil, Gas and Mining agreed that the World Bank did try to address both parts. The World Bank Group advised governments on establishing the right framework to promote private sector investment and on how to restructure their state-owned enterprises. This was achieved by establishing the right regulatory and policy framework to encourage private sector investment and encourage privatization. On the other hand, the Group was helping to build capacity to ensure those projects undertaken by the private sector were done in a proper fashion. World Bank technical assistance loans helped build up the capacity of governments to monitor environmental and social issues of extractive industry projects, and to monitor revenue flow to ensure they were used in an appropriate way. But some countries did not welcome this type of involvement from the World Bank.

From a national perspective, a government representative from Russia questioned the objective of the World Bank’s long-term strategy. Did sustainable development also mean developing industries that were an attractive investment, or was this a tactical objective? Another issue was the balancing of economies, at the national, regional or global level. In his view, the effort so far had been to seek balanced economies at the global level. This could bring excellent results, but there would still be many depressed regions and mono-industry regions, and policies would perpetuate this type of development. Another issue were the low prices for energy, the government representative continued. This translated into low prices for major consumer nations like the U.S., the European Union and Japan. Low resource prices were not cheap for the citizens residing in the energy producing countries in the region. Since 1992, (the year of the Rio de Janeiro Earth Summit), the USA had increased energy consumption by over 300 million tons. Energy was cheap, and there was no reason to save it. For the last 20 years, the price of crude oil had been constant at around $20 per barrel, while the cost of processing industrial goods had grown. The problem for transition economies and developing countries was the imbalance of prices between processed products and raw material industries. If World Bank policy was encouraging the development of the extractive industries in energy-rich countries, those countries may remain relatively poorer.

In response, a World Bank economist disagreed that there was a contradiction between encouraging a country to develop its natural resources and the general objective of economic development. There were many steps to take to ensure resource development led to economic development. But, as regarded energy efficiency, many countries still had energy prices which did not reflect market prices. One of the first things the World Bank encouraged governments to do was to allow prices to reflect the true market value. The issue of balanced economies was complicated and small countries often had a limited number of industries where they had a genuine competitive advantage. Reliance on one industry opened up countries to price volatility, but this did not mean they would be better off if they did not try to develop those competitive strengths.

Transition
A representative of International Federation of Chemical Energy, Mining and General Workers Unions (ICEM) questioned whether privatization would cure rather than kill the patient. To be effective in a globalizing environment, privatized companies had to introduce certain managerial practices, split the business into independent units, downsize and outsource, and, according to Western experience, cut back on staff. When such instruments were introduced into a country in transition, i.e. economies with high unemployment, it seemed contradictory to set one goal of tackling employment and another to privatize.
Bank staff agreed that this was very difficult. In Poland, economic growth had absorbed the first 100,000 workers who were unemployed. But in mining areas today, where unemployment was much higher as a result of the economic slowdown, there was no further restructuring or preparations for privatization. In Russia, the Bank had proposed a gradual program of privatization, but the burden on the budget was huge because so few reforms were taking place in the rest of the country i.e. subsidies were being maintained. The government had to take the plunge to move forward because it had few other options, and despite the hardships experienced, jobs were being created. But this period of transition was unique, and the Bank had no prior models to deal with this transition and these types of privatization. A lesson for future privatizations was that a social safety net be in place before it happened.

Relations with Governments
A representative, from the Russian Association of Indigenous Peoples of the North, asked if there was a system to evaluate expected project outcomes of long-term cooperation with national governments after three years, and if any conclusions or analyses were made when signing subsequent three-year, or longer-term, cooperation agreements? A senior representative from the World Bank, referred to their ‘living’ strategy: the five components previously mentioned, were not static but gradually shifted. There was much more emphasis on privatization and social mitigation today than ten years ago. Three-year Country Assistance Strategies, were not signed contracts, but rather agreements between the Bank and the governments involved on how the economic development of the country should be approached. Loans were extended for the period necessary to complete the project and, generally, had a life far longer than three years.

Project Monitoring
In answer to a question on how monitoring of World Bank Group projects was facilitated, the Head of the IFC’s Operations Evaluation Department (OED) explained that it was a systematic process and had been going on for around 30 years. At the end of each period, a project/implementation completion report was completed by World Bank staff and by the government, or the borrower. This was reviewed by the OED, which was independent and at times severely critical of what the Bank had done. Those documents were available publicly. Regarding project evaluations, IFC evaluated a random sample of around 50 percent of projects five years after their approval. In addition to those project evaluations, it undertook special studies such as the Extractive Industries Evaluation in connection with the EIR. The IFC Department also performed country evaluations and participated in IBRD evaluations, for example on Kazakhstan and Russia. The findings from these evaluations were taken into account and were timed to feed into the next country assistance strategies.

Project Example 1: Early Oil Project

Background
When the Bank commenced the project in 1995, the development of the Chirag field, in the Caspian Sea, was already known as the “contract of the century”. The total cost, some $1.9-2 billion dollars, had covered development of the oil field, construction of a pipeline through Georgia, and rehabilitation of a pipeline within Azerbaijan up to the border of Azerbaijan and Russia. The sponsors were international oil companies from seven countries, together with Sokar, the state oil company of Azerbaijan. IFC involvement consisted of a $100 million dollar A-loan for the account of the IFC, and a $100 million dollar B-loan for the accounts of participating banks.

This was the first major foreign investment in Azerbaijan and Georgia at the time. In Azerbaijan, the Bank had been looking to reduce unemployment, increase the demand for services, and generate oil revenues for the Government. Georgia would benefit from transit fees, economic
activity within the country and the project would establish Georgia as a transit country for the Caucasus. Russia would benefit mainly from tariff revenues from the oil pipeline. Expected longer term impacts included the generation of further investments in Azerbaijan's oil and gas sector. It was hoped the development would enable Azerbaijan would become a major oil province, and have completed its transition from a planned to a market economy.

**Environmental Improvements**
Looking at the Early Oil Project from an environmental perspective, a senior Bank environmental specialist for the region recalled that in 1995/1996, when the Bank was considering investment, there was a legacy of oil contamination in Baku and environmental problems in Georgia. Despite the challenges the project posed, and the risk involved, the World Bank Board had approved the project in 1999 and now, three or four years later, they felt proud of some of their achievements.

The offshore oil and gas guidelines introduced in the Caspian by the World Bank had improved environmental performance. The two terminals, at Sengachel and Supsa, were operating according to the international standards defined by World Bank guidelines. One could question whether these standards could be better. But, compared to the refineries at Batumi, the refinery at Supsa was state-of-the-art and the western road export pipeline was also run according international standards. In three years of operation, there had been only one illegal tap, in contrast with the previous situation in Georgia where two or three taps were found every kilometer. The probability of oil spills was minimal, but there were oil spill response plans in place for the Caspian Sea, the Black Sea and along the western road pipeline, all of international standard, compliant with World Bank guidelines and independently audited.

At the Supsa terminal, there were environment issues over which the parties involved in the project had no control. For example, tankers coming in from all parts of the world. The Bank obtained an undertaking from the seller ensuring that tankers coming into the Supsa terminal complied with the Marple Convention regarding ballast water and waste management. This had basically introduced international standards for tanker performance in the context of offloading oil from World Bank projects in the Black Sea. Gas flaring was also an issue where the Bank did not have total control; the state oil company, Socar, was responsible for dealing with the gas produced. Nevertheless, over the past three years, the Chirag offshore platform had reduced gas flaring from 38 million cubic feet per day in 2000, to 25 million cubic feet in 2001. In 2002, this would be further reduced to between 18 to 19 million cubic feet per day, with continued World Bank involvement in the project, this downward trend was expected to continue.

But from another perspective, the World Bank’s environmental impact in Azerbaijan and Georgia had been small due to the extensive environmental problems in both countries. Nevertheless, Bank involvement, particularly on the Georgian side, had been a significant step forward in dealing with the legacy of contamination.

**Developmental Benefits**
World Bank representatives added that the economic benefits and development impacts of the project were also significant. It had been called Early Oil because the project marked the first stage in the development of oilfields in the Caspian and Azerbaijan. To date some $2 billion dollars had been spent on construction, and some $600 million dollars had been spent locally in Azerbaijan providing significant local employment. The AIUC had spent about $100 million dollars since 1994-1995 on local salaries, and the majority of its employees were Azeris. The same thing had occurred for GBC in Georgia.
The associated gas produced by the project was delivered free to Socar, which had a significant value for the Azeri government at a time when there had been power and gas shortages in Azerbaijan. Today, that 100 million cubic feet of free gas was a significant amount. The revenues generated for the Azeri Government from the project alone were about $400 million dollars. In addition to a growth in employment opportunities, the services industry in Azerbaijan was growing. Because of the location of the country, much construction including assembly of the platforms, had to take place locally. As a result of the project, the Chirag platform had been upgraded in Baku with a total investment of some $400-500 million.

Technical assistance to the Government of Georgia on transit tariff negotiations for both BTC and the South Caucasus pipeline focused on maximizing economic benefits and minimizing social environmental costs. Capacity building in Georgia had helped the Government to monitor compliance with environmental requirements during the implementation and operational phases of the project. The Bank had also helped to establish rules for the use of tariff revenues in Georgia and (with the IMF) was working with the Government of Azerbaijan to set up an oil fund. That effort incorporated the IMF’s operational parameters and rules for the use of the deposited funds.

World Bank representatives believed that without the success of the project, further development in the oil and gas sectors in the Caspian would have been delayed. The success of the Early Oil project had reassured investors. There would be a $10 billion upstream investment in Azerbaijan to develop the Azeri Chirag and the Azeri deep-water oil fields. There would be a related investment of $6 billion for a gas pipeline project in the South Caucasus, and the Baku-Ceyhan pipeline. These projects, together with the Chirag development, had contributed to regional integration and helped Georgia establish itself as a transit country in the Caucasus.

Lessons Learnt

Nevertheless, this was an early stage of development, and the World Bank Group and the oil companies were still learning from the experience. Since 1998, civil society had been active in their communication regarding the Early Oil project and the Bank working to do more, particularly regarding transparency.

A CEE Bankwatch press release had highlighted a number of documents it wanted released to the public, and the Bank was working on some of them with the companies and the governments involved. The AAs and the environmental impact assessments had already been released, the consultation process had started and the Caspian website was up and running. All the relevant documents were available and more would be deposited.

Reflecting civil society concerns about the impact of the project on local communities, and related employment opportunities, the World Bank was discussing putting a strategy in place with recommendations for oil companies to maximize ‘local content’ by doing as much of the construction work as possible in Azerbaijan. Even today, significant community development had been achieved in Azerbaijan from money spent by oil companies to help the local communities. The Bank side had provided support in the form of technical assistance so that local companies could compete for contracts. The Bank was also trying to put other instruments in place, such as credit lines and micro-finance banks which would give small local companies access to financing, so that they could bid, grow and participate in the contract. The Bank also wanted to apply lessons from the Early Oil project to future financing in Azerbaijan.

Questions and Comments

Oil Fields in Azerbaijan
In response to questions, an IFC manager, in the Central and Eastern Europe Department, clarified that the $10 billion being invested in the Azerbaijan oil fields would be used to fund onshore and offshore drilling, and related facilities. The fields would use rigs constructed and assembled locally in Azerbaijan. All contracts would be let in Azerbaijan, which would generate significant benefits for the government and the economy. This would ensure local employment, whether with Azeri firms or joint ventures with foreign companies. Regarding differences of opinion between the Azerbaijan President and the CEO of an international oil company concerning the money actually spent (referred to by an Azeri NGO), the figures had been corroborated by Sokar, the state oil company.

**Environmental Concerns**

A World Bank environmental specialist agreed with the views of an NGO that an EIA should be undertaken for the whole Caspian region and that projects should be discussed from the outset in their entirety. Although, to his knowledge, there had been no such umbrella studies before specific investments were made, the IFC had agreed with BP that they should undertake a study of the environmental impacts in the Caspian region. The report would be made public and published on the web. One of its purposes was to contextualize and perform environmental impact assessments on specific projects. There would be separate EIAs undertaken for Azerbaijan, Georgia and Turkey in relation to the BTC project. These would then be pulled together to cover environmental and social aspects for the whole region. When those documents were satisfactory to the IFC, they would be released for a minimum of 60 days.

A Russian NGO noted that the Bank still viewed the Chirag project as environmentally sound and in accordance best international practices. However, there were neither national nor inter-regional oil spill response plans in Azerbaijan and, with reference to best practices, the Astra rig, which used zero discharge, was less than 150 km away from the Chirag platform. Clarifying, the Director for Oil, Gas and Mining agreed that a regional oil spill response plan was lacking. But it was a fact that the IFC did business in countries where such national plans never existed. What did exist was the World Bank requirement for a response plan to be in place, prior to investment, to deal with all contingencies associated with spillage from a Bank-related project. However, as projects were designed and constructed to minimize the probability of spills, such oil spill response plans were purely back-up plans should there be a problem.

Certainly, he agreed, oil spill response plans for the project would be better if national plans were in place and a strategy for the Caspian existed. The reality was that project spills were minimal—only five occurred in 2001, of which only one escaped containment and that had been cleaned up fairly quickly. With the regional study BP was doing, the Bank was moving towards putting national response plans in place, for Georgia, Azerbaijan, and for the Caspian. Most oil companies and certainly the World Bank Group, would be interested in more regional strategies.

Responding to concerns that the Baku-Supsa pipeline would go through the Gobustan reserve, where there was a designated UNESCO heritage site, the Bank environmental expert confirmed that the western road export pipeline did not do so, as World Bank natural habitat policy dictated otherwise. Such issues made the Bank look at projects in terms of the lack of capacity in these countries to protect such areas.

**Diversification**

Referring to an IFC press release stating that oil revenues would increase GDP in Azerbaijan by 40 per cent, one NGO asked how the World Bank could prevent the country becoming a one commodity exporting country. In addition, the speaker did not understand why Bank micro-financing had to be related to extractive industries. SMEs were important but if those enterprises
were dependent on the extractive sector, they would be vulnerable (i.e. to price changes). Replying, the Director for Oil, Gas and Mining explained that it was in the World Bank’s interest to diversify. Oil and gas projects could be locomotives for other forms of investment, for example the aluminum smelter in Mozambique, which was putting the country on the map. The Bank’s interest was to develop the economy, and if oil and gas were the abundant resource, the industries could be built up using local labor and local contractors, who would in turn develop the capacity to work on projects throughout the Caspian region. Through its involvement in this project, the Bank could therefore promote other aspects of the economy.

Mine Closure in Romania

Background
The World Bank presented a second case study on mining in Romania. The mining industry had been built up far beyond what was commercially viable, with 278 mines in operation on which 10 percent of the population were dependent. By 1996, the Government was confronted with an industry that was draining the economy of $385 million a year. In addition, mines were unsafe as there had been little investment between 1990 and 1996.

In 1996, the Government took decisive action to close uneconomic mines and reduce the labor force from 173,000 to approximately 35,000-40,000. Within a year, 83,000 workers left the industry, with compensation packages, as they saw no future in mining. A large number of mines were not maintained and suffered production stoppages and the general disruption resulted in a sharp decline in economic activity, an increase in unemployment, and inadequate mediation of social concerns. Miners marched on Bucharest in protest, leading the Romanian government to request assistance from the World Bank. This resulted in a jointly designed program to deal with the past, present and future lives of the mines.

Mine Closure
The World Bank and government jointly identified uneconomic mines for closure. Methods for closure, including the environmental requirements, were to be included in a best practice mine closure manual to be developed and used by the responsible government agency for all 29 mine closures. A program of environmental rehabilitation, financed by the World Bank and the Government, was underway at 25 of the mines being closed. Funds from the sale of former mine buildings went to the relevant mining companies who owned them, but this money would be used as part of the mine closure program, for example, to pay workers. A large part of the mining area had been re-cultivated and given back as common ground for cattle grazing.

At one mine, where rehabilitation was complete, former office buildings had been converted for use by a small company employing 30 people producing tubing for glass fiber cables. The social mitigation program addressed not only the needs of mine workers, but also of their families. These communities had formerly been dependent on the mines which, under a command economy, had been responsible for housing, schools and other services. The program offered support for new enterprises: at 11 of the 29 mines, former mine offices had been converted to workspace centers to encourage the establishment of new businesses. $600 million had been set aside for companies to train and recruit employees resulting in the creation of 6,000 new jobs over a period of one-and-a-half years. In one village, the local municipality and mayor had developed a website program, in cooperation with the National Agency for Development, to reach out to small companies in the rest of Europe. Greek and Belgian firms had provided new employment.

Supporting these efforts, NGOs were administering a micro-credit scheme. A government ordinance provided the legal framework for public funds to be used through NGOs. In addition, the
Bank had a community development pilot scheme in place which included a small grant program to improve local infrastructure.

**Looking Ahead**
Discussions had focused on administering the mining sector in a more efficient way, i.e. through capacity building, and management of resources. Subsidies had already been lowered to around $100 million, and would be further reduced. The National Agency for Mineral Resources (NAMR) were made responsible for petroleum and mining, functioning as an independent regulator. To attract new investment, the World Bank was working with the Government on new mining legislation, which was currently in the parliamentary committee, and expected to be approved during the year. The revised legislation would address environmental and social issues related to mining, on which consultations would be required.

A sectoral environmental assessment was conducted throughout the country based on consultations and workshops with various stakeholders and formed the basis of an action program for land-use planning. The issue of protected areas was also discussed with the Ministry of Environment and Forestry, focusing on who would be responsible for “pollution stocks and pollution flows”, for example, after a bidding process on an old mine or concession area.

**Questions and Comments**
Asked why the Government had rejected the World Bank’s social and environmental guidelines in 1997, but accepted them in 2000, a Bank representative explained that the Government had initially been hesitant about mine closure for political reasons. But facing external pressure, particularly from the IMF, to undertake reforms and with an increasing financial drain on the budget, the government had changed its mind.

The World Bank Group provided $44.5 million of the total $62-63 million program, with the remainder co-financed by other donors. 35 percent of the total was entirely dedicated to the social component. The Bank assisted the Government in prioritizing which mines to close first, by identifying those which were huge loss-making operations. This was necessary as, while production had ceased at 160 mines, none had been closed. The workforce was also rationalized, with surplus workers reallocated to clusters of mines in the area.

One participant asked whether the World Bank had applied a standard solution for mining restructuring, and whether other methods had been recommended, such as privatizing some mines, in addition to closing inefficient ones. World Bank representatives explained that at the start of closure program, mines were producing coal which was being stockpiled as the demand for coal in Romania was so low. In addition, coal was being out-competed by gas, which had acquired an increasing market share.

One speaker outlined concerns highlighted by local NGOs. Mine closure had not addressed issues such as slope stabilization: there was no fertile soil to put into places that had been leveled off, leaving them subject to further erosion and making re-vegetation impossible. Regarding water management, pumping stations had been entrusted to local authorities but they did not have the funds to operate them. There were also cases where the firms, who had won mine closure bids, were based far from the affected areas. This had caused significant tensions between local authorities and local communities, as the firms were not viewed to be operating in the interests of the community. Other concerns related to the mitigation of social impacts. It was claimed that only 30 percent of the 6,000 jobs offered had been taken, implying there was a systemic problem with the whole process. It was also felt that the three-month monitoring process was not being undertaken in partnership with affected communities.
World Bank representatives confirmed they were tackling the problems related to the local administration of water pumping stations and would follow up on the concerns regarding slope stabilization. Regarding external contractors, the agency responsible for the mine closure program had urged firms to involve as many local people as possible. But, there was obviously a trade off between the costs and the number of workers who could be employed locally.

Local NGOs were also not convinced that the establishment of workspaces for new businesses at former mines would be economically viable in the long term, as they were generally unconnected to commercial areas. World Bank staff agreed the workspace centers were not close to commercial areas, but they did cater to areas where former miners were unemployed. This was why the Bank was trying to create the right incentives for entrepreneurs to set up small, local businesses. Admittedly, this would be difficult to achieve, but the Bank considered it a worthwhile cause.

8. Case Studies: Environmental, Social and Economic Impacts of Oil, Gas and Mining Projects

12 case studies (see annex 4) documented experiences of oil, gas and mining projects in Eastern Europe and Central Asia. A number of organizations presented case studies on the impacts of oil and gas projects on the environment and local communities: Greenpeace (Russia); the Green Alternative (Georgia); the Black Sea Eco-Academy (Georgia); The Centre for Ecological Justice (Kazakhstan); and the International Association of Oil and Gas Producers (U.K.). Experiences of coal mine closure were presented by the Russian Academy of Science Energy Research Institute; the National Ecological Centre (Ukraine); and the Miners’ Independent Trade Union in Ukraine. Three NGOs presented case studies on gold mining in Kyrgyzstan and Romania: CEE Bankwatch Network (Hungary); Community Business Forum (Kyrgyzstan); and Tera Milenial III (Romania). Other mining industry viewpoints were represented by the UNEP Division of Technology, Industry and Economics (France), two industrial firms, Cayeli Bakir Isletmeleri and Normandy Madencilik (both from Turkey).

Case studies were divided into three separate working groups with a rapporteur reporting back to the plenary session (see chapter 8).

Oil and Gas

Oil Developments in Kazakhstan

Becoming the “New Petroleum Province” had not made local people in Kazakhstan happy, concluded a study of oil and gas development in Kazakhstan. Certainly, they did not share the optimism of the serious oil market players operating in the region. Projects referred to were the Uzen project in the Aksha-Bulak oil field, financed in 1997 with $66 million, and the $20 million Sazan-Kurak project, funded in 2000.

A public inspection by the Caspian Caravan Programme found an area of razed landscape, no signs of recultivation, gas flares devoid of soot collectors and oil spills. In short, the region was abandoned and neglected. World Bank loans had intended to rehabilitate the oil and gas fields, promote nature conservation and mitigate social issues. But the local community in Novy Uzen reported opposite results. Locals had few sources of additional income and resented the oil workers whose monthly wages of $300-400 greatly exceeded their own meager budgets. There was high unemployment in the region, exacerbated by the migration of workers people from Uzbekistan and Turkmeniya. There was also concern that funds may have been misappropriated due to corruption in the oil and gas industry in Kazakhstan. The NGO questioned why the loans had not had more impact, and only appeared to have aggravated social tensions?
Bank representatives explained that the Uzen project had been implemented in 1993, when the Bank had lent to a state-owned entity which ran and operated the facility. The smaller Sazan-Kurak project was in a remote area of the country, and had created substantial employment for Kazakhs. In line with rules and regulations in Kazakhstan, the company had contributed $100,000 for community development purposes.

**Oil in Azerbaijan and Georgia**

A case study by the Greens movement of Georgia focused on the involvement of the World Bank Group in the first stage of a project to extract Azeri oil reserves and distribute them through a pipeline across Georgia. Collaboration between the Bank with the Azeri and Georgian governments began in 1995, when long-term financing was extended by the IFC and IBRD in the form of a Structural Adjustment Credit to support structural reforms and mitigate the risks associated with private sector investments. This assistance was the first of its kind in the region, and included policy advice on institution building in the oil sector, environmental rehabilitation, legal reforms and the ratification of a number of international treaties. According to the World Bank, the project was expected to start an oil boom, with tax revenues increasing the Azeri state budget by 14 percent over eleven years, and the associated pipeline development anticipated to attract an increase in foreign direct investment into Georgia. The project was also to create a precedent for possible future involvement by the World Bank Group in the region.

The project included oil production at the Chirag platform, construction of a new pipeline, rehabilitation of the northern pipeline route to Novosibirsk, and construction of a western route for oil transit through Georgia. The Supsa oil terminal would also be constructed on the Saku Georgia-Black Sea coast. The terminal and the western route pipeline were completed in 1999.

There were a number of concerns relating to these oil developments. While the Azeri economy had grown, it was showing an increasing reliance on the oil sector, with no indication that it would be able to diversify out of petroleum. This increased worries that such reliance on resource-based growth would lead to Dutch Disease. Despite the petroleum development, much of the population in Azerbaijan, as well as Georgia, were still living below the poverty line. Both countries were preparing poverty reduction strategy documents. There were also problems with the supply of energy, disputes regarding compensation for land, and roads damaged during the construction of the pipeline had not yet been repaired by the oil company. While Georgia was benefitting little from oil transit revenues, the government were promoting oil projects through policy reforms and private sector risk mitigation. This seemed to explain the government’s willingness to cooperate with the World Bank on construction of the Supsa oil terminal, despite the fact it was situated in an area of national parkland.

The NGO went on to outline problems with transparency at the international and national level. Although the production sharing agreement had been adopted by the Azeri Parliament, the Government had refused to publish it. NGOs also felt there was a lack of coordination regarding the monitoring of oil revenues in Azerbaijan, as well as in Georgia. They had urged the World Bank to work with the IMF, who had apparently expressed concern that it was not clear where the oil revenues were going and how they were being dispersed. The oil fund set up in Azerbaijan was state-owned, and out of the hands of the Parliament, as the President had the sole power to take decisions regarding the management of the fund. There was no oil fund in Georgia, and the state budget was controlled by Parliament, but the President intervened through decrees, often granting tax holidays to the company.
With respect to economic development, World Bank staff noted that the Early Oil project had generated around $400 million in Azerbaijan over four years. This reflected the good performance of the oil field and also high oil prices. Revenues had been deposited in the oil fund, and today amounted to $600 million. This had not been spent because the Government was currently working with the World Bank and IMF to establish the procedures to spend it. The oil fund was transparent as a result of the World Bank and IMF work, with independent audits complying with international IAS accounting standards. Georgia had benefited from the construction of a new pipeline; the former pipeline, an environmental hazard, had been decommissioned. Regarding revenue management, the Bank were advising the Georgian government on how revenues from the pipeline, and other projects, could be transferred to the federal budget. The Bank was also working to improve the environmental capacity of the Georgian government to monitor implementation of future pipeline projects crossing the region.

Regarding the environment, NGOs were concerned about the wastewater discharged by the terminal into the Caspian Sea which, according to the IFC, was within acceptable standards. However, expert opinion suggested that the discharges had reduced the number of the sturgeon and salmon in the Caspian Sea. World Bank staff clarified that the criteria for discharges had been based upon toxicity levels within the Caspian. In accordance with World Bank guidelines, they would not have a significant environmental impact. The Bank received monitoring reports from the company, confirmed by independent audits, that confirmed they were in compliance with these standards. Such audits had also never indicated any loss of sturgeon, salmon, or seals. Responding, the NGO noted that the Production Supply Agreement (PSA) did not specify what standards would be used, but only what the discharge rates would be. These contradicted applicable legislation in Azerbaijan where national standards, dating from 1977 and 1984, forbade any discharges into the sea. Bank representatives did not wish to dispute whether the PSA was less rigid than Azeri law; the Bank had applied its guidelines in consideration of the environmental impact of the discharges. The Bank, like other operators over a number of years, had established toxicity levels in the vicinity of the Chirag platform and monitoring had shown that the discharges were no impediment to the ecology and fauna in the vicinity of the facility.

**Oil in Russia**

A case study by Greenpeace described the impact of the 1994 oil spill in Komi, Northwest Russia, where, according to official data, more than 100,000 tons of oil were spilled. An assessment by Greenpeace concluded that the ecological aspects of World Bank programs in Western Siberia and Komi were unsatisfactory. There had been further spills at Komi, oil pollution had not really been reduced and oil companies were restricting public rights to freedom of moment and information.

In 1993-1994, the World Bank had issued oil rehabilitation loans of $500 million and $610 million to four Russian companies to extract oil, transport it in Western Siberia, reduce oil leaks and rehabilitate polluted land. Greenpeace had suggested to the Bank a joint visit to Komi to evaluate the clean-up project. This idea was rejected by a Bank official, who said the project was judged as quite successful.

When Greenpeace visited the area in 1999 and 2000, the situation was alarming. Under a half of the oil spills had been cleaned up. The World Bank loan had applied to an area of 20 hectares contaminated with 20,000 tons of oil, while Government statistics suggested the total area of contamination was 700 hectares and 200,000 tons of oil. In addition, there were 20 hectares of waste fields where about 55,000 tons of oil from the oil spills had been dumped. Up to 10 billion cubic meters of associated gas was being flared annually—just less than the total annual gas consumption of Azerbaijan.
From this experience, Greenpeace recommended the World Bank to not invest in projects located in protected areas, such as national reserves, nor in territories where there were potential ecological and social conflicts. To distinguish itself from commercial banks, the World Bank should employ an independent panel of international NGOs to monitor the transparency of projects and undertake site visits with World Bank representatives to ensure the Bank saw the real impacts of projects rather than just what the company wanted to reveal. The next step for the Bank in Russia’s energy sector, would be for it to shift from investment in the oil industry to investment in energy efficiency and alternative sources of energy; Russia’s production costs were currently four or five times higher than those in the West. Finally, Greenpeace felt that the World Bank should not invest in a country with a high level of corruption.

During discussions, Bank staff commented that progress on the Komi spill had been well monitored. There had been numerous Bank missions to the site and a major Swiss-based monitoring company was assessing the use of funds on the clean-up operation and for the pipeline itself.

**Oil Industry Perspectives**

A presentation by the International Association of Oil and Gas Producers (OGP), whose members comprise 57 companies from all over the world, underlined the organization’s capacity to be a vehicle for raising many kinds of standards in the oil and gas industry; on safety, the environment, on impact assessments, etc. Specific reference was made to an oil and gas industry report compiled at the request of the United Nations Environment Program (UNEP) for the World Summit on Sustainable Development. The report compiled research on best practices for the oil and gas industry today, presenting them as 70 case studies, of which at least two were World Bank projects. Many projects were tripartite, with industry in partnership with governments and other organizations, such as the WWF. The study could provide useful inputs for the EIR, for example, new ways of dealing with the sustainable development aspect of future oil and gas projects.

According to OGP, future challenges for the industry were that it ensured the supply of affordable, secure, environmentally sound, and socially acceptable energy products and services to meet growing global demand, and to improve the contribution of the oil industry to social welfare, i.e. ensure the wealth created by the industry alleviates poverty.

During discussions, an NGO objected to the assertion that oil companies were bringing additional human rights protection to areas where they worked. He pointed to a recent NGO report referring to the “empty promises” of the Chad-Cameroon pipeline development; the President of the Chad, he added, had just bought guns with the first revenues from the oil fund. Another participant referred to impact of the AGIP ‘Early Oil’ project on biodiversity in the Caspian sea. AGIP was building earth-fill islands that had had negative impacts on sturgeon breeding grounds. Responding, an industry representative explained that a rough evaluation of the islands had indicated they had not caused any significant impacts. But, there was concern due to the particularities of the surrounding environment and the company was, therefore, planning to establish biomarkers to give accurate baseline figures for the flora and fauna. This information had yet to be released because of the size of the project. Regarding the treatment facilities, the impact was practically nil, as there was zero gas flaring policy. The policy was to re-inject the gas.

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4 "The Oil and Gas Industry from Rio to Johannesburg and beyond: Contributing to Sustainable Development", The International Association of Oil and Gas Producers (OGP) and International Petroleum Industry Environmental Conservation Association (IPIECA)

5 "Broken Promises: The Chad-Cameroon Oil and Pipeline Project: Profit at Any Cost?", Friends of the Earth International (2001)
Coal Industry Restructuring

Coal Mining in the Ukraine

Two case studies, on the restructuring of the coal mining sector in Ukraine, raised issues related to a project initially supported by the World Bank Group.

The study by the Miner’s Independent Trade Union of the Ukraine described the situation in the coal-mining sector and highlighted problems relating to World Bank involvement in the sector’s restructuring. A long overdue presidential decree, ordering restructuring of the coal-mining sector, was issued in 1996. Almost a year later, the World Bank agreed to provide funds to assist in the reorganization of the Ukrainian coal industry. As a consequence, 100 mines had been shut down, or were in the process of closure. Out of a total of $500 million allocated for mine closure, $200 million was spent on the physical liquidation of mines, $170 million for the mitigation of social and economic problems, and $90 million for job creation, with only $40 million earmarked to tackle environmental issues.

The speaker estimated that over 50 per cent of the funds had been embezzled and none of the World Bank Group’s requirements had been complied with during project implementation. The economic situation in Ukraine had not improved; on the contrary, it had worsened. Ukraine had become one of the most corrupt post-Soviet states, with black market operations accounting for nearly 70 per cent of its economy. When the World Bank management realized the scope of the corruption in Ukraine, they simply discontinued relations with the Government.

The trade union representative told the EIR that he was convinced the Ukraine needed loans from the World Bank. But recommendations from the Bank should be far more specific: loans should be allocated for specific investment programs, developed with due attention to environmental concerns and social needs, such as the creation of new jobs.

A companion study from the National Ecological Center of Ukraine elaborated on the environmental and social issues of the mine closure programs. A major environmental problem had been how to dispose of waste piles from mining activities. Some piles had been re-cultivated, but continued to scatter dust particles in the surrounding area and many waste piles ignited spontaneously in Summer due to the high carbon content in the waste rock. Land subsidence was a problem, with significant structural impact on some buildings. In certain areas, water from the mines had contaminated drinking water meaning local wells could no longer be used. Towns and their suburbs were subject to under-flooding, which had worsened.

The most significant problems were found in the depressed mining towns. There was a significant deterioration in living standards due to a lack of funds to finance public services such as telecommunications, public transport, and medical services. Unemployment had increased and many former mine workers had not received compensation, either in wage arrears or severance pay. Those who did receive compensation had soon spent it on food, alcohol and other requirements, leaving them on the subsistence line. Many workers had migrated to other regions of the Ukraine, and CIS states, in search of work.

According to the presenter, a company called UDKR had been established as the central authority for the closure of mines, on advice from the World Bank. But UDKR were not seen to have been transparent in their decision-making, which was undertaken without the consultation of local authorities, workers or the general public. UDKR’s disbursement of funds had been impossible to monitor and the organization had denied having available funds for environmental or social programs. There was evidence that earmarked funds had been misused. For example, $14 million, designated for the creation of new workplaces for former mine workers, had been used by a bank to
cover its own debts before depositing the remainder. Although UDKR had been involved in the physical liquidation of 80 mines, virtually none had been completely decommissioned. They had been physically closed, but work relating to the closure program had not been performed before the mines were transferred to the local authorities, who did not have sufficient funds to support them. UDKR had contracted work to companies that were not local, meaning unemployed workers could not find temporary contracts to perform the liquidation work.

The main recommendation from this experience, continued the speaker, was to improve the dialogue with the public. Before the individual mine closure projects were approved, there should have been effective consultations with miners, local authorities, NGOs and independent environmental experts. There was a sense the closure programs had been set to a limited timeframe, were low quality and lacked an adequate ecological component.

It did not seem as if the Bank had any active monitoring procedures for the mine closures, and on-site inspections of mine closure operations had been rare. The first serious mission with an on-site inspection had taken place after the first loan was utilized, i.e. after the funds had been spent, when the Bank was preparing to extend another loan to the Government.

In conclusion, the presenter attributed the worse than expected consequences of mine closure to the World Bank’s classification of the projects as Category "B" that called for only for an abridged estimation of ecological impacts.

Discussions

During discussions, there was a call for systematic analysis to compare the coal sector with other sectors, such as light industry, in order to evaluate the role of the World Bank. Regarding whether the role of the World Bank had made the situation in Ukraine better or worse, it was felt mine closure had been pushed through too quickly, leading to more negative, than positive results. The sector was again surviving on subsidies, despite the fact that mines had been shut down. It was suggested more time should have been spent on project development and implementation, perhaps with the involvement of influential foreign investors who would have had leverage on the Government.

In response, the World Bank’s Mining Policy Group manager agreed that the situation was extremely grim and had been a learning experience for the Bank. In Russia, Romania and Poland, coal sector budgetary support had also been difficult and staff had had to work hard to achieve positive overall results. But in the Ukraine, there were significant budget irregularities; indeed, at one time, the IMF had suspended its support to the country as funds were disappearing. With respect to the actual closure, the Government had not made the agreed funding available due to a budget crisis. The Ukrainian economy and the total industrial sector, including the coal industry, had declined by over 50 per cent between 1990 and 2000. The Bank realized follow-up work would be required to remedy the situation, in particular to deal with the social and environmental aspects of the coal sector, and had been in dialogue with the Government. However, fearing resistance from the miner’s unions, the Government felt Bank proposals were politically unfeasible and had agreed to increase both production and subsidies in the coal industry, thereby increasing the overall cash drain on the economy. Under these circumstances, the World Bank had no choice but to withdraw.

Asked by the EIR whether the World Bank should re-engage in coal restructuring in the Ukraine, the Chairman of the Trade Union replied yes. As an elected member of the Ukrainian Parliament, member of its Committee on Fuel, Energy and Nuclear Safety, and a member of the Supreme Soviet on Fuel, Energy and Nuclear Safety, he confirmed that the Ukraine needed assistance from
the World Bank in the form of loans, investment, reforms and structural reorganization. They should work together to correct the mistakes.

**Coal Mining in Russia**
A case study, by the Energy Research Institute from Moscow, reviewed the World Bank’s $1.3 billion support, in 1996, for coal industry restructuring in Russia. The program featured large-scale privatization of Russian coal-mining companies, the closure of over 170 mines and the laying off of 500,000 workers. Project implementation was over 10 years and included four consecutive phases.

Since 1996, the share of state subsides to GDP reduced ten-fold, the share of expenditures to losses in the coal industry decreased 3.5 times, and average monthly labor productivity grew by, approximately, 70 percent over the last five years. In 2000-2001, the sector grew by 10-11%, with most of this increase coming from private enterprises. In addition, the occupational injury and mortality rate per 1 million tons of coal declined.

The second phase of privatization, from 1996 to 1998, focused on divesting coal enterprises from non-core facilities and operations. All public services facilities owned by the mining companies were transferred to the jurisdiction of municipal authorities, some mines were closed, and others enlarged to improve their investment potential. The Government were aware that it would be difficult to provide social protection to unemployed miners without assistance from World Bank loan facilities. Thus, the first coal loan, $500 million, was to support the structural reorganization of the sector.

The third phase of privatization, 1998-2000, was the period of active mine closure. State allocations for the coal sector, amounting to 57 per cent, were channeled into social protection programs for workers. Two major coal companies were put up for sale and the World Bank agreed to support the privatization process with a further $800 million loan. By the end of 2001, almost 70 percent of mining enterprises were privately owned and accounted for 70 percent of total production.

**Discussions:** While agreeing with the summary, a representative from the Independent Coal Employees’ Union of Russia, referred the EIR to project documents which stipulated that economic and social issues should be resolved simultaneously: adequate social protection programs had to be devised and fully financed before workers were laid off as a result of the decommissioning of mines. But this did not happen; 183 mines were liquidated and 500,000 people lost their jobs. In a district of the Rostov Oblast, 35,000 people became unemployed but only 4,000 new jobs were created.

Some 35,000 families were also to be relocated to new houses from unsuitable accommodation near the former mines. But over the past 6 years, only 20 percent of the relocation program had been implemented and 26,000 families were still awaiting relocation. With funding for 2002 at around 11 percent of the previous year, relocation would take several decades to complete.

This raised the question for the World Bank regarding its own assessment of the restructuring program and whether it had been successfully completed and yielded positive results. In the opinion of the speaker, this was only true in macroeconomic terms as not even fifty percent of the social component had been fulfilled. This figure downgraded the evaluation of the program to below the "satisfactory" mark.

**Minerals Extraction**
Mineral Resources in Romania

A technical officer from the National Agency for Mineral Resources (NAMR), in Romania, presented her experience of two World Bank projects designed to rehabilitate the petroleum and mining sectors. In a country where mineral resources were of great importance, Romania needed sector reforms, modern institutions, and a new legal and regulatory framework that favored the participation of the private sector. World Bank programs had established the NAMR, in 1993, as an independent regulatory authority for the mineral resources sector, with broad competency under the petroleum and mining laws. The agency granted concessions, regulated the petroleum and mineral sectors and oversaw implementation of the petroleum and the mining law. These laws, along with the development of the legal framework, had been prepared with significant support from the World Bank, and the agency had succeeded in attracting investment in both the petroleum and the mining sectors. The presenter underlined the Bank’s contribution to capacity-building within the NAMR through training on negotiation, economic evaluation, and environmental management.

Petroleum sector rehabilitation had been funded by a $175.6 million World Bank Group loan to the NAMR and state companies, Petrom (the main oil producer), Romgas (the gas producer), and Compet (the oil transporter). The aim of the project was to contribute to institutional strengthening, create a legal framework, facilitate the development of an efficient and market-oriented petroleum sector, promote private investment and improve the performance of certain Romanian companies. It had enabled the first licensing round for 15 exploration and production blocks, for which international consultants helped NAMR staff promote and prepare competitive data packages and apply a model concession agreement for royalties. This experience had enabled agency staff to organize other licensing rounds on their own. A second program developed the national geological database to attract private investment for exploration. A third program developed a methodology to set up tariffs for petroleum pipeline transportation.

Mine closure and social mitigation were the focus of a second project funded by a $44.5 million loan implemented by the NAMR and the Ministry for Industry. There were three main objectives: to develop effective technical and environmental procedures for the formal closure of uneconomic mines; to identify effective measures for mitigating social hardships resulting from restructuring the sector, and create diverse employment opportunities for redundant workers; and to strengthen the agencies involved in restructuring the sector, also introducing a modern mine licensing system.

The NAMR had developed a new mining law, mining controls, and a minerals title registry. The drafts to amend the mining law were discussed with government ministries, national and international companies, and other organizations. Currently under consideration by the Chamber of Deputies, the mining law introduced an obligation to incorporate mine closure plans from the beginning of a project, which would be revised every five years.

The NAMR also developed environmental programs, including a sectoral environmental assessment study, which was a broad analysis of the past, present and future effects of mining in Romania.

Copper, Zinc and Gold Mining in Turkey

Cayeli Copper and Zinc Mine: the first of two case studies on mining in Turkey, referred to a copper and zinc mine at Cayeli, Northeastern Turkey, near the Black Sea. The project was partly financed by IFC loans amounting to $75 million which, the speaker said, had made the project viable. Bank involvement had also set standards for safety, health and environmental issues. Shareholders’ contribution to the total capital amounted to $140 million dollars. In addition a further $65.3 million had been spent on capital items since production started. The underground
The Ovacik open-pit gold mine, near Izmir, Turkey, commenced operation in May 2001. The mine produced unusually clean ore, containing 2.5 milligrams of gold per ton, and extracted 300 tons annually. The plant was said to represent the best available technology in the European Union and had followed EU directives for protecting soil and the environment.

The company was probably the first in Europe to lodge a $1.5 million rehabilitation bond with the Government. The bond was in response to community concerns regarding eventual closure of the mine. In addition, the company had taken out umbrella insurance of up to $200 million. When the mine was closed, the company would remove all concrete and sea structures, the tailings pond would be dewatered and re-vegetated, and surface water would be monitored for a minimum of 10 years. If water from the site did not meet discharge criteria, the company would build a water treatment plant and run it for as long as necessary. The company was also removing and storing top
soil, and, on a trial basis, planting trees with the idea of partly reforesting the whole area when the open-pit mining was complete.

The Ovacik tailings dam was designed with a very high safety factor, meeting first degree earthquake zone requirements. The dam had been built four years previously and showed no signs of strains or leakage. It was equipped with a cyanide destruction unit and a heavy metal stabilization unit using ferric sulphite. Zero discharge could be determined because the area was arid and the difference between precipitation and evaporation was about 1.5 meters. Other highlights included the use of cyanide in extraction technology. The Ovacik mine did not allow cyanide discharges into the environment, in contrast to elsewhere, where small discharges were permitted: 0.2 milligram per liter in some areas in the U.S., up to 2 milligrams in Canada and up to 1 milligram under World Bank standards. The mine was also committed to 1 milligram per liter for cyanide discharged into the tailings pond. In March 2002, levels were actually less than 0.1 milligrams. Figures from Ovacik reflected their clean operations and rigorous monitoring. The occupation health picture was similar.

A representative from the United Nations Environment Program (UNEP) noted the development of an international, voluntary cyanide code, under the auspices of UNEP, that would be considered the new baseline for minimum acceptable standards in gold mining. The presenter confirmed that the Ovacik plant never exceeded 300 ppm in air because an alarm would be set off at around 5 ppm. The UNEP representative further noted that the excellent report on the Ovacik mine today, contrasted to past mistakes in 1990 and 1991. At that time, consultations with local communities ranged from poor to non-existent. The environment impact assessment had not been actively applied, and the design of the plant had needed to be upgraded due to the controversy over cyanide. This explained why there was a cyanide detox plan. From a financial point of view, there were long delays in making the mine operational, with implications for cash flow and the cost of capital.

Elaborating on the mine’s partnership with the local community, the presenter said there had been originally been serious opposition to the mine. Out of the 350 employees, 81 percent were from three villages surrounding the mine and it was company policy to obtain goods and services from the nearest available source. NGOs had been involved in both the training of local suppliers and the purchasing process; the company also had established programs to assist individuals to develop small-scale businesses. A major initiative was aimed at encouraging gold artisans to work in the area, so the gold produced by the mine could generate jobs for 3,000 people. Such businesses would still be able to make jewellery after the mine closed using gold from elsewhere.

With recommendations for the EIR, the presenter commented that company management believed community partnerships were essential in projects such as these, to avoid disputes that could affect business. The presenter also felt that the EIR should consider the criteria where the World Bank could play a catalyst role; as an honest broker, the Bank could ensure that NGOs, companies and the government did a good job to the benefit of the local community. In Turkey, revenues went to the government with nothing trickling back to the local level, which meant companies had to make additional efforts to work closely with the community.

Following up, World Bank staff commented that the Ovacik mine had been a testing ground where everybody had learned a lesson; NGOs, the community, the government and certainly the World Bank. Ovacik was now a showcase and the World Bank had added many improvements to it. But the cost of environmental safeguards in such a project were usually 2.5 to 10 percent of the total cost, at most; at Ovacik the cost of safeguards were almost 50 per cent of the budget. In a sense, things had been overdone, and some of the money involved could have gone to furnish community needs.
Gold Mining in Kyrgyzstan

Four case studies elaborated on issues raised by the cyanide spill near the Kumtor gold mine in Kyrgyzstan. Friends of the Earth focused not only on the circumstances of the spill, but also on the degree of public consultation and awareness, and the long-term impact of the mine, including its preparations for closure. Another NGO\(^6\) reported on its survey of the medical and environmental consequences of the spill, undertaken in 1999, a year after it occurred. A representative from the Bureau on Human Rights and Rule of Law, in Kyrgyzstan, highlighted problems of access to information, while a representative from the local Community Business Forum explained how the public was being informed today. The company, it pointed out employed 1,500 workers and its operations directly benefited 10,000 people.

From the NGO perspective, the main issues included the choice of technology, deficiencies in project preparations, the circumstances surrounding the cyanide accident, and whether or not the project constituted sustainable development, taking into account its social and environmental impacts. The underlying issue was how much leverage the World Bank had in this process.

Friends of the Earth were not able to trace any public involvement in the preparation stages of the project, even though the procedures for the environmental impact assessment recommended there should be a record of public consultations. In addition, they were not aware of the availability of any environmental assessment documents in either Russian or Kyrgyz. NGOs felt safety concerns had not been sufficiently addressed: there were improper safety measures in place for the transportation of hazardous substances. Two NGOs felt a safer alternative to cyanide technology should be used, one more suited to mountainous terrain where there was an ongoing risk of accidents, or earthquakes, with potentially hazardous consequences. There were concerns regarding the safety of applying calcium hypochlorite and sodium hypochlorite for cyanide detoxification and what seemed to be a delayed monitoring of individual environmental components. The local community felt it was unacceptable that the company failed to inform them of the accident for 5-6 hours, especially considering a chlorine compound was used on a large scale to neutralize the spill. Compensation was meager, and amounted to just $20 dollars per person and 20 tons of sugar for the whole village of Barskaun. The result, during the first days of the spill, said NGOs, was an emergency situation where the maximum permissible concentration of cyanides in water, air and soil were exceeded 1,590 times.

One NGO reported cyanide poisoning as a main impact of the accident: 5.6 percent of the local population with serious effects, 25.9 percent with medium effects, and 68.5 percent with mild effects. Out of 68 children, hospitalized at the Kyrgyz Research Institute of Obstetrics and Pediatrics at the time of the accident, 23.6 percent had cyanide in their urine. The NGO noted that local climactic conditions, namely the decreased oxygen content in the local environment, the wind conditions in the coastal area, and the lack of currents in the lake, would have retarded the normally rapid decay of toxic cyanide.

Regarding mine closure, only $5 million had been allocated for final closure which the World Bank had acknowledged was insufficient. The assumption was that the Kyrgyz government would take care of mine closure, with little responsibility taken by the Kumtor operating company. The NGO questioned the long-term stability of the frozen dam and tailings and whether they were stable given evidence of other melting glaciers in the region. The original environmental impact assessment did not consider the dam or tailings as a cause for concern, but this assessment was drafted before climate change became an accepted phenomenon. Hydro-geologists from

\(^6\) Human Development Centre “Tree of Life”, Kyrgyzstan
Kyrgyzstan had confirmed the possibility that the permafrost could melt beyond the designed thickness, of 1.5 m, by 2030-40. This raised doubts whether the tailings would remain sufficiently covered by permafrost and that, with the changing hydrogeology of the area, could pose a significant toxic health hazard in the future.

Other concerns related to the difficulty in accessing information through the operating company, despite frequent requests from NGOs. After the cyanide spill in 1998, an NGO requested information on the emergency response plan, a list of the prior accidents, as well as, the company's own assessment of their safeguard policies. The company responded that this information could only be forwarded to the Government and specialists. Only after a visit from a representative of the IFC Compliance Advisory Ombudsman’s office in 2000 did the company disclose elements of the emergency response plan. The Community and Business Forum also identified access to credible information as a key issue for communities and NGOs. The Forum tried to encourage the flow of information by publishing regular reports for more than 100 national and local NGOs, and 30 community-based organizations, and had organized seven site visits to the Kumtor mine to address the concerns of specialists, local communities, and local NGOs. The Forum felt that it was important to define the roles of different stakeholders and to build the capacity of community-based organizations. It was important for governments to ensure the fair distribution of revenues with tangible benefits for local communities. Too often, the speaker agreed, revenues went into the federal budget and did not reach the local people.

**Discussions:** In subsequent discussions, Friends of the Earth raised the question of the World Bank’s leverage in major projects like Kumtor. They felt this leverage was significant at the approval stage of a project, but the World Bank’s influence decreased over time. What sort of power did the Bank have during, and after, a project to ensure safeguards were met? Was is possible that the $150 million spent on the project was less than the eventual cost of addressing the pollution it caused in following decades?

In a general comment regarding the development impacts of the project, an IFC representative pointed out that gold was still an important industry for the Kyrgyz Republic and represented over 30 percent of exports. The operating company was also two-thirds owned by the Kyrgyz Republic, with only one third in foreign hands. The IFC believed governments could greatly benefit by obtaining revenues from taxes and royalties from such projects rather than being shareholders in companies. From Kumtor, for example, the Kyrgyz Republic had received $38 million in various taxes, $4.7 million in royalty payments, $3.8 million in management fees and paid out $115 million dollars in worker’s salaries. The government had only received $7 million in dividends, but had taken an investment risk at a time when gold was worth $350 to $375 an ounce: the Government negotiated a deal with the private investor, choosing to retain a 70% share of profits in lieu of other forms of taxation that might have reduced its exposure to fluctuations in gold prices.

**Mining, the Environment and International Organizations**

A representative from UNEP presented some recommendations to the EIR on mining, that were also applicable to the oil and gas industries. UNEP fundamentally believed the World Bank had a role in the extractive industries. Market forces neglected environmental costs, she pointed out, and the World Bank, other international financial institutions and the markets needed a mechanism to internalize these environmental and social costs. Meanwhile, environmental quality was deteriorating; resource demand and product consumption were unsustainable, local improvements were often negated by increased growth, i.e. improvements in energy efficiency, or in water use, would not have the benefit impacts they could in an region undergoing 10 percent growth. Environmental institutions and laws were not implemented and environmental technologies existed but were under-utilized.
A UNEP listed some major mining accidents since 1975, including failures in tailings dams, transportation and pipe facilities. These were worldwide problems, not just common to developing countries, and occurring in all types of mines, whether precious metals, base metals or coal mines. Lessons had been learned from inadequate preparation and lack of waste control; inadequate emergency response plans; lack of communication with local communities; inadequate recognition of potential impacts; and inadequate monitoring and maintenance.

Lessons from the tailings dam failure at the Aurul (now Transgold) mine in Romania showed the importance of ongoing operational monitoring, regulatory controls, emergency response, the need for a pro-active industry, and the importance of due diligence for financiers. A recent cyanide containment failure in Nevada had again been caused by a monitoring system did not work. The reality of mining today was the gap between facts and perceptions. Standards, codes and permits existed, but the mining industry still needed to gain the trust and confidence of the public; in short, earn their social license to operate. Governments also had a role to play in creating the right legislative environment. Financiers too, including the World Bank Group, needed to ensure their investments supported the best practice, and this should continue beyond the point when the loan was repaid. It was appalling, she added, that one international financial institution was reported to have ordered Turkey to pass a law on industrial development zones reducing the required environmental impact studies to a mere formality to benefit foreign investors.

Typically in tailings dam accidents, companies claimed that the structure had met legally established stability requirements. That was one of reason for World Bank standards and guidelines to be strengthened as they were used by a variety of organizations, for projects or in the financing of projects. From that perspective, UNEP had four recommendations for consideration by the EIR:

- Environmental impact assessments should be living documents. They should endure the life of the mine and not be viewed as just documents to enable the initial investment. Assessments should respond continuously to changes at the mine and from consultations with the affected communities.
- Emergency response plans should be developed and in place from the beginning of a project.
- Ensure both government and community support for a project i.e. obtain the social license to operate.
- Assess corporate environmental management systems and tools for project evaluation. Perhaps CEOs should be made personally responsible for the environmental and social aspects of their operations, which should be reviewed in an annual report.

The necessary management tools were available for both government and industry. Government regulations called for environmental impact assessments, design standards, pollution standards, waste management systems and monitoring of operations. Tools for industry included environmental management systems, life cycle assessments, public sustainability reporting, supply chain management, extended producer responsibility and environmental management accounting.

One NGO agreed that accidents were symptomatic of bad management, which could often be traced from the very beginning of a project in the attitude of companies towards the community. It seemed as if the World Bank, and other financial institutions, were only prompted to react to such shortfalls after incidents occurred, rather than prior. The presenter elaborated that the world needed metals and minerals, and in some cases extractive industries were the only possible resource for
economic development. But it was an absolute must that projects contributed to sustainable development at the local, regional and national level, in the long-term.

9. Sector-Specific Recommendations
A plenary discussion received reports from each of the three working groups and drew broad conclusions on the role and impact of the World Bank Group in Eastern Europe and Central Asia in the three sectors of mineral mining, coal mining, and oil and gas.

Mineral Mining
In mineral mining, the broad impact of the World Bank had been economic, in attracting investments from private sources. Specific impacts were more varied: there were positive benefits of providing employment for thousands of people, as in the case of the Kumtor gold mine. But negative aspects included the frequent lack of consultation with the local community and lack of transparency surrounding projects.

Looking ahead, the World Bank should have greater leverage, throughout the life of a project. It should promote equitable revenue management so money reached those most in need, and ensure public participation before projects reached approval. The role of the World Bank would reflect recognition that the standards for mining were not adequate and guidelines were too theoretical. Poverty reduction was not a reality and development was unsustainable. Environmental impact assessments should be reviewed and evolve to suit the changing circumstances of a mine, once active.

i. Maintain or Expand:
One recommendation was suggested for the World Bank Group to maintain or expand their activities in the mineral mining sector:

- Finance projects with more favorable terms

ii. Change and Modify:
The following overlapping proposals were outlined for the World Bank Group to change or modify their existing activities in the mineral mining sector:

- Define, and implement, technical, safety, and environmental standards
- Develop, and maintain, clear procedures to regulate the implementation of public partnerships in the preparatory, implementation and completion stages of projects
- Minimize fiscal incentives and maximize domestic downstream industry
- Ensure transparency for project revenues by insisting that governments provide details on how mining royalties and tax revenues are spent (e.g. receipts and expenditure reports)
- Make concerted efforts to negotiate with governments to channel revenues to the affected areas to ensure sustainable economic activity after mine closure
- Insist on mandatory closure plans and funding in line with international best practices
- As a special chapter on decommissioning in loan agreements, including best models of mine closure (transparent, with public control, social and environmental mitigation). The clause would sanction the company if it failed to implement such models
- Use the Human Development Index (HDI) than GDP to evaluate benefits of the mining industry for any country
- Evaluate all mining projects as category A, and eliminate category B
- Deal only with directly affected stakeholders in project negotiation and financing
- Insist that local governments are part of project negotiations and receive specific revenue allocations under project agreements
- Insist, as a condition of lending, that emergency response plans are developed with affected communities and put in place from the beginning of a project, subject to periodical review

### ii. Withdrawal:
Two recommendations were proposed for the World Bank in ceasing some mineral mining activities:

- Ban all new mines in sensitive areas (mountains, national reserves, resorts, near indigenous or subsistence communities)
- Ban the use of cyanide and other toxic technologies at existing and new mines

### Coal Industry
In the coal sector, studies for the Ukraine and Russia had shown how the results of industry restructuring programs were unexpected. In the Ukraine, the World Bank had been influential in persuading the Government to restructure the sector, while only indirectly formulating the strategy to achieve this. The overall economic, political, social and environmental impacts of the restructuring had been negative. Privatization was incomplete, with much of the sector still in the public domain, restructuring had been poorly implemented, for example, funds had disappeared, and there were significant environmental challenges to be resolved. Nevertheless, the working group felt the World Bank should remained engaged in the extractive sector in the Ukraine, but do the job better.

The World Bank became involved in coal restructuring in Russia after the first stage of privatization. Its main impacts had been positive at the macroeconomic level. However, social problems had not been mitigated and trade unions reported a negative experience of restructuring due to high levels of unemployment.

#### i. Maintain or expand:
The working group outlined two recommendations for the World Bank Group to maintain or expand their existing activities in the coal sector:

- Investment (e.g. IFC loans and World Bank guarantees) should not only target mine closures but the development of profitable mines
- After project completion, the impact of projects on the macro-economy should be evaluated

#### ii. Change and modify:
The majority of the group’s recommendations focused on modifying or changing existing World Bank Group policies in the coal sector:

- Develop a 10 year program for coal sector restructuring, with early involvement of different stakeholders and transparency of design and implementation
- Establish a steering committee representing all stakeholders, with real accountability
- Develop mechanisms to implement declared ‘good intentions’ of business, such as OECD guidelines, or ILO conventions
- Develop ongoing programs for small and medium business development in coal mining regions
• Ensure job creation a major component of every project
• Strengthen capacity building initiatives
• Implement social and environmental monitoring through dynamic coordination with local communities, and other stakeholders
• Ensure social and environmental components do not lag behind closure and privatization components in project implementation
• Synchronize restructuring and financing after consultation with all major stakeholders and based on an agreed, comprehensive program
• Have projects and programs prepared by governments before their review with the World Bank for selection of priorities (rather than vice versa)

iii. Withdrawal:
Two recommendations were outlined for the World Bank Group in ceasing some activities in the coal sector:

• The World Bank Group should phase out financing of new coal mining capacities, including open-pit extraction
• No new coal projects

Oil and Gas Industry
In the oil and gas sector, the World Bank role in Azerbaijan and Kazakhstan had been that of financier, institution builder and policy adviser. In Russia, the Bank had been involved in environmental mitigation and major restructuring in Siberia. Negative impacts were noted across the board. Social impacts included insufficient creation of local employment, and conditions were deemed worse by some participants as a result of World Bank Group involvement. From an environmental perspective, there were many critical statements regarding the role of the World Bank. The main concern with respect to governance, was the lack of transparency in the use of funds and the Bank’s insufficient role in initiating institution building. Many felt their access to information had been restricted by the World Bank, governments and companies involved. The working group felt the World Bank should ensure all aspects of projects are completed, especially with regard to the environment, and expectations should be reduced, i.e. the World Bank Group should not be expected to solve all the problems in a country. But Bank staff should to make it clearer to communities what they could, and could not, achieve. This was a reason why grass-roots consultations were so important.

i. Maintain or Expand:
The working group outlined the following recommendations for the World Bank to maintain, or expand, existing policies and activities in the oil and gas sector:

• Recognize that World Bank Group standards are independently valuable as ‘generally accepted international standards’ for host governments, whether it is involved in financing or not
• Ensure the Bank’s role as financier is used as a means of enabling the participation of national companies, setting standards, promoting good practice, and good governance
• Promote transparency, including production sharing agreements and the World Bank’s own internal and external evaluations.
• Invest only in projects able to demonstrate poverty eradication and an improvement in living standards

ii. Change and modify:
The following recommendations suggested changes and modifications to World Bank Group activities in the oil and gas sector:

- To promote the partnership of the World Bank with industry, civil society and government. In particular, ensure broad consultations at the national level, with the participation of governments and all stakeholders (including local communities and indigenous peoples) in open discussions.
- Simplify and shorten necessary processes, without compromising fundamental conditions.
- The World Bank, working with NGOs, communities and governments should develop social and economic criteria for the local and regional level before project implementation and regularly measure progress against those criteria.
- To promote good governance, including full transparency of government revenues and audited disclosure on the use of oil funds. Look for synergies with other entities working on such issues e.g. the Soros Initiative.
- Give priority to the rehabilitation of existing sites, such as mitigating environmental and social problems.
- Maximize the role of civil society in the decision-making, and implementation of projects, in particular until EIR recommendations come into force.
- Develop base line and performance indicators (e.g. for poverty, health, and environment), and track results. An explicit connection should be made between the role of the World Bank in the country assistance strategy and the role of the IFC and MIGA in private lending to projects, to ensure consistency within a country.
- The World Bank should challenge disinformation put forward for political purposes and publish actual project outcomes.
- Priority be given to energy efficiency and renewable projects, and move towards supporting more gas, and less oil.
- Priority be given to projects utilizing by-products and waste from the extractive industry.

**iii. Withdrawal:**
The following recommendations were put forward for the World Bank Group in ceasing some activities in the oil and gas sector:

- No public money should be used to support new fossil fuel extraction.
- Develop effective criteria for identifying ‘no-go zones’ and review this periodically in light of changing technology.
- Allow for a community ‘veto’ during consultations.
- 5 year phase out of oil and gas investment (the group did not fully agree on this).

**Common Themes**
The Consultation concluded its discussion of sectoral recommendations with proposals for common themes:

- Involvement of all stakeholders from an early stage.
- Greater priority for social and environmental concerns in the planning stage.
- Transparency.
- Revenue management.
- No-go zones.
- Cut down on the decision-making time when evaluating a project.
- Involve governments at an early stage in the project cycle.
• Increase the responsibility of the government for project implementation

Elaborating the last point, it was suggested that the World Bank work with governments from the start to devise the most acceptable methods of project implementation. Projects should be incorporated into the government's own program for national economic development. Responding, World Bank staff agreed that, in principle, early consultation was preferable, but was not always feasible. With some projects, companies had already started extraction before the World Bank Group were involved, and with others, implementation had gone so far ahead that World Bank procedures would not allow it to participate.

10. Final Recommendations: Cross-Cutting Themes

Based on presentations by the World Bank Group, and case studies on oil, gas and mining projects in the region, the Eminent Person called for further discussion in nine areas where significant issues had been raised: good governance; transition policy; mine closure policy and cleaning-up the past; standards, guidelines and monitoring; disclosure policy and information sharing; revenue management; impacts and benefits at community level; institution building and regulatory frameworks; social mitigation.

1. Good governance—Should the World Bank Group be involved in governance issues, and if so, how? How could the administrative capacity of governments be raised if they are not fulfilling their role at the national, regional and local level? How could the World Bank promote good governance? How could agreements with the World Bank Group be effectively enforced? What were the most adequate indicators for baseline and follow-up studies related to sustainable development?

The working group felt country assistance strategies in Eastern Europe and Central Asia should specifically promote good governance. This meant developing effective legislative and administrative frameworks, promoting transparency and disclosure, and promoting human rights and democracy. The Charter of the World Bank presently prohibited it from interfering in political processes, and this should be changed, along the lines the EBRD’s Article 1. The World Bank Group could perhaps apply Basle performance measurements and reduce the number of confidential project documents, i.e. release internal evaluation reports to the public. Bank representatives acknowledged that there were contractor limitations on this, but felt this could be accommodated through negotiation with contractors concerning the timing and level of detail in the reports. It was also felt the World Bank should monitor levels of public participation and ensure action was taken on issues that arose. The Bank’s resident missions should have increased capacity to facilitate such participation, especially in countries with poor governance.

2. Transition policy—What should be the most appropriate sequencing of reforms, including privatization, in the oil, gas and mining sectors? Should there be minimum conditions for price liberalization? How should declining local and regional economic growth be remediated? How could local services, formerly provided by state enterprises, be improved and adapted to changing circumstances?

How could the World Bank Group promote the development of effective legal and regulatory frameworks? Recognizing that most privatizations had already taken place, the working group noted that in many countries, the legislative and judicial reforms were required. The World Bank Group should provide technical assistance in the drafting of laws, and facilitate the training of legislators. The World Bank should help to formulate close-down strategies for non-profitable state companies, financed through grants and low-interest loans, in a fully transparent way and public
control. Micro-finance schemes, training programs and proper pension schemes were also required, all of which should take priority in country assistance strategies. The Bank could perhaps promote anti-corruption campaigns and link such action with investment or loans. This called for close coordination with the IMF. Price liberalization needed to be undertaken in a socially acceptable way that took affected groups, like pensioners, into account. Such social mitigation should be implemented as a partnership between the private sector, governments and communities. The final recommendation was for the World Bank to develop services and value-added sectors by promoting small and medium enterprises. The Bank should condition all sector investment on sustaining social services in areas affected by privatization, mine closure or restructuring. For example, local tax schemes could be used to raise funds at the municipal level to mitigate social problems, or World Bank bridging loans could be used until funds generated by the project were placed in oil funds.

3. Closure policy and cleaning-up the past—How could past damage caused by oil, gas and mining be mitigated, and the necessary clean-up coordinated among the various actors? What (if any) should be the role of the World Bank Group in mine closures? Which policies would be most effective when dealing with mine closure impacts on employment, social services and treatment of environmental legacies?

Ideally, closure plans should be in place from the beginning of a project and the World Bank should ensure this is a condition of financing for new projects. For projects already underway, the Bank should insist on the development of a closure plan as soon it became involved. Detailed decommissioning and closure plans should be published in the language of the relevant country. It was felt information was often condensed into pamphlets and important details skimmed over. The working group proposed that cost estimates for closure be verified either by the World Bank, or by a third party. This would ensure sufficient funds were available for closure operations in the event that the company was unable to complete the work, e.g. in the case of bankruptcy. The creation of special mine closure funds would be preferable. The World Bank and governments should work together to ensure a social safety net was in place in advance of mine closure. The Bank could also consider the establishment of a kind of insurance system for regions affected by mine closure.

Technical specifications in closure plans should sufficiently protect areas with sensitive seismic conditions. Such specifications should be verified using computer modeling. It was recommended that the World Bank consider financing necessary clean-up operations at old mines, specifically with regard to uranium tailings. It was recognized that this was dependent on the World Bank’s policy of non-involvement in the nuclear cycle. A more innovative approach to financing legacy issues was required, such as the use of mine reclamation funds, now being required by law in some countries.

4. Standards, guidelines and monitoring—Were existing World Bank Group standards and guidelines sufficient? What indicators best demonstrated their effective implementation? How were standards monitored, and how might they be best enforced? Who should monitor the implementation of standards and guidelines once the World Bank Group was no longer involved in a project i.e. after disbursement? What were the main problems faced by industry with respect to the application and monitoring of standards, and how might the World Bank Group assist?

It was recommended that the World Bank Group issue a set of guidelines covering all environmental and social aspects relating to extractive industry projects. Borrowers should pre-qualify by demonstrating their use of current best practices, e.g. OECD guidelines on corporate governance and the ILO conventions on minimal acceptable standards. General indicators should be developed, and made public, to assist in the monitoring of all World Bank projects. These would
include social, environmental, technical, and economic indicators, that would be used to report project progress, maybe every six months. Such a procedure would increase transparency, improve performance and facilitate auditing and reviewing. The working group called on the World Bank to retain an interest in projects for their complete life cycle. Companies that did not follow guidelines and standards could be blacklisted, and others rewarded for good practice, such as enjoying differentiation on financial markets due to the lower risk implied with respect to their operations.

Some were concerned that, by setting more standards and guidelines, the World Bank Group would increase the bureaucracy of a project. The working group emphasized that standards already existed, for example OECD guidelines, and the World Bank Group could issue a comprehensive list of standards aimed at those parties hoping to obtain investment. Guidelines could be tailored more specifically for projects. For example, the creation of a governance board, consisting of various stakeholders, who would act as agents in the area of their expertise (e.g., labor unions on social issues, NGOs on the environment). They would assist in developing guidelines and then continue to monitor them during project implementation. A final recommendation raised the possibility of the World Bank providing financial resources for revising systems of environmental and safety controls. Such funds would greatly improve project implementation as control systems were often technically obsolete. World Bank staff agreed this would not be a problem if introduced at the beginning of project discussions.

5. Disclosure policy and information sharing—What project information should be routinely disclosed to the public by the various actors? How can the information provided be trusted by all stakeholders, host communities in particular? Is there a role for the World Bank Group to facilitate universal application of disclosure policies?

The working group recommended full disclosure of environmental and social impact assessments, (including amendments to them), and evaluation reports prepared by the OED, as well as emergency response plans, accident reports, taxes, royalty payments, laws, and regulations. Ideally, production sharing agreements should also be released, but it was recognized there may be confidentiality issues arising from contractual agreements. Disclosed documents should be translated, and available in a user-friendly format, perhaps tailored to different target audiences; for example, adjusted for technical specialists or local communities. Information should be disseminated on the internet and, in some cases, made available in local libraries, to ensure full accessibility by affected communities, local and international NGOs. Disclosure should be facilitated as early as possible, although it was acknowledged this may be constrained by the fact that the World Bank was not always approached by sponsors early enough in the project cycle.

It was suggested that the disclosure of government revenues be incorporated into environmental and social impact assessments. Payments should be recorded in annual monitoring reports and disclosure would track what funds actually went to the local community and monitor their impact. Ideally, there should be a baseline from which to track human development indicators at both the local and national level. Independent validation could be undertaken by civil society experts. It was suggested that a type of ‘interdepartmental commission’ may facilitate disclosure by bringing together government ministries, relevant World Bank Group departments associated with a project, trade union officials, and representatives of the public. Such a balanced body could control the distribution of financial resources and monitor project implementation.

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7 A World Bank representative confirmed that OED evaluation reports would be disclosed as of July 1, 2002. A recommendation to change the disclosure policy on OEG reports was reasonable, but would require the restructuring of relevant reports, which currently contained confidential client information.
The World Bank Group could build disclosure into the conditions of structural adjustment and private sector loans. It was recognized, however, that the Bank’s leverage may be limited in this respect. Governments were often reluctant to disclose sensitive information and, in this respect, the lack of a mandate to promote democracy in the Bank’s charter should perhaps be remedied and clear messages sent through the country assistance strategy that governments satisfy minimum levels of transparency. With regard to companies, the World Bank could exert leverage through legal agreements for loans, but this was more difficult in shareholder agreements covering Bank equity. One possibility for encouraging disclosure in the private sector would be to release information on those who met the standards, and those who did not. The World Bank Group already had a large portfolio in the industry, and this could provide the necessary incentive.

It was further suggested by one participant that recommendations on disclosure provided to the World Bank Group by the EIR could be disseminated to the whole industry and have a wider impact well beyond the individual projects being financed by the World Bank Group. International organizations were frustrated that governments who were signatories to international conventions, were not applying them. He had yet to see one operation in the former Soviet Union that actually met environmental, health and safety standards. But looking at the portfolio, perhaps the best ones were those that had been financed by the World Bank Group, and other international financial institutions.

6. Revenue management and distribution—How could the World Bank Group help people hold their governments accountable for revenues generated by oil, gas and mining? How could stakeholders work together to improve transparency in the management of revenues? What processes might the World Bank Group encourage to assure an equitable distribution of revenues? Once revenue management was designed, how could the World Bank Group ensure the plan was effectively implemented?

All revenues should be disclosed by both the company and the government. But, it was recognized that some companies would find this difficult due to their contractual obligations to the government. The focus was, therefore, what role the World Bank should have in facilitating revenue disclosure?

The working group proposed that the disclosure of revenues by governments and companies should be made a standard condition of loans extended by the World Bank Group. To that end, it proposed that World Bank Group amend its own disclosure policy, and related policies, as necessary. It was acknowledged that some governments and companies may attempt to bypass the World Bank for assistance if their requirements were too stringent. However, the Bank could offset this by setting out the criteria for companies that wanted to be known as ‘socially responsible’. The World Bank should develop mechanisms for reporting and auditing revenue flows and ensure the participation of civil society, independent auditors, governments and companies. The Bank could mobilize international efforts in that direction and at the national level negotiate with governments to assist them in developing standard legislative models.

There was common agreement that funds, such as oil funds, should be used to finance socio-economic development. The World Bank should take a leading role in making such funds work by inducing governments to use revenues in an effective way. Guidelines should be established for the proper use of oil funds, and other funds, accumulated from extractive industry projects. These guidelines should outline the methods for addressing environmental and social issues arising the extractive industries, specify what revenues should come into the fund and provide a blacklist on what funds should not be used for, e.g. purchases of weapons or alcohol production. Guidelines
could also include stabilization models to guide the use of funds in stabilizing fluctuations in the cost of other resources.

Other comments focused on the problems of using oil funds as a general model. Three different issues had been highlighted at an IMF conference on revenue management: (1) the transparency and the efficiency of resource allocation was a part of the whole expenditure plan of governments, as analyzed by the World Bank in its public expenditure reviews; (2) funds typically had one or two purposes: sterilizing capital inflows by placing funds in foreign securities to prevent appreciation of the local currency, and saving for future generations; (3) there had been bad experiences with oil funds almost everywhere in the world as different interest groups attempted to obtain a share. Successful management of oil funds seemed to imply good governance. But in developing countries, where democracy was weak and corruption strong, was it possible for funds to be made transparent? It was the World Bank’s task to exert its influence over governments who were dependent on their loans and investments.

It was felt by some that revenue management struck to the heart of the sovereign nation and governments would not allow private companies, NGOs, nor even the World Bank Group, to dictate how revenues were managed. The Consultation should have low expectations on this issue. Others were confident the Bank had the leverage, even in an advisory capacity, to promote transparency, implement public controls and promote democracy building in a country.

7. Impacts and benefits at community level—How could environmental and social impacts at the local level be avoided? How could the World Bank Group ensure that communities benefited from projects? How could all stakeholders work together to achieve overall positive impacts at the local level? What role might the World Bank Group play in promoting cooperation?

The World Bank Group must understand the situation at the local level in order to ensure benefits from extractive industry projects were realized by communities. The first recommendation therefore suggested it be obligatory that World Bank officials visit proposed project sites, and organize public consultations with all concerned, to ensure communities were fully aware of the possible impacts on the area.

Second, the Bank should avoid funding projects that threatened traditional ways of life or damaged existing conditions at the local level. Environmental impacts should be thoroughly assessed and the specificities of communities analyzed. Those with relevant ethnological expertise should be consulted to assess impacts on indigenous peoples. Indeed, the World Bank Group should abide by ILO convention 169 on protecting the rights of indigenous peoples. This could be used in the development of projects, to frame agreements between the indigenous peoples and the World Bank Group.

Third, the process should identify and consult all relevant parties in a region, whether local or indigenous communities, or nomadic populations. Project assessments had to be agreed between all parties concerned. The World Bank should ensure that governments provide guarantees to local communities, such as compensation payments and insurance.

Fourth, the provision of local benefits and protections should be a distinct component of every project. Community development plans should be formulated, supplemented by preservation and protection programs. The aim of this would be to minimize the negative impacts of a project on the local community and take account of their welfare after a project closed. Development plans would be drafted on the basis of consultations and would be made known to communities at the earliest possible stage. Finally, continuous monitoring of the social and economic aspects of
projects was needed to evaluate what benefits were filtering to local communities, and development plans should be modified if necessary.

In short, the World Bank Group, as a political entity, should be able to influence all processes affecting local communities i.e. how funds are spent in the community interest; how community expectations can be managed; building capacity at the local level by providing training; ensuring adequate numbers of local workers are employed.

8. Institution building and regulatory frameworks—What should the World Bank Group do to build the capacity of governments and civil society groups at the local, regional and national level? What should be the World Bank Group role in building the capacity of businesses?

The working group on institution building interpreted the subject as referring to the sustainability of business and the need to secure a future for industrial activity, bearing in mind extraction activity would come to an end. Its recommendations identified areas for local business development and opportunities that would have an impact at the local level. The main proposal was for the World Bank Group to build business capacity by facilitating cooperation between governments, operating companies and the communities involved. This business capacity would be built within the structure of the community to ensure its longevity once the extractive industry closed.

If the goal was to develop businesses that outlasted the contractor, relevant participants had to be identified. It would also be necessary to identify a methodology to monitor the progress of new businesses to be sure their activities were sustainable. A crucial aspect would, therefore, be the development of local skills, not for the extractive industry, but for the business being promoted. A rigorous regulatory framework, and support for regulatory authorities, would be needed before and during the life of the project. The World Bank Group could support a study of supply linkages to establish the business development potential in an area. A gap analysis would show what needed to be done. A strategic plan should target the required capacity to build sustainable businesses, reflecting consultations with local people, and entrepreneurs, from an early stage.

9. Social mitigation—What were the respective responsibilities of various stakeholders in addressing the social and environmental impacts of oil, gas and mining activities, and how could those responsibilities, perhaps, be shared? What should be done about ‘irresponsible’ actors? Would incentives be needed to encourage junior companies to act in a socially and environmentally responsible manner? What mechanisms could potentially absorb the ‘social costs’ of oil, gas and mining projects?

The working group underlined the view that social mitigation should be considered an important part of any project. The question was how to achieve it. The first concern was timing: mitigation should be addressed before, or in parallel, with the project. The second recommendation was for early consultation with all stakeholders in order to adequately address sensitive issues from the outset of projects. The working group proposed training and educational programs, and a program to involve and educate local governments. In co-ordination with other international financial institutions, a set of guidelines should be created on local economic development and social mitigation. These guidelines should then be reflected in country assistance strategies. The World Bank could also help in the creation of a good business environment, even when the local economic situation was poor.

12. Closing Remarks
Closing remarks for the Consultation were made by representatives from the World Bank Group, industry and civil society, respectively, and the Eminent Person to the EIR, Dr. Emil Salim.

**World Bank Group**

On behalf of the World Bank Group, the Director for Oil, Gas and Mining said that poverty reduction and sustainable development were the *sine qua non* of Bank activities and the Consultation had raised some excellent recommendations and new ideas. World Bank staff would take these suggestions very seriously; the EIR was not a *pro forma* exercise and would have an impact on what World Bank did.

Many region-specific issues had been raised by the Consultation; the region was in transition, its democracies were still evolving, and this presented particular problems and challenges. The importance of disclosure, transparency, good governance and community development were concerns all stakeholders shared. He had a strong impression that stakeholders would like the World Bank Group to stay involved. This was in contrast to the negative perception of the Ukraine project, but if understood correctly, even the Ukrainian delegation would like the World Bank Group to remain involved. The Bank were willing to admit shortcomings, to learn from the past and to improve in the future.

At the same time, from the messages coming out of the Consultation that set the standards very high, there was a risk of two unintended consequences. Internally, the World Bank Group felt there were limits to what it and its partners could do. Within the World Bank Group, there was an increasing aversion to risk and the Bank may not want to be involved in difficult projects. From an external point of view, if standards were set too high, the World Bank Group would not be seen as a useful partner. It was hoped all this would be taken into consideration. The Bank would continue to work with all stakeholders in succeeding workshops and thoroughly assess recommendations coming out of the consultations.

**Industry**

Noting that the set of recommendations were based to topics pre-identified by the EIR Secretariat, an industry representative proposed two additions. There should be a very clear recommendation on how to involve the private sector. Most of the discussion had been on how to mitigate impacts of ongoing projects, and an equally important aspect was how to attract private sector involvement. Second, was an issue raised in the preparatory workshop in Brussels that had not been followed through, namely the energy mix. There had been no discussion in the Consultation about the impact of the energy mix on the local, regional and global environment. Promoting a shift from other energy sources to natural gas was a golden chance the World Bank Group should take and it could actually implement this by assisting countries with gasification. This change in the energy mix, which had not been addressed, was extremely important from the point of view of sustainability at the regional, national and global level.

**Civil Society**

Recalling the Prague meetings of the World Bank in 2000, when Mr. Wolfensohn had promised a process to evaluate the extractive industries, a civil society representative proposed the addition of a further recommendation on how various ways of achieving development should be balanced within the Bank. Bearing in mind its limited capital for loans and guarantees, was it better to use that money to promote development through the extractive industries, or rather promote development through other sectors, such as agriculture? This should at least be a topic for
consideration in the following Consultations—to discuss how to promote the balance between various modalities of development within the World Bank Group.

Eminent Person
Dr. Emil Salim recalled the main theme of the Consultation: what should be the role of the World Bank Group in reducing poverty through sustainable development? Sustainable development was not the same as conventional economic development, which considered only the cost-benefit ratios. Sustainable development combined three objectives at once, economic, social and environmental development, and this required a paradigm shift in the 21st century. Evaluations showed that 50 years of single-track, economic development had raised standards for only 20 percent of the world’s population in the 20th century. Poverty eradication was still an imperative—how to give 2 billion people access to energy services and 1 billion people access to safe drinking water. Another result of development in the 20th century was environmental degradation. Necessary conventions on climate change, biodiversity and the Kyoto protocol signified that 20th century development had been wrong, and this must be changed to sustainable development.

The EIR had to ensure that the development paradigm in the World Bank also changed. If the World Bank Group was to stay engaged in the extractive industries, it should do so along the path of sustainable development, minimizing the negative social, environmental and economic impacts of the past. It meant reconsidering how to treat costs, not only economic costs, but the internalized environmental and social costs. World leaders participating in the World Summit on Sustainable Development had agreed on a holistic approach to development that embraced economic, environmental and social aspects together. The success of the EIR would be if the goal of sustainable development was embraced by all—industry, government, civil society and the World Bank Group.

First, it was important to meet social demands; all individuals had the right to be recognized and participate in development. One demand was poverty eradication. The world had sufficient capability to provide food and safe water, and that capability should not be polluted by others who had power and money. That was why there was social impact analysis. Second, it was important to recognize demands placed on the environment. Resources in the world were limited yet supported an ever-growing global population. Who had the right to control those resources? What about no-go zones? The survival of eco-systems were also needed for the survival of life. Third, came economic considerations. As populations increased, the quality of life should also increase, therefore, economic, social and environmental development had to go hand-in-hand. Market mechanisms were necessary but not sufficient alone, as the market failed to absorb impacts on the eco-system and communities. Governments were crucial to mitigate market failures, but this required good governance, without which policies would fail.

The triangle of government, industry and civil society, represented by the World Bank, were responsible for the realization of sustainable development. But the playing field must be level and a balance was required between all three stakeholders. Market and policy failures should be corrected through consultation, deliberation, and consensus building. In Eastern Europe and Central Asia, stakeholders had agreed on the need for good governance, without which development objectives would fail. Again, poverty eradication required government, industry, and civil society working together, on the same path of sustainable development.

Could extractive industries be part of sustainable development, when oil, gas and minerals were non-renewable resources? Only if in the process of exploiting the non-renewable resource, they were replaced by renewable ones i.e. revenues being used in a sustainable way for education, and capacity building, as well as protecting eco-systems and the health and quality of life for current
and future generations. The question was how to translate this into action with specific recommendations. All the stakeholders had spoken and full consensus could not be reached. But, there were areas of agreement and disagreement and these were a basis for working together.
Annex 1

The Extractive Industries Review
Eastern Europe and Central Asia Regional Workshop
Budapest, Hungary
19-22 June 2002

Post-Consultation Statement

A post-Consultation statement, agreed by selected representatives from each stakeholder group following the workshop, reported that there had been broad agreement on ways in which the World Bank Group could change in the interests of poverty reduction through sustainable development. Representatives from civil society, industry, government and the World Bank Group identified nine cross-cutting themes where change was necessary for continued World Bank involvement in the extractive industries in Eastern Europe and Central Asia.

The themes reflected recent experiences of World Bank Group-supported programs, in particular coal mining in Russia and Ukraine, gold extraction in Kyrgyzstan, and oil and gas production in the Caspian Sea region. There was broad agreement on addressing the World Bank Group’s activities in the context of region-specific policies for the transition from command to market economies, including those for social mitigation. Also addressed were issues relating to governance, revenue management, environmental mitigation, mine closure, transparency and community development. In addition, no-go zones were discussed, including technologies that should be avoided, and the importance of private sector involvement was recognized.

The consultation group urged the World Bank Group to formulate specific policies on good governance at the level of country assistance strategies. With respect to the extractive industries, where large revenues for government were the norm, they urged the Bank to provide relevant information to all stakeholders, and monitor levels of participation. Participants felt privatization should take place where adequate legal and regulatory frameworks were in place. The World Bank should promote anti-corruption campaigns, establish socially acceptable conditions for price liberalization where necessary, ensure continuity of social services previously provided by state enterprises, and create microfinance schemes. The Bank could also condition oil sector investment on the prioritization of oil funds in favor of affected regions.

As with the previous consultation workshop for Latin America and the Caribbean, stakeholders in Eastern Europe and Central Asia were concerned with revenue management and whether the World Bank Group’s own standards, guidelines and monitoring were fully adequate for the life cycle of projects. To assist people in holding their governments accountable for the revenues generated by the extractive industries, the Bank should establish guidelines for best practice in running oil, and other, funds. Disclosure of revenues by governments and companies should be a standard loan condition. A multi-stakeholder mechanism was suggested for the monitoring and auditing of revenue flows.

Participants took the view that social mitigation should be part of both country assistance strategies, and project design and implementation. It was felt country assistance strategies should recognize local economic development and social mitigation, and the Bank should create guidelines for this. Recognizing the environmental legacy problems of the extractive industries throughout Eastern Europe and Central Asia, participants enjoined the World Bank to fund clean-
up operations for all its projects, and consider financing projects to clean-up old mines, including uranium mines. The Bank should publish detailed decommissioning plans and draw up technical specifications to protect project areas from the consequences of earthquakes and spills. It should work with governments to create a social safety net in advance of mine closures and ensure such closures were properly financed.

Among other issues discussed, were proposals forbidding the use of highly toxic methods in mining, e.g. cyanide leaching, and oil exploration, e.g. the use of synthetic muds, and to ban operations that generated hazardous waste, or dumped waste into water.
Annex 2

The Extractive Industries Review
Eastern Europe and Central Asia Regional Workshop
Budapest, Hungary
18-22 June 2002

Agenda

(All events took place at the Hotel Inter-Continental, Budapest)

Part One: Testimonials and World Bank Group Information Exchange

June 18, 2002

Testimonials from civil society.

June 19, 2002


Part Two: Closed Multi-Stakeholder Consultation Workshop

A closed Multi Stakeholder Consultation Meeting in which representatives from civil society, industry, governments and the World Bank Group will participate with facilitation and guidance from Dr. Emil Salim and a team of professional facilitators.

June 20, 2002

Introduction:
- Key note speech from the Eminent Person, Dr. Emil Salim
- Presentation of the facilitators and the concept of facilitation.
- Introduction to the EIR process and background
- Introduction to the program and working procedures (Facilitators)

Presentation on policies and strategy of the World Bank Group:
- Open questions and statements
- Short presentation of the lecturers and cases of the coming afternoon session
- Explanation of the purpose and procedure of the information market place
- First opportunity for the logistic preparation of the market place

Cases, experiences and lessons learned about the WBG’s involvement in Oil, Gas and Mining Projects:
- Representatives from the different stakeholder groups present and discuss the economic, social and environmental impacts of oil, gas and mining projects in which the WBG was actively involved.
- Plenary discussion: Impact and Role of the World Bank Group in the Oil, Gas, Mining Projects in the Region
Information Market Place: This event gave participants the opportunity to exhibit materials and exchange information freely about their organizations and activities.

June 21, 2002

World Bank Group presentation on policies and project portfolio in East Europe and Central Asia
- Explanation of the scenarios and organization of the working groups
- Questions and Answers

Scenario Development
- 3 moderated Working Groups
- Presentation and discussion of the scenarios

Recommendations to the World Bank Group
- Work in self-moderated working groups to elaborate recommendations
- “Gallery” of recommendations

June 22, 2002

Recommendations to the World Bank Group (continued)
- Presentation and discussion of the recommendations
- Final discussion of open questions
- Processing of the Workshop results (next steps)
- Wrap up and closing remarks by the Eminent Person, Dr. Emil Salim.
Annex 3

The Extractive Industries Review
Eastern Europe and Central Asia Regional Workshop
Budapest, Hungary
18-22 June 2002

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