

UNCTAD Expert Meeting on
FDI IN NATURAL RESOURCES

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**IFC's Approach to enhancing
sustainable EI project outcomes**

by

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IFC

INTERNATIONAL FINANCE CORPORATION
WORLD BANK GROUP

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Resources
Geneva November 20-22 2006***

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**Outline: IFC's Approach to enhancing
sustainable EI project outcomes**

- **Setting the right framework**
 - The EIR Process
 - Management Response

- **Enhancing development benefits in projects**
 - Addressing specific industry issues
 - Strengthening Project Business Linkages
 - Addressing local governance issues

- **Some Lessons**



The World Bank Group



A group of 5 Institutions with a common goal:

- **sustainable economic development**
- **poverty reduction**

- **IBRD** – helps finance and advise governments
- **IDA** – helps governments of the poorest countries
- **IFC** – helps develop private business through financing
- **MIGA** – helps private sector through political risk insurance
- **ICSID** – resolves disputes between investors & government



Internal and External Reviews Leading to Management Response

External	Extractive Industries Review (EIR)	<p style="text-align: center;"><u>Launched late -2001</u></p> <p style="text-align: center;">Consultations with Stakeholders, led by Eminent Person (Dr. Emil Salim)</p> <p style="text-align: center;">Final Report delivered January 15, 2004</p>
Internal	OED/OEG/OEU Evaluations	Reports sent to WBG Board July 2003 and published on the web - fully considered in parallel with the EIR report
	CAO Review	Review of recent appraisals of IFC/MIGA projects. CAO IFC Safeguard Review published in April 2003

Management Response

Endorsed by WBG Board September 2004

Implementation Progress Report Dec 2005



The key messages

EIR: - “The EIR believes that there is a role for the WBG in oil, gas and mining sectors – but only if its interventions allow extractive industries (EI) to contribute to poverty alleviation through sustainable development. And this can only happen when the right conditions are in place....”

Internal Evaluations : – Overall development results in WBG EI projects were about the same as in other sectors... But...



Key Issues

- Governance
 - Governance
 - Revenue Transparency
- Communities
 - Ensuring communities benefit
 - Protecting the rights of people
 - Disclosure
- Mitigating local and global environmental and social risks



Follow Up

- Implementation of the Management Response
- IFC is applying new safeguard policy & Performance Standards
- In course of revising detailed guidelines to address specific EI recommendations
- Adoption by Equator Banks of IFC Performance Standards



Sustainable Approach Involves and Benefits All Stakeholders

The Resource Company



The Government



The Community



Sustainability factors align with business success factors



Beyond Compliance Enhancing Sustainability EI Projects

- Governance – likely to be limited, but may not be zero:
 - Transparency (EITI,..), approach to relations with government
- Broadening Sustainable Impact
 - Best practice environmental management
 - Good quality, meaningful community engagement
 - Employment (planning, training)
 - Project Linkages – downstream and upstream



IFC's Approach

- Addressing related/industry environmental and social issues
- Bringing sustainability “added value” as a part of financing.
- Suite of programs based on experiences internationally:
 - **Interest in finance of local service companies**
 - **SME “linkages” programs with companies**
 - SME credit lines with local banks
 - Corporate governance
 - **Local government capacity building**
 - Specific initiatives such as HIV/Aids programs tailored to particular sectors such as mining and oil gas
- **New facility (CommDev) with focus on community capacity**



IFC Against AIDS

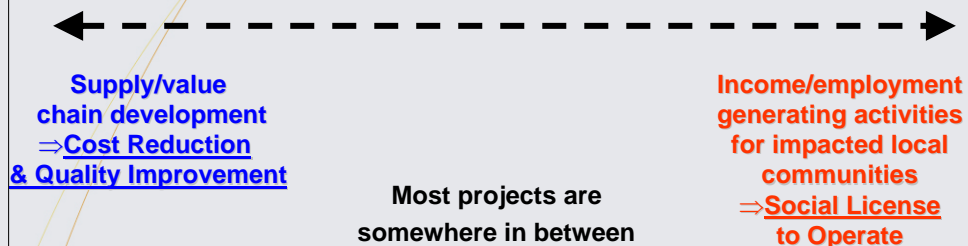
- Collaborates with IFC clients to manage HIV/AIDS in their workplace and communities
- Promotes partnerships between clients, NGOs and others
- Dedicated resources to work with clients
 - **14 active engagements** with client companies under the guidance banner and **30 SMEs** through the training program in **Africa**
 - **4** projects on the ground in **India**
 - **12 companies** in the **pipeline in Africa** and **4 in India**
 - **Sector wide** example in mining:
 - "HIV/Aids Guide for the mining sector"
 - Trial program in Zambia to build community capacity around mines



SME Linkages Programs

2-4 year Technical Assistance Programs to strengthen local businesses and entrepreneurs

The spectrum of Linkages objectives:



BTC Project Azerbaijan

- Working with BP and partners to broaden impacts
- SME Linkages Program:
 - Baku Enterprise Centre founded in 2002
 - SME training on tendering, quality control, HSE
 - 35 new business management training courses (Russian and Azeri) (fee based with local consultant delivery)
- Positive impacts with small local businesses:
 - \$100m+ in contracts 500+ enterprises in two years
- Lessons:
 - Field based implementation
 - Early engagement with investor
 - Wholesale approach closely linked to investor
 - Custom tailored to country/project specific needs



Chad: eProcurement

Exxon-Mobil, Chad-Cameroon Oil Pipeline \$200M IFC A and B Loans

Issue

- Lack of local suppliers to Exxon-Mobil in Chad
- Coercion and lack of transparency in contract bidding

Linkages

- eProcurement system established for bidding on all contracts in Chad
- \$70M of Exxon-Mobil local opportunities identified for 2006-2007



Using Technology to Fight Corruption



Chad: eProcurement

Results

- 250 Chadian entrepreneurs trained in using the eBidding system
- 11 rounds of bids completed, 54 Chadian businesses participated
- 3 contracts have been awarded to date worth \$8.0M



Ensuring Benefits for Local People



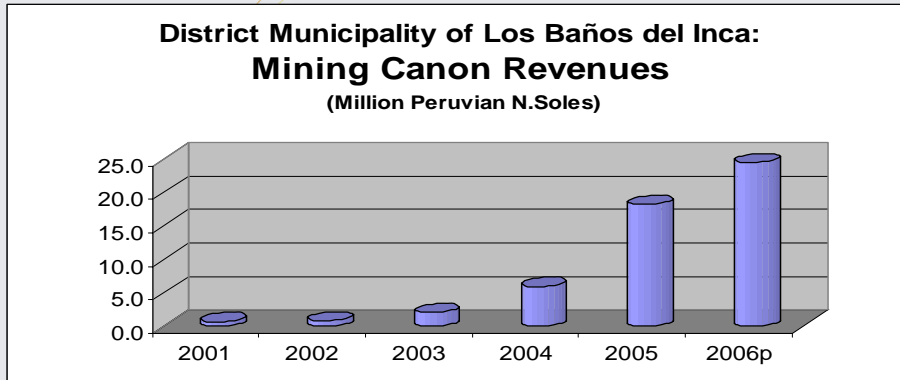
Mining and Local Governance in Peru

- Large, rich gold mine in poor remote area.
- Substantial tax payments to central government.
- High share due to flow back to local region.
- Very little impact on the ground.
- Community dissatisfaction despite other benefits.



Revenues not used or appreciated

- Large tax flows from successful gold mine to local governments
- Lack of capacity in local authority
- Lack of transparency and understanding in community



Approach:

- Work with local government to increase capacity to manage funds and design and implement good projects.
- Work with local university and others to increase awareness and informed discussion about the revenues available.

MECANISMO INDEPENDIENTE DE MONITOREO BOLETÍN
Una Mirada Independiente al Canon Minero y a la Inversión Municipal

Boletín 2 - Octubre del 20 de Junio del 2005 - Cuzco, Perú

EDITORIAL

Habrá políticos que tengan visión del desarrollo humano de un pueblo y junto a ellos, la agenda de contenidos sociales-políticas, implementada por ciudadanos concientes de su rol en el destino de su patria, alguna más esta situación. El AMM se ha propuesto contribuir al que se considere de opción pública bien informada en los distritos de Cuzco y Los Baños del Inca sobre la inversión pública y sus impactos, en la población, empresas comerciales que en una de las formas más efectivas para que las autoridades, y quienes toman las decisiones sobre qué hacer con los recursos de fondo, toman en consideración que la sociedad. No es concebible aceptar los mirlos que en el año 2001, siglo de la premodernidad, de la ciencia, la tecnología y del conocimiento, sea un importante sector, dentro y fuera del área urbana de Cuzco, sea un contar con servicios. Bajo los estándares los recursos del Canon Minero, no se puede asumir una política para tener a medio camino a la inclusión social y, por lo tanto, al desarrollo.

Las autoridades políticas no deben perder de vista que lo que hay que hacer es un pueblo y la calidad de vida de su gente, que los pueblos que han logrado desarrollarse son producto de la inversión social, en áreas de inversión en educación, salud, servicios

edictos, empleo e infraestructura productiva. Crear que tienen por fin último a la persona, como lo señala nuestra carta magna, los ciudadanos, a los empresarios y a los ciudadanos socioeconómicos en posición pública-participativa, de bien participar activamente, aportar con ideas y acciones, en impulsar una corriente de opinión pública que contenga a las autoridades asociadas un real cambio al desarrollo equitativo de los pueblos. De no hacerlo, no queda otra cosa que callar y dejar hacer como una simple planificación apropiada.

Abra, Pedro Valdez Alvarado

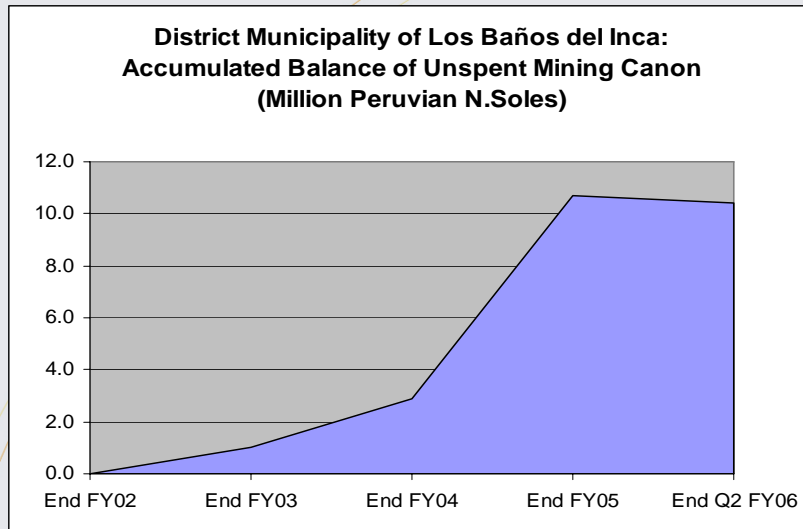
"El Boletín es una revista de opinión que se dirige a los ciudadanos que quieren conocer más sobre el Canon Minero y la inversión municipal en Cuzco."

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Outcomes:



Community Development Facility (CommDev)

- Focused on helping communities receive sustainable benefits from extractive industry projects.
- Initial geographical focus: Africa (60 – 70%)
- Tri-partite approach – community, investors and local governments.
- Support capacity building, training, technical assistance.
- Draws on breadth of expertise in the World Bank Group



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Lessons

- Importance of local government capacity
- Need for comprehensive and integrated project and community development plan for project life
- Community capacity important
- Importance of partnerships, common understandings with government, community and others
- Clarity about who communities are (and winners and losers).
- Some lessons can be transferred but local issues and capacities vary hugely
- Support for local enterprises needs to be based ultimately on competitiveness

