Natural Resources – a source of funds for development

Mark Moody-Stuart   Panel at the EBRD Annual Meeting

There is no doubt that the development of natural resources has in some cases been something of a mixed blessing. This has led to the now familiar resource curse argument that the development of mineral resources inevitably leads to a distorted economy, Dutch disease, corruption, siphoning off of rent by elites, and conflict over the ownership of resources. I would argue that there is absolutely nothing inevitable about this. The resource curse argument ignores the key role that natural resource development played historically in countries such as the United States and the United Kingdom, and still plays in Canada and Australia. It further ignores relatively recent successful examples such as Peru, Botswana, South Africa, Oman, Malaysia, let alone Norway. Wise government in the interest of the population at large can use natural resources as a stepping stone to economic and social development. Equally, lousy government can have the most appalling consequences without any help from the natural resource industry.

I was invited by Dr Emil Salim to sit on a panel to advise him as Eminent Person developing the report for the Extractive Industries Review. I accepted gladly because in my experience a group of people working together with a common objective, even if they often disagree on the means, normally come out with a better product. In this case there was strong agreement of all concerned on the need for sound governance and transparency. Almost everyone on the panel listed this as being of the highest importance. We coupled this with engagement with local communities, respect for indigenous people, developing local industry and supply chains together with wider development of economies through SME development, and high environmental standards. All of these had also been identified and supported in the earlier very comprehensive multistakeholder Mining Minerals and Sustainable Development process. In spite of this high level agreement, the EIR was a great opportunity missed.

The EIR was a missed opportunity for two very important reasons. First it did not engage with and ignored the input of governments, particularly those of developing countries rich in natural resources. This is tragic because it is the role and policy of governments which is so critical to the successful development of resources. Secondly, in spite of repeated efforts, it steadfastly ignored any examples of good practice and focussed entirely on the negative. This too is tragic because it is only by all stakeholders acknowledging and building on success as well as learning from mistakes that we can move forward.

Incidentally, I am surprised that NGOs are in separate session today – we can only make progress if we all work together.

I would like to address the issues under the familiar headings, environmental, economic and social.

I believe that technology provides a route to diminish or eliminate much of the environmental impact of the extractive industries. We do of course have to ensure that appropriate technology is applied in different environments. And we do need to ensure that people are adequately and honestly informed of the consequences and the risks. The need for honesty applies both to industry and to civil society. The answer lies partly in multistakeholder agreements such as the gas flaring initiative, the cyanide code, or the co-operative work being done in both the energy and mining industry by NGOs and industry on biodiversity. Except in a very few and relatively obvious cases, the need is not for a blanket ban on either specific technologies or areas, but a real science based analysis, involving all parties, of the local conditions and impacts. And the World Bank Group plays a useful part in supporting and codifying best practice.

It is no good reaching agreement if performance is not properly monitored through the project life. Monitoring should be on indicators agreed up front, indicators which have real meaning to local communities as well as northern academics. Let us also agree up front credible measurement procedures. I say credible rather than "independent", which is normally taken by NGOs to mean done by them rather than by industry or government. Provided it is credible and transparent to all, it does not matter who does the monitoring. But in the interests of efficiency let us ensure that it is not done three times in different ways by industry, government and NGOs, so that we then waste much energy arguing fruitlessly over the inevitable differences.

Speaking of doing things several times in different ways, there has been some discussion in the Financial Times recently of the cost to industry of answering multiple questionnaires from different stakeholders – investors addressing corporate responsibility and concerned NGOs. I commend to you the Global Reporting Initiative, a set of indicators allowing organisations to report on economic, environmental and social aspects of their work. The indicators were hammered out over several years by NGOs, labour organisations, businesses and UN agencies. The result was commended in the Plan of Implementation of the World Summit in Johannesburg and is supported by the World Bank, UNEP, the UN Global Compact and so on. It is not perfect, but revisions of the 2002 guidelines are in progress, together with the development of sector supplements such as that for mining. Methods of easier online reporting and benchmarking are also being developed with help from the IT and accounting industry. This will get round the problem of multiple reporting – interested users can put emphasis on different indicators for their own purposes, but the underlying data is uniform. Several hundred corporations already use the Guidelines, and some NGOs and local governments are experimenting. I declare an interest as I am on the board.

Reverting to the environment, on the wider aspect of climate change and development of alternative energy, the approach should also not be outright bans on involvement of the World Bank Group in fossil fuels, or indeed in picking one fuel (gas) over the others. Fossil fuels continue to be essential to provide the worlds growing energy needs. The answer is to support cleaner technologies and energy saving – the latter being as essential for the transition to alternative energy sources. The rôle of the World Bank Group should be to assist countries to develop plans for appropriate energy development paths in the light of their situation and resources, not to abandon support for one sector. Critical in this is to push forward the Clean Development Mechanisms of the Kyoto agreement, currently so terminally bogged down in wrangling that even the most enthusiastic companies are throwing in the towel. This is a huge wasted opportunity – some of the quickest wins are in this area. Likewise, I believe the way forward on renewable energy is not to impose funding quotas on the World Bank Group, but to implement some of the nineteen clear recommendations of the G8 Task Force on Renewable Energy published at the Genoa G8 meeting in 2002. This market based approach, including subsidy elimination, was developed by a very wide international multistakeholder task force whose recommendations were supported by parties as diverse as major oil and gas companies, the World Bank, Greenpeace, and many governments from both north and south.

On the economic front, concern that sudden wealth from extractive industry surpluses injected into economies whose governance systems are poorly developed led Dr Salim to propose very strong national conditionality on project loans. The EIR proposes strict sequencing - unless national standards are high, with transparency, democracy, clear rights for indigenous people etc. all in place, there should no World Bank Group involvement. This will deprive some countries of much needed resource revenue to help develop some of the public goods: indeed it will deprive some countries of vital WBG support for developing their governance systems. This emphasis on conditionality contrasts with concern that I heard from NGOs at the relaunch by Gordon Brown of the International Finance Facility last month. There NGOs strongly opposed <u>any</u> conditionality on additional development aid through the International Finance Facility – after all why should the poor suffer just because they have bad governments? This appears to ignore the fungibility of resource revenue and aid flows.

Actually I think no one is against some conditionality – we just all feel that we should be the ones who choose the conditions. Personally, I think transparency of project revenue <u>should</u> be a condition of project lending by the World Bank Group. Responsible industry is supportive of the Extractive Industries Transparency Initiative and of the George Soros/Global Witness Publish What You Pay campaign. But we should not get too starry eyed about it – it is but step one. The much more difficult step is to ensure that the revenue is applied to the benefit of society at a large and not just one section. This is a battle which has to be fought locally in each and every country. The best way to fight it is for civil society, multilateral institutions and labour organisations to unite locally, rather than fight internationally. That is where real on the ground progress can be made through wide coalitions, involving also of course local business and local civil society and where appropriate religious organisations.

The World Bank Group can also through its lending help to smooth the impact of extractive revenues, ensuring that funds are available for infrastructure and capacity building before resource revenues come on stream, secured against future revenues. In this way the peak of resource revenue can be flattened and brought forward, ensuring an economy better able to take advantage of the revenue.

Widening the base of the economy is essential if the revenues of extractive industries are to lead to sustainable benefits through building capacity, growing SMEs and development of local industry.

Extractive industries often make a direct contribution, not just through skills development in their own employees but through development of the supply chain. This requires much thought in structuring contracts and building standards and skills. An article in last Wednesday's FT illustrated the negative impact in Kenya of EU standards for vegetables being applied too rapidly to the growing small scale vegetable export industry and killing some suppliers off. Applied too rapidly or without thought will leave contracts to international contractors such as Kellog Brown and Root or Compass in catering. International contractors such as these also form an essential part of the economy, setting standards and delivering reliable performance rapidly. They too can and do play a role in the development of their own local supply chains, but continued effort is required by the extractive industry if we are not to slide down the path of least resistance.

The World Bank Group and donor agencies have an important role to play, not just in the development of capacity for local supply, but in assisting in developing national infrastructure plans which integrate essential extractive infrastructure with the development of longer term and wider national needs.

The last and sometimes most controversial area is the impact of extractive industries on local communities. If a project is to move ahead in an environment of co-operation, there has to be clarity on the impacts and benefits, and on the division of benefits and revenues between local communities, the region and the nation as a whole. If these are perceived as being unjust, there will be stress. So there has to be widespread acceptance that any agreement is fair to all concerned. Industry acknowledges that indigenous people have historic rights and may have special needs, as do others such as minority groups and immigrant populations. But expectations have to be realistic as well, and no one solution will apply to all countries. It is here that I believe that some of the recommendations of the EIR are at their most unrealistic and will potentially actually make the situation worse. The EIR proposes a very high standard – ALL communities should benefit, including improvement of women, minorities etc. This is unrealistic, it would be utopia if all sectors could benefit. There is a proposal to mandate open community access to company medical facilities. Those of us who have seen this in action know of the often devastating consequences of migration towards better facilities round a mine or oilfield. The answer to this very real problem of islands of affluence is for through co-operation with government and others to ensure improvement of local facilities, reducing the differential quality gradient to a level which does not unduly stimulate migration.

A further source of contention which arises from the EIR recommendations is the repeated use of the mantra of Free Prior Informed Consent (FPIC) for indigenous people and its extension to all local communities. The problem here is lack of definition. International indigenous peoples movements believe rights of indigenous people override those of nation states. We all agree we need proper information up front. All agree that there has to be overall buy in from all involved. But FPIC is ill defined and, coupled with a proposed complete ban on "involuntary relocation" is a standard which would not allow a major road or airport to be built in Europe or the US. As part of the development of governance each nation has to evolve its own mechanisms. There can be no short cut by trying to impose solutions which may or may not work in another country or which are developed in New York or Geneva after the last bracketed word has been fought over. Governance is the web of societal institutions, some legal, some governmental, local or national, some social, some customary, some religious, through which all sectors of society feel that their voice is heard and that the outcome is reasonably fair. That is not something which can be imposed by anyone from the outside.

Having said that, an essential part of sound governance is a mechanism for the resolution of disputes should they arise. That has to be a local mechanism, accessible to local people. The best antidote to disputes is the upfront agreement on what is to be delivered – be it jobs, training, education, local contracts, emissions etc and credible ingoing monitoring of the outcomes.

Lastly, in this banking related gathering let me mention and commend the Equator Principles. This commitment by 20 leading banks accounting for 80 percent of project financing banks to apply IFC/WB standards to any project over $50 million is I think a great step forward – it leads to uniformity, higher standards, and clarity on what is required. But the banks are naturally very nervous that the EIR now proposes a change in the ground rules. Of course, standards will not be static. As technology and societies needs and expectations change, so too will standards. Certainly in the extractive industries we embrace this concept of continuous improvement and we apply it in our own business. But as I have tried to demonstrate, these changes need to be practical and not to have perhaps unintended adverse consequences. I believe that some of the Dr Salim's proposals fall squarely in this category, and if accepted would have implications for the application of the Equator Principles which would be unacceptable to many banks and to their borrowers.

Thank you.