

Questions Concerning The World Bank Group's Support for the Guinea Simandou Iron Ore Mine

We understand that a technical briefing for the Board of Executive Directors on the Simandou Iron Ore Mine Project in Guinea is scheduled for mid-November 2013. We have been following this project with great interest, given its magnitude and significant potential impacts. This mega project raises fundamental questions with regards to community impacts (*shared prosperity*), as well as the use of biodiversity offsets to compensate for the destruction of the habitat of highly endangered chimpanzees. Although IFC has already undertaken three equity investments in Simandou (I, II, III), these questions to date have not received the attention they deserve. We hope that members of the Board will be able to address them as a matter of urgency.

1) Community Impacts

Question: Are Board members confident that governance conditions are adequate to support WBG investments in Simandou? Is corruption adequately under control and do the institutional capacities and arrangements exist to ensure that the project will truly contribute to improving both the lives of the directly affected communities and the broader population of Guinea?

Guinea is one of the richest nations in the world in mineral and other natural resources, but its people remain among the world's poorest due to corruption and poor governance conditions, including serious violations of human rights. Development assistance-related debt assumed by Guinea has only exacerbated poverty.

As noted by the World Bank Group, corruption in Guinea creates the gulf between investment benefits and those who need help.¹ The foundation on which investments can be built, thrive, and benefit the poor in Guinea simply does not exist at present. And yet the Board approved a significant IFC investment – in the absence of completed social and environmental impact assessments – before serious efforts to build this foundation were undertaken and advanced significantly.

Although the Bank is now supporting a “Mineral Governance Support Project” the sequencing is problematic and creates obstacles to success. As noted by the World Bank’s commissioned Extractive Industries Review (EIR)² and a study undertaken

¹ Project Appraisal Document on a Proposed Grant in the Amount of SDR 13.3 Million

² Extractive Industries Review, Striking a Better Balance, The World Bank Group and Extractive Industries, 2003.

by the World Bank's own Evaluation Department³ there are certain conditions that must be in place **prior** to undertaking investments in extractive industries if these are to contribute to sustainable development and poverty reduction: The rule of law, including respect for human rights, as well as a demonstrated institutional capacity to manage environmental and social impacts, and revenues. We recognize efforts that are being made to publish government contracts with mining companies, but suggest that this step, while necessary, is inadequate to provide assurances that investments will accomplish objectives. What happens if the investment merely increases debt and fails to benefit the broader population in Guinea?

Question: What lessons does the Chad-Cameroon Petroleum Development & Pipeline project hold for Simandou? Although meant to be a transformational project to lift one of Africa's poorest countries out of poverty, the project has led to worsening governance conditions that affect the country as a whole as well as an appalling deterioration in the lives of the affected communities. who now find themselves without land, water and freedom of movement.

- 2) The destruction of the habitat of critically endangered chimpanzees and the use of biodiversity offsets.

To enable mining in the Simandou Project, IFC and the Guinean government are allowing mining in, and destruction of, habitat necessary for the survival of endangered chimpanzees – habitat considered 'critical' by IFC. IFC is allowing this in exchange for promises of protection of habitat elsewhere (to offset impacts). According to scientists, chimpanzees living in areas to be mined will not survive. Chimps cannot easily adjust to another area, and, in any event, there is no suitable area to which they can move or be moved – all other areas are occupied by chimps that are highly territorial.

Chimpanzees living in the area targeted for protection also are highly unlikely to survive. There is no evidence that local conditions necessary for the success of offsets exist in Guinea.

These conditions were identified in *The Independent Report on Biodiversity Offsets*, published in January 2013 by the International Union for the Conservation of Nature (IUCN) and the International Council on Mining and Minerals (ICMM). This report highlights that success of offsets depends on whether key principles such as 'permanence' 'additionality' and 'limits to offsetting are met' ⁴

³ Operations Evaluation Department, Evaluation of the World Bank Group's Activities in the Extractive Industries – Factoring in Governance, The World Bank, 2004.

⁴ January 2013 'Independent Report on Biodiversity Offsets' by IUCN, ICMM. This report notes 'the absence of a solid track record' on biodiversity offsets, Page 5.

Permanence means ‘ensure that gains last as least as long as impacts.’ The impact in this situation would be the loss of endangered species. The gain would be the protection of endangered species in the area to be protected. Will this gain last as long as the loss? Permanence has not yet been established for any biodiversity offset in the developing world, or where governance conditions are not robust.

Additionality means the offset must provide a benefit that does not currently exist. According to IFC staff, the area in Guinea that will be used to ‘offset’ for loss of critical habitat is an existing national protected area.⁵ Even assuming this area can be maintained in Guinea (highly doubtful), it is not clear it will be providing a gain or additional benefit.

Limits to offsetting ‘recognizes that not everything can be offset – such as species extinction. It therefore refers to whether losses are so great in type or amount that no offset could appropriately compensate for them.’ Is the Board comfortable using an offset – an admittedly experimental approach to mitigating biodiversity impacts – in this context when it will lead to the loss of endangered chimpanzees?

Question: How certain are members of the Board that biodiversity offsets will work in Guinea? And, if they don’t, and endangered chimpanzees do not survive as a result of habitat loss, how will the World Bank Group justify this globally-significant loss to the broader public? In other words, the reputational and operational risks in this context are extremely significant, and a key measure IFC has identified to mitigate these risks – a biodiversity offset – has not yet worked in a situation characterized by political volatility and poor governance conditions.

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⁵ Interview with IFC staff by Korinna Horta and Anne Perrault on April 23, 2013.