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The World Bank Group's Gold Mining Operations

Tarnished Gold: mining and the unmet promise of development



Photo 1: Yanacocha's low-grade ore lends itself well to the low-cost cyanide heap leach method of extracting gold. The mine uses several huge leach pads, taking over entire mountainsides.

(Credit: Guarango Cine y Video)

The International Finance Corporation (IFC) continues to dress up money-making gold mining investments as development, yet it fails to demonstrate how these projects actually reduce poverty. On its “golden” 50-year anniversary, we challenge the IFC to “prove it” by reporting its development impacts on a project-by-project basis.

This year marks the 50th anniversary of the International Finance Corporation (IFC), a branch of the World Bank that provides loans and equity investment to the private sector in order to “reduce poverty and improve people’s lives.” Despite its stated mission, the IFC refuses to systematically report upon the actual impacts of its projects on poverty reduction. This runs counter to the emphasis that donor countries and World Bank Group President Paul Wolfowitz have placed on measuring development effectiveness. On this “golden” birthday, we challenge IFC to prove its development impact and account for its ongoing investment throughout the past five decades in one of the world’s most socially and environmentally destructive industries – gold mining.

Mining does not have a good record of contributing to sustainable development or poverty reduction. The World Bank’s own research has indicated that mineral extraction is neither necessary nor sufficient for sustained economic growth, and that it has not helped developing nations



Photo 2: Formerly supported by IFC, the Bogoso/Prestea Gold Mine in Ghana has caused two cyanide spills in less than two years and polluted local communities' water sources.

(Credit: Bank Information Center)



Photo 3: The Yanacocha gold mine in Peru is the largest in Latin America and covers 22,000 acres.

(Credit: Guarango Cine y Video)

escape from poverty.¹ A Bank study released in 2001 found that countries which depend on mineral exports not only tend to have lower rates of growth, but lower standards of living, higher rates of poverty, and greater income disparity than other countries.² What's more, mining causes significant environmental and social damage.³ The typical modern gold mine uses large open pits and, in many cases, cyanide to extract gold from ore. These vast industrial operations often irreversibly alter landscapes, displace communities, contaminate drinking water, harm workers, and destroy pristine ecosystems or farm lands. Pollution caused by mining can last for thousands of years, destroying forever land and water resources that local communities depend on for their livelihoods. A recent study, published in the journal *Environmental Science and Technology*, found that chemical residues from Roman-era mining more than 800 years ago are still contaminating water supplies in southern France.⁴

Given widespread evidence of these negative economic, social and environmental impacts, why does IFC continue to invest in gold mining projects? IFC argues that mining produces government revenues, which in turn lead to economic growth and poverty reduction. This belief remains at the core of the institution's rationale for supporting investments in the minerals sector. IFC also points to employment generation, improvements in private sector practices, and corporate social investments in affected communities, as spillover "development" benefits from mining.

These benefits may look good on paper, but it is difficult to gauge whether IFC-supported gold mining projects actually deliver them because IFC refuses to publicly report its development results on a project-by-project basis. Instead, IFC produces an annual report that presents its "aggregate" development impact data, summarizing its performance as a whole but not providing specific information on the impacts of each of its investments.⁵ This kind of reporting ignores the fact that, unlike profits and losses in a financial portfolio, poverty reduction, environmental damage, and, most importantly, impacts on individuals and communities, cannot be averaged across the IFC's portfolio. A farmer who loses his land near a mine in Peru does not benefit when a small business owner in central Europe gets a catering contract with a mining company.

The Face of Gold Mining: A Few Stark Examples

Often the most visible impacts of gold mining are the costs borne by communities and the environment. Mining concessions, through acquisition of territory, can result in the loss of farmland and the displacement of entire villages. Toxic materials used in the extraction process, such as cyanide, or generated as by-products of mining, such as mercury, have resulted in

FACT: Guatemala's new mineral royalty rate is only 1%. During the first quarter of 2006, high gold prices and the onset of production at Marlin boosted Glamis' revenues to \$81 million. In contrast, the local communities most directly affected by the mine will collectively receive an estimated \$400,000 per year during the mine's operation. At a conference at the Vatican in 2006, World Bank President Paul Wolfowitz acknowledged that the government of Guatemala should be getting more from the Glamis project.



Photo 5: Construction of Glamis' Marlin mine in the indigenous Mayan highlands of Guatemala.

(Credit: Centro de Acción para el Desarrollo y el Derecho; Cyril Mychalejko)

devastating spills at many mine sites. The enormous amount of mine waste associated with modern mining is often contaminated with toxic heavy metals and sulfuric acid which can spread into ground and surface waters.

While the IFC claims that its involvement helps mitigate these type of social and environmental problems, the negative impacts of IFC-supported gold mining projects remain serious. In recent years, several IFC-supported gold mines have been beset by environmental damages and conflicts. Following are a few examples:



Photo 4: A truck from the IFC-supported Yanacocha mine in Peru spilled 150 kilograms of mercury along a 43-km stretch of road in 2000. The town of Choropampa, pictured here, was most seriously affected. (Credit: Guarango Cine y Video)

- Since 1993, the IFC has invested over \$100 million in Newmont Mining Corporation's Yanacocha gold mine in Cajamarca, Peru. In June 2000, one of Minera Yanacocha's contractors spilled 150 kilograms (335 pounds) of mercury, a by-product of the mine, along a 43-kilometer stretch of road through the towns of Choropampa, Magdalena and San Juan. More than 1,000 people maintain they were affected by the spill and many continue to report health complications.⁶ Conflicts between the mine and the local communities have occurred repeatedly. In 2004, concerns about the lack of local benefits from the mine and its impacts on local water sources led to massive protests against the mine's planned expansion, which the company was ultimately forced to abandon. In August 2006, large local protests again forced Yanacocha to suspend work on a planned expansion of the mine in the community of Combayo. One local farmer was killed in confrontations surrounding the protest.
- IFC's \$45 million investment in the Marlin gold and silver mine in Guatemala has spurred increased conflict in the project area. In January of 2005, the Guatemalan government sent 700 armed troops and police to



Photo 6: Independent experts have questioned why Newmont did not fully line the Ahafo mine's tailings dam, where waste will be stored, to reduce the risk of contamination.

(Credit: Bank Information Center)

forcibly disperse thousands of protestors who had blocked the transit of Glamis mining equipment in Los Encuentros, Sololá for more than a month. The operation left one villager dead and several others wounded. Communities in Sipacapa, one of the municipalities impacted by the mine, registered their opposition to mineral development through a popular referendum in June 2005. However, neither IFC nor the company have recognized the results of the referendum, and significant environmental risks associated with the mine remain unaddressed.⁷

- In January 2006, IFC approved loans of \$125 million to Newmont Mining Corporation's Ahafo gold mine, an open-pit, cyanide processing mine in a farming region in Ghana, northwest of the country's capital, Accra. The mine has physically and economically displaced nearly 10,000 people in its first phase alone, and is expected to cause impacts of similar magnitude when its operations expand to the North in the coming years. IFC and the project sponsor have yet to identify long term solutions to the land and livelihood losses suffered by local communities. In a review of the Ghanaian mining sector, the Bank's own independent evaluation unit questioned what the country gains from foreign investment in mining operations. The study states that "the costs to local communities often exceed the benefits they receive" and highlights the tendency for mining to increase income disparities and drive up prices, placing a greater burden on the poor and unemployed in mining areas.⁸
- The Kumtor gold mine in Kyrgyzstan has received \$40 million in loans and equity investments from IFC.⁹ However, the mine has been riddled with problems. In May 1998, the release of nearly two tons of cyanide and sodium hypochloride, poisoned the Barskoon River, leaving several people dead and hundreds seeking medical treatment. In July 1998, 70 liters of nitric acid were spilt, and in January 2000, a mine truck dumped 1.65 tons of ammonium nitrate. In July 2002, a Kyrgyz worker was buried in the collapse of a 200 meter high pit wall at the mine.¹⁰ In 2004, the IFC sold its holdings in Kumtor, earning a profit that brought its cumulative capital gains on this project to nearly \$40 million and distancing itself from liability for the social and environmental harms experienced in the project area.

In none of these cases has IFC demonstrated that the poverty reduction and development benefits generated by the projects outweigh their negative impacts.

FACT: IFC estimates that the Ahafo gold mining project will create 620 permanent jobs and earn the Government of Ghana approximately \$300 million over the mine's 20-year life. In comparison to these modest economic benefits, the mine has physically and economically displaced nearly 10,000 people in its first phase alone, and is expected to cause impacts of similar magnitude when operations are extended in the coming years.



Photo 7: Processing facilities at Ahafo Gold Mine in Ghana

(Credit: Bank Information Center)

Is Gold Mining Development?

According to IFC's 2005 Annual Report, Oil, Gas, and Mining (OGM) sector was its third largest area of activity, accounting for 7.4 percent of the institution's portfolio (after finance and insurance, and utilities). However, IFC's investments in the OGM sector are by far its most profitable. In fiscal year 2005, IFC made 122% returns on its equity investments in oil, gas and mining.¹¹ But how effective are gold mining projects at reaching development objectives? A closer look at IFC's justifications for supporting mining projects like those highlighted above, raises some fundamental questions that demand answers as IFC marks 50 years in operation.

In its public and internal project documents, the IFC often makes the following claims to justify its support for gold mining investments:

- Mining generates revenues for host governments, thereby helping to reduce poverty. IFC and the International Council on Mining and Metals (the international association of the world's largest mining companies) maintain that there is a link between government revenues from mining and poverty reduction: "Large fiscal revenues from mining can provide significant leverage with respect to poverty reduction spending, particularly since mining normally entails very modest government expenditure."¹²
- Mining creates jobs and spurs local economic development.
- IFC's involvement improves the corporate social and environmental practices of its client companies.
- Mining operations facilitate corporate social investments and contribute to the development of local infrastructure.

However, evidence from mining-affected communities casts doubt on these assumptions.

Is mining profitable for the government and do revenues reach the poor?

Ultimately, whether the poor benefit from revenues which accrue to the government depends on how those revenues are used. But IFC does not consistently assess host government capacity to manage revenues or monitor and mitigate impacts of the mining sector before supporting mining investments. What's more, mining often doesn't generate significant revenues for governments. The low royalty and tax rates put in place in order to attract investors (often upon advice from the World Bank), may actually decrease overall government earnings from mining. Furthermore, IFC's analysis often understates or ignores the cost of mining to governments and communities, thereby overstating host country benefits.



Photo 8: Water tank provided by Newmont to a village near the Ahafo mine. Gold mines consume vast quantities of water, sometimes depleting local water resources.

(Credit: Bank Information Center)

FACT: The Bank's own independent evaluation department (OED) has questioned whether mining contributes positively to Ghana's development at all. "It is unclear what the true net benefits to Ghana from large-scale gold mining are." In the Wassa District of Ghana, where IFC has supported several mining operations in the past, the OED found that the local economy "does not appear to have benefited from the large-scale mining projects (developed in the 1990s)." The Bank's research highlights the tendency for mining to increase income disparities and drive up prices, placing a greater burden on the poor and unemployed in mining areas.

(World Bank Operations Evaluation Department, "Evaluation of the World Bank Group's Activities in the Extractive Industries: Background Paper, Ghana Case Study," October 15, 2003.)

How many sustainable jobs are generated? Modern industrial mines are capital-intensive and do not create many long-term job opportunities. Typically, the operation and management of a mine requires only a small number of highly-skilled workers to fill positions not usually suitable for the poor communities that live near mine sites. Mines do provide some employment opportunities to these communities, but these are generally as temporary, unskilled laborers during a mine's construction phase, with no long-term livelihood security. At the IFC-financed Ahafo mine in Ghana, for example, the number of temporary workers peaked at 3,300 during construction, but IFC estimates that the mine will provide only 620 permanent jobs.

What are the benefits to the local economy? Mining, particularly of raw minerals for export, is an enclave industry with limited spillover effects into the surrounding local economy. There is no guarantee that local businesses will benefit from a mining project, particularly since many countries have removed legal requirements that investors hire or buy a certain portion of their supplies locally. Furthermore, the vast majority of the metal extracted in poor countries is exported as raw ore, depriving the countries of the economic value that is realized in the subsequent stages of mineral processing and manufacturing.

What are the limitations of corporate social investment? IFC's suggestion that corporate social investments are another positive development impact of mining fails to recognize that philanthropy is not development. While some local investments can be useful, they are often guided more by a company's own production needs and cost constraints, rather than community-identified priorities and entitlements. Social investments and community development funds may not be proportionate to losses incurred by the local population and the environment. Furthermore, it is often unclear who will bear financial responsibility for the maintenance and upkeep of infrastructure or services after a company is gone, undermining their sustainability.

IFC, demonstrate the development benefits!

Despite these fundamental doubts about the development benefits of mining, the IFC continues to support investments in the sector in the name of poverty reduction. Several summaries of current gold mining projects listed on IFC's website describe the positive impacts that IFC expects to achieve. IFC asserts that the Tantalum gold project in Egypt will contribute to "benchmarks on good governance and sustainable mining development in Egypt; creation of temporary and permanent employment opportunities, linkages with local suppliers of goods and services; and local community development." In Guyana, IFC expects development benefits of a mining operation there to

include “employment, fiscal revenues, increased exports, and linkages with small and medium scale service providers.” The Kupol project in Russia will result in “substantial fiscal receipts,” “linkages with local suppliers of goods and services,” and the creation of a “charitable fund that will work with indigenous people to identify projects or activities that require funding.” IFC documents say nothing of the failure of such promises to materialize elsewhere, and provide little indication of what kinds of harms may result from mining activities.

While the IFC prominently highlights the expected benefits of its gold mining operations, it refuses to publicly report, in quantitative and project-specific terms, on how well its projects actually do or do not achieve their anticipated development outcomes. During the IFC’s 2005/2006 review of its information disclosure and environmental policies, several external stakeholders including governments and civil society organizations, called on the institution to report its poverty reduction impacts on a project-by-project basis.¹³ However, according to a confidential September 2005 Report for its Board of Directors, IFC is not willing to assess and report on the development outcomes of its projects because it would be “time consuming and would result in little additional information on IFC’s development impact.”¹⁴



Photo 9: A village of farmers adjacent to the Ahafo mine. Ahafo is the largest gold mine in Ghana and has already displaced 10,000 individuals.

(Credit: Bank Information Center)

Not only does this lack of reporting deprive the public of accurate information about how well IFC is fulfilling its mission, but it allows IFC to continue to support mining projects on the basis of good intentions and high hopes about their expected impacts, rather than evidence from the performance of past projects. Until IFC routinely tracks and discloses the poverty-alleviation impacts of each of its gold mining investments, its operations in this sector will remain dubious development. However profitable they may be, if mining projects fail to deliver on development outcomes, the IFC should be prepared to concentrate its limited resources on other sectors and investments that have demonstrated positive impacts for the poor.

As the IFC marks 50 years in operation, it should seek ways to ensure that its future activities more effectively fulfill its development mission. Before continuing to finance gold mining operations, the IFC should:

1. Report on the positive and negative impacts of its activities on a project-specific basis. IFC should clearly articulate the anticipated development outcomes of each of its projects, track project performance against those expectations, and report on it publicly. This is particularly important in sectors such as mining that have significant negative impacts on communities and the environment. Among other issues, IFC should report on how levels of poverty, education, and health change in project-affected communities.

2. Support the creation of a multi-stakeholder commission to evaluate the actual poverty reduction and development benefits generated by its investments in large-scale mining projects and recommend alternative uses of IFC funds to maximize poverty reduction. This should include an evaluation of the potential long-term impacts of IFC mining investments on local water and land resources and remediation costs.
3. Support an independent audit of its technical capacity to adequately assess and manage the broad range of social and environmental impacts associated with large-scale mining projects.

The IFC claims that its operations promote sustainable development and improve people's lives.

Prove it, IFC.

Report on your project- level development impacts, and we will know if there's something worth celebrating on this "golden" anniversary.

Contact the report's main authors:

Radhika Sarin, EARTHWORKS
rsarin@earthworksaction.org

Nikki Reisch, Bank Information Center
nreisch@bicusa.org

Jennifer Kalafut, Bank Information Center
jkalafut@bicusa.org

Keith Slack, Oxfam America
kslack@oxfamamerica.org

Many thanks to Karyn Keenan (Halifax Initiative) and Sony Kapoor (Jubilee Research) for their contributions.

About the Bank Information Center

The Bank Information Center (BIC) partners with civil society in developing and transition countries to influence the World Bank and other international financial institutions (IFIs) to promote social and economic justice and ecological sustainability. BIC is an independent, non-profit, non-governmental organization that advocates for the protection of rights, participation, transparency, and public accountability in the governance and operations of the World Bank, regional development banks, and IMF. www.bicusa.org.

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About EARTHWORKS

EARTHWORKS is a non-profit organization dedicated to protecting communities and the environment from the destructive impacts of mineral development worldwide. We fulfill our mission by supporting communities and grassroots groups, by publicizing the environmental, social, cultural and economic impacts of mining, and by working to improve government policies and corporate practices. Founded in 1988 as Mineral Policy Center, our organization has a long track-record of work on mining reform. www.earthworksaction.org

About Campagna Per La Riforma Della Banca Mondiale

CRBM works in solidarity with local communities affected by projects and investment worldwide for a democratic and radical reform of the international financial institutions. Special attention is given to the impacts of public and private investments from the North to the South of the world on environment, development and social and human rights, in solidarity with the local communities which directly suffer from these impacts. www.crbm.org

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Endnotes and Resources

¹ World Bank Group Mining Department, *Treasure or Trouble? Mining in Developing Countries*, 2002, Washington, DC.

² World Bank Group Mining Department, *Treasure or Trouble? Mining in Developing Countries*, 2002, Washington, DC. See also, Jean-Philippe Stijns; Ross, Michael, *Extractive Sectors and the Poor*, Oxfam America, 2001, and Power, Thomas Michael, *Digging to Development: A Historic Look at Mining and Economic Development*, Oxfam America, 2002.

³ A May 2006 report by the London-based Catholic Agency for Overseas Development (CAFOD) details the impacts of gold mining. *Unearth Justice: Counting the Cost of Gold*, May 2006 (p. 23).

⁴ Rebecca Evanhoe, "Metal Pollution From Medieval Mining Persists: Study looks at patterns of heavy-metal contamination of a site in southern France," August 17, 2006, *Chemical & Engineering News*, <http://pubs.acs.org/cen/news/84/i34/8434pollution.html>.

⁵ The IFC currently produces a "Sustainability Report" which provides a broad-brush overview of the IFC's activities. Although the IFC has committed to implementing a system to track development impacts throughout a project's lifecycle, it has not committed to disclosing the data on a project-specific basis. Instead, it will report on its "overall contribution to development," leaving questions about what information may be omitted and how accurately the reporting captures local impacts. For an example of the IFC's current sustainability report, see:

http://www.ifc.org/ifcext/enviro.nsf/Content/Publications_SustReports. For its extractive industry projects, the IFC has recently developed a template of "poverty impact indicators" which client companies are supposed to use to document their projects' effects on communities. However, these impact assessments rely on self-reporting by companies, and the IFC does not require that they be made public. For more information, see: [http://iris36.worldbank.org/domdoc/PRD/Other/PRDDContainer.nsf/All+Documents/85256D240074B563852570590053CA02/\\$File/povertyindicators081005.pdf](http://iris36.worldbank.org/domdoc/PRD/Other/PRDDContainer.nsf/All+Documents/85256D240074B563852570590053CA02/$File/povertyindicators081005.pdf)

⁶ http://www.nodirtygold.org/cajamarca_peru.cfm; IFC Annual Report, http://www.ifc.org/annualreports/ar2005/pdfs/english/IFC_AR05_Vol2_investPort.pdf.

⁷ For information on Glamis Gold's production at Marlin and earnings, see "Glamis Gold Announces First Quarter 2006 Results," http://www.marketwire.com/mw/release_html_b1?release_id=126781.

⁸ Operations Evaluation Department, "Evaluation of the World Bank Group's Activities in the Extractive Industries: Background Paper, Ghana Case Study," October 15, 2003.
([http://www.ifc.org/ifcext/oeg.nsf/AttachmentsByTitle/oed_ccs_ghana/\\$FILE/oed_ccs_ghana.pdf](http://www.ifc.org/ifcext/oeg.nsf/AttachmentsByTitle/oed_ccs_ghana/$FILE/oed_ccs_ghana.pdf))

⁹ IFC 2003 Annual Report, Volume 2,
<http://www1.ifc.org/ar2003/pdfs/portfolioJune03.pdf>.

¹⁰ CEE Bankwatch Network website, www.bankwatch.org.

¹¹ IFC, Annual Portfolio Performance Review – FY 05, October 2005, Table C-21, page 68.

¹² World Bank, ICMM, UNCTAD Commodities Branch, "Synthesis of Four Country Case Studies: The Challenge of Mineral Wealth: using resource endowments to foster sustainable development," April 2006, p. 41.

¹³ An April 2005 letter signed by more than 40 civil society organizations world wide recommends that the IFC "should implement a system which identifies expected poverty alleviation benefits in every project, measures and makes public the actual outcomes at a project level during and after implementation." (Submission from International Civil Society Organizations to IFC Regarding IFC Safeguard Policy Review, April 29, 2005). In a position statement issued by the U.S. Government, the U.S. Executive Director to the IFC abstained on a vote to approve the disclosure policy in part because, "the policy does not provide for disclosure of individual project outcomes." (U.S. Position Statements on MDB Operational Policies, www.treasury.gov).

¹⁴ News entry on the website of Global Rights, Rules and Responsibilities, October 20, 2005. (www.grrr-now.org)