EXTRACTIVE INDUSTRIES AND POVERTY REDUCTION STRATEGY PAPERS

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ELIZABETH STITES

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Introduction

Poverty Reduction Strategy Papers

The foreign debt of the developing world reached roughly $2 trillion by the late 1990s. Previous debt-reduction mechanisms had not had a significant impact on international debt, and the multilateral lending organizations found themselves facing increased pressure to expedite debt relief through more effective means. In 1999, the World Bank and International Monetary Fund introduced the Enhanced HIPC (Heavily-Indebted Poor Countries) Initiative, a measure that linked debt relief with poverty reduction. To qualify for the debt relief program, HIPCs would have to develop a comprehensive approach to poverty reduction, reflected in a Poverty Reduction Strategy Paper (PRSP).[1] All sectors of society were meant to participate in the creation of the poverty alleviation strategy. The requirement to produce a PRSP was also extended to non-HIPC countries that receive low-cost loans from the World Bank.[i]

There is no set blueprint for the PRSPs. The papers are expected to describe the multidimensional nature of poverty within the country, to establish goals and a timeline for poverty reduction, and to detail a strategy (including funding sources and requirements) to meet these goals. Each country is supposed to draft their PRSP with minimal outside assistance in an effort to ensure a sense of national ownership over the strategy. The mandated consultative process with representatives from wide sectors of society is designed to improve accountability and to increase the transparency of government policies and resource allocation.

In the roughly three years that the PRSP process has been underway, 49 countries have complete PRSPs or I-PRSPs (interim reports), and HIPCs have received $25 billion in debt relief in net present value terms and $41.5 billion in nominal terms.[ii] The PRSP process, however, has not received endless accolades for its successes. Numerous civil society groups (in both the North and South) have expressed growing levels of disappointment in the PRSP process.[iii] Critics levy that the strategies are not actually "country-owned" because the Bank reviews and approves or rejects each strategy. Detractors argue that countries must conform to the Bank's expectations to qualify for desperately needed debt relief. This system therefore perpetuates the same neo-liberal macroeconomic policies that were in place prior to the introduction of the HIPC Initiative.[2] Many civil society organizations complain that the process is not truly inclusive, as governments are able to pick and chose the groups and organizations that they "consult" when

[1] This paper reviews PRSPs, I-PRSPs (interim PRSP reports), and the Joint Staff Assessments conducted by the World Bank and IMF staff following the submission of a country's PRSP or I-PRSP. All PRSPs and related documents can be found on the site www.worldbank.org/poverty/strategies/

[2] A recent report by the organization Focus on the Global South argues that the PRSPs use poverty "as window dressing to peddle more or less the same Structural Adjustment Programmes (SAPs) to low income countries that led them into a state of chronic economic crisis to begin with." Jenina Joy Chavez Malaluan and Shalmali Guttal, "Poverty Reduction Strategy Papers: A Poor Package for Poverty Reduction," Focus on the Global South, January 2003.

formulating the PRSPs.[3] Other analysts adopt a more conciliatory perspective. They point out that the PRSP process is an important step towards greater inclusion, consultation, and country-ownership of poverty reduction strategies that does not yet go far enough in achieving the desired transformation of international lending.

Extractive Industries

Extractive industries (oil, gas, and mining) play a major role in the economies of many developing nations, especially in Africa. Many nations have long been dependent on the export of natural resources for the majority of their foreign currency earnings and for a large portion of their Gross Domestic Product (GDP). These exports are almost always in the form of a primary commodity, and many economies rely nearly exclusively on only one commodity to fuel economic growth. High levels of dependency on the export of minerals, gas, or oil results in extreme vulnerability to exogenous shocks—such as a sudden collapse in the world commodity price—and these shocks create ripple effects throughout a country's domestic economy.[4] Other countries that depend on extractive industries are prone to the phenomenon of "Dutch Disease," which occurs when a boom in one sector (often oil) causes currency appreciation and the transfer of employment, investment, and resources to the boom sector at the expense of other parts of the economy (usually agriculture and non-oil industries).

The presence of valuable resources such as oil, gas, and minerals may seem like a blessing for poor countries. Revenues from the exploitation of these resources often contribute substantially to the GDPs of developing countries,[5] but evidence has shown that resource-dependent nations tend to grow more slowly over time than those that lack abundant natural resources. In fact, reliance on the export of extractive resources has been shown to *negatively* affect a country's economic, political, and social development.[iv] And the negative effects are not purely economic: resource-dependent countries appear to be more prone to low living standards, corruption, authoritarianism, low public health indicators, and civil war.[v]

[3] The recent debate over Sri Lanka's PRSP process draws attention to many of these criticisms. A coalition of civil society organizations in Sri Lanka attempted to block the approval of the PRSP by the Bank and IMF, claiming that there was little consultation with groups that the polices will affect. Labor unions, for instance, were reportedly not consulted at all, even though the poverty reduction strategy will have profound effects on the nation's work force through privatization and the reform of what the government considers to be "archaic labor laws." The representatives from Sri Lankan civil society and other international opponents were not successful in their campaign, and the IMF and World Bank approved a $567 million three-year loan package to Sri Lanka to support the government's economic program. See *Asia Times*, "Sri Lanka goes the IMF Way," April 23, 2003.

[4] Zambia, for instance, was highly dependent on copper prior to the sharp decline of the world copper price that began in the mid-1970s. No other viable sectors existed on the same scale, and the collapse of copper mining had spillover effects in industry and agriculture, eventually resulting in widespread unemployment, economic stagnation, and deteriorating living standards. See Scott Pegg (2003), "Poverty Reduction or Poverty Exacerbation? World Bank Group Support for Extractive Industries in Africa," Indiana University Purdue University Indianapolis, (forthcoming).

[5] In sub-Saharan Africa, for instance, Guinea, Democratic Republic of Congo, and Zambia all received over 70% of their GDP from 1990-1999 from the export of mining products. Equatorial Guinea, Gabon, and Congo-Brazzaville received over 65% of their GDP in the same period from the oil industry. See Monika Weber-Fahr (2002), *Treasure or Trouble? Mining in Developing Countries,* Washington, DC: World Bank Group and International Finance Corporation.

Extractive industries are the major source of economic revenue in many regions. Most poor countries that rely heavily on these industries, however, have proven to be inefficient in transferring the revenues into poverty reduction and improvements in social, economic, and political indicators. This paradox between the presence of abundant and valuable natural resources and the negative impacts on growth is often referred to as the "resource curse." This phenomenon is particularly prevalent in sub-Saharan Africa.[vi]

In recent decades, the World Bank has contributed billions of dollars in support of extractive industry in the developing world, with $2.75 billion in loans and guarantees since 1990 in Africa alone.[vii] The Bank rightly considers these sectors to be an important source of growth, and yet the World Bank PRSP Sourcebook clearly identifies the many negative impacts that the development of the mining sector may have on the poor, stating that "[m]ining, and the cessation of mining where it has become economically untenable, can also be a cause of poverty."[viii] This forthright message is backed by an analysis of the potential risks and negative repercussions that can arise from mining and a discussion of the key linkages between both small and large-scale mining and poverty reduction.[6] As this paper shows, however, there is a disconnect between the guidelines and cautionary tone of the mining chapter of the PRSP Sourcebook and the content of the PRSPs themselves. Perhaps more surprising, the Joint Staff Assessments (the review process of the PRSPs conducted by the Bank and IMF) do not revisit the advice provided in the Bank's Sourcebook when reviewing the PRSPs.

The burning question, therefore, is what role do extractive industries play in the World Bank-mandated Poverty Reduction Strategies of developing nations? This paper reviews the PRSPs of a selection of HIPC countries that either rely on extractive industries for a sizeable portion of their economic revenue or are planning to expand into the extractive sector in the near future.[ix] The paper seeks to illustrate the commonalities and recurring traits in the ways in which countries opt to address—or not to address—this complex issue in their PRSPs. The Joint Staff Assessments (JSAs) provide the best insight into the position of the multilateral lending organziations on the PRSPs, and these reports were also reviewed. The first section of the paper examines traits found in many of the PRSP documents, and the second section offers three case studies that examine specific aspects of the link between extractive industries and the PRSP process.

Common Traits

Overall, the PRSPs and JSAs contain very little discussion of extractive industries, even for those countries that are heavily dependent on minerals or petroleum. PRSPs that do take note of the extractive industries most often are seeking to bolster foreign investment in these sectors as continuing or potential "major growth engines" for economic development. Mining is more prevalent and is raised more frequently than petroleum in the PRSPs under review. There is a marked lack of discussion regarding policies or regulatory guidelines to ensure the allocation of financial resources from extractive industries towards priority sectors or pro-poor growth. Even

[6] Potential negative impacts listed in the PRSP Sourcebook chapter on mining include poor governance, corruption, macroeconomic instability, damage to the environment, setbacks in health and human development (including increased spread of HIV/AIDS and other communicable diseases), social, ethnic, and cultural tensions between groups, negative effects on the non-mining sectors, sudden mine closures, and barriers on economic restructuring.

more rare is a demonstrated awareness of the potential for resource-dependent growth to exacerbate poverty. Linkages between extractive industries and negative externalities such as corruption, public health problems, and conflict are non-existent in every PRSP under review. Displacement in relation to mining is mentioned on only one occasion, in Ghana's PRSP. The only references to sub-optimal consequences are in relation to vulnerability to external economic shocks and the possibility of environmental degradation from mining projects.

1. *Ignore the Issue*

Several ofthe PRSP documents under review either ignore extractive industries altogether or mention this sector only in passing. In some instances, economic dependency on one natural resource is noted, but is not discussed as either a positive or negative factor in overall development or poverty reduction. For example, in the I-PRSP for the DRC—where natural resources are plentiful, heavily exploited, and directly linked to the perpetuation of civil conflict—minerals and petroleum are mentioned in passing as principle exports. The role of natural resources in relation to the conflict is raised only in reference to the plunder of foreign occupying forces, and the potential development of these sectors to generate economic growth for poverty reduction is not addressed.

Very few PRSPs address extractive industries in countries where this sector is set to *become* an important source of growth during the lifespan of the 5-year poverty reduction plans.[7] The PRSP for Lao PDR, for instance, where gold and copper mines have recently been developed, mentions mining in passing as a means of promoting industry. The I-PRSP for Cameroon affords the Chad-Cameroon pipeline and the expected revenues only a brief discussion. The PRSP for Tanzania does not mention extractive industries at all, even though the country has recently seen a major increase in gold production and natural gas exploration and received $402 million from the Bank for extractive industries from 1990-1999.[x]

In many instances, the JSAs also neglect to address extractive industries when reviewing the PRSP documents. The JSAs under review do not call attention to PRSPs' lack of consideration for extractive industries—even when these sectors contribute significantly to GDP or are directly related to internal conflict. When a JSA does raise the issue of extractive industries it is always in relation to economic growth and never relates to poor governance, social indicators, or possible economic stagnation. In Zambia's case, for instance, the JSA cautions against an overly optimistic view of the role of copper exports in spurring growth but does not address pollution, displacement, or the negative social outcomes associated with population growth in mining areas.

[7] In some of the earlier PRSPs, the contribution from extractive industries to a country's economy may be less significant than at present. The I-PRSP for Cameroon, for instance, was submitted in August 2000, only a month after the Bank had approved the loan for the Chad Cameroon Pipeline. This may explain why Cameroon mentions the possible revenue from the pipeline—estimated to be roughly $20 million/year over the 25-year production period—only briefly in its strategy paper.

2. *Learning from the past?*

Many PRSP documents that do discuss the role of extractive resources in economic growth do not address the serious economic pitfalls that can arise from dependency on these sectors. This is occasionally the case even in countries that have previously experienced economic setbacks and stagnation as a result of over-dependency on one commodity. Zambia, for instance, is well-aware of the link between the collapse of copper prices and the country's poor economic performance over the past three decades, but is still seeking to invest heavily in the flagging copper industry.[8]

Most countries seeking greater investment in the extractive sector feel that the development of this sector will create greater employment opportunities. Evidence shows, however, that most large-scale extractive ventures tend to rely on small numbers of highly-skilled workers, often expatriates.[xi] No country cautions against the economic stagnation that can accompany resource-dependent growth, or mentions the relationship between extractive industries and the possible exacerbation of poverty. Many countries (e.g., Mauritania, Mali, Guinea, Bolivia) seem to view intensified development of the extractive sector as a panacea for poverty, but the PRSPs of these countries rarely include policies to direct natural resource revenue towards poverty alleviation programs.

Some countries do adopt a more cautious approach to dependency on extractive resources. This caution is apparent in strategies to diversify export bases in order to minimize exposure to external shocks such as price fluctuations. For example, Cameroon wants to develop non-oil sectors and Zambia, while continuing to invest heavily in copper, is also seeking to substantially boost agriculture as a source of export revenue. Many countries, however, do not specify what form this "diversification" will take, and fail to suggest viable substitutes to generate revenue or foreign currency.

3. *What linkages?*

Almost without exception, the PRSPs under review neglect to acknowledge the linkages between extractive industries and declines in indicators measuring good governance and social welfare. In discussing the promotion of the extractive sectors, *no* PRSP mentions potentially negative effects on living standards, public health, or community or inter-ethnic relations. The possibility for increased rates of HIV/AIDS or prostitution in the vicinity of mining installations is not raised. The role of mineral or oil resources in fueling internal conflict receives no acknowledgement, even in Sierra Leone, where diamond revenues allowed the perpetuation of the war.[9] Competition over mineral wealth *is* mentioned as a factor in the war in the DRC, but only in reference to the "systematic plundering of natural resources" by foreign occupiers—not

[8] Surprisingly, this investment strategy was included in the PRSP even after the major economic setback caused by the pull-out of the Anglo American Corporation from Zambia's copper industry. In fact, it would appear that this setback encouraged Zambia to invest *more* heavily in copper and to seek to prevent the closure of any additional mines, even those there were abandoned by Anglo and no longer generating a profit. At the time of the writing of the PRSP, Zambia was hoping to quickly find another investor to take over Anglo's mines. See Zambia PRSP, March 2002, pp. 13, 52, 72-76.

[9] The role of oil and diamonds in conflicts is perhaps best known in Angola, but the PRSP for Angola was not yet available for release by the World Bank at the time of this review.

as a potential source of intra-state or local conflict.[xii] Only one PRSP (Ghana) mentions the link between extractive industries and displacement (due to land appropriation, environmental degradation, or conflict) or migration to mining areas in search of economic opportunities. The I-PRSP for Chad does not discuss any potentially negative consequences that may arise from the development of oil fields in southern Chad, including displacement, increased political strife in the region, environmental degradation, or economic migration and the ensuing social costs.[10] No country directly spells out the link between dependency on extractive industries and increased levels of corruption or poor governance. However, some PRSPs do incorporate measures for improved oversight of these sectors. Cameroon, for instances, discusses the recent external audits of its petroleum industry and the need to "promote transparency" in this sector.[xiii]

Environmental degradation is the only negative externality that is mentioned regularly, though PRSPs address this issue in a variety of ways. A few select PRSPs, such as those of São Tomé and Príncipe, Guinea, and Bolivia, make explicit reference to the dangers of pollution arising from the extractive sectors. São Tomé's I-PRSP takes this a step further, stating, "the prospective development of offshore oil resources could threaten the tourism potential of the islands and would affect the fishery resources through risks of marine oil pollution."[xiv] Bolivia points out that the poor are the most susceptible to environmental problems, and yet are also responsible for a significant part of these problems due to dependency on small-scale extractive industries (and agriculture and manufacturing).[xv] Few other PRSPs directly address the relationship between the environment, poverty, and extractive industries to this extent. Most references to the environment simply mention the importance of protection measures in conjunction with the development of extractive industries.

4. *Links to poverty reduction*

One of the most serious and reoccurring shortcomings in the PRSPs is the failure to draw a clear link between investment in the extractive sector and the reduction of poverty. Very few PRSPs explain how the revenues from oil or mining will be used to alleviate poverty, and no PRSP points out that dependency on extractive industries has been shown to *exacerbate* poverty in the absence of careful financial oversight. Many countries focus on the extractive sector as a major source of growth, but appear to assume a simple and linear path between economic expansion and poverty reduction. There are some exceptions, but it is difficult to gauge the extent to which the (sometimes cursory) references are more than lip-service and will be translated into actual strategy on the ground. The PRSP for Mali, of instance, mentions that growth alone does not bring poverty reduction, but rather must be channeled into pro-poor initiatives.[xvi] Zambia takes the analysis farther, and discusses the need to ensure "broad-based growth" and to minimize the negative effects of rising inequality that often accompany economic development.[xvii]

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[10] The I-PRSP for Chad was submitted in July 2000, prior to much of the development of the oil fields in the Doba region. Since then, many of the problems listed here have started to occur, including increased unrest and migration to the oil-producing region. Evidence from similar situations, such as in Ogoniland in Nigeria, should have prompted Chad to mention these issues in the I-PRSP. The JSA in response to the I-PRSP was prepared in November 2001, after construction began on the Chad-Cameroon pipeline and after increasing accounts of a deteriorating security and human rights situation in Chad. Nevertheless, the JSA also overlooks any potential negatives that might arise from the development of over 300 oil fields in the Doba region or from the Chad-Cameroon pipeline.

5. *JSAs: Missing the "Big Picture"*

The World Bank and IMF staffs review each country's PRSP document and submit a Joint Staff Assessment (JSA) of the poverty reduction strategy to their executive boards. Each JSA is meant to assess whether or not the strategy outlined in the PRSP "constitutes a sound basis for concessional assistance from the Fund and the Bank."[xviii] Based on the countries under review, the JSAs do just this: they focus purely on the contents of the PRSPs and rarely raise issues not first mentioned by the countries themselves. This "hands-off" approach may be intentional in order to limit the Bank's influence on the final content of the PRSPs, but the end result is JSAs that are ineffective in highlighting critical aspects that were not included in the country strategies. This shortcoming is reflected in the JSAs' near absolute lack of discussion regarding extractive industries.

The JSAs do not take strong positions—either positive or negative—when responding to the role of extractive industries in a country's economic strategy. This means that JSAs rarely comment on what appear to be glaring oversights within PRSPs. Based on this review, a JSA will support extractive resources as a critical (or sole) source of growth when this is mentioned in the PRSP, but will not call attention to the oversight when the PRSP does *not* address extractive industries. This is often the case even in countries that are already heavily reliant on extractive industries, have experienced negative consequences (e.g., conflict, economic stagnation, corruption) directly linked to dependence on oil or mining, or are seeking to develop these sectors as a major source of economic growth.

Some examples: Neither the I-PRSP nor the JSA for the DRC mention the role of minerals as a determinant of poverty (as an underlying cause of ethnic conflict, civil strife, displacement and migration) or as a sector with strong potential to fuel economic growth. This seems a serious omission in a country where 80% of GDP from 1990-1999 was derived from the export of mining products.[xix] Tanzania received $402 million from the Bank in support of extractive industries between 1990 and 2000, but neither the PRSP nor the JSA makes reference to these projects or the extractive sector.[xx] The JSA for Sierra Leone does acknowledge that the growth strategy is dependent (*inter alia*) on the government takeover of the mining areas from the rebels. The JSA does not, however, link mineral dependency to the "main causes of poverty," which are listed, in part, as increased vulnerability due to the civil war, poor economic growth performance, bad governance, adverse terms of trade, and unemployment.[xxi]

There are exceptions to the norm, such as the JSAs for Mali and Zambia. In the case of Mali, the JSA states that the lenders will work with Mali to "deepen the analysis of the potential sources of growth and export diversification."[11] In responding to Zambia's PRSP, the JSA cautions that Zambia may need to be more realistic about a potential rebound in the copper sector, and also recommends that the government conduct further analysis on the relationship between economic growth and poverty reduction.

It should not come as a surprise that the Bank does not use the JSAs to highlight the links between the extractive industries and poverty. The World Bank Group has long promoted these

[11] On the other hand, the JSA agrees with Mali's assessment that the gold sector is a key area for growth and does not offer any words of caution regarding possible negative consequences of mineral dependency.

industries in the developing world—particularly in Africa—through support for investment liberalization, privatization of state-owned companies, and direct financing of private sector projects through investments, loans, and guarantees.[xxii] What *is* surprising is that the JSAs do not refer back to the guidelines in the mining chapter in the Bank's PRSP Sourcebook; guidelines that offer a relatively balance and thorough analysis of both the benefits and risks that accompany the growth of the extractive sectors. The JSAs themselves do not refer to or adhere to Bank recommendations, and therefore the Joint Staff Assessments cannot expect the PRSPs to follow these guidelines or to uphold higher analytical standards.

6. *Bursts of Insight*

The review of the PRSP documents (including the JSAs) indicates an overall lack of analysis of the role—positive or negative—of extractive industries in the PRSPs of select HIPCs. However, these reports are far from uniform, and there are initiatives and observations that are particularly innovative even in documents that otherwise have substantial shortcomings. Some of these positive elements have been cited previously, but others include:

- The recognition in several PRSPs (including Sierra Leone, Mali, and Bolivia) of the role of small-scale mining in the economy. Mali takes the additional step of pointing out that a majority of these miners are women, and seeks to help strengthen the capacity of this group and to encourage sustainable activities.[xxiii] The PRSP for Sierra Leone recognizes that many small-scale miners are IDPs and refugees, and that support to this sector could help these vulnerable groups.[xxiv]
- The PRSP for Ghana acknowledges that mining can cause displacement that in turn leads to exclusion and increased vulnerability.[xxv]
- The JSA for Guinea calls attention to several important issues that are "either missed or poorly defined" in the PRSP, including the rapid environmental degradation of river basins and threats to the sub-region's water supply.[xxvi]
- The I-PRSP for Chad discusses legislation passed in 1998 to allocate the "major part" of oil revenues "to the priority sectors involved in poverty reduction" and to provide "tools to monitor and supervise" the use of these funds.[xxvii]
- The I-PRSP for Sierra Leone includes measures to "rehabilitate" areas that have suffered environmental damage from mining.[xxviii]
- The JSA for Sierra Leone points out that the I-PRSP fails to make a link between small-scale mining and the livelihoods of demobilized soldiers.[xxix]
- The PRSP for Bolivia recognizes mining as one of the main sectors responsible for water pollution. The PRSP also highlights the linkages between poverty, extractive industries, and environmental degradation.[xxx]

These instances highlight ways in which the PRSP documents *do* address the extractive industries in a manner conducive to poverty reduction. It should be remembered, however, that these bursts of insight stand out primarily because they are unusual instances of quality analysis.

Case Studies

Three case studies provide greater detail on the incorporation of extractive industries into the PRSPs and JSAs. These examples show that PRSPs often contain both positive aspects and shortcomings in their discussions of extractive industries.

Sierra Leone

The export of minerals contributed 50% of Sierra Leone's GDP during the 1990s.[xxxi] The I-PRSP for Sierra Leone does discuss the importance of the mining sector, and introduces a dual approach that aims to attract investment in large-scale mining projects while also improving conditions for small-scale and artisanal miners. Like many other Poverty Reduction Strategies, the I-PRSP for Sierra Leone seeks to make the business environment more attractive to foreign investment and private sector development. Efforts to assist small-scale diamond miners, especially returning refugees and IDPs, include encouraging the formation of cooperatives and improving access to credit.[12] In order to promote the livelihoods of those working in related but non-extractive industries, the I-PRSP envisions the "expansion of small-scale economic activities to service key mining centres within the context of an integrated mining economy."[xxxii] (The likelihood of less desirable developments accompanying the growth of these economic and commercial zones is not mentioned.) The I-PRSP makes several references to the need for "environmentally friendly mining practices" and includes plans to rehabilitate areas damaged by mining activities.

Sierra Leone's I-PRSP does not acknowledge the linkages between mineral-dependency, internal conflict, and the exacerbation of poverty in the country. But until the diamonds, conflict, and poverty are addressed in a parallel and comprehensive fashion, it seems unlikely that the country will enjoy political and social stability or economic growth. The I-PRSP contains no discussion of the role of diamonds in fueling the civil war or in deepening the cycle of poverty. Sierra Leone is presently in transition out of conflict, but both the country and region remain extremely unstable with a high possibility of the resurgence of violence.

Diamonds will remain a major factor in fueling strife in the West African region. Rebels and smugglers are adept at evading sanctions by transporting precious stones across borders for export from sanction-free countries. In an effort to counter this source of instability, most major diamond importing and exporting states have recently signed onto the Kimberly Process Certification Scheme, which attempts to validate the origin of diamonds. This process is currently lacking enforcement mechanisms, however, and is unlikely to eradicate illicit diamonds as a factor in conflict and poverty in Sierra Leone until such mechanisms are included.[13]

[12] The indicator of success for the improved livelihoods of small-scale miners is the "value of official diamond exports." This indicator does not link clearly to the objective of creating more secure livelihoods for this population group.

[13] The social, political, and economic devastation caused by the trade of "conflict diamonds" in Africa prompted the international community to take action to regulate the sale of illicit diamonds through the Kimberly Process. Underpinning this initiative is the argument that removing illicit diamonds as a source of profit will also remove the incentive for conflict from state and non-state actors. At present, the Kimberly Process Certification Scheme involves the certification of the origin of diamonds, but does not include independent monitoring mechanisms to ensure compliance by either the importing or exporting countries. Many non-governmental organizations hope to be

The I-PRSP for Sierra Leone presents a macroeconomic plan that remains heavily dependent on mining. The export of diamonds will remain a critically important source of economic growth for Sierra Leone, and this continuing dependence is reflected in the I-PRSP. The Poverty Reduction Strategy does not, however, seek to create a more diversified export base to limit susceptibility to external shocks and does not address possible economic pitfalls associated with high mineral-dependency, such as Dutch Disease, rising inequality, and corruption.

The I-PRSP does not examine the effects of a high rate of mineral-dependency on social welfare. Sierra Leone ranks at the bottom of the world development indicators on measures such as under-five mortality and life expectancy.[xxxiii] Neither the I-PRSP nor the JSA addresses these aspects of poverty as they relate to the country's dependence on minerals. The I-PRSP does not contain any measures to mitigate the threats to public health and social welfare (such as migration, over-crowding, prostitution, and HIV/AIDS) that are likely to arise in the areas of "economic activity" that the government seeks to encourage around mining installations.

Guinea

The PRSP and JSA for Guinea are unique due to the extent of attention afforded to extractive industries. Unlike most other PRSPs under review, the Poverty Reduction Strategy for Guinea incorporates a lengthy discussion on the role of mining in the country's economy. The strategy is not, however, fully effective in linking this discussion to a clear plan for poverty reduction. Although the PRSP dedicates a section to mining, Guinea does not follow the suggestions or guidelines regarding the role of mining in poverty reduction as laid out in the PRSP Sourcebook. While the sourcebook is not meant to serve as a blueprint for the PRSPs, it does highlight some of the potential dangers of mineral dependency and discusses negative externalities arising from extractive industries.

The PRSP discusses the importance of mining in Guinea's economy, which accounts for 80-90% of total exports.[xxxiv] While the PRSP takes pains to point out that agriculture now surpasses mining in its contribution to GDP, mining still accounts for most industrial jobs in Guinea. In an unusually transparent move, the PRSP lists the seven largest mining companies in Guinea and the revenues provided to the central government, extent of investment in local development, and number of jobs created (direct and indirect) by each corporation. The PRSP goes on to discuss planned projects to broaden Guinea's mining exports, pointing out that these projects will require "massive investment," mostly from the private sector.[xxxv]

Guinea offers the most comprehensive discussion of extractive industries in the PRSPs under review. The strategy paper does not, however, provide effective or convincing evidence of the links between economic growth fueled by mining and poverty reduction. Like many other countries, Guinea seems to assume a linear and direct relation between increasing growth and decreasing poverty, and remains overly optimistic regarding the role of mining in poverty reduction. The PRSP does not distinguish between the large and small-scale mining sectors. The

able to strengthen the regulations to ensure compliance and improve oversight. For more information on conflict diamonds and the Kimberly Process, see the websites of organizations such as Global Witness, Partnership Africa Canada, Oxfam America, and Amnesty International.

PRSP also does not address the potential economic, political, or social pitfalls that can arise from a highly mineral-dependent growth strategy.

Guinea does not appear to have referenced the PRSP Sourcebook's chapter on mining in drafting the extractive industry component of the PRSP. This chapter of the Sourcebook provides a relatively balanced analysis of the repercussions of mineral-dependent growth, and outlines some of the positive and negative linkages between both large-scale and small-scale mining and poverty. Use of these guidelines may have enabled Guinea to develop a more comprehensive and realistic strategy regarding extractive industries. For instance, one of the main weaknesses in Guinea's PRSP is the lack of discussion on the connection between mining-based economic growth and poverty reduction. The PRSP Sourcebook offers clear steps as to how a country can maximize the benefits of mining for poverty reduction.[14] The lack of obvious reference to or use of the Sourcebook in Guinea's PRSP (as well as most other country strategy papers under review) may be due to a variety of factors, including inadvertent or intentional oversight on the part of the country or poor communication from the Bank regarding the potential value of the Sourcebook as a guide.

Unlike most JSAs under review, the JSA for Guinea takes the unusual step of raising several issues that are absent in the text of the PRSP. Even when calling attention to oversights within the PRSP, however, the JSA rarely takes the additional step of linking these issues to negative externalities or direct impediments to poverty reduction. For instance, the JSA mentions that high dependency on the export of bauxite causes risks to Guinea's macroeconomic plan, but does not point out that this dependency can also have negative impacts on poverty reduction strategies.[xxxvi] On the other hand, the JSA calls for further analysis of the determinants of poverty and the impact of "past and proposed future policies and programs."[xxxvii] The JSA does not specify the role of extractive industries in these policies and programs, but one can hope that further discussions of these policies may include debate on the merits and pitfalls of mineral dependency. In a very rare move, the JSA calls attention to areas that are "entirely missing" within the PRSP, such as the lack of any discussion regarding the environmental pollution of river basins.[xxxviii]

Ghana

The poverty reduction strategy for Ghana makes a significant effort to address issues that relate to the extractive industries and are important aspects of poverty reduction. Unlike many other PRSPs, the strategy for Ghana directly acknowledges the country's over-dependence on a primary extractive commodity (gold), and stresses early in the paper the need to diversify exports in order to protect against external shock. The PRSP also discusses the impact of extractive industries on the environment, and makes some reference to the effects of mining on social indicators. Ghana's PRSP is more comprehensive and forthright than most other poverty strategies under review, but there is still room for improvement in the discussion of extractive industries and the links of this sector to poverty alleviation.

[14] These steps include the collection of data on poverty-related impacts of the mining sector, the establishment of clear objectives for the mining sector, and the creation of a sound policy environment. See World Bank, *PRSP Sourcebook*, Chapter 25, pp. 439-468. See http://worldbank.org/poverty/strategies/sourcons.htm.

The PRSP for Ghana is quick to point out that one of the "fundamental problems" that has faced the country is the "persistent reliance on the export of a few primary products with little or no added value," including gold, cocoa and timber. The PRSP recognizes that this dependency has resulted in vulnerability to external price fluctuations, low revenues from exports, and declining per capita income. This situation has also made it difficult for Ghana to create "meaningful wealth."[xxxix] In order to overcome this detrimental economic condition, the PRSP states that Ghana needs to focus on "export promotion based on diversification and comparative advantage" as well as to adopt other measures of fiscal prudence, sustainable environmental practices, etc.[xl] Ghana's PRSP carries this strategy a step further than most by identifying possible alternatives to traditional exports, including processed gold. The export of processed gold, of course, will decrease Ghana's susceptibility to international price fluctuations, but will not decrease the potentially negative impacts of gold mining.

Ghana's Poverty Reduction Strategy more directly acknowledges the relationship between extractive industries and environmental degradation than most PRSPs under review. Ghana stresses the quality of the environment as a key aspect of long term growth and development, and calls for environmental impact assessments and audits for mining and other sectors. Ghana goes a step beyond other countries to note the "strong link in the natural resource and environmental conditions and poverty,"[15] and the PRSP calls for the enforcement of legal codes and the empowerment of civil society organizations to help eliminate damaging illegal mining activities.[xli] In contrast to the common *de*regulation to encourage private investment in the extractive industries, Ghana's PRSP calls for "environmental taxes" to be levied against companies such as mining and timber firms that have the potential to damage the environment.[xlii] The PRSP includes a results indicator specific to the mining sector, which states a goal of a 20% reduction in resource degradation from mining and manufacturing by the year 2005.[xliii]

The PRSP for Ghana allocates an unusual degree of attention to the social effects of the extractive industries. For instance, in the sole mention of this negative externality in the PRSPs under review, Ghana's PRSP lists displacement due to mining operations as one of the factors responsible for the creation of excluded and vulnerable population groups.[xliv] The PRSP recognizes the role of small-scale mining in the livelihoods of the poor, and points out that regulatory laws are biased in favor of large-scale operations. To address this imbalance, the PRSP calls for geological assessments to recommend the prioritization of small, medium or large-scale mining in areas with extractive potential. In an unusual mention of health risks from mining, the PRSP calls for the creation of a framework to promote improved occupational health for small-scale miners.[xlv]

Ghana's PRSP is more comprehensive than most others under review, but there remains a great deal that the PRSP does not address or only touches on in a superficial manner. For instance, the PRSP mentions population displacement caused by mining operations but does not provide figures regarding the numbers of displaced or propose compensation, protection, or specific

[15] The PRSP for Bolivia takes this analysis even a step farther, pointing out that "poverty, economic activity and the environment are closely connected. It is the poor who are the most affected and defenseless against environmental problems and are at the same time responsible for a significant portion of such problems. Lower income groups are for the most part dependent upon extractive activities and have unsustainable productive practices in both agriculture and manufacturing." Bolivia PRSP, March 2001, p. 131.

development initiatives for these groups. Also, the PRSP does not mention the generous tax breaks given to investors or the fact that mining companies working in Ghana retain roughly 70% of their export earnings in off-shore accounts.[xlvi] While the PRSP mentions occupational health, it does not touch on the dangers of an increase in communicable diseases or the negative social side effects (such as prostitution) that are often associated with extractive industries. Overall, there remains a marked lack of discussion of the potential pitfalls or negative repercussions of a growth strategy that remains heavily dependent on mining.

Summary

This review of the role of extractive industries in the PRSP documents of HIPCs leads to several conclusions. First, most countries do not include a comprehensive discussion of extractive industries in their PRSP strategies. This is true for heavily mineral or oil dependent nations as well as those that are seeking to expand these sectors as a source of future economic growth. Second, PRSP strategies very rarely call attention to negative externalities (economic, political, or social) that may potentially arise from a growth strategy that relies on natural resources. Third, countries that do address extractive industries do so in a selective manner, highlighting only the positive aspects or areas of potential. Lastly, the JSAs do not identify critical issues regarding extractive industries that are absent in the PRSP documents. The JSAs also do not hold the countries accountable to the guidelines in the Bank's own PRSP Sourcebook.

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[i] Readers who are not familiar with the PRSP process may wish to refer to "Poverty Reduction Strategy Papers (PRSPs): A Rough Guide." This short briefing document is designed to provide information on key aspects of the PRSPs to a non-specialist audience and is available on the website of The Bretton Woods Project, a World Bank and IMF watchdog group.
See
http://www.brettonwoodsproject.org/topic/adjustment/PRSP%20rough%20guide/PRSP%20rough%20guide.htm.

[ii] World Bank (2003), "HIPC Initiative: Status of Country Cases Considered Under the Initiative, April 2003," data provided by World Bank External Affairs.

[iii] Many of the organizations that criticize the PRSP process provide further documentation of these arguments on their websites. Two of the most useful and informative sites are those of The Bretton Woods Project (www.brettonwoodsproject.org) and Focus on the Global South (www.focusweb.org).

[iv] For a full discussion of these issues, see Jeffrey Sachs and Andrew M. Warner (1995), "Natural Resource Abundance and Economic Growth," Development Discussion Paper No. 517a, Cambridge: Harvard Institute for International Development; Jeffrey Sachs and Andrew M. Warner (2001), "The Curse of Natural Resources," European Economic Review, Vol. 45, Nos. 4-6, pp. 827-838; Thorvaldur Gylfason (2001), "Natural Resources, Education and Economic Development," European Economic Review, Vol. 45, Nos. 4-6, pp. 847-859; Indra de Soysa (2001), "The Resource Curse: Are Civil Wars Driven by Rapacity or Paucity?" in Mats Berdal and David M. Malone, eds., *Greed and Grievance: Economic Agendas in Civil Wars*, pp. 113-115, Boulder: Lynne Rienner Publishers; Carlos Leite and Jens Weidmann (1999), "Does Mother Nature Corrupt? Natural Resources, Corruption, and Economic Growth," IMF Working Paper WP/99/85, Washington, DC: International Monetary Fund; Richard Auty (2001), "The Political Economy of Resource-Driven Growth," European Economic Review, Vol. 45, Nos. 4-6, pp. 839-846.

[v] Monika Weber-Fahr (2002), *Treasure or Trouble? Mining in Developing Countries*, Washington, DC: World Bank Group and International Finance Corporation.

[vi] Ibid., p. 7.

[vii] Scott Pegg (2003), "Poverty Reduction or Poverty Exacerbation? World Bank Group Support for Extractive Industries in Africa," Indiana University Purdue University Indianapolis, p. 3.
[viii] World Bank, *PRSP Sourcebook*, Chapter 25, pp. 439-468.
See http://worldbank.org/poverty/strategies/sourcons.htm.
[ix] The countries under review are: Bolivia, Burkina Faso, Cameroon, Chad, Democratic Republic of Congo (DRC), Ghana, Guinea, Honduras, Lao PDR, Mali, Mauritania, Mozambique, São Tomé and Príncipe, Senegal, Sierra Leone, Tanzania, and Zambia.
[x] CIA World Fact Book: Tanzania: Economy.
[xi] Michael Ross (2001), *Extractive Sectors and the Poor*, Boston: Oxfam America, p. 9.
[xii] DRC I-PRSP, March 2002, p. 44, also see pp. 5 & 79.
[xiii] Cameroon I-PRSP, August 23, 2000, pp. 50-51.
[xiv] São Tomé and Príncipe I-PRSP, April 6, 2000, p. 16.
[xv] Bolivia PRSP, March 2001, p. 133.
[xvi] Mali PRSP, May 29, 2002, p. 1.
[xvii] Zambia PRSP, March 2002, p. 39.
[xviii] World Bank, "Guidelines for Joint Staff Assessment of a Poverty Reduction Strategy Paper," available at http://poverty.worldbank.org/files/jsa guidelines.pdf
[xix] Weber-Fahr, 2002.
[xx] Pegg, p. 7.
[xxi] Sierra Leone JSA for I-PRSP, July 16, 2001, pp. 4 & 8.
[xxii] Pegg, p 1.
[xxiii] Mali PRSP, p. 32.
[xxiv] Sierra Leone I-PRSP, p. 32,
[xxv] Ghana PRSP, Feb. 19, 2003, p. 115.
[xxvi] Guinea JSA for PRSP, July 1, 2002, p. 9.
[xxvii] Chad I-PRSP, July 16, 2000, paragraph 70.
[xxviii] Sierra Leone I-PRSP, p. 37.
[xxix] Sierra Leone JSA for I-PRSP, July 16, 2001, p 6.
[xxx] Bolivia PRSP, p. 130-131.
[xxxi] Pegg, p 4.
[xxxii] Sierra Leone I-PRSP, p. 37.
[xxxiii] The World Bank (2003), *World Development Indicators, 2003*, Washington: World Bank Group, p. 20 and 30. For correlation between these indicators and mineral dependency, see Ross, p. 11.
[xxxiv] Francis Ng and Alexander Yeats (2002), "What can Africa expect from its traditional exports?" Africa Region Working Paper Series No. 26, Washington: World Bank Group, p. 73.
[xxxv] Guinea PRSP, January 2002, p. 78-80.
[xxxvi] Guinea JSA on PRSP, pp. 10-11.
[xxxvii] Ibid., p. 4.
[xxxviii] Ibid., p. 9.
[xxxix] Ghana PRSP, 2003, p. i.
[xl] Ibid.,, p. ii.
[xli] Ibid.., p. 74.
[xlii] Ibid., p. 92.
[xliii] Ibid.,, p. 159.
[xliv] Ibid., p. 115.
[xlv] Ibid., p. 111.
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