

**CHRISTIAN BROTHERS INVESTMENT SERVICES – DOMINI SOCIAL INVESTMENTS –
BOSTON COMMON ASSET MANAGEMENT – DOMINICAN SISTERS OF HOPE -
SISTERS OF ST. FRANCIS OF PHILADELPHIA - KLD RESEARCH & ANALYTICS -
THE SISTERS OF ST. DOMINIC OF CALDWELL, NEW JERSEY –
PROVINCE OF ST. JOSEPH OF THE CAPUCHIN ORDER - SISTERS OF MERCY,
REGIONAL COMMUNITY OF DETROIT – URSULINE SISTERS OF TILDONK, U.S. –
TRI-STATE COALITION FOR RESPONSIBLE INVESTMENT -
ADRIAN DOMINICAN SISTERS - MERCY INVESTMENT PROGRAM –
THE ETHICAL FUNDS COMPANY – CATHOLIC HEALTHCARE WEST –
INTERFAITH CENTER ON CORPORATE RESPONSIBILITY –
TRILLIUM ASSET MANAGEMENT - DOMINICAN SISTERS OF SPRINGFIELD, IL –
SISTERS OF ST. JOSEPH, NAZARETH, MI –**

July 19, 2004

Re: Management Response to the Extractive Industries Review

As socially responsible investors and managers, we have found the Extractive Industries Review (EIR) report helpful in understanding the conditions under which extractive industries can foster poverty alleviation. Since we, and many of our clients, invest in publicly traded companies in the extractive sector, we have welcomed the EIR report as an international benchmark for social and environmental performance, particularly in emerging markets.

Because we believe that the EIR will help to foster corporate social responsibility among the extractive companies in which we own shares, we are eager to see the World Bank adopt its recommendations. As you are aware, this past March a group of managers of funds and investors representing approximately \$29 billion in assets under management wrote the Bank a letter to this effect (Appendix I). In April, several of the signatories to that letter participated in a conference call with World Bank staff including Rashad Kaldany, Clive Armstrong and Joseph O'Keefe. We very much appreciated the opportunity to discuss this issue with the Bank, and we have also raised it with several companies in our portfolios. At this juncture, we are writing to provide for your consideration comments on the Management Response to the EIR.

Overall, we believe that there are many positive elements in the Management Response. For example, we support the establishment of good governance measures and poverty indicators specific to extractive industry projects. We also agree with the need to set a renewables target, and would welcome the creation of a World Bank advisory group on extractives that would include representatives of civil society. In addition, we strongly concur with Management's statement that the long-term development and financial impacts of projects should be linked to incentive payments for IFC staff, as a means of rewarding effective identification, evaluation and mitigation of social and environmental impacts. We are also pleased to see that the Bank will require revenue transparency from new extractive projects with IFC or MIGA financing, and that the Bank will encourage revenue transparency from governments and work with the Extractive Industry Transparency Initiative in pilot countries. We hope this will move from a pilot to an established initiative, that more information will be provided in the final response regarding its implementation, and that there will be a specified timeframe in which it might move from a voluntary to a mandatory basis.

Like the revenue transparency initiative, we believe that Management's Response could be significantly strengthened. The Bank Group's final plan must specify commitments, determine methods of success, and establish goals and objectives. It should develop accountability measures, monitoring mechanisms,

and procedures to take corrective action when necessary. The greater specificity and transparency produced by these additions to the plan would benefit not only the World Bank Group, but also the communities the Bank serves and the extractive companies involved.

Our comments and suggestions cover three main topic areas: renewable energy; free, prior and informed consent (FPIC); and the establishment of governance and poverty indicators.

Our hope is that the Bank will be a key player in encouraging civil society, governments and the private sector to make the transition to cleaner energy. We also believe the Bank can do more to protect the rights of local and indigenous communities and ensure that extractive projects benefit these communities. Finally, we would welcome the Bank's leadership in providing companies with a set of goals for social and environmental performance.

We are sharing our assessment and raising our concerns with you during this 30-day comment period in hope that it will be helpful as the World Bank's board moves toward its final decision.

If we can provide any additional information, please contact Julie Tanner, Corporate Advocacy Coordinator at Christian Brothers Investment Services, 90 Park Avenue - 29th Floor, New York, New York 10016-1301 (phone: 212-490-0800 ext. 147, tannerj@cbisonline.com)

Sincerely,

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Cc:

Bobby Pittman, Jr., Deputy Assistant Secretary for Multilateral Development Institutions and Policy,
United States Department of the Treasury

Carole Brookins, World Bank U.S. Executive Director, United States Department of the Treasury

James Wolfensohn, President, World Bank Group

Mr. Peter Woike, Executive Vice President, International Finance Corporation

Rashad-Rudolf Kaldany, Director, Oil, Gas, Mining and Chemicals Department, The World Bank Group

Clive Armstrong, Lead Economist, Oil, Gas, Mining and Chemicals Department, The World Bank Group

Joseph O'Keefe, Corporate Relations Manager, International Finance Corporation

Socially Responsible Investor comments:

Response to the draft World Bank Group Management Response, June 4, 2004, "Striking a Better Balance - - The World Bank Group and Extractive Industries: The Final Report of the Extractive Industries Review."

- **Renewable Energy**

Mutual Interest in Renewable Energy

We commend the Bank for establishing a renewables target and for assisting in the necessary shift to renewable energy sources.

Based on its expertise, experience and commitment, the World Bank is well poised to help deliver on the need and demand for renewable energy in emerging economies with the potential to change societies. Targeted investment in renewables and energy efficiency can support the Bank's poverty alleviation goals while also providing direct benefits to communities, including reducing air and water pollution and supplying a source of energy that is sustainable.

As socially responsible investors, we look to the Bank to be the catalyst for increased investment in renewable energy. Some forward-looking investors already include renewables in their portfolios as a hedge against regulatory, market and other risks associated with fossil fuels. However, demand for renewable energy (and as a result, investment in the sector) has been somewhat hampered by the reluctance of many companies to proactively manage CO2 emissions and seek renewable-based energy sources. The World Bank's commitment to the renewable energy market will help to encourage companies to make this transition with greater ease.

As you may be aware, socially responsible shareholders are increasingly asking companies about their assessment of climate risk and their investments in renewables. In fact, shareholder concern on this topic is so great that at least 25 shareholder resolutions were filed this year seeking disclosure of the financial risks associated with climate change. Investors responded favorably to the request, with 37% of Apache voting shareholders, 28% of Anadarko shareholders, and 27% of Marathon shareholders voting in favor of the resolution. After nearly 27% of American Electric Power's (AEP) voting shareholders supported such a measure last year, the company agreed to report on its plans to combat climate change, including information about its strategies for renewable energy. After AEP took the lead in this way, Cinergy, Texas Utilities and Southern Company all agreed to write similar reports. Filers of these resolutions have included state and city pension funds and socially responsible investment firms associated with the Social Investment Forum and members of the Interfaith Center on Corporate Responsibility (ICCR), a coalition of 275 religious institutional investors.

While the corporate reports on responses to climate change are due this Fall, there is great concern that not enough investment is being undertaken in renewable energy. We believe with responsible planning and with the World Bank's help in promoting renewable energy, it will be possible to protect both shareholder value and the Earth's climate.

Establishing a Credible Target

Recognizing global concerns about climate change, World Bank President James D. Wolfensohn wrote recently in an editorial in the South China Morning Post: "The international community must make a much more serious commitment to renewable energy, efficiency, and other environmentally friendly energy sources." Despite this statement, it is our understanding that the current baseline for the Bank's investment in renewables is set at the level of its *average* annual investment in the sector over the past three years. As a result, the target of \$200 million for this year will actually be

approximately \$30 million *less* than what the Bank invested last year. This does not equate to Mr. Wolfensohn's call for a "much more serious commitment." We strongly believe that if the Bank seeks to make a credible, proactive commitment to renewable energy, it must raise this target and substantially increase its investment over last year's level. Since the Bank achieved investment in renewables and energy efficiency of approximately \$400 million in both 1994 and 1996, we find that to be a more appropriate target to strive to attain.

In addition, we also recommend that the renewable target be tied to overall fossil fuel lending. Making this link will demonstrate that the Bank seeks to decrease the world's dependence on fossil fuel projects, with their often troubling effects on communities. We would also hope that the Bank Group takes steps to ensure that energy efficiency does not compose more than 50% of that lending, since energy efficiency is often easier to finance than renewables and could easily draw support away from them. While we believe the Bank intends this, we do request that the renewables portfolio exclude large-scale hydropower. As the Bank itself noted in its exemplary World Commission on Dams report, these projects have a unique potential for severe, adverse environmental and social impacts.

A Commitment to Staffing

Since it may be challenging to locate renewables projects that meet Bank criteria, as well as private partners for these ventures, we would also recommend that the Bank deploy additional experienced staff to this area.

- **Free, prior, informed consent**

Significant benefits can accrue to companies that proactively engage communities, receive their consent in project design and operation, and incorporate community issues and concerns into each stage of project planning and implementation. As many companies have learned, when a community consents to a project and shares in its benefits, there is a far stronger incentive for the community to help ensure that project's success, and far fewer obstacles to its progress. Without this "social license to operate," companies are at greater risk for financial and reputational losses from protests, work stoppages, loss of permits, and, ultimately, a reduction in shareholder value.

While the EIR recommends that the Bank obtain local communities and indigenous peoples' free, prior and informed consent (FPIC), the Management Response recommends consultation in order to seek broad community acceptance of the project. We believe that consultation and consent are distinctly different and that all parties will benefit from requiring community consent. Under a "consultation" standard, a company might simply seek input from parties affected by a project, but would have no obligation to act on that input in any way. Requiring only consultation, therefore, leaves open the possibility that companies could conduct extractive operations against the wishes of the local community—thereby running all the risks outlined above—while complying with World Bank guidelines.

In addition, we believe it would be most beneficial if the Management Response clarified a number of its statements regarding the roles and responsibilities of staff and partnering corporations. As written, a number of these statements fail to provide adequate benchmarks for the Bank or corporations. For example, while it was stated that the WBG will work "to ensure that affected communities benefit from projects as much as possible through best practice approaches to local recruitment and training, and the development of local suppliers and downstream industries," it would be helpful if Management's final response made clear how the Bank will ensure that communities benefit and through what mechanisms. There is also a statement that is insufficiently precise where the WBG agrees that where EI developments impose costs on communities, "these should be fully compensated

for, as a minimum response." This statement leaves open the question of who is responsible for compensation to communities, how that level is determined and under what circumstances it is deemed adequate.

- **Establishing Benchmarks and Indicators**

Establishing poverty and governance indicators, especially governance indicators specific to the extractive industries, would provide needed clarity to the governments and corporations that partner with the Bank.

As it relates to governance indicators and a review of the governance and country context, the current draft states, "...the sequencing of WBG interventions in EI needs to be carefully considered" and that "Support for EI projects should be subject to a review of the governance and country context." We strongly suggest that procedures and monitoring mechanisms for ensuring that adequate governance conditions exist prior to the WBG support for EI projects be required, not merely considered.

In addition, we believe that support for EI projects must be subject to a review in the governance and country context. Because extractive projects raise distinct issues, criteria must be established to evaluate the success of the investment weighed against the risk of the investment. Existing criteria used by the WBG does not address many of the concerns raised by resource-based issues, such as armed conflict and revenue transparency. If the bank is going to address good governance issues as it relates to EI issues, then criteria that deal with these issues will need to be included in the indicators. In order for companies to be sure of an environment conducive to business, the Bank should evaluate these issues before a project begins.

These indicators should be developed with local communities and other stakeholders. It is unclear from the Management Response if these indicators are developed, how they will be developed and by whom.

- **The World Bank Support of Extractive Industries**

Although we had recommended that the World Bank Group endorse the final report of the Extractive Industries Review, if the Board decides to follow Management's recommendation to continue to provide funds to oil and coal projects, the Bank must thoroughly reassess its continued support of these sectors every year in respect to the ways in which poverty has been alleviated and social and environmental rights have been upheld in communities.

In addition, The Bank Group has stated that it will be selective in its participation in EI projects, so that it "can have an influential role in ensuring best practices." As socially responsible investors, we also look to the Bank to develop best practices and raise industry standards. However, it is not clear who will be responsible for evaluating whether a project meets best practice. We hope that the final document will clarify things like the timeframe in which a project is to meet best practice and the ramifications associated with not following best practice.

APPENDIX I.

**BOSTON COMMON ASSET MANAGEMENT - CHRISTIAN BROTHERS INVESTMENT SERVICE –
CITIZENS ADVISORS - DOMINI SOCIAL INVESTMENTS – ETHICAL FUNDS
EVANGELICAL LUTHERAN CHURCH IN AMERICA – GREEN CENTURY CAPITAL MANAGEMENT
KINDER, LYDENBERG & DOMINI – MICHAEL JANTZI RESEARCH ASSOCIATES
MMA PRAXIS FUNDS - PAX WORLD FUNDS - PROGRESSIVE ASSET MANAGEMENT
SISTERS OF THE BLESSED SACRAMENT – SISTERS OF CHARITY OF NEW YORK
SISTERS OF ST. FRANCIS OF PHILADELPHIA - SISTERS OF ST. JOSEPH
TRI-STATE COALITION FOR RESPONSIBLE INVESTMENT - TRILLIUM ASSET MANAGEMENT
UNITED METHODIST CHURCH GLOBAL BOARD OF PENSIONS AND HEALTH BENEFITS**

March 10, 2004

Mr. James Wolfensohn
President
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Mr. Peter Woike
Executive Vice President
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Dear Messrs. Wolfensohn and Woicke:

We write to thank you for initiating the Extractive Industries Review (EIR) more than three years ago at the 2000 World Bank annual meeting in Prague. Since then, the World Bank Group has devoted substantial human and financial resources to this historic process, and has solicited the input of civil society groups from the Global South and around the world.

As investors representing over \$28.86 billion in assets under management and as managers of funds, we recognize the relevance of the EIR not only to the World Bank, but to the extractive sector, in which many of us and our clients invest. Like the World Commission on Dams process, the multi-stakeholder nature of the EIR has contributed to the legitimacy and quality of the EIR, and has in effect resulted in an international benchmark for social and environmental performance in extractive industries, particularly in emerging markets.

As socially responsible investors and managers, we find the report helpful in understanding the conditions under which extractive industries can foster poverty alleviation. Likewise, the report's examination of issues such as how to minimize environmental damage and protect indigenous peoples contributes to our understanding of best practices in the extractive industries.

We are interested in reinforcing many of the concepts outlined in the EIR, as a way of fostering

corporate social responsibility among the extractive companies we own. However, our voice as shareholder advocates will be significantly strengthened if the World Bank adopts the recommendations of this review. We therefore encourage the World Bank Group to fully endorse the Final Report of the Extractive Industries Review, and encourage you to adopt all of its proposals.

We would greatly appreciate your informing us of the process the Bank will be using to make its decision, the timeframe within which the Bank is expected to make its decision, and how this will be communicated to stakeholders. Replies may be sent to Julie Tanner, Coordinator of Corporate Advocacy at Christian Brothers Investment Services at 90 Park Avenue - 29th Floor, New York, New York 10016-1301 (phone: 212-490-0800 ext. 147).

Sincerely,

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