Summary of the Operation Performance Evaluation Review (February 2010)

The Project
In 2004 the European Bank for Reconstruction and Development (EBRD) approved a loan to a mining company. The facility is located in a mining region with both operating and closed-down underground and open pit mines. The region has a strong history of mining with a legacy of environmental issues.

Overall assessment
The Project is rated as ***Successful***. The rationale and additionality for the Project were strong and are rated *Verified in all respects*. The EBRD identified the legal and regulatory framework for the mining sector in the country as an area that required further development. While the tendering process and involvement of an international sponsor would tend to positive transition impact, the lack of follow-up on the legal and regulatory front constrains the Bank's outcome and transition impact is rated *Good*. The Project has failed to achieve the production target but has otherwise met the project objectives of environmental and mining operation improvements. Achievement of objectives is rated *Good*. Due to increases in metal prices, Project/Company performance is rated *Good*. There have been significant positive improvements to the environmental performance, meaning environmental performance is rated *Good* and environmental change rated *Substantial*, with an overall environmental and social impact rating of *Good*. Finally, Bank handling is rated *Excellent*.

Project rationale and additionality
The Bank's rational for investing in this operation related to its transition impact objectives. From a financial perspective, despite positive developments in the country's economy and (more specifically) the banking sector, in 2003 the market remained constrained in terms of longer maturity lending. The Company was unable to interest local banks in the Project, thus the EBRD provided financial additionality.

Achievement of objectives
Achievement of objectives is rated as *Good*. The specific sub-objectives, as tracked by the Bank's project monitoring system, were: successful completion of investments; achievement of financial performance targets (profitability) as per the model; environmental improvements; and attracting additional foreign investment in the mining sector.

Project completion: The initial Board paper set out specific project targets or outcomes for the use of the proceeds, in two specific areas – environment and mine improvements. In addition, the Company made significant investments in the processing plant, which are also part of the Project and contribute to the achievement of objectives. The Company committed to making various improvements to the mining operations, specifically to:
- change the mining methods to increase capacity
- purchase of modern mining equipment and spares
- better develop the ore body through an extensive in-fill drilling programme
- complete a definitive two-part feasibility study ("DFS"), to demonstrate the technical and commercial viability of the various components
- implement an extensive training programme to improve safety and mining operational standards.

While the use of the Bank's proceeds was to address environmental and mining improvements, the Company has also made significant upgrades to the processing plant.

Achievement of financial performance targets (profitability) as per the model: Profitability is a function of operational efficiency gains, output and commodities prices. The Company has made significant increases in operational efficiency, as noted above. Commodity prices have increased significantly, but production levels remain below the projected levels, in part because of the delays in the Project.

Environmental improvements: The Board paper defined a three-year plan to address the following:
- demolition of old derelict buildings and re-grading of their sites

- construction of rain water diversion channel for protection of rehabilitated areas
- re-profiling using waste rock from the construction of the surface decline
- chemical amelioration
- rehabilitation of the waste rock stockpiles.

With respect to the Tailings Management Facility (TMF) the paper also called for improvements to:
- increase the stability of the existing facility ensuring adequate safety for a major seismic event
- improve the existing seepage interception and collection system
- undertaking detailed audit of stability
- change from open flume to pipeline transportation of tailings
- improved water monitoring.

Attracting additional foreign investment in the mining sector: This is inherently a difficult objective to hold the Project accountable for and to track. Perhaps due to the regulatory issues the Company has experienced, other companies have not entered the market.

Transition impact and environmental impact

Transition impact: The region in which the Company is located has an extensive mining history with outstanding legacy issues. The Project was designed to address several of the site-specific legacy issues, including site remediation of old waste rock dumps, improvements to the ball mill, and improvements to the TMF. There have been delays in the upgrades to the TMF and a portion of the decant water is still released. As the mine is old, waste from the TMF are returned to the mine, mixed with cement, and used to back-fill and close off old mine shafts. This facilitates mine closure and extends the life of the TMF.

The Company has also introduced improved occupational health and safety procedures. As one example, all personnel are tested daily for alcohol, both on entering the mine site and again prior to going underground. This was initially resisted, but is now accepted and other mines in the country are copying this practice. Focusing on improving the efficiency of the existing operation has resulted in improved energy efficiency. (Note this project was not identified as an energy efficiency opportunity by the Bank.)

The EBRD's investment in the Company remains one of the largest foreign direct investments (FDI) in the country and, via taxes and royalty payments, contributes both to the local and national economy.

Environmental and social impact: This plant operates in compliance with EU standards and best practice. An **Environmental Action Plan (EAP)** was prepared that required a follow-up on specific actions required under the Concession Agreement, and procurement of the necessary environmental permits. Except for those specific actions, which are tied to the Environmental Impact Assessment (EIA) permit request, all activities have been implemented and are closed or underway. Upgrades to the TMF were being implemented at the time of the evaluation mission.

The Company has commissioned independent performance audits, which have been made publicly available. In addition, the Company has developed a Community Engagement and Social Programmes plan, which has also been audited. The Company actively engages with civil society to listen to and address their concerns. At the plant there is a visitor centre, which provides up-to-date information. There is also a strong community relationship programme and interaction with the neighbouring communities on a variety of issues. It should be noted that many of the employees of the Company live in these communities.

Further, the Company has implemented a very effective approach to occupational health and safety concerns. They have established best practice in the country and their example is being copied by neighbouring mines. Finally, they have proactively addressed the related issues of both mine closure and legacy issues related to the TMF, by beginning a process of back filling the old shafts with a mixture of sediments and cement. This will reduce the amount of material left in the TMF and result in effective closure of the mine at the end of its economic life.

Not addressed by either the Concession Agreement or within the EAP are: (1) legacy issues, and (2) long-term social impacts to the local communities. At some point in the future this mine and the surrounding mines will have been played out and the companies will depart. Currently the communities are growing and have plans for expanded cultural facilities. However, their future may present new challenges.

Bank handling

Bank handling is rated as *Excellent.* The Banking team has worked closely with the management of the Company throughout. Environment and Sustainability Department (ESD) has also played a key role, in particular with engaging with and addressing the concerns of civil society, which are on-going and significant. There are no anticipated problems with repayment. However, as the loan is in US dollars, the Bank was exposed to a negative foreign exchange (FX) risk, from which the Company actually benefited.

Main OPER issues and lessons learned

The EBRD correctly identified government corruption and the need for regulatory reform to be part of its additionality, and the EBRD was partly brought into the project by the Sponsor for “political risk coverage”. **The EBRD should have been more willing to join with the European Union (EU) in taking a serious stand against the past government and its potentially corrupt practices.**

In potentially controversial mining projects, early and extensive engagement is necessary to resolve potential conflict and move to best practice standards. Civil society has an important voice in raising issues that are of concern, particularly if they go beyond the immediate project boundaries. Full public disclosure and consultation is a must in mining projects.

The only effective way to address occupational health and safety is to take a harsh approach at the start of a project. Once this chance is missed, it becomes more difficult to impose new standards. Based on this experience the Bank can provide leadership to other sponsors who may find it a challenge to change working culture with respect to occupational health and safety.