Special Study

Extractive Industries Sector Strategy Review

Volume I

August 2011

Evaluation Department
(EvD)

European Bank
for Reconstruction and Development

Contents

Abbreviations

DIF	Direct Investment Facility (EBRD)
DLF	Direct Lending Facility (EBRD)
EBRD	European Bank for Reconstruction and Development
EITI	Extractive Industries Transparency Initiative
ESAP	Environmental and Social Action Plan
ETCs	Early Transition Countries
EU	European Union
EvD	Evaluation Department (EBRD)
IFIs	International Financial Institutions
OCE	Office of the Chief Economist (EBRD)
OECD	Organisation for Economic Co-operation and Development
OPER	Operational Performance Evaluation Review
SMEs	Small to Medium-sized Enterprises
TFP	Trade Facilitation Programme
XMRA	Expanded Monitoring Report Assessment

Executive summary

Several of the EBRD countries of operations have major reserves of natural resources and the extractive industries sector is important to their economic development. The Bank's business volume through 2009 in natural resource projects was €2.9 billion. The mining, oil and gas sectors are high profile in terms of global issues such as greenhouse gases and energy security, as well as problems related to integrity and corruption, environmental damage, and health and safety.

The overall objective of this study is to evaluate implementation of existing EBRD policies, based on the performance of its investments in the extractive industries sector and transition challenges. This review follows a previous 2004 Evaluation department (EvD) review of the extractive industries sector, which called for a new natural resources policy. Further, issues related to energy scrutiny have become politically sensitive topics throughout the countries of operations.

The Natural Resources Policy was last approved in 1999. In 2006 the Energy Operations Policy was updated to include thermal coal mining, and oil and gas. In 2011 the Bank plans to develop a new Mining Policy, and to revise the Energy Operations Policy, which together will replace the 1999 and 2006 Polices. It is anticipated that the development of these updated extractive industries-related policies will take into account the findings and recommendations from this sector study.

Based on the findings of the study, the overall performance of the Bank's activities in implementing the extractive industries sector policies and operations is rated "successful", following Organisation for Economic Co-operation and Development–Development Assistance Committee (OECD-DAC) criteria:

– *Relevance and rationale:* The content of the Bank's extractive industries policies is highly relevant, but coverage is not comprehensive. A Bank-wide Mining Policy now under development is intended to address the main gaps in the coverage and address other activities related to extractive industries, such as equity funds, Trade Facilitation Programme (TFP) and leasing.

– *Effectiveness:* A total of 55 of the 101 projects in the portfolio of the Natural Resources team have been evaluated. Fifty-eight per cent of projects had an overall performance of "successful" or "highly successful", and 45 per cent of projects had a transition impact rating of "good" or "excellent". Overall, the performance of oil and gas projects (60 per cent) was higher than mining projects (53 per cent).

– *Efficiency:* There are several examples of effective Bank handling in project planning, good client relationships and useful policy dialogue initiatives. More detailed sector strategies, as well as detailed action plans for each country, would help the Banking team expand the portfolio.

– *Transition impact and sustainability:* Based on the performance of the EBRD's projects, transition impact at the project level was 75 per cent satisfactory or better, and environmental performance was 88 per cent satisfactory or better. There are many examples of excellent transition impact and detailed attention to sustainability in the EBRD projects, including environmental investments. At the macro-level transition impact challenges are significant and in some key countries progress is minimal.

Since 1992, the Natural Resources team signed an average of five to six projects per year, totalling 101 projects up to December 2009. This resulted in a total volume of €2.941 billion of EBRD finance and leveraged €14.5 billion in total project financing. Only selected countries of operations have major reserves of natural resources. The Natural Resources team has been restricted, under the Bank's policies, to carry out projects in some countries (for example Kazakhstan, Turkmenistan and Uzbekistan), and national government policies are also restrictive. Further, when prices are strong, oil and gas is often the first sector to attract commercial bank interest. Thus, there is a difficult balance between being proactive in this sector, while maintaining a balance across the Bank's country and sector portfolios. Because the situation in relation to the extractive industries sector greatly varies between countries, in the context of the country strategies, the Banking team has developed individual country action plans. EvD notes that the total volume of projects signed in the extractive industries sector has increased significantly in 2009 and 2010, and the pipeline of potential future projects is strong.

Overall, the mainly high standards of performance in the extractive industries sector are a credit to the EBRD, given the many challenges with the sector.

Findings and recommendations

The content of existing extractive industries policies is relevant to the Bank's mandate, but gaps in the coverage of the policies could usefully be filled. The main recommendations for the policies are:

– The EBRD should develop a bank-wide Mining Sector Strategy, preferably as part of an overall approach to extractive industries. The energy-related aspects (oil, gas and thermal coal) will remain under the Energy Operations Policy. The Bank moved from having bank-wide sector policies (for example, the Energy Operations Policy) to team-specific sector strategies (for example, the Municipal and Environmental Infrastructure Strategy). The extractive industries "sector" cuts across several teams in Banking – most notably Natural Resources, Power and Energy, General Industry and Financial Institutions – thus the need for a Bank-wide approach. A more systematic use of secondary sector classification codes in project documents would allow a much more complete capture of the range and extent of the Bank's mining and extractive industries activities. The new Strategy should be clear about the Bank's approach related to extractive industries activities across the Bank, including captive mines and quarries.

– In view of the importance of sustainability in the sector, a specific section is needed in the policy on environmental and social aspects, as called for in the 2008 Environment and Social Policy.

– Historically, over dependence on extractive industries has lead to a "resource curse". The President has stated that this is a potential risk for some of the EBRD countries of operations. The most effective solution to date has been the development of "sustainability funds". EBRD policy dialogue could more widely incorporate the use of sustainability funds and adherence to Extractive Industries Transparency Initiative principles, to which the EBRD is a signatory.

1. Introduction

1.1 Background

The extractive industries sector is important in several EBRD countries of operations. Changes in the last 20 years in the global economic structure, the political and regulatory environment, and in technology have had a major effect on it. The sector is characterised by sharply competing objectives, making the investment challenges and policy trade-offs particularly sensitive. It is therefore important that the EBRD has a very clear and focused policy/strategy, and a record of effective implementation.

In 2004, in parallel to an ongoing World Bank Extractive Industries Review, the Evaluation department (EvD) looked at the sector and suggested four broad recommendations:[1]

– The Bank revisit its 1999 Natural Resources Operations Policy; and that a Sector Strategy might be a more appropriate document.
– With respect to environmental performance, the Bank could move from a focus on meeting national, EU and World Bank standards (a compliance-based paradigm) to adding value through pollution prevention, cleaner production and ecological offsets. This would include promotion of sustainable development in the extractive industries sector.
– The Environment and Sustainability department was in the process of making reduction of Greenhouse Gases (GHG) an operational focus through better measurement, promotion of off-sets, and working with the Energy Efficiency and Climate Change team (E2C2) to more broadly address energy efficiency in the context of extractive industries projects.
– Improve internal processes to track all extractive industries activities, including captive mines, financial intermediary projects, and trade facilitation activities, and improve project monitoring.

These recommendations are equally relevant today and there remains room for substantial additional progress at the level of both policy and execution. It is welcomed that the Bank is developing a new Mining Sector Strategy and revising its 2006 Energy Operations Policy, which covers the oil and gas sector and thermal coal mining.

1.2 Objectives, scope and methodology of the study

The overall objectives of this Special Study were to assess the:

– applicability and comprehensiveness of the existing policies and strategies
– performance of EBRD investments in the extractive industries sector
– performance against the policy objectives.

---

1 Source: EBRD Extractive Industry Review – Special Study 2004, EvD.

This study focuses on reviews of individual projects in order to identify common lessons and themes that are relevant to the policy. The study focuses specifically on EBRD activities related to extractive industries, and is less focused on the downstream sub-sectors of the natural resources portfolio (for example, refineries and petrol stations).

A challenge of conducting a study of this nature is to mix “bottom-up” data from projects with “top-down” data on sectors and policies. In addition to normal project-based findings, the study considers Office of Chief Economist’s (OCE) data on transition impact and national policy data. The main activities undertaken are outlined below:

– *Detailed review of the portfolio:* The background analysis included a desk-based review of the portfolio of natural resources projects, and an assessment of other Bank activities relevant to extractive industries (for example, trade finance and equity funds). In addition, a desk study was carried out on 25 projects and an analysis conducted of the Lessons Learned Database.

– *Missions to selected countries*: Visits to 11 projects in selected countries (Albania, Kazakhstan, Mongolia, and Russia) were carried out to evaluate the Bank’s activities in the extractive industries sector. Projects visited were mainly in the portfolio of the Natural Resources banking team, but also included a visit to an Equity Fund that has significant investments in oil and gas; a client in the Trade Finance Programme (TFP), which included trade in extracted natural resources; projects under the Direct Investment Facility (DIF); and a major steel plant with associated iron and coal mines.

– *Consultation with the Natural Resource team and other relevant EBRD teams:* Consultation was carried out with the Natural Resources banking team (the primary client) throughout the study, initially during the planning of missions, and later to discuss the main findings and recommendations. Other relevant banking teams and support teams (for example, the Environment and Sustainability department) were also consulted during the study.

– *Analysis of national policies:* The study also reviewed the natural resources strategies and policies of the focus countries to compare the Bank’s strategy with those of the respective countries.

1.3 Report structure

The structure of this report follows the OECD-DAC evaluation approach:

– Section 2 provides an assessment of the relevance and rationale of EBRD policies related to extractive industries, including the coverage of the policies.

– Section 3 provides analysis of the effectiveness of the Bank’s implementation of the policies on extractive industries. The section includes an overview of the project portfolio.

– Section 4 contains an assessment of the EBRD’s efficiency in the implementation of the policies, including Bank handling related to project planning and implementation, as well as wider aspects such as policy dialogue.

– Section 5 covers analysis of the impacts of the Bank’s activities on the transition and sustainability in the extractive industries sector.

– Section 6 provides conclusions and recommendations.

– Volume 2 contains separate appendices on the portfolio, country case studies, and project desk studies.

– Thematic lessons learned are presented in a separate document.

2. Relevance / rationale

This section covers an assessment of the relevance of EBRD policies in the extractive industries sector and of the rationale behind the policies. It includes an overview of EBRD policies related to the sector, and analysis on the content and coverage of the policies.

2.1 The need for the EBRD to have clear policies and strategies on extractive industries

The extractive industries sector is highly important to the economies of many of the EBRD's countries of operations. Therefore, it is important to have a clear and focused overall policy on extractive industries with targeted strategies for individual focus countries. Key issues include improving the frameworks for investment and competition; managing issues related to integrity and potential corruption; and improving standards of occupational health and safety and environmental management.

The sector is important in different ways to different countries. Azerbaijan, Mongolia and Russia, for example, have major potential for production in the extractive industries sectors, whereas other countries, such as Georgia and Turkey, are important in terms of transport routes for oil and gas. Several countries, such as Ukraine, rely heavily on imports of energy sources from other countries of operations, are energy intensive, and the sector is therefore very important to their economic growth. The individual countries themselves have differing national strategies on natural resources, some of which are more compatible than others with the EBRD's transition objectives. Azerbaijan and Mongolia are countries that are potentially overly reliant on the extractive industries sector, where there is a need to diversify the economy, taking into account the limited lifetime of the natural resources.

2.2 Overview of relevant EBRD policies in the sector

The EBRD is a project-driven bank. It finances projects to promote the Bank's transition impact and mandate objectives. Collectively the projects are guided and informed by Banking team sector strategies, and by country strategies. Broader Bank-wide goals, objectives, and constraints are defined by Bank-wide policies. These, in turn are influenced and informed by host government policies and laws. This is a sector that is also significantly constrained by the location of the resources, thus the Bank's natural resources portfolio is geographically focused. Figure 2.1 demonstrates this bottom-up versus top-down hierarchy. Where extractive resources exist and where there is a good match between Bank and national government objectives, the Bank has been successful in implementing projects.

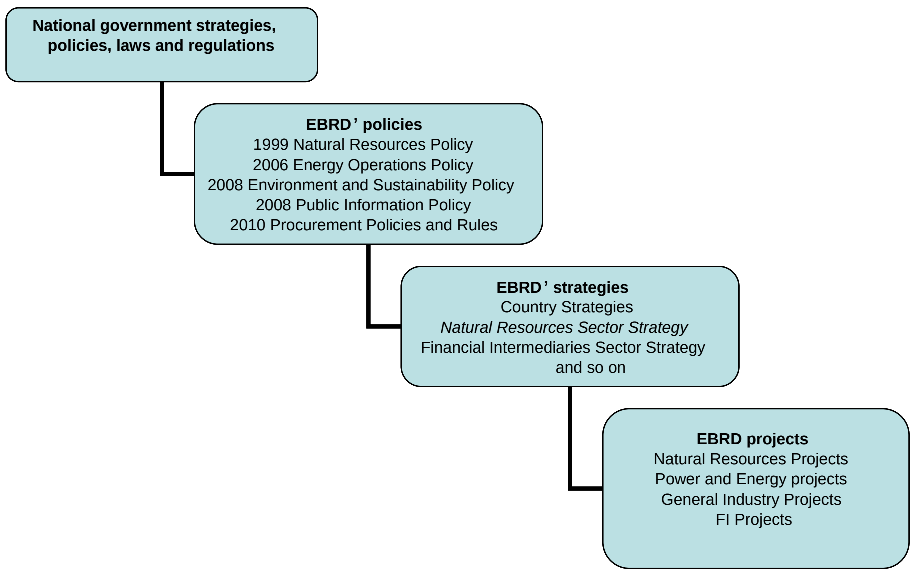
The current EBRD policy related to extractive industries is the Energy Operations Policy (2006), which covers the entire oil and gas cycle (production, transportation, refining, and distribution) and thermal coal. This Policy does not cover other types of mining (for example, metal ores and coking coal). Box 2.1 describes the history of the development of the EBRD policies related to the extractive industries sector.

Box 2.1: History of the main EBRD policies relevant to the extractive industries sector

The 1994 Energy Operations Policy (which updated the first policy from 1992) focused on power and energy utilities only and was less relevant to extractive industries. In 1999, the Natural Resources Operations Policy was approved by the EBRD's Board. This covered the full oil and gas cycle as well as metal and mineral mining. Components of the 1999 Natural Resources Operations Policy were then split off for the 2006 Energy Operations Policy, with oil and gas and thermal coal mining being incorporated into the new energy policy.

At that point the mining sector, other than thermal coal, became an orphan sector with respect to the EBRD's policy framework. The 2006 Energy Operations Policy stated that the Bank's metals mining policy would be covered in a separate policy paper. The Natural Resources banking team is in the process of preparing a new Mining Sector Strategy.

Figure 2.1: Policy, strategy and project hierarchy



Important areas of the 2006 Energy Operations Policy include increasing the focus on sustainability; sector reform and transition to improve the investment climate; policy dialogue; and balancing project selection in public and private sectors.

For the Natural Resources banking team, the relevant aspects of the Natural Resources Operations Policy (1999) still apply to mining of metal ores. The main operational objectives in the 1999 Policy are similar to those in the 2006 Energy Operations Policy, for example the operational objectives from the 1999 Policy also include:

– increasing private sector participation and promoting strategic investment
– reducing transport bottlenecks and ensuring competitive market access
– improving the regulatory and institutional framework
– setting high standards of business conduct and environmental protection.

Sustainability is an important aspect of the EBRD's extractive industries strategy; therefore the Environment and Social Policy (2008) is also particularly relevant to the extractive industries sector as it sets performance standards expected of extractive industries projects.

2.3 Evaluation of relevance / rationale of policy content

Policies on the extractive industries include a focus on the wider transition of the sector, which will not be sustainable without progress on business conduct, transparency, government interference, private sector development and competition, commercialisation of the public sector, introducing new technologies, skills transfer, health, safety and environmental management and social aspects. The EBRD policy requires that clients in this sector comply with the reporting requirements of the Extractive Industries Transparency Initiative (EITI) in countries that have signed up to EITI, and in other countries to raise transparency and governance in the projects to levels of international best practice.

EBRD policies on extractive industries do not provide detailed directives for implementation, which is appropriate for policy-type documents. It is therefore potentially very important that the policies are reinforced by detailed strategic plans for the Banking teams and by more detailed country strategies. The core objectives (listed above) of the extractive industries policies have been consistent over the years.

2.4 Evaluation of relevance / rationale of policy coverage[2]

The Energy Operations Policy (2006) covers oil and gas and thermal coal, along with energy efficiency, renewable energy and power. The Policy therefore covers the activities of several banking teams within the EBRD. One finding from this study is that the Natural Resources banking team would benefit from its own sector strategy. The matching of sector strategies to team objectives could help to develop and implement team-specific plans, improve accountability for policy implementation, and provide clarity to external stakeholders.

With respect to mining, the 1999 policy still applies. It is important that the EBRD follows through with its commitment to develop a new Mining Sector Strategy. Overlap with Energy Operations Policy (2006) needs to be clearly defined, as the latter currently covers coal mining activities related to the energy sector, and oil and gas extraction. The Natural Resources team's activities are/would be governed by the:

– 2006 Energy Operations Policy (for oil, gas and thermal coal)
– 1999 Natural Resources Policy (for mining) to be replaced in 2012
– plus other relevant Bank-wide polices (for example, the Environmental and Social Policy, Public Information Policy, and the Procurement Policy).

The issue of captive quarries (related to cement plants) and captive mines (related to power stations, iron and steel plants, and other metallurgical companies) is not currently covered in the EBRD's policies, and was raised in the EvD's 2004 Extractive Industries Review. This current study looked into this issue in more detail. For example, quarries for cement plants are not covered because there is no policy/strategy for the General Industry team. Under the 2008 Environment and Social Policy, captive coal mines for

[2] When a topic is Bank-wide then a "Policy" is appropriate (for example, the 2008 Environmental and Social Policy); however, when a topic is country- or team-specific the Bank utilises a "Strategy" document. Policies tend to set out broad principles, priorities and goals, while a strategy is an implementation plan with objectives and targets.

power stations are covered as “associated” facilities. The associated mining and quarrying activities are an integral part of the performance of these types of projects.

Monitoring of such information would be enhanced if greater attention was given to the assignment of secondary Standard Industry Codes (SIC). Currently many projects only have a primary SIC assigned.

The relevance of captive mines and quarries is backed up by the EU Directive 2006/21/EC on the Management of Waste from Extractive Industries, which covers waste resulting from extraction, treatment and storage of mineral resources, and includes quarries. A sector strategy should cover captive quarries and mines, as well as clarify relevant roles and responsibilities within the Bank across different banking teams.

Several other types of projects in the portfolio can have extractive industries sector components (see Box 2.2), and it is important that policies relevant to extractive industries recognise that activities in the sector are associated with multiple EBRD teams.

Box 2.2: Examples of other EBRD activities relevant to extractive industries

- Equity Funds – The EBRD invested over €279 million of its own funds (up to June 2009) in the extractive industries sector via different equity funds.
- Trade Facilitation Programme (TFP) – Several of the transactions under the TFP cover transactions in products from the extractive industries sector.
- Some of the EBRD’s leasing projects via the Financial Institutions team involve vehicles and equipment used specifically in the extractive industries sectors.
- The Bank also has numerous transactions under Small and Medium-sized Enterprises (SME) credit lines in the Financial Institutions team, and some of these are likely to be related to contractors, suppliers and other companies involved in the extractive industries sector.

The Direct Investment Facility (DIF) and Direct Lending Facility (DLF) involve projects in the extractive industries sector, as well as the Western Balkans Local Enterprise Facility (WBLEF). Procedures related to these projects are different from the main direct investment operations.

2.5 Additionality

The Bank is considered significantly additional in the extractive industries sector. In most countries of operations long-term loans have not been available from commercial banks for large development projects or for exploration projects in the extractive industries sector. The Bank’s €2.9 billion helped to leverage €14.5 billion in total investments. Forty per cent of the natural resource operations have included syndication; although increasingly the EBRD is involved in helping to organise parallel financing. Political risk coverage is also an important factor. The EBRD’s operations are generally related to development of production facilities, although there are some examples where the EBRD has projects with companies that are initially focused on exploration. These projects carry significant risk, thus commercial banks are less interested in such projects.

The Natural Resources team places a large emphasis on the facilitation of syndicated loans. The EBRD’s involvement and reputation provides confidence to sponsors to invest in the sector and to commercial banks to provide syndicated loans. The perception of many project sponsors is that the Bank’s involvement cuts the political risks, which are considerable; nevertheless, when tested in Uzbekistan, it proved of limited value.

The EBRD also focuses on aspects of projects, such as transparency, skills transfer, and health and safety standards, which many commercial banks would not require. The EBRD is additional in its attention to wider aspects of sector reform, enhancing frameworks for competition and privatisation and capacity development in government institutions, through policy dialogue and via technical cooperation where appropriate.

2.6 Overall assessment of relevance and rationale

The relevance of the EBRD's policies in the extractive industries sector is rated[3] as "largely verified". While the content of the policies is highly relevant, their coverage is not comprehensive.

It is important that a Bank-wide Mining Sector Strategy be realistic in terms of requirements, including staff resource needs; but the policies should recognise that activities associated with extractive industries go beyond the purview and capacity of just the Natural Resources team and that some of these other activities may present high reputational, environmental and social risks. To assist the implementation of the policies in extractive industries, the Natural Resources team needs a more detailed overall strategy coupled with specific country strategies/action plans for the sector.

3. Effectiveness

This section includes an assessment of the portfolio of natural resources projects in the extractive industries sector (Section 3.1), and analysis of the overall performance of natural resources projects based on previous project evaluations (Operation Performance Evaluation Reviews (OPERs) and Expanded Monitoring Report Assessments (XMRAs)) and from the project assessments during this study. Bank-wide extractive industries portfolio analysis is not possible. While primary SIC are assigned to each project, secondary SIC are seldom assigned, therefore it is difficult to impossible to adequately capture such information.

3.1 Overview of the project portfolio in the extractive industries sector

The analysis of the portfolio data, through 2009, of the Natural Resources banking team is presented in Section 3.1.1. The other types of EBRD projects that are associated with the extractive industries sector are discussed in Section 3.1.2.

3.1.1 Project portfolio of the Natural Resources banking team

Since 1992 the Natural Resources banking team signed an average of five to six projects per year, totalling 101 projects up to December 2009 and a total volume of €2.941 billion of EBRD finance.

[3] The ratings for relevance are: "fully verified", "largely verified", "partly verified", "not verified".

Table 3.1: Types of projects in the portfolio of the Natural Resources banking team

Project type	Project no.	Volume (€ million)	Average size (€ million)
Coal mining	2	35.1	17.5
Metal ore mining	19	242.2	12.7
Support activities for metal mining	1	4.1	4.1
Oil and gas extraction	43	1172.2	27.3
Petroleum refineries	5	275.9	55.2
Pipeline transportation	11	633.6	57.6
Gasoline stations	9	127.2	14.1
Remediation services (oil and gas)	6	299.9	50.0
Support activities for oil and gas operations	5	150.7	30.1
			Overall average
	101	2941	29.1

(Note: Projects signed up to end of 2009)

There have been 79 oil and gas projects and 22 mining projects. The average size of the oil and gas projects (€33.7 million) is larger than the mining projects (€12.8 million), and 90 per cent of the total volume is from oil and gas projects. Four projects have been over €100 million in size, two of which were signed in 2009. Of the 101 projects, 10 were state-sponsored, while the rest involved private sector clients. Nineteen were pure equity and another five involved both debt and equity.

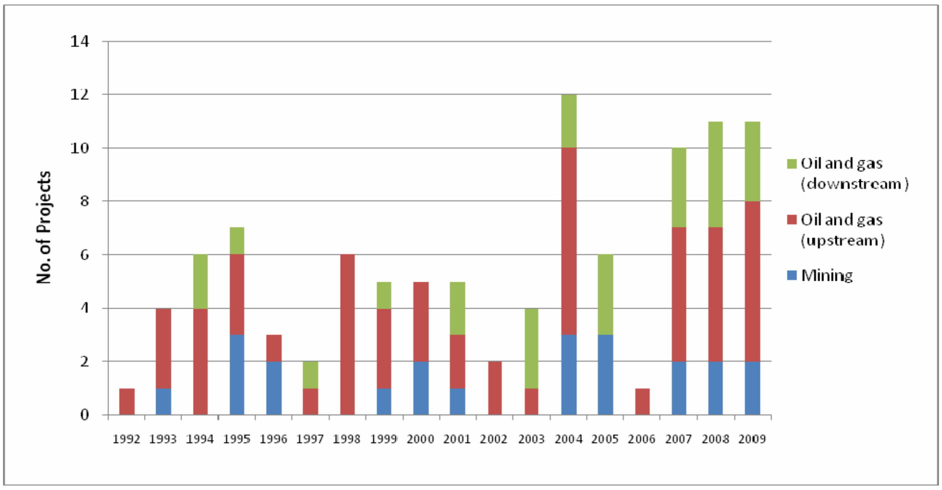
Figures 3.1 and 3.2 indicate the number and volume of natural resources projects signed each year, through 2009.[4] In total, over half of the number and volume of projects have been in the upstream oil and gas sector. In the initial years of activity, the portfolio was dominated by upstream oil and gas and some metal ore mining projects, but several large downstream oil and gas projects have been signed since 2003. The Bank signed two stand-alone coal mining operations, both in Mongolia, in 2007 and 2009.[5] One is a greenfield coking coal project, while the other is an existing mine producing mainly thermal coal. There are other large coal mines associated with power and steel projects not captured by these data.[6]

4 EvD notes that 2010, after the study period, was a record year for the Natural Resources team.

5 A second phase (debt) of the coking coal project was signed in 2010. Also an additional coal/lignite project was approved for Serbia in 2011.

6 The Mittal Steel Temirtau coal mine modernisation project (2007) is a good example.

Figure 3.1: Number of natural resources projects signed each year



Oil and gas (downstream) – Pipeline Transportation; Petroleum Refineries; Gasoline Stations
Oil and gas (upstream) – Oil and Gas Extraction; Support Activities for Oil and Gas Operations; Remediation Services (Oil and Gas)
Mining – Coal Mining; Metal Ore Mining; Support Activities for Metal Mining

The portfolio of the Natural Resources banking team in different countries is summarised in Table 3.2. The portfolio is dominated by a small number of countries that have high extractive industry resources. The Bank has many oil and gas and mining projects in Russia, and many oil and gas projects in Azerbaijan, most of which have been completed. More recently, there has been significant activity in Mongolia, particularly in the mining sector.

In the earlier years, the EBRD's oil and gas operations tended to focus on larger projects based on production sharing agreements. This approach had some success in Azerbaijan and Russia. Since 2006, the Bank continued to sign natural resources projects in Russia, but the focus shifted to smaller companies, or on environmental remediation services.

Figure 3.2: Volume of natural resources projects signed each year

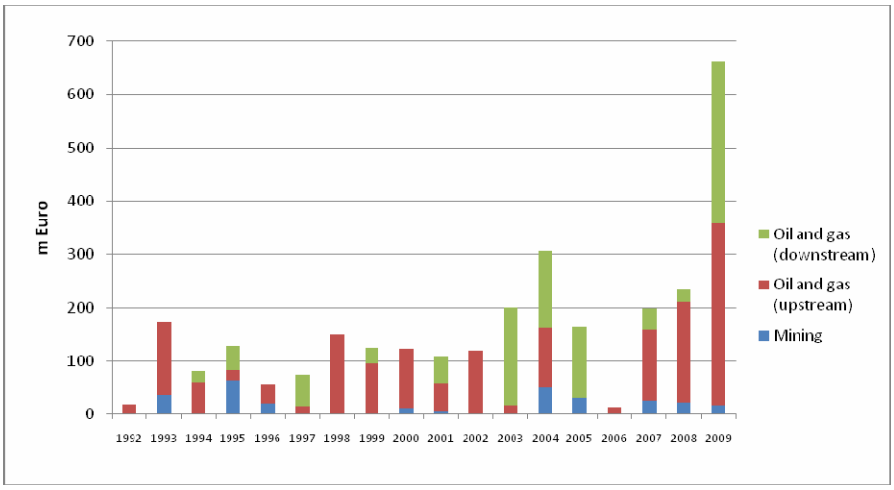


Table 3.2: Overview of natural resources projects in different countries throughout 2009

Country	Active projects	Completed projects	Total projects	Total EBRD finance (€ million)	Average project size (€ million)
Regional projects	7	2	9	205.7	22.9
Albania	2	0	2	34.6	17.3
Armenia	1	0	1	3.1	3.1
Azerbaijan	1	11	12	230.5	19.2
Belarus	0	0	0		
Bosnia and Herzegovina	0	0	0		
Bulgaria	1	1	2	37.3	18.7
Croatia	2	0	2	101.7	50.9
Czech Republic	0	0	0		
Estonia	0	0	0		
Macedonia	0	1	1	17.3	17.3
Georgia	1	0	1	4.2	4.2
Hungary	1	2	3	367.3	122.4
Kazakhstan	4	0	4	85.9	21.5
Kyrgyz Republic	0	1	1	28.6	28.6
Latvia	0	0	0		
Lithuania	0	0	0		
Moldova	0	0	0		
Mongolia	8	0	8	67.0	8.4
Montenegro	0	0	0		
Poland	0	0	0		
Romania	3	2	5	275.8	55.2
Russian Federation	8	25	33	1057.3	32.0
Serbia	0	0	0		
Slovak Republic	0	4	4	95.6	23.9
Slovenia	0	1	1	2.3	2.3
Tajikistan	0	0	0		
Turkey	0	0	0		
Turkmenistan	0	1	1	41.6	41.6
Ukraine	5	2	7	164.1	23.4
Uzbekistan	0	4	4	120.9	30.2
Total	44	57	101	2,941	

Given the large reserves of natural resources in some countries of operations, and the significant number of small to medium-sized private companies that are active in the sector, it is surprising that there are not many more projects. This might be explained by the major challenges in the sector in terms of issues related to integrity and corruption, financial risks related to changes to oil and mineral prices, and transportation risks. This needs to be put into the context of the Bank's policies that restrict operations in specific countries of operations for reasons of integrity and transparency. These policy issues cover most of the countries that have significant potential opportunities in the extractive industries sector, for example:

– For several years the EBRD has not invested in new natural resources projects in Turkmenistan and Uzbekistan, where there are significant production opportunities, or in Belarus, where there are significant cross border transit project opportunities.

– In addition, the Bank has generally been unwilling to carry out projects in Kazakhstan because of the role of the first family and state ownership of the major natural resources companies.

– In Ukraine, the majority of natural resource companies are state owned, thus there are very few opportunities in the private sector.

– In Russia, given the lack of progress on transition impact-related reforms in this sector, the Bank's approach has generally been to not to carry out projects with the major state-owned companies. This reflects the Russian government's own strategy to limit access to "strategic resources" to Russian sponsors and/or partial state ownership.

The average project size (€29.1 million) is lower than might be expected. The low average project size can be partly explained by the potential political interference in larger projects in many countries. The Bank is now targeting smaller projects that are at less risk of interference. The Bank promotes syndication; but from a syndication perspective, this sector lags other sectors. The Bank increasingly seeks to support parallel financing.

It is noted that the total volume of projects signed in the natural resources sector increased significantly in 2009 and 2010, and the pipeline of potential future projects is strong. The dip in 2006 correlates with high oil prices and alternative sources of financing; post the 2009 crisis, energy prices have increased, yet the EBRD remains additional. The total volume of projects signed in the sector stepped up from about €200 million and €235 million in 2007 and 2008 to about €660 million in 2009, and in 2010, 12 projects were signed for €693 million.

3.1.2 Other types of EBRD projects relevant to the extractive industries sector

It was noted in Section 2 that the EBRD has several operations outside the Natural Resources team that are relevant to the extractive industries sector, such as investments through equity funds, trade facilitation transactions, leasing and SME credit lines, as well as direct projects in the power sector and general industry sector (for example, cement and steel plants) that involve captive mines and quarries. Sometimes these may be indicated by the secondary SIC, but seldom are. The Bank's database allows for entry of both a primary and a secondary code and the codes are defined on the internal webpage.

Many of the higher risk direct opportunities in the extractive industries sector might involve equity transactions in relatively small/medium-sized companies, which are engaged in exploration, or which are in the early stages of production. Equity projects are more appropriate than loans in such cases, and the Equity Funds team has an important role at this stage to spread the risks. When a company expands to invest in development and production, then direct loans are more applicable. Box 3.1 demonstrates that there is potential for healthy internal competition between the Natural Resources banking team and the

Equity Funds team. It would have been expected that the direct projects are much larger than the sub-projects of the equity funds, even given the fact that the direct projects often involve significant syndicated amounts in addition to the EBRD loan, but the average size of projects is very similar.

Equity fund projects, as well as DIF and DLF projects, only require compliance with national social and environmental standards, not EU/international standards, as required for direct investments in the Environmental and Social Policies. This requirement for equity funds and DIF/DLF projects is based on the perception that these projects would be for smaller companies (SMEs) for which EU/international standards would not yet be realistic, which is clearly not the case for many equity funds sub-projects. By comparison, there are three DIF/DLF projects in the portfolio of the Natural Resources banking team, that are all €3-4 million in value, which is significantly smaller than the average direct project or equity funds sub-project.

The successful operation of cement plants, coal-fired power stations, and iron and steel plants depends on reliable supplies of limestone, coal, and iron ore respectively. When these plants have captive quarries and mines, then these need to be fully included in the EBRD projects, as they are integral parts of the operations and essential to the success of the projects. The EBRD's attention to captive mines/quarries has been mixed, for example:

– Through policy dialogue activities, the EBRD proactively helped another cement company to gain government approval for use of the nearby quarry. But this quarry was poorly managed by local stone cutters, resulting in 70 per cent waste.

– However, for an iron ore palletising plant project the EBRD project was planned with minimal attention to the associated new iron ore mine, which was an essential part of the ongoing operation and financial performance of the plant.

3.2 Project performance

A total of 56 of the 101 projects in the portfolio of the Natural Resources banking team have been evaluated by the EvD, including 37 OPERs and 18 XMRAs. Fifty nine per cent of projects had an overall performance of "successful" or "highly successful", and 46 per cent of projects had a transition impact rating of "good" or "excellent" (discussed further in Chapter 5). Overall, the performance of oil and gas projects was higher than mining projects. In addition, the performance of projects in Russia and in technical cooperation projects is lower than in other regions. This illustrates the particular challenges in working in the natural resources sector in some countries of operations.

The evaluation results include six projects that have been "unsuccessful" (11 per cent of the projects evaluated) and 16 projects only "partly successful" (29 per cent). In terms of transition impact, this has been "negative" or "unsatisfactory" for three projects (5.5 per cent), and "marginal" for 10 projects (18 per cent). Based on the visits to 12 projects as part of the Special Study, a preliminary evaluation of project performance has been carried out. The projects visited included eight projects under the Natural Resources banking team, two projects with the General Industry/Country teams, one Equity Fund project, and one TFP project. Except for two completed OPERs, the visits were not as detailed as typical OPERs and XMRAs, and several projects are in a relatively early stage, and therefore these evaluation ratings should be taken as preliminary. Overall, the visits indicated that most of these projects are likely to be "successful" or "highly successful".

3.3 Overall assessment of the effectiveness

The effectiveness of the implementation of the policies, investments and operations in the extractive industries sector is rated as “satisfactory”. Although many projects have been successful and have resulted in strong transition impact, there are some that have had problems and the overall performance of some projects has been disappointing.

Table 3.3: Summary of project evaluations (by sub-sector) in the Natural Resources portfolio

	No. of projects	OPERs	XMRAs	Total evaluated	Percent evaluated	Overall performance[7]	Transition impact[8]
Coal mining	2	0	0	0	0	-	-
Metal ore mining	19	6	7	13	68	54	31
Support activities for metal mining	1	0	0	0	0	-	-
Oil and gas extraction	43	23	9	32	74	67	56
Petroleum refineries	5	4	1	5	100	60	40
Pipeline transportation	11	5	0	5	45	40	40
Gasoline stations	9	0	1	1	11	0	0
Remediation services (oil/ gas)	6	0	0	0	0	-	-
Support activities for oil and gas operations	5	0	0	0	0	-	-
Total	101	38	18	56	54	59	46

Overall transition impact rating: excellent, good, satisfactory, marginal, unsatisfactory, negative
Overall performance rating: highly successful, successful, partly successful, unsuccessful

Table 3.4: Summary of project evaluations (by country type) in the Natural Resources portfolio

	No. of projects	OPERs	XMRAs	Total evaluated	Percent evaluated	Overall performance[6]	Transition impact[7]
Regional	9	3	0	3	33	33	33
EU 2004	8	3	3	6	75	67	50
EU 2007	7	0	4	4	57	75	75
SE Europe	5	2	0	2	40	50	50
Russia	33	12	10	22	67	55	35
Other newly independent states	12	4	0	4	33	75	75
ETC	27	14	1	15	56	60	47
Total	101	38	18	56	54	59	46

EU 2004 (Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia)
EU 2007 (Romania, Bulgaria)
SE Europe (Albania, Bosnia, Croatia, Macedonia, Montenegro, Serbia, Turkey)

7 per centage of projects evaluated as successful or highly successful.
8 per centage of projects evaluated as good or excellent.

Other newly independent states (Belarus, Kazakhstan, Turkmenistan, Ukraine)
ETC (Armenia, Azerbaijan, Georgia, Kyrgyz Republic, Moldova, Mongolia, Tajikistan, Uzbekistan)

4. Efficiency

This section assesses efficiency of the implementation of the EBRD's extractive industries policies based on portfolio data, visits to 12 projects, desk review of 25 projects, review of the EvD's Lessons Learned Database, as well as several meetings with Operation Leaders and other Bank personnel.

4.1 Policy implementation

The content of the EBRD policies in extractive industries is clear in terms of the approach to generating transition impact. The overall strategic approach to business development in the natural resources sector was mainly reactive and "opportunity driven", as stated in the Natural Resources Operations Policy (1999). Increasingly, the Natural Resources banking team is conducting market analysis studies (for example, on the coal sector in Russia and Ukraine in 2007, mining in Bulgaria, and oil and gas services in Russia), and the team has an excellent understanding and knowledge of the needs of their existing clients. A more specific and detailed strategic plan for the team would help to facilitate a more proactive approach, building on the approach of these market analyses. This should further increase the number and volume of projects. Given the challenges in the sector (for example, in relation to political risks and integrity) such a plan is particularly important. The plan could target specific types of sponsors, specific mineral resources and specific types of projects, in order to minimise potential risk and maximise potential transition impacts. As has been shown with a few of the larger EBRD projects, there is a risk of political interference, but the smaller projects can also have significant risks. Smaller projects can have strong transition impact in terms of promoting private sector competition, although they often need significant time and resources in providing support.

One example of an area that could be addressed is the approach to taking equity in small companies that are mainly involved in exploration.[9] These projects have high financial risks but could generate high financial gain and significant positive transition impact. Clarity is needed on when to use different financial instruments, such as the Direct Investment Facility (DIF). The DIF does not require such high standards as larger direct projects. In several cases, EU/international standards are not initially realistic for the smaller companies. Taking equity through DIF might be a sensible approach, subsequently followed by a loan to support production, while requiring an increase in standards.

A stronger focus on proactive marketing, through the development of marketing materials, case studies of successful projects, and so forth will assist the Natural Resources team to expand its portfolio and raise the profile of the successful work of the team, thus encouraging linkages and sharing of opportunities between teams. Overall, it is recommended that a more structured and detailed strategy and a more proactive approach to business development will result in an expanded Natural Resources portfolio.

9 It is understood that this will be part of the new strategy.

4.2 Country strategies

At present, sections of the EBRD country strategies on the natural resources sector are not very detailed. Box 4.1 provides some analysis of the different situations and national government strategies in selected countries of operations that have major extractive industry sectors. This demonstrates the very different country approaches. As well as a clearer overall planning, there could be strong benefits in having specific and detailed strategic action plans for selected countries. These individual action plans should be in alignment with the strategic paragraphs on the sector in the published country strategies. They should include specific target areas for policy dialogue and technical cooperation projects, where applicable.

Box 4.1: Overview of some of the different situations in the natural resources sector in different countries of operations

Russia – The Russian government's strategic approach to the extractive industries sector differs from the EBRD's, constraining the expansion of the Bank's portfolio in Russia. For example, as well as keeping "strategic reserves/assets" under state control, the Russian government has not signed up to the EITI, and does not plan to address energy efficiency, or to enhance participation of SMEs in the sector. Given the political and integrity risks in Russia, the EBRD approach needs to be particularly focused on specific client types or specific project types, for example targeting loans for environmental remediation and reducing gas flaring. The EBRD has been shifting towards this approach.

Mongolia – The National Development Strategy (2007) of the Mongolian government includes the mineral industry. The government strategy is similar in direction to the EBRD approach in terms of privatisation, encouragement of investment, and health, safety and environmental risk management, and in 2010 Mongolia became an EITI country. The Government of Mongolia adopted the New Minerals Law in 2006, which gave the government the right to purchase up to 50 per cent of some "strategic mineral deposits", particularly those that were originally discovered through government-funded exploration. The EBRD strategy for natural resources projects in Mongolia includes ongoing policy dialogue.

Azerbaijan – The country is relatively advanced in the development of the oil and gas sector, and revenues play a major part in the economy. This is likely to continue for several years. The government needs to plan for times when the resources are depleted. The EBRD strategy supports the proper use of the Oil Fund to diversify the economy. Azerbaijan is a global leader in supporting EITI.

Albania – The natural resources sector in Albania is small, but has high potential for development and increased production, particularly for oil, chromium, nickel, copper and limestone. The production in the mining sector decreased in the 1990s, after the country shifted to a market economy. Activity in the sector recently started to gain momentum. Although Albania made progress on reforms related to the institutional and legal framework relevant to the extractive industries sector, these reforms have been slow, which resulted in under-investment and inadequate standards. Albania is a candidate country to the EITI, but implementation has been limited. Many opportunities in the mining sector in Albania are likely to be small in scale for some time, but are then likely to grow rapidly. An EBRD strategy for Albania in the natural resources sector might therefore initially focus on supporting the government to speed up the sector reform and strengthen the framework for attracting private sector investments, as well as proactively targeting credible private sponsors to set up equity projects or small loans.

Turkey – Turkey is well known to the Bank as an energy resource transit country with pipelines. It is also a country with very significant mineral resources, where the EBRD has yet to but could play an active role.

4.3 Bank handling and efficiency during project planning and implementation

The findings of the project visits and desk studies indicate strong Bank handling during project planning and implementation. This is confirmed by the results of the EvD's evaluations in which Bank handling was rated[10] as "excellent" or "good" in 69 per cent of the natural resource projects. Equity Funds and TFP clients also gave positive feedback on Bank handling. Specific aspects to note in relation to Bank handling include:

- Many projects in this sector have complicated structures, with several sponsors involved and include syndicated loans from commercial banks. This increases the time required in preparing projects. Several projects may involve syndicated loans from a number of commercial banks.
- The Bank has put strong emphasis on the management of health, safety, environment and social aspects of projects, which is essential in the natural resources sector given the risks related to these issues. In particular, clients gave good feedback in relation to the support and advice of the EBRD on community consultation and social aspects.
- There are several examples of EBRD projects for which price changes have affected the success of the project. For example, increases in oil prices is often one of the reasons for the pre-payment of the loans. Sensitivity analysis must reflect realistic scenarios of future commodity prices.
- There are several examples where close monitoring of projects and support to clients have helped with project implementation. For example, this approach generated strong relationships with clients for the natural resources projects in Albania and Mongolia, which in turn is leading to opportunities for follow-on projects.
- Finally, extractive industry projects involve long-term concessions to exploit resources with a "royalty" fee paid to the national and regional governments. Initially, this was addressed via production sharing agreements, but increasingly via public auction. Royalties constitute payment from a private firm to a sovereign/state body for exploitation/right-to-use of natural resources. A public auction is one approach to ensure fair and open competition. Within the EBRD region many such agreements have been awarded on a sole-source basis, prior to EBRD involvement in a project. The EBRD needs to ensure that access to oil, gas and mineral rights, which are still owned by the government, are operated on an open and transparent basis, consistent with EBRD policies, and managed appropriately for the benefit of local communities. The production sharing agreements for one project fixed the royalty rate at half the industry average, which subsequently became an issue for the project. As a signatory to EITI, the EBRD should ensure that access is always on a competitive basis and payments are managed consistent with EITI principles.

[10] Bank handling evaluation ratings: "excellent", "good", "satisfactory", "marginal", "unsatisfactory", "highly unsatisfactory".

4.4 Bank handling and efficiency of implementation of wider aspects of policy

The transition aspects of the EBRD's mandate mean that its wider activities related to its policies are important, particularly for the extractive industries sector. These cover activities such as policy dialogue and technical cooperation to promote, for example, aspects such as sector reform, frameworks to encourage investments, strengthening of competition, privatisation, and implementation of EITI. For example:

- In Albania, the EBRD has been working with the World Bank on policy dialogue related to mining sector reform to promote investments.
- Likewise, in relation to a pipeline, the EBRD worked closely with IFC on policy dialogue in relation to community investments near the pipeline route and wider regional development in the Caucasus.

In Mongolia, the EBRD founded the Consultative Council for Investment Climate in 2007 to provide a framework for a regular consultative process between the public and private sector. This provided a vehicle for direct dialogue between the decision makers, local and foreign businesses, and donors.

Although this sector has been perceived by the EBRD as a sector with relatively lower need for technical cooperation, there are several good examples of the use of it to address specific aspects related to transition. Examples include:

- In Russia, the Bank supported a technical cooperation project to improve environmental management, which resulted in a major shift in the approach to environmental issues and in more detailed consultation.
- In Mongolia, the EBRD has been working with the government on policy related to the use of smokeless fuel to improve the serious air quality problems in Ulaanbaatar.
- In Albania, the EBRD set up a technical cooperation project to assist the government regarding the proper approach to retrenchment of workers during the privatisation of a state company.
- The turnaround management programme (TAM/BAS) has also been used in the natural resources sector.

Lastly, although many EBRD projects have good potential demonstration impact, Bank staff should be encouraged to carry out more activities that enhance the demonstration process, for example through organisation of conferences and study tours and presentation of case studies.

4.5 EBRD resource issues

Many activities related to projects such as planning, negotiations, monitoring and wider activities (for example, policy dialogue) described above need much time and resources. This is particularly the case in the extractive industries sector, for which detailed due diligence is needed because of the project risks, time taken in negotiations because there are often several sponsors and several syndicated banks, and the remoteness of projects, which increases time required to travel to sites for due diligence, monitoring and evaluation.

Independent mining engineers and specialist consultants in oil and gas have been contracted by the EBRD to work on aspects of the due diligence, planning and monitoring of many projects. One of the lessons from many projects is the need for the banking team to recruit mining and oil and gas engineers into permanent positions.[11] This should help during the planning of the technical aspects of projects, providing a quicker mechanism for assessment of the technical components and to identify some of the project risks.

Overall, clients consulted during this study gave excellent feedback on the support from the EBRD Resident Offices in the countries. Across many sectors of the Bank, experience shows that the number of projects and the performance of projects are better in a country when banking sector teams have Operation Leaders based in these country offices. This is confirmed for the Natural Resources banking team in Mongolia, where an Operation Leader from the team has been based in the Ulaanbaatar office for much of the time since the office was set up, resulting in eight signed projects in three years. The Natural Resources team is expanding this approach, and has approved positions in Kazakhstan, Mongolia, Russia, Turkey and Ukraine.

It is not just a question of more resources in Resident Offices and the need for more-detailed sector plans and country action plans. It is also important to ensure an effective performance-based system to motivate staff to work more proactively on business development and project monitoring. Field staff have suggested that staff performance indicators could be adapted to give more reward for project origination, for time in the field, and for successful project implementation/monitoring activities, including technical cooperation projects.

As mentioned, support teams also commit significant resources to extractive industry projects, particularly the Environment and Sustainability department. The department targets many resources on the management of risks related to Category A projects. Thirty six per cent of the non-financial intermediary projects of the Natural Resources banking team are Category A (Table 4.1), compared to less than 12 per cent (of non- financial institution projects) for the Bank’s overall portfolio. Many Category B projects relate to development of existing operations and in the natural resources sector these projects also require much attention from the Environment and Sustainability department because they usually have high potential for environmental change (for example, through remediation activities). This is one sector, where co-location of Environment and Sustainability department staff within the Banking team may make sense.

4.6 Overall assessment of the efficiency

Taking into account the challenges in the extractive industries sector, the efficiency of the implementation of the policies, investments and operations in the extractive industries sector is rated[12] as “good”. There are several examples of good to excellent Bank handling in project planning, good client relationships and useful policy dialogue initiatives. A more-detailed sector strategy, as well as detailed action plans for each country, could help the Banking team expand the portfolio. The Natural Resources banking team should augment staff in Resident Offices in order to develop business and monitor existing projects.

11 The Natural Resources team has recently recruited a mining engineer and is currently hiring a petroleum engineer

12 Ratings categories for efficiency are: “excellent”, “good”, “satisfactory”, “marginal”, “unsatisfactory”, “highly unsatisfactory”.

Table 4.1: Environmental categorisation of projects in the portfolio of the Natural Resources banking team

Project type	A	B	C	FI	No. of projects
Coal mining	1	1	0	0	2
Metal ore mining	6	8	3	2	19
Support activities for metal mining	0	0	1	0	1
Oil and gas extraction	23	16	3	1	43
Petroleum refineries	0	5	0	0	5
Pipeline transportation	2	5	4	0	11
Gasoline stations	0	6	3	0	9
Remediation services (oil and gas)	1	4	1	0	6
Support activities for oil and gas operations	2	2	1	0	5
Total	35	47	16	3	101

5. Transition impact and sustainability

This section covers the evaluation of the transition impact and sustainability (EBRD mandate indicators) in the extractive industries sector. From an early stage in the Bank's operations, extractive industries projects have been planned with a relevant rationale in terms of potential transition impact and sustainability.

5.1 Transition impact

This section is structured in line with the EBRD's seven categories of transition impact: competition, market expansion, private ownership, frameworks for markets, skills transfer, demonstration effects, and new standards for business conduct. Transition impact has both a "top-down" aspect, as assessed by the Office of the Chief Economist (OCE), and a "bottom-up" aspect, as assessed by banking teams through individual projects (see Table 3.3). As the Bank seeks to maximise transition impact, it should endeavour to work in countries with high ratings on Assessment of Transition Challenges (ATC) (see Table 5.1). The Bank is active in countries with high remaining challenges, such as Mongolia and Russia. It has also been active in "medium" countries, such as Azerbaijan. Yet there remain several countries that have significant potential in the extractive industries, but the Bank's operations are constrained, notably Kazakhstan, Russia (which limits access to "strategic resources"), Turkmenistan and Uzbekistan. The limitations on selected clients and countries and restrictions on undertaking policy dialogue with key state-owned agencies will continue to restrict the Banking team's efforts to achieve transition impact at the macro-level.

The analysis of the case country studies, Volume II addresses conflict between national policies and EBRD transition objectives. The Natural Resources team faces a dilemma in that individual projects ("bottom-up" approach) may be achieving significant positive transition impact, yet there is little progress at the national level with large remaining challenges ("top-down"). Forty five per cent of the projects had "good" to "excellent" transition impact ratings, while 25 per cent were less than "satisfactory". Those countries that continue to limit access to "strategic resources" present a challenge to the Bank in promoting transition impact. Technical cooperation and policy dialogue could be targeted at these countries.

Table 5.1: 2009 Transition Impact Retrospective (TIR) ratings and remaining challenges (ATC) in the natural resources sector of potentially important extractive industries countries

Country	TIR 3	ATC 2009 (2005)	No. of projects 2009
Albania	Limited	Medium (Large)	2
Azerbaijan	Moderate	Medium (Medium)	12
Bulgaria	Significant	Small (Medium)	2
Kazakhstan	Limited	Large (Large)	4
Kyrgyz Republic	None	Medium (Medium)	1
Mongolia	Very Significant	Large	8
Russian Federation	Moderate	Large (Large)	33
Ukraine	Moderate	Large (Large)	7
Uzbekistan	None	Large (Large)	4

EvD's 2004 Extractive Industries Review noted that the EBRD was a significant early contributor to the extractive industries sector in Azerbaijan and Russia. As total foreign direct investments increased, the EBRD's percentage contribution decreased. Russia experienced a peak in total foreign direct investments inflows in the mid-1990s, negative foreign direct investments flows during and after the Russian crisis, then increasing inflows starting in 2004. In 2007 there was almost US$ 7 billion in net inflows, of which mining and quarry activities accounted for 17 per cent.[13] The EBRD's role and contribution is, therefore, less a measure of volume, and more its contribution to transition impact, as discussed below.

5.1.1 Competition

Ninety per cent of EBRD projects implemented by the Natural Resources team are operations with private sector companies, and the majority are with medium-sized companies, therefore enhancing competition by facilitating investment opportunities. EBRD projects focus on raising standards by including requirements on transparency, business conduct, reporting, health, safety and environmental management and working conditions, as well as strengthening procurement procedures[14] to encourage fair competition among contractors. These increases in standards strengthen competition, which is evident across the Bank's activities.

The requirements for increased standards of contractors and suppliers have also strengthened wider competition. Projects in the oil field services sector have strengthened competition in this sub-sector and have helped these private companies to work with the in-house departments of the major oil and gas companies.

---

13 Source: OECD.

14 The EBRD Procurement Policy occupies a central place within the EBRD's overall objectives of fostering efficient use of project funds and contributing to institutional strengthening and corporate governance. Sound capacity in procurement for the Bank's clients is imperative for successful project implementation, for the attainment of the Banks' objectives, and for sustainability. The Bank has a fiduciary responsibility to ensure that resources of its lending operations are used with economy, efficiency, quality of results, contractual protection and timely completion.

5.1.2 Market expansion

EBRD projects in the extractive industries sector are contributing to overall market expansion. At a simple level, the projects are contributing to increased production. One of the most common themes identified in this study is that many sponsors for projects across several countries have indicated that the involvement of the EBRD in a project has given them the confidence to invest because they are then less worried about political risks. The EBRD has also been additional in the natural resources sector in terms of syndicated loans, as many commercial banks would not provide loans for the investments without the involvement of the EBRD. Approximately 40 per cent of the projects have involved syndications.

The EBRD seeks projects with strong market expansion demonstration effects. EBRD projects have also had a major impact on contractors and suppliers in the sector, raising the standards of operation and expanding their activities in the sector. The EBRD recognised the need to strengthen the capacity of SMEs, for example for mining projects in remote areas of Mongolia, and utilised the TAM/BAS.

One critical aspect of the development of the extractive industries sectors in many countries is the issue of transport of the produced goods. Oil and gas pipelines and cross-country transit are highly political issues that impact on energy security. The Bank should continue to take into account the importance of transportation to market expansion.

The oil and gas sector (for example Russia, Azerbaijan) and mining sector (for example Mongolia) dominate some national economies. It is important for the Bank to continue to address the expansion of other market sectors in order to help to develop more stable and sustainable economies in these countries.

5.1.3 Private ownership

Most EBRD investments in this sector are made directly with existing private companies, although some projects support the privatisation process. While the clients may be private, many projects have emerged from privatisations of previously state-owned assets, and several projects involve the state in production sharing agreements. There is potential for these frameworks to enhance the commercialisation of the state sector and potentially strengthen the frameworks for privatisation. In several countries there is a particular risk of political interference in larger private sector projects.

5.1.4 Frameworks for markets

The EBRD focuses on wider activities on sector reform to strengthen the framework for markets and private sector investment. These activities are often carried out through policy dialogue and technical cooperation projects.

There are many aspects that would benefit from more focus in order to strengthen the frameworks for markets. For example, better management of oil funds, faster implementation of the EITI in Albania and Mongolia, and assistance to national and local governments to improve the management of revenues from the sector and to invest in local infrastructure.

5.1.5 Skills transfers

One of the positive areas of transition where the Bank projects have had a major impact is skills transfer. In most cases it makes good business sense for the sponsors to reduce the time input of the more expensive expatriates by using them to train up and develop local staff. This is demonstrated by a drilling services project, where the client shifted its approach to focus on reducing the input from expatriates and raising the capacity of local staff, which helped to turn around the company from a serious financial situation. In some projects, skills transfer must focus on management skills, as well as technical skills.

Many EBRD projects in the natural resources sector are in remote areas where potential local employees and SME contractors do not necessarily have the required skills. The obvious example is in Mongolia, where large mines are being started near traditional herding communities. In these types of projects the EBRD is encouraging clients to focus on the recruitment and training of local staff, and the training of local SMEs. The EBRD could step up its support to SMEs through technical cooperation and TAM/BAS activities, and through dedicated SME credit lines related to large projects.

5.1.6 Demonstration effects

There are several good examples of projects that have had strong potential demonstration impact, for example regarding the use of new technologies in remote areas and difficult weather conditions, community consultation, skills transfer, or even just to demonstrate that investments can be successful in the sector in countries of operations. The Bank could do much more to facilitate demonstration and encourage wider investment and transition. Resident Offices could, for example, organise conferences for potential investors and presentations of case studies. The development of marketing materials for the team could help with demonstration as well as business development.

5.1.7 New standards for business conduct

There is a very strong correlation in EBRD projects between the strength and commitment of the client management team and the success of the project. In some projects, international sponsors had strong and committed management teams for projects. However, in others the management teams of the sponsors were not experienced in the local situation and not as committed, and as a result these projects experienced problems.

Many international sponsors already have high standards, for example related to international accounting and health, safety and environmental management. For equity projects with smaller and newer companies, the EBRD often seeks influence on standards of business conduct through a seat on the Board. Overall the EBRD has had a strong influence on standards of business conduct; although the example of some projects demonstrates that the Bank needs to continue to carefully monitor this aspect.

Integrity issues are an important factor in the extractive industries sector. The EBRD has generally chosen not to invest directly in natural resources projects in some countries because of integrity uncertainties related to the ownership of most companies within the ruling family.

The EBRD requires clients to report financial payments in line with international best practices, as well as encouraging financial accounting to international standards. This is one area where the Bank has had a particularly positive impact on the practices of most client companies. For example, despite the overall marginal transition impact of an aluminium project, the corporate governance and transparency objectives in the project were achieved to a large extent, with the client disclosing the corporate ownership and key financial indicators of the sponsors, adopting a code of ethics, appointing independent directors, and adopting new articles of association that provided for board sub-committees.

Corruption is reported to be a widespread and a major issue in the natural resources sector in some of the countries of operations. The Bank could be subject to criticism from some people that might have the opinion that it should more openly admit that some form of corruption is likely to occur in relation to certain activities of at least some projects, and that corruption would be difficult to prevent entirely, given the working culture and approach towards the issue in many countries. One example involved a project that sold oil to independent truckers, who are often associated with organised crime, yet this was seen as outside the scope of the Bank's project. The Bank has strict requirements on clients to ensure they are carrying out financial accounting to international standards and are reporting transparently in compliance with the Extractive Industries Transparency Initiative. The EBRD places strong emphasis on carrying out integrity due diligence upfront in relation to these issues and protection is built into the loan documentation, should corrupt practices subsequently come to light. "Good" project monitoring is critical to minimising these risks during project implementation.

5.2 Sustainability

Health and safety, environmental management, and social issues have high profile in the extractive industries sector. Environmental and social impacts are an important aspect of the EBRD's mandate.

5.2.1 Environmental, health and safety performance

The environmental performance of the projects that have been evaluated in the natural resources sector were rated as "good" or "excellent" in 65 per cent of cases, and the environmental change was rated as *Substantial* in 57 per cent of cases.[15] These high standards of performance back up the general findings from the project visits and desk studies for which, except in a small number of projects, the environmental and social performance and change in projects have been high.

The Environmental and Sustainability department pays particular attention to due diligence, monitoring and reporting in relation to extractive industries projects. The planning of many projects includes detailed environmental analysis of environmental and social impact assessments. Based on these assessments, Environmental and Social Action Plans (ESAPs) are developed and the requirement for their implementation is included in the equity/loan agreement. The ESAPs typically include actions such as groundwater monitoring, mine closure plans, health and safety training and public disclosure. Clients need to understand the implications and costs of the commitment to implement the ESAPs. Experience has shown too often that this may be the first item to be cut back.

Health and safety is particularly important. In one project, the client adopted a very strict approach from an early stage, which worked well. If an employee broke health and safety procedures three times then this

---

15 Environmental performance ratings: "excellent", "good", "satisfactory", "marginal", "unsatisfactory", "highly unsatisfactory". Environmental change ratings: Outstanding, Substantial, Some, None/Negative.

resulted in dismissal, and there were strict zero tolerance rules related to alcohol (all employees are given a breathalyser test every day) and drugs.

In a small number of cases the EvD rated the environmental performance of projects as “unsatisfactory” and the environmental change as “none” or “negative”. It is important to maintain high standards for environmental, health and safety performance. If there was a major oil spill or mining accident associated with an EBRD project, stakeholders quickly forget the large proportion of other EBRD projects for which high health, safety and environmental standards were properly implemented.

5.2.2 Environmental investments

There are many opportunities in the sector for specific environmental investments, for example on environmental remediation, reducing gas flaring, and improving energy efficiency. Several EBRD projects have focused on environmental investments. By supporting environmental improvements, the EBRD helps to strengthen the image of the sector, and by addressing environmental legacies, the EBRD also helps to create a level playing field for companies looking to invest in the sector.

5.2.3 Emergency prevention and response

Emergency prevention and response procedures are clearly essential in this sector. The EBRD has had a positive influence in a number of projects. The occurrence of major oil spills demonstrates the importance of carrying out wider due diligence and monitoring contractors and the state of downstream pipelines. Oil spills demonstrate that the state of the downstream pipelines is not only important for the environment, but also can have significant impact on the financial performance of a project.

5.2.4 Management of social aspects and community consultation

Many of the sponsors for EBRD projects in extractive industries are already committed to the implementation of high standards of corporate procedures related to health, safety and environmental management. One of the common themes of several projects in the sector is that the EBRD has had a strong influence on the management of social aspects and community consultation activities. Many projects are in remote areas and this presents challenges because the local villages are often rural communities carrying out basic farming activities. When suddenly a mining activity or oil field production starts in their area, this brings in workers from other areas (and countries), potentially putting a strain on local water supplies and other infrastructure (including health services). It often raises hope of employment, which is not always possible because the local community does not have the skills required. The management of these social aspects, for example through ongoing consultation, training of individuals and SMEs in the local community, and through social investments in local infrastructure, is therefore important.

Other examples of the EBRD’s influence in these areas include the focus on interaction with local villages. The role of NGOs can be useful as civil society has an important role in raising issues of concern, especially if they are beyond immediate project boundaries. It is important for the EBRD to listen to the voice of civil society as they often experience the project from a different perspective.

One common aspect in several countries of operations is small-scale and artisan mining. These activities usually have extremely high safety risks, and these small enterprises and individuals are often operating without licences. These practices provide employment and income for what is often a poor group in society, and therefore the social issues need to be taken into account. A system of improved organisation into cooperatives, strict control on which areas can be mined, better monitoring, and provision of safety equipment, can be an approach to start to improve the situation, taking into account social aspects. This could be one area where the EBRD could support the governments through policy dialogue and technical cooperation. Reducing the risks from artisanal mining will also give more confidence to potential investors in the mining sector. Unfortunately, the EBRD's engagement may only be via a TFP deal or a micro-finance loan and thus hard to detect. In one project, prior use of a quarry site involved the collection of medicinal plants by local minority communities. How to manage economic relocation of such individuals can be a challenge to companies and an area where the EBRD adds value.

5.2.5 Uncertainties with project boundaries

The EBRD requires high levels of standards for financial management and reporting and health, safety and environmental management for its projects. In some cases there are uncertainties related to the boundary of the EBRD project in terms of managing the risks. Boundary issues related to captive mines and quarries are discussed in Sections 2 and 3 above. Other examples include companies carrying out drilling and other oil field services, for which there are significant risks that require high standards of mitigation measures and procedures related to environmental protection.

5.2.6 Other types of extractive industry projects

Some other types of extractive industries projects, mainly outside the Natural Resources banking team, set standards for health, safety, environmental and social aspects that require compliance with national regulations, rather than EU/international standards. For example, Equity Funds, TFP, DIF and DLF projects only require compliance with national standards. Although these standards are sensible in terms of being realistic and affordable, and the EBRD does provide training to Equity Funds and Financial Intermediaries so that they properly check the permits and reports of the sub-projects, the approach also assumes that the capacity of the relevant local authorities is sufficient to enforce compliance with the national standards. This is not the case in many countries of operations. Weak capacity of local authorities, and an approach to compliance of many small companies on only obtaining the necessary permits, rather than properly implementing the regulatory provisions required, means that in some cases the actual operations may not be in compliance. This was evident, for example, at the sub-project of an equity fund that was visited. In other cases the weak capacity coupled with improper practices of inspectors can put unrealistic demands on operators. The EBRD does not have the resources to monitor all these operations itself, thus strengthening of local authorities in terms of their capacity for monitoring and enforcement is an important potential technical cooperation project in many countries. There are also projects where the EBRD might be both a direct investor (via the natural resources or general industry project) and an indirect investor (via a credit line or equity fund), resulting in mixed messages as to which EHS performance standards apply.

5.2.7 Cumulative impacts

There are cases where an environmental and social impact assessment is carried out only on the initial phase of a project because it is unknown at the time whether the subsequent development would proceed. It is important for the assessment to address, in some detail, the potential impact of follow-on developments so that stakeholders are aware of the longer term potential impacts and their mitigation, and to avoid “salami slicing” of project impacts. Similarly, assessments should cover potential cumulative impacts from the likely industrial development in a particular region. In large-scale major projects the Bank could encourage clients and host governments to develop a strategic environmental assessment taking into account the cumulative impacts of all related development projects in a region. Strategic environmental assessments require early engagement to be timely and effective, therefore a potential use of pre-project technical cooperation.

5.2.8 Sustainability funds

For countries that have limited reserves of natural resources for mining, or oil and gas, it is important to plan for the long term when these resources run out, for example investing in renewable energy and to ensure a diversified economy. On a local scale, this principle is also important for towns that are near to large mines or oil and gas fields, because there is a risk that when the resources run out, the sudden drop in local employment and in revenues for local SMEs will lead to migration away from the area, leaving behind “ghost towns” or small communities of only the poorer families that benefited less from the development.

The principle of sustainability funds is well known, and is being encouraged by the EBRD in many of the countries of operations that are rich in natural resources. It is important that such funds are used properly, partly for priority investments at present, and partly invested for future generations. It is also important that there is proper and transparent reporting, not only of payments into the funds, but also of their use. Perhaps the best example of this approach is Norway. Azerbaijan, which is a member country of EITI, operates a sustainability fund related to its oil wealth, but there are uncertainties related to its use. The Bank could provide more support to the government on the management of the fund. Other examples of specific sustainability funds include:

- One for emergency maintenance on power generation and district heating, rather than for longer term investments.
- Another where royalty payments at one stage were split so that half was put into a fund to address environmental legacy issues. One third of the royalty payment went into a fund for affected local communities. government commitment is essential to the long-term success and proper use of sustainability funds.
- One that involves payments by the mining company into a mine rehabilitation fund, to be used for the proper closure and rehabilitation of the open cast mine when it closes in 2018.
- Another that is used for investments in roads, power and other infrastructure.

The EBRD positively influenced the set up and management of such funds. One potentially useful area for technical cooperation projects would be to focus on increasing the capacity of local administrations to manage such funds, to develop local development plans and to strengthen capacity to carry out proper procurement for investments in local infrastructure, which, in turn, could link into the Bank's municipal and environmental infrastructure activities.

5.2.9 Regional development

For major "flagship" projects, the policy objective of regional development is important. The EBRD has often worked closely with other IFIs on regional development activities. In one project, the sponsors set up a Community Investment Programme (CIP), which was implemented during the construction phase alongside the pipeline route for communities within four kilometres. The sponsors, the EBRD and IFC, also established a broader Regional Development Initiative related to a pipeline project. Such a regional focus should bring opportunities for other EBRD teams, particularly for investments in transport infrastructure and municipal and environmental infrastructure and also SME credit lines.

5.2.10 Coal mining

As of the end of 2009, the EBRD portfolio included two stand-alone coal mining projects.[16] Civil society has raised concerns about whether the EBRD should be funding thermal coal mining projects, because of the issue of greenhouse gases. Such projects can result in high transition impact, for example when: a project is for a medium-sized private company and is enhancing competition; when the project involves a focus on creating local employment and skills transfer, community consultation and integration, high health, safety and environmental standards and has a strong demonstration effect; and when the project involves a sustainability fund and rehabilitation bond, plus social investments in the community; and when a project includes specific new technology such as a smokeless fuel plant for the thermal coal project; or when the project involves high-quality coking coal that is used in iron and steel plants that are known to be operating with high standards. If the EBRD is to continue to fund coal mining, then it is essential that such aspects are designed into projects. In many cases, coal mines will be developed anyway if the EBRD does not fund them, often without such aspects of transition impact.

5.3 Overall assessment of transition impact and sustainability

The overall transition impact and sustainability of implementation through investments and operations in the extractive industries sector is rated as "satisfactory" to "good". From a "bottom-up" or project perspective, based on the performance of the EBRD's projects, the rating is "good". When looked at from a "top-down" perspective, based on the lack of progress in the region (for example, issues such as limitations on "strategic resources", countries with significant extractive industries potential but with few, if any, projects) and remaining transition impact challenges, as defined by OCE, the rating is "satisfactory", thus an overall rating "satisfactory" to "good". There are many examples of excellent transition impact and detailed attention to sustainability in the EBRD projects, including environmental investments, yet at the macro-level transition impact challenges remain significant.

16 One involves coking coal for export, while the other project includes both thermal coal for domestic users and coking coal for export. In 2011, the Bank approved a large thermal coal project.

6. Conclusions and recommendations

6.1 Conclusions

6.1.1 Overall performance

The overall objective of this study was to carry out an evaluation of the performance of EBRD investments, its implementation of the extractive industries-related policies, and to identify lessons and provide recommendations that can be used in the development of the new Mining and Energy Operations policies. Table 6.1 gives a summary of the evaluation ratings from this study, using the OECD-DAC criteria. The overall performance of the Bank's activities in the extractive industries sector is rated[17] as "successful".

Table 6.1: Overall ratings of EBRD operations in the extractive industries sector

Criteria	Rating
Relevance	"largely verified"
Effectiveness	"satisfactory"
Efficiency	"good"
Transition impact and sustainability	"satisfactory" to "good"
Overall performance	"successful"

6.1.2 Coverage of policies

The extractive industries sector is very important to the economies in many countries of operations. The development of the sector has many associated challenges, such as the need for sector reform to improve the frameworks for investment and competition; managing issues related to integrity and potential corruption; and improving standards of health, safety and environmental management. It is therefore essential that the EBRD has a clear policy framework related to the extractive industries.

The current EBRD policies on extractive industries are the Natural Resources Policy (1999) and the Energy Operations Policy (2006), which partly replaced the 1999 Policy, plus Bank-wide policies such as the 2008 Environment and Social Policy, the 2008 Public Information Policy and the 2010 Procurement Policies and Rules. The Energy Operations Policy covers the entire oil and gas cycle, and thermal coal, but does not cover other types of mining (for example, metal ores and coking coal).

Although the content of current EBRD policies in the extractive industries sector is highly relevant, the coverage of the policies is not comprehensive. The Bank is developing a Mining Sector Strategy, which will address the main gaps in the coverage. The Strategy needs to address activities that are related to extractive industries, such as equity funds, TFP and leasing, but not under the control of the Natural

[17] Ratings categories for overall performance are: "highly successful", "successful", "partly successful", "unsuccessful".

Resources banking team. For these activities, it is important to be realistic in terms of the requirements of the EBRD's policies and procedures, taking into account the available resources for project monitoring. In addition, the coverage related to captive mines and quarries for operations that are mainly the responsibility of other banking teams, such as steel plants and cement plants, needs to be considered in the new/updated policies. Greater diligence on assignment of secondary SIC would allow for better monitoring of the Bank's full extractive industries portfolio.

6.1.3 Overall sector performance

The EBRD extractive industries operations focus on those countries that are rich in natural resources. Over 50 per cent of the projects signed by the Natural Resources banking team are in Azerbaijan, Mongolia and Russia. In most of the countries rich in natural resources, there are considerable issues related to potential political interference, integrity and corruption, environmental legacies and health and safety risks. These issues, combined with the fact that many projects are in very remote areas that are subject to very harsh weather conditions, mean that there are challenges for the EBRD related to this sector. It is to the Bank's credit, therefore, that the overall results from project evaluations are strong, with 59 per cent of evaluated projects in the Natural Resources banking team having an overall performance of "successful" or "highly successful", and 46 per cent of projects rated with a transition impact of "good" or "excellent". Overall, the performance of oil and gas projects (60 per cent) was higher than mining projects (53 per cent), thus pointing to the need for a new approach focusing on mining.

After a reduction in the number of natural resources projects signed in 2006, there has since been a significant increase. There are the restrictions on Natural Resources team operations in many of the important countries. A more proactive approach to marketing and business development could help to expand the portfolio. As part of a more proactive strategy, the Bank could consider more marketing activities to raise the profile of the success of its operations and implement and actions to facilitate demonstration (for example, through the organisation of conferences on best practices in different countries), both of which would help to increase the portfolio and widen transition impact. EvD notes that the total volume of projects signed by the Banking team stepped up in 2009 and 2010, and there is a strong pipeline.

6.1.4 Transition impact and sustainability

There are many examples of excellent transition impact in EBRD projects, many of which have positive effects on enhancing private sector participation and competition, introducing new technology, transfer of skills, improving business conduct and strengthening transparency. There is a strong correlation between the experience and commitment of the senior management of the sponsors and the success of the projects.

In some countries there is more potential for the EBRD to carry out wider activities beyond the scope of individual projects, in particular more focused policy dialogue with national governments to encourage sector reform. Inclusion of more technical cooperation support could help to raise the capacity of national and local governments in specific areas (for example, to improve their approach to the implementation of EITI, management of sustainability funds, and environmental enforcement).

The extractive industries sector has a high profile related to sustainability, in particular the potential environmental damage from spills, as well as safety related to mining. The sector can lead to very positive social impacts on the national and local economies, and particularly on employment. The majority of the EBRD projects in the sector have been planned in good detail to manage the health, safety and environmental risks, and many have included environmental investments, such as remediation of oil spillages from previous activity in the project area. Most projects in the sector have achieved high ratings for environmental performance. It is important that the EBRD maintains high standards for environment, health and safety performance, including emergency response, for all projects in the extractive industries sector. If there was a major oil spill or mining accident associated with an EBRD project, (for example, a tails pond failure) stakeholders would quickly forget the large proportion of other EBRD projects for which high health, safety and environmental standards have been properly implemented.

There remain many opportunities in the extractive industries sector for environmental investments in the region. Even in countries where the EBRD is hesitating to operate in this sector because of integrity issues and risks of political interference, there is high potential for transition impact, environmental improvements, and demonstration through targeted investments in environmental clean-up, reduction in gas flaring, and energy efficiency. There are several recent good examples of such projects in Russia. The EBRD may need to look closely at climate change adaptation issues related to projects (for example, one project involved a company that disposes of waste rock on what is now a receding glacier).

For the large “flagship” projects, the EBRD focuses on regional development, in line with the policy objective, but may miss out on opportunities for projects for other banking teams (for example, transport, municipal and environmental infrastructure, and SME development). The Bank could have a more structured approach to team linkages through establishment of multi-sector teams, for these “flagship” projects, which would contribute further to regional development and also increase the Bank’s overall business volume.

6.1.5 Bank handling and resources

There has been much positive feedback from clients about the Bank’s handling of projects, its strong communication and support, and how the EBRD provides confidence to sponsors (and syndicated banks) to invest in the sector mainly because the perception is that the Bank’s involvement reduces the risks. There has been particularly strong feedback on the work of the EBRD bankers located in the Resident Offices. As well as investment project planning, negotiation and monitoring, the EBRD staff carry out wider activities, such as policy dialogue and implementation of technical cooperation projects. These activities would strongly benefit from continuing to increase the Banking team resources based in the Resident Offices of the main extractive industries countries. This would facilitate a more proactive approach to business development and assist with project monitoring and policy dialogue. The Environmental and Sustainability department also puts a significant proportion of its resources into the extractive industries sector. Environmental and social performance and change related to the projects are mainly very positive. There are several examples where the Bank could have benefited from having a mining engineer and an oil and gas engineer permanently based in the Natural Resources banking team. This would provide quicker expert analysis and advice than contracting engineers from different companies through technical cooperation projects.

There have been fewer than expected technical cooperation projects by the Natural Resources banking team to support governments with sector reform and policies to attract investments. The Natural Resources team could develop a more structured and detailed plan for policy dialogue for each focus country, and for the related use of technical cooperation.

6.2 Recommendations for EBRD policies on extractive industries

6.2.1 Policy recommendations

Based on this extractive industries sector evaluation, the following recommendations are suggested for the Bank's policy framework:

- The EBRD should develop a new Mining Sector Strategy. The Bank will need to be clear whether this new strategy includes thermal coal mining operations related to the energy sector, which at present are covered in the Energy Operations Policy (2006).
- Although a strategy that closely matches the responsibilities of the Natural Resources banking team is recommended, the strategy should be clear about the Bank's approach related to other activities in the extractive industries sector outside the Natural Resources banking team (for example, equity funds, TFP and leasing). This strategy should also be clear about the EBRD's approach related to captive mines and quarries that are components of projects in other teams (for example, steel and cement plants).
- The current SIC are used within the EBRD, more as a division of responsibility than as an industry accounting system. However, this information is also used to report to the Board and external users on the distribution of the EBRD's investments. The SIC should be used for their primary purpose of accountability of investments. Therefore it is important to assign secondary SIC to all extractive industries related projects, so that the full extent of the extractive industries portfolio can be accounted for.
- The Bank could consider modifying its coding system so that projects that fall in more than one category (for example, captive mines) are captured. This would result in more accurate accounting to the Board, and may allow for better capturing of extractive industries components of projects in all sectors.
- In view of the importance of sustainability in the sector, a specific section is needed in the strategy on environmental and social aspects.
- The strategy needs to be clear about the approach to defining the boundaries of projects with respect to the applicability of EBRD standards, for example related to projects with companies that carry out contracts for drilling and other oil field services.

6.2.2 Implementation recommendations

The following recommendations are suggested to enhance policy/strategy implementation:

- Preparation and implementation of a more detailed strategy for the Natural Resources banking team.

– Preparation and implementation of specific-focus country action plans for the Natural Resources banking team (for the priority countries). Even in countries where there are integrity concerns, such strategies could target specific types of projects, such as environmental loans.

– Greater inclusion of the use of sector-specific technical cooperation in the country action plans.

– Continuing to increase the Resident Office Natural Resources staff resources.

– Recruiting mining, oil and gas engineers to the Natural Resources banking team.

– Formalising procedures in the Bank to improve team linkages for regional development related to major projects in the extractive industries sector, so that opportunities in transport and municipal and environmental infrastructure, for example, are identified.

– Development of marketing and demonstration materials (for example, project case studies), and carrying out more actions to facilitate the demonstration of transition impact (for example, through conferences), which could contribute to business development.

7. Reference documents

- Bakallabashi (2009) *Study on Small-scale mining in Bulqiza area of Albania*
- Bankwatch (2002) *Mountains of Gold – Kumtor Gold Mine in Kyrgyz Republic*
- DAC Evaluation Criteria:

www.oecd.org/document/22/0,2340,en_2649_34435_2086550_1_1_1_1,00.html

- EBRD Draft Assessment of the Use of Coking Coal in Steelmaking: Prepared for Energy Resources LLC, Mongolia (ERM December 2009)
- EBRD Energy Operations Policy 2006
- EBRD Environment and Social Policy 2008
- EBRD Evaluation Policy 2006
- EBRD Extractive Industry Review – Special Study 2004
- EBRD EvD – Evaluation Report on Trade Facilitation Programme – Draft Report March 2010
- EBRD Environmental and Social Responsibility Workshop – Summary Report (November 2009)
- EBRD EvD – Country Level Evaluation Report on the Power and Energy Sector in Russia (including Policy Dialogue in Russia) – Draft Report July 2010
- EC Directive 2006/21/EC on the Management of Waste from Extractive Industries
- Extractive Industries Transparency Initiative (EITI) – www.eiti.org
- ICMM Presentation on Safety and Health in Mining (November 2009, EBRD Environmental and Social Responsibility Workshop)
- Lawn, D, Steiner, R and Wills, J (1999) *Sakhalin's Oil – Doing it Right – Applying global standards to public participation, environmental monitoring, oil spill prevention and response, and liability standards in the Sakhalin Oblast of the Russian Federation*
- Lisitsyn, D and Barannikova, N (Sakhalin Environment Watch) – Presentation on Sakhalin II Oil and Gas project – ecological, social and economic problems
- Sieminski, A (Deutsche Bank) *Russia in the Global Oil Outlook*
- Wardell Armstrong presentation on Artisanal and Small-scale Mining (November 2009, EBRD Environmental and Social Responsibility Workshop)
- World Bank Extractive Industries Review:

  http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTOGMC/0,,contentMDK:20306686~menuPK:592071~pagePK:148956~piPK:216618~theSitePK:336930~isCURL:Y,00.html
- World Bank – Mining Sector Reform, Restructuring and Future Prospects, Albania (June 2009)
- For individual projects, the following reference documents were used when available:
  - Project Summary Documents
  - Board Project Documents
  - Project Monitoring Reports
  - Reports from Technical Cooperation Components
  - OPERS and XMRAs
  - EBRD Country Strategy.