

# CEE Bankwatch Network comments on the draft EBRD strategy for Mongolia

For more information

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CEE Bankwatch Network's mission is to prevent environmentally and socially harmful impacts of international development finance, and to promote alternative solutions and public participation.

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CEE Bankwatch Network would like to propose the following comments and recommendations on the draft Country Strategy for Mongolia for the next period of the Bank's operations in the country.

## Mining and economic diversification

Among the key challenges and strategic orientations for the coming Strategy period, the Bank sees promoting diversification through support for non-resource sectors, however, at the same time the bank plans promoting 'responsible mining'.

The necessity to diversify the bank's portfolio in Mongolia has been emphasized to the Bank on many occasions (in Bankwatch studies, meetings, Mining Policy comments) and thus it is crucial that the Bank has adopted this direction among its first priorities.

Since 2006 when the Bank has started its involvement in the country the tendency has shown that the major Bank's focus has been concentrated on the natural resources sector – 69% of operating assets as of 31 December 2012 and 70 percent cumulative business volume, while the business volume has grown at least 4 times<sup>1</sup>. Currently, the EBRD is involved in the 3 biggest mines in the South Gobi desert region – Ukhaa Khudag coal mine (part of Tavan Tolgoi), Tsagaan Suvarga copper mine, and the newly approved controversial Oyu Tolgoi gold and copper mine.

The Bank acknowledges that the dependence of Mongolian economy on commodity exports is a problem – but does not make it clear how it will address it. While it may appear to be more a matter for bodies such as the IMF, the EBRD too, through its projects and policy advice, has an impact on the direction a country's economy takes. If this was not the case it would not be useful for the EBRD to exist. Thus, if the EBRD supports commodities-related projects, it helps those sectors to grow, whereas if it sends a clear message that it does not support over-dependence on commodities by minimising its investments in those fields, and instead supports other fields, this gives a clear indication that the EBRD is putting its money where its mouth is.

Mongolia evidently suffers from an acute disbalance in its economy. It is estimated that already more than 80 percent of Mongolian exports are minerals, a proportion expected to rise in a few years to 95 percent, as more than 3,000 mining licenses have been issued by the government. Therefore Dutch disease and related macroeconomic threats are

<sup>1</sup> EBRD draft Country Strategy for Mongolia, p.5

significant concerns for the country, as well as rising inequality for the population.

In the Country Strategy for such a resource-rich country as Mongolia the Bank should not only point to priority sectors of the economy, but should present a vision of what a balanced investment portfolio is that can reflect these priorities. Based on this vision, the Bank should set binding and measurable targets for supporting diversification away from resource extraction dependency, and for achieving balanced investments across the various sectors of the economy. This approach should provide for a more targeted and strategic investment, versus the current approach of concentrating investments on the development of the already strongest sectors, that should require the least support and promotion.

While the Bank emphasizes its value added to the involvement in the mining projects, the recent Oyu Tolgoi project has shown that the project was adopted by the bank with numerous violations and derogations to the Bank's policies<sup>2</sup>. Concerned CSOs globally had asked the EBRD to include conditions and pay attention to the key expert recommendations<sup>3</sup> and the only hope for improvements in the project is the inclusion of conditions in the loan contract by the financiers.

The ESIA for the Oyu Tolgoi project does not fully comply with the fundamental provisions of the EBRD's Performance Requirements, as it is incomplete and retroactive; lacks a robust risk assessment; ignores the health, safety, and livelihood security of the affected communities; fails to establish the protection of the South Gobi's scant water resources and biodiversity; and omits critical assessments of cumulative impacts or impacts from

<sup>2</sup> <http://bankwatch.org/publications/useless-sham-review-oyu-tolgoi-copper-and-gold-mine-environmental-and-social-impact-ass>

<sup>3</sup> Letter to Sir Suma Chakrabarti, President of the EBRD, February 15, 2013; <http://bankwatch.org/sites/default/files/letter-EBRD-OT-15Feb2013.pdf>

associated facilities such as infrastructure, the international airport, or the planned coal-powered plant. Failure to comply with the Performance Requirements undermines the development objectives of the project.

*Recommendations:*

- With Mongolia being over-dependent on commodities, there is a need for the EBRD to **de-prioritise investments** into mining and infrastructure related to mining in favour of the development of the other economic sectors that will bring long-term sustainability to the region. This proposal was supported by the evaluation report: "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. (p. 9<sup>4</sup>)"
- The Strategy should **introduce an indicator measuring the sectoral investment balance and a target that investments in natural resources projects and related infrastructure should not amount to more than 30% of the portfolio for a country**, in order to ensure support for diversification away from resource extraction and commodity export dependence.
- The EBRD's **added value in the current mining projects in South Gobi is questionable** and such a situation must be avoided in the future, both through fewer investments in the extractive industries sector and more additionality in projects where the bank is already involved.

## Modernising infrastructure

Communal infrastructure projects should be in line with local, regional and national plans and strategies for infrastructure development, and local authorities and communities should be included in the planning and implementation process, so that they will be aware of the short and long-term impacts of the construction and

<sup>4</sup> Evaluation of the Extractive Industry Sector Strategy, 2011

operation, as well as of the service affordability aspects. The bank's investments in infrastructure should focus on municipal infrastructure for the population, eg. water supply, wastewater, household waste management, especially in rural areas, thus it should be given priority. Mining-related infrastructure should not be financed from a public bank's money when the vast majority of the benefits ultimately flow to private companies.

In this context the EBRD's goal of supporting PPPs is particularly worrying, as PPP projects have a track record of high costs for public authorities and insufficient public benefits to justify such costs.<sup>5</sup> In cases where infrastructure primarily benefits the private sector, such arrangements become little more than complicated subsidy schemes. In addition, it is clear that Mongolia has problems with high corruption levels and low public sector capacity that make it even more unlikely that PPPs will turn out for the benefit of ordinary people.

*Recommendations:*

- The bank's **investments in infrastructure** should focus on municipal infrastructure **for the population**, concentrating on getting basic public procurement right, rather than costly and complicated PPPs. Investments into transport, energy and water infrastructure that are mostly or exclusively **for the needs of the extractive industries should not be supported** by the bank.
- Any new **tariff setting should ensure that affordability and access to municipal services is not worsened**, especially for the more vulnerable groups in the community, such as elderly, unemployed or female-headed households.

## Energy Efficiency and climate change

Mongolia is uniquely impacted by the effects of climate change as it is currently on pace for significantly higher increase in temperature than the global average. Droughts, severe winter storms, and desertification are already putting pressure on the local population, yet the current strategy does not mention the effects of climate change on important issues such as the protection of water resources, ecosystem services, and public health.

Mining is a major energy user and significant contributor to greenhouse gas emissions (GHGs). The

Bank's projects often include energy efficiency measures, however, the calculations of the total lifetime GHG emissions very much exceed the emission cuts – as in the case of Ukhaa Khudag (UHG) coal mine.

The EBRD made three investments in the massive UHG coal deposit in Mongolia<sup>6</sup>. It is unclear how can the Bank justify being involved at all when the project's Environmental Impact Assessment shows that even from the mining itself there will be direct emissions of 1 413 036 tonnes CO<sub>2</sub>e per annum during the period of maximum operations, mainly from diesel consumed by mining equipment and coal combustion for on-site energy production. Even more concerning are the emissions from the end use of the coal, which is mostly exported to China: 22 633 789 tonnes of CO<sub>2</sub>e per annum.

The ESIA for the Oyu Tolgoi mine failed to provide quantitative information on the social costs of Oyu Tolgoi's GHG emissions. A review of the OT ESIA by ELAW<sup>7</sup> concluded that the present-day value of the project's lifetime social costs based on the Stern Review would be nearly \$1.5 billion,<sup>8</sup> a figure that "ought to weigh heavily on government decision-makers and investors" interested in financing the project.

The Bank has intentions to support rehabilitation of the aging power infrastructure (p.22), which may be useful bearing in mind the critical air quality in the capital, the unsatisfactory state of facilities and heat provision for the population. The Asian Development Bank (ADB) calculates that well over 60 percent of the population live in urban centres, with between 800,000 and one million people in the capital. Ger settlements epitomise spontaneous and unplanned urban growth around the outskirts of the capital and there are plans to address

<sup>6</sup> In 2009 it invested EUR 14 million in an equity investment in Energy Resources; in 2010 it provided a loan for a coal washing plant to the same company for EUR 89.5 million and in the same year it provided a loan of EUR 11.1 million to Leighton Mongolia contract mining.

<sup>7</sup> *Evaluation of the Environmental and Social Impact Assessment (ESIA) for the Oyu Tolgoi Copper and Gold Project* by Mark Chernaik & Heidi Weiskel, Staff Scientists at Environmental Law Alliance Worldwide U.S., p 16.: <http://bankwatch.org/sites/default/files/OT-ESIA-review-Annex2-Dec2012.pdf>

<sup>8</sup> Stern, N. 2007. *The economics of climate change: The Stern Review*. Cambridge: Cambridge University Press. This quantitative method was adopted by the World Bank in the Eskom power project in South Africa and uses a value of \$29 per ton of CO<sub>2</sub> for a calculated 1,349,798 ton output during construction and 1,857,019 ton output for each year of production for 27 years, as defined by Chapter C2 of the ESIA.

<sup>5</sup> <http://bankwatch.org/public-private-partnerships>

this development and continued population growth – to improve “Ger” area with provision of basic infrastructure such as water supply, sewerage, drainage, road, etc., to improve infrastructure to meet with rapid population growth and to increase efficiency of services in the urbanized area. If new housing areas are to be built, they should be energy efficient and effective. Thus, the demand side efficiency and policy dialogue in it is crucial. In contrast to other countries, where we would not see a role for the EBRD in the residential housing construction sector, its involvement here in setting up high energy efficiency standards could be very useful.

*Recommendations:*

- The poor **climate change description** in the Country Strategy **should be fixed and relevant information added** to show the complete picture in the country.
- The Bank’s greenhouse gas emissions calculations are problematic as they are concerned with per unit savings, rather than lifetime or total cuts for the operation and only **evident and significant proven GHGs cuts can justify the Bank’s involvement** in projects.
- The Bank’s **participation in rehabilitation** of the existing CHP **should not lead to the increase of capacities** of the existing units.
- The Bank should **concentrate on demand-side energy efficiency and savings**. At the policy level the EBRD should support research in Mongolia on energy efficient housing.

### Development of renewable energy

The development of renewable energy is included under the critical infrastructure strategic orientation, but it deserves a separate strategic orientation with the targets and goals as the resources are “largely untapped”. The National Renewable Energy Programme of Mongolia (2005–2020) foresees a renewable energy capacity target of 452 MW in 2020<sup>9</sup>.

Mongolia has enormous wind power resources with good-to-excellent wind resources equivalent to 1,113,300 MW of wind electric potential, which is more capacity than China currently has.

<sup>9</sup>[https://iref.or.jp/images/pdf/20120309/9March\\_REvision2012\\_keynote\\_tsagaan.pdf](https://iref.or.jp/images/pdf/20120309/9March_REvision2012_keynote_tsagaan.pdf)

The Salkhit Wind Farm will be coming operational in 2013 and has a capacity of 50 MW. The EBRD’s involvement in the project was important and the bank should continue to support more such projects.

*Recommendations:*

- All projects where the EBRD is involved must have **properly assessed energy sources with potential renewable energy options considered**.
- Devote a **separate section to the renewable energy with an indepth opportunities description**, and define it as a **priority strategic orientation**.

### Environmental Implications of the Bank’s activities

The Strategy does not give adequate treatment to environmental implications of the bank’s activities, and gives the impression of there being no significant impacts. However there are huge implications especially in energy and natural resources and this needs to be reflected. For example, investing in the three biggest mines within the South Gobi Region within 200 km radius (Ukhaa Khudag coal mine (part of Tavan Tolgoi), Tsagaan Suvarga copper mine, and Oyu Tolgoi gold and copper mine), the EBRD should have had an assessment of the cumulative impacts of these mines and infrastructure on the biodiversity and water and promote in its clients a proactive approach in preventing the negative impacts. As the bank’s handling of these projects regarding the availability and sharing of water resources and cumulative impacts was not adequate in these cases, it needs to be made clear in the Strategy how the bank will address the issue in the future.

The EBRD has so far not ensured that its client implements the best environmental and public consultation and participation standards.

Oyu Tolgoi is a globally significant copper-gold mine in the South Gobi, Mongolia. The overall construction of the OT project was reported to be 82.2 percent completed at the end of April 2012 as it has been proceeding for the last two years and the first commercial production is to be expected in the first half of 2013. However, the ESIA meeting international standards was disclosed for public consultations only at the end of summer 2012. This project in a desert entails a whole range of social and environmental potential problems that concern the local population – water availability and sharing issues, biodiversity impacts, resettlement of herders, the cumulative impact of the mushrooming mining projects in the Gobi Desert within a 200 km radius and the loss of

the baseline conditions before the project appraisal etc. Thus, the EBRD's policy provisions are being violated. The operational management plans that are crucial part of the ESIA have still not been disclosed to the public.

*Recommendations:*

- The Strategy part on the environmental implications of the Bank's activities must be broadened and encompass the complexity of the environment the Bank's clients are operating.
- The EBRD did not ensure the best international environmental principles being implemented by its client at Oyu Tolgoi mine and this must not be repeated.
- The **deep aquifers** are a crucial part of the Gobi desert ecosystems and the **water use for the mining companies without proper public assessments of total water use and how this will be divided between mining and other uses is highly inappropriate and must be revised** by the EBRD. Comprehensive water research and monitoring studies must be disclosed and consulted.

## Social implications of the Bank's activities and gender

The brief 1 paragraph description of the social issues in Mongolia particularly with the Bank-related project is not sufficient. Historically the Mongolian population has been pastoralist and nomadic. In spite of being a geographically large country with vast pasturelands, the carrying capacity of the Mongolian steppe is limited. There is some evidence that the current size of the national herd is near the limit<sup>10</sup>. Thus, the land taken by the mining companies and its infrastructure often intersect nomadic -areas, which are being polluted.

With regard to the Oyu Tolgoi project a complaint to Compliance Advisor Ombudsman (CAO) of the IFC<sup>11</sup>, the other project lender, was filed by nomadic herders, with the support of OT Watch, a national NGO, and Gobi Soil, a local NGO, on behalf of nomadic herders who reside and/or raise livestock close to the project site with concerns about the project's use of land and water, which disrupts their

nomadic way of life, and puts in jeopardy indigenous culture and livelihood. The complainants contend they have not been compensated or relocated appropriately, and question the project's due diligence, particularly around the issue of sustainable use of water in an arid area.

Our main interest in gender-related issues is how the Bank plans to improve its assessment of the gender impact assessment for mining projects in Mongolia as this so far has not been done satisfactorily.

*Recommendations:*

- The **nomadic culture and lifestyle require a more indepth description in the strategy, with a greater understanding of the issues**, as they are the most vulnerable and affected by the mining activities and infrastructure.
- **Gender impact assessment experience and lessons learned from Mongolian mining projects** is of interest and **should be included**.

<sup>10</sup> <http://www.un.org/depts/escap/pop/journal/v11n4a2.htm>

<sup>11</sup> [http://www.cao-ombudsman.org/cases/case\\_detail.aspx?id=191](http://www.cao-ombudsman.org/cases/case_detail.aspx?id=191)