

## Pointers for the EBRD's forthcoming mining sector strategy

For more information

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**B**ankwatch believes that the EBRD, as a public sector institution with a mandate not only to promote transition, but also sustainable development, needs to develop a mining strategy with the following five main goals:

- Reducing the commodity dependence suffered by many transition countries.
- Significantly reducing CO2 emissions in transition countries.
- Addressing the legacy of environmental pollution, public health problems in mining regions, and worker safety issues in mines.
- Ensuring fair sharing of benefits for affected communities and the broader public and addressing social issues during the mining cycle (including mine closure).
- Modernisation of mining technology in an environmentally acceptable way.

Of these goals, there has mainly been progress in investing in restructuring and innovations in order to ensure profitable operation and continued employment for mining communities. However the other goals have remained elusive, and serious consideration is needed of how the EBRD can best ensure that they are achieved.

As for reducing commodity dependence, there are no easy answers and the EBRD's approach to this needs to be agreed on an intersectoral level. However it is clear that financing several mining projects in one country, as has been the case in Mongolia, is not contributing to this goal. Therefore the mining strategy needs to identify countries which are over-dependent on commodities (or may become so) and de-prioritise them for investments into mining and infrastructure related to mining. At the same time other EBRD departments need to look into more non-commodity projects to finance. Excellent transition impact could be achieved by projects that provide alternative employment in former or declining mining areas.

Similarly, reducing CO2 emissions needs to be achieved throughout every sector. In the mining sector this mostly concerns coal mining. A traditional view of transition would hold that making the coal sector more competitive would be a legitimate goal for the EBRD. However this contradicts another crucial EBRD goal of promoting a transition to a low-carbon society. The EBRD needs to make renewable technologies competitive, not coal. It is often objected that many of the transition countries have coal and they are going to use it anyway: That may be so, but it is not the function of public money to finance them in doing this.

Environmental remediation and improvement of the living conditions of local communities and working conditions of miners needs to be a clear priority for the EBRD. The recent tailings disaster in Kolontar, Hungary has brought home more than ever the scale of this problem and

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the impossibility of moving towards a sustainable and profitable mining sector without addressing such risks. However if significant results are to be achieved, this will require improvements in the assignment of responsibilities between the state and investors, and among investors that operate in the same area. The EBRD supports a number of remediation/improvement projects, however, it has yet to clearly demonstrate the success of these investments. This points to a need to strengthen client obligations in providing timely and clear information on the investments carried out and concrete improvements achieved.

One practical suggestion would be to make transparent the Stakeholder Engagement Plans and the Environmental Action Plans (or ESAPs) related to investments in the mining sector. There is little justification for keeping these plans confidential. Their release and consultation with interested stakeholders will ensure that they will address real needs effectively and in a manner that is acceptable and satisfying to the affected communities.

Sharing the benefits of mining projects is another goal that has proven elusive. At the very minimum, the EBRD's projects should do no harm to local people. All too often the EBRD relies on the imperfect decision-making mechanisms in our countries, which result in imperfect projects being approved without careful consideration of alternatives and without proper public information and consultation procedures. It is therefore imperative that the EBRD ensures that its projects – even when ranked as B category projects – are subjected to the best possible scrutiny of state institutions, local communities and the interested public. This is especially relevant for mining operations that are in which there has been considerable public interest – in these cases the EBRD should consider including interested stakeholders in the due diligence stage. This is particularly vital in the mining sector, with its heavy environmental and social impacts.

However, mining should also go beyond doing no harm and bring real improvements to the lives of

local people and the wider public in the relevant country. Without this, mining risks contributing to social instability, which threatens to bring reversals in transition, particularly the transition to democracy. Therefore EBRD should assist local communities in the development of legal and financial arrangements that would give them fair sharing of benefits from projects. Such arrangements would need to be fully transparent and publicly monitorable.

Additionally local communities and communities living downstream from mining operations should be given sufficient guarantees against future risks, as well as financial provisions for dealing with post-closure pollution. The EBRD and mining investors should work together with national and local authorities to put aside funds for addressing environmental problems that may arise long after concession contracts and the financial revenues from a mine are over.

Finally, modernisation of mining technology is necessary across the region. However the EBRD should contribute to it only where it does not collide with other goals. In the field of environment, the EBRD needs to be aware of the limited capacity of public authorities in monitoring and enforcement of environmental legislation, and to take a precautionary approach to technologies which bring potential environmental risk. The most visible example has been the cyanide leaching of gold. This technology has proven benefits, but at the same time carries significant risks for the environment and human health. The 1998 accident when two tonnes of cyanide and sodium hypochloride spilled into the Barskoon river in Kyrgyzstan is only one illustration of these risks. The infamous Baia Mare cyanide accident from January 2000 in Romania, which devastated the Tisza river in Hungary, is another. Smaller accidents are another point of concern, as they may pass unnoticed by state authorities, thus preventing adequate interventions for clean up, environmental and human health protection. Bearing this in mind, the European Parliament this year voted overwhelmingly for a general ban on the use of cyanide mining technologies in the European Union

by 2011.

Other technological solutions in mining proposed by the EBRD's clients can also be deficient – eg. the flawed design of the Kumtor mine which assumed the growth, not decline of the glacier, and technological improvements can be limited by inadequate management – eg. leaving dry tailings on the new model tailings facility, which was the case with the Geganush TMF of Deno Gold in Armenia at the time of Bankwatch's visit in 2009.

## Recommendations

If the EBRD wants to support not only transition, but a transition to a safer and sustainable future it needs to:

- Restrict financing for mining and mining infrastructure in commodity dependent countries and redouble efforts to support other sectors.
- Stop financing coal mining.
- Stop acquiring equity stakes in companies investing in coal or having plans to do so.
- Restrict its activities in the coal sector exclusively to:
  1. improvements of environmental and social standards – for example health and safety – as long as they do not result in the prolongation of the facility's operation or increases in production,
  2. support for closures and decommissioning of existing coal mines.
- Prioritise environmental remediation and worker safety investments.
- Improve monitoring and reporting to the public on the benefits for affected communities from mining projects, including full disclosure of results to affected communities.
- Avoid the phasing of projects and combining environmental remediation with expansion in projects.
- Release and consult with interested stakeholders Environmental and Social Action Plans and Stakeholder Engagement Plans.
- Review its environmental categorisation of extractive industries projects.
- Only finance projects for which formal information and consultations were carried out with all affected or potentially affected communities, according to the legal requirements of national and international legislation (eg. the Aarhus and Espoo conventions).
- Reduce reliance on project promoters' information and actively seek more independent input.
- Establish “no-go zones”, eg. no mining projects on glaciers, Natura 2000 networks, IUCN Category I-IV protected areas, UNESCO World Heritage Sites, ancient forests as defined by the FSC and areas identified in the World Bank Extractive Industries Review.
- Not finance projects using cyanide leaching technology in line with the European Parliament's May 2010 resolution.
- Not finance projects where the EBRD is unable to demonstrate significant additionality in term of addressing environmental and social issues related to the project and/or where there is private funding available for such a project.