

## FACILITY BACKGROUND

- 1.1 During the first decade of the twentieth century, driven by robust demand from developing economies, the global price of non-renewable commodities reached record levels. Aware that LAC is endowed with some of the world's largest oil, gas, and mineral resources deposits, major investment flows targeted the region. Investments in the extractives sector yielded significant benefits for the regional economy, fostering the increased collection of taxes and royalties, construction of new infrastructure, and a host of economic activities ancillary to extractive projects.
- 1.2 However, the development of oil, gas, and mining industries also created negative perceptions and impacts, including social conflicts and environmental damages. Today, the cost of doing business in the extractive sector is rising and plans to develop natural resources are often met with scepticism. Furthermore, the recent cooling of the global economy has led to cuts in commodity prices and exposed the unpreparedness of some LAC countries to navigate the economic downturn. At the same time, the new scenario creates the political conditions for activities that foster investment and strengthen the economic integration—amplify the benefits—of extractive activities. There is a growing demand to support the efforts of countries, industry and civil society in harnessing the wealth of the extractive industries in the LAC region so that the benefits are shared, negative impacts are minimized and innovative, sustainable models are promoted.
- 1.3 Aware of these needs, the IDB initiated a process in early 2014 of internal and external consultation with key stakeholders that was intended to generate critical thinking about the path forward for the Bank with respect to the extractives sector. At the heart of this effort was a series of three workshops with representatives from leading firms in the sector (both mining and oil & gas), civil society organizations (CSOs) and LAC Governments that were intended to increase the Bank's understanding of the challenges and opportunities posed by greater development of extractives activities in the region. On the basis of this input and a review of its efforts in the extractives sector, the Bank outlined an [Action Plan for the Extractive Sector](#). This Action Plan identified a set of strategic priorities for improving the conditions for long-term responsible investment, the scaling of positive economic impacts, enhanced management of environmental and social risks, and fostering of constructive dialogue among the key stakeholders in the LAC region. Also, It supported the dialogue between IDB authorities and the Canadian Government on issues of the extractives sector.
- 1.4 CANEF reflects information gathered through these seminal external engagement efforts and fruitful engagement with the Government of Canada.
- 1.5 Canada is a country with great mineral wealth as well as the country of origin for many leading extractive companies active in LAC. Its society in general and its government in particular, are involved in multi-stakeholder policy dialogues on Corporate Social Responsibility (CSR) practices and the impact of its companies abroad. As a result of these engagements, Canada has supported a number of policy and institutional developments –official CSR policy, Government's "Building the Canadian Advantage: A CSR Strategy for the Canadian International Extractive Sector; the Office of the Extractive Sector CSR Counselor; adherence to the

- Extractive Industries Transparency Initiative; to name just a few. CANEF will seek to complement these efforts. GAC is also involved in initiatives such as the Andean Regional Initiative for Promoting Effective CSR (public-private partnerships for social development) and supports the Intergovernmental Forum on Mining, Minerals, Metals and Sustainable Development (IGF); among others.
- 1.6 The Canadian Government has achieved success in its experiences collaborating with the IDB. Canada's involvement with the IDB predates its joining as a member country: in 1964, it established the Canadian Fund with the equivalent of US\$47.2 million to support investments in physical infrastructure in Latin American countries. In recent years, as part of its diplomatic strategy for the Western Hemisphere, Canada has continued to strengthen its links with its LAC neighbors and with the Bank.<sup>1</sup> Particularly relevant to the extractive sector, the Canadian government reaffirmed its commitment to promoting transparency and accountability in the extractive industries in LAC in 2014. The Government of Canada contributed CAD\$10 million to the IDB Transparency Trust Fund (TTF). With this contribution, Canada joined TTF donors Norway and MasterCard in supporting innovative approaches to strengthening transparency in LAC, including in the extractive industries. Established in 2007, the TTF has given rise or supported catalytic interventions in several countries, including Colombia, Brazil, Ecuador, Trinidad and Tobago, Guyana, and Panama, which combined, amount to approximately US\$490 million. Technical cooperation projects supported the reinforcement of Colombia's energy sectors, the raising of transparency standards in the region's financial institutions, and the strengthening of audit agencies in Brazil, El Salvador and Jamaica, among others.
- 1.7 CANEF will seek to leverage these successful experiences for the benefit of the citizens of Latin America and the Caribbean by helping address outstanding issues in the extractive sector, and further increasing the visibility of Canadian commitment towards a sustainable industry as well as efforts to improve lives in the LAC region. In implementing this Facility, the IDB will actively look to work with the above and other relevant Canadian initiatives, institutions (i.e. Mining Association of Canada; Prospectors and Developers Association of Canada, etc.) and extractive companies.

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<sup>1</sup> In 2001 it provided the equivalent of US\$11.2 million to fund the Canadian Technical Cooperation Fund, which financed consultancy services with an emphasis on social reforms. In 2003, the Canadian Government established the IDB-Canada Trade Fund, which finances the preparation of trade-related projects. In 2008, as the global financial crisis gripped the region, Canada boldly doubled its contribution of callable capital on a temporary basis, allowing the IDB to step up its lending. And during the following two years Canada played a leading role in the negotiations to conclude the IDB's Ninth General Capital Increase. In addition, Canada is a significant contributor to the IDB's Multilateral Investment Fund, a leading promoter of microfinance in LAC. Since 1993 the MIF has backed more than 1,000 projects in this region, mobilizing more than US\$2.2 billion.