

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

CANADIAN FACILITY FOR THE EXTRACTIVES SECTOR (CANEF)
(RG-X1262)

TECHNICAL COOPERATION DOCUMENT

This document was prepared by the project team consisting of: Ramon Espinasa, Team Leader (INE/ENE); Tomas Serebrisky (INE/INE); Miguel Aldaz (ORP/PTR); Claudia Ogliarolo (OPR/GCM); Malaika Masson, Carlos Sucre, Stephanie Suber and Martin Walter (INE/ENE); Flavia Milano (VPC/VPC); Genevieve Beaulac and Renaud Tahon (VPS/ESG); Juan Cruz Vieyra (IFD/ICS); Helena Piaggese (INE/RND); Natalia Laguyas and Elizabeth Boggs Davidsen (MIF); Angel Marces Ticeran (SCF/CFI); Andrea Monje (SCL/GDI); Christopher Barton (EXR/CMG); Arturo Zaragoza (LEG/CLA); Maria Eugenia Roca (VPC/FMP); Mónica Lugo Moreno, Maria Elisa Arango Londoño and Liza Lutz (LEG/SGO).

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CANADIAN FACILITY FOR THE EXTRACTIVES SECTOR (CANEF)

I. BASIC INFORMATION

▪ Country/Region:	Regional
▪ TC Name:	Canadian Facility for the Extractives Sector (CANEF)
▪ TC Number:	RG-X1262
▪ Team Leader/Members:	Ramon Espinasa, Team Leader (INE/ENE); Tomas Serebrisky (INE/INE); Miguel Aldaz (ORP/PTR); Claudia Ogliastro (OPR/GCM); Malaika Masson, Carlos Sucre, Stephanie Suber and Martin Walter (INE/ENE); Flavia Milano (VPC); Genevieve Beaulac and Renaud Tahon (VPS/ESG); Juan Cruz Vieyra (IFD/ICS); Helena Piaggese (INE/RND); Natalia Laguyas and Elizabeth Boggs Davidsen (MIF); Angel Marces Ticeran (SCF/CFI); Andrea Monje (SCL/GDI); Christopher Barton (EXR/CMG); Arturo Zaragoza (LEG/CLA); Maria Eugenia Roca (VPC/FMP); Mónica Lugo Moreno, Maria Elisa Arango Londoño and Liza Lutz (LEG/SGO)
▪ Beneficiary:	IDB Borrowing Member Countries
▪ Executing Agency and contact:	The IDB through the Infrastructure and Environment Department (INE/INE) ¹
▪ Donors providing funding:	Government of Canada ² (Global Affairs Department – GAC)
▪ IDB Funding Requested	CAD20,000,000 ³
▪ Local counterpart funding:	N/A
▪ Disbursement period:	66 months (Execution period: 60 months)
▪ Required start date:	March 2016
▪ Types of consultants:	Firms and individual consultants
▪ Prepared by Unit:	Energy Division (INE/ENE)
▪ Unit of Disbursement Responsibility:	INE/INE
▪ TC Included in Country Strategy:	N/A
▪ TC included in CPD:	N/A
▪ GCI-9 Sector Priority:	Institutions for Growth and Social Welfare and Protect the environment, respond to climate change, promote renewable energy, and ensure food security

II. OBJECTIVES AND JUSTIFICATION

- 2.1. The objective of the project “Canadian Facility for the Extractives Sector” (CANEF) is to support the promotion of innovative and sustainable solutions for challenges in the extractives sector in Latin America and the Caribbean (LAC) that contribute to social, environmental and economic sustainability. The specific objective of CANEF is to

¹ The Bank will be the Executing Agency of the Facility. The activities (subprojects) to be financed under Components 1 and 2 may be executed by other eligible entities, as described in paragraph 4.1-4.5 of this document.

² Resources to be provided by the Government of Canada, through its Global Affairs Department (GAC), will be administered by the Bank through a non-reimbursable Project Specific Grant (PSG). GAC resources will be available once the Bank has entered into the corresponding Administrative Arrangement, the funds are received by the Bank and they are converted into U.S. Dollars. The PSG will be administered by the Bank pursuant to document SC-114.

³ The contribution of the Government of Canada will be made in Canadian Dollars, and will be converted into US Dollars at the time of the reception by the IDB.

support the generation of strategic regional public goods that: (i) foster long-term perspectives for sector development and responsible investment, and improve stakeholder collaboration and institutional strengthening; (ii) provide technical expertise and resources to tackle sector issues; and (iii) facilitate knowledge and technology exchanges. In addition, CANEF will support the design and implementation of integrated activities in at least three countries ('Development Compacts') aimed at strengthening resource governance. Compacts will support (i) strengthening regulatory frameworks; and (ii) the improvement of information management systems infrastructure. To achieve these objectives, CANEF will finance the implementation of technical assistance subprojects and activities on a non-reimbursable basis, selected and approved according to the technical criteria set forth in the Program Operations Manual (POM) (see ¶3.8).

- 2.2. The Facility aligns with the IDB's GCI-9 priorities on Institutions for growth and social welfare, and on protection of the environment, responding to climate change, promoting renewable energy, and ensuring food security, by supporting activities to strengthen institutions and foster improved social and environmental governance and sustainability. It benefits IDB borrowing member countries, with an emphasis on resource-rich⁴ countries in the LAC region.
- 2.3. The LAC region holds significant natural resource endowments and produces a substantial share of the global production of minerals and hydrocarbons. It is the world's leading source of metals and its second most important source of oil (EIA 2015, USGS 2014). Beyond the volatility of commodity cycles, demand for the region's resources is projected to continue increasing in the future: in addition to traditional western trade partners, emerging markets are expected to ensure long-term demand for its resources (Espinasa et al. 2015). LAC resource-rich countries are key global destinations for extractives investment, which has contributed to the development of associated infrastructure and human capital, technology spill-overs, and upstream & downstream enterprise development. Natural resources are one of the pillars of economic growth in the region, providing fiscal revenue, foreign trade, and economic value-added. In 2013, fuels and mining products accounted for 40% of total South and Central American exports, compared to a global average of 22% (UN 2014). Natural resources accounted, in average, for one third of government revenues in Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Peru, Trinidad & Tobago, and Venezuela in 2012 (ECLAC 2013). After several years of continuously increasing investments, recent trends in commodity prices and socio-environmental impacts have increased the interest of stakeholders to understand and act upon the factors needed to ensure extractives foster environmentally sustainable socio-economic prosperity.
- 2.4. Since 2003, the Bank has channeled an estimated US\$880 million in technical assistance in the sector: IDB resources and co-financing have facilitated private and public investment for a total exceeding US\$4.2 billion (see [IDB recent projects](#)). The Bank has supported its members on the following areas: (i) creating enabling conditions for investment; (ii) enhancing operational effectiveness; and (iii) socio-economic impact evaluation and monitoring capabilities. Bank country

⁴ The IMF Guide on Resource Revenue Transparency (2007) categorizes countries as mineral- and hydrocarbon-rich countries when they meet "either of the following criteria: (i) an average share of hydrocarbon and/or mineral fiscal revenues in total fiscal revenue of at least 25% (...) or (ii) an average share of hydrocarbon and/or mineral export proceeds in total export proceeds of at least 25%..."

beneficiaries have requested that IDB explore additional opportunities for providing support in the sector. To better understand stakeholder expectations, IDB have engaged key groups —civil society organizations, industry, and government. Experiences in the sector and consultations highlighted challenges at the regional level, including: (i) institutional weaknesses that hinder performance and competitiveness; (ii) insufficient alignment of long term resource-development strategies; (iii) opportunities for leveraging private extractive investments; and (iv) a need to refine, systematize, and transfer knowledge to enhance resource-based growth strategies. Stakeholders have requested IDB support to: (i) improve coordination to better align resource-based development strategies; (ii) support decisions with high-quality information and institutions; (iii) empower actors by clarifying the roles of the state, civil society, and industry; (iv) reduce regulatory and institutional instability and uncertainty; and (v) strengthen economic integration –and amplify the benefits– of extractive activities (IDB 2015) (see [Facility Background](#)).

III. DESCRIPTION OF ACTIVITIES/COMPONENTS AND BUDGET

- 3.1. To achieve its objectives, CANEF will finance technical assistance activities organized under three components: (i) strategic regional public goods; (ii) ‘Development Compacts’ (integrated activities aimed at strengthening resource governance); and (iii) governance and monitoring of the Facility.
- 3.2. **Component 1. Producing strategic public goods.** This component will finance region-wide technical assistance activities relevant for countries in the LAC region, designed and implemented as individual projects to:
 - a. *Foster shared, long-term perspectives for sector development and investment:* the Facility will support the development of dynamic decision-support and relevant information resources and analysis and dissemination tools containing quantitative and qualitative data on mining/oil & gas potential in the region. It will also foster critical information on institutions, local communities’ issues (including gender-equality and empowerment), infrastructure, energy and water resources, land-use/titling, conservation and environmental issues, commodity prices, revenue and investment, among other datasets. Generated knowledge would be presented in a user-friendly way, such as digital maps and internet-accessible platforms, and enable transparent long-term integrated planning and long-term impact assessment and decision-making.
 - b. *Support targeted technical research:* activities will focus on macro-fiscal issues, public management in resource-rich settings, public-private partnerships for infrastructure, industrialization and local economic development strategies (incl. economic diversification, climate change and environmental, social and economic sustainability impacts, technological innovation, and institutional and human resources capacity development. These knowledge products will help assess the feasibility and guide the implementation of public policy initiatives and private sector projects.
 - c. *Improve stakeholder dialogue and expert networking:* activities oriented to knowledge exchange between the industry, communities and the government. This will include technical workshops, dissemination of operational and regulatory standards and technology, as well as building capacity activities dedicated to empowering women and disadvantaged groups in the decision-making process.

- 3.3. **Component 2. Developing and implementing Development Compacts:** the Facility will finance a set of pilot activities in at least three countries oriented at strengthening resource governance domestically and regionally. Technical assistance activities will be oriented to:
- a. *Enhance regulatory frameworks and resource governance capacity:* the Facility will finance activities that contribute to the strengthening of extractives sector (and related sectors) legal and regulatory frameworks, alignment of policies and stakeholder strategies, and implementation of associated capacity-building programs at country and regional level. As part of these efforts, it will support stakeholder coordination and information exchanges, and integrated resource governance initiatives.
 - b. *Improve information management systems for resource governance:* the Facility will support activities that contribute to the generation and dissemination of high-quality information resources and knowledge (e.g. on production and production plans; revenue streams and management; natural resources, infrastructure and ecosystems; added value and value chains; social and environmental issues; etc.) to enable stakeholders to engage in constructive dialogue and make evidence-based forward-thinking decisions at all stages of extractive sector development. The Facility will also support the enhancement of resource information governance infrastructure, including information systems and visualizations.
- 3.4. **Component 3. Facility Governance and Monitoring.** This component will finance the expenses related to the management of the Facility itself, to ensure adequate subproject design, execution and monitoring. It will finance consulting services to carry out the evaluation of the Facility and the expenses related to the supervision and monitoring of the subprojects, including travel expenses of Bank staff for such purposes. However, the resources of the Facility may not supplement the budget of an IDB department or division for routine and customary activities.
- 3.5. **Priorities and exclusions.** The development of the extractives sector varies based on the size of the country and its economy and its depth of experience with mining and oil & gas development. The needs in terms of policy, institutional capacity (sector governance and safeguards), information, etc. vary widely among 'established' (Chile, Mexico, Peru, Venezuela), 'maturing' (Colombia, Ecuador), and 'emerging' (Dominican Republic, Guyana, Suriname) extractive countries. Priority will be given to activities that: (i) address gender and diversity issues and mainstream the attention of gender and diversity issues in relevant IDB projects, (ii) contribute to mitigating environmental risks and increasing environmental sustainability, and (iii) foster long term socio-economic development. Also, CANEF will favor support for activities that contribute to improving air quality and reducing greenhouse gas emissions.

Indicative Results Matrix

GOAL: Support the promotion of innovative and sustainable solutions for challenges in the extractives sector			
Outcomes	CANEF-sponsored Outputs	Targets	Data Source
<i>Component Outcomes:</i>			
Enhanced regional and country resource governance capacity and stakeholder relations			
<i>Intermediate outcome:</i> Strengthened resource governance	<ul style="list-style-type: none"> • Sector information and knowledge on institutions, regulations, contracts, and resources. • Institutional/Regulatory strengthening initiatives (incl. international standards, initiatives such as EITI) • Technical capacity building programs (with particular attention to mainstreaming environmental sustainability and social issues) • Integrated governance tools (incl. integrated assessment/modelling, sector intelligence) 	<ul style="list-style-type: none"> • 3-8 subprojects • 10-30 activities • 10-30 activities • 10-20 activities • 5-15 activities 	<ul style="list-style-type: none"> • Project reporting and monitoring data • Government notification • Media outlets • Government documents • IDB Publications • Attendance reports from partner organizations/IDB
<i>Intermediate outcome:</i> Enhanced information management systems and cross-sector collaboration	<ul style="list-style-type: none"> • Information governance infrastructure (incl. transparency, revenue management, licensing/contracts, cadastres, etc.) • Visualization and dissemination of sector information (for increasing public awareness/stewardship, accountability, etc.) • Monitoring and reporting systems (incl. prevention; remediation; mitigation; early warning, etc.) 	<ul style="list-style-type: none"> • 3-6 subprojects • 5-10 activities • 5-10 activities • 5-10 activities 	
<i>Intermediate outcome:</i> Enhanced stakeholder engagement effectiveness	<ul style="list-style-type: none"> • Country-level and regional stakeholder engagement platforms/events • Support for established international and regional dialogue efforts 	<ul style="list-style-type: none"> • 10-30 activities • 100-1000+ beneficiaries • 5-26 participating countries 	

- 3.6. The Government of Canada expects to commit 20,000,000 Canadian Dollars to this facility, which is equivalent to US\$15,000,000 based on the exchange rate 1 US\$=1.33 CAD as of 25 August 2015. Final resources in US Dollars will depend on the exchange rate of the date when the resources are received by the Bank from the Government of Canada in Canadian Dollars and converted into US Dollars. If a significant adverse movement in exchange rates reduces the amount of US dollars contemplated in this budget from the Government of Canada, and such amount cannot be covered by the contingency line item, the activities contemplated in the project will be adjusted accordingly by the project team.⁵
- 3.7. The resources of the Facility will be exclusively used to finance technical cooperation activities. For implementation of Components 1 and 2, the Facility will finance subprojects, and the processing and approval of each individual subproject will be subject to the IDB policies and procedures. The resources of the Facility required for

⁵ Resources of this project to be received from the Government of Canada will be provided to the Bank through a PSG. A PSG is administered by the Bank according to the “Report on COFABS, Ad-Hocs and CLFGS and a Proposal to Unify Them as PSGs” (Document SC-114). As contemplated in these procedures, the commitment from the Government of Canada will be established through a separate “Administrative Arrangement”. Under such Arrangement, the resources for this project will be administered by the Bank and the Bank will charge an administrative fee of 5% of the contribution, which is duly identified in the budget of this project. The 5% administrative fee will be charged after the contribution had been received and converted into US dollars.

the overall administration of the Facility (US\$2,400,000) will be considered accessible at the time of the approval of the Facility, including resources for Component 3 (facility coordination, management and supervision, evaluations and travel), contingencies and the Administration Fee.

Indicative Budget

Activity & Component		GAC (US\$)
Component 1:	Strategic Regional Public Goods	4,000,000
Component 2:	Developing and Implementing Country-level Development Compacts	8,600,000
Component 3:	Facility coordination, management & supervision	750,000
	Evaluation and Travel	150,000
<i>Contingencies</i>		750,000
<i>Sub-Total</i>		<i>14,250,000</i>
IDB Administration Fee (5%)		750,000
Total		15,000,000

- 3.8. **Program Operations Manual (POM).** The activities to be financed by the Facility will be guided by the POM. The POM provides additional details about the technical criteria and requirements for the selection of the subprojects as well as all the description of the governance and operational structure of the Facility (see [Program Operations Manual](#)).

IV. EXECUTING AGENCY AND FACILITY STRUCTURE

- 4.1. The Bank will act as the executing agency for the purpose of the administration of the Facility.⁶ The IDB will be responsible for the supervision and implementation of the GAC resources as a Project Specific Grant (PSG) contribution. The IDB will lead implementation, programmatic oversight of the different activities and coordinate annual meetings with GAC to provide an overall assessment of the program's progress and results. The technical cooperation activities and subprojects of the IDB to be financed by the Facility (Components 1 and 2) may be executed by the Bank or by other eligible executing agencies, pursuant to the IDB Policy on Technical Cooperation, as may be amended from time to time. CANEF-sponsored subprojects must contribute to the results matrix as a condition for eligibility and the target areas described in each component. All the procurement, selection and contracting for activities financed by the Facility will be carried out in accordance with the corresponding policies and procedures of the IDB.⁷
- 4.2. The technical responsibility for the Facility will be assigned to the Bank's Infrastructure and Environment Department (INE/INE). Facility resources are expected to be executed during a period of 5 years upon the approval of CANEF,

⁶ Participation of the Inter-American Investment Corporation (IIC) in the implementation of the subprojects will be subject to: (i) the Government of Canada's internal approval and the successful negotiation and signature of an agreement between the IDB and the Government of Canada; and (ii) the approval and/or signature of the corresponding arrangements and/or agreements between the Bank and the IIC.

⁷ Contractual and staff travel will be allowed for project execution purposes, as per the provisions of the Amended & Restated Cooperation Framework Agreement between the IDB and Canada (§4.1.7.). These contributions may not supplement the budget of a Bank Department or Division for routine or customary activities.

and disbursements to be completed during a period of 5.5 years upon the same date.

- 4.3. To support donor reporting activities, the Facility will track the achievement of goals in all sponsored activities, including: (i) tracking of indicators and targets for the Facility and approved projects; (ii) monitoring and evaluating the individual operations; and (iii) preparing the mid-term and final evaluations of CANEF. The monitoring and evaluation activities will measure progress in complying with results framework indicators. The overall monitoring and evaluation framework will be developed within the applicable Monitoring and Reporting System of the Bank. At the end of the execution period, the project team will hire a consultant to conduct an independent final evaluation, which will assess the overall performance of CANEF. The project final evaluation will summarize the findings of all individual subproject evaluations.
- 4.4. The project team will be responsible for preparation and submission of annual project reports to the Donor, including audited financial reports, as agreed in the Administration Agreement and according to applicable policies and procedures. If at the end of project execution there is a positive uncommitted and unspent balance, the project team will be responsible for informing ORP/GCM to transfer the unspent balance as agreed to by the Donor and the Bank.

V. MAJOR ISSUES

- 5.1. A critical risk for the success of CANEF is the scarcity of reliable data and information. Sector information is frequently unavailable or difficult to access. The project team will leverage IDB's relationship with governments and stakeholders in the region to facilitate access to information and bridge information gaps. Project partners will engage with data collection agencies, civil society organizations, and relevant private firms to achieve its goals. When unavailable, the project will seek avenues to generate new information (creating baselines, integrating data sources, supporting data collection efforts, etc.) and support knowledge generation initiatives. Prior to the initiation of activities with or within any specific country, the team will ensure to have the prior non-objection letter from the corresponding official government authorities.
- 5.2. Extractive industries are known to have significant economic, environmental, and social impacts. CANEF is an initiative to deliver technical assistance support to stakeholders to increase their capacity to assess and tackle impacts in the sector, as well as to take advantage of the opportunities available to them. All interventions will comply with IDB social and environment safeguards (ESG) policies, and potential reputational risk associated with project externalities will be mitigated through close collaboration with the ESG Unit and IDB experts, and due diligence efforts throughout project execution.
- 5.3. In order to avoid potential overlaps with ongoing efforts from other organizations and stakeholders, priority will be given to projects that foster partnerships, leverage established expertise, and operate on the basis of a dialogue with relevant stakeholders and organizations operating in the sector. CANEF will work closely with partners to ensure that all lessons learned and knowledge generated is embedded into policy and investment decisions. It will share lessons learned about successful initiatives in a variety of countries and sectors through a variety of concrete

knowledge transfer tools, such as conferences, fora, workshops, roundtables, study tours, experts visits, and capacity-building.

VI. EXCEPTIONS TO BANK POLICY

- 6.1. There are no exceptions to Bank policies.

VII. ENVIRONMENTAL AND SOCIAL STRATEGY

- 7.1. Following ESG's project classification process requirements, it has been determined that this project falls under Category "C" (see [Safeguard Policy Filter and Safeguard Screening Form](#) and section on [IDB Social and Environmental Safeguard Policies](#)).

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/16

Regional. Nonreimbursable Technical Cooperation ATN/____-RG
Canadian Facility for the Extractives Sector (CANEF)

The Board of Executive Directors

RESOLVES:

That the President of the Inter-American Development Bank (“Bank”), or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such agreement or agreements as may be necessary for the purpose of granting a nonreimbursable technical cooperation for a sum of up to CAD20,000,000, chargeable to the resources granted by the Department of Foreign Affairs, Trade and Development (“DFATD”) of Canada, pursuant to the Administrative Arrangement entered into between the Bank and DFATD on January 29, 2016, and to adopt any other measures as may be pertinent for the execution of the project proposal contained in document AT-_____.

(Adopted on ____ _____ 2016)