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APPRAISAL REPORT

CAO Appraisal for Audit of IFC

CAO Compliance

C-I-R7-Y06-F079  
April 2007

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**Karachaganak Project  
Kazakhstan**

**Case of  
Residents in the Village of Berezovka**

***Summary***

This appraisal report responds to a complaint about the Karachaganak Project, an IFC investment. The complaint was filed by villagers in Berezovka, Kazakhstan. The CAO Ombudsman concluded that the parties were not willing to engage in a facilitated solution. The case was therefore transferred to CAO Compliance for an appraisal to determine whether the complaint fulfilled the criteria for the next step in the CAO's investigative process, an audit of IFC. The complaint raised concerns about the impact of the project on villagers' health and on their quality of life, particularly as related to the effects of emissions to air and the quality of drinking water.

Office of the Compliance Advisor/Ombudsman (CAO)  
*for the*  
International Finance Corporation (IFC)  
Multilateral Investment Guarantee Agency (MIGA)  
Members of the World Bank Group



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## About the CAO

*The CAO's mission is to serve as a fair, trusted, and effective independent recourse mechanism and to improve the environmental and social accountability of IFC and MIGA.*

The CAO (Office of the Compliance Advisor/Ombudsman) is an independent post that reports directly to the president of the World Bank Group. The CAO reviews complaints from communities affected by development projects undertaken by the two private sector lending arms of the World Bank Group: the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Fund (MIGA).

For more information about the CAO, please visit [www.cao-ombudsman.org](http://www.cao-ombudsman.org)



## 1. Overview of the CAO Compliance Appraisal Process

When the CAO receives a complaint about an IFC or MIGA project, it first refers it to the CAO Ombudsman, which works to respond quickly and effectively to complaints through facilitated settlements, if appropriate. If the CAO Ombudsman concludes that the parties are not willing to reach a facilitated solution, the CAO Vice President has the discretion to request the compliance arm of CAO, CAO Compliance, to appraise the concerns raised in the complaint for a compliance audit of IFC or MIGA. Alternatively, a compliance audit can be initiated by request from the President of the World Bank Group or the senior management of IFC or MIGA.

A CAO Compliance appraisal is a preliminary investigation to determine whether the CAO should proceed to a compliance audit of IFC or MIGA. Through CAO Compliance appraisals, the CAO ensures that compliance audits of IFC or MIGA are initiated only for those cases with substantial concerns regarding social or environmental outcomes.

A compliance audit is concerned with assessing the application of relevant policy provisions and related guidelines and procedures to determine whether IFC and MIGA are in compliance. The primary focus of compliance auditing is on IFC and MIGA, but the role of the sponsor may also be considered.

A compliance audit appraisal, and any audit that ensues, must remain within scope of the original complaint or request. It cannot go beyond the confines of the complaint or request to address other issues. In such cases, the complainant or requestor should consider a new complaint or request.

CAO compliance appraisal will consider how IFC/MIGA assured itself/themselves of compliance with national law, reflecting international legal commitments, along with other audit criteria. The CAO has no authority with respect to judicial processes. The CAO is not an appeals court or a legal enforcement mechanism, nor is the CAO a substitute for international courts systems or court systems in host countries.

The appraisal criteria are set forth in CAO's Operational Guidelines. The criteria are framed as a series of questions to test the value of undertaking a compliance audit of IFC or MIGA. The criteria are as follows:

- Is there evidence (or perceived risk) of adverse social and environmental outcomes that indicates that policy provisions (or other audit criteria) may not have been adhered to?
- Is there evidence of risk of significant adverse social and environmental outcomes that indicates that policy provisions, standards, guidelines, etc., whether or not complied with, have failed to provide an adequate level of protection?
- Is there evidence (or perceived risk) of significant adverse social and environmental outcomes where policy provisions, standards (or other audit criteria) were not thought to be applicable but perhaps should have been applied?



- Is there evidence that the application of some aspect of a policy, standard, guideline or procedure resulted in adverse social and environmental outcomes?
- Can the cause of adverse social and environmental outcomes not be readily identified and corrected through the intervention of the project team without a detailed investigation of the underlying causes or circumstances?
- Could a compliance audit yield information or findings that might better inform the application of policies (or other audit criteria) to future projects?

During appraisal, CAO Compliance holds discussions with the IFC or MIGA project team and other relevant parties to understand the validity of the concerns and to explore whether an audit would be warranted.

After a compliance appraisal has been completed, the CAO can choose only one of two options: to close the case, or to initiate a compliance audit of IFC or MIGA.

The CAO will report and disclose the findings and decision of the CAO compliance appraisal in an appraisal report in order to inform the President of the World Bank Group, the Boards of the World Bank Group, senior management of IFC or MIGA, and the public in writing about its decision.

If the CAO decides to initiate a compliance audit, as a result of the compliance appraisal, the CAO will draw up a terms of reference for the audit in accordance with CAO's operational guidelines.



## 2. Background and Concerns that Led to the Appraisal

1. IFC is financing Lukoil Overseas Karachaganak B.V. to fund a portion of its share of development of the Karachaganak oil, gas and condensate field in Kazakhstan, the Karachaganak Petroleum Operation B.V. (the Project).

2. Residents of the village of Berezovka submitted the complaint to the CAO concerning consequences for the villagers as a result of the Project. Berezovka is located approximately 5 kilometers from the Karachaganak production facilities. The complainants requested that their names remained confidential.

3. IFC's involvement started 2002, and the Project is developing in different stages. The development is ongoing.

CAO Compliance	
2004	
October 1	CAO receives a complaint from residents in the village of Berezovka. The complaint is dated August 22, 2004.
2005	
2006	
August 30	CAO Compliance receives the case for appraisal after the CAO Ombudsman finds that the stakeholders are unwilling to further engage in a process of negotiated dispute resolution.
August 30	CAO Compliance receives the case from CAO's Vice President for appraisal.
December 21	CAO Compliance receives the last clarification from the involved parties.



### 3. Scope of the Appraisal for an Audit of IFC

4. The complainants have raised specific issues in their complaint regarding:

a. *Risk of impacts on the health of villagers.* The complainants raised issues regarding their health and the impacts they believe the project has on their quality of life.

b. *Emissions to air.* The complainants have in the complaint and during the CAO Ombudsman process expressed that the concern raised regarding their health relates to emissions to air from the project.

c. *Water quality.* The complainants have in the complaint and during the CAO Ombudsman process expressed that the concern raised regarding their health also relates to deteriorating quality of drinking water from underground sources in the village area.

d. *Relocation of villagers.* The complainants seek relocation to an "ecologically clean zone" so they have "a chance to lead a proper existence." The complainants refer to national authorities decisions in relation to relocation.



#### 4. Policy Provisions Identified as Relevant

5. CAO Compliance identified the following provisions as the basis for evaluating the issues raised:

a. *Risk of impacts on the health of villagers.* The issue of health of inhabitants in a nearby village is related to the emissions/discharges from a project site, or other impacts induced by project activities. The environmental standards and discharge criteria are set by IFC in order to protect the surrounding environment and the health of people, flora, and fauna. By assuring itself that the project adheres to the relevant standards, IFC assures itself that the environment, and health of people, flora, and fauna, are protected. From a CAO Compliance perspective, provisions related to this issue in this case are therefore addressed under b. *Emissions to air* and c. *Water quality*.

b. *Emissions to air.* The IFC states that the Project is being designed to comply with World Bank Group Guidelines and Safeguard Policies, and that monitoring and mitigation plans ensure that the Project is compliant with IFC's policies and guidelines. The specific environmental and social safeguard policies and guidelines related to emissions to air from this project are specified as the "World Bank Guidelines for Oil and Gas Development (Onshore) July 1, 1998 /---/ Thermal Power Plant Guidelines, July 1, 1998," which can be found in the Pollution Prevention and Abatement Handbook 1998. This does not exclude other IFC or World Bank Group provisions from being applicable.

c. *Water quality.* No provisions identified. See 6c and 7c.

d. *Relocation of villagers.* No provisions identified. See 6d and 7d.



## 5. CAO Findings

6. The appraisal team finds the following:

a. *Risk to the health of villagers.* The issue is addressed by addressing b. *Emissions to air* and c. *Water quality.*

b. *Emissions to the air.* It is evident that in relation to emissions to air, IFC has assured itself of environmental performance by following up on the data from the comprehensive monitoring program established. This program, however, initially focused on national requirements. There are technical differences between the national requirements and the requirements set by IFC as a condition for their own involvement. It is not evident to the appraisal team how IFC assured itself that IFC's conditions were met.

c. *Water quality.* It is not evident that the quality of the potable water used by the village is arguably likely to be affected by discharges from the project. According to the information provided, there are no, or very limited, discharges from the production facilities. The distance between the production site and the village is, in the aspect of underground transportation of potential pollutants, significant.

d. *Relocation of villagers.* Relocation of villagers is in this case related to national decisions, legislation, and/or requirements, and not to IFC's performance, or IFC's requirements or conditions for involvement.





## 6. The CAO Decision

7. The CAO concludes the following:

a. *Risk to the health of villagers.* The issue is addressed by addressing b. *Emissions to air* and c. *Water quality.*

b. *Emissions to the air.* The issue related to emissions to air fulfills the criteria for further investigation in the form of an audit of IFC. Based on this appraisal report, CAO therefore proceeds by developing a terms of reference for an audit of IFC, with the scope of assessing how IFC assured itself that relevant policy provisions related to emissions to air were adhered to.

c. *Water quality.* The issue related to water quality does not fulfill the criteria for further investigation in the form of an audit of how IFC assured itself that it adhered to its social and environmental policy provisions due to the lack of likelihood that the drinking water quality is being affected by the project.

d. *Relocation of villagers.* The issue of whether or not the villagers should be relocated is a consequence of decisions by national authorities, and therefore in this case outside the scope of an audit of how IFC assured itself its provisions was met.



## 7. Overview of Scope, Provisions, Findings and Decisions

Scope of the Appraisal for an Audit of IFC	Policy Provisions Identified as Relevant	CAO Findings	The CAO Decision
a. <i>Risk of impacts on the health of villagers.</i>	Provisions related to this issue in this case are addressed under b. <i>Emissions to air and c. Water quality.</i>	Addressed by addressing b. <i>Emissions to air and c. Water quality.</i>	Addressed by addressing b. <i>Emissions to air and c. Water quality.</i>
b. <i>Emissions to the air.</i>	World Bank Group Guidelines and Safeguard Policies.	It is not evident to the appraisal team how IFC assured itself that IFC's conditions were met.	The issue related to emissions to air fulfills the criteria for further investigation in the form of an audit of IFC.
c. <i>Water quality.</i>	No provisions identified. See CAO Findings and The CAO Decision.	It is not evident that the quality of the potable water used by the village is arguably likely to be affected by discharges from the project.	The issue related to water quality does not fulfill the criteria for further investigation in the form of an audit of how IFC assured itself that it adhered to its social and environmental policy provisions.
d. <i>Relocation of villagers.</i>	No provisions identified. See CAO Findings and The CAO Decision.	Relocation of villagers is in this case related to national decisions, legislation, and/or requirements.	The issue of whether or not the villagers should be relocated is a consequence of decisions by national authorities, and therefore in this case outside the scope of an audit of how IFC assured itself its provisions was met.