

To,
The Compliance Advisor / Ombudsman
International Finance Corporation
2121 Pennsylvania Avenue NW
Washington DC 20433 USA

14/8/2012

Sub: Concerns of affected Stakeholders, Joint Complaint on the Proposed Vizhinjam Port Project.

Dear Sir/Madam,

We write to you from Vizhinjam in Kerala, India. As directly concerned stakeholders we wish to share with you our belief that the IFC in its role as that of Transaction Advisor to the Vizhinjam Port Implementation Company (VISL) has been in violation of the basic standards as governed by the World Bank Group / IFC policies on environmental and social performance standards. We attach herewith certain documents and reports and a critical analysis done to substantiate our complaint as elaborated below.

Foremost the Vizhinjam port project was initiated by the Govt of Kerala prior to 2004 with the consultant L&T Rambol as the project consultant. The same agency being involved in the Environmental Impact Assessment and Site Selection Studies raises a conflict of interest issue. IFC has not acknowledged this or acted upon this in a meaningful manner. L&T Rambol who has prepared the Techno Feasibility report and the relevant submissions made to the Ministry of Environment and Forests, Government of India in New Delhi for application of Environmental Clearance has in its analysis committed grave factual errors. IFC has not acted upon these procedural violations.

The IFC was hired in November 2009 and as a first step undertaken the complete document review of reports from previous consultants. **However IFC has failed to act upon the apparent falsifications and omission of fact by the consultant L&T Rambol in the Form 1 and Terms of Reference submitted to Ministry of Environment and Forests, New Delhi relating to presence of Endangered Species, Environmental Sensitivity and Violations of Environmental Legislations of India.** These imply the due diligence maintained by IFC in this project was far below standards mandated. The Social Impact of this project is immense. The consultant L&T Rambol has undertaken a Site Selection exercise which has factually incorrect statements and faulty assessment of the total social impacts from the proposed port. The assessment of tourism and beach resorts was factually incorrect and the cumulative impact on beach tourism in the surrounding areas from the port is expected to be extremely adverse according to the stakeholders and data in the public domain. The IFC and its Technical Consultant (Royal Haskoning) has accepted this site selection blindly after review of these errors but has failed to act in accordance with sufficient action warranted. Furthermore the Environmental and Social Impact Assessment as contracted to Asian Consulting Engineers has been void of Site Selection Analysis. These factors indicate that the IFC has accepted and built its analysis and recommendations on the flawed foundations of the Project Studies as conducted by the earlier consultant. Verification of these ground level realities and the true facts was mandated independently by the IFC.

The Economic Cost Benefit Analysis conducted by the IFC in the Preliminary Project Plan is flawed, illogical and one sided. **Without a proper assessment of the Costs involved, to portray the Project's Net Benefit to the State is gross violation of expected Professionalism.** The IFC ignores the costs to the existing sectors of Tourism and Fishing. In addition the concept of a Shadow Wage rate for calculation of Economic Benefits of Labour is unsuitable when the total jobs lost are far higher in number and total economic value. The quantification of the Costs to the already existing industries of Fishing was inadequately addressed and loss to the Tourism sector was factually incorrectly in its assessment by earlier consultants and this incorrect assessment was accepted and used blindly by the IFC. The local community in the proposed port site has also made its difficulties to the proposed project known in several instances. The implementation of the project support infrastructure road construction has resulted in ground water tables drying up and creating access issues to the residents. The road construction work has already caused financial losses to the tourism sector by way of guests deciding to leave as a result of the disturbances from construction and from the compensation paid by the affected stakeholders. The IFC should have considered these costs as part of its analysis. The indirect benefits that local residents enjoy by way of pristine natural beauty must also be counted in a meaningful Economic Cost Benefit Analysis.

The People of Kerala as represented by the State Government has employed the IFC to take up the role of Advisor for the Vizhinjam Port Project. The IFC has recommended undertaking the project under Land Lord Model. The State is now bearing the full cost of construction and risk of port ownership. The sole eligible bidder has asked for a huge grant (About 10% of the Project Cost of Phase 1). It is evident that from the earlier bids as undertaken through the Private Services model that no significant value added has come into the Project from the State's point of view under the landlord model. The entire project cost is financed by the State and the grant amount ensures the operator bears minimal risk while the revenue sharing is hardly conducive to the State's objectives. The sole bidder is hardly the best choice with a very low track record of projects executed in India in the Ports Sector. It is clear that the project as structured and with the presence of only 1 bidder has lost all meaning of market principles and competitive forces. The stance of the IFC to assist the State Government to actively consider and even accept a Bid without even conclusion of the Environmental Impact Assessment Studies is a gross violation of the expected code of conduct that the people and concerned stakeholders expect from the IFC. The due process warranted of Environmental Impact Studies has been affected both in part due to the factually incorrect data used as well as the consistent approach of the IFC to push the project to the transaction stage of bid acceptance and finalisation.

The language used by the IFC in its official submissions to the State of Kerala is an insult to the intellect of the citizens. By proclaiming the ***Sense of Economic Progress and Pride*** as expected in the non quantified benefits that citizens can expect, By advising us to call the proposed Port as ***Gods own Port*** whose costs and net financial as well as net economic benefits were portrayed in a misleading manner, questions the future legitimacy of the IFC in this role. Perhaps even more damning in itself was ***the high level economic cost benefit analysis*** that ignored costs to the local economy and livelihoods of more than one hundred thousand local residents in fishing and tourism. The IFC is engaged in recommending blindly an activity to the State Government after committing itself to maintain performance standards but has grossly failed in its duties.

In totality, the IFC has been unable to assess the project suitably with respect to the alternatives available. The project has serious viability issues and ironically the Strategic Options Report prepared by the IFC for the Government of Kerala clearly explains the financial un-viability of the project and low development linkages for the local economy. This being the case the IFC has not followed out on acting upon its own analysis done, namely recommending that assessment of alternative development projects and the suggestion of the same to the Government of Kerala. The expenditure of public funds must be compared with other development needs and activities – these include Roads, Drinking Water, Education and Waste Management. The IFC writes in the Preliminary Project Plan that assessment of the impacts on the existing communities and externalities must be assessed separately but that it remains outside the scope of their studies. This selective analysis is in dire contradiction of good consultancy practices.

We believe that as a Compliance Advisor you will undertake measures to study the matter in detail as is rightly deserved. The State of Kerala faces far greater needs than that of a financially unviable Trans-shipment Terminal Port that will destroy the Fishing and Tourism Industry of the region. The value of which is already in existence in the immediate port area as proposed currently far exceeds manifold the economic value of the proposed port project. The site selection exercises are clearly without any basis as flawed data was used. The errors of earlier consultants have not been pointed out or acted upon. The IFC should not be engaged in recommending to the State Government the benefits from this port without assessing the true Economic and Social Costs first. That is without conducting a complete Economic and Social Cost Benefit Analysis. These inactions have caused enormous wasteful expenditure to the State. The IFC should rightly recommend a thorough in-depth review including site selection of the Project before proceeding any further.

The project is likely to cost 10 to 20 % of the Annual Outlay of the State Government. This is entirely financed by debt and the project's eventual financial contribution to the public sector is substantially negative. In addition when we consider the NPV of the impacted fishing and tourism industry in the same location, the project falls into that having practically negative economic benefits and negative financial benefits. The impact on the local community involved in fishing and tourism in this location is far higher here than that of other possible locations. The construction costs are higher in this location as well as shown clearly in the studies conducted as part of this campaign. The total impact to the state is substantial as this expenditure constitutes almost one fifth of the State's annual expenditure. These factors have been grossly understated and not studied in required detail by the IFC.

The project clearly has low development benefits from a people centric approach to development as well as a challenging economic future. Instead of undertaking a carefully thought out process of Environmental and Social Impact Assessment, with vital aspects of the EIA including stakeholder consultations and public hearings still incomplete, the IFC is advising the State Government in its endeavours to consider the sole Bid received. The over emphasis on time has marginalised the voices of the affected communities and stakeholders.

Wilful blindness to the actions and irregularities of previous consultants place the IFC in an equally culpable position of reputable risk. Almost 100 Million USD of expenditure has been undertaken by the State Government post the IFC appointment. These have risen and still continues as a result of the IFC not maintaining due diligence and failing to correctly advising the State Government to

reassess the port. **The term Greenfield is unfortunately ill applied as the current scenario (base case of no port project with fishing and tourism) is an extremely economically productive one and people centric in its social organisation.** The IFC fails to correctly assess the base case of Vizhinjam.

We the people of Vizhinjam request that you consider our complaint with the seriousness it deserves. This is a life changing decision of an irreversible nature that is based on flawed analysis and illogical foundations and we have to live with it. We submit to you a discourse analysis report showing the inconsistencies and the unacceptable stance of the IFC evidenced by the IFC's text alone. We also submit a memorandum of Environmental, Social and Economic Impacts from the Proposed Vizhinjam Port submitted to the Ministry of Environment and Forests in New Delhi to make you realise the true picture of the expected Environmental and Social impacts. With the hard copy submission sent, we submit to you a disk drive with data to support our claim that Performance Standards are not met as well as an incriminating video where the port project proponent (VISL) is engaged in giving false information to the tourism stakeholders. We ask that you take all possible means to verify independently the facts stated in our submissions in any manner possible.

With Regards

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