



TERMS OF REFERENCE

CAO terms of reference for an Audit of IFC

CAO Compliance

C-I-R7-Y06-F085
June, 2007

**Karachaganak Project
Kazakhstan**

About the CAO

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

Background and concerns that Led to the Audit

The sponsor of the project is Lukoil JSC of Russia, which has a 15% stake in the Karachaganak field development in Kazakhstan through a subsidiary, Lukoil Overseas Karachaganak B.V. The project is being developed by an international consortium comprising of BG of United Kingdom (32.5% stake), ENI-Agip of Italy (32.5%), ChevronTexaco of United States (20%) and Lukoil of Russia (15%). BG and ENI-Agip are the field operators.

Lukoil's share of project costs is US\$575 million, and IFC's financing package includes: an A loan of US\$50 million for IFC's own account, a syndicated B loan of US\$75 million and a C loan for IFC's account of US\$25 million.

Karachaganak Oil and Gas Condensate Field is situated in Burlinsky district of Western Kazakhstan Oblast in the Republic of Kazakhstan. Discovered in 1979, the field has been in operation since 1984. IFC invested on January 30, 2003.

The project is expected to double crude oil and condensate production from the current (2002) 100,000 barrels/day (bbl/d) to more than 220,000 bbl/d, and to increase gas production to 1.3 billion cubic feet per day (BCF/d).¹

¹ See "Summary of Project Information" available on www.ifc.org/



A complaint to CAO 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 and how IFC assured itself that its conditions for the involvement was met. 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.

The appraisal report, released in April 2007, concluded that the issue related to emissions to air fulfilled the criteria for further investigation in the form of an audit of IFC according to CAO Operational Guidelines².

Scope of the Audit of IFC

The objective of the audit is to provide greater clarity in relation to how IFC assured itself that the emissions to air from the project were in compliance with requirements specified as conditions for IFC's investment. The overall scope is to assess the IFC oversight of the current and earlier monitoring from a perspective of compliance with audit criteria related to emissions to air, and how IFC has, over the years, assured itself that the monitoring was adequate in order to verify compliance with these audit criteria.

This also includes developing an understanding of the immediate and underlying causes for any non-compliance identified.

Audit Criteria

In a report to the Board on the proposed investment in "KARACHAGANAK FIELD DEVELOPMENT", IFC concludes that the proposed Karachaganak Project is being designed to comply with World Bank Group Guidelines and Safeguard Policies. IFC further states that environmental 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 air emissions from this project are specified as "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/ World Bank Group standards related to air emissions to be applicable, but these are the ones identified by IFC in the relevant documentation.

For this audit, the specific audit criteria are:

"Oil and Gas Development (Onshore)", Project Guidelines: Industry Sector Guidelines, The World Bank Group, Pollution Prevention and Abatement Handbook 1998 (Printed 1999).

"Thermal Power: Guidelines for New Plants", "Thermal Power: Rehabilitation of Existing Plants", Project Guidelines: Industry Sector Guidelines, The World Bank Group, Pollution Prevention and Abatement Handbook 1998 (Printed 1999).

² See Chapter 6.2 of CAO Operational Guidelines (April 2004) on www.cao-ombudsman.org for the full text



This does not exclude other IFC criteria related to air emissions that are identified as relevant during the audit, and are within the scope of verifying compliance in regard to how IFC assured itself that air emissions and monitoring thereof, to be applicable.

Approach to the Audit

The approach to the audit will be as described in the CAO Operational Guidelines (April 2004), with one exception. CAO will not, if non-conformities are identified, include any recommendations for corrective actions in the report, as specified in Chapter 8.1 of the Operational Guidelines. It is anticipated that corrective actions will, in the case of non compliance identified, be included in the formal response to the CAO audit reports that the President of the World Bank requests from IFC as defined in the 2006 updated Operational Guidelines.