



AUDIT REPORT

CAO Audit of IFC

CAO Compliance

C-I-R7-Y06-F079

March 14, 2008

**Karachaganak Project
Kazakhstan**

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

Summary

This audit report responds to a complaint about the Karachaganak Project, an IFC investment. The complaint, filed by villagers in Berezovka, Kazakhstan, 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 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. The appraisal concluded that the concerns related to emissions to air raised by the complaint fulfilled the criteria for a CAO compliance audit of IFC. This report presents the background and concerns that led to the audit, describes the scope of the audit and relevant policy provisions, discusses the evidence and other information, and presents the findings and the CAO's conclusion.

The mandate of CAO Compliance is to audit IFC/MIGA and ascertain how IFC/MIGA assured itself/themselves of project performance. Accordingly, for this case, CAO Compliance compared the evidence of how IFC assured itself of project performance against relevant conditions for IFC's involvement. This means that potential noncompliances identified by the CAO are noncompliances as to how IFC has assured itself of compliance, *not necessarily* that the project does not perform in compliance with IFC requirements.

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



Contents

1. Overview of the Process for Conducting a CAO Compliance Audit
2. Background and Concerns that Led to the Audit
3. Scope of the Audit of IFC
4. Policy Provisions Identified as Relevant
5. Audit Evidence and Information Sources
6. CAO Findings
7. The CAO Conclusion
8. Causes for Noncompliance Identified

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 Agency (MIGA).

For more information about the CAO, please visit www.cao-ombudsman.org



Acronyms

AMR	IFC Environmental and Social Performance Annual Monitoring Report
CAO	Office of the Compliance Advisor/Ombudsman
CES	IFC's Environment & Social Development Department (CES)
CO	Carbon monoxide gas
CO ₂	Carbon dioxide gas
EAP	Environmental Action Plan
EIA	Environmental Impact Assessment
ESCM	IFC Environmental and Social Clearance Memorandum
H ₂ S	Hydrogen sulfide gas
IFC	International Finance Corporation
KOGCF	Karachaganak Oil, Gas and Condensate Field
MIGA	Multilateral Investment Guarantee Agency
MPC	Maximum Permissible Concentration
NO ₂	Nitrogen dioxide gas
NO _x	Oxides of nitrogen, including NO and NO ₂
O ₃	Ozone gas
PPAH	Pollution Prevention and Abatement Handbook
SO ₂	Sulfur dioxide gas
SPZ	Sanitary Protection Zone
VOC(s)	Volatile Organic Compound(s)



1. Overview of the Process for Conducting a CAO Compliance Audit

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 or able to reach a facilitated solution, the case is transferred to the compliance arm of CAO, *CAO Compliance*, to appraise the concerns raised in the complaint for a compliance audit of IFC or MIGA. A *compliance audit* may also 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.

The purposes of auditing are to ensure compliance with policies, standards, guidelines, procedures, and conditions for IFC/MIGA involvement and thereby improve social and environmental performance.

CAO compliance auditing focuses on IFC and MIGA, and how IFC/MIGA assured itself/themselves of project performance. In many cases, however, in assessing the performance of the project and implementation of measures to meet relevant requirements, it is necessary to review the actions of the project sponsor and verify outcomes in the field.

A compliance audit 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 appraisals and audits 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 court systems or court systems in host countries.



2. Background and Concerns that Led to the Audit

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 a complaint to the CAO concerning 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. Berezovka is located approximately 5 kilometers from the Karachaganak production facilities.
3. IFC's direct involvement started in 2000, IFC received Board approval in 2002, and the Project is developing in different stages. The development is ongoing.

Timetable of Actions on the Complaint by CAO Compliance

2004	
October 1	The CAO receives a complaint from residents in the village of Berezovka. The complaint is dated August 22, 2004.
2005	
	The CAO Ombudsman works to try to resolve the complaint.
2006	
August 30	CAO Compliance receives the case for appraisal after the CAO Ombudsman finds that the stakeholders are unwilling to engage further in a process of negotiated dispute resolution.
December 21	CAO Compliance receives the last clarification from the involved parties.
2007	
April 17	CAO Compliance publishes the appraisal report
June 1	CAO Compliance publishes audit terms of reference
June 1	CAO Compliance commissions audit
June 25–30	CAO Compliance conducts site visit to Kazakhstan
October 29	CAO Compliance draft audit report finalized. Draft report circulated to IFC for factual review and comment.
2008	
March 14	CAO Compliance submits audit report to IFC for official response.

CAO Operational Guidelines stipulate that CAO audit reports and any response from IFC are forwarded to the Office of the President of the World Bank Group for clearance to disclose.



3. Scope of the Audit of IFC

4. Specifically, the complainants have raised the following issues in their complaint:
 - a) Risk to the health of villagers and their quality of life. The complainants raised issues regarding their health and the impacts they believe the Project has on their quality of life.
 - b) Emissions to air. Both in the complaint and during the CAO Ombudsman process, the complainants expressed concerns regarding their health, as related to the Project's emissions to air.
 - c) Water quality. Both in the complaint and during the CAO Ombudsman process, the complainants expressed concerns regarding their health, as related to the 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 policies and past decisions by national authorities in relation to relocation.
5. The CAO compliance appraisal report, released in April 2007, concluded that the issue related to emissions to air fulfilled the criteria for further investigation, and merited a CAO compliance audit of IFC, according to CAO Operational Guidelines.
6. 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 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 has been adequate, in order to verify compliance with these audit criteria.
7. As part of the audit, the CAO seeks to develop an understanding of the causes for any noncompliance identified: both the immediate causes and any underlying causes.



4. Policy Provisions Identified as Relevant

8. In a report to the World Bank Board of Executive Directors (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 will ensure that the project is in compliance with IFC's policies and guidelines. The specific environmental and social safeguard policies and guidelines related to air emissions from this project are specified by IFC 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 (PPAH) 1998. This does not exclude other IFC/World Bank Group standards related to air emissions from being applicable, but these are the ones highlighted by IFC itself in the relevant documentation, to be referenced in the Loan Agreement.

9. Therefore, for this CAO compliance audit, the specific provisions identified as relevant are:

a) "Oil and Gas Development (Onshore)," Project Guidelines: Industry Sector Guidelines, the World Bank Group, Pollution Prevention and Abatement Handbook 1998 (published 1999)

b) "Thermal Power: Guidelines for New Plants," Project Guidelines: Industry Sector Guidelines, the World Bank Group, Pollution Prevention and Abatement Handbook 1998 (published 1999).

In addition, the following provisions have been identified as relevant:

c) "General Environmental Guidelines," Project Guidelines: Industry Sector Guidelines, the World Bank Group, Pollution Prevention and Abatement Handbook 1998 (published 1999)

d) "Monitoring," Project Guidelines, the World Bank Group, Pollution Prevention and Abatement Handbook 1998 (published 1999)

e) "Ground Level Ozone," Project Guidelines, Pollutants, the World Bank Group, Pollution Prevention and Abatement Handbook 1998 (published 1999)

f) "Air Shed Models," Implementing Policies, Air Quality Management, the World Bank Group, Pollution Prevention and Abatement Handbook 1998 (published 1999)

g) "IFC's Environmental, Health and Safety Guidelines for Waste Management Facilities," July 1, 1998.



5. Audit Evidence and Information Sources

10. For this audit, the audit evidence used is:
 - a) Environmental Impact Assessment prepared by Kazecology–Karachaganak Development Project (1997)
 - b) IFC Minutes of Corporate Investment Committee meeting, September 11, 2000 (October 26, 2000)
 - c) Environmental Action Plan (EAP) (2002)
 - d) IFC Environmental and Social Clearance Memo (ESCM) (April 30, 2002)
 - e) IFC Report to the Board of Directors on a proposed investment in Karachaganak Field Development, Republic of Kazakhstan, May 15, 2002
 - f) IFC letter to Lukoil, April 4, 2002
 - g) Loan Agreement between Lukoil Overseas Karachaganak B.V. and International Finance Corporation, Investment Number 9953 (October 30, 2002)
 - h) IFC Environmental and Social Performance Annual Monitoring Report for 2003
IFC Environmental and Social Performance Annual Monitoring Report for 2004
 - i) IFC Environmental and Social Performance Annual Monitoring Report for 2005 and Q1&Q2 of 2006.
 - j) IFC Response to CAO Draft Audit Report regarding Karachaganak Project (November 30, 2007).
 - k) IFC Response to CAO's letter of December 19, 2007. This IFC response follows CAO's response to IFC's factual review dated November 30, 2007 of the CAO draft audit report dated October 29, 2007, including Appendixes 1–10 (January 23, 2008).

11. For this audit, other information sources used are:
 - a) Complaint Document received by CAO, dated 2004
 - b) CAO Ombudsman Assessment Report: Complaint Regarding the Lukoil Overseas Project (Karachaganak Oil and Gas Field) Burlinsky District, Western Kazakhstan Oblast, Kazakhstan (April 15, 2005)
 - c) Battelle Report on Air Quality Study in KOGCF (2006)
 - d) Audit team inspection on site in Kazakhstan, June 25–30, 2007, and subsequent back to office report
 - e) Discussions and meetings with IFC staff from September 2006 to February 2008.



6. CAO Findings

6.1 Pre-investment analysis

12. The CAO audit team examined how IFC, before the investment decision, assured itself that it had the information needed to correctly assess the Project impacts. The team also examined how IFC assured itself that the impacts would be in compliance with the requirements specified as conditions for IFC's investments. The CAO audit team finds the following:

a) The Environmental Action Plan (EAP) states that the environmental monitoring plan includes IFC requirements. However, the environmental monitoring plan refers only to national legislation. The EAP does not include such IFC requirements as the monitoring of VOCs and H₂S in process stack emissions.

b) The specification that IFC ambient air quality guidelines apply immediately outside the project boundary—defined as where the general public has access—was not taken into account in the assessment of impacts and mitigation.

c) There is no evidence of a review of stack emission details for the air dispersion model used, or a technical validation of the model. Thus there is no evidence of an assessment to ensure that the air dispersion modeling was rigorous enough to ensure that air quality impacts were accurately predicted.

d) There is no evidence that the siting of the ambient air quality monitoring locations was based on air dispersion model results, so that the sampling actually takes place at locations where maximum ambient concentrations are expected, as stated in the IFC guidelines. Thus, in this respect, there is no assurance that the air dispersion model provided assurance of compliance with IFC's guidelines.

e) There is no evidence of a diligent review of ambient air quality data available at the time of investment, or a dispersion modeling study of the existing situation at the time of investment, to assess whether or not the existing air shed was degraded. Thus there is no evidence that the requirement to consider applying additional IFC guidelines and safeguards for degraded air sheds was considered.

f) The pre-investment baseline air quality was evaluated on the basis of the ambient air concentrations of nitrogen dioxide (NO₂), sulfur dioxide (SO₂), and hydrogen sulfide (H₂S) only. The ambient air concentrations of volatile organic compounds (VOCs) and ozone (O₃) were not determined. The CAO acknowledges that assessment of ozone (O₃) can be done based on the presence of precursors. However, it is important to acknowledge the relationship and address the potential existence of volatile organic compounds (VOCs) and ozone (O₃) in the assessment. Elevated ground level concentrations of VOCs and ozone could have existed due to the prevailing oil field activities and atmospheric conditions. The presence of high ground-level concentrations of VOCs and ozone in the baseline could have warranted additional safeguards, as set out in the relevant IFC guidelines, the PPAH.



6.2 Stack emissions monitoring program

13. The CAO audit team examined how IFC assures itself that the stack emissions monitoring program is adequate to assure IFC of compliance with the requirements specified as conditions for IFC investments, and that the data reported from the monitoring program verify compliance. The CAO audit team finds the following:

a) The IFC Annual Monitoring Reports for 2003, 2004, and 2005/2006 do not report VOCs or H₂S monitoring data for stacks, as required in IFC guidelines. IFC emission guidelines require that VOC concentrations in stack emissions shall not exceed 20 mg/Nm³. IFC states that compliance is assured since the presence of VOCs in the fuel is negligible. This may not be the case, according to CAO estimates of the VOC emission concentrations, using the mass emission rates and fuel consumption data reported by IFC. Without emission monitoring, it is not possible to conclude that VOC emissions are within the requirement specified in IFC's guideline.

b) The IFC Annual Monitoring Reports for 2003, 2004, and 2005/2006 report that stack monitoring has been conducted two to four times per year. The IFC guideline requires frequent sampling until consistent performance has been established. The IFC Annual Monitoring Report for 2005/2006 shows wide fluctuations with regard to emission concentration for all pollutants monitored. The frequency of two to four times per year is therefore too low to ensure that the emission concentrations are within the requirements at least 95 percent of the time, as required in IFC guidelines.

c) IFC confirmed that there are acid gas incinerators in operation and IFC stated in its response to CAO that no emission monitoring is being carried out because of the high temperature of the flue gases. IFC stated in its response to CAO that those temperatures are "so hot that the probes will melt." IFC stated that the probes mandated by the Kazakhstan regulators were not suitable to be used at such high temperatures. (The CAO has not verified this fact but takes the IFC assertion on face value.) However, probes do exist that are capable of withstanding the temperatures that occur in incinerators. The CAO acknowledges that these probes may not be mandated by the requirements of Kazakhstan regulators. The CAO's estimates of emission concentrations, based on emission calculations and acid gas composition reported by IFC, indicate that without emission monitoring it is not possible to conclude that emissions from acid gas incinerators are within the requirement specified in IFC's guidelines.

d) The IFC Annual Monitoring Report (AMR) for 2005/2006 reports carbon monoxide (CO) concentrations exceeding national permissible concentrations. CO and VOC emissions have the same root cause (incomplete combustion). CO concentrations exceedences could therefore indicate potential VOC concentrations exceeding IFC guidelines.

e) At several places in the IFC Annual Monitoring Report for 2005/2006, zero values for CO and SO₂ are reported. Such values are not plausible and indicate a lack of adequacy and accuracy of the monitoring, or malfunctioning equipment.

f) The IFC Annual Monitoring Report for 2005/2006 reports extremely low concentrations of nitrogen oxides (NO_x) for several stacks on several occasions. This is possible only if low-NO_x burners are installed, or some form of post-combustion stack



gas treatment (so-called end-of-pipe solutions) is applied, before such gases are emitted to the air. The CAO was informed during the site visit that the power plant gas turbines (provided by General Electric) were fitted with dry low-NO_x burners. No other equipment was specified as being low-NO_x or having post combustion treatment. Such values as reported are not plausible without low-NO_x equipment and therefore are indicative of a lack of adequacy and accuracy of the monitoring, or malfunctioning equipment.

6.3 Ambient air quality monitoring program

14. The CAO audit team also examined how IFC assures itself that the ambient air quality monitoring program is adequate to assure IFC of compliance with the requirements specified as conditions for IFC's investments, and that the data reported from the monitoring program verify compliance. The CAO audit team finds the following:

a) The location of the sampling sites for ambient air quality is guided by the Kazakhstan regulations and is situated at the perimeter of the Sanitary Protection Zone (SPZ) defined by the Kazakhstan regulator. At present, this area is in the form of an irregular circle with a boundary stated in the documentation provided by IFC to be approximately 3 km from project installations. The documentation provided by IFC states that the basis for the size of the SPZ is that outside the SPZ, no exceedences of maximum permissible concentrations (MPCs)—as defined by national legislation—is expected.

b) The sampling sites are located at the eight cardinal and subcardinal points of the compass (N, NE, E, SE, S, SW, W, NW) at the boundary of the SPZ: the distance where no exceedence of maximum permissible concentration—as defined in national legislation—is expected.

c) In addition to the above-mentioned sampling sites, the IFC Annual Monitoring Reports state that sampling is conducted in ten resident settlements surrounding the installations. All the settlements are outside the SPZ.

d) Eight continuous environmental monitoring stations commissioned in 2006 are located at the boundary of the SPZ, at approximately the same locations as the above-mentioned sampling sites: at the cardinal and subcardinal points of the compass rose. Another four continuous environmental monitoring stations are located closer to the installations and were commissioned in 2004.

e) The IFC Annual Monitoring Report for 2004 identifies the four continuous environmental monitoring stations: one close to the boundary of the SPZ, in the direction of one resident settlement; and the other three located closer to the Project installations. The report states that the installations are not used to report data, but are used as internal management tools and act primarily as an early warning system and to provide data for diagnosis and investigation.

f) The Annual Monitoring Reports state that samples are collected twice a day at the eight sampling sites at the cardinal and subcardinal points of the compass rose, and that samples are collected four times a day in the ten resident settlements. All samples are to be collected as grab samples over a 20-minute period.



g) The grab samples collected at the eight sampling sites at the cardinal and subcardinal points of the compass, and the samples collected in the ten resident settlements, are analyzed off-site at a nationally certified laboratory, using a wet chemical method. The CAO recognizes that the IFC Annual Monitoring Report 2005/06 has acknowledged that the technology used has limitations.

k) There is no evidence of an assessment undertaken in order to locate the manual sampling sites, or to verify that the sites are located, where the highest ground level concentrations are expected, as stated in IFC guidelines. The automatic air quality monitoring systems introduced in 2006 are located at the boundary of the SPZ, where no exceedence of maximum permissible concentration is expected, as defined in national legislation. There is no evidence of an assessment undertaken in order to locate the sites of the automatic monitoring stations where maximum ambient ground level concentrations are expected, or where there are sensitive receptors such as population centers.

m) The IFC Annual Monitoring Reports (AMRs) refer to ambient air quality requirements as applicable outside the SPZ area. There is no reference to the IFC guideline that IFC ambient air quality requirements apply immediately outside the project property boundary, defined as where the general public has access.

o) There are no evidence of data or discussions as to how the monitoring program or mitigation efforts have addressed IFC's guideline of no offensive H₂S odor at the receptor end, other than discussion about complaints about the odor and subsequent investigations.

q) The omission of ozone concentrations in the baseline study indicates that the relevance or irrelevance of ozone concentrations was not established. Thus IFC guidelines might not have been correctly identified or met.



7. The CAO Conclusion

15. As part of its mandate, the CAO is charged with overseeing audits of IFC's social and environmental performance. The purpose of CAO audits is to ensure compliance with conditions for IFC's involvement and thereby improve social and environmental performance. The focus of an audit is on how IFC assured itself of project performance. This means that potential noncompliances identified by the CAO are noncompliances in how IFC has assured itself of compliance, *not necessarily* that the project does not perform in compliance with IFC requirements.

16. The CAO acknowledges that requirements in IFC guidelines indicate the sufficient level needed to provide assurance to IFC that the outcomes of the Project are as intended. IFC can use other methodologies, requirements, or guidelines, as long as they provide the same level of assurance that the outcomes are as intended.

7.1 Observations

17. Having conducted the compliance audit in accordance with CAO Operational Guidelines, the CAO makes the following observation:

a) The CAO observes that there is no documented evidence that IFC assured itself before investment that IFC requirements were met in regard to adequately characterizing baseline air quality or correctly characterizing the air shed. It is therefore not possible to determine whether IFC was correct in not applying additional mitigation and/or monitoring, as called for by IFC guidelines.

7.2 Noncompliances

Having conducted the compliance audit in accordance with CAO Operational Guidelines, the CAO finds the following noncompliances:

a) *Stack emissions.* The CAO finds the monitoring program and the data reported on stack emissions insufficient in order to verify compliance with IFC requirements. The omission of VOCs and H₂S in the data means that compliance with the IFC requirements cannot be demonstrated. Taking into regard the fluctuations reported in the concentrations, the sampling frequency reported is insufficient to demonstrate compliance. The CAO therefore concludes that neither the stack emissions monitoring program nor the data reported from the monitoring to date verify compliance with IFC requirements. The CAO acknowledges that IFC has a step-by-step approach to implementing a robust stack monitoring program. However, the CAO finds the pace of implementation insufficient. The CAO finds IFC's argument that the *outcome* of the ambient monitoring program provides sufficient assurance unacceptable.

b) *Ambient air quality.* The CAO finds the monitoring program and the data reported on ambient air quality insufficient in order to verify compliance with IFC requirements. The CAO recognizes the existence of the continuous environmental monitoring stations introduced in 2004 and 2006. However, the CAO does not see evidence that these stations have been located where maximum ambient concentrations outside the plant



boundary are expected, or that their locations have been verified to be at such locales, or that they are located at areas with receptors. The CAO does not see evidence that the IFC has considered the requirement that IFC ambient air quality standards apply where the general public has access. The CAO finds that the methodology of taking 20-minute grab samples and using wet chemical technology for analysis is insufficient to provide the level of assurance indicated as necessary in IFC guidelines. The CAO therefore concludes that neither the ambient air quality monitoring program nor the data reported from the monitoring to date verify compliance with IFC requirements.



8. Causes for Noncompliances Identified

17. Under its mandate, and as defined in the terms of reference for the audit, the CAO is required to develop an understanding of the immediate and underlying causes for any noncompliance identified.

The CAO found the monitoring program and the data reported on stack emissions and ambient air quality insufficient in order to verify compliance with IFC requirements. IFC stated to the Board that the Project would comply with IFC requirements.

The Corporate Investment Committee, in a September 2000 meeting, identified as a concern IFC's leverage to impose conditions on the Project to ensure that they would adopt and implement IFC environmental requirements contractually in the operation. The concern was raised since the loan agreement referencing IFC's requirements was with a minority shareholder.

The findings of this audit report support the Committee's concerns:

- a) The production-sharing agreement governing the Project does not reference IFC requirements.
- b) There are only limited signs of IFC guidelines influencing the monitoring programs. The observations and instances of noncompliance identified highlight the fact that the monitoring program as a whole mainly addresses national legislative requirements, not the provisions given in IFC guidelines.

When confronted with the noncompliances, IFC states in a January 2008 response to the CAO that: "It has been CES's longstanding practice to apply relevant World Bank safeguards and guidelines to the extent the wording of such documents enabled CES to apply the substance to private sector operations...When guidance is clearly intended for the public sector or regulator as the primary actor, CES refrained from formally introducing the document as requirement in a private sector financing context. We may have referred to them in our practice, but we have not made them part of the borrower covenant...We realize that this practice may not be obvious as it is was not clearly documented."

This practice, which has been internally established by IFC, has not been communicated to the Board or the public. The CAO finds no wording in the relevant parts of the referenced World Bank Pollution Prevention and Abatement Handbook (PPAH) guidelines that would not enable IFC to apply the substance to private sector operations. The specific guidelines identified by the CAO and disputed by IFC as applicable audit criteria relevant for determining the noncompliances are the following: "Part III, Project Guidelines" of the PPAH; a chapter concerned with monitoring of ambient air quality and monitoring of emissions to air from point sources in "Monitoring"; a chapter concerned with air emissions from commercial and industrial projects in "General Environmental Guidelines"; and a chapter concerned with the general presence of ambient ground-level ozone in "Ground-Level Ozone."