



AUDIT MONITORING REPORT

CAO Audit of IFC
CAO Compliance

C-I-R7-Y06-F079
January 29, 2009

**Karachaganak Project
Kazakhstan**

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

IFC's involvement in the Karachaganak oil and gas condensate field in Kazakhstan began in 2000, and IFC received Board approval in 2002 to extend financing to Lukoil Overseas Karachaganak B.V. to fund a portion of its share of the development of the Karachaganak oil, gas, and condensate field in Kazakhstan, the Karachaganak Petroleum Operation B.V. (the Project). In 2004, the CAO received a first complaint on behalf of residents of the nearby village of Berezovka. This complaint initiated a CAO audit in April 2007 of IFC's involvement in the Project. The audit responded to concerns raised about the impact of the Project on villagers' health and quality of life, particularly as related to the effects of emissions to air.

In April 2008, the audit found IFC to be out of compliance on issues related to how IFC assured itself that emissions to air from the Karachaganak Project complied with IFC requirements. In its official response to the CAO audit, IFC failed to substantiate actions that assured the CAO that IFC would move back into compliance. Therefore, the CAO kept the audit open and continued to monitor how IFC assured itself that the Project complied with IFC requirements.

On January 8, 2009, Lukoil ended its contractual obligations to IFC by prepaying its outstanding balance to IFC. This ended IFC's obligations to assure itself of Project performance, leaving the audit findings unaddressed.

However, IFC remained concerned, and engaged directly with the Project to verify compliance. These concerns initiated a visit by the CAO audit team to the Project site in January 2009. Regardless of IFC's contractual relationship with its clients, the CAO has an obligation to try to fulfill its mandate to assure the President and the public that IFC's policy provisions have been adhered to: that is, that no harm occurs to people or the environment. The team included members of the CAO's technical audit panel and an IFC representative. The scope for the visit was for the CAO to assure itself directly of the Project's performance by assessing it against applicable IFC requirements identified as audit criteria in the 2007/8 CAO audit.

During the site visit, the CAO audit team addressed in detail the issues that were identified during the 2007/8 CAO audit and pertinent to the Project's performance. These were related to how IFC assured itself of the:

- appropriate application of emission guidelines for incinerators
- adequacy of stack emission monitoring programs
- reporting of stack emissions
- compliance of stack emissions with IFC requirements
- adequacy of hydrogen sulfide and odor monitoring
- completeness of ambient air quality monitoring programs
- adequacy of ambient air quality monitoring programs
- adequacy of the selection of ambient air quality monitoring sites.

During the site visit, the CAO audit team assured itself of the Project's compliance with applicable IFC requirements on a majority of the issues identified during the CAO audit.

As of the date of this monitoring report, issues related to the Project's performance reporting remain outstanding in the following areas:

- reporting of stack emissions
- completeness of ambient air quality monitoring programs
- adequacy of the selection of ambient air quality monitoring sites.

On January 16, 2009, the Project committed to an action plan that, if adhered to, will close out all outstanding issues. The Project committed to act on all items in the action plan before the end of April 2009, if not earlier. The CAO will continue monitoring until it receives evidence and documentation that confirms that the agreed items have been acted upon.

The findings related to IFC's internal due diligence, IFC's assurance process, and the underlying internal IFC causes for the noncompliances identified in the CAO audit report, however, remain unaddressed.

The CAO will issue another Audit Monitoring Report in April 2009 to state whether the Project, as of that time, can verify compliance with applicable IFC requirements identified in the 2008 CAO audit report.

Office of the Compliance Advisor/Ombudsman (CAO)
for the
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