

Response to CAO Final Audit Report dated March 14, 2008

The following is IFC's response to the Compliance Advisor/Ombudsman (CAO) Final Audit Report whose purpose was to ascertain how IFC assured itself that emissions to the air from the Karachaganak project ("the Project") were in compliance with IFC's requirements, (namely the applicable World Bank Group guidelines and safeguard policies). It is important to emphasize that CAO's findings are in relation to non-compliances in how IFC assured itself of compliance against its own set of policies and guidelines and are not an indication of actual performance of the Project on the ground.

IFC's mission is to support the private sector in developing countries and thus create opportunity for people to improve their lives. In this context, IFC will strive to address together with the project operator the issues that the CAO identified to enhance the Project's beneficial impact even more. The Karachaganak project has already made a positive difference in the lives of many residents in the region and has supported economic development in Kazakhstan as a whole. The project brought numerous direct and indirect jobs, provides skills development and has transferred advanced oil and gas field technology to the region. It has also made a substantial contribution to Kazakhstan's economic development through revenue and tax income to the government. The Project employed 11,000 people during the construction phase of the field development and over 2,500 permanent jobs for Project operations, the overwhelming majority of which are Kazakhstan nationals. Moreover, the project generates long-term benefits as it purchases supplies and services locally, resulting in an economic boost of more than half a billion dollars in 2007 alone. Between 1998 and 2006, the Project has spent over \$124 million in the local administrative region on infrastructure projects such as school and hospital refurbishments and has provided significant extra funding for sponsorship and development initiatives at the local community level. Net benefits to Kazakhstan are estimated at US\$4.5 billion using cashflows from the beginning of the Project (2nd half of 2000) to the end of the Final Production Sharing Agreement in 2037. These benefits come mainly in the form of profit oil (US\$1.5 billion) and taxes (US\$3.0 billion).

IFC believes that the Project is in compliance with World Bank Group policies and is compliant with results as intended by the health, safety and environmental guidelines that are applicable to the Project and meets applicable country regulations. The Project operator has carried out substantial work to limit emissions to the air. The Project uses sophisticated pollution abatement technology and facility management procedures to control emissions. Extensive measurements taken through a monitoring system, over an extended period, show that the air quality inside and outside the facilities is safe for the workforce and local communities. At the same time, IFC is committed to helping the operator set even higher standards for good international practice and to responding to issues raised by the CAO. Specific comments relating to the stack emissions and ambient air quality monitoring program, as highlighted in the CAO report, are addressed below:

1. *Stack emissions monitoring program.* The Project operator is working on improving emissions monitoring at the emissions source, i.e. the stacks, through progressive development of the monitoring program. It is an area that has been closely followed by IFC during our annual monitoring program. Improvements have already taken place as all stacks now have sampling ports or continuous emission monitors fitted, including ports and monitors retrofitted to the older pre-existing facilities inherited from the previous operators of the Karachaganak field. IFC is committed to continuing to work with the Project operators in this area.

The stack monitoring program, until very recently, has been constrained as Kazakh authorities whose approval is needed for all equipment and methods, have only recently adopted emissions measurements at source as a monitoring tool (use of equipment and methods not mandated by the Kazakh authorities would have meant non-compliance with country laws). The Project operator is now actively working with the regulator to agree and approve additional methods in order to develop an improved stack emission monitoring program in line with good international industry practice. The Project operator has recently purchased new equipment that is to be commissioned and accepted by state authorities (including probes that can be used at all stacks). Once final agreements are in place with the government, this new equipment will be used to develop an improved monitoring program. IFC will continue to closely work with the operator and monitor developments in this area.

2. *Ambient air quality monitoring program.* The Project does not rely solely on the results of the stack emission monitoring. It is the Project's additional extensive and highly sophisticated ambient air monitoring program that provides assurance to IFC that the Project complies with our requirement that emissions result in no harm to people or the environment. The monitoring program in place is comprehensive and multifaceted and can demonstrate the positive outcomes intended by the applicable IFC guidelines. The Project has gone beyond the legally required manual sampling along the boundary of the Sanitary Protection Zone (SPZ) around the Project. The operator voluntarily undertook to do the following: (i) manual sampling in 10 field villages four times a day every day of the year; (ii) continuous sampling at 12 fixed environmental monitoring stations (EMS) that take samples of air every 20 minutes daily (four EMS are located within the SPZ and eight are located along the SPZ boundary); (iii) daily infield monitoring at fixed locations; and (iv) real time monitoring downwind of the flare during any well flaring events.

The EMSs are considered state-of-the-art technology for air quality monitoring and the Karachaganak Project was the first to bring such technology to Kazakhstan. The CAO indicates it would like to see monitoring stations located where maximum ambient concentrations are expected. While the Project's system measures air quality in the area of influence and in the local communities, IFC has discussed future targeting of sampling stations with the Project operators and will continue to engage on this issue. In addition, the Project operators are working with the regional and national authorities to adopt more sophisticated sampling and analytical measurement techniques for the legally required monitoring program.

Finally, given the complexity of the Project in terms of its scale and phased approach to development along with its location and the in-country regulatory regime, IFC recognizes the difficulties the CAO compliance team may have faced in confirming IFC assurances and decisions based on the documented information available. IFC has reacted to such situations by introducing new environmental and social review procedures in 2006 which, among many others, include steps to ensure consistency of application and documentation of records, judgments and decisions.

IFC recognizes that we have a divergent view with the CAO on the applicability of all sections of the World Bank Group Pollution Prevention and Abatement Handbook (PPAH). IFC's practice of only applying the industry specific sections of Part III was consistent, shared with World Bank and other multilateral development bank colleagues as well as consultants and the foreword to the PPAH made this self-evident. With the recent update of the industry sector guidelines carried out by IFC and

resulting in the new World Bank Group EHS Guidelines for the private sector, this is no longer a cause for concern.

Following IFC's investment in the Project, an annual monitoring program has been conducted by IFC to measure performance against IFC requirements. This program includes annual visits to the Karachaganak field and local area by IFC staff along with independent third party environmental, social, health and safety consultants. The third party consultants conduct a detailed audit and prepare an annual monitoring report on behalf of the borrower for submission to IFC. One of the key areas of focus during IFC activities has been detailed assessment of emissions to air from the Project and the monitoring of the effectiveness of air emissions abatement technologies and operational controls in place.

It is for those reasons and because of those extensive checks that IFC is satisfied by the measures the Project operators follow to manage and monitor emissions to the air. The combination of emissions control and comprehensive monitoring provides assurance that the Project is performing effectively in terms of pollution control. The Project has in place emission control measures designed into the facilities and reduction at source programs through process modification in line with applicable guidelines. Measures to further reduce emissions and monitor the results are continually implemented through specific programs. IFC believes that the outcomes are consistent with the intended effects of IFC's original policies and guidelines. At the same time, IFC will move forward constructively to address the issues raised by the CAO. IFC will continue to monitor the Project and we will work with the operator on the areas highlighted by the CAO.