



## **CAO OMBUDSMAN ASSESSMENT REPORT**

Third Complaint Regarding  
IFC's Involvement in the Russkiy Mir II  
(Tamaneftgaz) Project

May 2010

Office of the Compliance Advisor/Ombudsman  
International Finance Corporation/  
Multilateral Investment Guarantee Agency

## CONTENTS

INTRODUCTION .....	1
SUMMARY AND PURPOSE OF THE ASSESSMENT .....	1
1. The Project .....	2
2. The Complaint .....	2
2.1 Additional Issues Raised During the Assessment.....	2
2.2 Perspective of the Company .....	2
3. CAO Ombudsman Assessment .....	3
4. Conclusion .....	3

## **Introduction**

The Compliance Advisor Ombudsman (CAO) is the independent recourse mechanism for the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA). The CAO reports directly to the President of the World Bank Group. Its mandate is to address in a fair, objective, and constructive manner complaints brought by communities or individuals affected by IFC or MIGA projects, and to enhance the social and environmental outcomes of these projects.

Upon determining that a complaint meets the specified criteria for a CAO intervention, the CAO Ombudsman conducts an assessment of the situation to clarify the issues, facilitate communication between the parties about their perspectives and interests, and assist them in identifying opportunities for resolution. The assessment does not gather information to determine fault or make judgments on the merits of a complaint.

To be eligible for CAO assessment, complaints must demonstrate that:

- The complaint pertains to a project that IFC/MIGA is participating in, or is actively considering.
- The issues raised in the complaint pertain to the CAO's mandate to address environmental and social impacts of IFC/MIGA investments.
- The complainant may be affected if the social and/or environmental impacts raised in the complaint occurred.

## **Summary and Purpose of the Assessment**

This assessment is in response to a complaint filed in March 2009 by residents of Taman village regarding IFC's investment in Russkiy Mir II, a project (Tamanneftegaz, or TNG) involving development of the Taman LPG/Fuel oil terminal and a railway infrastructure. The complaint raises concerns about the impact of TNG construction vehicles on local roads and residences. According to the complaint, the company's construction vehicles are causing damage to people's homes and property, to paved roads, and to the community's general well being.

After a series of teleconferences, the Ombudsman encouraged the parties to meet directly to discuss the situation – which they had previously not done. One outcome of their discussions was an invitation by the company for the complainants to participate in a Working Group aimed at collaborative decision-making on social development issues.

The complainants agreed to participate and to bring the issue of the roads to the Working Group. The Ombudsman continued to monitor the agreement and the progress of the Working Group.

This is the third complaint filed to CAO in relation to the TNG project.

The purpose of the assessment and this report is to summarize the project and the issues raised in the complaint, and the progress of the Working Group that the parties engaged in toward resolution of the complaint.



## **1. The Project**

The Russkiy Mir II project (Tamaneftegaz, or TNG) involves an IFC loan of up to \$100 million to develop and build the Taman LPG/Fuel Oil terminal and port in the Black Sea; to purchase and expand rail maintenance facilities, purchase locomotives and rail cars, and purchase a wheel-making / spare-parts manufacturer and other rail-related infrastructure. IFC's investments consist of a \$45 million A-loan for IFC's own account, and a \$55 million B-loan for the account of B-loan participants. It is IFC's second investment in the Russkiy Mir Group. A \$15 million A-loan was approved in April 2004.

## **2. The Complaint**

In March 2009, a resident of Taman Village submitted a complaint to CAO on behalf of 90 other residents regarding environmental and socio-economic impacts of the TNG project. The complaint states that the construction activities of TNG and two other companies working in the region have damaged local roads and homes, and reduced the standard of living for residents. Complainants' request that the company repair village roads, complete a by-pass road to divert construction away from the settlement, and compensate villagers whose homes have been impacted.

The specific impacts described in the complaint include:

- Damage to local roads due to over use and misuse;
- Significant increase in traffic and traffic accidents;
- Noise and dust pollution;
- Structural damage to local residences due to the vibrations.

The complainants state that the company should be required to use a bypass road to avoid adverse transportation effects. To resolve the complaint, the signatories are requesting repairs to local roads, compensation for damage to personal property, and a halt to construction vehicles on the roads surrounding Taman and Volna until the bypass road has been completed.

### **2.1 Additional Issues Raised During the Assessment**

Besides the issues described in the complaint, the complainants raised concerns about the process the company uses to decide and track social investments in the surrounding communities. They say they are uninformed about these investment decisions, and that investments that are made are not tracked to determine whether they met their intended goals or benefited the target population. The complainants said a more transparent or participatory approach to designing and implementing social development programs would assist the company in establishing priorities, and enable local people to have their interests considered.

### **2.2 Perspective of the Company**

TNG's social specialists say the company has worked hard to meet the community's development needs, and places a high priority on giving back to the community. According to senior management, the project is still under construction and is not yet generating income, but

it nonetheless has allocated a substantial budget for social development initiatives. They say the company faces many challenges in implementing development programs, because of the unstructured approach to identifying development priorities by local governments and community based organizations. They say that a typical social development project can be warmly welcomed by some in the community, and harshly criticized by others.

The company annually accepts written submissions for social development or philanthropic projects from community members and local public officials. TNG social specialists and senior management then discuss and prioritize the requests, and allocate funds to various projects that appear to meet the greatest need and that fall within their identified philanthropy budget.

TNG says it would welcome a more systematic approach to determining where and how social development money is spent, but that because it is not yet a profit-making company, the community should understand that it is limited in how much it can allocate for this purpose.

### **3. CAO Ombudsman Process**

Following eligibility determination, the CAO Ombudsman undertook a series of teleconferences with the spokesperson for the complainants and TNG's social specialist. Because the complainants had not previously made contact with or notified the company about its concerns prior to filing a complaint, the Ombudsman encouraged a meeting between the TNG social specialist and the complainants to discuss the issues in person.

After several meetings between those individuals, the company reported it was launching a Working Group involving key stakeholders in the community to engage in collaborative decision-making around TNG's social development activities. The complainants received an invitation to participate in the first Working Group meeting, which took place on Nov. 11, 2009.

Other Working Group participants included two representatives from the company, several local government representatives, and a representative of the NGO Save Taman!, who assisted the signatories in filing the CAO complaint.

Following the November Working Group meeting, the complainants reported to CAO that the issue of the roads had been addressed by the participants, and that specific timelines for completion of roads projects had been presented to the participants.

On November 25, 2009, the representative of the complainants reported to CAO that they were satisfied with the outcome of the Working Group, and believed their concerns had been addressed to the satisfaction of all the signatories. They said they planned to continue their involvement with the TNG Working Group, and follow through with the issue of the roads via the Working Group, rather than through the CAO Ombudsman.

### **4. Conclusion**

After discussions with both the complainants and the company about the outcome of the Working Group, the CAO closed the complaint in December 2009.

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