

TO:

Board of Directors  
European Bank of Reconstruction and Development  
One Exchange Square  
London  
United Kingdom

**Bulgaria:**

Centre for Environmental  
Information and Education  
(CEIE)

For the Earth!

25 June 2009

**Czech Republic:**

Centrum pro dopravu a  
energetiku  
Hnutí Duha

**Estonia:**

Estonian Green Movement–FoE

**Georgia:**

Green Alternative

**Hungary:**

Nature Protection Club of  
Eotvos Lorand University (ETK)  
National Society of  
Conservationists–FoE (NSC)

**Lithuania:**

Atgaja

**Macedonia:**

Eko–svest

**Poland:**

Polish Green Network (PGN)  
Institute of Environmental  
Economics (IEE)

**Russia:**

Sakhalin Environment Watch

**Slovakia:**

Friends of the Earth – Center  
for Environmental Public  
Advocacy (FoE–CEPA)

**Ukraine:**

National Ecological Centre of  
Ukraine (NECU)

CEE Bankwatch Network's  
Mission is to prevent  
environmentally and socially  
harmful impacts of  
international development  
finance, and to promote  
alternative solutions and public  
participation.

Dear Ladies and Gentlemen,

In this letter we would like to present to you the results of the Bankwatch Fact–Finding Mission (FFM) to Kapan, Armenia, where the Deno Gold Mining company has received a loan of USD 4.5 million under the Direct Lending Facility (DLF) in December 2005. The second project of the representative of the Canadian Dundee Precious Metals in Armenia passed final review in 2006, but not board approval.

Bankwatch team visited Armenia in the beginning of May this year and met with two village communities around Kapan, seven Armenian NGOs (of which 3 in Kapan), the vice governor of Syunik region, the Deno Gold company, the EBRD RO and several state officials at the Ministry of Nature Defence. This mission was a follow–up to the one made by Bankwatch in 2006, prior to the expected board approval of the second loan for the mine. It was prompted by the recent news in Armenian media about temporary halt of operations in the period November 2008 – March 2009.

## Findings

The FFM purpose was to check if the problems noted by Bankwatch team in 2006 were addressed successfully by Deno Gold Mining. The conclusion was that there are significant efforts made by the company, however, the main problems have not been resolved to a satisfactory level, namely:

## Tailings management

In terms of progress, the company has opened a new Tailings Management Facility (TMF) with a closed cycle of water. According to Mr. Kamalyan from the Ministry of Nature Defence this is the only such TMF in Armenia and an example of best practice, which will hopefully be replicated by other mining companies in the country. Local NGOs in Kapan also regard the new TMF as a positive improvement.

However, the problems of the old TMF persist and no measures have been taken to mitigate the negative impacts it has on the surrounding environment and settlements. In the start of May there were no recultivation signs on the old TMF. The Geganush community, living above the TMFs is concerned that in dry weather the wind spreads tailings over their gardens, houses and yards. Women in the village told the FFM team and local journalists about the health problems, such as cancers and birth defects in babies. Men were mostly worried about the decreased productivity of their gardens and orchards. The community leaders expressed dissatisfaction with the way compensation is carried out.

Because of their bad experience with pollution in the past and because of the current compensation problems, the Geganush community signed a petition against the building of the new TMF in its present location. The FFM was told that their will was neglected.

Mr. Razlog from the EBRD RO explained that the responsibility for the recultivation of the old TMF is shared between Deno Gold and the Armenian state, which complicates the process. While this is a valid excuse, Deno Gold should take all necessary steps to accelerate the resolution of this problem. The present situation of a model TMF next to an old TMF, continuing to be a source of pollution, cannot be regarded as a satisfactory progress and an adequate resolution for the people and the environment.

## **Public participation and consultations**

The FFM discovered that Deno Gold has established communication with Kapan NGOs and media. The company has made several presentations at round tables in the Aarhus Center, thus creating an image of an open and transparent company. However, both the NGOs and the media representatives that the FFM team met had very little information about the company's activities related to compensations, environmental improvements, remediation and recultivation. It was discovered that at the public meetings the company did not make public any environmental studies or documentation. Nor did the format of the meetings follow the prescription of Armenian law. In effect these were not public hearings, in that:

- a) Local people were sometimes represented by their elected officials, but not invited to attend and express personal positions. This practice reinforces the opinion that experts should decide for the non-educated population – an idea rejected by principles of democracy that western business, national and local governments should promote in the transition period.
  
- b) No protocol of the meetings was kept, where the agreements between the public and the company would be written down as a binding commitment. For example, the company promised that all compensations would be finished by the end of 2008, and that the 2007 environmental audit of the mine operations would be made public. Nonetheless, with the temporary suspension of the mine in November 2008, these promises were forgotten.
  
- c) Participants in the discussion did not have access to all information and official documentation, but only to the information presented by the company.

Therefore it can be concluded that the public information meetings (round tables) organised by Deno Gold can in no way substitute the legally required public consultations, including open public hearings and submission of statements on specific project documentation. Although the practice used by Deno Gold is more than other mining companies in Armenia do, it is an imitation of a democratic and legal consultation with the public, and should by

no means be considered as a good practice of promoting transparency.

In fact, during our visit at the Deno Gold office in Kapan, the FFM team asked for certain documents, namely EIA documentation in English, Environmental Action Plan (EAP) and the Social programmes, but none of these documents were provided. Deno Gold's general manager, the public relations officer and a representative from the environmental department could not confirm if there was or not an EAP developed with the financial support of the EBRD, and if it was implemented successfully.

### **Compensations**

The company has started compensations of local communities, but has not finished them and Mr. Falletta, the general manager of Deno Gold, said that the company has no money at the moment to wrap up the process. The FFM team found people still living in the Shahumyan village, where road and water infrastructure is falling apart due to land subsiding, and people still hear the mining operations undergoing beneath their houses.

Mr. Falletta informed the FFM team that Deno Gold has done estimations of the prices for compensation – of houses, trees, land/gardens – with two appraisal companies. Their second appraisal was twice bigger than the first, so Deno Gold intends to go by it. Both in Geganush and in Shahumyan people that the FFM met were dissatisfied with the compensation, because the prices and other issues were not established in open negotiations. Media representatives in Kapan were dissatisfied with the lack of information about prices paid (and yet to be paid) and the general transparency of the compensation process.

In conclusion, it is understandable that the operations of the Deno Gold mine are impacted by the global economic crisis and the low prices of metals. However, the compensation process should not be determined by the needs of the company alone, but by the needs of affected people, too. In Shahumyan, where Deno Gold plans to start open pit mining, it is unacceptable that people are left to live in unsafe conditions, in an abandoned village with

destroyed infrastructure, until it will suit the company to carry out its responsibility.

## **Questions to the EBRD**

1. What is the status of the Deno Gold project that expected the board approval in 2006? Mr. Razlog informed the FFM team that negotiations have stalled and, if a new project were to be considered, another final review would be required. However, it is not clear why the PSD of the project does not indicate that the project is 'inactive'. Any clarifications on this question (or an up-date of the PSD) would be very much appreciated.
2. What requirements attached to the 2005 loan did the EBRD have regarding the resettlement and compensation measures to be taken by Deno Gold Mining? Were a Resettlement Action Plan and/or a Stakeholder Engagement Plan developed as part of the project? What is the progress with implementation?
3. What measures were planned in regards to the old TMF in the Environmental Action Plan developed under the EBRD financed project of 2005? What is the progress with the EAP implementation?

## **Recommendations to the EBRD**

With view of the above findings of the Bankwatch FFM, the EBRD is recommended:

- To pay closer attention to the progress reported by the company in its monitoring reports, in particular to the improvement of the living conditions for the communities affected by its operations;
- To use its leverage with its client to insist for open negotiations with local communities regarding compensations and resettlement. Best practice prescribes a community level dialogue and decision making following the principle of 'free prior and informed consent' – a basic right of communities affected by mining.

- To not consider further financing of the Dundee Precious Metals until the company will improve its record of flawed public information and consultation.

We are looking forward to your reply. Please, do not hesitate to raise any questions that may need more clarity or detail.

Sincere regards

Daniel Popov  
CEIE / CEE Bankwatch Network