

December 22, 2009

To the European Bank for Reconstruction and Development

KazakhstanStrategy@ebrd.com

ngo@ebrd.com

Comments on Draft Strategy for Kazakhstan

Karaganda Ecological Museum would like to thank the Bank for the opportunity to participate in public consultation process and provide the comments on the draft strategy for Kazakhstan.

Public consultations

We believe that the release of the Russian version of the Draft Strategy for Kazakhstan would enable much more stakeholders in Kazakhstan to comment it and made the process of public consultations more effective. We thus recommend the EBRD to include the changes to the next Public Information Policy and commit to translation of the draft country strategies into the relevant local languages.

The strategy

The strategy mentions over-reliance of the country on commodities and we also recognize it as one of the major problems in Kazakhstan and share this concern. We believe that Kazakhstan need to diversify its economy and would thus ask the EBRD to make a clear statement on how the bank intends to address this problem and not finance commodities. It is also important to exclude the “salami” approach that allows supporting extractive industries by providing loans for infrastructure and other projects in this sector.

We believe that the EBRD should allocate its resources to support local producers and avoid financing invasion of foreign producers. Would be good to say why you think supporting local producers would bring more benefits **Section 1.2.1 Corporate sector** shows that only one domestic agribusiness producer received a loan. According to the strategy one of the reasons for that was lack of financial transparency. It could be possible then for the bank to concentrate on technical co-operation projects and for that ensure implementation of the Framework Agreement signed with the Government to solve the problems with taxation.

1.2.3 Power and Energy – Sustainable Energy Action Plan (SEAP), signed between the EBRD and the Government in 2008 in its Annex 1 is listing the power generation projects. These are mostly coal projects both including the rehabilitation of existing power plants and construction of new ones. We believe that the bank should stay clear of financing construction of the coal-firing power plants that are highly polluting and contributing to the climate change. We are also concerned with the bank’s plans to finance the construction of Balkhash TPP. Balkhash Lake is one of unique places in Kazakhstan and one of the largest lakes in the world. It is already intensively polluted by industrial and domestic wastes. In situation when the Government is unable to control and reduce pollution, construction of the new coal-firing power plant will lead to aggravation of existing conditions and lose of biodiversity as well as to worsening the quality of life for population in the area.

Section 1.3.2 The Enterprise Sector (Industry) says “the Bank had a very significant impact on the whole sector with its Ispat-Karmet Steel Works project. The EBRD together with the IFC financed post privatisation restructuring which was both radical and effective to bring modern business practices in the company”. However, the results of an investigation conducted by the Prosecutor General of Kazakhstan show that during the contractual process of privatization, the acts of Kazakhstan legislation were violated perhaps you can say what these acts relate to (*Представление Генеральной прокуратуры РК, 09.02.1998, №23-1-131-98*). The contract also contains an agreement that no new environmental laws will apply to the steel works for 10 years from the date of privatization of the steel works (sale to ArcelorMittal). Furthermore, ArcelorMittal did not have to pay any taxes or fees for pollution. The mining branch of ArcelorMittal does not have to conduct land reclamation activities on lands which were exploited for mining activities before 1996 (such lands make up the majority of contaminated lands).

The bank should also re-think its private sector lending to ensure that those companies benefiting from it are those that really need it. The large and successful international companies working in Kazakhstan hardly need a support from European taxpayers.

The EBRD recognises that its “involvement in the industrial sector is generally undermined by the reluctance of the companies to enhance transparency and corporate governance with state interference and corruption remaining serious issues”. In this situation the EBRD should take strong action to address this problem and not finance companies which do not release information and engage with stakeholders.

We also do not support the EBRD’s approach to judge the projects and to use “transition impact” as the main criteria, as almost any project can claim to have some transition impact. There should be sufficient attention paid to the concrete and measurable environmental and social consequences of the projects.

2.1.3 Social, labour and gender issues “According to the International Labour Organisation (ILO), trade unions have legal protection under Kazakh law, and their right to exist and act is also protected by the Constitution (Article 23)”. The strategy should also mention that in many cases the trade unions are highly controlled by the management of the companies and workers do not trust them. A recent case at ArcelorMittal Temirtau (AMT) is that ten miners at the Lenina coal mine who decided to leave the official AMT Coal Department trade union Korgau were forced by the company’s management to remain members. They were illegally excluded from the labour agreement and thus deprived of part of their salary and access to the company’s facilities, such as shower rooms. Four of ten miners that left the trade union took legal action and filed a case at the Shakhtinsk town court. In November 2009 the court ruled AMT’s actions as illegal.

3.2.1 Primary Priority Sectors / Sustainable Energy and Infrastructure/ Transport “The Bank will also continue to seek opportunities to engage in road PPP’s”. We are very concerned with the bank’s promotion of PPPs. They were fiercely criticised in UK and CEE (<http://bankwatch.org/publications/document.shtml?x=2132584>) for delivering overpriced projects, with high profits and low risks for investors, while the taxpayer pays the bill and we do not see it as appropriate practice for Kazakhstan.

We hope that you will take our comments into account when approving the final strategy for Kazakhstan.

Yours sincerely,
Dana Sadykova

e-mail: dana_sadykova@mail.ru

Karaganda EcoMuseum
47 Bukhar Zhyrau str.
Karaganda, 100000
Tel./fax +7 7212 413344
Kazakhstan
www.ecomuseum.kz