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KEY IFC REVIEW THREATENS WOLFOWITZ'S NOBLE MISSION

Paul Wolfowitz will preside over his first World Bank annual meeting as president this weekend. During his controversial candidacy for the job, Wolfowitz made impassioned pleas about what he called his "noble mission" to eradicate world poverty as head of the bank. Following very visible forays to Africa this summer and his involvement in the albeit disappointing G8 and UN World Summits, Wolfowitz has this week been making all the right noises about how the annual meeting is happening "at a very important moment in the fight against poverty", referring to how the conditions of the G8 debt cancellation deal will likely dominate proceedings.

Yet by adjusting our radar on poverty issues just slightly, the assault which Wolfowitz's new organisation looks set to make on basic international standards and, by extension, the world's poor begins to chillingly register.

The International Financial Corporation (IFC) is currently reviewing the Policy and Performance Standards which govern its lending activities, standards which have a bearing on roughly three quarters of all international project finance across the globe. The IFC is on course to further entrench its corporate welfare agenda (a process well described in "World Bank Welfare", Bloomberg Markets, Feb 2005) by watering down a significant number of its existing safeguards. *(continued on page 3)*

CZECH REPUBLIC'S CARBON COWBOYS EXPOSED

With the Kyoto protocol now in force since February 16, 2005, carbon markets and carbon funds are on the rise around the world. A lot of developed western countries are starting to rely heavily on so called flexible mechanisms for Kyoto compliance and have already indicated their strategies for purchasing project-based carbon credits. The present lack of supply of good quality projects – i.e., projects that fulfill all agreed international criteria – further boosts the quest for carbon credits.

The World Bank and its Prototype Carbon Fund (PCF) undoubtedly play a major role at the carbon market. The Bank presents itself as a "catalyst of a global carbon market that reduces transaction costs, supports sustainable development and reaches and benefits the poorer communities". However, as our recent analysis of the World Bank's activities in the Czech Republic confirms, the opposite is the truth.

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CZECH REPUBLIC'S CARBON COWBOYS EXPOSED

In 2003, the World Bank signed a framework agreement on the implementation of projects to reduce greenhouse gas emissions (GHG) in the Czech Republic. The Czech authorities committed to transfer to the Bank 500 000 emission credits (each one worth one ton of CO2) within the ten-year period from April 2002. The Bank applied in May 2005 for the credits of about USD 1.5 million to be certified for its activities in electricity generation from 16 small hydro power plants – at a price of USD 4 per ton, that equates to 373 211 tons of CO2. Yet our report, "Analysis of Additionality", found that only three out of these sixteen projects are in fact eligible for carbon credit sales.

The Kyoto Protocol, Czech national legislation as well as the World Bank's own criteria allow the issuing of credits only for such projects that would not be economically feasible without additional funding coming from the emission credit purchase. In order to meet this fundamental condition for project-based mechanisms, the World Bank would appear to have intentionally manipulated the economics of some of the projects and achieved results that would otherwise be impossible. Of particular note is the calculation for the Smrzovka hydropower plant located in Northern Bohemia.

The project site had been used for hydropower generation since 1912 when two turbines with total capacity of 300 kW were installed. The plant generated electricity at full scale until 2002 when it was temporarily shut down because of flood damage. Reconstruction started in May 2003 and was finished in November 2003. So, first of all, the project was realised before co-financing from PCF had been planned. When Smrzovka was added to the World Bank's portfolio, a simple test and sensitive analysis showed that the project is economically sound and therefore does not require carbon trading. Since the project was excelling economically, the World Bank applied a so-called "detailed calculation" and concluded that the return on investment in the Smrzovka plant would be "ages away", therefore the project qualified as being eligible for carbon sales.The roots of this reside in a major conflict of interest within the World Bank. While theoretically the World Bank should support client countries, in the case of the PCF the main interest of the Bank is to protect the interests of investors, ranging from the Japanese Bank for International Cooperation to BP. And the main focus for investors is quite obviously to obtain credits as cheaply as possible.

Our analysis of this World Bank project unfortunately also shows that the competent Czech authorities – the ministry of environment and the Czech Energy Agency – are unable to either negotiate a fair price or monitor the application of their own rules and procedures for such projects. For the Czech authorities it would seem that the World Bank's price of USD 4 per ton is not great but, well, somehow acceptable. The "chief" carbon credit person in Czech Republic was certainly being paid by the World Bank for consultancy services at the time of the project's preparation, and at the same time was sitting in an office in and serving as a consultant to the ministry of environment.

Some ideas and notions about carbon trading, then, can penetrate easily in some quarters, but not everywhere. When the World Bank claims that this Czech project and others like it are contributing to sustainable development around the world, is it any wonder that some have started to dub the World Bank the Enron of global carbon trading?

► An analysis of additionality. The Prototype Carbon Fund's joint implementation project in the Czech Republic: 16 small hydropower plants <http://www.bankwatch.org/publications/studies/2005/wbpcf_cz_09-05.pdf>

▲ RIGOROUS IMPLEMENTATION OF STRATEGIC GOALS: A CASE STUDY

KEY IFC REVIEW THREATENS WOLFOWITZ'S NOBLE MISSION

The NGO Coalition for Global Rights Rules & Responsibilities (GRRR) has documented a range of social and environmental safeguards at risk, including:

- the clear requirement for independent environmental assessment as well as an adequate categorisation system
- the requirement that projects should not contravene the obligations of a country under International Environmental Agreements
- key protections against forced resettlement

More fundamentally, international NGOs submitted to the IFC in April that: "The overall policy and Performance Standards must be revised to clearly communicate how the IFC will deliver upon its development mission and how it will be accountable at a project level, not just an aggregate level, to reducing poverty and promoting sustainable development. If the IFC wants to move to a system of accountability based on outcomes, then it should implement a system which identifies expected poverty alleviation benefits in every project, measures and makes public the actual outcomes at a project level during and after implementation."

The IFC's policy review is particularly important given that thirty private banks around the world have endorsed the IFC standards-based Equator Principles, in the belief that they were signing up to principles that reflected global standards. Other international development banks indeed take a lead from the IFC standards in cases where they lack relevant policies, for example the European Bank for Reconstruction and Development when it comes to resettlement and indigenous peoples issues.

It's looking increasingly likely that the world's poor will be left vulnerable to dangerously discretionary and devalued standards. However, this is not yet a done deal. The final leg of a highly contentious consultation process (even Rio Tinto publicly expressed their concerns last year with the kamikaze nature of the process that IFC staff were insisting on following the Extractive Industries Review process) is now underway with a final 60 day public comment period commencing with the release of a new draft of the Policy and Performance Standards on Social and Environmental Sustainability.

Wolfowitz may have had no part in the formulation of the corporate friendly loopholes that the IFC management designed into the new performance standards. The question now is if he will be willing to make good on his "noble mission" and bring his influence to bear on this vital process or if he will be content to allow US corporate interests to sail through these loopholes. As he keeps saying on global poverty reduction, "It's time to deliver."

"Yes, sir. 'A compassionate, decent man' it says here"

World Bank rubs salt into Uzbek wounds

Water supply in Uzbekistan is a murky issue unfortunately. The country's water reserves are in terminal decline with a monopolistic water management system – the Agricultural and Water Ministry (Minselvodkhoz) is the major water supplier and consumer – in place. Bureaucratic linkage between Minselvodkhoz and the water management system makes the financing and development of the system fully dependent on agricultural objectives that hamper effective usage of the water resources. Compounding matters further is the fact that the water management system has strong central management control; local authorities have virtually no authority to take and implement economic decisions.

Today more than 60 percent of the irrigated land at the Aral Sea basin is encrusted with salt – what was once the fourth biggest inland sea is now mostly desert. Yet, nobody wants to reject single-crops. There is a critical lack of water but the cotton cultivation –requiring excessive watering and enormous water loss in a place where the crop does not grow naturally – continues.

Among Uzbek government agencies, Minselvodkhoz receives the largest number of foreign loans, which are used to resolve water supply issues. Between them, the World Bank and the Asian Development Bank have provided Minselvodkhoz with USD 270 million in loans to improve the Aralside, Navoi, Djizak and Surkhandarya oblast water supply systems.

Is Minselvodkhoz, however, behaving prudently in taking on such substantial debts? How will these investments impact on the local populations? And won't there be economic repercussions as a result of these environmental matters, with taxpayers having to foot the bill for these foreign debts through the establishment of new taxes?

Thus concern about the performance and accountability of the implemented projects, as well as the quality of their environmental impact assessments (EIAs). takes centre stage. Such concerns are particularly relevant to those irrigation projects where funds are ploughed into drainage system networks but don't address basic water supply issues.

An example is the World Bank project for the irrigation and drainage of South Karakalpakstan (Drainage, Irrigation and Wetlands Improvement Phase-I Project) which is costing USD 74.55 million. The EIA for the project did give consideration to the protection of archaeologically valuable zones, the protection of indigenous peoples rights in the Akchadarya River delta and the protection of the Baday-Tugay National Park. However, crucially, the issue of land resource degradation was given insufficient atte tion, and other proposed alternatives handled the problem in the same way.

Permanent "improvements" to the Aral Sea Zone water supply system, implemented via a number of projects lacking the necessary basic research, have failed to solve either the key underlying problems of regional water supply or the problem with soil degradation. There is a simple reason for this – there is no Global National Aralside Water Resources Conservation Plan, based on an in-depth analysis of the environmental, economic, and institutional issues.

Minselvodkhoz has officially stated that by 2010 the Uzbek government plans to have implemented 25 projects for improvements and irrigations; the bill is reckoned to be USD 2 billion. Wouldn't it be a whole lot more sensible to use this money to introduce water conservation technologies? The ecological and human disaster that blights the Aral Sea basin demands some far-reaching measures to ensure rehabilitation. It's time for the Uzbek government to give up on Soviet-era gigantism and to shift their focus instead to sorting out water resources management. If the World Bank is to continue its engagement with Uzbekistan, its thinking on such projects needs to be a lot clearer.

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Director of Environmental Law Center "Armon"

Why Serbian pensioners are calling World Bank reforms 'genocidal'

The newly-released annual World Bank Doing Business Report for 2006 may rank Serbia-Montenegro first in reforms among 12 transition countries, but people in Serbia are far from being satisfied with the reforms. Coming top of the business reform pile should not disguise an increasingly vulnerable reality - high unemployment low wages, minimal pensions, poverty - for ordinary Serbs.

The World Bank's structural adjustment lending, worth around USD 350 million overall, is growing rapidly in Serbia, from the Private and Financial Sector Structural Adjustment Credit through the Social Sector Adjustment Credit to the newly proposed Serbia Consolidated Collection and Pension Administration Reform Project. The World Bank is also aiming to continue its support for the structural adjustment of the enterprise and banking sectors through the Programmatic Development Policy Loan which is currently under preparation and is expected to go to a Board decision in 2006.

Over the summer, the typically benign sounding World Bank programmes have been the subject of much scrutiny and popular anger. More than six hundred thousand pensioners in Serbia are set to be on the receiving end of a World Bank and IMF promoted reform to reduce public spending. The deeply unpopular measure - the new Law on Pension funds - has been dubbed the "Genocidal Reform of the Pension System" by pensioner groups and is now being debated in the Serbian Parliament.

Demonstrations and strikes throughout Serbia have been called over the issue despite furious lobbying from the commission for restructuring the pension fund to get the backing of workers' and pensioners' unions and the Independent Pensioner Political Party for the reforms which are being promoted by the Ministry of Finance, and the Ministry for Labour, Health, and Social affairs.

This reform is just one aspect of the standard medicine prescribed under the World Bank's Structural Adjustment Credits, where the economic assumptions and imperatives for Serbia to follow have rung equally predictably around numerous other developing countries:

• Cutting social taxes will bring about an increase in the number of jobs and will necessarily lead to an increase in business activities
• Working time directives increasing employees' hours of work decrease the costs of production
Privately owned businesses are a much more efficient form of organisation than state-owned businesses.
• Health, education and pensions are all public expenditures

For the average pensioner, keenly aware of the number of years they paid into the state Pension Fund, and of the number of hotels, sports centres, schools, faculties, and industrial facilities constructed from Pension Fund money, not unsurprisingly the reforms stink and they are calling for the newly privatised property of the Pension Fund to be returned back to the Fund.

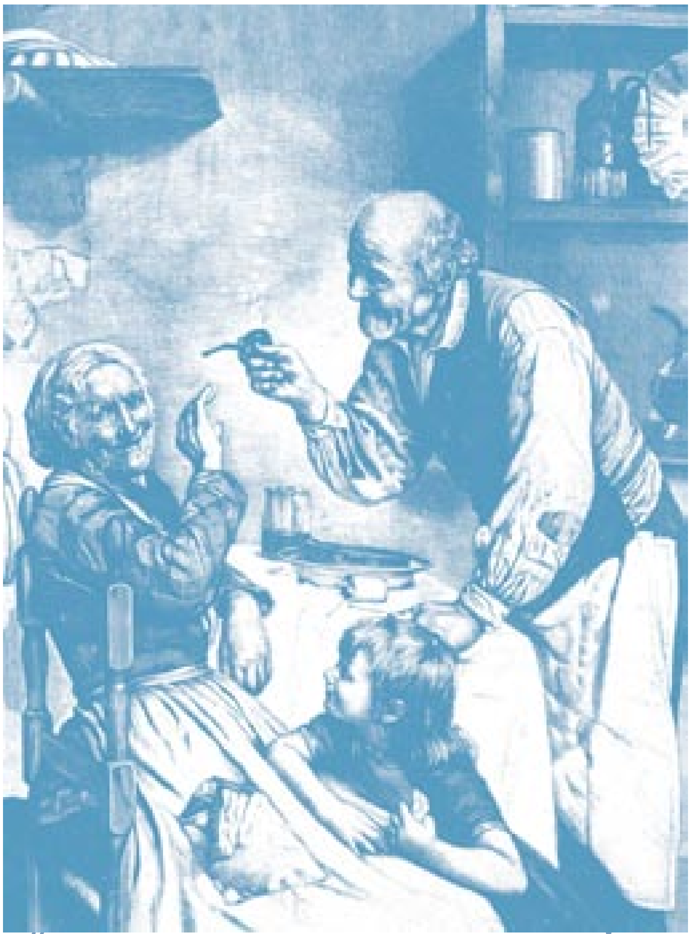
As Dr Bogomir Milošević pointed out in the Politika newspaper in July this year, prior to the nineties the Pension Fund provided key investment money for "460 business facilities and equipped 48 rehabilitation centres, 195 buildings in the health sector, 19 schools, and for the building of water supply systems in 54 municipalities." Alas, since the dawn of privatisation in Serbia, nobody has been able to determine how much of these state sell-off sums were returned to the Pension Fund and how much went to the budget, but it goes without saying that the Pension Fund has lost out fairly drastically.

The first reforms of the social, health, and pension fund began in 2001 and 2003 when the government, with World Bank assistance, reformed the pension system through the following main measures:

• Tightening the criteria for determining disability, sharply reducing the number of new disabled
• Establishing a minimum pension at 20 percent of the average wage
• Changing pension indexation from average wage indexation to a mixture of 50 percent inflation and 50 percent nominal wage growth (the Swiss model)
• Raising the retirement age to 63 for men and 58 for women in a single step, with a minimum 20 years of service from the previous 60 for men and 55 for women

A World Bank fact sheet made the point in November 2003 that, "The bold changes to Serbia's PAYGO pension system rank among the most significant achievements so far in Serbia's overall reform program."

So hadn't sufficient reform of the pension system been carried out already? The director of the Pension Fund, Marija Todorovic, seems to think so as she pointed out in a recent interview in the Serb media: "Two years ago, we were told that in five years we would not have to change the pension system, since we reformed so much. We developed the new model with dialogue and agreement with the unions and the World Bank accepted it...



"Smoke the World Bank peace pipe? You're off your head, you old sod!"

The model achieved savings for the government of almost EUR 800 million ... I really do not know why we need to reform the system again when there was an agreement signed two years ago. Somebody is lying here..."

Pensions in Serbia have three sources: 60 percent derives from domestic product, 3 percent from privatisation and 37 percent from the state budget. The further tightening of payments for pensioners being insisted on by the World Bank and IMF will be realised by the following new measures: to replace quarterly with annual indexation, to index post-retirement pension benefits only to inflation by delinking them from wages, and to increase the retirement age. The pension reform also consists of the introduction of voluntary private pension funds as well as obligatory private pension funds.

What do these measures mean for pensioners?

Further tightening of the system omens badly for Serbia's pensioners. Marija Todorovic again recently observed that, "Since the measures introduced in 2003, we have evidence of direct negative consequences in the increased mortality rate of pensioners, and increased health deterioration in all four categories - cardiovascular diseases, tumour, muscle-skeletal diseases, and psychiatric diseases."

Currently, then, more than 70 percent of the country's pensioners are receiving less than EUR 120 per month, 80 percent of which goes on food and communal taxes; the worsening trends in quality of life, health and mortality therefore come as no surprise. The social knock-on effects also become clear if one considers that 38 percent of Serbian pensioners live together with their children and grand children in the same households, and, moreover, 48 percent of pensioners contribute financially to their children and grandchildren.

However, the latest proposed reforms to the pension system are set to result in a halving of the average pension by 2009, pushing 50 percent of pensioners below the poverty line, with a further 30 percent hovering just above. Hence the talk of "genocide" from incensed pensioner groups.

The stark mathematics were laid out recently in a radio interview by Živorad Pantić, president of the Independent Union of Pensioners: "Those pensioners with an average pension of EUR 164 today will have only EUR 88 in 2009 ... The financial effects in terms of savings through the proposed new law amendments are so small that it will hardly solve the country's problems with the IMF, but a sure economic consequence will be a serious deterioration in the existence and quality of life."

Such is the uncompromising logic of this kind of World Bank inspired 'cost recovery' programme, so familiar across central and eastern Europe, though perhaps more commonly thought of as a 'daylight robbery' programme. With the proposed Bill on amendments to the Law on Pension and Invalid Insurance now reaching parliament, it can only be hoped that Serbian parliamentarians will seek to adequately protect pensions from inflation, not, as the IMF has proposed, by adjusting them once a year in accordance with the inflation rate, but, as the unions have requested, by allowing the possibility for adjustment whenever inflation exceeds five percent and setting the average pension at least at 60 percent of the average wage. One thing is clear though: Serbia's pensioners are ready to fight on to protect their rights and their dignity.

The Memory Hole

"On climate management, the Bank has been asked to create a new framework for mobilising investment in clean energy and development."

Statement by Paul Wolfowitz, President of the World Bank, at the conclusion of the G8 Summit, Gleneagles, Scotland, July 8, 2005

"... how [do] we actually expand what we think about when we talk about energy efficiency and renewables - and that's the hydro agenda. We have really skirted away from that as a part of the messaging going forward, and

I think we do want to open that discussion up as we look to the future.

And ... about coal. Should we be engaged much more actively in debates about coal both from the technology side but also the economics and financing side? Do we engage ourselves with China and India and South Africa on these agenda items? I think we already got an opening in China with a study that's underway, but I see a huge opportunity in those areas for us."

Kathy Sierra, World Bank Vice President for Infrastructure, at a roundtable with President Paul Wolfowitz, "G8 outcomes and the Bank group's role", July 27, 2005 Washington, D.C.

Canadian mining company discovering more than it bargained for in south-east Bulgaria

Until recently precious metals extraction in Bulgaria was regarded as too dubious a proposition to attract the funds of the international financial institutions. However, as the business appears to be quite profitable and the new players more legitimate, the sector is increasingly whetting the appetites of new foreign investors including public banks such as the European Bank for Reconstruction and Development (EBRD).

The recent EBRD investment in the Chelopech gold and copper mine near Sofia has its justifications. The mine in question inflicted a heavy toll on the environment for half a century before – in the words of the former director of the mine – "It was privatised for the price of one of its smokestacks." By 2003, when Dundee Precious Metals purchased Navan's mining assets at Chelopech, it was high time for improving the environmental performance of the mine, and public funding was well suited for this.

The development of gold mining in the East Rhodopi mountains has been on the cards since 1995 when, for the first time, the research of Geology and Geophysics, Sofia indicated a high content of gold in the ores found in the Krumovgrad region.

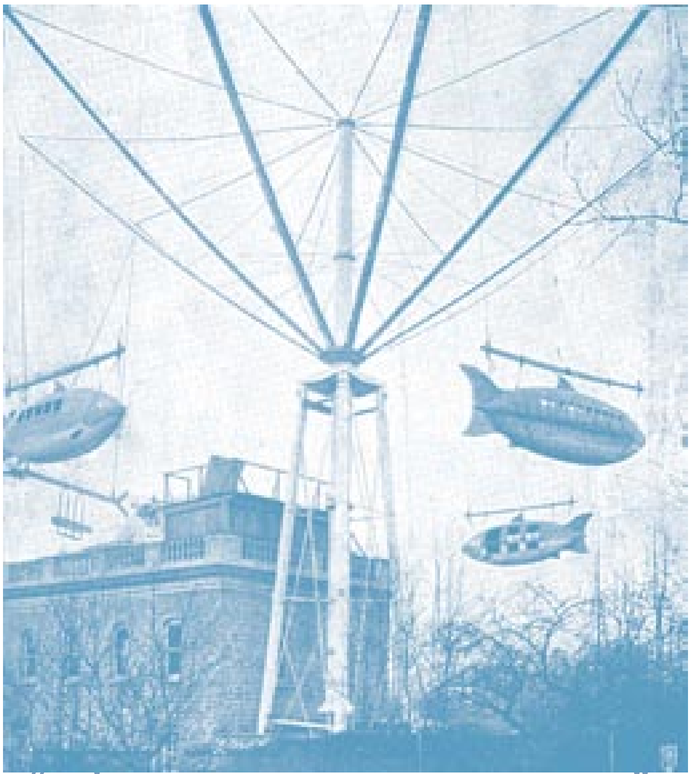
"This discovery turned the establishment of the East Rhodopi nature park into a mission impossible," says Konstantin Dichev from Green Balkans. The idea of proposing a protected area in this wild border region originated in the early 1990s. Until then the area had been underdeveloped industrially due to the NATO-Warsaw Pact border, and the environment was thus well preserved and unpolluted.

Dundee Precious Metals' Ada Tepe gold mine project to exploit the "Khan Krum" gold deposit in the East Rhodopi mountains is thus a much riskier proposition than Chelopech. The deposit is situated in the immediate proximity of Krumovgrad, a town with a population of 5,000 people whose opposition to the proposed gold extraction development is due to the methods proposed in the project. They are concerned that the use of cyanide leaching for the open pit mine will pollute their water, soil and air, thus threatening living conditions and their traditional engagement with agriculture and livestock. At the same time the benefits of the mine for the local economy have been largely exaggerated; yet they still translate to little more than employment for 300 people for a period of 3-6 years.

On several occasions, the last being the public hearings on the Environmental Impact Assessment (EIA) in the middle of August this summer, EBRD representatives have heard the objections of local people and Bulgarian non-governmental organisations, namely:

- The tailings pond for the cyanide waste of the Ada Tepe mine is situated right above the water source zone of Krumovgrad; besides the potential health risks, agricultural producers fear that the competitiveness of their products is in danger.
- The mine will cause the resettlement of several small villages and the living conditions in the town will deteriorate due to explosions, the huge extractive works and increased traffic in the area.
- T he landscape destruction and risk of pollution from gold mining will compromise the plans for establishing the East Rhodopi nature park and will destroy the region's valuable natural resources and cultural heritage, the very basis for sustainable development in the region.

While the EBRD asserts that "the project is bound to meet stringent environmental standards", local people argue that already during the exploration period the contractors of Dundee Precious Metals have amply demonstrated that this kind of industrial enterprise can not be developed in a safe and harmless manner. Drilling day and night has not only disturbed the inhabitants of several surrounding neighbourhoods but has also polluted a spring, a source of drinking water for both humans and their livestock. The company claims that only biodegradable materials were used in the tests and that there is thus no threat of poisoning.



"We're well clear of that cyanide up here!"

But the affected people now find it harder to believe that there is no risk of accidents.

Fidanka Bacheva, from Za Zemiata and CEE Bankwatch Network, says, "The EBRD's planned support for Dundee Precious Metals to fund the Ada Tepe gold mine near Krumovgrad is bound to meet much greater opposition than was the case in Chelopech. This endeavour will not bring any benefits to the environment, rather the contrary. It will contribute to the devastation of the region's valuable environment, the resettlement of around 500 people, and the destruction of the unique cultural heritage from the Thracian and Roman predecessors in these lands."

The involvement of the EBRD in other controversial projects, namely the Kumptor gold mine in Kyrgyzstan, is a further reason stretching the bank's credibility when it comes to judging what is or is not a 'safe' project.

Furthermore, the Khan Krum gold deposit extends to an area much larger than the Ada Tepe hill. The EIA's scope is narrowed to only Phase 1 of a much bigger project, with Phase 2 involving the development of another four hills: Surnak, Skalak, Kuklitsa and Kupel. The project design, i.e. the positioning of the tailings pond, has been done with a view to the future extension of the mine. And since exploration works are ongoing throughout the whole southern part of the East Rhodopi, it looks like the Ada Tepe mine will be only the first small step in a much greater plan. Thus the cumulative effects of this mine should be considered already at this stage, and the EBRD should not accept a partial EIA.

If the exploitation of the East Rhodopi gold deposit were to start, the Ada Tepe gold mine operation (and its possible extensions) will take place after 2007. In view of the expected accession of Bulgaria to the EU, the project should conform with all the environmental legislation – both transposed and not yet transposed into Bulgarian law – included in the aquis comunitaire. Thus the project needs to undergo a far more complex EIA procedure and meet additional provisions. However, the EBRD has publicly declared its satisfaction with the present EIA.

The Baja Mare accident – another well-documented mining disaster – stresses the importance of the transboundary context of the Ada Tepe project, another factor that Dundee is trying to bypass in the EIA. Krumovgrad is situated roughly 30 kilometres from the Greek border and the Krumovitsa river flows into the Arda, which then joins the Maritsa/Evros and ends up in the Mediterranean sea in Turkey.

The local people and the authorities across the border in Greece strongly disagree with being subjected to 'imported pollution', especially after fighting for years and succeeding to stop gold mine projects on their side of the border.

"Our interests and concerns about the fate of the precious metals extraction project near Krumovgrad are obvious. It will directly affect us," said Tasos Vavaciklis, the mayor of Komotini. Three Greek statements were submitted at the public hearings in Krumovgrad: from the prefect of Rhodopi, from the mayor of Komotini and from Hellenic Mining Watch. All three stressed the resolve of the Greek side to fight the project - "in words and in action" wrote the prefect of Rhodopi, Arzi Janakidis.

Time for decisions

Currently, a month after the public hearings on the EIA of the Ada Tepe gold mine project, the Bulgarian government is reviewing the EIA and the statements submitted as part of the public consultation process. Following a meeting of the Supreme Environmental Experts Council, the minister of environment should decide whether or not to grant a permission to Dundee to develop the mine. The EBRD will enter into official negotiations only after a positive decision from the Bulgarian government.

With or without the approval of the Bulgarian ministry of environment, a 'social license' for both the company's operations and the EBRD's involvement can only be granted by the citizens of Krumovgrad and the wider civil society. And this social license is unlikely to be given for the Ada Tepe project. After a long period of hesitation, earlier this month the Krumovgrad municipal council unanimously took the decision to oppose the project. This step showed the determination of the local authorities to stand behind their electorate and it was followed by a mass petition against the gold mine in the town and surrounding villages.

In a letter sent to all governmental institutions, the municipal council asserts the right of Krumovgrad's citizens to a healthy and clean environment, a prerequisite for competitive agricultural production and for the possibility of the region developing in a sustainable fashion.

At the same time the authorities of the Evros prefecture in Greece have decided to fund a campaign against the Ada Tepe gold mine project with EUR 100,000 from the prefecture's budget. Through this campaign the Greek authorities are launching a public consultation process in line with the Espoo Convention on EIA in a transboundary context. They intend to address European institutions directly and to lobby against the mine.

Regardless of the final decision of the Bulgarian government, the EBRD must not disregard the voices of those who will bear the immediate effects of the proposed gold mine near Krumovgrad. Bulgarian civil society has made the transition to democracy, and the bad old days when state and business interests could be imposed on helpless, isolated communities is over. From this perspective the EBRD, as a public institution promoting European values, should be expected to encourage sustainable development, stricter standards for environmental protection and consideration for the rights of affected communities.

EIR still not getting through in Russia or in Washington

Russkiy mir 2' is an oil and liquid gas terminal with projected annual export capacity of nine million tons of oil and 1 million tons of gas which has attracted a USD 100 million loan from the International Financial Corporation (IFC). It is located on the Taman peninsula (Krasnodar oblast, Russia), in the vicinity of the unfinished Togliattiazot ammonia terminal. Taman is populated by a variety of different ethnic groups, the largest of which are Ukrainians, Greeks and Crimean Tartars. The economy of the region relies heavily on tourism, agriculture (wine production especially) and fishing. The oil and gas terminal will pose serious threats to the region's environment as well as to the traditional economy of the region, thus causing serious social problems for the local population.

Despite these significant environmental and social impacts during both the construction and the operation phases, Russkiy mir 2 has been categorised as a 'B' project according to the IFC's terminology, as if the project's impacts were barely significant. Although an environmental impact assessment is not required for category 'B' projects according to IFC policy, Russian legislation did require a full EIA procedure to be conducted.

In line with Russian EIA procedures and the IFC rules, the project sponsor, Tamanneftegaz, conducted public hearings in December 2004, prior to the beginning of the construction works. In late August this year, representatives of CEE Bankwatch Network and North Caucasus Environmental Watch (NCEW) conducted a fact-finding mission to the region. After several meetings with the locals who were present at the public hearings (including representatives of the local administration), it emerged that the results of public hearings were falsified by the company. All participants of the public hearings interviewed during the fact finding mission were unequivocal that had been a lot of criticism raised against Russkiy mir 2, and it was ultimately decided to have a vote in order to see whether the project was supported or not. A majority of the participants at the hearings voted against the oil and gas terminal construction. However, this fact has been omitted from the official minutes. Indeed the minutes are written in such a way as to give the impression that there were no serious objections during the hearings, and that the local population supports the project.

Apart from these problems with the public hearings, further questions remain regarding the public participation process. According to the IFC's website, the EIA of the project can be obtained at the project sponsor's office in Moscow or in Temriuk (Krasnodar oblast). During the fact finding mission the representatives of Bankwatch and NCEW visited the Temriuk office of Tamanneftegaz. The EIA was not available there, though the company's secretary suggested that it is possible that the documents are available in an office in Volna village, on the construction site. However, it is highly questionable if any local people can access the EIA documentation. Moreover, when the representatives of Bankwatch and NCEW came to the Volna office of Tamanneftegaz, the company's staff called the police. After a check of documents, the Tamanneftegaz staff agreed to have a short meeting but did not provide the EIA text, stating that it is subject to copyright.

When the Bankwatch coordinator - a citizen of Ukraine - was later crossing the Russian border, he was taken to the police station and asked to provide explanations about the purpose of his stay in Russia. Though the police officers were not acting incorrectly, this heavy-handed attention to environmentalists who ask for publicly accessible documents (such as an EIA) can be considered to be a form of pressure in order to dissuade the public from accessing important project information, documentation that in effect defines the future of their region.

Public participation was not the only serious problem with the project. Tamanneftegaz has started the construction works despite their failure to achieve a positive result from the environmental expertise according to Russian legislation. This fact was proved by the Prosecutor's office of the Temriuk region. However, the company has only received a minor fine of approximately EUR 1500, and the construction was not stopped. According to information, meanwhile, from an archaeologist who wished to remain anonymous, an archaeological site dating from 500 BC has been seriously damaged during the construction of the Russkiy mir 2 terminal.

During meetings with local people there were a lot of social concerns raised. There are numerous complaints that the project is bringing no benefits to the local population, as Tamanneftegaz is using the services of subcontractors who bring their own workers from other regions of Russia as well as from abroad. There have been several cases of conflicts between locals and foreigner construction workers.

At the same time the terminal may seriously undermine the existing economy of the region. The main sources of income for the local population are tourism, fishing and wine production. The locals complain that the construction works have caused significant shortages in fish stocks as well as a decrease in the number of summer tourists. Once construction is finished it is obvious that oil and gas transportation will bring more negative impacts for the traditional local economy.

The World Bank group has recently finished the review process of its participation in the financing of the extractive industries. The bank's management approved a set of recommendations that were supposed to improve the situation in the extractives sector. However, Taman's Russkiy mir 2 project shows that the World Bank group (and IFC as a part of it) is ignoring these recommendations. For how much longer will socially and environmentally destructive projects keep on obtaining significant financing from public money?

▶ Appeal of Krasnodar territory's public as for "Russkiy Mir - II" project (April 1, 2005)
http://www.bankwatch.org/publications/policy_letters/2005/russkiy_mir_ifc_04-05.html

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