

January 24, 2006

Executive Directors
World Bank Group

Subject: Ahafo South Gold-Mining Project, Ghana (IFC)

Dear Executive Director:

We write to express our grave concerns regarding the Ahafo South Gold-mining project in Ghana for which the Board of Directors of the International Finance Corporation (IFC) is scheduled to consider loans of \$125 million on January 31st. We believe that this project poses very serious social and environmental risks that neither IFC nor the project sponsor, Newmont Mining Corporation, have adequately addressed. Critical issues such as local farmers' loss of land and livelihood, risks of water depletion and contamination, and potential degradation of forest reserves due to the construction of associated facilities for the mine, have not been resolved. *We urge the board to postpone consideration of this project until the following steps are taken:*

- Problems with the resettlement and compensation process are resolved with the consent of affected communities and measures adopted to ensure that displaced populations have access to land, water, and sustainable livelihoods during project operation and after closure.
- Direct, induced and cumulative environmental risks from the mine *and all associated facilities* are fully identified and comprehensive mitigation measures put in place, particularly to protect ground and surface water, surrounding forests, and the safety of communities near the tailings and storage dams.
- An independent monitoring mechanism is established to track and ensure mitigation of project impacts on the local population and environment. The mandate, composition and financing of such a mechanism should be agreed upon by affected communities and their representatives, Newmont and relevant state authorities, before IFC financing is approved.

Project overview

The Ahafo project, a greenfield, open-pit, cyanide-processing gold mine, presents a broad range of potential social and environmental impacts. The complexity and magnitude of the issues involved make this one of the riskiest projects that the IFC has considered since the Chad-Cameroon pipeline. The government of Ghana's poor track record in regulating and managing the environmental and social impacts of the mining sector and the harms associated with past IFC mining projects in Ghana¹ underscore the need for

¹ The IFC provided financing for three other gold mining operations in Ghana, including Ashanti Goldfields Limited, Bogoso Gold Limited and Ghana Australian Goldfields Limited (now AngloGold Ashanti Iduapriem Limited). Both the BGL and GAG mines, the latter of which received multiple loans

additional oversight and monitoring mechanisms. The mining activities at Ahafo will not only threaten the local water supply, the surrounding forests and biodiversity; they will also physically or economically displace over 9000 people during the project's first phase alone.² When Newmont extends operations to additional sites in the coming years, such as Ahafo North, the impacts on the livelihood of the predominantly agricultural population and the health of the local ecosystem will be even greater. Project-related harms are not just of concern for the future; already during the construction phase, the local population has suffered impacts on water quality and supply, as well as food security.

Key outstanding environmental issues

The environmental due diligence done to date has not adequately assessed and proposed mitigation plans for a number of serious risks. With a total mine take area of over 3,000 hectares, the Ahafo South Project poses the following potential environmental impacts, *inter alia*:

- Depletion of water supply for drinking and irrigation due to extraction for mining activities from the Tano River and the damming of the Subri River;
- Surface and groundwater contamination from cyanide and sulfuric acid as well as human waste disposal from the mine site;
- Tailings dam failures;
- Destruction of wetlands;
- Degradation of surrounding forests due to heightened pressure on land use and induced access.

According to the attached analysis of the Environmental and Social Impact Assessment (ESIA) for the project, prepared by the Center for Science and Public Participation, Newmont has not provided sufficient information to assess these risks and the proposed remediation measures are inadequate. For example, the tailings pond and waste rock piles are not designed to comply with the best practice, which requires full under-lining and over-lining to protect human and environmental health, and the full costs of mine closure and reclamation are not covered by the company's plan. (Please see the attached analysis for further details on critical weaknesses and information gaps in the ESIA.)

This analysis was formally submitted to the IFC on December 19, 2005, but to date there has been no response from IFC as to how the deficiencies in the ESIA are going to be rectified.

Key outstanding social issues

The construction of the mine and associated facilities has required a massive physical resettlement of local populations and has displaced hundreds of other households farming in the area.

- The resettlement of more than 5000 people in and around the project site and the economic displacement of an additional 878 households have left people without

from the IFC, have resulted in environmental and social damages, including contamination of ground and surface water and disruption of local economic activities and access to schools and services.

² Newmont Ghana Gold Limited, *Resettlement Action Plan Ahafo South Project*, 29 August 2005, p. S-1.

access to their primary source of income – small-scale agriculture - and without guaranteed alternative livelihoods.³ The decline in subsistence farming and the lack of employment opportunities in the area threaten food security (see attached FIAN report). The sponsor’s ongoing attempts to find urgent remedies to the problem of lost access to land do not represent adequate safeguards against long-term erosion of local livelihoods.

- The resettlement process has been problematic. Newmont was forced to rebuild housing for resettled villagers after the original structures were found to be inadequate. However, complaints persist about the lack of kitchens in many of the houses and the drastic reduction in living space in the resettled communities. The conditions in which the resettled populations live have also led to concerns about sanitation and the affordability of water.

Community representatives allege that the Ahafo project has also led to the following problems:

- compensation for lost crops and structures is inadequate, and there is no guarantee that economically and physically displaced populations will have access to agricultural land;
- alternative livelihood programs (such as the Livelihood Enhancement and Community Empowerment Program) are unsustainable;
- community access to water sources is threatened both by depletion and pollution;
- project sponsors have failed to assess and mitigate safety risks and deprivation of community access to water due to the damming of the Subri River.

Analysis of the current situation suggests that IFC approval of financing for Ahafo at present would not be in line with its current policy on Involuntary Resettlement, which requires that the living standards and production levels of displaced populations should “at least be restored” and that these populations should benefit from the project.⁴

Furthermore, the resettlement process to date appears not to have respected constitutional provisions regarding the compensation of affected communities. According to Article 20 of the Ghanaian Constitution “the State shall resettle the displaced inhabitants on suitable alternative land with due regard for their economic well-being and social and cultural values.” IFC’s own policies require that the projects it supports respect the laws of the host country.

Mining Sector Governance and Development Impact

Poor governance of the mining sector in Ghana poses serious challenges to effective management of the project’s social and environmental impacts. Laws governing the sector are weak or nonexistent. For example, the absence of a law regulating cyanide usage makes it impossible to hold companies accountable in the event of a cyanide spill. The government’s failure to conduct an independent investigation into recent reports of

³ Newmont Ghana Gold Limited, *Resettlement Action Plan Ahafo South Project*, 29 August 2005, p. S-1.

⁴ Operational Directive 4.30, June 1990, p. 1.

[http://www.ifc.org/ifcext/enviro.nsf/AttachmentsByTitle/pol_Resettlement/\\$FILE/OD430_InvoluntaryResettlement.pdf](http://www.ifc.org/ifcext/enviro.nsf/AttachmentsByTitle/pol_Resettlement/$FILE/OD430_InvoluntaryResettlement.pdf)

the discharge of untreated faecal matter from Newmont's facilities into the Asuopre stream (a source of local drinking water) reflects a lack of ability or will. In the absence of strong governmental regulatory capacity, an even greater responsibility will be placed on IFC to ensure that the project is complying with the highest possible operational standards.

The anticipated development impact of the Ahafo gold mine demands closer scrutiny, and not only because the project will generate relatively few permanent jobs compared to the numbers of people whose livelihoods will be lost through economic or physical displacement. The project should also be considered in light of concerns about the benefits of mining to Ghana expressed by the World Bank's own Operations Evaluation Department (OED). In a 2003 review of a Bank mineral sector project in Ghana, the OED wrote:

It is unclear what its [gold mining's] true benefits are to Ghana. Large-scale mining by foreign companies ... produces only modest amounts of net foreign exchange for Ghana [and] its corporate tax payments are low, due to various fiscal incentives necessary to attract and retain foreign investors. Employment creation is also modest... Local communities affected by large-scale mining have seen little benefit to date... A broader cost-benefit analysis of large-scale mining that factors in social and environmental costs and includes consultations with the affected communities, needs to be undertaken before granting future production licenses.⁵

While the benefits remain unclear, the risks of the Ahafo project to local communities and to the World Bank Group's own reputation cannot be overstated. The institution's recent experiences with problematic projects in Peru, Guatemala, the Democratic Republic of Congo, and Chad-Cameroon expose the difficulty of effectively managing large-scale extractive industry projects with complicated social and environmental challenges, and underscore the danger of approving financing for projects about which there are many outstanding questions. At a minimum, this should suggest that the Bank must pursue the highest possible level of due diligence and assure itself and its shareholders that it has received all relevant information from its client about the potential impacts of a project before agreeing to finance it.

In its Summary of Project Information document, the IFC asserts that the Ahafo project "is expected to become a demonstration case for how to handle environmental, social and community development issues in Ghana." Newmont has publicly stated that the company does not need IFC's financing in order to process with this project. It is seeking the added-value of IFC's social and environmental expertise in order to better manage project impacts and obtain the "social license" for the operation. Given the outstanding concerns listed above, one must question whether IFC is providing this added value and fulfilling its promise that Ahafo will be "a model for other mining companies to follow."

⁵ Operations Evaluation Department: Project Performance Assessment Report. Ghana Mining Sector Rehabilitation Project (Credit 1921-GH). Report No.: 26197. 2003. Washington 2003. http://www-wds.worldbank.org/servlet/WDS_IBank_Servlet?pcont=details&eid=000094946_03081404004344

IFC has often stated that its leverage is greatest in the early stages of a project. **If IFC intends to deliver on its commitment to promote poverty reduction, sustainable development and adherence to high social and environmental standards, it should ensure that the significant outstanding concerns about Ahafo's impacts are addressed and mitigation and monitoring measures put in place *before* financing is approved.**

We thank you for your attention to this critical issue.

Sincerely,

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