

**SAKHALIN ENERGY
INVESTMENT COMPANY**

**SAKHALIN INDIGENOUS MINORITIES
DEVELOPMENT PLAN**

1st EXTERNAL MONITOR REPORT

January 2007

**Cross-Cultural
Consulting** SERVICES, PLLC

Gregory Eliyu Guldin

SIMDP External Monitor Report

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Table of Contents
List of Abbreviations Used
Executive Summary and Key Recommendations
I. Overview
1. Introduction
2. External Monitor Review Methodology
3. Stakeholders' Overall Evaluation
4. External Monitor Overall Evaluation
II. SIMDP Partners
1. SIMDP in SEIC
2. Sakhalin Oblast and Municipal Administrations
3. SIMC and Indigenous Minorities' Communities
III. Governance
1. Committees/governing bodies
2. Programmes Clarification
3. Conflict of Interest
4. Advisory Board and its Executive Committee
5. Monitoring
IV. Mitigation and Grievances
V. SIMDP Components
1. Distribution of Funds among Components
2. TEASP
3. Social Development Programme
4. Mini-Grant Funds Component
VI. Next EM Visit

Abbreviations

AB	Advisory Board
CLO	Community Liaison Officer
EA	External Affairs
EC	Executive Committee
EM	External Monitor
IPO	Indigenous Peoples Organization
MGF	Mini-Grant Fund
PDR	Project Documentary Review
RABTC	Russian-American Business Training Centre
RF	Russian Federation
SD	Social Development
SDP	Social Development Programme
SEIC	Sakhalin Energy Investment Company, Ltd.
SIMC	Sakhalin Indigenous Minorities Council
SIMDP	Sakhalin Indigenous Minorities Development Plan
SOA	Sakhalin Oblast Administration
TEASP	Traditional Economic Activities Support Programme

Executive Summary and Key Recommendations

This report is the first¹ of a series of periodic External Monitor Review Reports to cover the life of the Sakhalin Indigenous Minorities Development Plan (SIMDP). This review covers the first seventh months of Plan implementation, from June to December 2006.

The SIMDP was launched on May 25, 2006, in Yuzhno-Sakhalinsk—capital of the Sakhalin Oblast in the Russian Federation. The product of a year of collaboration between Sakhalin’s Indigenous Peoples (called Indigenous Minorities at their own request) and the Sakhalin Energy Investment Company, Ltd., the Plan is now administered by the Company with the close involvement of both Indigenous Minorities and the Sakhalin Oblast authorities (Sakhalin Oblast Administration [SOA] and the indigenous representative to the Sakhalin Duma).

The Plan incorporates both measures to mitigate negative effects on the lives and livelihoods of Indigenous Minorities in the project area of the Sakhalin II oil and natural gas extraction and refining project, and measures to share benefits of the project with Indigenous Minorities throughout the island. The latter is delivered by way of programmes of economic development (the TEASP), health, education, culture and training (the SDP), along with a stand-alone, indigenous-directed Mini-Grant Fund (MGF). Total funding of the Plan in 2006 was budgeted at \$303,000—the first of a 5-year US\$1.5 million commitment by the Company.

Overall, SIMDP implementation is going well. The Company’s goodwill gesture to deliver the First Year’s budget within the 2006 calendar year was commendable, but it did put pressure on the new programme to organise, plan, implement, and disburse rapidly—within the seven months between Plan launch and year’s end. Given the fact that this period also saw the resignation of the Indigenous Peoples Unit Coordinator and the slow process of finding her replacement (not completed until the end of November), it is not surprising that some difficulties were experienced during the first half-year’s implementation.

The first year was conceived as a pilot year, and it is living up to that designation. Staff and the Indigenous Minorities involved with the Plan are learning what works, what does not, and what could work better. By the end

¹ An Initial External Monitor Review Report was prepared in July 2006, soon after Project Launch in May 2006, to give guidance to SEIC and the Advisory Board on Plan set-up requirements. Although disclosed to key stakeholders, this Report was not made public. By contrast, this 1st External Monitor Report and all subsequent ones will be public documents.

of the calendar year, all programmes had either disbursed their funds or determined their allocation. The partnership tested during the Plan development process has survived the first half-year of Plan implementation, and should continue as long as there is sustained Company attention to making the Plan a Company priority. Healthy indications of such commitment during the first half-year were the accessibility of senior management (both the EA Manager and the Deputy CEO) to the Indigenous Minority leadership, their respect for the process the Plan embodies, and their commitment of a substantial amount of funds to support the Plan beyond the budgeted monies placed in the Plan itself.

Key failures of the Plan during the first half-year included:²

- Governance malfunction: the Executive Committee did not function as planned
- Not securing Indigenous Minorities economic development expertise: the Indigenous Peoples Unit in the Company failed to secure the requisite expertise to help guide the economic development aspects of the Plan
- Not financing Plan support posts: although promised at the beginning of Plan implementation, after a full half-year, the Company had yet to fulfil promises of support for Indigenous Minorities working on behalf of the Plan itself (the SIMDP Project Assistant, the SIMDP Implementation Advisor, the two indigenous members of the Executive Committee).

Key challenges facing the Plan at the conclusion of its first half-year:

- Correcting the above three failures
- The Plan is long on participation, but short on strategic planning (other than a broad and thorough emphasis on capacity-building and training); this needs to be addressed
- The Indigenous Minorities and the Company need to have a dialog as to what their vision of sustainability is and how that should apply to Plan design
- Implementing partners for the TEASP and Social Development components need to be found who are competent both to implement and to mediate between indigenous and company styles
- The Company needs to determine how to maintain an impartial stance of non-interference in internal Indigenous Minorities affairs, acting as a neutral facilitator if appropriate and called upon to do so

² See below for a more detailed discussion of these issues.

- The Company needs to decide on implementation of the recommendations of the experts engaged as part of the Company's SIMDP mitigation obligations: the Fish Expert, the Marine Biologist, and the Project Documentation Review Panel
- Regarding Plan governance, there is a great need to clarify the differing roles and functions of the various Plan components
- The Company needs to address concern internally and externally regarding whether or not the new majority SEIC shareholder, Gazprom, will uphold SEIC SIMDP commitments (not only formally, but also, and most importantly, in terms of engagement and partnership).

Key recommendations elaborated within this report include the following, among others (*Note: this is not a complete list, see the main body of the Report as well*):

- √ SEIC should resolve immediately all issues of contracting for the SIMDP Project Assistant and the SIMDP Implementation Advisor for a multiple-year period.
- √ SEIC needs to commit in writing to a training programme for the new coordinator as well as for the other SIMDP support staff and clarify in writing the varying responsibilities of these different staff, including lines of reporting.
- √ SEIC needs to heighten the internal visibility of the administrative unit dealing with indigenous issues and formally establish an Indigenous Minorities Unit within the EA department.
- √ SEIC should help set a working atmosphere of transparency (including as regards selection of subcomponents and grants) and a collaborative spirit (including regular consultations with the different indigenous stakeholders).
- √ The Programme needs to prepare information for indigenous communities, including:
 - A single simple and comprehensive brochure on all SIMDP components with contact information for further assistance
 - A district by district summary of SIMDP grants awarded in the current year with information regarding which sub-components (such as in health or education) for which local people can apply, and the formula for funds distribution per district.

- √ The SIMDP should restrict membership of any individual to one committee (MGF, Social Development, TEASP).
- √ Any changes to governing body membership should be formally introduced at an Advisory Board meeting with sufficient prior notice.
- √ The Advisory Board should clarify what the criteria are for each of the three main components and these criteria should be included with the applications for that component.
- √ The EC should discuss the conflict of interest issue frankly and suggest guidelines to the AB after consultation with the SIMC, the Company, and the Sakhalin Oblast authorities.
- √ The EC should assume the leadership role mandated in the SIMDP and as spelled out in the document under "SIMDP Advisory Board Executive Committee."
- √ Develop a strategic approach to raise capacity of the indigenous monitors.
- √ The Company needs to more systematically report to the SIMC on the progress of all mitigation issues.
- √ Clarify the nature and parameters of what type of "subsistence-support" proposals can be entertained by the TEASP.
- √ Rebalance the TEASP committee, considering the geographic origin of all indigenous representatives; consider having at least one representative from each district.
- √ A multi-year plan for allocating the \$20,000 earmarked for training should be devised by the TEASP committee.
- √ Economic development capacity-building should include, among other points, a discussion on what definition of sustainable development the committee would like to apply to its TEAS Program needs to take place.
- √ A company department, such as SEIC's Social Investment Unit if appropriate, needs to work closely with both the implementation partner and the SEIC Indigenous Minorities Program Department to mentor and raise capacity.

- √ Indigenous economic development expertise should be captured by:
 - The speedy engagement of the SIMDP Implementation Advisor
 - Partnering with individuals or an organisation (such as RAIPON and/or a social science institute) with expertise of indigenous development, preferably in the Russian Federation context.

- √ Long-term (that is, for the final years of the Plan) consideration should be given to the setting up of a business centre, which would eventually provide both general economic development support and indigenous enterprise expertise.

- √ The Social Development Programme committee should develop a strategic vision for how to address the social development challenge before the SIMDP.

- √ For the SDP training sub-component, the successes of the Legal Issues Seminar held at the Duma should be confirmed with some follow-up activity.

- √ The SDP Committee should oversee an open tendering process for selection of an IPO to implement the SDP. The committee should explicitly address the question of implementation service fees when devising the tendering process.

- √ Clarify and simplify the criteria for MGF proposals.

- √ Adopt a meeting protocol to guide the MGF Committee decision-making process and address conflict-of-interest and confidentiality questions.

- √ The long-term function of the MGF needs to be kept in mind by the MGF committee and the Advisory Board as a potential model for the Indigenous Development Fund that the SIMC has promoted. MGF committee members should engage the SIMC in discussions as to how to coordinate their efforts over the life of the SIMDP to realise this possibility.

I. Overview

1. Introduction

This report is the first³ of a series of periodic External Monitor Review Reports to cover the life of the Sakhalin Indigenous Minorities Development Plan (SIMDP). This review covers the first seventh months of Plan implementation, from June to December 2006.

The SIMDP was launched on May 25, 2006, in Yuzhno-Sakhalinsk—capital of the Sakhalin Oblast in the Russian Federation. The product of a year of collaboration between Sakhalin’s Indigenous Peoples (called Indigenous Minorities at their own request) and the Sakhalin Energy Investment Company, Ltd., the Plan is now administered by the Company with the close involvement of both Indigenous Minorities and the Sakhalin Oblast authorities (Sakhalin Oblast Administration [SOA] and the indigenous representative to the Sakhalin Duma).

The Plan incorporates both measures to mitigate negative effects on the lives and livelihoods of Indigenous Minorities in the project area of the Sakhalin II oil and natural gas extraction and refining project, and measures to share benefits of the project with Indigenous Minorities throughout the island. The latter is delivered by way of programmes of economic development (the TEASP), health, education, culture and training (the SDP), along with a stand-alone, indigenous-directed Mini-Grant Fund (MGF). Total funding of the Plan in 2006 was budgeted at \$303,000—the first of a 5-year US\$1.5 million commitment by the Company.

2. External Monitor Report Methodology

The External Monitor (EM) visited the island between December 4 and December 22, 2006.

SEIC’s Indigenous Peoples Programme shared key documents with the External Monitor (most importantly, the Company’s SIMDP Semi-Annual Report and updates on the Mitigation Matrix) and arranged a series of meetings with key stakeholders, including:

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- SEIC employees (personnel running the programme and others involved with grievance procedures and management support of the SIMDP)
- Indigenous Minorities (both leadership and community members)
- Sakhalin Oblast authorities (in the Sakhalin Oblast Duma, in the Indigenous Peoples Department of the SOA, and in the Nogliki and Poronaisk Municipal Administrations)
- SIMDP governance participants (including those on the SIMDP Advisory Board, the Executive Committee, the TEAS Programme Committee, the Social Development Programme Committee, and the Mini-Grant Fund)
- Consultants advising the SIMDP (from Shell International and others)

The EM also made two visits north, one a 3-day visit to Nogliki, accompanying the three experts from the Project Documentation Review panel (see below), and one a 3-day visit to Poronaisk. This complemented the rest of the review visit, which was spent in Yuzhno-Sakhalinsk.

3. Stakeholders' Overall Evaluations

SEIC: Company staff engaged with the SIMDP demonstrated a divergence of opinion regarding the Plan's implementation and development. Overall, staff involved with the SIMDP view the Plan as going quite well, especially when considering the first year is a pilot, and the decision was made at Project Launch in May to expend the first year's fund within the 2006 calendar year—a period of only seven months. To the Company, the main successes of the pilot are the working partnerships it is building with both the indigenous community and the administration, at both the oblast and municipal levels, and its initiation of all the Plan's components. Company staff also point to successful capacity-building efforts as reflected in what they perceive as more confident indigenous self-presentation.

The key challenges as seen by some in the Company were:

- Lack of consistent management support
- Inconsistency of the Indigenous Peoples programme co-ordination partially due to lack of adequate experience of the new co-ordinator and recent shift to the Social Performance Group
- Potential conflict within the programme, since the three indigenous staff members involved represent different groups
- Potential conflict of interest challenges for the new co-ordinator, which might influence the implementation of the SIMDP and the reputation of the programme/SEIC

Indigenous Minorities involved with, or knowledgeable about, SIMDP:

Although this group is more reluctant than are most of the Company representatives to declare the Plan to be “a success” in its first half-year, it nevertheless acknowledges some good beginnings, particularly as concerns the Social Development programmes where disbursement has been rapid. Indigenous Minorities involved in the programme say they have learned much about programme design and implementation, and that they also have recognised areas where they are in need of enhanced training. They believe the process of engagement is the Plan’s strongest aspect and that participation has taught them that the key to successful engagement is the ability of all sides to compromise when necessary.

Many, particularly those less involved in Plan governance, take a more cautious approach and want to see how both the Traditional Economic Activities Support Programme (TEASP) and the Mini-Grant Fund (MGF) work through their distribution of first year fund before rendering a final judgment on Year One. Still others point to bickering over allocation of Plan resources and warn of geographic, ethnic, and kinship biases distorting Plan implementation. Having heard promises earlier of developmental aid, and then waiting in vain for its delivery, some explain that experience has taught them to wait until they see the money spent in their own communities. Given both this recent experience and the sociocultural characteristics of their community, this might be understandable. One indigenous leader explained that Sakhalin’s Indigenous Minorities have been accustomed to a paternalistic state planning and allocating all development plans and monies; now for the SIMDP, Indigenous Minorities must themselves plan programmes and learn to implement, monitor, and evaluate their own development. “Thus, the main problem is psychological. People need to learn to plan for themselves...and this will take time.”

Another sociocultural aspect affecting Plan operation is the varying, and at times competing, community factions. Aside from the different loyalties of geographic regions—of Nogliki vs. Okha, for example—there are also the nationality boundaries between the Nivkh and the less populous minorities of Uilta, Evenki, and Nanai. Locally, as well, these groups are sub-divided into kinship clans (*rod*), to which people also owe loyalties. When support in the MGF or the TEASP goes to one of these identities and not its neighbours or rivals, people tend to wonder if the award was on the merits of the case or due instead to personal ties.

4. External Monitor Overall Evaluation

Overall, SIMDP implementation is going well. The Company’s goodwill gesture to deliver the First Year’s budget within the 2006 calendar year was

commendable, but it did put pressure on the new programme to organise, plan, implement, and disburse rapidly—within the seven months between Plan launch and year’s end. Given the fact that this period also saw the resignation of the Indigenous Peoples Unit Coordinator and the slow process of finding her replacement (not completed until the end of November), it is not surprising that there some difficulties experienced during the first half-year’s implementation.

The first year was conceived as a pilot year, and it is living up to that designation. Staff and the Indigenous Minorities involved with the Plan are learning what works, what does not, and what could work better. By the end of the calendar year, all programmes had either disbursed their funds or determined their allocation. The partnership tested during the Plan development process has survived the first half-year of Plan implementation, and should continue as long as there is sustained Company attention to making the Plan a Company priority. Healthy indications of such commitment during the first half-year were the accessibility of senior management (both the EA Director and the Deputy CEO) to the Indigenous Minority leadership, their respect for the process the Plan embodies, and their commitment of a substantial amount of funds to support the Plan beyond the budgeted monies placed in the Plan itself.

Key failures of the Plan during the first half-year included:⁴

- Governance malfunction: the Executive Committee did not function as planned
- Not securing Indigenous Minorities economic development expertise: the Indigenous Peoples Unit in the Company failed to secure the requisite expertise to help guide the economic development aspects of the Plan
- Not financing Plan support posts: although promised at the beginning of Plan implementation, after a full half-year, the Company had yet to fulfil promises of support for Indigenous Minorities working on behalf of the Plan itself (the SIMDP Project Assistant, the SIMDP Implementation Advisor, the two indigenous members of the Executive Committee)

Key Challenges facing the Plan at the conclusion of its first half-year:

- Correcting the above three failures

⁴ See below for a more detailed discussion of these issues.

- The Plan is long on participation, but short on strategic planning (other than a broad and thorough emphasis on capacity-building and training); this needs to be addressed
- The Indigenous Minorities and the Company need to have a dialog as to what their vision of sustainability is and how that should apply to Plan design
- Implementing partners for the TEASP and Social Development components need to be found who are competent both to implement and to mediate between indigenous and company styles
- The Company needs to determine how to maintain an impartial stance of non-interference in internal Indigenous Minorities affairs, acting as a neutral facilitator if appropriate and called upon to do so
- The Company needs to decide on implementation of the recommendations of the experts engaged as part of the Company's SIMDP mitigation obligations: the Fish Expert, the Marine Biologist, and the Project Documentation Review Panel
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II. SIMDP Partners

1. SIMDP in SEIC

Overall, and despite some important lapses, Company management continued to demonstrate their commitment to the Plan. Following the high profile launch of the Plan last May with the Deputy CEO in prominent attendance, he—along with the two External Affairs managers directly responsible for the Plan—continued to demonstrate support and concern for the Plan. This was done in many ways, both large and small. The Company also continues to show strong support for the Plan as part of its commitment to social investment and a participatory approach. Elsewhere in Russia, these approaches have not always been successful; SEIC wants it to work in this instance and to serve as a model for national and international practice.

Counterbalancing this positive attitude was the instability of the Company unit responsible for the SIMDP Indigenous Peoples. Over the past year, the unit, whose role is to cover all indigenous issues for the Company, has twice been moved between administrative divisions (once in November 2005 and again a year later). Personnel with whom the Indigenous People have been dealing have also been in flux, with change at the top level (the EA Manager), a new Indigenous Peoples Unit (and SIMDP) Coordinator, and the failure to hire as promised indigenous SIMDP consultants.

The latter has been particularly vexing to the people involved as the Company promised to make all arrangements for their contracts last July, but as of late December had not fulfilled these commitments. It is also doubly regrettable as the people involved are all Indigenous Minorities. Combined with the Company's failure to fulfil promises of support for the two Indigenous Minorities serving on the Executive Committee, the pattern over the last half-year gave the impression that these posts were not a high priority within the Company's internal personnel structure. This was unfortunate and detrimental, given the critical period of the initial Plan launch. Full engagement, as originally envisioned for the "SIMDP Implementation Advisor," a regular (multi-year) contract for the key post of SIMDP Project Assistant, and contracted part-time support positions for the EC members might have avoided some of the start-up difficulties (e.g. TEASP lack of direction and misunderstandings as well as conflicts and jealousies over Plan implementation) that have endured throughout the past six months. The SIMDP Project Assistant in particular has been very effective in moving the SIMDP forward both within the Company and without. Her role is especially critical during the transitional period of mentoring and training for the new SIMDP Coordinator.

Part of the internal start-up effort for the Company also involved determining proper financing procedures for the Plan's components. Working with the Company's own Finance Department (streamlining the internal approvals process) and better understanding the government's Treasury Department (centralising fund disbursement) obligations the EA Department worked out procedures to enable funding disbursements to the Social Development Programme subcomponents within the targeted six-month period. By the calendar year's end, most problems had been solved and the Social Development projects had received their allotted funds.

RECOMMENDATION:

✓ The Company should clear up any hurdles to the immediate contracting of the services of the SIMDP Project Assistant and SIMDP Implementation Advisor for a multiple-year period as soon as possible.

Indigenous Peoples Unit and SIMDP Coordinator Replacement

For the Company, the most important person for the SIMDP, the founding Coordinator, announced her intention to resign early in the summer. This began a long process of recruitment that only ended when the new Coordinator came on-board in early December. Fortunately for the Plan and the Company, the previous Coordinator delayed her departure until her replacement was on the job and she could aid in the transition.

The recruitment process was in some ways a good example of the openness the Company has had to working with Indigenous Minorities. For perhaps the only time in its existence, the Company permitted third parties—in this case, indigenous representatives—to participate actively in its internal staff recruitment process, and even to appeal directly to senior management regarding their preferred candidate. Operating with flexibility and transparency, Sakhalin Energy set a new standard for collaborative engagement with Indigenous Minorities.

The Company can also be complimented for choosing an Indigenous Minority to lead the Unit and SIMDP, and for also selecting a relatively youthful candidate. This vote of confidence in the capabilities of Sakhalin's own is admirable.

However, with these accomplishments also come some challenges. As an indigenous person with a clearly defined identity and social placement in the indigenous context of Sakhalin, the new coordinator needs to demonstrate impartiality in the implementation of the Plan. As a relatively young person without deep experience in social-development programmes or in corporate practices, the new coordinator also needs to master new skills, perspectives, and approaches. She also will need to master the subtleties of serving as a liaison between the Company for which she now works and the Indigenous Minorities with whom she identifies and as an impartial administrator of a Plan which serves both her and competing groups of Indigenous Minorities. Fortunately, the management team at SEIC has indicated their awareness of the situation and, in conjunction with the new coordinator, has laid out an ambitious training and mentoring support-programme. If successful, this capacity-building could also serve as a model for similar efforts.

RECOMMENDATIONS:

√ The Company should commit in writing to a mutually-agreed upon training programme for the new coordinator as well as for the other SIMDP support staff (Project Assistant and Implementation Advisor).

√ The Company needs to clarify in writing the varying responsibilities of these different staff, including lines of reporting. To the degree that the CLO for Val is also envisioned as a support-person for the SIMDP, those obligations should be specified as well, along with lines of programme authority.

An Indigenous Space in Sakhalin Energy

For an indigenous–corporate partnership to be successful, both sides have to learn and adjust to each other’s culture and way of doing things. This has begun happening as a counterpart to SIMDP implementation. This is most noticeable in terms of the contention and dissatisfaction surrounding the TEASP. The last six months have seen vigorous disagreements on what the Program is or should be. The Company has been promoting the internationally popular “sustainable development” concept, which focuses on economic sustainability and is defined as an enterprise making enough profit to grow and develop. For

some in the Company, many proposals submitted—and some approved—did not qualify as “good,” i.e, sustainable, projects. Continuing dialogue with Indigenous Minorities in the SIMDP governance bodies has caused Company staff to begin widening their definition of sustainability beyond economic parameters, considering also social and cultural goals, like community support and retention of traditional artistic and artisanal skills. Meanwhile, their indigenous counterparts have been confronting international visions of sustainability and development and adjusting their ways of thinking as well.

Some Company staff remain sceptical of indigenous work-styles and complain, “The way I work is that if you promise something, you deliver; but with Indigenous Minorities, they promise without delivering.” This being said, the Indigenous Minorities could probably say the same thing about the Company’s ever-so-slow fulfilment of its promise to engage and fully contract Indigenous Minorities in support of the Plan, as they had promised.

To some in the Company, the marker of success of the SIMDP will be determining whether the decisions made by the Plan’s governance bodies are carried out or not. Others look to Plan success more in terms of building indigenous capacity to implement programs like the SIMDP and to adapt their community-level planning to deal with ever-changing social circumstances.

RECOMMENDATIONS:

√ All sides should recognise that the current governance structure—where SEIC is the implementer of the Plan but also a minority presence in all SIMDP decision-making bodies, save the Advisory Board Executive Committee—encourages compromises for Plan success, understanding that without recognising the need to bring your partner along, any victories may prove hollow.

√ The Company should heighten the internal visibility of the administrative unit dealing with indigenous issues. Whereas before only one person in the Company dealt with indigenous affairs and there existed no coordinated, high-profile plan, there are now three or four people directly engaged with the Plan and some others serving in supplementary governance roles, such as EC members. Thus, formally establishing an Indigenous Minorities Unit

within the EA department (or one of its subdivisions such as the Social Performance Team) would appropriately give recognition to the newfound importance of this effort.

√ The SEIC Indigenous Peoples Unit (responsible not only for the SIMDP, but for all issues involving Indigenous Minorities) should also be assigned a designated physical space for its staff. Such an office area could be equipped with the wherewithal to provide hospitality for visiting indigenous guests and other SIMDP stakeholders and visitors.

√ Each quarter, the Indigenous Minorities Unit staff and line management should meet with the Deputy CEO to provide an update of SIMDP implementation progress and issues regarding Indigenous Minorities and their relationship to the Company.

Intra-indigenous Tensions

With the launch and implementation of the Plan and its distribution of resources to some indigenous communities, tensions and personal conflicts have arisen. These responses are both regrettable and understandable. Given the factionalism and the divided loyalties of the indigenous communities on the island, it is natural for people to monitor carefully who gets what when Plan benefits are distributed. The Company should not take sides in such intra-indigenous matters, but it can accomplish much if it acts as a mediator—when necessary and requested—so as to help Sakhalin’s Indigenous Minorities to unite to focus on community-wide perspectives. There are at least three sources of legitimate indigenous authority on the island—the SIMC, the Indigenous Peoples Department of the SOA, and the Indigenous Peoples representative at the Sakhalin Duma—and the Company should respect and engage all three.

RECOMMENDATIONS:

√ SEIC should clearly spell out the roles, responsibilities, and reporting lines of all Indigenous Peoples and SIMDP-affiliated staff and consultants, and make these transparent

√ The Company can help people apply the criteria for grants and proposals openly and objectively as long as the criteria are co-designed and accepted by the Indigenous Minorities themselves

√ SEIC should help set a working atmosphere of transparency (including as regards selection of subcomponents and grants) and a collaborative spirit (including regular consultations with the different indigenous stakeholders)

2. Sakhalin Oblast and Municipal Administrations

Oblast Level

After an initially cautious approach to the SIMDP, the Indigenous Peoples Department of the Sakhalin Oblast Administration has become directly involved in partnering with SEIC and the SIMC in the implementation of the SIMDP, with its director a prominent member of the Advisory Board and TEASP committee.

As such, the SOA has a strong voice (also through a representative from the Economics Department) in SIMDP oversight—and appropriately so, as this fulfils the agreement signed last May by the leadership of SEIC, SOA, and the SIMC. Input from the Economics Department, however, has been limited due to a turnover in representatives.

By contrast, the Indigenous Minorities representative to the Sakhalin Duma has continued her high level of dedication to the SIMDP, which she began while serving on the Working Group that designed the Plan. The legislative and executive branches of the Sakhalin Oblast government are thus integral parts of the SIMDP's implementation—an important Plan achievement.

Municipal Administrations

SIMDP staff report that, on the whole, they have received valuable cooperation from Municipal Administrations (and particularly those of Aleksandrovsk-Sakhalinsky, Okha, and Nogliki) in implementing the SIMDP social-benefits components (primarily, education and health), and municipality district mayors have expressed strong support for their regions' participation in the SIMDP.

Company representatives have pointed out that this is somewhat remarkable for local government administrations in Russia, as the rule is for strict hierarchical control over all funds and programming, while the SIMDP calls for 3-way collaboration among the administration, Indigenous Minorities and the Company.

Some indigenous monitors though have commented that it is at times difficult to directly trace SIMDP fund-use. For example, for the sub-component targeting medicines for young mothers and their newborns, how can one be sure the medicines were bought with SIMDP funds and were not simply government budget purchases? These and other suspicions of bureaucratic non-performance, indifference to indigenous matters or corruption were reported repeatedly by indigenous interviewees.

RECOMMENDATION:

✓ To heighten trust between SIMDP and local administrations, the SIMDP Unit in the Company should continue to emphasise transparency in all dealings.

✓ The SIMDP Unit should ensure that comprehensive information regarding all SIMDP components (TEASP, SDP, MGF) be delivered in a timely fashion to all Municipal Administrations, and channelled expressly to the Indigenous Minorities representative in the administration and the mayor's office.

✓ The SIMDP calls for a Tripartite Review of the Plan's implementation by senior representatives of the SOA (the head of the Indigenous Peoples Department, the indigenous representative to the Duma, the Vice Governor responsible for indigenous issues and others of the VG's choosing), SEIC (the Deputy CEO and his indigenous issues staff) and the SIMC (as selected) during the fourth quarter of each year of the Plan. Given the truncated first year and the need to have more oversight during the initial period of Plan operation, the timetable for the Reviews should be adjusted as follows:

Year One Review: June 2007 (after one full year of Plan operation; mid-term in Year Two)

Year Two Review: January 2008 (after conclusion of

Year Three Review: Year Two of Plan operation)
January 2009 (after conclusion of Year Three)
Year Four Review: January 2010 (after another full year)
Year Five Review: January 2011 (after another full year and at the conclusion of the Plan)

√ The Tripartite Reviews should review the past year's SIMDP performance and consider ways to enhance collaboration amongst the three parties.

3. SIMC and Indigenous Minorities' Communities

The major indigenous interlocutor with the Plan continues to be the SIMC, although its partnering was inhibited by the Company's lack of follow-through on promises to engage some of the Council members to aid Plan implementation (see above section IIA). As for communities around the island, the Company made numerous efforts to give out information on the new Plan, and increasing numbers of applications for Plan grants indicate that the word is beginning to reach the local level. These outreach efforts also serve a mentoring function for local communities in grant-writing and other office-type skills. Nevertheless, outreach efforts suffered somewhat from being ad hoc and idiosyncratic, and complaints were heard about insufficient information on the programmes reaching their target audiences. More planning and preparation is needed for the major task that is outreach.

RECOMMENDATIONS:

√ Keep to the promised (Semi-Annual SIMDP Report, Dec 2006) quarterly on-site consultations on the Plan, reaching all municipal administrations and indigenous communities

√ Prepare information for indigenous communities, including:

- A single simple and comprehensive brochure on all SIMDP components available to communities with time frame and contact information for full information on the

individual components and application materials

- A district by district summary of SIMDP grants awarded in the current year with information regarding which sub-components (such as in health or education) local people can apply for and with an explanation of the formula for the distribution of funds per district

✓ Part of the outreach visits to local communities should include the dissemination of information about how people can get involved in SIMDP governance; this should be accompanied by a simplified chart of the Plan administrative structure

III. Governance

1. Committees/governing bodies

The SIMDP governing bodies got off to a good start and have been functioning appropriately, with the exception noted of the Executive Committee. Criticisms have been made, however, that some individuals, by serving on governing bodies in multiple functions, have an undue influence on the Plan and block the participation of a wider group of people in SIMDP governance. Others felt that not all districts or indigenous nationality groups were adequately represented. In addition, some in the Company felt that their representation on such bodies should be increased.

As for district balance, this was maintained in both the SD committee and MGF supervisory committee, but is lacking in the TEASP committee where the absence of a Poronaisk representative weakened the Programme's inclusive outreach. The TEASP, however, was ethnically balanced, but the other governing bodies were either exclusively or nearly all Nivkh, in violation of SIMDP guidelines for ethnic inclusivity (section 4.4.2).

RECOMMENDATIONS:

✓ A schedule for all governing-body meetings, including activity and decision deadlines, should be issued each year in January; such a planning document would enable information required by committee members to be distributed prior to committee meetings.

√ Restrict membership of any individual to one committee (MGF, Social Development, TEASP).

√ Any changes to governing body membership (numbers or composition) should be formally introduced at an Advisory Board meeting with at least two weeks prior notice; in any event, the AB should adopt a formal guideline on such procedures.

√ All committees should specify the length of service of their members, designating beginning and ending dates (the SIMDP sets two-year terms for the AB).

√ Both the Company and the SOA should work with the SIMC to announce upcoming SIMDP governance-body openings in all regions.

2. Programmes Clarification

One challenge facing Plan implementation, particularly during the process of reviewing applications for all Plan components (Social Development, TEASP, MGF) was confusion as to what type of projects or programmes each component would fund. The Plan clearly needs to rationalise where projects are assigned for review.

RECOMMENDATION:

√ The Advisory Board should clarify what the criteria are for each of the three main components; in case of dispute, the EC should advise component supervisory committees as to which committee should review the applications under discussion.

√ Criteria for each component should be included with the applications for that component.

√ As early as possible, the Indigenous Peoples Unit needs to issue a schedule of application, review and decision-making for the first half of the 2007 year. This needs to be set in close consultation with the SIMDP's indigenous advisors, so as to ensure any such schedule takes into account the timing of indigenous subsistence activities.

Such schedules could be reissued every six months.

3. Conflicts of Interest

The first six months of programme implementation raised a number of questions regarding conflicts of interest. Although the SIMDP acknowledges the concern and thus requires that committee members avoid discussions of proposals in which they or their families have a direct interest, this issue is nevertheless becoming one that the group needs to address as a whole. The question arises, in part, due to the relatively small number of Indigenous Minorities on the island (who are tied together by kinship bonds) and the relatively small number of community activists who participate in the SIMDP and like activities, as well as the relatively small number of community organisations proposing grants to the SIMDP. Hence, the tendency for conflict when one's own organisation, or a neighbour's, or clan member or fellow member of one's ethnic group applies to the SIMDP committee that one is serving on. The first round of grant proposals also had to deal with the delicate question of committee members submitting, and then being present for discussion of their own applications.

RECOMMENDATION:

✓ The EC should discuss the conflict of interest issue frankly and suggest guidelines to the AB after consultation with the SIMC, the Company, and the Sakhalin Oblast authorities.

4. Advisory Board and its Executive Committee

The Advisory Board met as scheduled in the SIMDP to discuss key issues. However, some AB members expressed confusion regarding the AB's role in the committees and other elements of the governing structure. In addition, the relationship between the Advisory Board and its Executive Committee was not clear to many Board members.

This is not surprising, as the Executive Committee ceased to function after a few meetings during the first month or two of the Plan's implementation. This fact hindered the smooth functioning of the SIMDP's new structures as they sought to define roles and responsibilities and they essentially had to

work out their interrelationship without the guidance the EC was supposed to provide.

RECOMMENDATION:

√ It should be clarified for the AB that the TEASP committee and the SDP Committee are both AB committees and report to the AB, which can affirm or overturn their recommendations and decisions, subject to the Company's final approval (the MGF committee's decisions, by contrast, are independent of these other bodies).

√ The name of the Advisory Board in English should be changed to closer match its Russian equivalent and its function in the Plan's implementation, i.e., to "Supervisory Board".

√ The EC should assume the leadership role mandated in the SIMDP and as spelled out in the document under "SIMDP Advisory Board Executive Committee." This document, along with an understanding of the roles and relationship of the EC to the AB and the rest of the SIMDP, should be confirmed by the EC and submitted to the AB for approval. EC protocol should also be amended to indicate how often the EC will meet and what the procedure is to call an EC meeting.

√ The Company should carry out promises made to the Board-appointed members of the EC for communications and other support. Such an arrangement needs to be spelled out in a formal contractual agreement which ties time spent on SIMDP support activities to fair and commensurate compensation.

5. Monitoring

Monitoring for the SIMDP's SDP has so far been carried out by the RABTC, the same organisation helping with the TEASP implementation. Initial trainings and mentoring have been well received by the five indigenous representatives assigned to be the SIMDP's indigenous monitors. Their workload will soon increase as it expands to cover MGF projects, TEASP

projects, and the mitigation matrix activities (if any, in their districts). One problem will be a potential conflict of interest with the monitoring of the TEASP if it is done by indigenous monitors still working through the RABTC, the implementer of the TEASP.

Some issues have been raised regarding the monitoring program:

- A number of IPOs have questioned the process of indigenous monitor selection
- Some have criticised that selection of a replacement monitor for the Tymovsk region as unilateral act by the Company, in violation of an understanding that the SIMC would be consulted on the issue; the Company disagrees that this is what happened and maintains that they make it a point to leave such decisions to the SIMC as they know their communities best.
- Regarding selection of monitors, the AB reconfirmed the process during its 18 December 2006 meeting:
 - Open community meetings of Ethnic Minorities in each district recommend a candidate to SEIC
 - SIMC considers and approves the proposed candidate as a monitor for the Plan

RECOMMENDATIONS:

√ Devise both selection and job implementation protocols for the indigenous monitors.

√ Make more public the process of SIMDP Indigenous Monitor selection, perhaps announcing an open period for nominations from IPOs and individuals in each district

√ Clarify who within the SIMDP Unit or governance structure should be responsible for supervision of the indigenous monitors.

√ Develop a strategic approach to raise capacity of the indigenous monitors and possibly IPOs to eventually carry out the monitoring function of the SIMDP by the plan's

conclusion.

✓ Barring an unusual number of problems or complaints, quarterly monitoring of each project is probably adequate, supplemented by a yearly evaluation review.

IV. Mitigation and Grievances

SIMDP Mitigation issues encompass both the Mitigation Matrix section of the SIMDP as well as the free-standing agreement to work on the issues raised therein and signed during the Project Launch in May 2006 by the representatives of the Company and the SIMC. The latter agreement interprets the Mitigation Matrix to be more of a process for dealing with issues of potential or perceived harm to the indigenous communities on the island by the Project than as a finalised document. Thus, the Matrix includes provisions for three ongoing studies of Project effects, two of which have concluded (the Fish Specialist's Report and the Project Documentation Review) and one which has yet to take place (the Marine Biologist Review).

Most issues in the original Matrix have been adequately dealt with to the satisfaction of both sides. The key outstanding issues are how to respond to recommendations for future research found in the completed reviews and to the selection and Terms of Reference for the marine biologist. There have been, however, some communication problems between the Company and the SIMC during the last six months that have delayed progress on reaching final agreement on some matrix issues.

The ability to track grievances from Indigenous Minorities is important to help determine how they are affected by the Project and the SIMDP. Since the Plan began in May 2006, the Company has moved forward with enabling its internal grievance procedure to denote whether the grievances have been filed by Indigenous Minorities. No grievances have been reported yet, although this may be partially a function of the lack of recording nationality information and partially to the reluctance many Indigenous Minorities have to fill out the formal company paperwork for documenting complaints.

RECOMMENDATIONS:

✓ The Company needs to more systematically report to the SIMC on the progress of all mitigation issues. For each AB meeting, a full status report on each Matrix issue should be submitted in writing—not just an oral presentation or summary report.

✓ As agreements are reached resolving or enacting some Matrix issues (including the PDR and the other reports), the Matrix should be updated to reflect those new commitments.

√ The SIMC needs to respond more quickly and systematically to Company requests for information or input regarding the resolution of matrix issues. The Council can perhaps designate one or two Council members to be responsible for such a liaison role. To begin with, the Company should compile a list of all such outstanding requests, and send copies to all members of both the AB and the SIMC. This should be repeated every quarter.

√ Responsibility for Mitigation Matrix issues within SEIC should return to the Indigenous Peoples Unit of the Company. This would provide continuity and integration of mitigation issues with other SIMDP activities. It would also enable the Plan's indigenous monitors to audit any mitigation activities in their districts.

√ Grievances: The Company should be sure to follow its plan to print new grievance forms that include a line requesting nationality data as an option for those who would volunteer such information.

V. SIMDP Components

1. Distribution of Funds among Components

For Year One (2006), the distribution among the main SIMDP components was roughly 45% for the Traditional Economic Activities Support Programmes (TEASP), 45% for the social development components (health, education, culture, training) in the Social Development Program (SDP) and 10% reserved for the Mini-Grant Fund (MGF). Some in the indigenous community suggested during the EM visit that this distribution formula be revised to provide a greater amount to the TEASP, with the rationale that support for social development is a governmental responsibility and that economic development for indigenous enterprises is an area currently bereft of capital investment. Others, however, thought that approach not wise and cautioned against moving funds from the very successful and popular Social Development programs.

The SIMDP was conceived as a plan-in-progress, with Year One serving very much as a pilot year. The Advisory Board should consider the experience of Year(s) One (and Two) with the original distribution-formula among the components to advise the Company regarding Year Three's distribution. Given the scheduling of a midterm evaluation in 2008, the Advisory Board might also request for this issue to be reviewed then by the evaluation team.

2. TEASP

Innovation. The TEASP represents a very significant departure for the Indigenous Minorities of Sakhalin, by their own account. "The TEASP allows people to stand up on their own feet," said an indigenous participant in the programme. The head of the TEASP committee further explained that although national government programmes had previously targeted indigenous economic development, the funds rarely reached their targets, were spent ineffectively, and the plans were never designed by the Indigenous Minorities themselves. With the TEASP, "it is Indigenous Minorities ourselves who can make these decisions, and we appreciate SEIC giving us this opportunity."

One long-time observer of indigenous life on the island also pointed out that its indigenous populations are more assimilated to Russian life and culture than are many other indigenous groups throughout the country, and that Sakhalin's indigenous groups have developed a habit of dependence on government planning, particularly during Soviet times. Given such a background, it was not surprising that the economic initiatives launched by

the new post-Soviet government in the early 1990s did not survive in most instances. Over a dozen years later, the TEASP retries to launch such plans, but this time with strong indigenous participation.

Pilot Year. Key to any evaluation of the TEASP is the recognition of its explicitly pilot nature, particularly during its first year. As such, the learning curve for all has been steep, and not without its bumps along the way. Given, too, that the SIMDP's approach of not imposing pre-formulated development paradigms, the first year saw much discussion as to what the programme goals should be and how to approach them.

The Company, after only a half-year in operation, learned some key lessons:

- That Indigenous Minorities needed more time and assistance to prepare business plans than all involved had initially assumed
- That informational workshops were needed to assist indigenous communities in developing business plan proposals
- That certain types of economic-activity support were subject to Russian Federation legislation and guidelines, which needed to be factored into the way the Programme is run
- That the Company and its Indigenous Minority partners needed more dialog regarding their differing understandings of the purposes and objectives of the TEASP
- That Company-formulated timelines had to be adjusted to the different timetables of indigenous participants, which were centred around the needs of subsistence cycles (fishing season schedules, primarily)

Committee Process. Despite many arguments over the course of the TEASP both within and outside of its committee meetings, much had been accomplished by the end of the first seven months of the Programme. Committee meetings attended by the External Monitor were professionally run and transparent. Decisions regarding individual proposals were discussed openly and safeguards against fraud and misuse of funds were suggested. Even questions of conflicts of interest involving members of the committee were dealt with satisfactorily through a process of discussion, both during and outside of the committee meetings.

Committee discussions and decisions also utilised much locally-based understanding of indigenous life and culture; the presence of indigenous entrepreneurs on the committee itself is a distinct advantage, even with the potential conflict-of-interest issue. This was made evident in the decision to approve one business proposal from a younger businesswoman; this was done partially to enable her to receive mentoring support from a more

established business woman who also received a TEASP grant—and who is a member of the TEASP committee. The possibility of such a community-based approach of mutual support would not likely be recognized or suggested by outside business consultants.

Lack of Clarity. A major dispute this first year of the TEASP erupted over the nature of the proposals to be approved by the Programme. In July, the committee decided to support both profit-oriented business plans and proposals seeking support for subsistence-based activities (mostly non-profit). This is still a point of contention. Not all are convinced that supporting subsistence proposals makes sense for the TEASP; some believe such proposals should be sent to the Mini-Grant Fund or the Culture section of the SDP and others point instead to the Sakhalin Oblast Administration.

RECOMMENDATIONS:

- √ Clarify the nature and parameters of what type of “subsistence-support” proposals can be entertained by the TEASP, including whether or not people living in cities can submit such proposals.

- √ Clarify the basis on which proposals will be evaluated by the committee during its grant-approval process.

- √ Clarify the application process:
 - Make clear what is meant by “traditional economic activities” by dividing them into categories: a) Profit-oriented business plans, and b) Non-profit Traditional Lifestyles Support proposals (subsistence or subsistence skills support).
 - For the latter (b), devise a simplified application form
 - Allocate a percentage of funds to be distributed between the two categories prior to considering applications
 - Include a question on the application forms about whether or not applications for support of the same project have been made to other funders.

Balance. With the decision prior to the Plan’s launch to allocate to Nogliki District the bulk of TEASP funds for the pilot year, it was to be expected that criticisms from those residing elsewhere would be raised against this

distribution. Such expectations were fulfilled, with critics also pointing out the predominance of Nogliki and Nivkh members on the TEASP committee.

RECOMMENDATIONS:

√ Rebalance the geographic representation on the TEASP committee, taking into consideration the geographic origin of all indigenous people serving on the committee.

√ Consider having at least one representative from each district; at the very least, one from Nogliki, Okha, Poronaisk, and Tymovsk.

√ Rebalance the TEASP committee, looking towards an appropriate ethnic balance as well.

Capacity-Building. Discussions with TEASP-connected people revealed two broad capacity-building needs: 1) general economic development, and 2) Indigenous Minorities-specific economic development. Complaints were received from community members about the difficulties of the application process (the paperwork, the inaccessibility of some semi-literate members to the process, miscommunication with the business consultants), while committee members expressed the opinion that they lacked the skills to adequately assess and guide the program. However, no plan was in place for how to use the \$20,000 allocated for training within the yearly \$140,000 TEASP budget in 2006, and the money was simply rolled over to the following year.

The Program (and the SIMDP as a whole) continues to suffer from a lack of staff expertise in indigenous entrepreneurial/business development. The RABTC consultants, although very good in dispensing general economic development advice, were allegedly handicapped by not receiving the active support of the SIMDP (indigenous) Implementation Advisor that they were supposed to have due to the Company's slow movement on hiring contracts (see above). By not understanding indigenous lifestyles, some said, this led to misunderstandings regarding what qualifies as "subsistence" in the Sakhalin indigenous context and in the submission of fishing proposals from areas that don't fish. Similarly, said one community leader, cultural components of "traditional lifestyles" (like crafts) were also left out of the mix. Yet good examples of the revitalisation of indigenous lifestyles in the RF do exist, such as in Chukotka on the mainland, where indigenous reindeer production doubled with the intervention of a planned enterprise support

program. The Russian-American Business Training Center appears to have done an overall competent job and was generally well-received; however, they lack experience with and insight into the specific economic development needs and opportunities of indigenous communities.

RECOMMENDATIONS:

√ A multi-year plan for allocating the \$20,000 earmarked for training should be devised by the TEASP committee

√ General economic development capacity-building should follow three pathways:

- Training for TEASP committee members and chair, in terms of accounting, finance and similar business-related skills. The chair of the committee should receive specialised training as necessary.
- Support to community members in preparing and submitting proposals to the TEASP. This is particularly important given the May 2006 RF regulations on non-commercial organisations (NGOs); as most TEASP proposals are submitted by such organisations, they need guidance in following the new tax and registration strictures.
- A discussion on what definition of sustainable development the committee would like to apply to its TEAS Program needs to take place. This would aid the committee in advancing towards the goal of broad consensus on its objectives and approaches to indigenous economic growth.

√ General economic development capacity-raising (as in the above three points) should be part of the scope of work of the planned TEASP implementation partner.

√ A company department, such as SEIC's Social Investment Unit, needs to work closely with both the implementation partner and the SEIC Indigenous Minorities Program Department to mentor and raise capacity.

√ Indigenous economic development expertise should be captured by:

- The speedy engagement of the SIMDP Implementation Advisor
- Partnering with individuals or an organisation (such as RAIPON and/or a social science institute) with expertise of indigenous development, preferably in the Russian Federation context.

√ Long-term (that is, for the final years of the Plan) consideration should be given to the setting up of a business centre, which would eventually provide both general economic development support and indigenous enterprise expertise. Such a centre could be supported initially by the SIMDP (and co-sponsored by other oil operators, the SOA, and others) through the TEASP training budget (which could be increased) but should aim at becoming self-sufficient and free-standing eventually.

3. Social Development Programme

The implementation of the SDP sub-components was nearly complete within seven months of project launch and within the truncated Year One timeframe. General satisfaction with the SD programs was expressed on all sides, with the Training/Capacity-Building sub-component being particularly praiseworthy. Under this sub-component the SIMDP sponsored the first-ever Sakhalin Indigenous Minorities "Legal Issues Seminar," which brought together the oblast leadership and administration with indigenous representatives to discuss indigenous development and the need for various legislative and administrative reforms and initiatives. The greatest difficulty encountered in SDP implementation was with the health-related sub-components, which involved complicated arrangements with district administrations. The SDP committee functioned well, with members of the committee participating actively in the decision-making process. The successes of the SIMDP SDP are traceable in no small amount to the competent work style of the SIMDP Program Assistant.

Municipal Administrations. Some problems arose due to the need to channel funds for some sub-components through municipal administrations, particularly the health projects. For some in those administrations, the amounts involved in the SIMDP sub-components were too small to bother adjusting their accounting and other procedures, while some professionals criticised the ad hoc nature of the expenditures, pointing out that long-lasting effects could only come about through long-lasting and committed programs. They raised a good point: should SDP funding be based on the

chance submission of funding proposals or on a systematic prioritisation of indigenous community social needs?

The health sub-component projects faced some difficulties in implementation. Most significant was the alcoholism-treatment project for which, although monies were allocated, it was hard to find people who want to receive the treatment. A problem such as alcoholism can not be treated by a clinical approach alone; it needs to be combined with community/health workers' efforts to deal with it.

Some doubts were also raised in the community as to the effectiveness of the distribution of SDP funds. Is it possible, they asked, that SDP funds would only replace and not augment government funds allocated to treat specific problems such as anaemia? These are good points, as some of the SIMDP sub-component projects are indeed supplementing the intermittent delivery of key services.

Community Responses. Those that received benefits from the SDP were very appreciative, although due to the nature of some of the sub-components (e.g. payments for treatment of dental or anaemia problems) it was hard for the community to see the distribution of funds. Some also questioned the distribution of funds per district, intimating that there was perhaps a biased distribution. However, this does not appear to be the case, as the SDP committee openly implemented a financing formula to apportion the available funds according to the number of Indigenous Minorities residing in each Municipality District.

SDP Implementing-Partner. The choice of two IPOs as the SDP co-implementers (along with SEIC) of the SDP during the pilot year has had mixed results. On the one hand, it provided the SIMDP with a vehicle for rapid and effective funds distribution and helped build the capacity of one of the few truly capable IPOs on the island. It was this formula which contributed to the successful implementation of the SDP in such a short time. On the other hand, the sole-sourced selection of Kykh-Kykh as the major outsourced co-implementer raised criticism and fuelled suspicions of skimming off of SIMDP funds. Fortunately, these suspicions appear unfounded, as the monies were held in special and transparent accounts, and Kykh-Kykh generously did not retain percentages of the funds as a service charge—although that would be the usual practice for any implementing partner. The Advisory Board at its annual meeting in December 2006 discussed this question and approved a recommendation to the Company to pursue an open bidding process for the selection of future SDP implementers, beginning in 2007.

RECOMMENDATIONS:

√ The Social Development Programme committee needs a strategic vision for how to address the social development challenge before the SIMDP. The committee should discuss how it can rationalise its approach to social development in consultation with experts on indigenous social development and in the Sakhalin oblast and municipal administrations.

√ Part of that discussion on determining a vision for social development could include a needs assessment. The health portion of that needs assessment (perhaps drawing on SOA Health Department previously existing reports/analyses) could advise the SDP committee as to the stress to put on various health conditions, including alcoholism. As regards the latter, it is critical to involve the SIMC and other indigenous groups in formulating a community-wide approach to this issue.

√ Ensure that the SOA social development-related departments (Education, Health, Culture) have a robust representation on the SDP committee; at the very least they should provide advice and input to committee decisions by way of consultation.

√ Include a representative from the SOA Ethnic Minorities Department as at least an observer-consultant to ensure coordination of Plan sub-components with SOA programs.

√ Train monitors to follow the money trail regarding the delivery of SDP sub-component project funds.

√ Publicise the funding formula based on district indigenous population for distribution of SDP funds in the interests of transparency and clarity.

√ Check to ensure that the allocation of funds per region does indeed match the intent of the agreed-upon funding formula and report the results to the Advisory Board.

√ For the educational sub-component, endeavour to encourage future support for indigenous schools be spread to schools in districts that have yet to receive SIMDP

assistance.

√ For the training sub-component, the successes of the Legal Issues Seminar held at the Duma should be confirmed with some follow-up activity; all future capacity-building efforts should be coordinated with the SIMC to ensure the most effective participation of Indigenous Minorities on the island.

√ As many SDP applicants are organisations, allow the submission of electronic applications alongside those in hard copy; prepare a sheet of instructions to accompany the application sheet.

√ The SDP Committee should oversee an open tendering process for selection of an IPO to implement the SDP. It should report the results of the process to the Advisory Board for the latter's information. At the Advisory Board's next quarterly meeting, they could review and comment on the selection process.

√ The committee should explicitly address the question of implementation service fees when devising the tendering process.

4. Mini-Grant Fund

After a delayed start due to indigenous subsistence schedules and the need for preparatory training, the Mini-Grant Fund committee worked assiduously and completed the entire grant application process and grant-awarding process during the last quarter of the year. They had a steep learning curve, which was aided by the chair and the secretary both having received training in grant activities in Moscow.

The process was thus also a bit rushed this year and adequate time was not given to support those people interested in applying for the grants. Most applicants asked for the maximum award amounts and many for simple gifts of equipment, which the committee's Company advisors suggested the Committee turn down or pass along to other SIMDP components. This caused some hard feelings in the community.

Some criticisms received, including some raised by committee members themselves, included:

- The paperwork was too complicated, particularly to those not tied to an organisation or institution; some were intimidated by this into not applying; only one of the 45 applications received filled out all the forms correctly
- Not all organisations had computers to access the forms online and those that do were generally not equipped with the Excel software program to open the application forms
- The criteria were not too clear and it was hard to figure out what proposals were appropriate to submitted to the MGF and which to the TEASP or the SDP or even to the SOA. [This reflects a problem the other SIMDP component committees had and was discussed above in this report]
- Committee members often did not receive the application forms to review until the same day or the night before decisions needed to be made

Committee Process. For the brief period of organisation that they had, the committee members displayed a remarkable amount of rapid learning and professionalism. During the proposal review sessions observed, they asked good questions regarding the objectives and content of proposals and carefully weighed the likelihood of a project's successful implementation. At the same time, they displayed an awareness of their own lack of experience and both acknowledged their need for more training (e.g., in RF laws and regulations and grantsmanship) and their reliance on expert opinion to guide their decisions.

The latter was particularly in evidence as committee members confirmed all the recommendations made by a small group of non-committee experts regarding which proposals to fund. So too the committee members must confront the conflict-of-interest issue that arose this year and which will arise again when committee members have proposals before them that have been submitted by other committee members or by their relatives and neighbours.

The Experts Group. The small group of non-committee members who advised the MGF committee served an invaluable function during this initial start-up year. They are mentoring the committee members in the art of grantsmanship. Nevertheless, their work also needs to be regularised and fit into a larger planning framework. Questions regarding who should be present at their meetings, or if they should meet as a group or separately to evaluate proposals, and if this ought to be done in writing and submitted to the MGF committee, all need to be discussed and decided upon by the MGF committee itself.

RECOMMENDATIONS:

√ Need to support people interested in applying to the MGF: hold seminars in every district and simplify application process and forms ensuring that unnecessary questions are purged.

√ Provide software programs (and training if required) to organisations lacking them if the application forms require people to use those programs.

√ Clarify and simplify the criteria for MGF proposals (and differentiate from TEASP and SDP proposals): Should there be a cap for project % allocated for equipment? Should the maximum allowable grant be lowered? Should ways be found to encourage people to apply for smaller funding amounts; i.e., to truly make it a *mini*-grant fund? Any criteria set should be made public and distributed with application forms.

√ The MGF supervisory committee members might also consider asking community members to provide suggestions for both grant criteria and long-term fund goals during consultations

√ Give MGF committee members adequate time prior to MGF proposal discussing meetings to review the applications.

√ The MGF committee needs to adopt a meeting protocol to guide its decision-making process and to address conflict of interest and confidentiality questions.

√ The long-term function of the MGF needs to be kept in mind by the MGF committee and the Advisory Board. Already it has a unique function in the SIMDP as the only committee whose decisions are not subject to confirmation by either the Advisory Board or the Company. Furthermore, as potentially a model for the Indigenous Development Fund that the SIMC has promoted, the MGF committee members should engage the SIMC in discussions as to how to coordinate their efforts over the life of the SIMDP to make this a possibility. In this context,

then, the functions of the Experts Group should eventually be transferred back to the MGF committee itself as the committee prepares for the day when the MGF can assume a larger than SIMDP role.

VI. Next External Monitoring Visit

RECOMMENDATION:

√ For ease of planning and to make each visit the most productive, the Company should arrange the visit of the EM to coincide with meetings of all SIMDP bodies, including the Advisory Board and the EC, MGF, SDP, and TEASP committees.