



COMPLIANCE MONITORING REPORT

*IFC Investments in Lydian International (Projects #25924 and #27657), Armenia
Complaints 01 & 02*

**Monitoring of IFC's Response to:
CAO Investigation of IFC's Investments in
Lydian International (Amulsar Gold Project), Armenia**

October 2, 2018

Office of the Compliance Advisor Ombudsman (CAO)

About CAO

CAO's mission is to serve as a fair, trusted, and effective independent recourse mechanism and to improve the environmental and social accountability of IFC and MIGA.

CAO (Office of the Compliance Advisor Ombudsman) is an independent post that reports directly to the President of the World Bank Group. CAO reviews complaints from communities affected by development projects undertaken by the two private sector arms of the World Bank Group, the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA).

For more information about CAO, please visit www.cao-ombudsman.org

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Introduction

CAO's compliance function carries out investigations of IFC/MIGA's environmental and social (E&S) performance with the objective to ensure compliance with relevant requirements and improve the E&S performance of the institutions.

Following a CAO compliance investigation, CAO monitors actions taken by IFC/MIGA until it is demonstrated to CAO that the compliance findings are being addressed.

CAO's monitoring considers IFC/MIGA's response to a compliance investigation at two levels:

- a) Actions taken or proposed by IFC/MIGA that respond to CAO findings at the project level.
- b) Actions taken or proposed by IFC/MIGA that respond to CAO findings at the level of IFC/MIGA policies, procedures, practice or knowledge.

While the first level of analysis aims at addressing project-level concerns, the second level is designed to track progress in IFC/MIGA's approach to the identification and management of E&S risks.

This is CAO's first monitoring report documenting CAO's assessment of IFC's response to its investigation of IFC's investments in Lydian International and its Amulsar Gold Project in Armenia ("the compliance investigation").¹ This report documents IFC's response to the compliance investigation in the period August 2017 – August 2018.

The CAO Compliance Investigation

The compliance investigation relates to IFC's investment in Lydian International Ltd. ("the company") and its Amulsar Gold Project, a gold mining project located 170 km south of Armenia's capital Yerevan.

IFC first invested in the company in 2007 to finance exploration activities and feasibility studies for Lydian's mineral resource properties in Kosovo, Armenia and Turkey. This initial investment was followed by eleven additional investments between 2008 and 2015. IFC has invested \$16.4 million since 2007 and held equity shares in the company until May 2017. In December 2015, the company announced that it had entered into agreements for a \$325 million construction financing package of the Amulsar Gold Project with two main lenders. The total financing needs to fund the construction of Amulsar were estimated to be \$395 million. In May 2017, IFC sold all of its shares and is no longer an investor in the company.

The compliance investigation was initiated in response to two complaints submitted in April and July 2014 by community members living near the mining area, with the support of local and national NGOs. The complainants raised a broad range of environmental and social concerns. These included future environmental impacts of the project on water, dust, seismic risks, radioactive risks, and biodiversity. Social impacts such as the adequacy of the land acquisition process, impacts on the tourism sector in the nearby spa town of Jermuk, risks of social impacts on the community of Gndevaz (including health, livelihoods, well-being of the community), and concerns related to consultation and stakeholder engagement, were also raised. More generally, the complainants alleged that IFC did not ensure the company's compliance with IFC's environmental and social requirements.

¹ The CAO investigation, IFC's response to the investigation and related materials are available on the CAO website. See <https://goo.gl/xFJ1yy> and <https://goo.gl/6ndD2u>.

The compliance investigation was released in August 2017. It made both compliance and non-compliance findings in relation to IFC's due diligence and supervision of the project. Project-level findings that CAO found should remain open for monitoring were:

- CAO's non-compliance finding in relation to the assessment of impact on Jermuk's brand as a tourism center; and
- CAO's non-compliance finding in relation to the assessment of project impacts on the people of the town of Gndevaz.

The investigation also considered a range of specific environmental concerns raised by the complainants. In relation to these issues,² CAO found that IFC's early supervision of the project was not sufficient to give assurance that the client was in a position to meet the requirements of Performance Standard 6 in relation to critical habitats.³ CAO found, however, that IFC's review of the project's international environmental and social impact assessment (ESIA) process was commensurate to risk.

A summary of the findings as presented in the August 2017 report is set out in Annex 1.

IFC's Management Response to the Investigation

A management response from IFC was released together with the investigation report in August 2017.⁴

While IFC's response outlined a number of systems-level improvements made throughout the years of IFC investment in the company, it did not propose actions to address the investigation's project-level findings.

IFC's response acknowledged CAO's observation on the usefulness of guidance to IFC staff for early-stage investments. IFC reported that it had recently formalized existing practice into documented procedural guidance for the E&S appraisal and supervision of phased development projects (IFC Environmental and Social Review Procedure 13).⁵ IFC noted that ESRP 13 provides more explicit guidance on the appraisal and supervision of early-stage projects, and that it makes clear that IFC's appraisal of early-stage projects should consider actual on-the-ground risks and impacts of IFC financing.

IFC's response noted that the approach of ESRP 13 was consistent with the risk-based approach taken with the Lydian investment in 2007. Nevertheless, IFC recognized several shortcomings at pre-investment stage, as identified in CAO's investigation, but reported that it had since taken adequate steps to ensure the company's compliance with IFC requirements.

Regarding CAO's two main non-compliance findings, IFC reported (a) that it had engaged with the company to better assess potential impacts of the project on Jermuk's brand as a resort town, and to ensure adequate attention to support the tourism sector; and (b) that it disagreed with CAO's non-compliance finding related to the assessment of potential project impacts on the people of Gndevaz.

² Environmental issues within the scope of the compliance investigation included risks of ground and surface water contamination; seismic risks; radiation risks; risks of contaminated dust deposition; risks of impacts on rare and endangered species.

³ IFC, Performance Standard 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources, 2012 - <https://goo.gl/Q2B3xU>

⁴ IFC's Response to CAO Compliance Investigation Report of IFC's investments in Lydian International – <https://goo.gl/VtBA2j>.

⁵ IFC, Environmental and Social Review Procedures, October 2016 - <https://goo.gl/4QVu4Q>

Finally, IFC's response noted that, given Lydian had succeeded in attracting funding for mine development from private sector sources, IFC had divested its investment in the company in May 2017 and was therefore no longer supervising mine development.

Observations from CAO Monitoring (Aug. 2017 – Aug. 2018)

This section summarizes CAO's monitoring observations regarding IFC's actions undertaken to address the compliance investigation findings at project level, and at policies, procedures, practices and knowledge level.

The information contained in this section draws from:

- A review of IFC's documentation;
- An update by IFC to CAO (June 2018);
- Discussions between CAO and the complainants (July and August 2018);
- An update by the company to CAO (August 2018); and
- Publicly available information, including media articles and monitoring outcomes by the Amulsar Independent Advisory Panel ("the Panel").⁶

This section also summarizes recent events that have taken place at Amulsar in the changing political context of Armenia.

Project-level response

IFC did not report any actions to address the compliance investigations findings at project level. These include findings in relation to:

- a) IFC and the company's approach to **the assessment of impacts on Jermuk's brand as a tourism center**; and
- b) IFC and the company's approach to **the assessment of project impacts on the people of Gndevaz**.

IFC reported to CAO that, given that it had divested its investment in Lydian, it had not had any material interactions with the company or been provided any non-public information since its exit.

Considering the absence of actions reported by IFC, this section summarizes CAO's findings, IFC's official response to the findings, publicly available information, and the company's perspective on the issues.

Assessment of project impacts on Jermuk's brand as a tourism center

CAO investigation findings

CAO's investigation found that IFC's supervision of the ESIA process in relation to potential impacts of the project on Jermuk's brand as a resort town had not been commensurate to risk.

CAO noted that adverse impacts on perceptions of the town were recognized as potentially leading to reductions in visitor numbers. In this context, analysis of the project's impact on tourism was required. While IFC took appropriate measures to ensure that Jermuk was included in the area of influence of the project, CAO found that IFC did not have assurance that impacts that may affect Jermuk's brand as a tourist center were adequately assessed. Potential impacts include

⁶ The Amulsar Independent Advisory Panel is a group of experts set up by the company to monitor the Amulsar project's environmental and social performance. The Panel is expected to release annual reports on the project's E&S performance, for an initial period of three years (2017-2020). See <http://www.amulsarpanel.com/>.

those from blasting noise, visual disturbance, and more general perceptions that arise from the project's proximity to the town.

IFC's response

In its official response to the investigation, IFC recognized that “the potential impacts of the mine on Jermuk’s ‘brand’ as a resort town had not been fully considered as part of the ESIA.”⁷ However, IFC did not believe that potential impacts on a brand merely based on a change in public perceptions could be fully quantified in an ESIA. IFC reported that it had engaged with Lydian to ensure that adequate attention was brought to supporting the tourism sector through their communication strategy, engagement with local authorities and community investment strategy. The focus was on supporting tourism at the municipal level, supplemented by an independent third-party participatory monitoring program of potential impacts on water.

Status of the issues

The May 2018 report of the Amulsar Independent Advisory Panel⁸ addressed the issue of project impacts on Jermuk as a tourism center.

The Panel recognized that Jermuk is one of Armenia's primary resource-based tourism centers, and outlined concerns expressed to the Panel about the proximity of the Amulsar mine development to the town, and its compatibility with the tourism values of the area.

The Panel reported that Amulsar’s proposal to support the development of Jermuk National Park could prove transformational to the area's touristic attractions – although the Panel noted concerns about the slow pace of its implementation. The Panel also noted that Jermuk has several areas of dereliction and less attractive features. However, the municipality of Jermuk has plans for the revival of the town as a modern health center, with spa and tourist center, and the Panel noted that the company has done much to contribute to these developments and to counteract economic decline.

The Panel further noted that it believed the mine to be located far enough from Jermuk, and in sufficiently undulating landscape not to be a significant noise or visual detraction for the majority of visitors.

The Panel noted potential to develop the mine as an additional touristic attraction of the area, which would increase interest in responsible mining, and provide information on local fauna and flora, for example. Additionally, it noted support to ESIA proposals to establish a gold-themed museum in Jermuk, which could incorporate some archaeological finds from the mine site as well as an explanation of the mining process.

In its recommendations to the company, the Panel noted: “in light of the finding of the World Bank's Compliance Advisor/Ombudsman that the project's impact on local tourism is a potential area for improvement, Lydian might wish to work with relevant authorities in catalyzing a new tourism strategy for the area.”⁹

Company's perspective

The company reported to CAO that it has been trying to make progress on the assessment of potential project impacts on the brand of Jermuk as a tourist center. It acknowledged, however, challenges in gathering baseline data on tourism. The company is considering several options to conduct a proper assessment, including the hiring of an international expert on this issue. It further noted efforts to monitor hotel and rental apartments prices and occupancy rates monthly (commitment for three years), as a proxy to evaluate potential project-related impacts. It also

⁷ IFC's Response to CAO Compliance Investigation Report of IFC's investments in Lydian International – <https://goo.gl/VtBA2j>.

⁸ Amulsar Independent Advisory Panel, Annual Report 2017-2018, May 2018 – <https://goo.gl/KVGVzz>

⁹ *Ibid.*, pages 47 and 54.

reported investments of over US\$ 130,000 in the assessment of potential ski infrastructure development, and the preparation of tourism development programs for Jermuk, as well as over US\$ 2.5 million invested through local procurement by the company's contractors, mostly from Jermuk.

CAO assessment of IFC's actions

The observations of the Amulsar Independent Advisory Panel in relation to potential impacts of the project on Jermuk tourism refer to CAO's findings, and the company reported it was in the process of assessing potential impacts. Nevertheless, IFC did not seek assurance that CAO's findings were addressed after its divestment from the project. Therefore, CAO finds IFC's response to the finding to be unsatisfactory.

Adequacy of assessment of project impacts on the community of Gndevaz

CAO investigation findings

CAO's investigation found that IFC lacked assurance that project impacts on the community of Gndevaz had been subject to an integrated assessment which considers "all relevant E&S risks and impacts", a prerequisite for the development of mitigation plans as required by PS1.

CAO noted that the ESIA and project management plans had captured or addressed many of these impacts on a discreet basis, and these individual assessments were recognized as achieving a high international standard. In addition, CAO recognized potential positive impacts for the community. Nevertheless, CAO found that changes to the project design after 2013 led to a potentially significant increase in impacts – positive and negative – on Gndevaz. These changes required assessment of the combined or cumulative risks and impacts of the various project components on the well-being and resilience of the community of Gndevaz as a whole—with associated consultation, mitigation, and monitoring measures, beyond those which were contained in the ESIA.

CAO also found gaps in IFC's guidance associated with the Performance Standards in that it does not elaborate on how to ensure that a full and integrated assessment of the combined or cumulative social effects of a project is undertaken.

IFC's response

In its official response, IFC stated that it disagreed with CAO's assessment.¹⁰ It noted that it was IFC's professional judgement that the ESIA sufficiently considered impacts on Gndevaz through an integrated assessment considering the different types of impacts from the point of view of the community, and that this was reflected in several management plans.

IFC further noted that the project environmental and social management system (ESMS) includes a monitoring program which was expected to evaluate the effectiveness of the mitigation measures of all management plans through regular monitoring. The results were expected to be shared with the community and progress of implementation to be reported to company senior management on a quarterly basis.

Status of the issues

The May 2018 report of the Amulsar Independent Advisory Panel¹¹ reported concerns from residents of Gndevaz that there was often dust from the fields in the village, and noted that the issue of dust was likely to be an ongoing challenge given the proximity of the mine infrastructure to the village and its surrounding fields and orchards.

¹⁰ IFC's Response to CAO Compliance Investigation Report of IFC's investments in Lydian International – <https://goo.gl/VtBA2j>.

¹¹ Amulsar Independent Advisory Panel, Annual Report 2017-2018, May 2018 – <https://goo.gl/KVGVzz>

The Panel further noted that it considered, in some cases, that complaints about dust were a proxy for addressing other underlying concerns or interests by the residents, such as the desire to sell more land to the company, the need for jobs, concern over claims by apricot buyers that fruit will be less valuable as a result of proximity to the mine, etc. The Panel noted that the company should be aware that addressing the dust issue itself would only address some issues raised by the residents of Gndevaz.

The Panel recommended that the company's community engagement team should analyze these underlying interests, for which dust is used as a proxy, and develop strategies for solving or mitigating each of them.

In its recommendations to the company, the Panel noted that (a) dust should be a focus for a possible participatory monitoring initiative,¹² and (b) the company should facilitate local communities in a process for defining their vision for the future both during and after the end of mining.¹³ In this regard, the Panel strongly recommended the company to persist in its engagement with local people to support them in defining what the success criteria should be for the local community and the mine in working together to support development.¹⁴

Company's perspective

The company reported to CAO that it had been moving forward with measures from the project's Livelihoods Restoration Plan (LRP), and that many projects were developed for the community of Gndevaz. It reported \$ 925,000 of community investments for the period 2016-2018,¹⁵ while the planned allocation was \$ 140,000 per year for the same period. The company further reported that around 80% of households affected by land acquisition have directly benefited from various LRP programs, while others have benefited from jobs and inclusion in social programs.

CAO assessment of IFC's actions

CAO notes that IFC did not propose actions in response to the investigation's finding regarding potential cumulative social impacts on the people of Gndevaz. The concerns identified in CAO's investigation were further developed in the Amulsar Independent Advisory Panel's report, which noted that dust issues may be a proxy for underlying concerns regarding the future of the village and potential social impacts on the community. Nevertheless, CAO finds IFC's response to the finding to be unsatisfactory.

Response at the level of IFC policies, procedures, practice or knowledge

IFC reported steps taken to address the investigation findings at policies and procedures level. In particular, IFC reported improvements to its procedural guidance to staff for the appraisal and supervision of early-stage projects like the Lydian investment.

IFC released new procedural guidance describing its E&S approach for phased development investments in October 2016 as part of its updated Environmental and Social Review Procedures (ESRP) Manual.¹⁶ ESRP 13 describes processes for E&S appraisal and supervision of IFC investments in "phased development projects." Early equity mining investments, such as IFC's investment in Lydian, would fall within the scope of ESRP 13.

¹² Amulsar Independent Advisory Panel, Annual Report 2017-2018, page 26, May 2018 – <https://goo.gl/KVGVzz>

¹³ Amulsar Independent Advisory Panel, Annual Report 2017-2018, page 48, May 2018 – <https://goo.gl/KVGVzz>

¹⁴ *Ibid.*

¹⁵ Investments to date include the following areas: rural infrastructure; best practices and new technologies in agriculture, horticulture, animal husbandry development; food processing and local structure development – Cooperatives; skills learning aimed at income generation; business promotion (22 small businesses in Gndevaz); health services and education.

¹⁶ IFC, Environmental and Social Review Procedures Manual, October 2016 – <https://goo.gl/Uc2Xqz>.

In previous compliance monitoring processes, CAO has discussed key aspects of ESRP 13.¹⁷ CAO noted that certain aspects of ESRP 13 indicate a strengthened approach to project categorization, E&S risk analysis and mitigation. CAO also noted that ESRP 13 is unclear about how IFC specialists should address early phase investments in challenging environmental and/or social contexts. More generally, CAO raised concerns that ESRP 13 reads as an explanation of IFC's "phased development" financing model and does not engage with legitimate concerns regarding mine development that affected communities may have at the pre-construction phase.

Regarding CAO's investigation finding that there were gaps in IFC's guidance on how to ensure that a full and integrated assessment of the combined or cumulative social effects of a project is undertaken, IFC has not reported actions to CAO.

Recent events at Amulsar and complainants' perspective

Recent events

There was a change in government in Armenia in May 2018 following anti-government protests during April and May 2018. Since these events took place, the country has been encountering a major political shift, fostering increased civil society activism. Demonstrations and road blockades have occurred throughout the country, primarily targeting the mining sector, including the Amulsar project. Several road blockades took place at Amulsar from May to August 2018, preventing construction equipment from entering the site. In a public statement, the company reported that, as of June 28, 2018, access to Amulsar had been blocked for a total of 14 days.¹⁸ The company later reported that road blockades continued during the entire month of July 2018.¹⁹

According to the complainants, protesters included residents of Gndevaz, Jermuk, and Kechut, in the Vayots Dzor Province. They also claimed that Gndevaz residents employed at Amulsar had joined these protests.²⁰ Other sources have reported protests by Lydian workers in Yerevan, demanding the Government to help reopen the roads.²¹

Support to the protests was expressed by several tourism operators of Jermuk in May 2018, "urg[ing] the government to pay attention to the development of tourism, to direct investments to this field, as the tourism opportunities available in Jermuk are sufficient to solve the unemployment issue completely, without having to develop the mining industry."²²

On July 6, 2018, the Prime Minister of Armenia visited the project area, accompanied by representatives of the company and of the complainants. Following its visit, the Prime Minister called for a fact-based approach, and suggested "establishing a trustworthy trilateral mechanism with the involvement of government officials, environmentalists, and Lydian Armenia representatives to look into the [alleged breaches of environmental standards]."²³ He further noted that such process should be carried out to provide credible answers to two key questions – whether the operations of the mining site affect the quality of water resources and the future development of Jermuk as a resort town.²⁴

¹⁷ See CAO Compliance Monitoring Report, Eco Oro, June 2018 – <https://goo.gl/XUoUKE>

¹⁸ See Lydian International, "Lydian Reports Recent Illegal Road Blockages Near Amulsar," June 28, 2018 - <https://goo.gl/n1HVwo>

¹⁹ See Lydian International, "Lydian Provides Corporate Update," August 2, 2018 - <https://goo.gl/HrT2gy>

²⁰ See Ecolur, "Gndevaz Residents Blocked Roads Running to Amulsar and Demanding To Stop Amulsar Project," May 19, 2018 - <https://goo.gl/DEyDED>; Hetq, "Residents Block Roads to Amulsar Mine for Third Day," May 21, 2018 - <https://goo.gl/cW1Aor>; Ecolur, "Citizens Having Blocked Roads Leading to Amulsar Applying to Armenian PM," June 27, 2018 - <https://goo.gl/L7YWkG>

²¹ See Armenpress, "Lydian Armenia workers protest outside government, demand to open road to Amulsar mine," July 2, 2018 - <https://goo.gl/nwVsnR>; Mediamax, "Lydian workers gathered at the Government building" (in Armenian), August 13, 2018 - <https://goo.gl/cPuc43>

²² See Hetq, "Jermuk Spas and Hotels Support Residents Opposed to Amulsar Mine," May 22, 2018 - <https://goo.gl/5ixvxp>

²³ See Prime Minister of the Republic of Armenia, "PM meets with citizens protesting against Amulsar mine commissioning and Lydian Armenia representatives," July 6, 2018 - <https://goo.gl/hqsGKn>

²⁴ See Azatutyun, "Pashinian Advocates 'Fact-Based' Decision On Amulsar Gold Mine," July 6, 2018 - <https://goo.gl/6PgR6f>

On August 2, 2018, the company reported that due to blockades and the impossibility for the company and its contractors to access the construction site since late June, it had to issue termination notices to approximately 30% of its workforce (100 employees). In addition, the company noted that all construction contractors have been idle, which impacts roughly 1,000 contractors.²⁵

Complainants' perspective

In an August 2018 update to CAO, the complainants referred to the recent events around the Amulsar project site and provided their perspective on the status of the project, as well as on IFC's and the company's response to the CAO investigation.

Firstly, the complainants noted a major shift in Armenia following changes in Government, and the appointment of a Prime Minister that they consider has wide popular support. According to the complainants, who referred to various articles,²⁶ these changes have led to the uprising of population concerns regarding environmental hazards, and to a call to resist mining projects that have long been disputed, including the Amulsar project. In addition to these rising concerns, the complainants reported several incidents that allegedly occurred in the past year around the Amulsar project, such as damages to a drinking aqueduct in Gndevaz due to construction works at Amulsar,²⁷ pollution of the Arpa river and damage to a local fish farm,²⁸ and regular presence of dust from the construction site in Gndevaz and Jermuk.²⁹

Secondly, the complainants pointed to expert assessments of the Amulsar project that they have commissioned regarding the project's potential environmental impacts.³⁰ They noted these assessments confirmed the complainants' concerns that the Amulsar project poses serious threats of contamination to Armenia's waters, and that there are no assurances that future negative impacts would be mitigated. They further alleged that the company had taken their experts' statements out of context and misinterpreted the assessments' conclusions. They add that the company had been conducting an aggressive communications campaign against opponents to the project. In response to these allegations, the company has released a public response,³¹ which included additional information on the company's approach to adaptive management of Acid Rock Drainage (ARD) for the project,³² as well as detailed comments on the assessments commissioned by the complainants.³³

The complainants also noted their dissatisfaction with some aspects of CAO's 2017 investigation report, particularly in relation to the compliance review of environmental issues, considering that CAO over-relied on the company's data interpretation rather than broader sources of information, including studies commissioned by the complainants.

Finally, in relation CAO's findings regarding potential project impacts on Jermuk's brand, and the assessment of impacts on the people of Gndevaz, the complainants reported that (a) no further assessment of impacts on Jermuk has been conducted and/or publicly presented to local and

²⁵ See Lydian International, "Lydian Provides Corporate Update," August 2, 2018 - <https://goo.gl/HrT2gy>

²⁶ See Eurasianet, "Mining dispute threatens Armenia's post-revolutionary political consensus," July 24, 2018 - <https://goo.gl/YPpnwM> and EVN Report, "Amulsar: Gold Over Water?," July 3, 2018 - <https://goo.gl/6Qsh69>

²⁷ See Lydian Armenia, "Waterline accident during construction," February 7, 2018 - <https://goo.gl/wEseyT>

²⁸ See amateur video at <https://goo.gl/9ZSudQ>

²⁹ See Armecofront, Youtube video, April 30, 2018 - <https://goo.gl/DdjQR6>

³⁰ See Armecofront, "Amulsar: conclusions of international renown experts" - <https://goo.gl/7PpyWa>

³¹ See Correspondence from Lydian to Mr. Harry Bronozian, November 1, 2017 - <https://goo.gl/ou97HP>

³² Lydian International, Amulsar Gold Mine, Further details of Lydian's approach to adaptive management of ARD, October 2017 - <https://goo.gl/vv46XE>

³³ Lydian Armenia, Amulsar Gold Mine, Response to Reports Prepared for Mr. H. Bronozian, August 18, 2017 - <https://goo.gl/b7Avpd>

national stakeholders; and (b) no actions have been taken in relation to impacts on Gndevaz, despite the several incidents reported above.

Conclusion

IFC has not reported a project-level response to CAO's findings, noting that since IFC divested in May 2017, it has not had any material interactions with the company.

Relevant to CAO's findings, however, the Amulsar Independent Advisory Panel has acknowledged concerns related to the project's impacts on the community of Gndevaz, as well as on the future of Jermuk as a tourism center. The company reported to CAO that it was in the process of assessing potential project impacts on Jermuk as a tourist center, and that it was monitoring impacts on the community of Gndevaz.

As reported to CAO by the complainants, the company's response to the investigation has not been satisfactory from their perspective. They note rising opposition to the project, as well as several project-related impacts that have already occurred on the village of Gndevaz and the town of Jermuk. They allege that the company has not taken action in response to these incidents, nor has it addressed the CAO investigation findings in relation to potential impacts on Gndevaz and Jermuk.

While noting both the complainants' ongoing concerns regarding project impacts and the company's engagement with the investigation findings, it is outside the mandate of CAO to reach conclusions on the adequacy of these measures, absent IFC's involvement.

At the level of policies, practice, procedures and knowledge, IFC has reported that it had previously improved its procedural guidance to staff for the appraisal and supervision of early-stage projects like Lydian, in the form of IFC's Environmental and Social Review Procedure 13 for Phased Development Projects, disclosed in October 2016.³⁴ CAO notes, however, that no actions were proposed or taken to address gaps in IFC guidance on how to ensure that a full and integrated assessment of the combined or cumulative social effects of a project is undertaken, as identified in the CAO investigation report.

Overall, CAO finds that IFC's response to the compliance investigation has only partially addressed the findings at systems-level, and has not addressed its project-level findings. Nevertheless, CAO has decided to close the two cases related to IFC's investments in Lydian, considering that IFC has no ongoing investment in the company, and in light of IFC's decision not to engage in a project-level response with its former client or the complainants.

³⁴ IFC, Environmental and Social Review Procedures Manual, October 2016 – <https://goo.gl/Uc2Xqz>.

Annex 1 – Summary of Investigation Findings

IFC's Appraisal and Supervision	
Pre-Investment E&S Review	<p><u>CAO finds that IFC's E&S review did not meet the standard of being commensurate to risk.</u></p> <p>In the absence of E&S information from the client and lack of a site visit by an IFC E&S specialist, expert scoping of E&S risks at Amulsar would have been appropriate. CAO also notes an overreliance by IFC on statements of commitment by the client's management. Given the complexity of the project, acknowledged gaps in client capacity, and its lack of E&S track record, a more detailed and structured action plan would have been appropriate.</p> <p><u>CAO finds that IFC's E&S review was not compliant with requirements of the Sustainability Policy (2006) para. 17.</u></p> <p>As a consequence of the shortcomings in IFC's pre-investment E&S review, CAO finds that IFC did not have sufficient basis to conclude that the company would be in a position to comply with all IFC requirements by 2008, as presented to the Board.</p> <p><u>In the context of IFC's initial investment, CAO finds that a "B" categorization was appropriate.</u></p>
Supervision	<p><u>CAO finds that IFC's supervision of the client's exploration activities during the period 2007–13 did not provide assurance of compliance. IFC's commitment of additional funds to the project during this period was inconsistent with the requirement under the Sustainability Policy that IFC consider remedies in response to ongoing noncompliance.</u></p> <p>IFC did not effectively supervise the client's delivery of several critical ESAP requirements during the period 2007–13: in particular, requirements to develop an ESMS for exploration activities and to carry out independent HSEC audits. Shortcomings in IFC's supervision of the project over this period contributed to adverse impacts during exploration. It was not until 2013 that IFC made it clear to the company that further investments would be contingent on the development of an appropriate ESMS for exploration phase activities.</p> <p>IFC's supervision of the project improved significantly from 2013 onwards. The result has been a clear improvement in the level of the client's E&S performance, in particular through the development of an exploration phase ESMS. From this point on CAO finds IFC's supervision of the client exploration activities provided adequate assurance of compliance.</p>
Environmental Issues	
Specific risks of groundwater contamination affecting the "spa" waters (thermal springs) of Jermuk, and increased risk of contamination due to fracturing from the pit and other blasting activities	<p><u>CAO finds that IFC's review of the client's international ESIA in relation to potential groundwater contamination was commensurate to risk and resulted in the development of appropriate action plan items.</u></p>
Risks of water pollution from the mine operations to the Vorotan and Arpa Rivers, to Kechut and Vorotan Reservoirs, and the Lake Sevan catchment	<p><u>CAO finds that IFC's review of the client's international ESIA in relation to potential water pollution issues was commensurate to risk and resulted in the development of appropriate action plan items.</u></p>

Seismic risks to the security of the heap leach facility	<u>CAO finds that IFC's review of the client's international ESIA in relation to potential seismic risks was commensurate to risk and resulted in the development of appropriate action plan items.</u>
Potential for uranium to be present in mined material, causing radioactive contamination and radiation risks from radon	<u>CAO finds that IFC took adequate steps to supervise the ESIA process in relation to risks of radioactive contamination.</u>
Risks of contaminated dust deposition on agricultural land and on the village of Gndevaz due to prevailing wind direction	<u>CAO finds that IFC's review of the client's international ESIA in relation to potential impact of contaminated dust was commensurate to risk and resulted in the development of appropriate action plan items.</u>
Biodiversity and the presence of Armenian "Red Book" species	<p><u>CAO finds that IFC's review and supervision of the project risks to biodiversity during the period 2007–13 were insufficient.</u></p> <p>IFC did not have assurance that the client was in a position to meet the requirements of PS6 in relation to critical habitats.</p> <p>Baseline studies undertaken to support the Armenian environmental permitting process did not meet the needs of an international quality ESIA. This was rectified in late 2010 with the engagement of international ESIA consultants after which the significance of biodiversity impacts, including during exploration, became increasingly apparent.</p> <p>In this context, IFC observed in 2013 that the client's exploration activities had negatively impacted Tier 1 critical habitat for the population of a critically endangered species, <i>Potentilla porphyrantha</i>.</p>
	<p><u>During the post 2013 period, CAO finds that IFC's supervision was commensurate to risk and resulted in the development of appropriate action plan items designed to minimize, mitigate and offset potential impacts of the project on biodiversity as required by the Performance Standards.</u></p> <p>Once impacts on endangered species were identified, IFC responded by requiring biodiversity assessments and action plans as required by PS6 as part of the ESIA process.</p>
Social Issues	
Land acquisition and livelihood restoration	<p><u>CAO finds that IFC's supervision provided reasonable assurance of compliance with the substantive requirements of PS5.</u></p> <p>IFC worked with the client to identify and address shortcomings in the client's approach to land acquisition early in the process, with a focus on ensuring outcomes consistent with the objectives of PS5.</p>
	<p><u>CAO finds that IFC's supervision provided reasonable assurance of compliance with the consultation and disclosure requirements of PS5.</u></p> <p>IFC identified the need for stronger consultation, including in relation to land acquisition in 2013 and 2014. IFC worked with the client to address these issues in supervision, including through a third-party audit of the land acquisition process, which was conducted in 2015 and concluded that consultation and disclosure requirements had been met.</p>
Impacts on Jermuk tourism	<p><u>CAO finds that IFC's supervision of the ESIA process in relation to potential impacts of the project on Jermuk's brand as a resort town has not been commensurate to risk.</u></p> <p>Adverse impacts on perceptions of the town are acknowledged as potentially leading to reductions in visitor numbers. In this context, analysis of the project's impact on tourism was required. While Jermuk was not initially</p>

	<p>considered to be within the area of influence of the project, CAO finds that IFC took appropriate measures to ensure that this was the case when the client prepared its international ESIA. However, CAO finds that IFC does not have assurance that impacts that may affect Jermuk’s brand as a tourist center—for example blasting noise, visual disturbance, and more general perceptions that arise from the project’s proximity to the town— have been adequately assessed.</p>
<p>Adequacy of assessment of impacts on the village of Gndevaz</p>	<p><u>CAO finds that IFC lacks assurance that project impacts on the community of Gndevaz have been subject to an integrated assessment which considers “all relevant E&S risks and impacts” as required by PS1. This is a prerequisite for the development of mitigation plans as required by PS1.</u></p> <p>CAO finds gaps in IFC’s approach to the supervision of the ESIA process in relation to risks and concerns of the population of Gndevaz, and the potential for the combined impacts of mine development to affect the well-being and resilience of the community as a whole.</p> <p>The ESIA and management plans have captured or addressed many of these impacts on a discreet basis, and the HIA, Ecosystem Services Review, and LALRP, among others, are recognized as achieving a high international standard. In addition, CAO recognizes potential positive impacts for the community.</p> <p>Nevertheless, CAO finds that changes to the project design after 2013 led to a potentially significant increase in impacts on the residents of Gndevaz. These changes required assessment of the combined or cumulative risks and impacts of the various project components on the town and its people—with associated consultation, mitigation, and monitoring measures, beyond those which are contained in the current ESIA.</p> <p>CAO also finds gaps in IFC guidance associated with the Performance Standards in that it does not elaborate on how to ensure that a full and integrated assessment of the combined or cumulative social effects of a project is undertaken.</p>
<p>Consultation and engagement processes, access of concerned stakeholders to public hearings, and extent to which complaints have been registered and addressed</p>	<p><u>CAO finds that IFC’s pre-investment review of issues related to consultation was not commensurate to risk.</u></p> <p>IFC did not include in the ESAP sufficient requirements (deadlines, need for adequate expertise, documentation, and reporting) to ensure that implementation of the PCDP would be consistent with the objectives of PS1.</p> <p><u>CAO finds IFC compliant with its supervision requirements in relation to the client’s community engagement and consultation activities.</u></p> <p>IFC identified gaps in the client’s performance during supervision and has worked with the client to bring it into compliance. In this context, CAO notes IFC’s role in emphasizing the need to broaden the reach of the client’s consultation activities. CAO also notes IFC’s role in raising questions as to the quality of the information being shared, and pushing for improved capacity through use of external support.</p> <p><u>CAO finds that IFC took adequate steps to ensure that the client’s grievance processes were compliant with the requirements of PS1.</u></p> <p>IFC’s supervision showed appropriate oversight of the company’s grievance mechanism when the Community Liaison Committees (CLCs) were put in place and the Community Liaison Officer (CLO) was hired. IFC provided advice to the client in relation to the CLO’s function, and ensured that the CLCs represented an effective mechanism for channeling community concerns and getting responses, in lieu of a formal process.</p>

	<p><u>CAO finds that IFC took adequate steps to supervise and provide guidance to the client in relation to consultation and stakeholder engagement around the ESIA process.</u></p> <p>CAO finds that across the range of consultation activities, IFC has worked with the client to ensure that concerns from stakeholders were captured by the ESIA process and included into the final ESIA. In particular, CAO notes that environmental concerns raised during the consultation process were picked up and addressed in the ESIA.</p>
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