



SUMMARY OF AUDIT FINDINGS

Audit of IFC investment in Corporación Dinant, Honduras

Contact in Washington, D.C.:

Emily Horgan, CAO Communications Specialist
Email: ehorgan@ifc.org; Tel: + 1 202 473 8353

Washington D.C, January 10, 2013 - The Compliance Advisor Ombudsman (CAO), the independent recourse and accountability mechanism for the World Bank Group's private sector arm, the International Finance Corporation (IFC), today released a compliance audit of IFC's investment in Corporación Dinant.

This compliance process was initiated by CAO in April 2012 due to concerns raised by civil society and reports in the media of violent land conflict on and around Dinant's plantations in Honduras' Aguán Valley.

CAO is an independent office reporting to the World Bank Group President. CAO is mandated to address complaints from people affected by IFC projects and to enhance IFC's environmental and social performance. CAO provides compliance oversight of IFC's due diligence, and supervision of projects, to ensure the intent of relevant policies is met, and that critical performance issues are addressed.

CAO's audit of IFC's investment in Dinant was conducted with input from two expert panelists. It focuses on IFC's performance. As such it does not make findings in relation to the IFC client.

CAO finds IFC to be out of compliance with its policies and procedures in important respects. Key findings are that:

- a. During pre-project due diligence, IFC did not identify conflict and security risks associated with the project that should have been evident given information available at the time;
- b. IFC did not ensure that communities, including Indigenous communities living in the immediate vicinity of the client's plantations, were consulted about the project, specifically with regard to land issues; and
- c. IFC did not conduct required due diligence in relation to the reputation of the client (integrity due diligence).

These shortcomings in pre-project due diligence meant that IFC did not have a reasonable basis on which to conclude that the project could be expected to meet the requirements of its Performance Standards.

Further, CAO finds that IFC did not adequately supervise the project. This included a failure to supervise the obligation under the IFC Performance Standards, that credible allegations against client security personnel be investigated. CAO also finds that IFC did not assure itself that the use of force by client security personnel was exclusively for preventative and defensive purposes. Given the nature of the allegations around the project and concerns about the capacity and impartiality of national law enforcement agencies, CAO finds that IFC should have been guided by PS1 in requiring an "adequate, accurate and objective" assessment of the allegations, prepared by "qualified and experienced persons."

IFC's has issued a formal response to CAO's audit that includes action plan items. CAO will monitor IFC action in relation to its findings and issue an audit monitoring report no less than one year from today. CAO monitoring will take into account IFC's action plan but closure of the case will require CAO to be assured that all of its findings of non-compliance are being addressed.

Full details on the case are available at: www.cao-ombudsman.org

CAO Audit Findings

IFC's Environmental and Social Review

- IFC was aware of the importance of access to land free from conflicts and disputes as crucial to the success of agribusiness projects, however, its staff underestimated risks related to security and land conflict associated with the Dinant investment.
- IFC's Environmental and Social (E&S) review was not "commensurate to risk", and thus did not meet a key requirement of IFC Sustainability Policy (2006). In particular IFC accepted an overly narrow definition of project E&S risk, without adequate consideration of project context or contemporaneously available sources of information regarding land conflict and insecurity in the Bajo Aguán.
- IFC did not conduct an adequate gap analysis of available project E&S assessment information as required by its Environmental and Social Review Procedures.
- IFC failed to assure itself that the client E&S Assessment met the requirements of Performance Standard 1; particularly in relation to the definition of an area of influence, the identification of those who would be affected by project risks and impacts, and the establishment of an appropriate social baseline.
- IFC's E&S review failed to ensure that adequate consideration was given to relevant risks and impacts around Performance Standard 4 (Security Personnel) and Performance Standard 7 (Indigenous Peoples).
- IFC did not have a reasonable basis on which to conclude that the project could be expected to meet the Performance Standards over a reasonable period of time. The decision to invest was thus not in compliance with the IFC Sustainability Policy (2006).

IFC's Integrity Due Diligence Review

- IFC was or should have been aware of a series of public allegations and negative perceptions in relation to its client that went significantly beyond those that were considered in the course of its integrity due diligence process.
- As a result, CAO finds that the more detailed six part integrity due diligence process should have been adhered to. IFC's failure to do this was out of compliance with the relevant procedure.

IFC's Environmental and Social Risk Categorization of the Project

- IFC's E&S review process provided the IFC team with insufficient information to categorize the project appropriately.
- Given compliant E&S review and Integrity Due Diligence processes, the project would properly have been assigned E&S risk category A.

IFC's Disclosure and Consultation

- IFC's failure to disclose the Dinant E&S Assessment was not compliant with its Policy on Disclosure of Information. IFC remains non-compliant on this point.
- IFC supported a breach of Performance Standard 1 by: (a) accepting the client's disclosure of a modified translation of the Environmental and Social Review Summary in the place of the E&S Assessment, and (b) failing to assure itself that the client's Environmental Social Action Plan was disclosed to affected communities in an accessible form.
- IFC failed to ensure that the Dinant E&S Assessment met the consultation requirements set out in Performance Standard 1.

Adequacy of IFC's review of Conditions of Disbursement

- IFC failed to adequately assess its client's performance against the full range of Environmental and Social Action Plan Conditions of Disbursement that had fallen due prior to making its November 2009 disbursement to Dinant.
- IFC investment staff did not keep E&S staff apprised of developments in relation to land disputes, and occupations around the client's plantations of which they were aware.
- IFC investment staff processed the November 2009 disbursement on the basis of representations made by the client five months earlier, without adequate analysis of the impact of intervening events on the validity of those representations.
- As a result, IFC did not comply with ESRP requirements that any E&S Conditions of Disbursement are met by the client prior to disbursements.

IFC's Supervision of the Project

- IFC failed to "develop and retain the information needed to assess the status of [its client's] compliance with the Performance Standards" during supervision as required by its Environmental and Social Review Procedures.
- IFC did not adequately supervise its client's Performance Standard 4 obligations: (a) to investigate credible allegations of abusive acts of security personnel; and (b) not to sanction the use of force by security personnel other than for "preventative and defensive purposes in proportion to the nature and extent of the threat".
- IFC failed to require an adequate root cause analysis in relation to the serious incidents that were occurring around the project.
- There were gaps in the supervision of this project at critical times. This included the period following Dinant's notification of the occupation of three of its properties in December 2009; and the six months from February to August 2010 after Dinant informed IFC that five of its security guards had been killed in a clash with peasant occupiers.
- IFC did not give due consideration to the requirement that IFC "exercise remedies where appropriate" in a situation where a client does not or is not able to re-establish E&S compliance.

IFC's Policy, Procedures and Practices

- Despite a lack of specific guidance, the overall approach outlined in the Sustainability Framework is one which CAO finds to be applicable in conflict and non-conflict scenarios.
- IFC non compliance as identified in this report was due in large part to problems with the interpretation and application of existing policies and procedure.
- IFC's handling of its investment in Dinant raises questions as to the robustness of its decision making structures around E&S issues in high risk contexts.
- The combination of client relationship, operational and compliance functions within project teams can generate conflicts of interest and conflicting incentives for staff and management.
- At a time when the Bank Group is being challenged to expand its risk appetite, CAO finds it crucial to also invest in structures that provide management with assurance that E&S risk is being rationally identified and managed.

About the CAO:

CAO is the independent recourse and accountability mechanism of the private sector lending and insurance arms of the World Bank Group—the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA). Established in 1999, the CAO reports directly to the President of the World Bank Group. CAO's mandate is to address complaints by people affected by IFC and MIGA projects in a manner that is fair, objective, and constructive with the overall goal of enhancing social and environmental outcomes on the ground and fostering greater public accountability of IFC and MIGA.
