As we approach our third year of operation as the Office of Compliance Advisor/Ombudsman, it is gratifying to recognize that our biggest role—that of conflict resolution—has yielded positive results for the communities and nongovernmental organizations who have brought their complaints to us as they sought to resolve problems connected with projects sponsored by the International Finance Corporation or the Multilateral Investment Guarantee Agency, as well as the institutions we serve. The ombudsman function has really taken hold as illustrated, for example, by the mediation process, described in greater detail on page 8, which has been under way for the Yanacocha Mine since September 2001. That our conflict resolution has been fair-minded, and not biased in favor of complainants, was borne out by findings released in the fall of 2002 that claims by a local miners’ group about deaths stemming from a resettlement effort connected with a MIGA-guaranteed project at the Bulyanhulu gold mine in Tanzania were completely without merit, as further described on page 9.

In our advisory capacity, the recently published report evaluating IFC environmental and social safeguard policies offers evidence that these policies have largely achieved what they were intended to do but that there is much more that IFC can do to strengthen its safeguard system and to enshrine the values it rep-
Message from the Compliance Advisor/Ombudsman

resents, as described further on page 10. One key finding—that IFC business actually suffers when safeguard issues are poorly integrated into a project—bolsters the comments made this past May by IFC Executive Vice President Peter Woicke when he cited IFC studies showing that the most impressive examples of companies doing well in emerging markets were those who saw sustainability not so much from the standpoint of “do no harm” but more as a market opportunity.

Although the CAO’s report identifies several areas for improvement, the basic premise—that projects incorporating good environmental and social measures benefit the IFC as well as the projects themselves and people affected by IFC projects—gives even greater reason to take the steps necessary to make these policies more integral to the way IFC does business.

On the compliance side, we have published guidance and procedures for the compliance audit role that set out the purpose of compliance audits, how they may be triggered, and how the audit is to be implemented.

In discussions with Bank’s Committee on Development Effectiveness (CODE) in June 2002, the committee stressed again the positive role of the CAO. One of the questions central to the discussions at the August meeting was what capital does this small office have? My answer is integrity. Although the actions we take can be frustrating, annoying, and disappointing to the institutions and to civil society at times, they are nonetheless grounded in the integrity of this office and the individuals who work here. And we, in turn, could not do our jobs nearly as effectively were it not for the advice we receive from the Reference Group of advisors from the private sector, NGOs, academia, foundations, and other institutions, whose ongoing guidance has helped us confront the tougher issues so that we can continue to carry out our mandate.

If we have learned one thing this past year, it is that unbiased conflict resolution works for the Bank and for people served by projects that the Bank finances or guarantees. As borne out by our own experience and by the safeguard policies study, the more transparent we are, the more accountable we are, the more likely it is that we can surpass the benchmark of “do no harm” and reach a point where sustainability becomes not a goal, but a reality.

Meg Taylor

September 2002
The Compliance Advisor/Ombudsman (CAO) is an independent post that reports directly to the president of the World Bank Group. Its mandate is twofold: first, to help the IFC and MIGA address—in a manner that is fair, objective, and constructive—complaints made by people who have been or may be affected by projects in which the IFC and MIGA play a role; and, second, to enhance the social and environmental outcomes of those projects.

The CAO has three distinct roles:

Ombudsman: Responding to complaints by persons who are affected by IFC/MIGA-sponsored projects and attempting to resolve the issues raised by using a flexible, problem-solving approach.

Advisory: Providing a source of independent advice to the president of the World Bank Group and to management of IFC and MIGA. The CAO provides advice both in relation to particular projects and in relation to broader environmental and social policies, guidelines, procedures, resources, and systems.

Compliance: Overseeing audits of the social and environmental performance of IFC and MIGA, both overall and in relation to sensitive projects, to ensure compliance with policies, guidelines, procedures, and systems.

Developing and balancing the three roles—compliance, advisor, and ombudsman—poses a unique set of challenges. The three roles together provide flexibility of response and a capacity to be proactive. Nevertheless, the ombudsman role clearly takes
precedence when it is invoked. To clarify that the advisory role cannot cut across the role of the CAO as Ombudsman, or as Auditor, the CAO draws a clear distinction between project-specific advice and policy and process-oriented advice.

The CAO has been working with management of IFC and MIGA to ensure that their staff include notification of the existence of the CAO in all their dealings with potential, new, and existing sponsors and clients. In addition, throughout the project cycle documentation, CAO has asked that the role of the CAO and information about its involvement or possible future involvement be included. As they prepare projects with IFC or MIGA assistance, project sponsors are responsible for revealing the existence of the CAO to people affected by the project through the processes of consultation or preparation of environmental and social impact assessments, or both. These attempts to integrate information about the existence and role of the CAO into the working and project cycle of IFC and MIGA are part of the CAO’s efforts to spread the word to those who may need the services of the CAO so that they know of its existence and how to contact it.

There are some important limitations to the CAO’s powers, but the broad mandate makes the three roles together very powerful. For example, although the CAO is not a judge, court, or the police, there are influential ways in which the office can define issues to be addressed in a complaint, make creative and practical proposals for settling an issue, and encourage the parties to engage in dialogue. Although the CAO cannot force outside bodies to change their behavior or to abandon existing practices, the office can call on the leverage of IFC and MIGA in urging the parties to adopt its recommendations.

The independence and impartiality of the CAO foster the trust and confidence of the project’s
sponsors, local communities, NGOs, and civil society in general. This trust and confidence are essential prerequisites for the CAO to be able to solve problems on the ground. Independence from line management of IFC and MIGA also enables the CAO to provide objective advice to the two organizations and to help them do their work better.

Although confidentiality is important in some aspects of the ombudsman’s role, disclosure of information is an important way to reinforce independence and impartiality. Disclosure is also important, on some occasions, to achieving solutions. The CAO is bound by IFC and MIGA disclosure policies that require the confidentiality of certain business information to be respected during communication with the parties involved. The CAO is also bound by the staff rules of the World Bank Group, which require that information be treated with discretion and not disclosed improperly.

As ombudsman, the CAO places the concerns of the complainant at the center of the complaint and resolution processes, and the presumption is in favor of confidentiality. Of course, complainants are free to publicize their approach to the CAO or any disclosure that they desire. The CAO’s staff make it possible for the office to operate responsibly and efficiently by bringing a unique perspective to the intense degree of thinking, analyzing, and brainstorming involved in work that is regularly precedent-setting for IFC and MIGA and external constituencies. To manage their tasks more effectively, CAO senior staff have been trained in mediation, facilitation, and dispute resolution design. When specific expertise is required, the CAO hires short-term specialized consultants.

From the outset, the CAO has relied on the advice and expertise of the Reference Group. This independent body of stakeholders from the private sector, the NGO community, academia, and other institutions, has guided the development of operational guidelines for the CAO and participated in the safeguard policy review process. The Reference Group does not give project-based advice. Nevertheless, its diversity and expertise continue to help the CAO retain its focus and guide its evolution and growth.

THE CAO’S ADMINISTRATIVE STRUCTURE

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the details of their case if they so wish. With the consent of the parties, the details of a complaint resolution process may be revealed after the process is concluded, but not prior to or during the process, except in specific situations allowed for by the complainant and other parties.

Within the parameters of those constraints, the CAO endeavors to ensure maximum disclosure of reports, findings, and results of the CAO process by reporting results on its Web site, www.cao-ombudsman.org, and in hard copy reports. And, in many cases, there is no reason why disclosure of the CAO’s reports should not be full and complete, subject to any limitations imposed at the request of an affected party.

Although the CAO is open and responsive to the views of all those with an interest in the project, the views of local communities, minorities, and vulnerable groups must take precedence because these generally are the people with the greatest to lose from a project; and they are often the least well equipped to convey their interests and concerns.

* Men working along the route of the IFC-sponsored Chad-Cameroon oil pipeline.*
As ombudsman, the CAO’s major objective is to provide an accessible and effective mechanism for handling complaints so as to help resolve issues raised about the environmental and social impacts of IFC- or MIGA-sponsored projects. When a complaint is received, the CAO appraises it against basic criteria, including whether the complaint and the complainant are genuine, whether the project in question is sponsored by IFC or MIGA, and whether the complaint is substantive and specific.

If the complaint is accepted, it is fully assessed; and the project team is notified and given clear guidance on the issues to which it should respond by a specified deadline (normally 20 working days). When the assessment phase has concluded, the CAO responds to the complainant with suggestions on how to move forward.

The complainant may choose to accept or reject these suggestions. If the complainant does not wish to further engage the CAO, the office prepares a report to the World Bank Group president. Once the report is received by the president, the CAO sends copies to IFC or MIGA management and project teams.

In addition to 65 letters of inquiry, the CAO received 13 formal complaints since August 2000. Eleven of these complaints were accepted; two were rejected after appraisal. Common threads among these complaints were questions about who benefits from development projects, how this is negotiated, and among whom. The mandate of the CAO is restricted to the environmental and social policies and procedures of IFC/MIGA, and it is through the disclosure associated with environment and social assessment that communities and impacted...
peoples learn the parameters of projects. It is logical therefore that complaints are characterized in the first instance as environment and social concerns. Indeed they are, but underlying this are questions that go to the very heart of the development paradigm: inequality and rights.

During the period covered by this report, several complainants chose to release in part CAO assessment reports before either the World Bank or the company had seen it. The reports were released on the complainant’s Web site or the Web sites of international NGOs, and in some cases the CAO’s findings were quoted selectively, giving only a

▲ Fishermen in coastal Cameroon explain their concerns about the potential impact of the Chad-Cameroon oil pipeline on their livelihoods.
Six years ago, small-scale miners at the Buylanhulu Gold Mine in Tanzania joined with a nongovernmental organization in the area to protest land-clearing activities in 1996 by the mine’s then owner that they said had resulted in the deaths of 52 miners. In 2001, they brought their complaint to MIGA, which had guaranteed the mine in 1999. In the complaint, the miner’s group suggested that the mine’s operations were not in compliance with World Bank Group standards and that there was new evidence of human rights abuses, including the deaths referred to in the 1996 complaint.

Following a subsequent complaint in January 2002, the CAO visited the site in March and reviewed volumes of documentation from the complainants, as well as the mine’s current owner, a Canadian company called Barrick Gold, and interested journalists and NGOs. From the evidence available, it did not appear that the mine was responsible for the deaths of 52 small-scale miners. The Tanzanian Government may choose to exhume the mine shafts, but the cause of death may be difficult to determine. The CAO also found that claims about the number of people forcibly relocated by the mine at the point of land clearance were exaggerated. On environmental issues, the mine’s present-day activities are in line with best practice in the mining industry. Recent moves to strengthen the social development activities of the mine were also positive. Although the CAO did not carry out a compliance audit, as it did not believe one was necessary, the CAO was satisfied that the mine appears to meet a standard of compliance.

Nevertheless the region in which Bulyanhulu is situated is desperately poor. There is an opportunity for the mine, the communities, the NGOs in the area, and the government to strengthen the partnership, leading to greater investment in the people of the area. A forthcoming report contains more information about the Buylanhulu complaint.

TROUBLE IN TANZANIA

A 1996 aerial photo shows the artisanal mine works at what is now the Bulyanhulu gold mine in Tanzania.
The cao’s major objective in its advisory capacity is to provide independent, timely, and objective advice to the president of the World Bank Group and management of the ifc and miga. This advice relates both to particular projects and to broader environmental and social policies, guidelines, procedures, resources, and systems.

Although essential to the cao’s ability to inform institutional learning and systemic change, the advisory role does not—and will not—cut across or compromise the ombudsman and compliance roles. The cao’s policies, procedures, and strategy-oriented advice are often based on the insights and experience gained from the investigations and audits in its other roles. These are translated into advice on how ifc and MIGA conceive of and carry out their missions and mandates.

The president, the ifc, or MIGA can seek advice; or it can be offered at the cao’s initiative. In either case, the objectives are to address systemic issues and to identify potential problems early so as to reduce the likelihood of complaints or audits later on. Sometimes, as with the Yanacocha Mine in Peru, advice initially sought by shareholders and reported in the CAO Annual Report for 2000-01, ends up engaging communities and other stakeholders in a mediation process (see “Yanacocha Mine Project Follow-up,” opposite).

This past year, the cao conducted its first review of the ifc’s safeguard policies, formally adopted by the ifc board in 1998 to ensure that ifc projects are environmentally and socially sound. The ifc board agreed that these policies should be reviewed after three years to evaluate their effectiveness and impact. The cao’s review, which covered projects approved between September 1995 and September
2001, consisted of a portfolio analysis of the projects, desk and field reviews, regional workshops, a global meeting held in April 2002, a survey of IFC staff and management, and focus-group discussions of the policies’ effectiveness in shaping project selection, design, implementation, monitoring, and evaluation.

After a period of public comment, the report was published in the fall of 2002. It found that IFC’s safeguard policies have, to a degree, achieved what they were intended to do, including pollution reduction, increased safety, improved project design, screening out of environmentally poor projects, and facilitation of dialogue between NGOs and other stakeholders. The report also found that the IFC’s business actually suffers when safeguard issues are poorly integrated into an overall project and noted that much can be done to improve the clarity and scope of the policies and make them more outcome-oriented. The report with its 28 findings can be found on the CAO Web site at www.cao-ombudsman.org.

THE YANACOCHA MINE PROJECT FOLLOW-UP

Two years ago, IFC and other shareholders in Peru’s Yanacocha Mine asked the CAO to investigate a mercury spill that had poisoned 914 people in three communities along a road leading from the mine’s Cajamarca location to the capital in Lima. Following two complaints received by the ombudsman, the CAO carried out a situation assessment in July 2001. People living in the area around the mine told the CAO that they wanted to try mediation.

Among those attending the first formal mediation session, held in September 2001 in Cajamarca, were the mine’s CEO, the municipality’s representatives, mayors from other local villages, the Rondas Campesinas, the chamber of commerce, NGOs, and officials from the water authority.

With water quality the major issue and no one believing studies commissioned by the mine, the government, or international NGOs, the mediators asked the CAO to commission hydrologists for an independent water study. Not only have the government and the mine committed to accept the findings of that independent study, but the community has also created a committee of “veyadores” (witnesses), who accompany the hydrologists on their sample-taking trips and can report that the process is independent.

After establishing some basic rules of engagement for the mediation sessions, the CAO held a series of two three-day courses in conflict resolution and negotiating to help session participants develop their own problem-solving capacity. Nine months later, several participants in the sessions have become problem-solvers, and many are beginning to anticipate potential problems. CAO is planning to turn over the dispute resolution process and training to local communities by January 2003.
In exercising its compliance role, the CAO attempts to foster adherence to, and engender more positive interpretation of, IFC and MIGA policies and procedures so as to promote wider understanding of how compliance can enhance social and environmental outcomes and better performance.

The purpose of a compliance audit or review is to determine whether IFC or MIGA staff, and in some cases project sponsors, have complied with IFC and MIGA social and environmental policies, guidelines, and procedures. Because such guidelines are often susceptible to different interpretations, a compliance audit would not normally seek to set aside an otherwise reasonable interpretation or judgment. However, the audit can help draw attention to situations where reasonable interpretations of environmental or social polices have led to undesirable outcomes, and the CAO can recommend corrective measures.

Compliance audits can be triggered by ombudsman investigations or undertaken on a case-by-case basis at the request of management or at the CAO’s own initiative. The findings of audits are conveyed to the president of the World Bank Group in a report. The report’s delivery to the president is disclosed, and copies are sent to management. Recommendations, once they have been accepted by the president and publicly disclosed, are then sent to the executive board of the IFC or MIGA for information.
During fiscal year 2002, CAO produced operational guidelines for the Compliance Audit Role (see “Compliance Audit Summary Guidelines”). Each request for a compliance audit will be subject to an appraisal process to determine whether it should be acted upon. The appraisal process is designed to ensure that compliance audits are initiated only for those projects where there are substantial concerns regarding social or environmental outcomes. The appraisal process will determine if there is evidence of adverse or perverse social and environmental outcomes and whether a detailed investigation of the underlying causes or circumstances is warranted.

In appraising requests, CAO will hold discussions with the project team and other relevant parties to better understand the efficacy of the concerns and to explore whether an audit or review is necessary. If a decision is taken to proceed, all relevant staff will be notified in writing.
The compliance audit process begins with an initial appraisal to ensure that audits are initiated only for those IFC and MIGA projects where there are substantial concerns regarding social or environmental outcomes. In appraising requests for an audit, CAO will discuss the matter with the project team and relevant parties to explore whether an audit or review is necessary. If a decision is taken to proceed, all appropriate staff will be notified in writing.

Compliance audits have three objectives: understanding the circumstances that gave rise to the audit; conducting a systematic, documented verification process to evaluate compliance objectively; and recommending remedial measures or other actions to enhance social and environmental outcomes and ensure ongoing compliance.

Following an initial review of the project documents, an audit protocol will be prepared and submitted to the project sponsor in advance of a site visit, which typically lasts no more than one or two weeks. If noncompliance or adverse social or environmental outcomes are identified, the immediate and underlying causes will be fully explored. At the end of the process, a draft report will be prepared that includes the audit findings, an assessment of causal factors, and recommendations for corrective actions.

All relevant IFC and MIGA staff will have an opportunity to comment before the final report is prepared and submitted to the president. Once the findings have been discussed with the president, the CAO will inform either the MIGA or IFC board of the findings. Although the CAO is bound by the disclosure policies of IFC and MIGA, there is a strong presumption in favor of public disclosure within these constraints. Audit recommendations accepted by the president should be integrated into the ongoing monitoring of a project by IFC and/or MIGA management.
In fiscal year 2002, the CAO had an operating budget of $1,595,386, of which IFC provided 80 percent, and MIGA 20 percent. The CAO has an agreement with IFC/MIGA that additional funds will be made available upon request from their respective contingency funds in the event of an unexpected volume of complaints and Ombudsman activity.

For specific activities to be organized and/or managed by the CAO, the CAO has developed a procedure whereby funds may be contributed by the parties to a dispute into an account to be managed by the CAO.

**PAYING FOR MEDIATION**

The CAO funds from its own sources all complaint-related activities. Once a mediation has been agreed to, however, the CAO works with the parties on how the mediation will be paid for. Of course, in some cases parties will not be in a position to contribute. In that event, the CAO has access to the contingency fund referred to previously.

**YANACOCHA DIALOGUE PROCESS**

The parties to the Yanacocha dialogue process agreed that parties, specifically the mine, could contribute to the costs of the mediated process. This agreement was also extended to the technical studies stemming from the mediation, including the independent water study.

In fiscal year 2002, costs of the mediation process, including all training and other support services, were $736,212.86. (This figure does not include staff time and costs of CAO.) Of this, the CAO contributed $391,496.44, and Minera Yanacocha contributed $344,716.42. The water study figures will be reported in fiscal year 2003.

In addition, and to allow the CAO flexibility of response when parties may not be able to contribute, IFC and MIGA have agreed to contribute to a contingency fund for large-scale mediation efforts.
# Compliance Advisor/Ombudsman Reference Group

**April 2002 Meeting**

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<td>David McDowell</td>
<td>Chair and cao Consultant</td>
<td>New Zealand</td>
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<td>Motoko Aizawa</td>
<td>International Finance Corporation</td>
<td>Washington, DC</td>
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<td>Ray Albright</td>
<td>Asea Brown Boveri</td>
<td>Washington, DC</td>
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<td>S. Babar Ali</td>
<td>World Wildlife Fund</td>
<td>Pakistan</td>
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<td>Ronald Anderson</td>
<td>International Finance Corporation</td>
<td>Washington, DC</td>
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<td>Mark Constantine</td>
<td>International Finance Corporation</td>
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<td>Alan Dabbs</td>
<td>Pro-Natura</td>
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<td>David Hunter</td>
<td>Center for International Environmental Law</td>
<td>Washington, DC</td>
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<td>Mary Irace</td>
<td>National Foreign Trade Council</td>
<td>Washington, DC</td>
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<td>Ian Johnson</td>
<td>World Bank</td>
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<td>Ajay Narayanan</td>
<td>Infrastructure Development Finance Company</td>
<td>India</td>
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<td>Jan Piercy</td>
<td>International Center for Research on Women</td>
<td>Washington, DC</td>
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<td>Andreas Raczynski</td>
<td>International Finance Corporation</td>
<td>Washington, DC</td>
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<td>Sven Riskaer</td>
<td>The Industrialization Fund for Developing Countries</td>
<td>Denmark</td>
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<td>Manuel Rodriguez</td>
<td>Former Minister of Environment</td>
<td>Colombia</td>
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<td>Claudia Saladin</td>
<td>Center for International Environmental Law</td>
<td>Washington, DC</td>
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<td>Graham Saul</td>
<td>Bank Information Center</td>
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<td>Kay Treakle</td>
<td>Bank Information Center</td>
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<td>Harvey Van Veldhuizen</td>
<td>Multilateral Investment Guarantee Agency</td>
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<td>Gerald West</td>
<td>Multilateral Investment Guarantee Agency</td>
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<tr>
<td>Kathleen Whimp</td>
<td>cao Consultant</td>
<td>Australia</td>
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Consultants

Ana Maria Aguilar
Lima, Peru

Gladis Stella Alvarez
Libra Foundation
Peru

David Atkins
Stratus Consulting
Boulder, CO

Damian Carlos D’Alessio
Libra Foundation
Peru

William Davis
DPK Consulting
San Francisco, CA

Aidan Davy
United Kingdom

Katherine LeJeune
Stratus Consulting
Boulder, CO

Joshua Lipton
Stratus Consulting
Boulder, CO

Ann S. Maest
Stratus Consulting
Boulder, CO

Marasco Newton Group
Arlington, VA

Susan Wildau
CDR Associates
Boulder, CO

Review Advisory Group

The Review Advisory Group is composed of eight members, four from IFC and four from outside IFC. These members do not represent their organizations, but serve in a personal capacity and are not compensated for their services to the Safeguard Policy Review. They are a consultative body providing advice to the review team and CAO. They are not responsible for the review, its products, or outcomes.

Rashad-Rudolf Kaldany
International Finance Corporation
Washington, DC

Doug Lister
International Finance Corporation
Washington, DC

Members of the Stratus team of hydrologists carrying out the CAO-sponsored independent water study in Cajamarca, Peru.
CAO on the World Wide Web

In April 2002, the CAO Web site acquired its own domain name and is now powered 100 percent by renewable solar energy. The CAO used its Web site to played a major role in the safeguard policy review process by posting review documents on the site for public comment, and soliciting responses to a series of questions about IFC’s safeguard policies.

Visit the CAO at www.cao-ombudsman.org