Dear Mr. Gratacos:

IFC appreciates this opportunity to comment on CAO’s Investigation Report regarding IFC’s investment in Avianca S.A. CAO’s investigation relates to a 2008 complaint made in connection with an IFC loan to Avianca, which was prepaid in full in December 2013.

IFC agrees with CAO’s general observations regarding the genuine complexities in assessing and addressing labor and Freedom of Association issues, particularly in countries with a history of fractious union/management relations. We also recognize that IFC’s internal capacity to address labor-related risks was not optimal at the time of approving IFC’s loan to Avianca S.A. In the eight years since IFC’s investment in Avianca, we have taken a number of steps to strengthen our practice regarding labor issues, including through capacity building and training of environmental and social (E&S) specialists on assessing and managing labor-related risks, developing internal and external guidance on managing labor issues, relying on the support of independent international labor experts, and having regular interaction with the Global Unions. IFC has also improved its disclosure practice as a result of the 2012 Access to Information Policy. We remain committed to continuous learning and improvement of our E&S risk management practice.

IFC also agrees with CAO’s observations regarding the importance of looking at country and sector risks beyond the scope of IFC’s investment. As communicated in other recent IFC Management responses, we have made procedural and organizational changes to improve in this area. However, in this case, IFC was aware of the country context as well as the specific labor issues facing the company during its reorganization process. IFC differs in the interpretation of its policy and procedural requirements with CAO’s finding regarding the inadequacy of IFC’s E&S review, particularly regarding the consultation and stakeholder engagement requirements in Performance Standard 1. We note that IFC’s investment, which helped Avianca upgrade its fleet, did not have any direct impact on communities. This was communicated and discussed with
IFC's Board when the project was presented for approval. Related to labor issues, we took those issues seriously, and noted the commitment of Avianca to conduct a labor audit and address any identified shortcomings.

IFC's experience does not reflect CAO's finding regarding inadequate leverage after disbursement to promote improvements to labor issues and compliance with Performance Standard 2. Throughout its investment with Avianca, including post-disbursement, IFC continued to address with the company outstanding labor issues and assure full compliance with existing E&S standards, including through regular labor audits, comprehensive action plans, and engagement with unions. This included a regular dialogue with Global Unions, the entity that represented ACAV in discussions with IFC and Avianca management. Avianca also demonstrated its commitment to addressing labor concerns through continued efforts to negotiate agreements with the unions and by building its capacity, with IFC's support.

At the time of IFC's investment, Avianca was in the midst of a complex turnaround under U.S. Chapter 11 bankruptcy protection. New ownership and management supplied fresh capital and financing, reorganized operations, and reengaged with unions. Avianca's turnaround has proven to be a success. Avianca is now a thriving airline with a growing network and modern fleet.

An important part of IFC's development impact is achieved by working with committed private sector partners to implement good risk management practices in line with IFC's Performance Standards. Our approach includes working with clients to help build capacity as needed to bring them into compliance. In this spirit, we remain committed to working with partners like Avianca as well as to continuously improving IFC's approach and practices.

Sincerely,

Jean Philippe Prosper
Vice President, Global Client Services

David N. Harris
Acting Vice President and General Counsel