



COMMUNIQUÉ

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CAO Releases Investigation of IFC Environmental and Social Performance in relation to Investments in Banco Financiera Comercial Hondureña S.A. (Ficohsa)

The Compliance Advisor Ombudsman (CAO) today released a compliance investigation of IFC's environmental and social performance with regard to investments in Banco Ficohsa, the largest bank in Honduras. The CAO report focuses on equity investments made by IFC in Banco Ficohsa in 2011.

The investigation was triggered by CAO when it became aware that Banco Ficohsa had significant exposure to Corporación Dinant (Dinant), an IFC agribusiness client in Honduras, which was the subject of a separate CAO compliance investigation in 2013.

CAO's investigation was conducted with input from an external panelist and focused on IFC's performance. As such, the investigation does not make findings in relation to Banco Ficohsa.

The report describes material shortcomings in the way that IFC discharged its environmental and social obligations in relation to the Ficohsa investment.

Prior to investment, CAO finds that IFC took insufficient measures to identify activities where Ficohsa was exposed to environmental and social risk through its existing portfolio.

The absence of an environmental and social (E&S) review process that was commensurate to risk in relation to this investment meant that IFC senior management and members of the IFC Board were not presented with an adequate assessment of the risks. This included additional exposure to Dinant, a company which IFC knew to be affected by a violent land conflict, as well as numerous other loans with potentially significant, but unassessed, environmental and social risk.

These concerns notwithstanding, CAO finds that IFC's supervision of this investment improved since late 2012. At this point, IFC conducted the gap analysis of Ficohsa's environmental and social management system and supported the development of a corrective action plan.

It is important to note that CAO finds no indication that IFC pursued its equity investment in Ficohsa with the intention to provide additional financing to Dinant. However, the investment increased IFC's exposure and facilitated a significant ongoing flow of capital to Dinant, outside the framework of IFC's environmental and social standards. This occurred at a time when IFC management was aware of serious unmitigated environmental and social risks regarding its agribusiness client.

In relation to the underlying causes of the non-compliance identified in this report, CAO observes a primacy of financial considerations in IFC's decision making. As a result, it is not IFC practice to review the environmental and social risk attached to the portfolios of its banking clients in the same depth as which portfolio credit risk is reviewed.

In terms of the adequacy of IFC's policies, procedures and standards, CAO's findings raise concerns that IFC has, through its banking investments, an unanalyzed and unquantified exposure to projects with potential significant adverse environmental and social impacts. Absent disclosure of information related to these projects, this exposure is also effectively secret and thus divorced from systems which are designed to ensure that IFC, and its clients are accountable to project affected people for delivery on their environmental and social commitments.

The findings of this report resonate with those of CAO's 2012 Audit of IFC Investments in Third Party Financial Intermediaries, and suggest the need for a reassessment of IFC's approach to the identification and management of environmental and social risk in its financial markets business.

IFC has issued a formal response to CAO's investigation. CAO will monitor IFC actions in response to the CAO findings and issue a monitoring report within the next year.

Full details in relation to this [report](#) are available at: www.cao-ombudsman.org

Contact in Washington, DC:

Emily Horgan, CAO Communications Specialist

Email: ehorgan@ifc.org; Tel: + 1 202 473 8353

About the CAO:

CAO is the independent recourse and accountability mechanism of the private sector arms of the World Bank Group—the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA). 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 environmental and social outcomes on the ground and fostering greater public accountability of IFC and MIGA. CAO reports to the President of the World Bank Group.
