



COMPLIANCE MONITORING REPORT

*IFC Investment in Corporación Dinant S.A. de C.V., Honduras
Project #27250*

**Monitoring of IFC's Response to:
CAO Audit of IFC Investment in Corporacion Dinant, Honduras**

April 7, 2015
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

Introduction

1. The CAO compliance function oversees investigations and audits of the environmental and social (E&S) performance IFC and MIGA with a view to ensuring compliance with relevant requirements and improving the E&S performance of the institutions.
2. Following a CAO compliance investigation or audit, CAO may determine that it is necessary to monitor actions taken by IFC and/or MIGA until such actions assure CAO that its compliance findings are being addressed.
3. This report documents CAO's monitoring of IFC's response to its *Audit of IFC Investment in Corporacion Dinant* (the compliance audit) in the period January 2014 – April 2015.¹

Background and Audit Findings

4. The compliance audit relates to IFC's investment in Corporacion Dinant (the client), an integrated palm oil and food company in Honduras. IFC's proposed investment was a \$30 million loan of which \$15 million was disbursed in November 2009. The remaining \$15 million remains undisbursed.
5. The audit was triggered by the CAO Vice President in response to reports of land conflict and related incidents of violence on and around Dinant oil palm plantations in Honduras' lower Aguán Valley (Bajo Aguán), of which CAO became aware in late 2010.
6. The audit was finalized in December 2013 and released publically in January 2014. The audit made a number of non-compliance findings in relation to IFC's review and supervision of the social impacts aspects of the project, particularly as related to land and security issues.

IFC Response

7. IFC released an initial response to the audit in January 2014 and an Enhanced Action Plan in response to the audit in April 2014.² IFC presented the Enhanced Action Plan as a draft which would be further developed in consultation affected communities.
8. The Enhanced Action Plan included three areas of focus: (i) actions to address the client's E&S performance within the framework of the IFC Performance Standards, (ii) a broader set of actions (including stakeholder dialogue activities) designed to identify and

¹ The CAO audit, IFC's initial response to the audit and related materials are available on the CAO website: http://www.cao-ombudsman.org/cases/case_detail.aspx?id=188

² IFC. Enhanced Action Plan in Response to CAO Audit of Investment in Corporación Dinant, April 2014, <http://goo.gl/FpMdkh>

engage with the structural causes of the conflict in the Bajo Aguán, and (iii) a commitment to learning lessons from the Dinant audit and thereby strengthening IFC's approach to the management of E&S risks in fragile and conflict affected situations.

9. An April 2015 update in relation to the Enhanced Action Plan provides the most recent statement from IFC relation to its response to the audit.³ While the Enhanced Action Plan covers a range of environmental and social aspects, given the focus of the compliance audit, CAO's monitoring will focus on issues related to land, community engagement and security.

Subsequent CAO Complaints

10. In July 2014, CAO received two complaints relating to IFC's investment in Dinant from organizations representing farmers in the Bajo Aguán. These complaints raise issues related to land disputes, displacement of communities, violence, use of security forces, and environmental impacts which the complainants link to Dinant's palm oil operations in the Bajo Aguán.
11. Following visits by CAO dispute resolution staff to the Bajo Aguán in October and November 2014 and consultation with the complainants, Dinant and the Government of Honduras, it was agreed that the CAO would postpone further action in relation to these complaints to allow the ongoing dialogue around the project being supported by IFC to develop (see discussion below).

Observations from CAO Monitoring

12. IFC's Enhanced Action Plan represents an expressly remedial and participatory response to the findings of the CAO audit. CAO welcomes this approach, while recognizing that the context of conflict around the client's properties in the Bajo Aguán remains complex and that as a result that successful outcomes are not guaranteed.
13. A cornerstone of IFC's response to the CAO audit is a community engagement and stakeholder mapping initiative which IFC has supported through the Consensus Building Institute (CBI), a not-for-profit organization with expertise in the field of stakeholder dialogue and mediation.⁴
14. Since July 2014 CBI reports having made 10 trips to Honduras conducting over 200 interviews and consultations with a range of stakeholders including representatives of the private sector, government, development partners, campesino organizations and project affected communities in the Bajo Aguán. The objective of this work was to understand stakeholder perspectives, solicit inputs on IFC's Enhanced Action Plan and

³ See. IFC. Response to CAO Audit of Investment in Corporación Dinant. <http://goo.gl/XSmunf>

⁴ IFC. TOR for Community Engagement / Conflict Mediation Adviser. See: <http://goo.gl/irLKKO>

to develop options for conflict resolution in dialogue with the affected parties, including the groups that had lodged complaints with CAO.

15. In March 2015, CBI presented a “roadmap” identifying options for dialogue and conflict resolution in the Bajo Aguán to stakeholders in Honduras. The roadmap covers issues of security, land and inclusive economic development.
16. As a framework for conflict sensitive development in the Bajo Aguán the roadmap resonates with both the “restoring confidence” and the “security, justice and jobs” messages from the World Bank’s World Development Report 2011.⁵ In this context, CAO notes feedback from a range of stakeholders regarding the importance of pursuing an approach that addresses underlying causes of the conflict, and thus the incidents that gave rise to the CAO audit as well as the subsequent complaints. CAO also notes feedback regarding the importance of the ongoing engagement of a range of actors in support of the roadmap. These include the complainants, other project affected communities, the IFC client, other private sector actors, the Government of Honduras and its development partners, including IFC and the World Bank.
17. At the time of writing, this process of dialogue was ongoing. In this context, CAO finds that it would be premature to reach conclusions from monitoring. Rather, the dialogue process should be given further opportunity to mature.
18. CAO also acknowledges IFC’s commitment to work with its client in relation to security issues. As of October 2014, IFC engaged a consultant (US based law firm, Foley Hoag) to provide advice in relation to the security related aspects of the Enhanced Action Plan. As set out in its April 2015 update, IFC reports a number of client actions in relation to security including: (a) the adoption of the Voluntary Principles on Security and Human Rights; (b) the disarmament of security guards at the Aguán plantations; (c) improved vetting of security guards for criminal records; and (d) enhanced training of security guards.
19. Working with its security consultant, IFC reports preliminary steps taken in relation to the requirement under Performance Standard 4 that “the client will investigate any credible allegations of unlawful or abusive acts of security personnel.” At the same time, IFC reports challenges in meeting this requirement given the governance context in the Bajo Aguán and the time that has elapsed since the events in question.
20. As with the community engagement initiatives, the security related items under the Enhanced Action Plan are under implementation and CAO finds that it would be premature to reach conclusions from monitoring at this point.

⁵ World Bank. 2011. *World Development Report 2011: Conflict, Security, and Development*. <https://openknowledge.worldbank.org/handle/10986/4389>

21. Finally, CAO notes IFC's commitment to disclosure of a "summary of its ongoing learning from Dinant and other CAO cases..."⁶ IFC has indicated to CAO that documentation of this learning will be disclosed in the coming weeks. Internalizing lessons and converting these into changes in the way it does business is an important part of IFC's response to the Dinant audit and thus will be the subject of further monitoring by CAO.
22. In conclusion, CAO will keep this audit open for monitoring. CAO plans to issue a follow up monitoring report in relation to this audit no later than April 2016.

⁶ IFC. Enhanced Action Plan in Response to CAO Audit of Investment in Corporación Dinant, April 2014, <http://goo.gl/FpMdkh>