

## **IFC Management Response to the CAO investigation into the Rain Forest Eco Lodge Project- Sri Lanka**

The Compliance Advisory Ombudsman (CAO) received a complaint from the 'Sinharaja Campaign Team', a group claiming to represent the residents of the area protesting against the construction of an Eco Lodge, an IFC Advisory Services client in Sri Lanka. IFC suspended its Advisory Services in August 2009 pending the outcome of the CAO investigation.

IFC's advisory services consisted of assisting the Rain Forest Eco Lodge to obtain US Green Building Council's LEED Certification. The CAO has completed its assessment and submitted the draft report, which has been shared among the complainant and the Rain Forest Eco Lodge, and both parties have accepted this outcome as satisfactory. The diagnostic phase of the US Green Building Certification was completed in June 2009 and the balance work, which will run parallel to construction, will commence from April 2010.

This is the first Advisory Services project that has been reviewed by the CAO based on a complaint.

IFC Advisory Services complimented a Private sector led initiative supported by another Donor (USAID) after all preliminary project activities had been undertaken. Whilst even at ER stage IFC recognized the sensitive nature of the project due to its proximity to a Rain Forest IFC derived comfort in the knowledge that the Government of Sri Lanka has cleared the project. However, with time, other external events brought the project into public spotlight, which led to the CAO complaint. IFC was aware of the public perception of the project but did not initiate any engagement plan with the parties since IFC was not aware of the extent of public grievances with the project. Early engagement with the Local Government Council by IFC would have alerted the team to concerns about the project and guidance from an IFC E&S Specialist may have helped to address those concerns

As part of the IFC project cycle, PDS Early Review, Approval and Supervision records encourage identification of Risks/Issues – including social and environmental concerns -- but IFC recognizes that as a relatively small stand-alone Advisory Services project initiated in 2006, there was no formal procedure in place for appraisal of this project by a social/environmental Specialist.

IFC Advisory Services has already taken the initiative to revise its procedures for social and environmental requirements on IFC managed Advisory Services projects in order to improve identification, mitigation and supervision of E&S risks. These new procedures are currently being applied to all Advisory Services projects.

IFC will use the opportunity of its review of the Sustainability Policy and E&S Performance Standards and procedures for their application to more effectively address social and environmental risks of projects on an ongoing basis. We expect that this review will ensure that

there is an appropriate level of assurance for application of the Policy and Performance Standards on Advisory Services projects.

IFC will ensure that the recommendations made by CAO are followed through as agreed by the Rain Forest Eco Lodge on a timely basis. It has been agreed that IFC and REC will conduct monthly meetings to track progress on the implementation plan and wherever possible facilitate their efforts to promote demarcation of the forest boundary in the project area and clarify the status of the forest fragments in the tea estate with the Forest Department and other protection Agencies. IFC will independently liaise with the Local Provincial Council to ensure that the channels of communication are open.

In general, future Advisory Services Projects will undertake stakeholder mapping of future initiatives and follow on with elective consultation with focus groups of stakeholders to identify issues (E&S or otherwise) that may require attention, action or grievance resolution before a full commitment of resources to any initiative.



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