International Finance Corporation
World Bank Group

May 22, 2014

Ms. Meg Taylor
Compliance Advisor Ombudsman
International Finance Corporation
2121 Pennsylvania Avenue, N.W.
Washington, DC 20433

Subject: IFC Response to CAO Compliance Investigation Report in respect of IFC's investment in Minera Quellaveco S.A., Peru, IFC Project #2832 (Ref. C-I-R9-Y12-F167)

Dear Ms. Taylor,

IFC thanks CAO for its Compliance Investigation Report and conclusions regarding the Quellaveco project. Lessons learned from our investments help us improve our operational procedures and our Environmental and Social Performance Standards. In this report many of CAO's comments relate to broader IFC investment practices rather than the project in question. IFC management will take these comments on board as we continue to enhance our investment practices.

In 1993, IFC invested in Quellaveco, a mineral exploration project in the south of Peru. IFC purchased its stake in Quellaveco at a time when many foreign investors were not comfortable investing in Peru. In 2012, market conditions provided an opportunity for IFC to exit and reinvest the money into new projects and initiatives that support its mission of alleviating poverty in developing countries. IFC carefully balances its development role in projects with the aim to exit in a commercially prudent manner. We believe Quellaveco has the potential to bring great benefits to Peru and that the sponsors will continue to take steps to develop the project in a sustainable manner.

In 2012, IFC divested from the Quellaveco project after 19 years in which we supported the project's exploration activities, feasibility studies, and environmental and social management initiatives. At the time of divestment, the project had still not reached the development phase. During our involvement in the project, IFC's environmental and social assessment focused on: 1) the actual on the ground impacts of exploration and feasibility work and 2) the potential impacts of the project if it were to, one day, be built. Quellaveco was compliant in its day-to-day activities. Should the project have proceeded to development with additional financing from IFC, it would have had to comply with IFC's most recent Environmental and Social standards. CAO's report should be read with this approach in mind as some of the risks IFC identified in its supervision reports were the result of this future looking risk management approach, not related to actual impacts from ongoing operations.

In making the decision to divest, IFC considered a range of factors, including developmental and financial. Given that the project ownership transitioned to two reputable sponsors, and weighing the other variables of the case, IFC proceeded with the sale. Both sponsors have demonstrated a strong commitment to sound environmental and social management in other projects and we expect that will be the case for the Quellaveco project as well.

IFC is carefully reviewing CAO's findings regarding broader operational policies relating to, among others, early equity investments, environmental and social categorization, rights issuances, and divestment policies. We look forward to continuing the dialogue with CAO in this regard.

Sincerely,

Bernard Sheahan
Director
Global Infrastructure and Natural Resources
Department

Morgan Landy
Director
Environment, Social and Governance
Department

cc: Messrs./Mmes. Beg;
Butler;
Middleton;
Rossel;
Vos;
Wagner;
Wehebrink.