



June 12, 2006

Executive Directors to the World Bank
World Bank Group
1818 H Street, NW, MC 13-335
Washington, DC 20433, USA

Re: Statement on the IFC-financed Marlin Mine, Guatemala by Civil Society Organizations

Dear Mr. Executive Director,

The Marlin gold mine, wholly owned and operated by Glamis Gold Ltd., is the first major mining project in Guatemala since neo-liberal reforms were introduced to attract global mining capital. The project is an important test case for the mining industry, which hopes to profit from the new frontier that Guatemala represents. The Marlin mine, which benefited from a \$45 million loan from the International Finance Corporation (IFC), is also critical for the World Bank, whose involvement in the mining sector was highly criticized in the Extractive Industries Review (EIR). The Review called for the Bank to dramatically reform its approach to the extractive industries by, among other things, securing the support of affected communities prior to project approval and minimizing project impacts. Marlin was the first mining project financed by the IFC following the release of the EIR.

Despite high stakes and intense scrutiny, aspects of the project have been clearly mishandled by the company and the IFC. According to the September 2005 report¹ of the IFC's internal auditor, the Compliance Advisor Ombudsman (CAO), which investigated the mine, the IFC did not adequately apply its social and environmental safeguard policies when considering the Glamis loan request. The IFC ignored procedures designed to assess the potential environmental and social impact of the mine on neighboring indigenous communities, and policies regarding consultation with peoples whose lands and resources would be irreversibly altered:

“[t]he basis on which the IFC determined that the ESIA (Environmental and Social Impact Assessment) was adequate is not clear... no documentation was made available that reflects that any detailed and specific consideration had been given to how the IFC has and will ensure that the project complies with each of the applicable IFC policies and other basic procedural requirements - such as the requirements for dam safety plans...[t]his situation is not helpful in the context of the current conflict, because many external observers look to IFC to provide and be able to demonstrate a high level of scrutiny...” p.20.

“IFC analysis of the potentially negative social impacts and the appropriateness of the proposed mitigation measures has not been comprehensive or explicitly recorded in project documentation... [f]urther identification of any potential health risks from a single-status workforce, crime, strains on social infrastructure and cultural impacts would have enabled a more complete analysis of the appropriateness of the proposed mitigation measures and the monitoring of their effectiveness” p.27.

¹ ASSESSMENT of a complaint submitted to CAO in relation to the Marlin Mining Project in Guatemala, September 7, 2005, <http://www.cao-obudsman.org/pdfs/CAO-marlin-assessment-English-7Sep05.pdf>

“[t]he lack of a clear policy on human rights and the management of security forces is a significant oversight on the part of both the company and IFC to adequately safeguard against the potential for violence...IFC failed to make any consideration of potential for local-level conflict in its appraisal or advice to the Sponsor” p. 35/6.

Communities in Sipacapa, one of the municipalities impacted by the mine, registered their position on mineral development through a popular referendum in June 2005. According to the CAO:

“[t]he community assembly meetings in which the consultations were held took place during (sic) on June 18th 2005 with a majority of villages (11 out of 13) signing community acts stating their position against mining.”

Exercising their constitutionally-protected right, the Sipakapans rejected economic development based on mineral exploitation. A Sipakapan representative later reiterated this position in a meeting with World Bank President Paul Wolfowitz in December 2005. In that meeting, dialogue was discussed as a potential strategy for overcoming the protracted impasse concerning the project. The Guatemalan representative made dialogue contingent on, among other things, the World Bank’s recognition of the Sipakapans’ popular referendum – which the Bank has failed to do.

Representatives of the Bank Information Center, the Halifax Initiative Coalition, Friends of the Earth Canada and Oxfam America recently traveled to Sipakapa, where we met with community representatives. These community members argue that by refusing to recognize the popular referendum as a legitimate form of community expression, the IFC, the Guatemalan government and Glamis Gold deny communities the status of equal stakeholders. In the absence of basic conditions of mutual trust and respect, most Sipakapans have rejected dialogue.

Neither the IFC, the company, nor the government have given local communities any indication that they are willing to take the necessary steps to reach a genuine, consensus-based resolution to the ongoing conflict. These actors have failed to address significant problems associated with the project cited by the CAO, or to meaningfully implement the CAO’s recommendations. For example,

- **The IFC incorrectly claims to have addressed security force and human rights issues.** The IFC has restricted its attention to “the security of the mine site” and the “personal security” of Glamis employees. This mischaracterizes the security issue identified in the complaint filed to the CAO, and overwhelmingly supported by the CAO, which concerns the personal safety of local residents who are at risk through the presence of the mine’s armed security service and the Guatemalan military. The IFC’s reaction on this issue is particularly insensitive to the family of the villager who was shot and killed by a Glamis security guard. The company claims it has adopted the Voluntary Principles on Security and Human Rights as suggested by the CAO, but has not made public how it intends to implement the principles. Neither has the IFC indicated how it will monitor compliance with these principles.
- **The IFC and the company have not yet sufficiently assessed the project’s long-term impacts on the quality and quantity of local water supplies.** The CAO’s assessment discovered that the company failed to adequately assess the potential impacts on communities living downstream of the tailings dam. The IFC and the company have not indicated how or when a crucial assessment of the mine’s impacts on these populations will take place.

- **The IFC has not disclosed details regarding financial provisions for covering long-term environmental clean-up costs.** The Marlin project may generate long-term water contamination that could require perpetual remediation measures costing millions of dollars. The IFC should require Glamis to allow an assessment by credible independent experts of the full potential costs of long-term clean up and water treatment and establish a surety to guarantee adequate funding by Glamis to meet these costs.
- **The IFC has not ensured that the company will conduct adequate public consultations on the expansion of Glamis' mining operations in the area.** Glamis has stated its intention to expand mining operations in the communities around the project, yet there is no indication that the company or the IFC have assessed the cumulative impacts of expansion. Nor is there any record of consultations with potentially affected communities.

Recently, the CAO released a Follow-up Assessment Report² that concludes that dialogue is currently unadvisable and announces that it will close the Marlin complaint. It also recommends that Glamis consider suspending exploration activities in Sipakapa. The CAO assures interested parties that the IFC is still committed to implementation of its September 2005 recommendations. Unfortunately, however, the CAO's report provides no information as to progress made by the company and the IFC on implementation of these recommendations or specific actions the CAO has taken in this regard. It also misses an opportunity to examine whether the IFC's strategy of promoting mining in areas like San Marcos is the most appropriate way to promote sustainable development. Further, it does not raise the question of whether the IFC has the technical competence and capacity to effectively manage projects like Marlin. The limited ability of the CAO to influence the IFC or its clients on problem projects like the Marlin mine calls its authority into question. How can the CAO ensure affected communities are not worse off with the Bank's investments if its recommendations are easily ignored?

The CAO's assurances that the IFC is committed to following its recommendations are not adequate to compensate for the IFC's loss of credibility with a broad segment of communities in the project area. To restore confidence, the IFC must move beyond statements of good intentions and demonstrate that it is willing to meaningfully remedy identified shortcomings. The IFC should:

- provide detailed plans and a clear timetable for the implementation of the CAO's recommendations, and establish a mechanism for independent verification and reporting on the process, which is overseen by an independent Guatemalan or international third party agreeable to the Guatemalan government and the Sipakapan community. the

The CAO warns that further intervention from outsiders, including the World Bank Group, could result in greater harm to Sipacapa, arguing that any "intervention from outsiders should anticipate the possibility of heightening and prolonging the conflict, rather than reducing or resolving it." The CAO recommends that external actors "should assess these risks through a context analysis and other steps to reduce the possibilities of doing more harm." Given the serious problems associated with its initial intervention, it is unfortunate that the IFC failed to undertake such an analysis prior to loan approval. Now there is a significant risk that the IFC will rely on this recommendation to avoid remedying the unfortunate situation that it helped create.

² CAO FOLLOW-UP ASSESSMENT, GUATEMALA Complaint Regarding the Marlin Mining Project, May 2006, http://www.cao-ombudsman.org/html-english/complaint_marlin.htm

The IFC and Glamis Gold need to take constructive and appropriate action to resolve the current impasse. These actors should begin with a demonstration of good faith toward the people of Sipakapa, including:

- explicit recognition of the June 2005 referendum,
- immediate implementation of the CAO's recommendations, and
- the suspension of all exploration activity in Sipakapa.

Actions taken short of those listed above will not result in a lasting and equitable resolution of the tensions surrounding the Marlin mine.

We thank you for your attention to this letter and anticipate your response to the issues raised.

Yours sincerely,

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