



CAO

COMPLIANCE ADVISOR/OMBUDSMAN 2004-05 ANNUAL REPORT

INTERNATIONAL FINANCE CORPORATION
MULTILATERAL INVESTMENT GUARANTEE AGENCY

Message

FROM THE COMPLIANCE ADVISOR/OMBUDSMAN

Many efforts to help lift people out of poverty entail a certain amount of discomfort. It is not uncommon for some people in the vicinity of development projects to view them with a mix of hope and anxiety, for projects aimed at benefiting large numbers of people can have painful consequences for a few. This applies to public- and also to private-sector investments where the benefits of employment or other direct and indirect social and economic opportunities for some are tempered by potential impacts on others' livelihoods or social well-being or on environmental quality.

Five years of reviewing complaints, assessing their merits, and attempting to find mutually beneficial solutions has shown me that the CAO's role as Ombudsman for people likely to be affected by IFC- or MIGA-sponsored development projects is a critical one. We have received complaints that warranted site visits, interviews, and dialogue with all parties involved to promote outcomes that might soften the sharper edges of change. Along the way, we have learned how important it is to sharpen our emphasis and discipline on seeking rapid resolution of complaints and ensuring public accountability of IFC and MIGA. We have also seen our share of complaints without merit and have dealt with them fairly and objectively.

This has been a demanding and productive year—one that has deepened our experience in promoting dispute resolution and external accountability for IFC and MIGA. We have seen positive outcomes for IFC and MIGA in four of six independent Ombudsman assessments associated with IFC projects. We have continued preparations for bringing our work on Yanacocha in Peru (see page 14) and Pangué in Chile to a conclusion and have now formally closed a total of 12 complaints. Six other complaints are at an advanced stage of constructive dispute resolution with the likelihood of our exit in the near future.

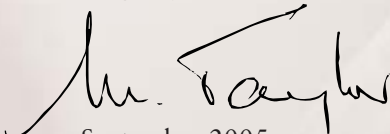
The high volume of complaints, combined with our sustained commitment to parties to achieve dispute resolution, can result in a significant strain on CAO resources, however. We face distinct challenges when confronted by a large number of relatively small complaints, particularly with respect to the BTC Pipeline project in the Republic of Georgia. The pipeline traverses the entire breadth of Georgia, has involved more than 3,500 individual land transactions with landowners, and has affected many communities. In the absence of greater public trust in the existing BTC grievance mechanism and in the absence of a project-level appeals mechanism, we consider the parties involved in these smaller complaints to have equal importance as parties to larger complaints, however challenging it may be for us operationally.

In November 2004, former IFC Executive Vice President Peter Woicke requested that CAO conduct an audit of the Amaggi Expansion Project in Mato Grosso, Brazil, to assess whether the category B rating for environmental review purposes was justified. The experience of the Amaggi audit, further specifics of which are detailed on page 9, reveals a considerable institutional discomfort with the exacting nature of the compliance role. We believe that further applications of the audit function will be helpful to IFC and MIGA as well as to the CAO. However, as a consequence of our experience with Amaggi, we are revisiting some of the operating procedures that underpin the conduct of audits. We are also committed to reviewing the compliance role after one year of operation under the new incoming senior specialist, compliance.

One of the biggest challenges we face is in making realistic assessments of the prospects of resolving sometimes intractable differences and in trying more expeditiously to bring parties to the point of resolution. Five years of experience in that regard have taught us a valuable lesson: We must not hesitate to close complaints where the parties involved are not cooperating voluntarily or where we cannot play a constructive role. Only if everyone affected wants to be a part of the process can we be effective in helping to resolve the anxieties embodied in change.

Finally, in this, our sixth year of operation, I believe we have reached a level of maturity in our work, particularly in our Ombudsman function but also in making the compliance role fully operational. Yet, members of our Reference Group have questioned whether dispute resolution really holds IFC and MIGA accountable or, instead, reinforces both institutions' abilities to more successfully undertake difficult projects. This is a challenging perspective and one that I welcome. It is entirely in keeping with the spirit of our Reference Group as an objective sounding board. My view is that our Ombudsman activities are fundamentally about accountability, provided that the processes are transparent and lead to improved outcomes. But our problem-solving focus must be balanced by a rigorous and credible audit function. This will be the focus of our efforts as we move forward.

Meg Taylor

A handwritten signature in black ink, appearing to read "Meg Taylor". The signature is fluid and cursive, with a long horizontal stroke at the end.

September 2005

Overview

OF THE COMPLIANCE ADVISOR/OMBUDSMAN'S OFFICE

The Compliance Advisor/Ombudsman (CAO) is an independent post that reports directly to the president of the World Bank Group. Its mandate is twofold: first to help the IFC and MIGA address—in a manner that is fair, objective, and constructive—complaints made by people who have been or may be affected by projects in which the IFC and MIGA play a role; and, second, to enhance the social and environmental outcomes of those projects.

Since 1999, the CAO has received 41 complaints. Of that total, 10 complaints were rejected, 26 have been assessed, 12 have been closed, and 19 are still ongoing. A summary of the status of complaints from June 2004 to June 2005 can be found on page 18.

The CAO has three distinct roles:

Ombudsman: Responding to complaints by persons who are affected by IFC/MIGA-sponsored projects and attempting to resolve the issues raised by using a flexible problem-solving approach.

Compliance: Overseeing audits of the social and environmental performance of IFC and MIGA, both overall and in relation to sensitive projects, to ensure compliance with policies, guidelines, procedures, and systems.

Advisory: Providing a source of independent advice to the president of the World Bank Group and to management of the IFC and MIGA. The CAO provides advice both in

relation to particular projects and in relation to broader environmental and social policies, guidelines, procedures, resources, and systems.

Developing and balancing the three roles—compliance, advisor, and Ombudsman—poses a unique set of challenges. The three roles together provide flexibility of response and a capacity to be proactive. Nevertheless, the Ombudsman role clearly takes precedence when it is invoked. To clarify that the advisory role cannot cut across the role of the CAO as Ombudsman or as auditor, the CAO draws a clear distinction between project-specific advice and policy and process-oriented advice. Our role is limited to the latter. We do not give project-specific advice.

There are some important limitations to the CAO's powers, but the broad mandate makes the three roles together very powerful. The CAO aims to make creative and practical proposals for settling issues



Communities affected by IFC- and MIGA-sponsored development projects are often located in isolated areas.



The CAO's Administrative Structure



The CAO's staff have a broad set of skills in the critical areas of expertise of relevance to their three functions and in-depth experience of working with the private sector. To manage their tasks more effectively, CAO senior staff have been trained in mediation, facilitation, and dispute resolution design. When specific expertise is required, the CAO hires short-term specialized consultants.

The CAO relies on a group of Strategic Advisors, experts who provide valuable insight and perspectives on strategic issues of process and substance, and on the advice and expertise of the Reference Group. This independent body of stakeholders from the private sector, the NGO community, academia, and other institutions has guided the development of operational guidelines for the CAO and participated in the safeguard policy review process. The Reference Group does not give project-based advice. Nevertheless, its diversity and expertise continue to help the CAO retain its focus and guide its evolution and growth.

raised in complaints and encourages parties to engage in constructive dialogue. Although the CAO cannot force outside bodies to change behaviors or to abandon existing practices, the office can call on the leverage of IFC and MIGA in urging the parties to adopt its recommendations.

The independence and impartiality of the CAO foster the trust and confidence of the project's sponsors, local communities, NGOs, and civil society in general. This trust and confidence are essential prerequisites for the CAO to be able to help parties to a complaint identify

mutually acceptable solutions. Independence from line management of IFC and MIGA also enables the CAO to provide objective advice to the two organizations, which should help them do their work better.

Although confidentiality is important in some aspects of the Ombudsman's role, disclosure of information is an important way to reinforce transparency and accountability. Disclosure is also important, on some occasions, to achieving resolution.



Participants at the Mesa de Diálogo-CAO assembly in November 2004 discuss how to proceed with an aquatic study.

As Ombudsman, the CAO places the concerns of the complainant at the center of the complaint and resolution processes, and the presumption is in favor of confidentiality. With the consent of the parties, the details of a complaint resolution process may be revealed after the process is concluded, but not prior to or during the process, except in specific situations allowed for by the complainant and other parties.

To maintain transparency and reinforce institutional accountability, the CAO

aims for maximum disclosure of reports, findings, and results of the CAO process by reporting results on its Web site, www.cao-ombudsman.org, and in hard-copy reports. In many cases, there is no reason why disclosure of the CAO's reports should not be full and complete, subject to any limitations imposed at the request of an affected party.

While remaining open and responsive to the views of all of those with an interest in the project, the CAO is particularly careful to ensure that the perspectives



and concerns of local communities, minorities, and vulnerable groups are captured.

The most comprehensive measure of CAO effectiveness to date has been the external review, completed in 2003, of the CAO's work and the way in which it has sought to fulfill its mandate in the three years since the office was begun. Since the report's release, the CAO has followed up on the recommendations. The CAO has also sharpened its emphasis and discipline on seeking rapid resolution of complaints and ensuring public accountability of outcomes. In the spirit of its original mandate and philosophy, the CAO challenges affected parties to seek their own solutions to their concerns by promoting an equitable and transparent framework within which those solutions can be discussed and agreed.



CAO staff and consultants listen to a discussion about independent water monitoring around the Yanacocha Mine, Peru.

To ensure that accountability is woven into the fabric of how IFC and MIGA do business, the CAO has been working with management of both organizations to ensure that staff include notification of CAO's existence in all dealings with potential, new, and existing sponsors and clients.



CAO's compliance audits play a role in ensuring that IFC and MIGA adhere to social and environmental policies. The CAO conducted an audit of IFC's environmental categorization of the Amaggi soybean expansion project.

Compliance

In exercising its compliance role, the CAO attempts to foster adherence to, and engender more positive interpretation of, IFC and MIGA policies and procedures so as to promote wider understanding of how compliance can enhance social and environmental outcomes.

The purpose of a compliance audit is to assess independently whether IFC or MIGA have materially complied with their social and environmental policies, guidelines, and procedures in investing in (IFC) or providing political risk insurance to (MIGA) projects. Audits are initiated only in response to concerns regarding the environmental or social impacts of specific projects, as opposed to random auditing. The audits are also independent of, but complementary to, IFC and MIGA internal assurance efforts.

To date, the CAO has conducted one compliance audit and two compliance reviews. In November 2004, the executive vice president of IFC requested an audit of IFC's environmental categorization of a soybean investment—Grupo André Maggi Participações Limitada, or Amaggi—located in the Brazilian state of Mato Grosso. IFC approved a \$30 million (U.S.) loan to finance the expansion of Amaggi's soy operations in September 2004. Prior to loan approval, the Amaggi expansion project had attracted criticism from a number of community

organizations, who called for the project to be assigned a Category A rating, because they considered the project to have “sensitive, diverse, or unprecedented” adverse environmental impacts. In IFC's view, the appropriate rating was Category B, which requires a more limited level of environmental assessment.

The CAO found that, although the IFC had followed its own procedures on categorization, these procedures were loosely defined and relied heavily on professional judgment. The audit concluded that the category B rating could not be fully justified until certain conditions—IFC's assuring itself that Amaggi's environmental and social management system (ESMS) is adequate to ensure compliance with IFC requirements and undertaking a rigorous assessment of the status of implementation of the ESMS—are met. The CAO recommended that IFC publicly disclose a note on the actions it intends to take in response to the audit. The full audit report and detailed findings can be found on the CAO Web site.

> To maintain transparency and reinforce institutional accountability, the CAO aims for maximum disclosure of reports, findings, and results of the CAO process by reporting results on its Web site.

Power Versus Water?

Ombudsman Assessment of the Allain Duhangan Project

With 10 percent financing from IFC, Allain Duhangan Hydro Power Limited (AD Hydro) is planning to construct a hydroelectric power plant, with an associated transmission line, on the Allain and Duhangan tributaries of the Beas river near Manali, Kullu District, in the state of Himachal Pradesh, India. The plant will be located on the Allain River but will be powered by the combined flows of that river and water diverted from the Duhangan River.



Prini Village in northern India is one of the communities potentially affected by the Allain Duhangan dam.

In October 2004, the CAO received a complaint from 63 people, mostly from the village of Jagatsuk near the Duhangan River, that the river's diversion would disrupt village water supplies. The complainants also were concerned that draft Environmental and Social Impact Assessment (ESIA) documents of 2003, as well as subsequent updates, did not provide a sufficient basis for informed consultation on key impacts of the project. In particular, the complainants perceived that the ESIA process was flawed because it appeared that the project would proceed, regardless of the findings of the ESIA, which was still under way.

A CAO team investigated the complaint during a field visit to the project site. In addition to meeting with the complainants, the CAO held a series of meetings with IFC project staff and AD Hydro. The assessment team also met with a group of villagers from Jagatsuk who supported the project, as well as senior management of the Bhilwara Group, which owns AD Hydro; an external observer of the project; and a representative of the South Asia Network on Dams, Rivers, and People, a group that has been active in helping people affected by these projects.

In March 2004, the CAO released its assessment report, which found, among other things, that the information provided within the ESIA was not sufficient to provide an informed basis for deciding whether minimum flows released by the project would be adequate to meet both human demand and environmental requirements. Recognizing that community consensus was not likely because some members of the community would always reject the project, the CAO advocated—and eventually succeeded in hosting—a meeting between AD Hydro and the Jugatsuk complainants in April 2005. The participants agreed that the company's consultants would produce a briefing note explaining how current and future demand for drinking and agricultural water was calculated; that concerned members of the community would contribute to the preparation of contingency plans for protecting water supplies in the event that there is damage to water supplies caused by the project; that both sides would prepare a schedule for implementing key commitments of the ESIA; that both sides would work together to create an appropriate community development program; and that concerned members of the community would contribute to improving the credibility and function of the project's grievance and appeals processes.



Peruvian press interview the CAO staff about independent water monitoring around the Minera Yanacocha in Peru.

Ombudsman

In terms of the evolution of external accountability within multilateral financial institutions, the Ombudsman role is the most innovative of the CAO's three roles. The Ombudsman's main objective is to help resolve issues raised about the social and environmental impact of IFC- or MIGA-sponsored projects and to improve outcomes on the ground. It is not possible to solve all problems, but the CAO's approach provides a process through which parties are more likely to find mutually satisfactory solutions.

Generally speaking, the focus of the Ombudsman role is on what is going to happen in the future, rather than what has happened in the past. Instead of finding fault, the Ombudsman's aim is to identify problems, recommend practical remedial actions, and address systemic issues that have contributed to the problems.

When a complaint is received, the CAO appraises it against basic criteria, including whether the complaint and the complainant are genuine, whether the project in question is sponsored by IFC or MIGA, and whether the complaint is substantive and specific. If the complaint is accepted, the CAO assesses it fully and notifies the project team with clear guidance on the issues to which it should respond by a specified deadline. When the assessment phase has concluded, the CAO responds to the complainant with suggestions on how to move forward.


A key difference between the Ombudsman function and many of the other external

accountability mechanisms is that our work does not necessarily end with the publication of a report. The Ombudsman seeks to use the assessment report as a catalyst to promote implementation of a locally owned solution and move the parties toward dispute resolution. The CAO can remain engaged if its role adds value and the parties request its participation. In some circumstances, the issues raised in the complaint may form the basis for a compliance audit or may be the subject of advice to IFC or MIGA management, in which case, the complainant is informed of how any remaining issues will be addressed. The CAO also has the discretion to conclude a complaint if it believes that parties are unwilling to participate or if it is unable to contribute to resolution of the issues raised.

In 2004-2005, the Ombudsman received 15 complaints. Of this total, 4 complaints were rejected, 10 have been assessed, 9 are ongoing, and 2 have been closed (see Summary of Complaints, page 18.)

Time for Independence:

Final Steps in Resolving Yanacocha Water Quality Issues



As the community of Cajamarca begins to implement recommendations from last year's "Independent Assessment of Water Quantity and Quality Near the Yanacocha Mining District, Cajamarca, Peru," available on the CAO Web site, a partnership has been formed between the mining company and la Mesa de Diálogo y Consenso CAO-Cajamarca (Mesa) for continued independent monitoring of water sampling. The mine proposed conducting, with Mesa participation, a multi-year assessment of aquatic life in the river basins adjacent to the mine. An aquatic risk assessment was begun in the summer of 2004 and is scheduled to be completed late in 2005.

The CAO also commissioned an independent evaluation of the Mesa in May 2005 to assess how effectively the Mesa fulfilled the terms of its mission and to provide the Mesa and the CAO with analysis and recommendations to inform deliberations about what needs to be done before the Mesa becomes self-sustaining, independent of the CAO's financial and technical support. To fulfill its mandate, the evaluation team reviewed the history, organization, and activities of the Mesa; the role of the mine in the economic, political, and social affairs of Cajamarca; and the policies, procedures, and activities of the mine and carried out 70 interviews with a range of public and private Mesa stakeholders.

The team's central conclusion was that the Mesa has achieved some of its objectives but that it has done so unevenly and without securing broad community support. The Mesa has been successful in the way it functions as a forum and in the quality of its technical work, and it has become firmly established as an organization. The Mesa's most notable achievement has been the water study completed in early 2004.

The evaluation team proposed two options for the Mesa: transforming the organization into a conflict-resolution forum with a new board of directors and more representative participation in the community; or changing the Mesa into an environmental observatory with responsibility for ongoing monitoring of environmental issues and sufficient funding and personnel.

The MESA is currently in the process of assimilating the report's recommendations and planning for the future. A copy of the "Report of the Independent Evaluation of the Mesa de Diálogo y Consenso CAO-Cajamarca" is available on the CAO Web site.

Advisor

The CAO's major objective in its advisory capacity is to provide independent, timely, and objective advice to the president of the World Bank Group and management of the IFC and MIGA. This advice relates both to particular projects and to broader environmental and social policies, guidelines, procedures, resources, and systems.

In its advisory role, to date the CAO has conducted a major independent review of IFC's Safeguard Policies, independent reviews of MIGA's Environmental and Social Review Procedures as well as a sampling of oil, gas, and mining projects as a contribution to the Extractive Industries Review, and an examination of the significance of human rights in IFC and MIGA-sponsored private-investment projects.

In 2004, the CAO continued work on updating the policy framework in response to the Safeguard Policy Review completed in 2003. Since releasing consultation drafts on the revised Policy and Performance Standards in August 2004, the CAO has actively tracked the progress of the IFC's process of policy revision and the extent to which this was responsive to the Safeguard Policy Review findings. As IFC's response becomes increasingly clear in more recent redrafts and as the drafting process approaches the final stages, the CAO will be producing a review of whether the new system (including the Policy on Social and Environmental Sustainability, Performance Standards,

Guidance Notes, and Corporate Procedure) responds to each of the specific findings and recommendations of the Safeguard Policy Review, prior to the end of the consultation process.

Based on its existing and historical caseload, the CAO is undertaking an analysis of emerging trends with respect to complaints lodged against IFC and MIGA projects and will develop this work as a publicly available advisory report to promote discussion within IFC and MIGA about improving institutional integrity and external accountability.

The advisory role continues to be the role that confuses internal and external stakeholders. The CAO's terms of reference allow it to provide an independent channel of advice to the president and senior management. However, that advice cannot detract from, nor pose a conflict of interest with the Ombudsman role, in particular, or with the compliance role. By drawing lessons to be learned and projecting them back into the institution, the advisory role can reinforce the effectiveness of IFC and MIGA.

Displacement Implications of Diamond Prospecting in the Kalahari

In November 2004, the CAO received a complaint from representatives of the First People of the Kalahari, Botswana, alleging that diamond prospecting by Kalahari Diamonds, Ltd. (KDL) in Botswana, in which the IFC holds a \$2 million investment, has undermined the rights of the San People to remain in the Central Kalahari Game Reserve, which they claim as their ancestral homeland.



*Bushman children
in the Central
Kalahari Game
Reserve in
Botswana.
The work of
the CAO has
implications for
future generations.*

Since the 1970s, the San believe that the government of Botswana has attempted to restrict their access to wider territories within the Central Kalahari Game Reserve. A management plan that would have reconciled community development and conservation objectives for people living within the game reserve was rejected by the government of Botswana, and services to the San community were cut. The government maintains that it is not forcibly resettling affected communities.

In December, the CAO undertook a field assessment and met with representatives of the government and various indigenous tribes and organizations. In addition to the meetings, interviews were held with IFC's project team, a previous representative of the San People, and the Land Rights Fund, which made a representation to the CAO prior to submission of the initial complaint.

The CAO completed its assessment in March 2005 and issued a final assessment report in June. Findings from that report include that it was not possible to establish a causal link between the KDL project and the government's resettlement action; that during the 30-day disclosure period IFC ensured that some representatives of affected people were aware of its intention to invest in KDL; and that the Environmental Review Statement and other disclosures were not translated into the language of the affected people, nor were they made available at locations outside of Gabarone that would have been more accessible.

The CAO's recommendations were that KDL should deepen its relationship with representatives of affected groups so as to ensure open dialogue and make public its commitments to affected people, should diamonds be found. The CAO also suggested that the complainants and government explore opportunities for a mediated settlement to their dispute.

The text of the final assessment report, including findings and recommendations, is available on the CAO Web site.

Summary

OF CAO COMPLAINTS, JUNE 2004-JUNE 2005

MARLIN, GUATEMALA

A complaint was received in January 28, 2005, regarding the Marlin gold mine, an IFC-sponsored project in Guatemala. The complainants, indigenous people who live near the mine site, believed that the mine, which is to be operated by a subsidiary of Glamis, a Canadian company, would negatively affect the quantity and quality of local water supplies. They also thought that they had not been adequately consulted during the mine development process. The Marlin mine is highly controversial and has attracted international attention from civil society groups. The dispute is characterized by considerable fear, violence, and intimidation. There has been a heightened (sometimes ill-informed) campaign against the mine by civil society groups in Guatemala and a number of protests. Most recently, in June 2005, a popular referendum was called where the majority of people voted against mining activities. The legal status of this vote is not clear.

The CAO appraised and accepted the complaint in March 2005. As part of the assessment process, the CAO visited Guatemala in April to interview the complainants, the government, and the sponsor. The CAO's assessment report, which was released in July 2005, presented factual information on the potential risks and impacts of the mine and proposed specific measures, including establishment of an independent environmental monitoring program, to promote dispute resolution.

BEREZOVKA, KAZAKHSTAN

On September 29, 2004, the CAO received a complaint from individuals from the village of Berezovka, via Crude Accountability, a U.S.-based NGO. The subject of the complaint was the Lukoil Overseas Project, an IFC-financed investment in the Karachaganak Oil and Gas Condensate Field (KOGCF) in the Burlinsky district of Western Kazakhstan Oblast, near the town of Aksai. The complainants alleged that they and other residents of Berezovka have experienced adverse health effects due to pollution from Karachaganak Petroleum Operations, and that the villagers are facing deteriorating economic circumstances. Because of these allegations of worsening health and economic prospects, the complainants wished to be resettled, away from KOGCF.

The CAO appraised the complaint, accepted it, and assessed it. An assessment report was completed April 15, 2005 and is posted on the CAO Web site. The CAO proposed that the complainants and sponsor develop agreed protocols for disclosing project information and ensuring more effective, structured dialogue.

ALLAIN DUHANGAN, INDIA

A complaint was received on October 1, 2004, regarding the IFC-financed Allain Duhangan hydroelectric dam in India on the Allain and

Duhangan rivers. The complainants, people living in the Himachal Pradesh region, alleged that their water supplies would dry up due to the Duhangan river diversion and that the Environmental and Social Impact Assessment documents neither adequately considered the legitimate concerns of the villagers, nor did they provide a sufficient basis for informed consultation on key impacts of the project. The CAO accepted the complaint. A report has been completed and is posted on CAO's Web site.

The CAO worked with both parties to reach agreement on a number of steps, including improved monitoring of project commitments, toward resolution of the dispute.

KALAHARI, BOTSWANA

A complaint was received November 2, 2004, regarding an IFC-financed diamond mine in Botswana. The complainants were indigenous San People (Bushmen) who claimed that they have been illegally evicted from their traditional hunting grounds because of the diamond project. The CAO appraised the complaint and prepared an assessment report, which is posted on the CAO Web site.

The CAO did not find a strong causal link between the relocation of people and the IFC project. However, it recommended that the sponsor ensure to indigenous people a clear understanding of IFC requirements, should diamonds be found.

ANTAMINA (2), PERU

A second complaint was received May 18, 2005 from people of the Huarvey Provinces regarding the Minera Antamina Project. The project was guaranteed by MIGA. The complaint alleges that the environmental impacts related to the Antamina SA Mining Company still persist. The complaint was appraised and accepted by the CAO on June 13, 2005.

The CAO will hire local consultants as part of an assessment team to fully investigate the alleged complaint.

THE BAKU-TBILISI-CEYHAN (BTC) PROJECT

CAO has received nine different complaints relating to the BTC project in Georgia and Turkey. Operated by BP, the BTC project is a major oil pipeline across three countries: Azerbaijan, Georgia, and Turkey. Many of the complaints that the CAO has received relate to concerns about damage to buildings and infrastructure allegedly as a result of construction traffic in Georgia. The CAO has taken a systemic approach to promoting dispute resolution. First, the CAO has worked together with BTC's external, independent reviewers to evaluate and promote strengthening of BTC's grievance management processes. Secondly, the CAO is working together with all parties on a technical effort to evaluate the possible impacts of increased construction traffic

on the structural integrity of neighboring buildings. The following Individual complaints to CAO relate to the BTC Project:

BTC PROJECT: Tsalka, Georgia

A complaint was received in July 2004 from a group of people in the town of Tsalka, regarding the Baku-Tbilisi-Ceyhan (BTC) Pipeline project. The complainants, who live downhill from a pipeline construction work camp, claimed that during its construction, drainage ditches and pipes were damaged and that the camp did not have adequate storm water management facilities in place. Because of these issues, the complainants claimed that water runoff, made worse by BTC's actions, caused severe flooding of their houses, gardens, and outbuildings, resulting in damage to equipment and crops. Other issues raised were noise levels from generators at the camp and movement of heavy construction vehicles, which were alleged to have damaged the road adjacent to the complainants' compound. The CAO accepted the complaint and has assessed it.

The CAO concluded that BTC and its subcontractor Spie-Capag and Petrofac Joint Venture (SPJV) had responded to some of the complainants' claims and had provided some compensation to individuals, as well as made repairs to municipal roads and ditches. However there was no standardized process

on the part of the sponsor for handling grievances and often no paper trail, as records were not always kept. The CAO recommended that standardized carbon-copy grievance forms be completed for every complaint received by BTC or SPJV, whether a grievance was presented orally or in writing, and whether the grievance was solved on the spot or action was pending. The complaint has been closed.

BTC PROJECT: Vale, Georgia

A complaint was received August 2004 from an individual in Vale, regarding the BTC Pipeline project. The complainant contended that SPJV has damaged his land and crops and had failed to provide adequate compensation.

After appraising the complaint, the CAO initially rejected it because it appeared that both the complainant and BTC were engaged in a legal process to settle the dispute. However, upon receiving confirmation that no legal action is pending, the CAO has accepted the complaint, and a site visit was completed in February 2005. BTC and the complainants are currently under mediation.

BTC PROJECT: Tetrtskaro (Individual), Georgia

A complaint was received December 1, 2004, from a resident of Tetrtskaro, regarding the BTC Pipeline project. The complainant alleged that BTC vehicles damaged his yard and vegetable garden without his permission or prior agreement to use his land. He claimed that five two-year-old walnut trees were destroyed and that there has been subsidence caused by heavy vehicle movement, leading to damage to the sewer system and supporting walls of his house.

Because the CAO was initially unable to promote resolution of other similar complaints together with BTC, the complaint was rejected. The CAO's continued efforts with BTC now mean that this and other similar complaints will be considered in a joint process to seek fair resolution.

BTC PROJECT: Residents of Parnavazi Street, Tetrtskaro, Georgia

A complaint was received December 15, 2004, from a group of residents of Parnavazi Street, Tetrtskaro, Georgia, regarding the BTC Pipeline project. The complainants alleged that constant heavy vehicle traffic causes dust clouds, which settle on gardens and laundry and exacerbate allergies. According to the complainants, the roads are not watered down to reduce dust, and where roads are paved, the asphalt is worn down.

There is also an allegation that vibrations from passing trucks and vehicles are causing cracks in houses. Because the CAO was initially unable to promote resolution of other similar complaints together with BTC, the complaint was rejected. The CAO's continued efforts with BTC now mean that this and other similar complaints will be considered in a joint process to seek fair resolution.

BTC PROJECT: Residents of Stalin Street, Tetrtskaro, Georgia

A complaint was received in December 2004 from residents of Stalin Street in Tetrtskaro, Georgia regarding the BTC Pipeline project. The complaints alleged that the residents' apartment building on the main road (Stalin Street) has been damaged by constant movement along the road from heavy construction vehicle traffic, and residents are worried about building collapse. The complainants also said they are disturbed by loud noise, as well.

Because the CAO was initially unable to promote resolution of other similar complaints together with BTC, the complaint was rejected. The CAO's continued efforts with BTC now mean that this and other similar complaints will be considered in a joint process to seek fair resolution.

BTC PROJECT: Residents of Tadzrisi, Borjomi Region, Georgia

A complaint was received on December 10, 2004, from residents of Tadzrisi, a town in the Borjomi region of Georgia. The complaint was in regard to the BTC Pipeline project. The complainants alleged that 20 to 30 heavy construction vehicles pass through the town per day, causing dust, noise, vibrations, and cracks in houses.

Because the CAO was initially unable to promote resolution of other similar complaints together with BTC, the complaint was rejected. The CAO's continued efforts with BTC now mean that this and other similar complaints will be considered in a joint process to seek fair resolution.

BTC PROJECT: Atskuri Village, Georgia

Two complaints were received May 10, 2005, regarding the BTC Pipeline project. One complaint was from an individual alleging that movement of heavy construction vehicles has damaged buildings. The other complaint, from a group of people in the village, alleged that BTC construction activities have damaged important cultural and historic buildings.

The CAO has commenced appraisal of the complaints to ascertain if they meet the criteria for acceptance outlined in the Operational Guidelines.

BTC PROJECT: Tsemi Village (2), Borjomi Region, Georgia

This is a second complaint from this region. Two complaints were received by the CAO on June 24, 2005, from the Association Borjomi relating to the BTC Pipeline Project. The complaints were received in Georgian and required translation into English. A translation request was submitted on June 24, 2005 and received July 11, 2005.

The CAO is appraising the complaint and will notify the complainants whether the complaint will be accepted or rejected.

BTC PROJECT: Residents of Posof Village, Ardahan District, Northeastern Turkey

A complaint was received on June 21, 2005, from a nonpolitical human rights organization on behalf of 40 Turkish citizens of Kurdish origin, who live in Turkey. The complaint alleges improper disclosure and consultation on behalf of BTC and improper acquisition of their land.

The complaint was in the appraisal stage when the representative of the complainants sent a letter dated July 4, 2005, and held a subsequent telephone conversation with the senior specialist requesting withdrawal of the complaint at this time. The complaint was officially closed July 19, 2005.

Funding Message

In fiscal year 2005, the CAO had an administrative budget of \$1,965,892. In addition, the CAO has an agreement with the IFC and MIGA that additional funds from a CAO contingency fund will be made available, on request, in the event of an unexpected volume of complaints, large-scale mediation effort, or other Ombudsman-related activity. This contingency fund is \$1 million.

For specific mediation activities to be organized and/or managed by the CAO in response to complaints to the Ombudsman, the CAO has developed a procedure whereby funds may be contributed by the parties to a dispute into a separate account to be managed by the CAO. From its own operating budget, the CAO funds all complaint assessments. Once mediation has been agreed to, however, the CAO works with the parties to resolve payment issues. Of course, some parties will not be in a position to contribute; and here the CAO has the option to draw down on the contingency fund.



Herders fill the road to Rohtang Jot in Kulu-Manali in northern India, near the site of the proposed Allain Duhangan dam.

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CAO's Web site is used to post CAO reports, presentations, and other documents to make them available to the widest possible audience as soon as they are released to the public. To improve the accessibility of CAO information, the Web site has been completely revised and redesigned to be user-friendly, intuitive, and easy to navigate.

Visit the CAO at www.cao-ombudsman.org



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