



COMMUNIQUÉ

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CAO Releases Investigation of IFC Environmental and Social Performance with regard to Quellaveco, Peru

The Compliance Advisor Ombudsman (CAO) has today released a compliance investigation of IFC's environmental and social performance with regard to its investment in Quellaveco in Peru.

IFC made a \$6 million equity investment in the Quellaveco (the "Company") in 1993. Between 1996 and 2011, IFC provided \$54 million in additional capital in the form of rights issues for the Company to pursue the development of its copper deposit in the Moquegua region. IFC sold its equity in February 2012. At the time of writing, approval for the construction of the Quellaveco mine was pending.

CAO's involvement was triggered following letters of complaint from local groups between November 2011 and March 2012 raising concerns about the project's impacts on people and the environment. After assessing the complaint, CAO referred the case for a compliance investigation.

CAO's investigation of IFC finds that IFC's 1993 investment agreement with the Company omitted IFC's environmental and social (E&S) requirements, which made effective supervision of the project difficult. Nevertheless, CAO finds that IFC supervised the project with reference to its evolving E&S standards and policies. This represented good practice. CAO notes, however, that key issues identified during supervision were not translated into corrective action plans which would have been of particular relevance in relation to resettlement, the impact of land acquisition on Indigenous people, stakeholder engagement, and the more technical elements of project design and environmental impact assessment.

With regard to **project categorization**, IFC assigned this investment Category B (limited E&S risk). CAO finds the project would properly have been categorized A (significant E&S risk) given the magnitude of the potential impacts of the proposed mine; IFC's view that it had a high likelihood of moving to development within a relatively short period of time; and the potential E&S impacts of the project in the pre-development phase, particularly on Indigenous People.

With regard to **additional financing**, CAO finds that IFC complied with relevant operational procedures. CAO, however, also notes significant risks involved in providing additional finance to a project that has inadequate or outdated E&S obligations, or where there is evidence of non-compliance with existing E&S obligations. In this context, CAO finds that IFC's procedures for processing rights issues are inconsistent with its E&S commitments as articulated in its Sustainability Framework.

Prior to **divestment**, IFC's Operational Procedures require an analysis of whether the investment's purpose has been "substantially fulfilled". In circumstances where IFC's additionally is framed in terms of E&S issues, as was the case in relation to Quellaveco, this requires an analysis of E&S achievements and future risks. CAO finds no evidence that such analysis informed IFC's decision to divest from the company.

IFC has issued a formal response to CAO's investigation. CAO will monitor IFC actions in response to the CAO findings and issue a monitoring report within the next year.

Full details in relation to this report are available at: www.cao-ombudsman.org

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About CAO:

CAO is the independent recourse and accountability mechanism for the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA), the private sector arms of the World Bank Group. CAO is mandated to address complaints by people affected by IFC and MIGA projects with the overall goal of enhancing environmental and social outcomes on the ground and fostering greater public accountability of IFC and MIGA. CAO reports to the President of the World Bank Group.
