



***Review of the Capacity of COMSUR to
Manage Environmental and Social
Responsibility Issues***

Final Report, June 2004

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Executive Summary

Introduction and background

This independent review of the capacity of the Bolivian mining company Compañía Minera del Sur S.A. (COMSUR) to manage environmental and social (E&S) issues was undertaken in February and March of 2004, by the Office of the Compliance Advisor/Ombudsman (CAO).

It was initiated in response to a July 2003 complaint to the CAO from the Coordinadora de Pueblos Etnicos de Santa Cruz (CPESC), a Bolivian NGO, regarding the Don Mario mining project, which COMSUR operates. The complaint made a number of allegations against Don Mario. The CAO prepared an Assessment Report of its findings (www.cao-ombudsman.org) in relation to the issues raised in the complaint, and recommended that a capacity review be undertaken as a basis for reinforcing COMSUR's capacity to manage its engagement with communities.

The overall objective is to independently assess COMSUR's capacity for E&S management, and make recommendations on how capacity might be reinforced and supported as part of the ongoing relationship between COMSUR and the International Finance Corporation (IFC). One anticipated outcome of the capacity review is to enhance the basis for constructive and substantive engagement between COMSUR and communities local to its operations on E&S issues of mutual concern, to support improved E&S outcomes.

COMSUR is Bolivia's largest private mining company, with most of its operations situated in the remote Altiplano. IFC has provided long-term financing to COMSUR for over 17 years. In the past decade, IFC has been increasingly focused on the environmental and (more recently) the social aspects of COMSUR's operations.

There is no simple answer to the question of what would represent adequate E&S management capacity for COMSUR. While IFC routinely considers the ability of its clients to comply with environmental and social requirements, there is no explicit process whereby capacity is assessed systematically.

So the approach adopted for the capacity review builds upon the less formal approaches currently applied by IFC.

The findings and recommendations are based on a review of documents, visits to COMSUR's operational sites, interviews with COMSUR management and employees, and meetings with communities local to COMSUR's operations in Bolivia.

Objectives and scope of the capacity review

The objectives of the review are as follows:

- To develop a full understanding of COMSUR's E&S management capacity, to inform future planning and investment by IFC and COMSUR.
- To understand the role of IFC and others in helping to reinforce COMSUR's capacity to date.
- To recommend measures to reinforce capacity and establish a sounder basis for enhancing social and environmental outcomes.

The scope of the capacity review includes COMSUR's corporate and operational level capacity, and their interactions with the IFC. It encompasses environmental and social aspects. Both are inextricably linked as many of the issues of greatest concern to mining communities relate to environmental contamination (real or perceived).

While the review presents a snapshot of capacity as of March 2004, it also considers the evolution of capacity within COMSUR over time, and COMSUR's aspirations with respect to the management of E&S issues. The scope of the review does not a compliance audit against IFC Safeguard Policies and guidelines or Bolivian legal requirements, as the initial CAO Assessment report had not raised concerns regarding compliance.

The analytical framework

Four basic elements of capacity are explicitly considered for the review: people, systems,

resources and culture. Firstly, the number of **people** employed is considered (relative to the corporate and operational demands for E&S expertise), as is the requisite skills and adequacy of training. Secondly, the E&S **management systems** and procedures are reviewed, and the extent to which these are: understood by key staff and responsibilities clearly allocated; responsive to operational challenges; and implemented effectively.

The extent to which staff are empowered to effectively manage E&S issues is also considered. This partly relates to adequacy of **resources**, and the availability of sufficient funds to respond to key challenges. But it is also linked to corporate **culture**, a fourth factor, and the extent to which this is supportive of or creates barriers to E&S staff in performing their duties.

Headline messages of the review

The headline messages of the review with respect to COMSUR's capacity for managing E&S issues may be summarized as follows:

- The quality of COMSUR's staff with responsibility for E&S issues is generally high. They exhibit a high level of commitment, motivation and responsibility. COMSUR's capacity is not limited by the ability of its staff. However, training needs to be reinforced in some critical areas and social staff need to be more empowered in terms of their direct responsibilities and reporting line.
- Management systems have been conceived and implemented for E&S issues, which include a commitment to continuous improvement. COMSUR's Social Management System (SMS) and its implementation needs to be strengthened through training and access to external expertise in specific areas.
- COMSUR's culture places a high value on catalytic innovation and learning in its core business practices. This same value is evident in its approach to environmental issues, but is more limited in its management of social issues.
- The review found positive evolutionary trends in COMSUR's management of E&S issues, including a shift from reactive to proactive responses to challenges.

However, on issues unrelated to compliance, progress appears to have been impeded during periods of depressed mineral prices .

- COMSUR's evident commitment to environmental and social responsibility is not being reinforced by full and consistent engagement with communities in an open and transparent manner. To varying degrees, this has diminished the trust of many local communities in COMSUR.

IFC's E&S engagement with COMSUR

The review considers the extent to which IFC's engagement with COMSUR addresses the adequacy of its capacity to meet IFC's social and environmental obligations, either prior to investments being made (the due-diligence or environmental and social review period) or after the fact (through IFC's project supervision). The influence of IFC's engagement with COMSUR may be summarized as follows:

- To some extent, IFC considered the adequacy of COMSUR's capacity to meet its social and environmental obligations. The focus on capacity, with an explicit link between capacity and performance, was strengthened in the last three years.
- Pre-investment attention to COMSUR's capacity evolved from an ad-hoc approach with IFC's earlier investments, to a more substantive and systematic consideration of capacity. Similarly, the attention to capacity during supervision also became more systematic over time.
- Despite the evolution within IFC of a more systematic approach to assessing and encouraging the reinforcement of COMSUR's E&S capacity, IFC did not become substantively or directly involved in follow-up initiatives to enhance capacity. Given the unequalled set of experiences that IFC's E&S professionals have, they are uniquely placed to play a more direct role in the reinforcement of COMSUR's capacity.
- IFC should consider more systematically the adequacy of its clients' capacity at the pre-investment stage and link this to specific requirements to enhance E&S capacity. These can then become a condition of any future loan and be subject to IFC's routine supervision efforts.

COMSUR's Environmental management capacity

There is much to commend COMSUR's approach to and capacity for environmental management, which may be summarized as follows:

- COMSUR has assembled a high quality team for the management of environmental issues with strong capacity, a commitment to excellence and high levels of personal responsibility.
- There is a good understanding of key environmental challenges and capacity to deal with these challenges.
- The COMSUR Environmental Management System (EMS) is responsive to key issues while providing a consistent framework across all operations. The management structure allows for considerable flexibility.
- COMSUR has a strong commitment to going beyond compliance, irrespective of legal obligations, subject to financial performance. The company approach is prevention oriented with a focus on risk reduction or elimination.
- In general, there is strong collaboration with social staff. Locally this includes shared delivery of environmentally oriented programs of education, social infrastructure, and tree-planting.

The review also identified a number of areas for improvement, which are referred to in the recommendations section.

COMSUR's Social management capacity

Overall, the review identified several positive findings regarding the management of social issues, which may be summarized as follows:

- The social staff have an appropriate background and training for community relations work, and all are capable, enthusiastic and demonstrate a high level of commitment to their work. They have a strong basic capability, with potential for further growth and professional development.
- The staff are knowledgeable about the key social challenges they face and have a good

working knowledge of the challenges faced by communities (even if capacity to deal with these challenges needs to be strengthened).

- COMSUR's investment in the development of a Social Management System represents a progressive attempt to professionalize the handling of social issues and community relations.
- The company's recent move towards a 5-year planning process represents a substantial financial commitment and a quantum leap in the ability of both COMSUR and local communities to do forward planning.
- COMSUR have made genuine efforts to move from the paternalistic approach to community assistance used in the past, to more participatory approaches, and from a reactive to a proactive mode with regards to community engagement.

Several areas for improvement are identified, as outlined in the recommendations section.

Recommendations

Collectively, the recommendations (if implemented) should help to address important issues for COMSUR and its local communities that include:

- The gap between the public perception of COMSUR's environmental management and related environmental risks (which is often negative), and the generally robust approach to managing environmental issues and aspects that is evident within COMSUR's operations;
- Linked to the first bullet point, the limited exchange of information, consultation and deeper forms of engagement between COMSUR and local communities on environmental and social issues and risks;
- The informal and inconsistent approach to handling environmental and social complaints across COMSUR's operations, which affects the predictability of process and can encourage 'speculative complaints' without foundation; and
- The critical need to build trust between COMSUR and local communities to provide a basis for participatory community

development planning and foster ongoing relationships of mutual benefit.

A number of recommendations are applicable to the management of both E&S issues and are presented as cross-cutting. Recommendations specific to environment and social management are presented in turn. Finally, a number of recommendations for how IFC engages with sponsors on capacity issues are also presented. Each recommendation (in green italicized text) is preceded by a finding that identifies areas for improvement.

Cross-cutting recommendations

Current mechanisms for dealing with complaints are informal, inconsistent and are sometimes undermined by residual paternalism. *It is recommended that COMSUR develop and publicize as a matter of priority a complaint resolution process that is transparent and predictable. Where complaints are legitimate, the remedial actions by COMSUR should be clearly communicated as mitigation efforts.*

Inadequate communication is a recurring theme in several of the review findings, and highlights the need for COMSUR to reinforce information exchange, transparency, and engagement with communities. *COMSUR should strengthen its relationships with communities through adopting a more open and transparent approach to engagement on E&S issues of mutual concern. This aspect is also reflected in some of the issue specific recommendations.*

Current emergency response plans do not recognize the need for direct involvement of the local population. *COMSUR should examine when and how the local population should be informed, engage with communities to discuss emergency issues of mutual concern, and explicitly integrate involvement of communities into emergency response plans.*

E&S staff within operations have limited access to external expertise and would benefit from greater exposure to the innovation that international consultants can facilitate. *In specific areas that the capacity review has highlighted (risk communication, results-based community development planning,*

social assessment, and participatory approaches) COMSUR should catalyze the acquisition and dissemination of skills across the company by bringing in external experts knowledgeable of international best practice to provide training and instruction.

COMSUR's approach to recruitment, performance appraisal and dismissal of E&S staff is currently too informal. *COMSUR should institute a formal process whereby the recruitment, performance appraisal and dismissal of Environmental and Social Coordinators is managed jointly among the General Superintendent of an operation, the corporate Environmental Manager/ Social Manager and the Vice-President of Operations, with managerial responsibility residing with the General Superintendent.*

Environmental management

The benefits of the strong collaboration between environmental and social staff are often undermined by not providing adequate information and assurances to communities. *It is recommended that COMSUR develop methods and procedures to achieve greater engagement with communities on environmental matters with an emphasis on providing information in a transparent and participatory manner. COMSUR should also actively involve community representatives in environmental monitoring and dialogue regarding environmental risks.*

Environmental monitoring schemes (as specified in the Environmental Licenses for each operation) have not always been adapted to changes induced by the evolution of mining operations. *It is recommended that COMSUR revisit monitoring regimes periodically and systematically, and ensure they are inherently flexible and responsive to the environmental changes that can take place over the life of an operation.*

Understanding of some of the specific requirements of ISO 14001 needs to be reinforced among environmental staff to support COMSUR in pursuing certification. *COMSUR should undertake a gap analysis between current management provisions and ISO 14001 for each operation so that staff can be fully aware of the tasks ahead of them. Additional training should be provided to*

ensure capacity in any areas identified as problematic.

Management of social issues

Ongoing training and capacity building for social staff are not formalized in the SMS, and there is a need to strengthen specific skills and areas of expertise. *It is recommended that training and continuous learning and improvement be integrated into the SMS, and financial resources provided to support external expertise to build in-house capacity (in participatory methods, social assessment methods, etc.).*

Social staff are less empowered than their environmental counterparts, have less direct responsibility for achieving goals and implementing policy, and do not report directly to senior management. *It is recommended that COMSUR institute a similar reporting structure and accountability for operational Social Coordinators as for Environmental Coordinators, to strengthen the role of social specialists within operations and the company's capacity overall to implement its SMS. The appointment of a Social Manager may be a necessary component of strengthening the corporate level capacity.*

Social criteria are not consistently or effectively integrated into the analysis supporting project decision-making at operations. *It is recommended that the SMS and EMS be revised to strengthen the formal integration of social criteria into project decision-making at an early stage, with adequate training for senior and area managers to understand the value and application of such integration. Related training should also be provided to social specialists.*

Greater consistency and transparency are needed on aspects of COMSUR's social policy and its implementation in order to improve communication and stakeholder confidence. *In order to build trust with communities and facilitate a non-dependent development process, greater clarity is needed on a number of issues, such as the identification of social area of influence or responsibility, and criteria for participation in community development programs.*

COMSUR should revise and update its social policy as practice has superceded some existing policy commitments.

SMS processes for setting measurable goals, monitoring, and continuous learning and innovation should be strengthened. *It is recommended that at the SMS and community project implementation level, a concerted effort be made to build capacity in processes to measure performance and effectiveness of activities against the larger goals of the company and the social policy.*

Public consultation does not consistently extend to the affected population as a whole, and as a result consultation and engagement are not always fully effective. *It is recommended that COMSUR deepen its processes of public consultation to ensure broader, informed participation by the affected population as a whole. Where necessary, implementation schedules and level of effort must be adjusted to take account of the requirements for such consultation practices.*

Social staff are isolated professionally and working in difficult and stressful situations at the same time as they are developing and learning to apply the SMS. *To reduce the professional isolation of social staff and strengthen learning opportunities across the company, it is recommended that COMSUR formalize opportunities for sharing of ideas, experiences and learning between social specialists, through regular meetings, site visits, and training programs.*

Recommendations for IFC's engagement on capacity issues

IFC is uniquely placed to play a more direct role in the reinforcement of COMSUR's capacity, depending on its own capacity constraints. *While IFC's experience in managing social issues (in particular) makes it well placed to assist in the development of such capacity, IFC's social specialists have to contend with the pressing demands of due diligence and supervision. It is recommended that IFC explores the potential to form strategic partnerships to support sponsor learning and innovation on E&S capacity.*

IFC should consider more systematically the adequacy of capacity at the pre-investment

stage and link this to specific requirements to enhance E&S capacity. This is consistent with the recommendations of the 2003 CAO Review of IFC's Safeguard Policies. ***By adopting a more systematic consideration of sponsor capacity at the due diligence stage, areas of capacity in need of support could be identified and become a condition of any future loan, and subject to IFC's routine supervision efforts. IFC should also explore mechanisms for rewarding sponsors that exhibit superior capacity and performance over time, relative to riskier sponsors.***

1. Introduction

This independent review of the capacity of the Bolivian mining company Compañía Minera del Sur S.A. (COMSUR) to manage environmental and social issues was undertaken in February and March of 2004, by the Office of the Compliance Advisor/Ombudsman (CAO), the external accountability office of the International Finance Corporation (IFC). It is based on a series of structured interviews with COMSUR employees¹ and meetings with communities local to COMSUR's operations in Bolivia, a review of documents provided by COMSUR and the IFC (an investor in COMSUR), and direct observations at COMSUR's operational sites.

The overall objective was to independently assess COMSUR's capacity, with the intention of making recommendations for how capacity might be reinforced and supported as part of the ongoing relationship between COMSUR and the IFC. The anticipated medium to longer-term outcome of the capacity review is to enhance the basis for constructive and substantive engagement between COMSUR and communities local to its operations on environmental and social (E&S) issues of mutual concern, to support improved E&S outcomes.

1.1. Background

The capacity review was initiated in response to a complaint to the CAO. In July 2003, the CAO received a complaint from the Coordinadora de Pueblos Etnicos de Santa Cruz (CPESC²), a Bolivian NGO, regarding the Don Mario mining project, located within the Municipality of San Jose de Chiquitos. The complaint alleged that: the original Environmental Impact Assessment (EIA) was flawed (as it had not adequately considered the ecological sensitivity of the project area); that the consultation process for the project was inadequate; that Indigenous Peoples Development Plans (IPDPs) should have been prepared for local indigenous communities; and that there had been no compensation for the profound social and environmental impacts of the project.

In response, and under the auspices of its Ombudsman role, the CAO prepared an Assessment Report of its findings in relation to the allegations and concerns raised in the complaint³. In summary, the Assessment report:

- Noted the significant ecological concerns of local communities (particularly in relation to tailings and wastewater management), which are at odds with Don Mario's application of state-of-the-art technology to meet international standards, and urged that the different perspectives on risks be placed at the core of Don Mario's community dialogue, outreach and consultation;
- Indicated that the consultations on the EIA did not meet a standard that CAO considered to be acceptable, and that COMSUR's capacity for consultation should be reinforced;

¹ Both in COMSUR's corporate headquarters in La Paz and at several operational sites.

² CPESC is an autonomous indigenous organization that represents the rights of four indigenous groups that in turn represent the rights of indigenous peoples (Chiquitano, Ayoreo, Guarani and Yuracare-Mojeno). The OICH (Organizacion Indigena Chiquitana) is the legal representative of the Chiquitanos, and encompasses six Tierras Comunitarias de Origen (TCO – or Indigenous Community Land), including the Turabo TCO. This land includes the five indigenous communities nearest to Don Mario.

³ A copy of the Assessment report may be obtained from www.CAO-Ombudsman.org

- Recognized that IFC’s opinion that the Indigenous Peoples Policy should not apply, as the project resulted in no direct impacts (and indirect impacts were limited), was consistent with current practice and interpretation, but observed that this would have been best addressed through a broader consultative process.

The absence of direct environmental and social impacts on indigenous communities was the reason that Indigenous Peoples Development Plans had not been prepared, and that compensation measures had not been provided. However, the assessment report also noted that the tensions between Don Mario’s perspective on community engagement as a “favor” and community perspectives on community engagement as a “right” (by virtue of being impacted) should be resolved through bolstered participatory community development plans.

The need to enhance COMSUR’s capacity (for example, for consultation and participatory community development) was raised in a number of places within the Assessment report. The full text of the complaint and the CAO’s response is outlined in detail within the Assessment Report, but the recommendations most pertinent to the capacity review are as follows:

- In light of IFC’s historical investments and equity stake in COMSUR, the CAO believes that IFC should considerably augment its assistance and technical support to help COMSUR further develop social capacity and that creative approaches be deployed. The CAO considers this urgent, specific to Don Mario, but also company wide.
- The CAO believes that IFC should think creatively about the structure of future proposed project financing to allow for investment in this management capacity and to ensure that COMSUR has adequate working capital to increase investments in its social infrastructure.
- The CAO recommends that an independent baseline review⁴ of environmental and social management capacity (hereafter referred to as a capacity review) be carried out and that its results inform future planning and investment by IFC and COMSUR.
- More broadly, the capacity review may support IFC as it reassesses the best way to undertake supervision and monitoring given the resource constraints compounded in recent months with reorganizations of its Environmental and Social Development Department that leave fewer specialists available for large and intricate supervision tasks.

This capacity review responds primarily to the third bullet point, but in turn may influence the level of support from IFC to COMSUR to reinforce social or environmental capacity.

1.2. Brief description of COMSUR

COMSUR is a privately-owned Bolivian mining company that was founded in 1962. It is wholly owned by Minera S.A., a holding company incorporated in Panama, in which IFC has an 11% equity stake. COMSUR is Bolivia’s largest private mining company, with most of its operations situated in the remote Altiplano (at over 4000 meters above sea level) producing zinc, lead, tin

⁴ The term ‘capacity review’ is more appropriate than ‘baseline audit’ (as called for in the CAO Assessment report on Don Mario) in the context of looking at COMSUR’s capacity for managing environmental and social issues, which is not legally prescribed.

and silver concentrates. COMSUR also have an interest in and operate a gold mine in the sub-tropical lowlands close to the Brazilian border.

From the modest beginnings of a 150 tonnes per day (tpd) zinc operation at Porco, COMSUR gradually expanded and the combined capacity of its operations today is 5000 tpd. The granting of the Bolivar concession to COMSUR in 1993 by the state-owned COMIBOL (Corporación Minera Boliviano) was the first such public-private partnership in Bolivia, with support from the IFC, and marked a decade of expansion. Today COMSUR's active operations are mostly located close to two traditional mining towns in the Altiplano. Within an hour's drive of Potosi, COMSUR operates a cluster of zinc-lead-silver underground mines and the Don Diego mill, the COMCO heap leach silver operation, and the Porco zinc-lead-silver underground mine and mill. Near the town of Oruro, COMSUR operates the Colquiri zinc-tin underground mine and mill, the Bolivar underground zinc-lead-silver underground mine and mill, and Vinto tin smelter. The Don Mario gold mine (which produces gold as bullion) is located in the sub-tropical lowlands near the border with Brazil, 176 km to the north-east of San Jose de Chiquitos.

1.3. IFC's relationship with COMSUR

IFC has provided long-term financing to COMSUR for over 17 years, through a succession of five loans, the first in 1986 and the most recent in 1999. For the past decade, IFC has been increasingly focused on the environmental and (more recently) the social aspects of COMSUR's operations. This interest stemmed from the existence of an environmental review function within IFC to oversee the environmental performance of its investments dating from the early 1990's. The attention to environmental and social matters increased significantly from 1996 with the first recruitment of social specialists, the subsequent strengthening of IFC's environmental and social Safeguard Policies, and related review procedures and guidelines. The relationship between IFC and COMSUR, and specifically their historical interactions on environmental and social issues, is pertinent to the question of capacity within COMSUR. In particular, the existence of and adequacy of capacity within COMSUR to meet the environmental and social obligations which are a condition of IFC involvement are relevant to the review.

1.4. Route map to the report

This introductory section is followed in section 2 by a description of the overall approach adopted for the review and the analytical framework applied. In section 3, IFC's historical involvement with COMSUR is discussed, including its various investments and related due diligence and supervision requirements (as prescribed by IFC's Environmental and Social Review Procedure). Section 4 presents an overview of COMSUR's capacity for managing E&S issues, both at the corporate and the operational levels, and discusses the influence of corporate culture. Sections 5 and 6 present a discussion of the environmental (section 5) and social (section 6) management capacity of COMSUR respectively. Finally, section 7 presents recommendations for reinforcing COMSUR's management capacity and IFC's engagement with clients on capacity issues.

2. Approach and Methodology

This section briefly describes the approach to and methodology for the review of COMSUR's capacity for managing E&S issues. There is no simple answer to the question of what would represent adequate E&S management capacity for COMSUR at either the corporate or operational levels. While IFC routinely considers the ability of its clients (project sponsors) to comply with the environmental and social requirements embodied in its policies and guidelines, the strongest emphasis historically was on the adequacy of pollution control technologies and, more recently, the existence of management systems. Since 2001, IFC has administered a management capacity questionnaire to sponsors that elicits information on some of the factors that contribute to capacity, including resource allocation and training, but there is no explicit process whereby capacity is systematically assessed. So the approach outlined below builds upon the less formal approach to reviewing capacity currently applied by IFC.

2.1. Objectives and scope of the review

The objectives of the capacity review were as follows:

- To develop a full understanding of COMSUR's environmental and social management capacity, to inform future planning and investment by IFC and COMSUR.
- To understand the role that IFC (or other external parties) has played in helping reinforce COMSUR's capacity to date, through processes such as environmental and social review and supervision.
- To recommend remedial measures if capacity is found to be lacking, to reinforce existing capacity and establish a sounder basis for enhancing social and environmental outcomes in the longer-term.

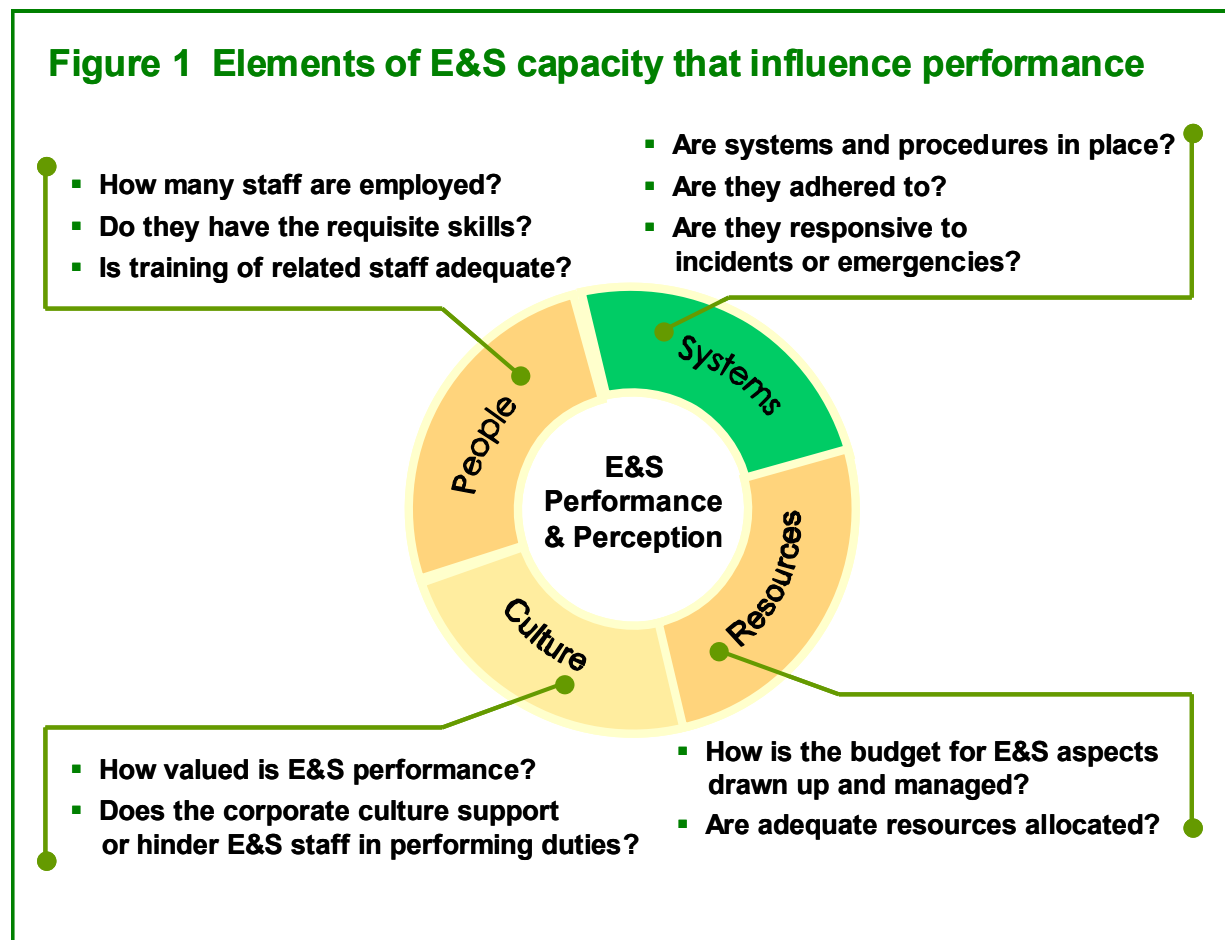
The scope of the capacity review included COMSUR's corporate and operational level capacity, and their interactions with the IFC. It also encompassed environmental as well as social aspects. The two are inextricably linked as many of the issues of greatest concern to communities in the vicinity of mining operations are linked to environmental contamination (real or perceived). The review explicitly assessed adequacy of capacity to effectively implement IFC's Safeguard Policies and guidelines, as well as COMSUR's internal E&S policy commitments.

The review also considered the evolution of capacity within COMSUR, not just a snapshot of capacity as of March 2004, as the question of adequacy of future capacity needs to reflect on improvements in capacity over time. The scope of the review did not include a compliance audit against IFC Safeguard Policies and guidelines or Bolivian legal requirements, as the initial CAO Assessment report had not raised concerns regarding compliance.

Finally, adequacy of capacity is also partly dependent on the aspirations of COMSUR with respect to the management of E&S issues – whether they aspire to exemplify international best practice or to comply with national legal obligations and the requirements imposed by their association with IFC. This was also explicitly factored into the review of COMSUR's capacity.

2.2. The analytical framework

For the purposes of the review, four basic elements of capacity were identified: people, systems, resources and culture (see Figure 1). Firstly, the number of *people* employed is important, but it is not simply a question of head counts. Numbers of staff with designated responsibility provides a crude measure, but this cannot be considered in isolation from the corporate and operational demands for environmental and social expertise. It also fails to account for the use that COMSUR might make of external expertise (such as consultants), or the extent to which other staff share the burden for managing environmental or social issues. The requisite skills and adequacy of training, with specific emphasis on the issues of relevance to a given operational site, are all important.



Secondly, the extent to which skills are effectively applied is profoundly influenced by the **management systems** and procedures that are in place to manage E&S issues on a routine basis, and respond to specific incidents or emergencies. The existence of management systems are important, as are factors such as the extent to which: systems are understood by key staff; responsibilities are clearly allocated; systems respond to operational challenges specifically; and objectives, targets and other elements of the system are operationalized through supporting procedures.

Another factor is also important: the extent to which staff are empowered or enabled to effectively manage E&S issues. This is partly linked to the adequacy of **resources** applied to E&S matters, and the extent to which sufficient funds are made available to respond to key challenges. But it is also linked to corporate **culture**, a fourth factor, and the extent to which this is supportive of or creates barriers to EHS staff in performing their duties. For example, the level of autonomy that responsible staff have for managing such issues is closely linked to corporate culture, as is the overall priority assigned to E&S issues.

Each of these four elements of capacity were explicitly considered as part of the review of COMSUR's social and environmental management capacity.

2.3. The link between capacity and performance

Adequacy of capacity cannot be considered in isolation from E&S performance – both the technical and measurable aspects of performance (against prescribed standards and guidelines), and the public perception of performance. Both are inextricably linked. For example, while a company may exemplify excellence in terms of environmental performance, if it fails to engage with stakeholders on environmental issues in an appropriate manner, mistrust can develop and the public perception may be at odds with the reality of sound performance. Simply stated, if overall E&S capacity is adequate, performance (and the perception of performance) should be broadly satisfactory.

This review has primarily been concerned with COMSUR's capacity to effectively implement internal E&S policy commitments and IFC's Safeguard Policies and guidelines, as opposed to E&S performance. Performance and compliance with IFC's Safeguard Policies and guidelines is the primary focus of IFC's due diligence efforts (as discussed in section 3.2.1). However, the methodology provided an insight into performance, both the technical aspects of performance and the public perception of performance, by stakeholders local to COMSUR's operations, which is discussed in sections 4 – 6.

2.4. Methodology

The methodology for the capacity review was as follows:

- ***Desk-based review of information on COMSUR contained in IFC's files or obtained through meetings with the project team***, to better understand the historical interactions between IFC and the company, the nature of IFC's investments, the extent to which issues of capacity have featured in the relationship to date, and the extent to which IFC has had an influence on capacity.
- ***Review of COMSUR's corporate level E&S capacity***, based on a series of structured interviews with COMSUR's headquarters staff in February 2004 and a review of relevant documents, supplemented by discussions with headquarters staff during field visits in March 2004.
- ***Preparation of 'Capacity Review Protocols'*** in advance of the operational site visits, to provide a structure for the interviews to be held with COMSUR's operational staff, representative organizations, and communities, and designed to elicit information to help establish E&S capacity.

- **Conduct of site visits** to nine of COMSUR's operational sites⁵, to obtain detailed information in support of the capacity review through observation, interviews with company personnel, and meetings with communities.

The site visits took place between 15-26 March 2004, by a team comprising one CAO staff member and two consultants. The visit to each operational site began with an opening meeting and presentations from staff with key responsibilities for management of E&S issues (General Superintendent, Administrative Superintendent, Environmental Coordinator and Social Coordinator). Thereafter the capacity review team collected information through a combination of group and one-on-one interviews, review of documents and records of consultations, and observation of on-site and off-site activities. Interviews with operational staff were typically conducted without the participation of COMSUR headquarters staff. Similarly, meetings with communities were conducted for each operational site, without the participation of COMSUR or members of the press. These stakeholder perspectives were a critical contribution to the findings and recommendations, and in many cases highlighted gaps between COMSUR's internal practices with respect to E&S management and the external perspectives on how E&S issues are managed by COMSUR. Annex 1 contains details of the communities visited during the course of the work.

⁵ For the purposes of the capacity review, COMSUR was considered to have eleven 'operational sites'. This comprises seven operational mines and mills, one tin smelter, and three operations in the early stages of closure (COMCO, Puquio Norte and Huari Huari). The only two COMSUR facilities not visited were COMCO (a heap leach silver operation in the early stages of closure) and Colquechaquita, one of the small zinc-lead-silver underground mine supplying ore to the Don Diego mill. However, detailed discussions were held with staff responsible for managing E&S issues at Colquechaquita. Asientos, a small zinc-lead-silver mine which closed in 1999, was excluded from the definition of operational sites.

3. IFC's engagement with COMSUR on capacity

Since 1986, IFC has made a series of loan and equity investments in COMSUR, to support the expansion and modernization of its operations in Bolivia. This is relevant to the review of COMSUR's capacity for managing E&S issues, as the last three investments in particular coincided with a significant expansion of IFC's own capacity for dealing with environmental and social issues, and an increase in the obligations it in turn placed on sponsors such as COMSUR. This section reviews the extent to which IFC's engagement with COMSUR addressed the adequacy of its capacity to meet IFC's social and environmental obligations, either prior to investments being made (the due-diligence or environmental and social review period) or after the fact (through IFC's project supervision).

This was largely based on an in-depth review of the detailed files of IFC's Environmental and Social Department, and on discussions with IFC and COMSUR staff. The intention was not to second-guess the professional judgment of IFC staff and opine on the adequacy of historical decision-making, but to understand the extent to which COMSUR's capacity was considered (formally or informally), or reinforced where appropriate.

3.1. IFC's investments in COMSUR

IFC's original 1986 investment was to finance COMSUR's silver heap leach operation of Compañía Minera Concepción (COMCO), which processes waste rock from the renowned Cerro Rico silver mine. In 1989, a second investment helped to finance the expansion and modernization of COMSUR's processing capacity, and increased IFC's equity stake in Minera to 7.4 %⁶.

IFC's investment in Bolivar in 1993 supported COMSUR's acquisition of the concession from the state-owned mining enterprise COMIBOL and modernization of the mine and processing plant. A fourth investment in 1995 financed the Puquio Norte gold mining project (which is currently in the advanced stages of closure). In 1999, a fifth loan to COMSUR financed a broad set of improvements in mining and metals processing at several of COMSUR's operations.

3.2. IFC's E&S engagement with COMSUR

Prior to 1990, IFC had no formal process of environmental review that applied to its first two investments in COMSUR. By the time IFC was considering investing in Bolivar, IFC's Technical Department had employed three environmental specialists. Environmental issues were explicitly factored into IFC's investment decision-making for Bolivar, and the project was seen as having the potential to address some of the environmental degradation that had occurred during the period of management by the state-owned COMIBOL.

3.2.1. Due diligence

IFC's due diligence requirements encompasses those activities related to environmental and social issues that take place prior to an investment being made. These are set out in IFC's

⁶ IFC's equity stake in COMSUR increased from 7.4% to 11% after Minera signed an option to buy back the 33.3% of shares held by Rio Tinto with the approval of IFC.

Environmental and Social Review Procedure (ESRP) of December 1998, which is available online at www.ifc.org. This includes details of IFC's project cycle, and the key stages of project categorization (which in turn dictates the scale and nature of the Environmental Assessment (EA) that IFC's sponsors must undertake in order to satisfy IFC's environmental and social requirements, as specified in IFC's Safeguard Policies and industry sector guidelines), and project appraisal (IFC's detailed evaluation of the project from an environmental and social perspective). The ESRP is the framework within which IFC's Safeguard Policies and guidelines are applied. It also reflects key milestones in the evolution of IFC's due diligence, such as the employment of social specialists (in 1996) and the revision of the Safeguard Policies and related review procedure (in 1998).

The main body of the ESRP makes no reference to sponsor capacity; the first reference occurs in Annex C (dealing with Environmental Assessment), which states that a full Environmental Impact Assessment (EIA), as required for IFC's category A⁷ projects, should look at capacity for environmental and social management. Capacity is also referred to in Annex E, which discusses the application of EA to projects involving pest management. The ESRP makes no other specific reference to reviewing the adequacy of sponsor capacity, or to supporting sponsor capacity where this is thought to be inadequate.

For the 1993 Bolivar investment (and both prior investments in COMSUR by IFC), IFC's due diligence made little or no reference to COMSUR's capacity. The 1995 Puquio Norte investment was a category A project, and the EA included some basic discussion of capacity, with particular emphasis on COMSUR's implementation of an Environmental Management System (EMS). IFC's 1999 investment took place against the backdrop of greatly increased attention to social issues within IFC, with the 1998 adoption of IFC's revised Safeguard Policies. The due diligence efforts were more explicit in terms of attention to capacity for environmental and social management, particularly with respect to COMSUR's staff and management systems, and highlighted for the first time, the need to reinforce social capacity in response to IFC's new social Safeguard Policy commitments.

3.2.2. Supervision and support for capacity development

Supervision refers to the process of monitoring the performance of projects to ensure compliance with social and environmental conditions. As of 1998, COMSUR has been required to provide IFC with annual monitoring reports (AMRs), and IFC to prepare a Project Supervision report (PSR) at least once a year, typically supported by a site visit from an environmental and social specialist. The process typically involves IFC conducting site visits in advance of COMSUR preparing an AMR, feedback from IFC to COMSUR on issues that may need to be addressed within the AMR, submission of the AMR to IFC by COMSUR, and IFC providing formal feedback to COMSUR on the substance and content of the AMR. Prior to 1998, the supervision process was less formalized and occurred on an 'as-needs' basis, with the need determined by IFC's Technical and Environment Department⁸, or by the Operations Evaluation Group (OEG) which conducts periodic in-depth assessments (called Investment Assessment Reports) of selected IFC investments.

⁷ Category A projects are defined as those which are likely to have significant environmental impacts that are sensitive, diverse, or unprecedented.

⁸ IFC's Technical and Environment Department had responsibility for managing E&S issues prior to the year 2000, when an autonomous Environmental and Social Development Department was created.

IFC's formal supervision of COMSUR began in late 1996, with a specific emphasis on the management of tailings. Prior to that date, due diligence efforts related to the 1993 Bolivar and 1995 Puquio Norte investments had provided IFC with opportunities to review COMSUR's environmental and social performance. IFC conducted a number of supervision visits in late 1996 and 1997, as part of a concerted and sustained effort to upgrade the environmental management of all tailings dams operated by COMSUR. With the encouragement of IFC, the COMSUR Board approved the adoption of an EMS modeled on ISO 14001 in mid-1998, which led to the appointment and training of dedicated Environmental staff at each of COMSUR's operations in the following year.

In mid-1998, a supervision visit involving an environmental and social specialist was conducted, in part to contribute to an Investment Assessment Report (IAR). This explicitly referred to capacity, and welcomed the proposed reinforcement of COMSUR's EMS. It also acknowledged numerous social development actions being undertaken by COMSUR, but noted that COMSUR had no explicit social policy or strategy. A supervision visit in 1999 also highlighted the need for COMSUR to contract in specialist social expertise, if in-house social staff were not to be employed. The responsibility for social issues was assigned by COMSUR to its site-based Administrative Superintendents, who traditionally had taken on the role of managing community relations (albeit without any specific training).

During late 2000, IFC's supervision visit again highlighted the lack of integration of social issues into COMSUR's EMS, and IFC explicitly recommended that COMSUR hire a social specialist. In April 2001, COMSUR employed a Social Specialist (reporting to the Administrative Manager). A consultant was also retained to prepare COMSUR's social policy and framework Social Management System (SMS), which were reviewed by the Administrative Manager and Social Specialist. The responsibility for implementation of the system remained the responsibility of the site-level General Superintendents. IFC's 2002 supervision visit highlighted the initial efforts to systematize the management of social issues, but primarily focused on the need to reinforce the application of the SMS at the operational level. For example, each operation was urged to develop explicit Community Development Plans (CDPs), to engage in partnerships to facilitate delivery of the CDPs objectives, and to better document their contributions to community development.

From late 2002 onwards, COMSUR's operations began to employ dedicated social coordinators with responsibility for local implementation of the SMS and preparation of CDPs. However, in January 2004, IFC's review of COMSUR's AMR recommended that capacity for managing social issues be further strengthened.

3.3. Summary of key findings

The influence of IFC's engagement with COMSUR (through due-diligence and supervision) on its capacity for managing E&S issues may be summarized as follows:

- To some extent, IFC's engagement with COMSUR considered the adequacy of its capacity to meet IFC's social and environmental obligations, both prior to investments being made and during project supervision. The focus on capacity with an explicit link between capacity and performance was strengthened in the last three years.
- Pre-investment due diligence attention to COMSUR's capacity evolved from the ad-hoc approach with IFC's earlier investments, to a more substantive and systematic consideration

of capacity. Similarly, the attention to capacity during supervision (and the link with E&S performance) also became more systematic over time.

- Despite the evolution of a more systematic approach by IFC to assessing and making recommendations for reinforcing COMSUR's E&S capacity (as part of its supervision efforts), and an increasing willingness to mandate the reinforcement of E&S capacity, IFC was not substantively or directly involved in follow-up initiatives to enhance COMSUR's capacity. Its role was to provide direction and encouragement.
- IFC should consider more systematically the adequacy of its clients capacity at the pre-investment stage and link this to specific requirements to enhance E&S capacity. These can then become a condition of any future loan and an integral part of the ongoing management of environmental and social risks, and be subject to IFC's routine supervision efforts (as provided for by some IFC loan Agreements).

4. Overview of COMSUR's E&S capacity

In this section, the overall capacity of COMSUR to manage E&S issues is discussed, both at the corporate headquarters and within operations. The purpose is to give an overview of how E&S capacity has evolved over time and the factors that influenced this evolution, to discuss linkages that may exist between the various management systems and practices, and to consider the influence of corporate culture. A summary of overall findings is also presented, which represent the headline messages of the report.

4.1 Governance structure and reporting lines

COMSUR's governance structure for managing E&S issues is broadly similar across the two areas of focus of the capacity review. The President and CEO assumes overall responsibility, and reports to the Board of Directors on E&S matters. There is no Board committee that specifically deals with E&S issues, but such matters are frequently discussed at Board level, which has the ultimate responsibility for approving expenditures on E&S. The Vice President of Operations is also very actively engaged on E&S issues at the corporate and operational levels, and is responsible for managing the corporate level Environmental Manager. Social issues are the responsibility of the Administrative Manager, reporting to the VP of Operations, who manages the corporate level Social Coordinator.

At each of COMSUR's operations, a General Superintendent has overall responsibility for all operational aspects including E&S issues. The General Superintendents report directly to the Vice President of Operations. The site-level Environmental Coordinators report directly to the General Superintendents, whereas the site-level Social Coordinators report to the General Superintendent via the Administrative Superintendents. This mirrors the arrangement at COMSUR's corporate headquarters, whereby staff with direct responsibility for social matters report indirectly to the Vice President of Operations. In part this reflects the historical informal responsibility that Administrative Superintendents had for managing community relations, as many of the Social Coordinators have only been appointed in the past year. However, it has not empowered the Social Coordinators to the extent that a more direct reporting arrangement would have.

4.2 Evolution of management capacity within COMSUR

To a large extent, this capacity review represents a snapshot of COMSUR's E&S capacity at the time of the site visits in February/March of 2004. But it was also considered important to understand whether capacity had improved over time, and the factors that had influenced any observed improvements. This is relevant not just to the question of the adequacy of COMSUR's current capacity, but to the capacity COMSUR will need in future to fulfill its own stated objectives and the evolving E&S requirements of IFC.

4.2.1 Environmental management

In 1990 following Rio Tinto's (formerly RTZ's) acquisition of a 33.3% stake in Minera, RTZ initiated an annual review of environmental and health & safety performance within COMSUR. The first of these reviews served as an initial baseline, and provided the impetus for a more structured approach to managing environmental issues identified in the annual reviews. What little information is available from 1990-1993 suggests that environmental management was still

fairly elementary, reactive, and was not based on a detailed understanding of impacts (as environmental monitoring was almost non-existent).

IFC's due diligence for the Bolivar investment in 1993 noted the extensive historical liabilities from the period of COMIBOL management, and highlighted the need for enhanced environmental management. In 1994, a study commissioned by COMSUR from Golder Associates recommended that the company implement extensive monitoring of environmental media -- groundwater, surface water, air, etc. These recommendations were implemented by COMSUR, which for the first time provided an empirical basis for environmental decision-making. The emphasis on environmental monitoring was prompted in part by the monitoring requirements implicit in IFC's guidelines, and also by the enactment of the Bolivian Environmental Law (Law 1333), in 1992. The regulations pertaining to the law were implemented in 1997.

Prior to 1995, IFC's investments in COMSUR were for expansion or modernization projects that did not require a full Environmental Assessment (EA). The Puquio Norte project was the first COMSUR operation for which a full EA was required to IFC's standards, which highlighted the existence of a fairly basic EMS at each COMSUR operation. The enhanced requirements of IFC, including the need to prepare an Environmental Management Plan, was a new experience for COMSUR. Additional learning and enhancement of environmental capacity occurred in 1996/1997, particularly in relation to the management of tailings and dam safety, and later during the modernization of its EMS in 1998/1999. The introduction of the Mining Code (Law 1777) and the Environmental Regulations for Mining Activities (Supreme Directive 2782) in 1997 had an influence, as did the introduction of IFC's revised Safeguard policies in 1998. As of 1997, COMSUR had Environmental Coordinators at each operational site, and a framework EMS prepared by consultants had been tailored to each of COMSUR's operations. The Environmental Coordinators had been trained in sampling techniques, tailings management, and evaluating and mitigating environmental impacts.

IFC was an important driver of enhanced environmental management capacity within COMSUR, particularly in relation to the incremental strengthening of due diligence for Bolivar and Puquio Norte, and the supervision of remediation efforts at Porco in 1996/1997⁹. In 1997, COMSUR recruited a corporate Environmental Manager and the organizational structure described in section 4.1 was put in place. From 2000 to the present day, the iterative supervision system described in section 3.2.2 has been in place: IFC undertakes supervision visit; COMSUR submits AMR; and IFC provides feedback and identifies corrective actions. This has supported incremental progress towards achieving full compliance with IFC's policies and guidelines, which is assigned a high priority by COMSUR's senior management.

More recently, improvements in mineral prices have supported renewed investment in efforts to address historical liabilities at several of COMSUR's operations, many of which date from the COMIBOL period of operation. While COMSUR is absolved of legal responsibility under the terms of the Mining Code and the concession agreements it signed with COMIBOL, it has assumed responsibility as "the right thing to do". On balance, COMSUR's Environmental Coordinators are of high quality, and exhibit a strong level of capacity, commitment and responsibility. COMSUR's senior management exhibits a strong commitment to going beyond compliance where practicable. While the company is responsive to IFC, it has graduated from being exclusively reactive to the requirements of IFC (and others, such as the regulatory

⁹ Following a tailings dam failure at Porco in August 1996, COMSUR undertook extensive remediation efforts and significantly strengthened its approach to tailings dam design and management.

authorities) and has begun to proactively manage environmental issues. A fuller discussion of these issues is presented in section 5.

4.2.2 Management of social issues

The systematization of the management of social issues within COMSUR is much more recent than for environmental issues. In part, this reflects the absence of strongly supportive external drivers for at least the first half of the 1990's, when neither RTZ nor IFC assigned much importance to the management of social issues. COMSUR's first appointment of a professional to deal with social issues was in 2001. This is not to suggest that COMSUR had no engagement with communities during, or prior to, this period, but that they had not systematized the management of social issues.

IFC's due diligence and supervision efforts first raised questions informally, during site visits, about the adequacy of COMSUR's social capacity in 1998-1999, in light of the introduction of IFC's revised Safeguard Policies. However, it appears that concerns about the adequacy of capacity were not formally communicated to COMSUR until 2000. It is also not clear if COMSUR were in possession of the revised social Safeguard Policies until November 1999, as a file note from that date acknowledges receipt of the policies. In April 2001, COMSUR appointed a corporate level Social Coordinator to develop a social policy and supporting Social Management System (SMS). In the past 18 months, dedicated Social Coordinators have been recruited for each operational site (the most recent in February 2004).

As mentioned previously, the site-level Social Coordinators reporting to the General Superintendent via the Administrative Superintendents has not empowered the Social Coordinators to the extent that a more direct reporting arrangement would have. However, the Social Coordinators are of high potential, with good basic skills, and a high level of enthusiasm and commitment. They also have a good understanding of the key social challenges facing COMSUR, even if they do not always have the capacity to deal with these challenges. This is the subject of more in-depth discussion in section 7.

4.3 Linkages between management of E&S aspects

It is artificial to consider the management of environmental and social issues exclusively in isolation, as they are to some degree interlinked. For example, community concerns about the safety of tailings dams touch upon environmental and social issues. Similarly, community environmental concerns may be expressed as environmental complaints or as requests for community support, and the extent to which these are adequately and holistically dealt with depends on some level of coordination between both management systems.

At the corporate and operational levels, the working relationships between the environmental and social functions are generally supportive. While this is broadly consistent with the need for integration and linkages between functions, there is scope for improvement. For example, COMSUR's commitment to environmental and social responsibility is not reinforced by full and consistent engagement with all communities. A fuller discussion of the question of linkages is included within sections 5 and 6.

4.4 The influence of corporate culture

As illustrated in Figure 1.1, corporate culture is one of the four key elements influencing capacity, and it is therefore considered in each of the following three sections in greater depth. However, culture is less amenable than the other three elements of capacity (people, systems and resources) to qualitative or quantitative assessment, or definition. It refers to the attitudes towards E&S within an organization; the underlying beliefs and values that influence how things are done. Irrespective of the quality of E&S management systems on paper, culture has a profound influence on the practical implementation of the systems, commitment to the systems, allocation of resources, and practices on the ground.

The commitment of senior management is regarded as essential to promoting a positive E&S culture. Other important factors include the existence of realistic and flexible approaches to managing E&S issues within well-understood systems, continuous organizational learning through monitoring and feedback systems, and a shared concern for E&S issues across the workforce. To some extent, these factors exist within COMSUR, but they are not ubiquitous. COMSUR's senior management is very committed to E&S issues, but the capacity review team observed some tensions at the operational level between production imperatives and the commitment of operational senior management to E&S excellence. The management systems are realistic and flexible, but the level of understanding of the social management system needs to be reinforced.

COMSUR clearly has a strong commitment to organizational learning and monitoring and feedback systems in its core business practices. This is best exemplified by its selective and strategic use of consultants to catalyze technological or process innovations and to supplement in-house skills, but with the expectation that COMSUR staff will learn from the experience and internalize the knowledge. While COMSUR places a high value on this catalytic innovation in its core business practices and this same value is evident in its approach to environmental issues, it is evident only to a limited extent in its management of social issues. COMSUR has also made progress on developing a shared concern for E&S issues across the workforce, but more remains to be done.

Lastly, the question of COMSUR's aspirations is also relevant to the adequacy of capacity; the capacity to achieve minimal compliance differs from that required to exemplify international best practice. COMSUR's senior management aspires to be the best mine operator in Bolivia, to exceed legal compliance, achieve certification to ISO 14001 and to have a constructive and cooperative relationship with communities local to its operations in support of their longer-term sustainable development.

4.5 Summary of key findings

The headline messages of the review with respect to COMSUR's capacity for managing E&S issues may be summarized as follows:

- The quality of COMSUR's staff with responsibility for E&S issues is generally high. They exhibit a high level of commitment, motivation, and responsibility. COMSUR's capacity is not limited by the ability of its staff. However, training needs to be reinforced in a number of critical areas and the level of empowerment of COMSUR's social staff needs to be enhanced, in terms of their direct responsibilities and reporting lines.

- Management systems have been conceived and implemented for E&S issues, which include a commitment to continuous improvement – COMSUR’s Social Management System and its implementation needs to be strengthened through training and access to external expertise in specific areas.
- COMSUR’s culture places a high value on catalytic innovation and learning in its core business practices. This same value is evident in its approach to environmental issues but is more limited in its management of social issues.
- The review found positive evolutionary trends in COMSUR’s management of E&S issues, including a shift from reactive to proactive responses to challenges, as well as a strong commitment to compliance. However, on issues unrelated to compliance, progress appears to have been impeded by difficult operating conditions related to depressed mineral prices.
- COMSUR’s evident commitment to environmental and social responsibility is not being reinforced by full and consistent engagement with all communities across all operations in an open and transparent manner. To varying degrees, this has diminished the trust of many local communities in COMSUR.

The next two sections provide a more detailed discussion of COMSUR’s E&S capacity, contain supplementary information in support of these overall findings, and present more detailed findings with respect to COMSUR’s capacity for managing environmental and social issues.

5. Environmental Management Capacity

In this section, the overall capacity of COMSUR to manage environmental issues is discussed, both at the corporate headquarters and at the operational level in the mines and Vinto smelter. The focus is on capacity in place at the time of the review (February/March 2004). The evolution of environmental capacity (discussed in section 4) is revisited only where it helps to illustrate observations or findings. The discussion of environmental capacity takes into consideration the requirements of IFC, good practice with respect to environmental management, the stated objectives of COMSUR and its existing environmental performance, and COMSUR's proposed certification to ISO 14001. Compliance with Bolivian environmental regulations has not been explicitly considered as part of this capacity review.

5.1 People

COMSUR's Environmental Manager has been in post since 1997, and is supported by one environmental specialist. Since 1999, Environmental Coordinators have been in post at each operation, and are usually supported by at least one technician (with responsibility for routine sampling, etc.). COMSUR has recruited competent individuals for the management of environmental issues. They consistently display a clear commitment and dedication to go beyond their defined responsibilities and work towards achieving excellence in environmental stewardship. All express a firm belief in the central importance of the environment and a commitment to bringing environmental awareness to people through education. They also have a good understanding of the key environmental challenges at each project and the capacity to deal with them.

The company has chosen to hire individuals with a background in engineering or metallurgy, with particular strengths in the physical/engineering and chemical aspects of environmental management. This equips them well for critical tasks such as tailings management, and facilitates a high degree of mutual understanding and co-ordination with other professional staff at each project. While few have an academic foundation in environmental studies, all have received additional instruction in specific aspects of environmental management through short courses and workshops. Those few individuals with formal training in the biological aspects of environmental management have unique skills within the company. These could potentially be used as a shared resource, on an as-needed basis, in the design and internal evaluation of programs in areas of higher biological diversity.

At the operational level, the Environmental Coordinators report directly to the General Superintendent and their reporting lines are at a level above the operational supervisors with whom they have a largely consultative relationship. A similar pattern exists at the corporate headquarters in La Paz where the Environmental Manager reports to the Vice President of Operations and also has a consultative relationship with the General Superintendents of each operation. Importantly, the Environmental Coordinator has the power to call for a shutdown of any part of an operation if the environment is threatened.

The management structure allows for considerable flexibility and readily provides for easy access to corporate expertise, while retaining necessary decision-making responsibility at the project site. However, the current approach to the recruitment, performance appraisal and dismissal of environmental staff is relatively informal and would be enhanced by establishing a

formal process involving both the General Superintendent at the project level and corporate headquarters. The position of the Environmental Coordinator would be empowered by such a process. It would reduce the reputational risks associated with recruiting individuals with inadequate skills, and help to reduce potential friction over how or when environmental management action is required. This is equally relevant to Social Coordinators.

Intellectually, COMSUR has the benefit of a highly experienced management team and skilled technicians. There is a high level of confidence and an expectation at the corporate level that technical challenges can be resolved internally. Management supports its technical people and considers that innovative solutions to overcoming environmental problems (such as the proposed approach to reducing sulfur and arsenic emissions at Vinto) form an essential part of the company's competitive advantage. There is still some scope to strengthen the skills sets available within the group.

COMSUR supports continuous learning and improvement for its environmental staff through participation in workshops and short courses and by encouraging the interchange of experiences between operations, both formally and informally. The Environmental Manager in La Paz coordinates the further exchange of information and is the formal route through which access to outside information and consultants is gained. At the operational level, Environmental Coordinators report making extensive use of the internet and informal networks of professional associates to gain access to information.

5.2 Management systems

COMSUR has a company-wide EMS which is implemented at the project level through an Applications Manual. The EMS and accompanying manual were last updated in 2001 from an earlier version created in 1998 with the input of ADI consultants. The EMS is comprehensive and responsive to key issues with objectives, targets and measures of progress. It provides a consistent framework for management and continuity across all operations over time.

Implementation of the EMS is in the hands of the Environmental Coordinator at each project site and coordinated through the Environmental Manager in La Paz. Planning and setting of priorities is normally an annual process that is largely consultative in nature, beginning with meetings at the project level chaired by the General Superintendent to identify what needs to be done and what is desirable. From this, a budget is assembled and submitted for approval at the corporate level. Once approved, elements of the annual Environmental Management Plan such as the introduction of new technologies or operational procedures to reduce environmental impacts, may be implemented by individual operational units, but responsibility for seeing that they are implemented and meet intended objectives remains with the Environmental Coordinator.

The EMS provides for routine monitoring and reporting of various environmental parameters. Staff collect monitoring samples and produce regular reports that are submitted to corporate headquarters. Aggregate reports are compiled in headquarters for submission to the regulator or IFC (as an Annual Monitoring Report), all of which are confidential documents. Some aspects of the analytical work are carried out at a laboratory internal to COMSUR¹⁰. The system of internal monitoring, analysis and reporting is supported by check analyses at independent

¹⁰ The laboratory is not yet accredited, but there is only one officially accredited laboratory in Bolivia (for just six parameters). COMSUR are currently pursuing accreditation.

laboratories and a recently introduced program of “cross auditing” between operations. Nevertheless, the credibility of the EMS would be further enhanced by having mechanisms that improved the transparency and independence of sampling and analysis.

Monitoring regimes, including the location of monitoring stations and the parameters measured, are established within the Environmental Licenses for each operation, although COMSUR also undertake some additional monitoring. However, the evolution of mining activities can lead to gaps in coverage over time. This is most clearly illustrated by the absence of any monitoring program to determine how existing ground and surface water sources are, or are not, being impacted as mine workings go deeper and dewatering reduces groundwater levels. Monitoring regimes need to be revisited and updated as the mine evolves, and be responsive to environmental changes throughout the life of an operation.

Plans to respond to various types of emergency have been developed at each project, largely in coordination with Occupational Health & Safety specialists. These are essentially internal to the company and while the need for coordination with the authorities is documented, there is no recognition of the potential for direct involvement of the local population. Emergency planning would be enhanced by explicit consideration of when and how to involve communities, and more substantive engagement with communities on the perceived and actual risks.

The EMS manual includes a form for receiving and reporting on environmental complaints. In practice, however, current mechanisms for dealing with complaints are informal and inconsistent between operations in terms of predictability of process and follow-up actions. In particular, the process lacks transparency and is unclear to the local communities. As a result, environmental complaints are sometimes submitted in order to gain benefit, which illustrates the need for a clear, transparent and predictable process for receiving and responding to environmental complaints.

The Environmental Coordinators frequently collaborate with the Social Coordinators and in some cases have taken a key role in the design and delivery of aspects of the social programs (e.g. investments in social infrastructure such as domestic water supplies and waste water management, tree-planting, and community-based management of domestic refuse). The benefits of this strong collaboration are, however, frequently undermined because information and assurances on environmental activities and performance are not being provided to communities in an adequate and timely manner.

This represents a lost opportunity as in several cases COMSUR is having a positive effect on historical contamination or contamination arising from mining cooperatives. The negative perception of communities and NGOs is often at odds with this reality and communities sometimes perceive assistance from COMSUR as a form of compensation for ongoing contamination. Bridging this gap in credibility and trust is critically important and will require more active engagement and greater transparency with communities and representative organizations. This reinforces the importance of COMSUR finding mechanisms to involve communities in environmental monitoring, and in a dialogue on environmental risks.

A central feature of COMSUR’s mid-term strategy for continually improving environmental performance is to implement ISO 14001 in each of its operations. This is a relatively new initiative and to date the environmental coordinators have received basic instruction in implementing ISO 14001 through short courses and workshops. For example, all environmental staff undertook an ISO 14001 internal auditors course in 2004, with two staff completing the lead auditors course. All of the operations have moved into the early stages of the ISO process

and there are signs that there is variable understanding of some of the specific requirements among the Environmental Coordinators. COMSUR should continue to support its staff in pursuing ISO certification. In particular, a gap analysis should be undertaken between the current management system provisions and the requirements of ISO 14001 for each operational site so that staff are fully aware of the tasks ahead of them.

5.3 Resources

As a commercial organization, COMSUR has to make decisions on the allocation of financial resources based on bottom-line considerations. In practice, this means that all environmental activities linked to compliance are funded without question, while any other activities have to be justified to receive budget allocations. The company is visibly committed to going beyond compliance and, subject to the availability of funding, will support a wide range of initiatives that improve environmental performance or assist in cleaning up existing negative environmental impacts. Corporate headquarters is also willing to consider approval of projects outside the formal budget process if there is a demonstrated need or particular benefit to be gained, and provided that funds are available.

The commitment to environmental performance is also reflected in the allocation of resources (and management effort) to respond to an emergency situation. It is accepted that if the resources to manage a crisis situation cannot be found locally, corporate headquarters will provide all necessary financial and technical support to mount a practical response. To this end, a protocol has been established for providing information upwards and outwards from the project site and approvals back to line managers to identify the nature of the emergency, the appropriate form of response, and the release of financial and human resources to deal with the situation.

Throughout the company, there is a strong emphasis on cost effectiveness and financial efficiency. Environmental Coordinators are encouraged to be innovative within their budgets and report general satisfaction that they have the resources needed to meet goals. COMSUR should, however, remain vigilant that the drive for cost effectiveness and efficiency does not undermine the objectives of reliability in environmental management and long-term risk reduction.

5.4 Culture

Environmental responsibility is a core corporate value at the highest levels of management within COMSUR. Strong support for environmental awareness has created a culture of risk reduction and elimination that goes well beyond compliance. Undoubtedly, the repercussions from the 1996 tailings spill at Porco were instrumental to the development of a comprehensive system for the management of environmental issues. As a result, environment has a central place in management decision-making to the extent that Environmental Coordinators can call for the cessation of operations should the environment be threatened.

The review team observed a strong effort throughout COMSUR to create and maintain environmental awareness and an understanding of the need to take responsibility for the environment. As a consequence COMSUR is becoming a role model for mining in Bolivia. For example:

- At the corporate level COMSUR has integrated the mitigation of historical mining liabilities into routine operations. In a similar manner, COMSUR is providing training and assistance to cooperatives mining adjacent mineral deposits to help reduce environmental impacts. Where practicable, COMSUR accepts contaminated water and residues from cooperatives into its tailings ponds, where they can be managed effectively.
- At the level of the individual, COMSUR has programs for environmental education and training to instill environmental awareness in all of its workers, and particularly former COMIBOL employees. This has involved education and training of the employees and their families in what appears to be a largely successful process. The company is extending this effort at some operations to include all residents of local communities.

COMSUR has developed an environmental management system that, with some exceptions, is effective and responsive to operational needs. The company supports continuous learning, both individually and institutionally, while the move to certify under ISO 14001 shows an ongoing commitment to continuous improvement. A particular strength of the COMSUR culture is a “can-do” attitude that values technical expertise and innovation to solve practical problems.

In common with many mining companies around the world, COMSUR is challenged to respond to increasing pressure to demonstrate that it is environmentally responsible. To do so effectively, the company has to move from the traditional practice of disclosing environmental information exclusively to the regulatory authorities (Mining and Environment Ministries) or to IFC, to one of greater transparency and enhanced communication with local communities and NGOs. There is an urgent need to consolidate COMSUR’s capacity to advance this process, which is currently at the early stages of development and unevenly distributed across the company.

5.5 Summary of key findings

On balance, there is much to commend COMSUR’s approach to and capacity for environmental management. The positive findings may be summarized as follows:

- COMSUR has assembled a high quality team for the management of environmental issues with strong capacity, a commitment to excellence and high levels of personal responsibility.
- There is a good understanding of key environmental challenges and capacity to deal with these challenges. Individuals have a background in engineering and metallurgy with supplementary training in environmental matters. This facilitates a high degree of mutual understanding and co-ordination with operational personnel in resolving environmental problems.
- The COMSUR EMS is responsive to key issues while providing a consistent framework across all operations. The management structure allows for considerable flexibility while retaining necessary decision making in both corporate headquarters and at the operational level.
- COMSUR has developed a corporate culture that includes a strong commitment to going beyond compliance with respect to existing liabilities, irrespective of legal obligations. The company approach is prevention oriented with a focus on risk reduction or elimination.

- In general, there is strong collaboration with social staff. Locally this includes shared delivery of environmentally oriented programs of education, social infrastructure, and tree-planting.

The capacity review team also identified the following areas for improvement:

- COMSUR's current approach to recruitment of environmental staff, performance appraisal, and dismissal, is informal and should be improved to enhance the empowerment of operational staff, and reduce the potential reputational risk associated with these key positions.
- Current mechanisms for dealing with environmental complaints are informal, inconsistent in follow-up actions and predictability of process, and are sometimes affected by residual paternalism, i.e. the complainant may get some concession in response to a complaint, without the legitimacy and accuracy of the complaint being correctly determined.
- In specific areas, COMSUR needs to design and adapt monitoring regimes as activities evolve with the potential to have impacts on the environment. This is illustrated by the need to better understand the impacts of mine dewatering on existing water sources.
- The benefits of the current strong collaboration between environmental and social staff are often undermined by not providing adequate environmental information and assurances to communities regarding perceived environmental risks. The negative perceptions of local communities or NGO's may be at odds with the reality on the ground. But the potential to bridge this gap of trust by more actively engaging with communities on environmental information and monitoring is not well developed.
- The understanding of some of the specific ISO 14001 requirements among operational environmental staff needs to be reinforced to support COMSUR in pursuing certification. A gap analysis should be undertaken for each of the operational sites between the current management system provisions and the requirements of ISO 14001.

6. Social Management Capacity

In this section, the overall capacity of COMSUR to manage social issues is discussed, both at the corporate headquarters and the operational level. The focus is on the capacity in place at the time of the field visit (February/March 2004) but it also considers the evolution of social management, as it is recent and very much still in process. The discussion of social capacity takes into consideration two dimensions; those of community development and community relations, applying the requirements of the IFC, the standards of good practice, Comsur's stated social policy as well as the approach implicit in the way the SMS is being applied.

6.1 People

COMSUR has had a Social Coordinator in La Paz since April 2001. The company's decision to place a Social Coordinator at each operation or cluster of operations has been implemented over the last two years, with the most recent appointment in February 2004 completing the process. The capacity review team were impressed by the level of commitment and enthusiasm of social staff, both recent recruits and those who have been in post for some time. The majority of the Social Coordinators are trained as social workers, the remainder have relevant social science backgrounds. All display a strong basic capability with potential for further growth, and good skills in the community relations area. As a consequence, all seem fairly well aware of the major social challenges facing the mine, as well as those facing communities.

The staff are relatively young, with moderate levels of professional experience (on average, three years) and no experience outside of Bolivia or in mining and social engagement elsewhere (although many were raised in mining communities). Unlike environmental staff, there is no ongoing training or capacity building established for the social area, and there are a number of specific skills and areas of expertise that need to be reinforced. Those who have done additional training while working for COMSUR have done so on their own initiative and time, although their costs have been covered by their respective operations.

At the corporate level, the social staff share some of the same weaknesses observed at the operations. Hence, there is a need to strengthen capacity at the corporate center in order to provide better guidance and leadership to support the operations, as well as to direct specific expertise to address "hotspots" on an as-needed basis. Key areas for reinforcing expertise include Community Development Project design and implementation, participatory methodologies, social assessment, and IFC social policy compliance. Such expertise can come through in-depth training, the use of consultants, the creation of new positions, and a combination of the above to strengthen community engagement and the Social Management System (SMS).

The company expressed frustration at the difficulty in finding good people for the positions. Staff work long hours, up to 12 or more a day, live in isolated areas far from families, and appear to operate under relatively high stress levels. As the sole social specialists they are also professionally isolated. Measures being taken to address these issues (e.g. initiating company-wide meetings for social staff and staffing increases) demonstrate a responsiveness in the system as a whole and a validation of the importance of these positions, and should be reinforced.

6.2 Management systems

COMSUR has begun to implement a formal system for the management of social issues, which puts it in the forefront of efforts by companies of comparable size. The SMS represents a serious management commitment to implementing the social policy, integrating it into COMSUR's operational practices, and to professionalizing the handling of social and community issues.

The SMS articulates corporate commitments to minimize negative impacts on the social environment and to contribute to the long-term well-being of local communities, and lays out corporate policy, project areas to be supported, and basic procedures to be followed. The document also identifies roles and responsibilities for implementation of the social policies. The SMS is used at all operations.

The development of the SMS and its application have led to increasingly well-articulated and understood commitments to participatory practices, sustainability of benefits, and the need to strengthen community capacity. The review team noted that relative to where COMSUR's actual practice has evolved to, the social policy, developed in 2001, does not fully articulate the company's commitment. Updating the social policy would strengthen and clarify the company's position, internally and externally, on a number of points.

6.2.1 Structure

The organizational structure places social management within the Administrative area of the company, with social staff (corporate and operational) reporting to the corresponding Administrator¹¹. There is coordination between the Social Coordinator and other operational managers, but no formal links. This structurally isolates social issues from operational and environmental decision-making, and reduces the decision-making authority of the social staff by placing decisions in the hands of managers not trained in that area of expertise. It also provides a buffer between social issues and General Superintendents, thereby reducing their direct responsibility. Nevertheless, the Social Coordinators feel strongly supported by senior management at their operations, which has assisted them in achieving their goals.

Overall, the review found that social staff are less empowered to implement and act in problem-solving ways to achieve policy and system objectives than their environmental counterparts. While there are a number of reasons given the newness of these positions, it tends to slow the process of professionalizing their work and creates structural/management constraints which may impede effective and creative problem solving (as social specialists are not directly responsible for achieving social goals or policy implementation).

6.2.2 Management Procedures and Tools

Management procedures and tools have been under development for the last 24 months, and include a series of supporting documents to guide the development of projects, partnership arrangements, and the implementation of a Resettlement Action Plan. These are adapted as necessary at each operation; a workshop for social staff in January 2004 facilitated the sharing of experiences between operations. Standard reporting practices are also in place across the

¹¹ The exceptions are the operations closest to Potosi (San Lorenzo, Colquechaquita and Don Diego) where there are no Administrative Superintendents and the Social Coordinator reports directly to the General Superintendent.

operations (daily reports, monthly work plans, monthly completion reports, project implementation and monitoring forms, etc.).

Procedures for project-based community development activities have been particularly well-developed and implemented consistently across the company's operations, including the use of community profiles and consultation processes. In the last 18 months, COMSUR has moved to implementing community projects in nearly all of the communities identified as being in the area of influence of their operations. However, supporting procedures are not always well developed. For example, the basis for defining social area of influence¹² is not always clear. There is no differentiation between social data collection to support project design as opposed to its application to identify potential impacts and/or provide necessary information for decision-making.

On balance, the feedback mechanisms in the SMS (in the reporting process, the flow charts and other support procedures) to bring about continuous learning and improvement are poorly applied. This is also true of monitoring and evaluation of both project implementation and outcomes to support that feedback and assessment process. For example, an exercise has been completed at each operation to identify challenges, but new action plans to address those challenges are not yet forthcoming at all operations. The challenge posed by limited community capacity for participatory development planning was identified at nearly every operation, yet few steps have been taken to help build this capacity.

Nevertheless, much has been learned in a relatively short period of time and there has been significant innovation at some operations leading to the adoption of techniques and procedures that could increase efficiency and effectiveness at all operations. Overall capacity within COMSUR would be strengthened rapidly by facilitating the consolidation and sharing of these experiences and drawing on the resources of external experts to enhance understanding and practical skills.

Although COMSUR's corporate procedures specify the integration of social criteria into the analysis supporting project decision-making, this is not yet an effective or consistent process, nor is there documentation to support that it has taken place. One example is the current tension in project documents between the legal framework in Bolivia (which provides for expropriation) and good practice approaches to land acquisition. The procedures and staff capacity to ensure that this integration takes place consistently and adequately require strengthening. Where necessary, COMSUR's policy provisions and supporting procedures should explicitly address tensions between conventional and good practice approaches.

6.2.3 Community Development Programs (CDPs)

COMSUR has recently focused its CDPs in five areas of basic needs and productive activities to contribute to improving the quality of life of the communities in their area of influence. The current process for planning and implementing participatory community development projects has developed rapidly. There is a good process of documenting implementation activities, but not for addressing effectiveness of implementation; some aspects of the SMS in this area are not consistently well understood.

The breath and scope of activities now being undertaken require that the procedures for project management and participatory processes become more professional and rigorous. This is

¹² Other than the legal requirement to work with communities within a 5 km radius as required by the Mining Code. However, COMSUR often works with communities well beyond this physical limit.

particularly true in the case of the participatory processes – originally for project selection and now to include counterpart participation – if the company’s significant social commitments are to effectively translate into both real and perceived improvements for intended beneficiaries. Specific attention should be given to training staff as well as strengthening the procedures for:

- Setting of measurable objectives which clearly link to achieving overall goals;
- Identifying and monitoring indicators of desired results rather than completion of tasks (results-based-management);
- Strengthening and systematizing the monitoring and review process to internalize the lessons and adjust future activities and the procedures accordingly; and
- Broadening and strengthening the participatory processes used including co-identification of indicators of success, etc.

6.2.4 Communication

Community engagement by COMSUR is being transformed by the investment in staff and project funding. The capacity review team is concerned that COMSUR’s significant commitment and intention to create a new kind of relationship with its stakeholder communities needs to be supported by a clear communication strategy based on transparency, capacity building and access to information.

The basis for funding social projects lacks clarity and transparency with respect to company and counterpart contributions. There is also no clear budgetary distinction between employee benefits and community development activities. The overall process for approving annual budgets and the criteria for allocating resources are also not clearly established or communicated to the interested parties. Although capacity and experience vary between communities, some have considerable experience with project funding (especially when municipalities are counterparts) and lack of transparency hinders forward planning and the independence of the counterparts, and reduces the trust between parties.

The process and criteria for identifying communities within an operations area of influence and project beneficiaries (beyond the 5 km radius required by law), should be clearly articulated by COMSUR and communicated to all relevant groups. It is important that neither conflicts nor environmental complaints continue to be seen as the basis for participation in CDPs, by either communities or COMSUR.

One component of the improving communication is strengthening the consultation process. COMSUR’s consultation with communities has increased considerably, most recently as part of the process of identifying community development priorities. Consultations have in some cases focused on political or traditional authorities or representatives. While this is legitimate in many circumstances and may be more efficient in the short-term, it is inconsistent with good practice. It does not effectively engage the broader community as is required by a participatory development strategy. Broader engagement with, and involvement in decision-making by an informed community will be necessary for COMSUR to convince communities to provide counterpart participation.

6.3 Resources

The allocation of resources to social initiatives has increased significantly in the last year, due at least in part to the upturn in metal prices and therefore the financial well-being of the company.

Budgets for the implementation of projects have increased significantly from the previous year to this one, and budgets for personnel have also increased significantly by adding dedicated social staff at three more operations so that all mines now have social staff. COMSUR is also for the first time committing financial resources to five-year plans at the increased levels, which while still under review represents a significant advance in financial commitment and the capacity to do forward planning.

Resources for social projects are allocated from operational budgets, but spending decisions are approved by La Paz. The Social Coordinator is responsible for drawing up draft annual budgets on the basis of previously identified projects, and with the intention of undertaking a project with each stakeholder community. The budget is then evaluated by the General Superintendent. This is at the corporate headquarters in La Paz, with the participation of the General Superintendent and the Social Coordinator, prior to presenting to the Board for approval. In the previous fiscal year 2003, a significant number of budget overruns occurred and the required funds were made available by the General Superintendent of the mine (or the Regional Manager for operations local to Potosi). In addition, in the budgeting process for 2004, a number of social budgets were approved by the corporate center at levels higher than those requested and approved by operations, indicating a push from La Paz to increase project spending. None of the social specialists felt that the resources allocated were inadequate or presented a barrier to achieving their objectives.

Decisions regarding spending over the approved budget are made by senior operational management (in most cases the General Superintendent and/or Administrative Superintendent), not by the social specialist. The same is true for decisions on which communities are to be included as stakeholders, a major decision-point regarding who will potentially benefit from the company's social development programs. These decisions on funding and identification of beneficiaries are best made using the expertise and knowledge of the social specialists. However, COMSUR has sometimes taken such decisions to reduce conflict or address complaints (see also section 5.2).

6.4 Culture

There is a clear commitment on the part of corporate senior management to the social policies and their implementation, and the review team found genuine efforts and commitment to move from a reactive to a proactive approach to community engagement. In addition, there is also a strong commitment to move from paternalistic to participatory approaches to community development, but with considerable variability in terms of how that is understood and what would indicate success. The current culture of COMSUR related to social management represents a culture in transition, and is inconsistent across the operations.

The review team found that operational management understands and endorses the new corporate emphasis on social responsibility and community engagement; however, the strong autonomy in terms of both operational style and decision-making at the operations, which is another core element of COMSUR's corporate culture, has resulted in an uneven implementation of the social policies and an inconsistent understanding of how or why integration of the SMS into other systems is necessary. Of significance is the finding of the capacity review team that there has not been a consistent re-appraisal of how new project and operational decision-making may need to be changed or adapted in order to ensure that social policies and commitments are adequately fulfilled.

There is a consistent understanding within operations that the standards to be met for social policies are IFC's guidelines, and there is considerable pride in the company's efforts and advances in meeting those standards over the last year. The understanding of how to do it has been shaped, however, by pre-existing models of social assistance and a culture of limited transparency and disclosure at many operations.

The capacity review team also found a tendency towards residual paternalism at some operations in resolving problems or addressing complaints, which is inconsistent with the social policy and the strategies and processes being developed in the SMS. While the capacity review team believe that COMSUR's expanded community development efforts represent a proactive evolution in its management of social issues, many communities still believe that they obtain assistance from COMSUR only through pressuring the company.

6.5 Summary of key findings

Overall, the review identified several positive findings with respect to the management of social issues, which may be summarized as follows:

- The social staff without exception have an appropriate background (social workers or similar social science backgrounds) and training for community relations work, and all are capable, enthusiastic and demonstrate a high level of commitment to their work. They have a strong basic capability, with potential for further growth and professional development.
- Notwithstanding the identified need to strengthen their capacity, the staff are knowledgeable about the key social challenges faced by the mining operations and have a good working knowledge of the situation and challenges faced by communities, which may affect their own effectiveness.
- COMSUR's investment in the development of a Social Management System represents a progressive attempt to professionalize the handling of social issues and community relations, and a move from the reactive to the proactive.
- The company's recent move towards a 5-year planning process represents a substantial financial commitment, and a quantum leap in the ability of both COMSUR and the corresponding communities to do forward planning, allowing them to work towards longer-term and more strategic goals.
- COMSUR have made a commitment (and genuine efforts) to move from the paternalistic approach to community assistance used in the past, to more participatory approaches, and from a reactive to a proactive mode with regards to community engagement.

On balance, COMSUR have made considerable advances in the management of social issues in recent years, but the review also identified a number of areas for potential improvement:

- The apparent strong willingness and enthusiasm of the social coordinators to implement the social management system and constructively engage with communities, is hampered by inadequate capacity in some key areas.

- The integration of social assessment into the analysis supporting decision-making (e.g. with respect to alternative sites) is neither fully systematic nor documented, and needs to be reinforced.
- COMSUR has identified practical ‘difficulties in engaging with communities’, which reflect a basic lack of community capacity for participatory development planning (e.g. engage in identifying community development priorities, etc.). However, COMSUR’s community development efforts make no specific provisions to help build this capacity, other than through experience at the project level.
- COMSUR has been progressive in implementing a SMS, but the system needs to be reinforced in the fundamentals of setting measurable goals, monitoring and continuous improvement.
- COMSUR’s approach to consultation is often too shallow, and directed at recognized authorities (at the municipal or community level), but this approach does not ensure a sufficiently broad engagement with all affected groups nor acknowledge the reality that many messages do not trickle down.
- COMSUR’s SMS and community engagement efforts would benefit from additional strategic/shared capacity at the corporate center, both to provide leadership and direction in support of the operations and to direct to ‘hotspots’ on an as-needs basis.
- There is a need for greater consistency and transparency in: the identification of COMSUR’s social area of influence/responsibility; the financing of community development projects with clear distinctions between COMSUR’s and counterparts contributions; and the implementation process.
- At present, the lines between some of COMSUR’s investments in mitigation, employee benefits, and community development are blurred. Genuine investments in community development should be unbundled from mitigation and employee benefits.
- The social coordinators would benefit from regular and formal structured opportunities for sharing ideas, experiences, and learning, to build on the recent meeting of all social coordinators in La Paz.

7. Recommendations

In this section, recommendations are discussed that are responsive to the findings presented in chapters 3 – 7. Collectively, the recommendations, if implemented, should help to address important issues for COMSUR and its local communities that include:

- The gap between the often negative public perception of COMSUR's environmental management and related environmental risks, and the generally robust approach to managing environmental issues and aspects that was evident within COMSUR's operations;
- Linked to the first bullet point, the limited exchange of information, consultation and deeper forms of engagement between COMSUR and local communities on environmental and social issues and risks;
- The informal and inconsistent approach to handling environmental and social complaints across COMSUR's operations, which affects the predictability of process and can encourage 'speculative complaints' without foundation; and
- The critical need to build trust between COMSUR and local communities to provide a basis for participatory community development planning and foster ongoing relationships of mutual benefit.

Firstly, a number of recommendations are considered to be applicable to environmental and social management and are presented as cross-cutting recommendations. These are derived from issue-specific findings, which were explicitly discussed in sections 5 and 6. Recommendations specific to COMSUR's environmental and social management are then presented in turn. Finally, a number of recommendations for how IFC engages with sponsors on capacity issues are also presented. These are generic to all IFC clients, but are also relevant to COMSUR. All recommendations are preceded by a summary of the finding that prompted the recommendation.

7.1 Cross-cutting recommendations

Current mechanisms for dealing with complaints are informal, inconsistent in process and predictability and are sometimes undermined by residual paternalism. ***It is recommended that COMSUR develop and publicize as a matter of priority a complaint resolution process that is transparent and predictable. Where complaints are legitimate, the remedial actions by COMSUR should be clearly communicated as mitigation efforts. Where complaints are unfounded, efforts should be made to explain why. This should be facilitated by the use of community environmental monitors. For situations where environmental complaints are a surrogate for an unrelated concern, COMSUR should aim to better understand the nature of such concerns.***

Inadequate communication is a recurring theme in several of the review findings, and highlights the need for COMSUR to reinforce information exchange, transparency, and engagement with communities. ***COMSUR should seize the opportunity to strengthen its relationships with communities through adopting a more open and transparent approach to community engagement on E&S issues of mutual concern. This aspect is reflected in some of the issue-specific recommendations.***

While current emergency response plans recognize the need for coordination with the authorities, there is no recognition of the potential for the direct involvement of the local population. ***COMSUR should examine when and how the local population should be informed, engage with communities to discuss emergency issues of mutual concern, and explicitly integrate the involvement of communities into emergency response plans.***

E&S staff within operations have limited access to external expertise and would benefit from greater exposure to the innovation that the use of international consultants can facilitate. ***In specific areas that the capacity review has highlighted (risk communication, results-based community development planning, social assessment, and participatory approaches), COMSUR should catalyze the acquisition and dissemination of these skills across the company by bringing in external experts knowledgeable of international best practice to provide training and instruction.***

COMSUR's approach to the recruitment, performance appraisal and dismissal of E&S specialists is currently too informal. ***COMSUR should institute a formal process whereby the recruitment, performance appraisal and dismissal of Environmental and Social Coordinators is managed jointly among the General Superintendent of an operation, the Environmental Manager/Social Manager and the Vice President of Operations, with managerial responsibility residing with the General Superintendent.***

7.2 Environmental management

The benefits of the strong collaboration between environmental and social staff are often undermined by not providing adequate information and assurances to communities. ***It is recommended that COMSUR develop methods and procedures to achieve greater engagement with communities on environmental matters with an emphasis on providing information in a transparent and participatory manner. COMSUR should also actively involve community representatives in environmental monitoring and the interpretation of analytical results, and in dialogue regarding environmental risks, to help build credibility and trust gaps. This may be one area where the involvement of external expertise is advisable.***

Environmental monitoring schemes, as specified in the Environmental Licenses for each operation, have not always been adapted to changes induced by the evolution of mining operations (e.g. effects of mine dewatering on surface water sources). ***It is recommended that COMSUR revisit monitoring regimes periodically and systematically, and ensure they are inherently flexible and responsive to the environmental changes that can take place over the life of an operation.***

Understanding of some of the specific requirements of ISO 14001 needs to be reinforced among environmental staff to support COMSUR in pursuing certification. ***COMSUR should undertake a gap analysis between current management provisions and ISO 14001 for each operation so that staff can be fully aware of the tasks ahead of them. Additional training should be provided to ensure capacity in any areas identified as problematic.***

7.3 Management of social issues

Ongoing training and capacity building for social staff are not formalized in the SMS, and there is a need to create and strengthen specific skills and areas of expertise. ***It is recommended***

that training and continuous learning and improvement be integrated into the SMS, and financial resources provided to support external expertise to build in-house capacity in specific areas. Identified areas for reinforcing expertise include participatory methods, social assessment methodologies, community development project design and management (with reference to international good practice as well as the IFC social guidelines and policies), and capacity in the local indigenous language.

Social staff are less empowered than their environmental counterparts, are not charged with direct responsibility for achieving broader social goals and social policy implementation, and do not report directly to senior management. ***It is recommended that COMSUR institute a similar reporting structure and accountability for operational Social Coordinators as for Environmental Coordinators, to strengthen the role of social specialists within operations and the company's capacity overall to implement its social policy commitments. Appointment of a Social Manager may be a necessary component of strengthening the corporate-level capacity, with a reporting line to the Vice President of Operations, either directly or via the Environmental Manager.***

Social criteria are not consistently or effectively integrated into the analysis supporting project decision-making at operations. ***It is recommended that the SMS and EMS be revised to strengthen the formal integration of social criteria into project decision-making at an early stage, with adequate training for senior and area managers to understand the value and application of such integration. Specific training should be provided to social specialists to understand social impact assessment as opposed to social needs assessment and diagnostic tools (the current use of the community profiles), using IFC's Operational Policy 4.01 and IFC Social Assessment Guidance documents. Access to trained expertise should be improved, either by training an in-house specialist in SEIA or by identifying and providing resources for the use of external experts.***

Greater consistency and transparency are needed on aspects of COMSUR's social policy and its implementation in order to improve communication and stakeholder confidence. ***In order to build trust with communities and facilitate a non-dependent development process, greater clarity is needed on a number of issues, which then should be clearly and consistently communicated to the communities in their influence area. These include the identification of social areas of influence or responsibility, criteria for participation in community development program, the financing of projects (including clear distinctions between COMSUR's and counterpart contributions), and the implementation process including participation, decision-making, scheduling and accountability.***

COMSUR's social policy should be revised and updated to reflect where current practice has superceded existing policy commitments, which would strengthen and clarify the company's policy position.

SMS processes for setting measurable goals, monitoring, and continuous learning and innovation should be strengthened. ***It is recommended that at the SMS and community development project implementation level, a concerted effort be made to build capacity in processes to measure performance and effectiveness of activities against the larger goals of the company and the social policy. This would give a greater assurance of positive results in the short as well as long-term, and would support effective measurement of the impacts achieved as well as continuous learning and innovation. The review of monitoring and project results should be strengthened and systematized.***

Public consultation does not consistently extend to the affected population as a whole and often is directed at authorities and representatives. This does not always result in effective consultation and engagement nor does it meet good practice standards. ***It is recommended that COMSUR deepen its processes of public consultation to ensure broader, informed participation by the affected population as a whole. Where necessary, implementation schedules and level of effort must be adjusted to take account of the requirements for such consultation practices.***

Social staff are professionally isolated and working in difficult and stressful situations at the same time as they are developing and learning to apply the SMS. ***In order to reduce the professional isolation of social staff and strengthen the learning opportunities across the company, it is recommended that COMSUR formalize opportunities to optimize sharing of ideas, experiences and learning between social specialists, through regular meetings, site visits, and training programs. COMSUR may also consider creative ways to develop specific expertise or program experience in individual specialists in order to then share that knowledge across operations.***

7.5 Recommendations for IFC engagement on capacity issues

IFC is uniquely placed to play a more direct role in the reinforcement of COMSUR's capacity, depending on its own capacity constraints. ***In general, IFC has played a limited direct role in helping to develop COMSUR's capacity, but has provided direction, encouragement and support such as recommending consultants. Yet IFC's experience with managing social issues in particular makes it well placed to assist in the development of such capacity. IFC capacity is however an issue, as social specialists have to contend with the pressing demands of due diligence and supervision. It is recommended that IFC explores the potential to engage in strategic partnerships to support sponsor learning and innovation on E&S capacity, supported by existing mechanisms such as the Corporate Citizenship Facility (CCF) and the proposed IFC Endowment Fund (to support Technical Assistance efforts).***

IFC should consider more systematically the adequacy of capacity at the pre-investment stage and link this to specific requirements to enhance E&S capacity. This is consistent with the recommendations of the 2003 CAO Review of IFC's Safeguard Policies. ***The methodology adopted for this capacity review has attempted to demonstrate the potential value of a considered focus on sponsor capacity. By adopting a more systematic consideration of sponsor capacity at the due diligence stage, areas of capacity in need of support could be identified and become a condition of any future loan. Implementation would become an integral part of the sponsor's ongoing management of environmental and social risks, and be subject to IFC's routine supervision efforts. IFC should also explore mechanisms for rewarding sponsors that exhibit superior capacity and performance over time, relative to riskier sponsors.***

Annex 1:
Communities and organizations consulted for the capacity review

COMSUR operation	Community visited	Organization/individuals interviewed
Colquiri	Comunidad Colquiri	Meeting at Office of the Alcaldia (Mayor and 5 Officers).
	Alto Colquiri	Informal discussion with a member of OTB (Organizacion Territorial de Base) and a teacher.
Vinto	Vinto	Meetings with leaders of water management group; Head of local school; and informal meeting with 5 community members.
	Sepulturas	Meetings with 2 teachers and informal meeting with 4 community members.
	Socamani	Open meeting with community leaders and members (circa 30 people); interview with 2 school teachers; meeting with 3 women from COMSUR-supported textile project; and close-out meeting with 8 community leaders.
Bolívar	Bolívar	Meeting at Office of the Alcaldia (Mayor and 3 Officers).
	Charkajara/Surumi	Meeting with community leader and members (circa 6–8 people).
	Quequejani Grande	Meeting with community leaders and members (circa 12–15 people).
	Comunidad Antequera	Meeting with community leaders and members (circa 8-12 people).
Huari Huari	Municipality of Huari Huari	Meeting with 7 community representatives (including the Alcalde and President of the School Board).
San Lorenzo	Esquina	Informal discussion with 2 Quechua-speaking women, through translator.
	Cachi Tambo	Meeting with traditional leader and 6–8 community members.
Don Diego	Comunidad Don Diego	Meeting with 3 authorities (Secretary General of the Agrarian Union, and the President and Vice-President of the School Board) and a teacher.
	Chilimoko	Meeting with two community groups, including present and past leaders (circa 30 people); and second community meeting (circa 15 people).
Porco	Porco	Meeting with Office of the Alcaldía (Mayor).
	Agua Castilla	Meeting with community women at Centro de Madre (circa 20 women).

COMSUR operation	Community visited	Organization/individuals interviewed
	Puca Puca	Meeting with community leaders and members (circa 12 people).
Puquio Norte	El Cerito	Meeting with community (circa 10 people).
	Santa Rosa de las Minas	Meeting with President of OTB.
Don Mario	San Juan	Meeting with President and Officers of OTB and community members (circa 40 people).
	Buena Vista	Meeting with President and Officers of OTB and community members (circa 40 people).
	La Ramada	Meeting with President and Officers of OTB and community members (circa 20 people).
	Entre Rios	Meeting with President and Officers of OTB and community members (circa 20 people).
	Ipias	Meeting with community leaders and members (circa 25 people).
	Taperas	Meeting with community leaders including Alcaldesa and President of the OTB (circa 10 people).
	San Jose de Chiquitos	Meetings with Vice President and 3 officers of CCIH-T (Central de Comunidades Indígenas Chiquitanas Turabo); Office of the Alcaldesa; and Local Catholic Padre.

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