

OFFICE MEMORANDUM

DATE: September 1, 2010

TO: Meg Taylor, CAO

FROM: Bernard E. Sheahan, Director, CIN.

UP
for

EXTENSION: 39503

SUBJECT: Response to Ombudsman Assessment Report: Complaint regarding the Electron Investment S.A Pando y Monte Lirio Hydroelectric Project (#27975)

Thank you for providing us with your Assessment Report regarding the complaint on the Pando y Monte Lirio project ("PyML"). We appreciate the opportunity to get involved in expanded stakeholder engagement, including the proposed information sharing, mutual education, and problem solving dialogue sessions you have outlined as next steps in the process. We hereby confirm our participation as required.

As the CAO knows, IFC conducted extensive environmental and social due diligence for this category A project, including: review of EIAs, updated hydro-biological data, and related management plans and procedures documentation; multiple site visits; meetings and interview with Company (EISA) staff and representatives from the GoP Environmental Authority (ANAM); and confirmation of evidence of free prior informed consultation and resulting degree of broad community support (BCS/FPIC), as well as the status of development and implementation of the community relations and engagement activities. Additionally and in coordination with the IADB, IFC is providing support to ANAM in the development and assessment of the Cumulative Impact Assessment (CIA) associated with the multiple other planned hydroelectric developments in the River basin.

IFC's Management and the Project Team note that the CAO recognizes that the complainants did not focus the core of their complaint on IFC-financed project, but rather on ANAM's and other Panamanian institutions alleged lack of planning and capacity to manage potential accumulated effects of other several hydroelectric developments in the Chiriqui Viejo River ("CVR"). Based on your proposed "Possible Alternatives for Consideration" (Section 3.4 of the report), IFC also notes that most alternatives are not under direct IFC's or the Sponsor's (EISA) responsibility, as they involve multiple stakeholders, including ANAM and other private sponsors/ developers in the CVR over whom the IFC and EISA have no control.

In this context, IFC believes that the proposed dialogue would be effective to the extent the relevant authorities and other stakeholders (namely other developers of hydro projects in the CVR) also actively engage in the discussions.

As the CAO proposed next steps materialize, the IFC would encourage further evaluation of the composition of the complaining NGOs to clarify their area of action as well as to understand their level of representativeness of those directly affected by the IFC-financed project. A constructive dialogue in relation to issues concerning the IFC-financed project's direct area of influence would ideally only involve project's representatives, relevant authorities and the representatives of those directly affected by the project. Furthermore, we encourage that in these series of events, the CAO involve the Community Development Committees (CDCs) that have been constituted in the PyML direct area of influence.

As per your Assessment Report, we understand that the CAO considers that, as a first step, EISA and the IFC can play a role in the following three areas of action:

(1) *“Conduct additional, iterative educational and informational events regarding the Pando/Monte Lirio project in particular, and hydroelectric development in general, for the local community”* - IFC will gladly encourage EISA to engage in further iterative educational and informational events where its environmental and social practices can be presented as local good practices and where other project specific details are shared with the communities.

(2) *“Involve NGOs and local community residents in monitoring of project implementation”*. In these events, EISA can be given the opportunity to provide some examples of how local community residents are already helping the Company monitor project implementation, including some of the ecological monitoring efforts. Also if the CAO can provide experiences and best practices in these proposed multi-stakeholders forums, the IFC will be glad to suggest EISA to enhance their on-going project implementation community monitoring efforts.

(10) *“Address how to repair/improve any local roads that are used for (or damaged by) construction vehicle traffic”*. IFC continues to closely monitor compliance with the EISA's Access Management and Monitoring Plan to ensure that any corrective actions are effectively and timely implemented to reduce or avoid any problems with near-by communities.

The IFC recognizes that a continued collaborative process can provide an opportunity for all key stakeholders to engage in constructive dialogue and problem solving around the issues raised in the complaint.

Hereby, I reiterate IFC's continued support to the CAO process. IFC's project team and all project information continue to be available to your staff and we look forward to a collaborative and constructive process.

cc: Lars Thunell; Jyrki Koskelo; Thierry Tanoh; Greg Radford; Gabriel Goldschmidt; Darius Lilaonwala; Bilal Rahill, Scott Adams; Andrea Cecilia Repetto Vargas; Stephen Bailey; Pablo Cardinale; Jorge Villegas; Diana Ruán Hernandez; Andres García Novel; Giancarlo Ortega.