



CAO ASSESSMENT REPORT

**Second Complaint regarding IFC Investment in Lydian International 3
(Project #27657)**

Gndevaz, Armenia

February 2015

Office of the Compliance Advisor Ombudsman
International Finance Corporation/
Multilateral Investment Guarantee Agency
www.cao-ombudsman.org

About the Compliance Advisor Ombudsman

The Office of the Compliance Advisor Ombudsman (CAO) is the independent accountability mechanism for the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA), the private sector arms of the World Bank Group. CAO reports directly to the President of the World Bank Group, and its mandate is to assist in addressing complaints from people affected by IFC/MIGA supported projects in a manner that is fair, objective and constructive and to enhance the social and environmental outcomes of those projects.

For more information, see www.cao-ombudsman.org.

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LIST OF ACRONYMS

CAO	Compliance Advisor Ombudsman
EIA	Environmental Impact Assessment
ESIA	Environmental and Social Impact Assessment
IFC	International Finance Corporation
MIGA	Multilateral Investment Guarantee Agency

1. SUMMARY

In July 2014, CAO received a complaint from Gndevaz community members in Armenia regarding IFC's investment in Lydian International Limited, a junior mining company sponsoring the exploration of the Amulsar gold project. During the assessment, the parties agreed to engage in a CAO facilitated dispute resolution process. This Assessment Report provides an overview of the assessment process, including a description of the project, the complaint, the assessment methodology, and next steps.

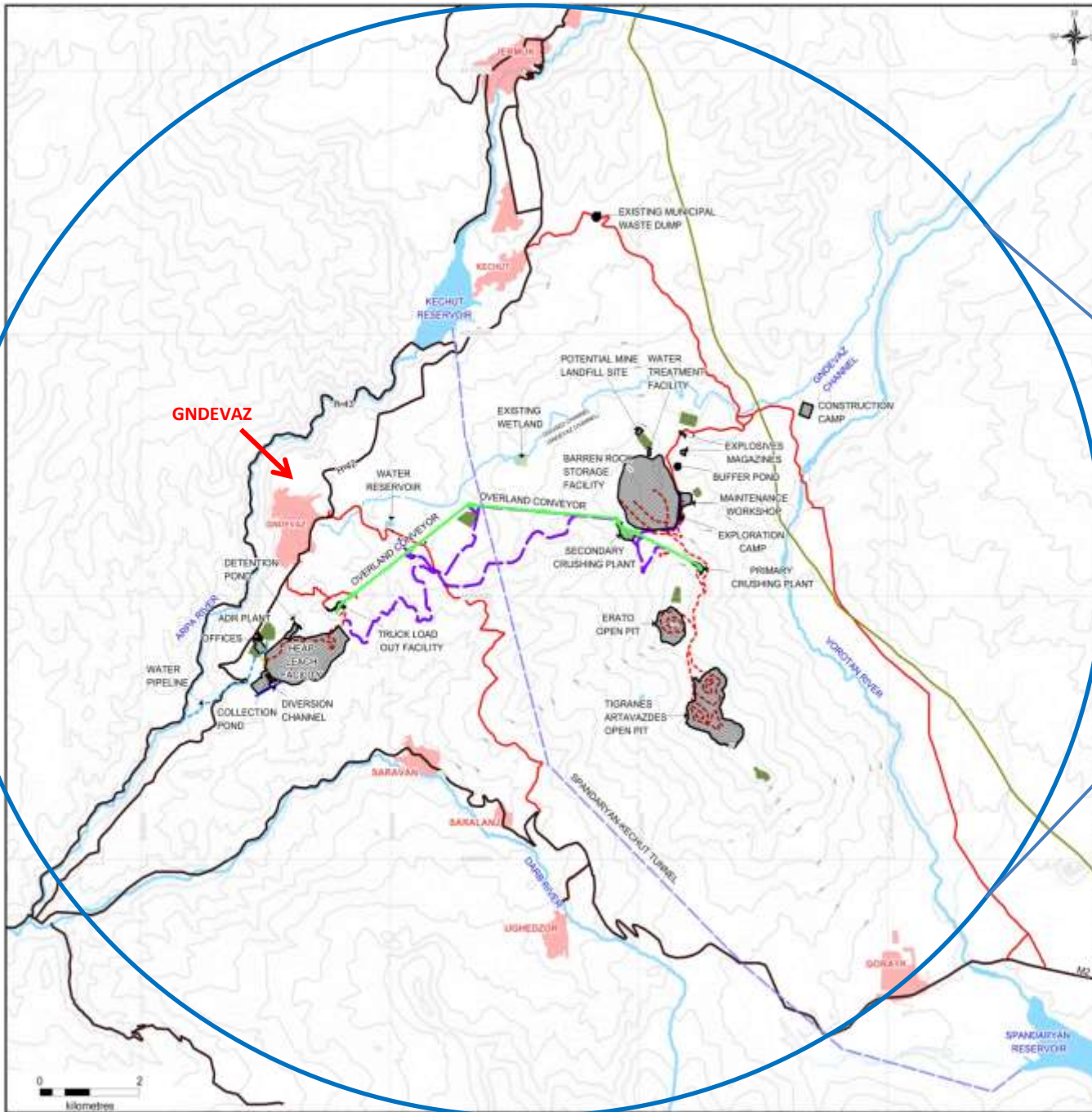
2. BACKGROUND

2.1. The Project

According to IFC, Lydian is a junior mining company focused on exploration projects in Eastern Europe and Central Asia. Lydian, through its wholly-owned indirect subsidiary Geoteam CJSC, holds licenses for the Amulsar exploration property in Armenia. Amulsar is located in central Armenia, approximately 120 kilometers south of Yerevan. The project is at an advanced feasibility stage. The company completed a bankable feasibility study and Environmental Impact Assessment (EIA) in July 2014. Subject to obtaining all outstanding permits, the project is expected to move into the development and construction stage, targeting first gold production in early 2017.

IFC is a 7.9 percent shareholder and has invested over CAD \$16 million in multiple stages since 2007. The project is currently classified as a Category B project, meaning it is expected to have limited adverse social and/or environmental impacts that can be readily addressed through mitigation measures. The Armenian Environmental Impact Assessment (EIA or ShMAG) was approved by the Ministry of Nature Protection (MNP) in October 2014 and Lydian estimates that the international Environmental and Social Impact Assessment (ESIA) required by the lenders will be released in February 2015. The Mining Right for the Amulsar Gold Project was approved by the Ministry of Energy and Natural Resources of Armenia in November 2014¹.

¹ According to Lydian, a Mining Right for exploitation of the Tigranes, Artavazdes, and Erato pits is required. The Mining Right for Tigranes and Artavazdes was granted in 2012 and was resubmitted in July 2014 taking into account changes in the Project design that have been incorporated in the updated 2014 Feasibility Study. The definitive Mining Right for the Erato pit and changes in project designs for Tigranes and Artavazdes pits was granted to Geoteam on November 26, 2014.



- Settlements
- New Infrastructure Areas
- Topsoil Stockpile (proposed)
- Access Roads (proposed)
- Haul Roads (proposed)
- Paved Roads (existing)
- Gravel Roads (existing)
- Gas Pipeline (existing)
- Conveyor (proposed)
- Gold Solution Channel (proposed)
- Water Pipeline
- Main Rivers and Watercourses



References

Projected coordinate system: UTM Zone 38 N
 Central Meridian 45 (WGS84)

KPI Engineering
 "P\site-bind-04302014.dwg"
 "P\site-BIND-05192014.dwg"
 "Disturbed Areas_exhibit-Trans-05302014.dwg"
 "439-07-00-C-001-BIND-06102014.dwg"

Scale: 1 : 75 000 @ A3	
Easting: 557500 ; 4401500	
Northing: 45.6728° ; 39.7616°	45° 40' 22.15" ; 39° 45' 41.71"

Lydian International

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Drawn By: J.S. English	Date: 13.06.2014
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AMULSAR GOLD PROJECT - ARMENIA
 Project Site Layout

FIG_3_1_INFRASTRUCTURE_A3_ZTS20088	FIGURE 3.1
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2.2. The Complaint²

A complaint was lodged with CAO in July 2014 by 148 local residents of Gndevaz in Vayots Dzor province raising concerns about project impacts on livelihoods, the environment and on community health. Specifically, the complaint alleges lack of adequate project information, including information about land acquisition and resettlement plans; potential environmental contamination from the project's cyanide leaching system; dust pollution affecting fields, livestock and farmland; employee and community health issues; and insufficient community engagement.

3. ASSESSMENT

CAO determined that the complaint met its eligibility criteria in August 2014, and undertook an assessment of the complaint. The purpose of a CAO assessment is to clarify the issues and concerns raised by the complainants, to gather information on how other stakeholders see the situation, and to determine whether the parties prefer to initiate CAO's Dispute Resolution or Compliance role. During assessment, CAO does not gather information to make a judgment on the merits of the complaint. (See Annex A for a complete description of the CAO complaint handling process.)

3.1. Methodology

CAO's assessment of the complaint consisted of:

- a review of project documents;
- meetings with members of the affected communities, company representatives, and NGOs; and
- discussions with the IFC project team.

In October 2014 and January 2015, CAO conducted two trips to Armenia, and Gndevaz, to meet with various stakeholders, including:

- Geoteam and Lydian staff
- Hayrapet Mkrtchyan, Mayor, Gndevaz
- 42 Gndevaz residents
- Inga Zarafyan, President, EcoLur
- Anna Shahnazaryan, Representative, Save Teghut civic initiative
- Levon Galstyan, Representative, Pan-Armenian Environmental Front
- Sona Ayvazyan, Deputy Director, Transparency International.

During the October 2014 trip to Gndevaz, complainants provided CAO a list of 62 additional complaint signatories, bringing the total number of complainants to 210.

²In April 2014, a separate complaint was submitted to CAO by two residents of Gndevaz and Jermuk with support from nine NGOs with regard to IFC's investment in Lydian and the Amulsar gold project. That complaint is currently undergoing a compliance appraisal of IFC's performance. More information is available on CAO's website: http://www.cao-ombudsman.org/cases/case_detail.aspx?id=221.

3.2. Summary of Issues

This section summarizes the issues laid out by different stakeholder groups during their discussions with CAO. This summary does not comprise a judgment by CAO about the merits of the complaint. Based on the original complaint and further stakeholder discussions undertaken as part of the CAO Assessment, the primary issues that would need to be addressed to resolve the complaint are:

1. How might livelihoods be protected or improved for local communities in Gndevaz affected by the project?
2. How can locally affected communities in Gndevaz have more of a voice and participate in selection, design, and implementation of Lydian/Geoteam social development programs?
3. How might potential and actual Amulsar project impacts on environment and human and animal health be jointly identified and avoided or mitigated, with the active participation of local Gndevaz community members?
4. How can affected communities, Lydian/Geoteam, and other stakeholders work together to improve project-related information access, dissemination, and understanding; community engagement; and public consultation?
5. How might the relevant parties work together to ensure a fair and mutually beneficial land acquisition and compensation process?
6. How can local residents and Lydian/Geoteam work together to effectively manage “in-migration” (i.e. temporary workers and others who will move to the area as a result of the mine construction and/or operations)?
7. What is the desired long-term future of local communities and Lydian/Geoteam?

As noted in the original complaint letter to CAO, the complainants took a position against the mine, in that they object to the Amulsar mine project in principle and would prefer the project not to proceed. While they emphasized to CAO that their original opposition to the mine remains unchanged, they are nonetheless willing to engage with Lydian/Geoteam regarding the issues listed above.

3.3. Stakeholder Goals and Interests

Based on the discussions with key stakeholders described above, the CAO team heard and understood the following key goals and interests, most of which were shared by all parties:

- Ensuring project compliance with IFC/MIGA standards and policies, international best practices, and Armenian law.
- Preserving or improving livelihoods of local communities affected by the Amulsar project.
- Honoring and respecting local Gndevaz history, culture, and tradition.
- Avoiding or mitigating environmental damage.
- Avoiding or mitigating project impacts on human and animal health.
- Ensuring critical information about the Amulsar project is timely, understandable, clear, accurate, and available in Armenian.
- Building an atmosphere of trust and mutual respect among the stakeholders.
- Creating a better future for Gndevaz.

As part of its assessment, CAO does not evaluate to what extent these goals are currently being achieved and various stakeholders may have differing views in this regard.

3.4. Next Steps

After a thorough discussion of the CAO mandate, functions, and services, the complainants and Lydian/Geoteam requested a CAO Dispute Resolution process to try to resolve the issues raised in the complaint using a collaborative approach. During CAO's Dispute Resolution processes, CAO provides neutral mediation/facilitation and convenes separate and joint meetings as needed. CAO will work with the parties to assist them in agreeing on a timeline, process, and schedule for meetings.

Annex A: CAO Complaint Handling Process

The Office of the Compliance Advisor Ombudsman (CAO) is the independent accountability mechanism for the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) of the World Bank Group. CAO reports directly to the President of the World Bank Group, and its mandate is to assist in addressing complaints from people affected by IFC/MIGA supported projects in a manner that is fair, objective, and constructive and to enhance the social and environmental outcomes of those projects.

The initial assessment is conducted by CAO's Dispute Resolution function. The purpose of CAO's assessment is to: (1) clarify the issues and concerns raised by the complainant(s); (2) gather information on how other stakeholders see the situation; and (3) help stakeholders understand the recourse options available to them and determine whether they would like to pursue a collaborative solution through CAO's Dispute Resolution function, or whether the case should be reviewed by CAO's Compliance function.

This document is a preliminary record of the views heard by the CAO team, and explanations of next steps depending on whether the parties choose to pursue a Dispute Resolution process or prefer a CAO Compliance process. *This report does not make any judgment on the merits of the complaint.*

As per CAO's Operational Guidelines,³ the following steps are typically followed in response to a complaint that is received:

Step 1: **Acknowledgement** of receipt of the complaint

Step 2: **Eligibility:** Determination of the complaint's eligibility for assessment under the mandate of the CAO (no more than 15 working days)

Step 3: **CAO assessment:** CAO conducts an assessment of the issues and provides support to stakeholders in understanding and determining whether they would like to pursue a consensual solution through a collaborative process convened by CAO's Dispute Resolution function, or whether the case should be handled by CAO's Compliance function to review IFC's/MIGA's environmental and social due diligence. The assessment time can take up to a maximum of 120 working days.

Step 4: **Facilitating settlement:** If the parties choose to pursue a collaborative process, CAO's dispute resolution function is initiated. The dispute resolution process is typically based or initiated by a Memorandum of Understanding and/or a mutually agreed upon ground rules between the parties. It may involve facilitation/mediation, joint fact-finding, or other agreed resolution approaches leading to a settlement agreement or other mutually agreed and appropriate goal. The major objective of these types of problem-solving approaches will be to address the issues raised in the complaint, and any other significant issues relevant to the complaint that were identified during the assessment or the dispute resolution process, in a way that is acceptable to the parties affected⁴.

or

³ For more details on the role and work of CAO, please refer to the full Operational Guidelines: http://www.cao-ombudsman.org/documents/CAOOperationalGuidelines2013_ENGLISH.pdf

⁴ Where stakeholders are unable to resolve the issues through a collaborative process within an agreed time frame, CAO Dispute Resolution will first seek to assist the stakeholders in breaking through impasse(s). If this is not possible, the Dispute Resolution team will inform the stakeholders, including IFC/MIGA staff, the President and Board of the World Bank Group, and the public, that CAO Dispute Resolution has closed the complaint and transferred it to CAO Compliance for appraisal of IFC/MIGA project performance.

Compliance Appraisal/Investigation: If the parties opt for a Compliance process, CAO's Compliance function will initiate an appraisal of IFC's/MIGA's environmental and social due diligence of the project in question to determine whether a compliance investigation of IFC's/MIGA's performance related to the project is merited. The appraisal time can take up to a maximum of 45 working days. If an investigation is found to be merited, CAO Compliance will conduct an in-depth investigation into IFC's/MIGA's performance. An investigation report with any identified non-compliances will be made public, along with IFC's/MIGA's response.

Step 5: **Monitoring** and follow-up

Step 6: **Conclusion/Case closure**