

OFFICE MEMORANDUM

DATE: March 11, 2013

TO: Ms. Meg Taylor, Compliance Advisor Ombudsman, CCAVP

FROM: Bernard E. ~~Stephan~~ Stephan, Director, CN2DR

EXTENSION: 39503

SUBJECT: IFC RESPONSE TO CAO AUDIT OF IFC INVESTMENTS IN MOZAL, MOZAMBIQUE (C-I-R4-Y12-F156)

IFC thanks the CAO for its report: "*CAO Audit of IFC Investments in Mozal, Mozambique*", dated December 18, 2012. This response has been prepared by CES with support from CN2.

The CAO Audit report outlines in some detail IFC's extensive engagement with Mozal throughout the investment cycle, from appraisal through supervision and, most recently, the approach to the emergency bypass of a Fume Treatment Center (FTC) to fix a structural engineering issue that was putting the health and safety of Mozal employees at risk. In this regard, the CAO has noted that: IFC took reasonable steps to assure itself that key designs of environmental systems for the project met or exceeded good international industry practice during the environmental and social appraisal of the project; there has been regular reporting by Mozal to IFC through the Annual Monitoring Report (AMRs) and that repairs to the FTCs were reported in the AMRs; a 2009 IFC supervision visit noted that structural integrity issues with the FTCs were serious and that Mozal was actively managing this engineering challenge, as reflected in repairs that were carried out by Mozal on five occasions between 2001 and 2008; upon being informed of the imminent bypass of an FTC, the IFC team took a number of immediate steps including requiring Mozal to develop and provide improved air shed modeling data and analyses as well as installing and operating air quality monitors and achieving improved disclosure with local communities.

However, the CAO Audit report concludes that a risk of total failure of the FTCs could reasonably have been anticipated before the need for a rebuild was communicated to IFC. The Report further concludes that IFC's supervision of E&S risks associated with the failure of the FTCs at Mozal fell short of that required by IFC policies and standards and presented an unduly narrow interpretation of the Sustainability Framework. IFC acknowledges the CAO's view in this regard but would like to note that the Sustainability Framework is not the relevant policy framework given that IFC investments in Mozal pre-date the introduction of the Sustainability Framework in 2006. In relation to CAO's comment on IFC's actions regarding potential failure of the FTC's, IFC believes that staff took reasonable and timely actions consistent with policy and procedures. The company had disclosed to IFC its concerns about corrosion in the FTCs and its plans for on-going monitoring and repairs. BHP Billiton, one of the world's largest aluminum producers, had been actively, and largely effectively, managing this challenging engineering problem for over a decade. Such detailed engineering aspects are clearly outside the scope of IFC's environment and social supervision practices and procedures and IFC was satisfied that the issue was getting attention by a well qualified and experienced team. The fact

that the accelerated rate of corrosion was identified through the company's ongoing monitoring program, enabling Mozal staff to take emergency action and avoid catastrophic failure, provides further evidence that the issue was receiving ongoing attention. However, CAO's report raises an interesting question about the adequacy of annual reporting when an important issue is identified (particularly in a mature portfolio investment) and IFC will give consideration to changes in reporting requirements to deal with circumstances such as this. Finally, IFC agrees with the CAO that earlier notification of the imminent bypass and a better understanding of ambient air quality impacts would have resulted in a more informed engagement with local communities and reduced apprehension around the FTC repairs.

Cc : Rashad Kaldany, William Bulmer, Yolande Duhem, Oumar Seydi, Ram Mahidhara, Bilal Rahill, Tom Butler