



TERMS OF REFERENCE

Terms of reference for audit of IFC

CAO Compliance

Ref: C-I-R9-Y12-F161

November 20, 2012

IFC Investment in Corporacion Dinant S.A. de C.V. / Honduras

Case of

Appraisal triggered by CAO Vice President

About CAO

CAO (Office of the Compliance Advisor/Ombudsman) is an independent office that reports directly to the president of the World Bank Group. The CAO reviews complaints from communities affected by development projects undertaken by the two private sector lending arms of the World Bank Group: the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA).

If CAO concludes that the parties are not willing or able to reach a facilitated solution, the case is transferred to the compliance arm of the CAO, to appraise whether the concerns raised in the complaint merit a compliance audit of IFC/MIGA.

CAO's compliance mandate is to audit IFC, and how IFC assured itself of the environmental and social performance of its investments. The focus of this process is thus on IFC's appraisal and supervision of an investment, and whether or not IFC complied with its own policy provisions. CAO does not audit IFC's client.

CAO discloses the findings of its compliance appraisal in an appraisal report to inform the president and boards of the World Bank Group, senior management of IFC/MIGA, and the public about its decision.

For more information about the CAO, please see www.cao-ombudsman.org

Background

This project provided Corporacion Dinant, a vertically-integrated palm oil and food company in Honduras, with a corporate loan to enable it to develop young palm oil plantations, increase production capacity in its snacks and edible oils divisions, expand and upgrade its distribution network, and build a biogas facility to generate electricity for own and third-party consumption. The total project cost was estimated at \$75 million, and IFC's proposed investment was a \$30 million loan.

Dinant is headquartered in Tegucigalpa, Honduras. It owns palm oil plantations across the Aguan and Lean Valleys and operates two palm oil mills and an edible oil refinery near the cities of Tocoa and La Ceiba. The company also operates a port storage facility at Puerto Castilla; owns vegetable greenhouses and a food processing plant in the Comayagua Valley; and has a snacks plant in San Pedro Sula.

CAO's review of this project was triggered by a letter from an NGO to the President of the World Bank Group in November 2010 and conversations between CAO and local NGOs in March 2011.

Key allegations in regards to the project were as follows:

- that IFC's client (Dinant) conducted, facilitated or supported forced evictions of farmers in the Aguan Valley;
- that violence against farmers on and around Dinant plantations in the Aguan Valley occurred because of inappropriate use of private and public security forces under Dinant's control or influence.
- that IFC failed to identify early enough and/or respond appropriately to the situation of Dinant in the context of the declining political and security situation in Honduras, and specifically in the Aguan Valley, following the ouster of President Zelaya in June 2009.

By memo of 17 April 2012, the CAO Vice President initiated a compliance appraisal of IFC's investment in Dinant.

Scope of the Audit

The focus of compliance auditing is on IFC, and how IFC assured itself of project environmental and social performance at appraisal and during supervision.

As set out in CAO's appraisal report the focus of the compliance audit in this case will be:

- a) whether IFC exercised due diligence in its review of the social risks attached to the Project;
- b) whether IFC responded adequately to the context of intensifying social and political conflict surrounding the Project post commitment; and
- c) whether IFC policies and procedures provide adequate guidance to staff on how to manage social risks associated with Projects in areas that are subject to conflict or conflict prone.

The scope of the audit also includes developing an understanding of the immediate and underlying causes for any non-compliance identified by the CAO.



Audit Criteria, Approach and Preliminary Timeline

The audit criteria are the conditions for IFC's involvement, including IFC policies, performance standards, guidelines, procedures, and other requirements. Specifically these include the IFC's Policy and Performance Standards on Environmental and Social Sustainability (2006); and the IFC's Environmental and Social Review Procedures as in force at relevant time.

The approach to the audit is described in the CAO Operational Guidelines (April 2007), and states that the working definition of compliance auditing adopted by CAO Compliance is as follows:

A compliance audit is a systematic, documented verification process of objectively obtaining and evaluating evidence to determine whether environmental and social activities, conditions, management systems, or related information are in conformance with the audit criteria.

The audit will typically be based on a review of documents, interviews, observation of activities and conditions, or other appropriate means. The verification of evidence is an important part of the audit process.

The preliminary time schedule is for CAO to have a draft audit report ready by March 2013. CAO's Operational Guidelines state that the draft audit report is to be circulated to senior management of IFC and all relevant departments for factual review and comment. Upon receiving comments on the draft, CAO Compliance finalizes the report. The final report is then submitted to the senior management of IFC for a response. Finally the audit report and any response from IFC is forwarded to the Office of the President of the World Bank Group. Once the President is satisfied with the response by IFC management, the Office of the President provides clearance for the audit report and the response. After clearance, CAO Compliance shares the audit report and the management response with the World Bank Group Board and discloses both documents on the CAO Web site.

As per its established practice CAO will engage an audit panel. For this particular audit, CAO considers the following as necessary for the audit panel;

- Expertise in the assessment and management of risks around conflict, security and human rights in private sector projects, particularly in the agricultural sector.
- Understanding, experience and knowledge of private sector issues in a development context, preferably in Central America.
- Knowledge of IFC's Performance Standards, applicable Environmental and Social Review Procedures, as well as internal work practices.