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Sustainable Finance Track

2nd Prize

IFC Funding of Dinant Project: Call for Overhaul of Risk Assessment for Sustainable Finance

Inspection Copy

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IFC Funding of Dinant Project: Call for Overhaul of Risk Assessment for Sustainable Finance

Abstract

The case study is based on a dilemma faced by IFC, one of the financing arms of the World Bank Group, on whether it should release its next round of funding to Corporación Dinant (Dinant), a Hondurus-based vertically-integrated palm oil and food company, to enable it to develop young palm oil plantations. IFC, which proposed to invest US$30million of the total estimated project cost of US$75million, had disbursed US$15 million in November 2009.

Civil society groups had alleged that Dinant had been involved in gross human rights violations and accused it of forced eviction of farmers and inappropriate use of private and public security. The civil liberty groups alleged that IFC had not exercised due diligence in its review of the social risks attached to the project and that it had not responded adequately to the context of intensifying social and political conflict surrounding the project after its commitment to it. The World Bank's own watchdog Compliance Adviser/Ombudsman (CAO) in its report found multiple failures by IFC in the handling of the Dinant project.

Having faced a backlash from civil liberties groups and having admitted to lapses, IFC now has to decide on whether to go ahead with its next round of US$15 million financing to Dinant. IFC is engaging with Dinant actively but the decision on funding the next round has to be taken. Backtracking on the funding would be seen as a serious blow to sustainable financing while releasing the next round of financing could only happen after Dinant gives a series of commitments to work closely with the community. All in all, the case study will definitely raise issues and call for discussion on appropriately assessing, forecasting, and pricing risks of sustainable finance projects, especially in conflict prone countries in the future.

> *"The philosophy of the World Bank is to 'end poverty', but what has happened in this process has been the opposite...Instead, we've seen greater wealth for corporations and transnational landowners and greater poverty for the poor, who have been driven from their lands. And although the previous CAO report was very critical, the World Bank has continued to finance Dinant through Ficohsa."*[1]
>
> **– La Plataforma Agraria de Honduras, a Honduran Network, in August 2014**

In January 2014, International Finance Corporation (IFC) a unit of the World Bank Group that finances private investments in some of the poor countries, made a U-turn in its dealings with Corporación Dinant S.A. de C.V. (Dinant), a vertically integrated palm oil company in Honduras[2].Dinant had been accused of killing and forcefully evicting hundreds of peasants from their plantations. After first rejecting the report from its internal watchdog 'Office of the Compliance Advisor/Ombudsman' (CAO),IFC finally accepted that it had failed to implement its own social and environmental policies and procedures while entering into a US$30 million loan agreement with Dinant. It pledged to work with Dinant, asking it for further commitments and assurances before disbursing the next round of financing.

This incident called for a change in the way risk was accessed while financing sustainable projects, with ten activist organizations, included Oxfam and Friends of the Earth Honduras, asking Dr. Jim Yong Kim (Kim), the twelfth President of the World Bank Group, to call for *"root and branch reform of the IFC's institutional culture, which incentivizes loan volume over quality — prompting staff to hide social and environmental risks."*[3]

WORLD BANK GROUP AND INTERNATIONAL FINANCE CORPORATION

The World Bank Group (WBG) was a group of five closely associated international organizations — The International Bank for Reconstruction and Development (IBRD), The International Development Association (IDA), The International Finance Corporation (IFC), The Multilateral Investment Guarantee Agency (MIGA), and The International Center for Settlement of Investment Disputes (ICSID). These five organizations came into existence between 1945 and 1988 and were owned by member countries. All the five organizations or WBG worked for a common mission — to reduce extreme poverty and boost shared prosperity. The WBG provided leveraged loans, insurance against various risks, and technical assistance to developing and under developed countries.

IFC was established in 1956 to promote economic development in the private sector. It supported for-profit private sector projects in developing countries through investment, advice, and assets management services. IFC provided about one third of its total funds to the private sector in developing countries.[4] In 2014, after more than five decades of its establishment, it supported almost all major industries and touched the lives of millions of people in more than 100 countries. IFC helped in creating jobs, improving living standards, and building a better future. In FY2014, IFC invested US$17.2 billion in around 600 projects

1 Carey L. Biron, "IFC Warned of Systemic Safeguards Failures in Honduras," www.ipsnews.net/ 2014/08/ifc-warned-of-systemic-safeguards-failures-in-honduras/ August 13, 2014.

2 Honduras, considered a least developed country, is a republic in Central America. In 2015, Honduras was one of poorest countries in Latin America.

3 Douglas Gillison, "Blind to Problems, World Bank Invested in Honduran Bank, Audit Says," https://100r.org/ 2014/08/blind-to-problems-world-bank-invested-in-honduran-bank-audit-says/, August 12, 2014.

4 "IFC Key Facts," www.ifc.org/wps/wcm/connect/corp_ext_content/ifc_external_corporate_site/about+ifc/ ifckeyfacts.

and mobilized more than US$5 billion to support the private sector in developing countries in different industries through its investment services.[5]

INVESTMENT SERVICE OF THE IFC

The IFC Investment Service offered a wide range of financial products only to private sector projects located in developing countries. The various financial products offered by IFC were loans, syndicated loans, equity finance, structured finance, risk management products, local currency financing, private equity & investment funds, and trade finance.[6] In addition to this, it provided funds only to environmentally, socially, and technically sound projects which were beneficial to the local economy and fulfilled the environmental and social standards of IFC and the host country.

When for-profit private companies or entrepreneurs needed funds to start a new project or expand existing ones, they could apply directly to IFC by submitting their investment proposal. IFC did not have any standard application form for this purpose. However, the investment proposal had to include a brief description of the project, management, technical feasibility, plant size, breakdown of project operating cost, manpower, raw material resources, market, potential environmental issues & solutions, proposed financial structure, projected financial statement & return on investment, government incentives, tentative time table for project completion, and expected contribution of the project to economic development. The complete investment proposal could be submitted at IFC's head office in Washington, D.C., or any of IFC's regional offices near the project location.

Once the investment proposal was received by IFC, it did a first round review after which it sought a detailed feasibility study or business plan to appraise the project and make its decision. An investment proposal typically went through nine stages before IFC disbursed funds. After disbursement of the loan, IFC supervised and evaluated the project on a regular basis. It closed the book either when the loan had been repaid fully or if it sold its equity in the project *(See Exhibit I for various stages of the project cycle).*

IFC had a sustainability framework that consisted of its policy on environmental and social sustainability, the performance standards (which defined clients' responsibilities for managing environmental and social risks), and the access to information policy (which articulated IFC's commitment to transparency). According to IFC, this was an integral part of its approach to risk management, and it underscored its strategic commitment to sustainable development. *(See Exhibit II for IFC's Performance Standards on Environmental and Social Sustainability).*

HONDURAS ECONOMY

In 2014, Honduras, a republic in Central America, was the least developed and most violent country outside the war zone with a wide income and wealth gap between the rich and the poor. Honduras was one of the poorest countries in Latin America with a Gross Domestic Product (GDP) of US$19.39 billion. The service sector contributed about 57.27% to its GDP followed by industry (28.12%) and agriculture (14.61%).

Two-thirds of the population lived in poverty with half of the two-thirds mired in extreme poverty. In rural areas, the situation was worse with 60% households living in extreme poverty. Honduras also had a high rate of crime and violence, which cost it about 10% of its GDP. In 2012, the homicide rate in Honduras was 90 per 100,000 people, the highest in the world.[7]

5 "What We Do - Client Solutions," www.ifc.org/wps/wcm/connect/CORP_EXT_Content/IFC_External_Corporate_Site/What+We+Do/Client+Services/.

6 "IFC Investment Services," www.ifc.org/wps/wcm/connect/corp_ext_content/ifc_external_ corporate_site/what+we+do/client+services/investmentservices.

7 "Intentional Homicides (Per 100,000 People)," http://data.worldbank.org/indicator/VC.IHR.PSRC.P5?order=wbapi_data_value_2012+wbapi_data_value+wbapi_data_value-last&sort=desc.

Honduras was also exposed to external shocks, especially to prices of coffee and banana. Between 1990 and 2010, the purchasing power of the economy came down when the prices of these products crashed. The World Bank's studies on Honduras pointed out the need to develop alternate sources of income especially for the rural population which was dependent on these products.

LAND AND LAND RELATED CONFLICTS

In 2013, the land area of Honduras was 111,890 sq. km.[8]Of this, agricultural land covered 32,350 sq. km, which was about 29% of the total land area. However, the arable land was just 10,200 sq. km or 1.02 million hectares, about 9.12% of the total land area of Honduras.[9]

Since the sixteenth century, the fertile land of Honduras had been used for banana plantations. The export of bananas started in the late nineteenth century by a group of wealthy families which tied up with international companies such as United Fruit Company[10] (UFC) and Standard Fruit & Steamship Company[11] (Standard Fruit). The banana industry employed the Garifuna[12] workforce. In 1901, the government distributed around 7,000 hectares to Garifuna workers for banana cultivation. But local military commander, Colonel Gustavo Alvarez, snatched away 2,000 hectares of these and distributed them to wealthy landowners. By 1929, UFC controlled about 650,000 acres[13] of land. Banana cultivation and its export were controlled by private chiefdoms and companies who suppressed labor organizations. In 1954, banana plantation and other industries workers went on strike in support of various demands, such as better work conditions, better pay, fewer work hours, land reforms, etc. Honduras saw progressive reforms including labor and land reforms under the presidency of Ramón Villeda Morales (Morales) during the period 1957 to 1963.

But in 1963, the Honduran government was taken over by the military and Oswaldo López Arellano (Arellano) became the president. It happened just 10 days before scheduled elections as there was a fear among the wealthy that Morales would receive a stronger mandate to carry out further social reforms. In 1964, banana companies started to return some of their land to the government. However, these companies continued to market bananas cultivated on distributed lands by small farmers and peasant cooperatives. In 1970, UFC merged with AMK and became United Brands Company (UBC). In 1971, Arellano permitted general elections to be held in Honduras. Ramón Ernesto Cruz Uclés won these elections and became the president of Honduras in June 1971.

In December 1972, Arellano engineered another military coup and became president again. He initiated various policies including land reforms. In 1974, Honduras increased the tax on banana export from US$0.25 to US$0.50 for each 40-pound box but it revoked it within 4 months. In an investigation, the Securities and Exchange Commission (SEC) of the U.S. found that UBC had paid millions of dollars as bribes to Arellano to get the tax on the banana boxes reduced. The scam, popularly known as Bananagate, ended Arellano's regime.

In September 1974, when hurricane 'Fifi' destroyed around 60% of the banana crop in Honduras, Standard Fruit and other companies abandoned their plantations in the country, leaving a huge number of plantation workers unemployed. The workers then set up the 'Las Isletas Peasants Enterprise' (LIPE) and started harvesting bananas collectively and selling them to Standard Fruit. In 1976, LIPE produced and sold more than one million boxes of

8 Surface area was 112,490 sq. km.

9 1 sq. km. = 100 hectares.

10 United Fruit Company (UFC) was an American company which traded in fruits, mainly bananas.

11 Standard Fruit & Steamship Company (Standard Fruit) was a U.S. company which was established in 1924 as Standard Fruit Company. It dealt mainly in bananas. The company was acquired by Castle & Cooke Corporation in 1964. which was later acquired by Dole Food Company in 1991.

12 Garifuna are people whose ancestors were from West Africa and Central African. They live on the Caribbean Coast in Belize, Guatemala, Honduras, the U.S., and other places. They speak the Garifuna language.

13 1 acres = 0.4046 hectares.

bananas to Standard Fruit. This increased to four million boxes in 1977. However, things turned ugly when LIPE decided to market their bananas through the Union of Banana Exporting Countries[14]. Standard Fruit pressured the government of Honduras to take action against LIPE as it feared losing out. As a result, the government arrested 200 rebellious members of LIPE and raided LIPE's headquarters.[15]

In June 2009, the country faced another military coup when the then President Manuel Zelaya (Zelaya) planned to rewrite the Constitution of Honduras. The army banished Zelaya and Roberto Micheletti Baín became interim de facto president of the country. Reports alleged that Miguel Facussé[16] (Facussé), founder of Dinant, had supported the military coup and that his personal plane was used to send Zelaya's foreign minister Patricia Rodas into exile.[17] Later, in the November 2009 general elections, Porfirio Lobo (Lobo) was elected as the 54th president of Honduras. Lobo promised to bring in reforms but he too faced allegations of human rights violations. In 2010, Cofadeh, a local human rights organization, alleged that 300 people, including trade unionists, peasant farmers, gay rights activists, and journalists, had been killed after the 2009 coup.[18]

CORPORACIÓN DINANT

Dinant was a family-controlled consumer products company founded in 1960 by Facussé in Tegucigalpa, a southern-central region of Honduras. It was the largest single landowner in Honduras. It had 20,287 hectares of agricultural land out of which 12,119 hectares (60%) were located in the Bajo Aguán region[19].[20] Dinant had palm oil plantations in Bajo Aguán Valley and Lean Valley from the year 2006. Over the years the company had become the largest palm oil producer in Honduras.[21]The company also had two palm oil mills, an edible oil refinery, vegetable greenhouses, a food processing plant, and a snacks plant *(See Exhibit III for location of Dinant Property)*. The company sold its products throughout Central America, the Dominican Republic, and other markets worldwide with the help of its 8,000 employees.

IFC AND THE PROJECT

Dinant wanted to expand its business in Honduras. It planned to develop young palm oil plantations, increase the production capacity of its snacks and edible oils division, improve and

[14] In 1974, the Union of Banana Exporting Countries was a cartel of banana exporting countries included Colombia, Costa Rica, Ecuador, Guatemala, and Honduras.

[15] "Banana Production in Honduras - History - Political Implications," www.liquisearch.com/banana_production_in_honduras/history/political_implications.

[16] Miguel Facussé (Facussé) was one of the most powerful persons in Honduras. He was the chief economic advisor to the Honduras president in 1982-86. One of his nephews, Carlos Roberto Flores, became Honduras president in 1998-2002.

[17] "Honduras: Miguel Facussé, "Palm Plantation Owner of Death," Dies at 90," www.democracynow.org/2015/6/24/headlines/honduras_miguel_facusse_palm_plantation_owner_of_death_dies_at_90, June24, 2015.

[18] Stephen Sackur, "Honduras Counts the Human Rights Cost of America's War on Drugs," www.theguardian.com/world/2012/jul/15/honduras-human-rights-war-drugs, 15 July 2012.

[19] In 1980, Bajo Aguán with its fertile land, various rivers, and agricultural climate, was one of the most diversified crop regions in Honduras producing various crops including coconuts, pineapples, grapefruits, and bananas. However, things changed over the years. Palm plantations increased in this area and soon became the largest cultivated crop in Aguán, mainly due to the financial advantage it had over bananas and other crops.

[20] "CAO Audit of IFC Investment in Corporación Dinant S.A. de C.V., Honduras," www.cao-ombudsman.org/documents/DinantAuditCAORefC-I-R9-Y12-F161_ENG.pdf, December 20, 2013.

[21] Sarah Blaskey and Norman Stockwell, "Miguel Facussé is dead: What does that mean for the people of Honduras?," www.ticotimes.net/2015/06/25/miguel-facusse-is-dead-what-does-that-mean-for-the-people-of-honduras, June 25, 2015.

expand its distribution network, and develop a bio-gas facility to generate electricity. Dinant estimated the total cost of the project to be around US$75 million. It planned to use 85% of it for capital expenditure and the rest for working capital.

However, getting such large funds within Honduras was a very costly affair due to the high interest rates prevailing in the country. The borrowing rate in Honduras was 20.61% in 2014, while the average lending rate for the five years period (2010–2014) was 19.31%.[22] Getting funding from the outside world was extremely difficult given the country's crime rate, frequent military coups, and the prevalent corruption among other reasons.

While Dinant was looking for financing, IFC was looking to expand its agribusiness portfolio. It found the right candidate in Dinant for investment as the company fitted in with its long-term goal to reduce poverty, especially in the least developed countries. After initial discussions, IFC went through all the seven steps of the project cycle and gave a commitment to Dinant in April 2009 for US$30 million —to be given in two instalments of US$15 million each.

IFC released the first instalment of US$15 million in November 2009. Apart from the investment in Dinant, IFC also invested US$70.1 million in Banco Ficohsa[23] (Ficohsa) in 2011. This investment was in the form of a 10% equity investment of US$32.1 million and a subordinate debt of US$38 million. This was the second investment made by IFC in Ficohsa. Earlier, in 2008, IFC had invested US$35 million in Ficohsa.[24] Experts opined that IFC's investment in Ficohsa was critical as Dinant was one of the biggest borrowers of Ficohsa and technically, it was an indirect investment in Dinant.[25]

HUMAN RIGHT ISSUES

In June 2009**,** locals attacked Dinant's la Isla property with the intention of occupying it. In December 2009, groups of farmers started large-scale occupation of disputed land which Dinant claimed to own. Activists claimed that Dinant made increased use of security forces after the 2009 military coup to suppress protests against land grabbers and others.

In April 2010, the Government of Honduras (GoH) and the Movement of Unified Campesinos in Aguan[26] (MUCA) signed a memorandum of understanding (MoU). As per the MoU, a Judicial Commission was formed to analyze the possibility of land transfer, which included 3,000 hectares of cultivated land of Dinant, to peasant cooperatives of Bajo Aguán.

But in November 2010, six small farmers were killed in El Tumbador when Dinant's security people tried to evict them from land for which the farmers held a provisional title. However, Dinant also claimed ownership of the land.[27]

Several peasant farmers stated that they had been the victims of a campaign of terror by the Colon[28] police, Honduran military's 15th Battalion, and private security guards mainly from the Orion private security corporation employed by palm oil businessmen (Dinant, Agropalma[29], etc.) since the military coup in June 2009. Various witnesses spoke about dozens of human

22 "Lending interest rate (%)," http://data.worldbank.org/indicator/FR.INR.LEND.

23 In 2014, Banco Ficohsa (Ficohsa) was the third largest bank in Honduras which provided loans to small and medium size firms.

24 "IFC Investment in Ficohsa, Honduras," www.cao-ombudsman.org/cases/document-links/documents/CAO_Appraisal_Ficohsa_C-I-R9-Y13-F190.pdf, December 4, 2013.

25 "The Suffering of Others," https://www.oxfam.org/sites/www.oxfam.org/files/file_attachments/ib-suffering-of-others-international-finance-corporation-020415-en.pdf, April 2015.

26 Movement of Unified Campesinos in Aguan is the group of campesinos whose lands were illegally sold to large landowners in the Aguan region.

27 Annie Bird & Grahame Russell, "Rights Action Letter to the World Bank Re: Honduras Massacre," http://quotha.net/node/1345, November 17, 2010.

28 Honduras is divided into 18 departments and Colon is one of the departments of Honduras.

29 Agropalma is the largest palm oil producer in Latin America.

rights violations in the Bajo Aguán region. which included the killing of innocent people, people being tortured before being killed, the forced eviction of people, and sexual violence[30].

In one incident, a person named Neptaly Esquivel, 32, a father of five, was shot on his hip by a masked soldier. He was paralyzed for life. In another incident, Matías Vallé (Vallé), 51, founder member of MUCA, was shot by two masked persons when he was waiting for a bus.It was alleged that Vallé had been shot because he had refused to take cash from Dinant to stop the farmers' movement.[31]

Rights Action, a Canadian group, reported 34 acts of violence and other crimes related to the 15th Battalion. In a 64-page report, Annie Bird, Co-Director, Rights Action[32], wrote, *"…[violence acts happened] typically in coordination with the private security forces of palm oil corporations, Honduran National Police agents and other military units, in a pattern of aggression that appears to confirm the general opinion in the region: that members of the 15th Battalion and other security forces in the region collaborate in what can only be characterized as death squad activity."*[33]

Rights Action produced a partial list of 109 people killed in Bajo Aguan Valley in Honduras between February 2010 and February 2013. Of the 109 people, 93 belonged to the campesino[34] movements and16 belonged to the security forces.[35] However, Roger Pineda Pinel, Corporate relations director at Dinant, wrote, *"Dinant has never committed human-rights violations against those who protest against our legal right to farm our land."*[36]

COMPLAINT OF RIGHTS ACTION

In November 2010, Annie Bird (Bird) and Grahame Russell (Russell) from Rights Action wrote a detailed letter to the then president of World Bank, Robert Zoellick (Zoellick). The letter alleged that security forces employed by Dinant had killed six Honduran farmers in the course of an illegal eviction. It further mentioned several human rights failures and land conflicts, various provable violent actions including murders, and fraudulent land acquisitions.[37]Zoellick took immediate action and talked to the head of the CAO. The then Vice President of the CAO triggered the audit process in April 2012 for the IFC investment in Dinant.

FINDINGS OF CAO

Based on the complaint from Bird and Russell, the CAO conducted an extensive investigation and came out with a 72-page report on the audit of the IFC investment in Dinant's project, on December 20, 2013. The CAO found that the IFC staff had underrated security and land conflict issues related to the Dinant investment. It found that IFC had accepted a very narrow definition of Environmental and Social (E&S) risk and had not considered available information about

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30 At least four women were raped in the chaos of the 'El Tumbador' farm incident on 15th November 2010.

31 Nina Lakhani, "Honduras and the Dirty War Fuelled by the West's Drive for Clean Energy," www.theguardian.com/global/2014/jan/07/honduras-dirty-war-clean-energy-palm-oil-biofuels, January 7, 2014.

32 Rights Action is a Canada-based non-governmental organization.

33 Annie Bird, "Human Rights Abuses Attributed to Military Forces in the Bajo Aguan Valley in Honduras," http://rightsaction.org/sites/default/files/Rpt_130220_Aguan_Final.pdf, February 20, 2013.

34 Campesino refers to a peasant or people living in rural areas.

35 Annie Bird, "Human Rights Abuses Attributed to Military Forces in the Bajo Aguan Valley in Honduras," http://rightsaction.org/sites/default/files/Rpt_130220_Aguan_Final.pdf, February 20, 2013.

36 Roger Pineda Pinel, "Dinant has Never Committed Human Rights Violations Against Protesters," www.theguardian.com/world/2014/may/07/dinant-human-rights-violations-protesters, May 7, 2014.

37 Annie Bird & Grahame Russell, "Rights Action Letter to the World Bank Re: Honduras Massacre," http://quotha.net/node/1345, November 17, 2010.

land conflict and insecurity in the Bajo Aguán area to properly evaluate risk associated with the Dinant investment.

The CAO discovered that the E&S review of IFC did not meet the main requirements of the Sustainable Policy (2006)[38].It also found that IFC had failed to make sure that the E&A Assessment met the requirements of PS1 (E&S Assessment), PS4 (Security Personnel), and PS7 (Indigenous Peoples).The CAO also mentioned that some of the serious findings, such as the weaknesses of Dinant's E&S management system, were missing in IFC's appraisal documentation.

In its report, the CAO mentioned that IFC had failed to do a proper gap analysis of the available project as required by Environmental and Social Review Procedure (ESRP). It found that although IFC had followed the various steps mentioned in ESRP, the review did not have depth or complete coverage. The CAO discovered that IFC had failed to properly evaluate the Dinant performance against the full range of Environmental and Social Action Plan (ESAP) conditions of disbursement which was to be fulfilled before disbursement of loans in November 2009 *(See Exhibit IV for complete list of ESAP* conditions of disbursement*).*

The CAO also said that IFC had not adhered to the six parts of the Integrity Due Diligence[39] (IDD) in detail and was unaware of the public charges and negative opinions about the owner of Dinant. When the CAO followed the IDD method for news agency searches, it found the following allegations about the owner of Dinant in relation to:

- Misuse of political influence;
- Involvement in the murder of an environmental activist;
- His having been the subject of a warrant for arrest in relation to environmental crimes;
- Involvement in multiple land disputes, and
- The use of his properties as a staging post for drug trafficking.[40]

In its report, the CAO mentioned that either the IFC staff had known about all these charges or they had not conducted news agency searches.

IFC had put the Dinant investment project in the E&S risk category of 'B', which meant that the project had a limited adverse E&S impact. IFC justified its classification saying that it had identified limited E&S impact, which could be moderated through the use of global industrial practices. It also mentioned that land acquisition was based on a willing buyer and a willing seller; no displacement of people had taken place and there was no ancestral land of indigenous people involved. The CAO found that if IFC had reviewed the project properly, then the Dinant investment would have been categorized as 'A', which indicated that the project had the potential to have a significant adverse E&S impact.

The CAO said that the IFC investment staff had disbursed US$15 million in November 2009 on the basis of a five-month-old client's representation. The IFC investment staff did not analyze the significant developmentsin the five months and their effects. These developments were:

- Occupation and expropriation of Dinant property by peasant groups in May and June 2009, respectively;

38 IFC's Sustainable Policy (2006) applicable on investments that go through initial credit review process between April 30, 2006 and December 31, 2011.

39 Integrity Due Diligence (IDD) presents a structure which helps to find out risks related to unethical or illegal activities around projects.

40 "CAO Audit of IFC Investment in Corporación Dinant S.A. de C.V., Honduras," www.cao-ombudsman.org/documents/DinantAuditCAORefC-I-R9-Y12-F161_ENG.pdf, December 20, 2013.

- Establishment of a Technical Judicial Commission to review the land claim of peasant movement in Bajo Aguán by Zelaya, the then President of Honduras;
- One of the negotiators of the peasant movement being shot to death in June 2009; Removal of Zelaya from the office of president in June 2009;

The CAO uncovered that IFC had not scrutinized believable allegations of violent acts by the security persons of Dinant or its third party security contractor in Bajo Aguán against people affiliated with the peasant movement. According to civil society sources, at least 102 people had been killed between January 2010 and May 2013 in the peasant movement in Bajo Aguán. Of these 102 deaths, at least 40 were linked to Dinant properties, Dinant security guards, or its third party security contractor.[41] There was another allegation that at least 9 security persons of Dinant had been killed by people related to the peasant movement. The CAO also mentioned that IFC had failed to do a proper root cause analysis of the incidentsthat had occurred around the project.

The CAO interviewed many of IFC's staff and ex-staff while auditing IFC's investment in Dinant. One interviewee mentioned the pressure exerted on them to increase IFC's agribusiness portfolio and said IFC's investment department was less concerned about E&S issues than on grantinga loan to Dinant. The same interviewee said all this had resulted in IFC investing in the client despite the pathetic report on E&S.

Another interviewee who had worked on the project said the E&S review was sub-standard as it did not focus sufficiently on various E&S issues related to land, waste water, and stack emissions. The interviewee noted that IFC had experience in the palm oil sector and from its experience knew the E&S risk increased significantly in Honduras, which was known for violence and conflict over land. The interviewee said, *"Land is the number one issue in most palm oil investments…they all [oil palm investments] have unresolved land issues, it is just a matter of looking."*[42]

The CAO found differences in the content of the ESAP released by IFC before board approval in October 2008 and the ESAP included in the loan agreement in April 2009. It found that the first section of the ESAP about the Management System in which Dinant committed to developing a comprehensive Environmental and Social Management System was not available in the ESAP annexed in the loan accord. The ESAP annexed in the loan accord directly started with the second section which was on 'Pollution Prevention and Occupational Health and Safety'. The CAO was not able to determine why the first section had been deleted. One IFC staff pointed out that the pages of the first section might have been lost when the document was being reproduced.

The CAO found that Dinant had not submitted the Annual Monitoring Report (AMR) for 2009 or 2010, 2011, and 2012. It found that IFC's difficulties in the handling of E&S issues related to Dinant was the outcome of the comparative supremacy of the investment department staff over the E&S staff, control in IFC's organizational structure, and the culture of IFC.

IFC'S RESPONSE

On January 3, 2014, IFC gave a 5-page response to the CAO, which was signed by two of its directors (Oscar Chemerinski[43], and Morgan Landy[44]), who were responsible for the Dinant project. In their response, they mentioned IFC's commitment to financing sustainable, environmental friendly, and socially responsible projects. They appreciated the CAO audit and

[41] "CAO Audit of IFC Investment in Corporación Dinant S.A. de C.V., Honduras," www.cao-ombudsman.org/documents/DinantAuditCAORefC-I-R9-Y12-F161_ENG.pdf, December 20, 2013.

[42] Ibid.

[43] Oscar Chemerinski was the then Director of Manufacturing, Agribusiness & Services Department Sub-Saharan Africa, Latin American & the Caribbean

[44] Morgan Landy was the then Director of Environment and Social Governance of IFC.

said that the audit had helped IFC to improve its policies and procedures, further leading to a reduction in environmental and social risks.

However, IFC did not accept some of the CAO's findings. It did not respond on the murder of a hundred plus people in the region, violation of its own procedures, its risk aversion culture, and various other things pointed out by various people in their interviews with the CAO. On the project risk issue, the IFC response was, *"At the time of project appraisal in 2008, IFC believed that the project risks associated with the expansion of Dinant's existing processing facilities were limited and manageable through an appropriate Environmental and Social Action Plan, consistent with IFC's policies and practices at the time. Local counsel confirmed that Dinant held clear title to all its plantations….In June 2009, nearly a year after IFC's appraisal, the military overthrow of President Zelaya — an event IFC could not have foreseen —ignited social unrest across the country and reawakened a push for land redistribution in the Aguan Valley. The resulting political turmoil undermined law and order, exacerbating the trafficking of drugs and arms in the area."*[45]

IFC pointed out that it had worked with its client Dinant to avoid armed conflicts. It mentioned several visits of its management, environmental, and social specialists to Dinant's facilities between 2011 and 2013. It also listed the 10points of action taken by Dinant till the end of 2013 to improve ESAP performance with the guidance and support of IFC *(See Exhibit V for details of 10 Actions taken by Dinant)*. Apart from this, IFC also came up with a five-point detailed action plan with an expected timeline *(See Exhibit VI for IFC's action plan)*.

MOVING FORWARD

IFC's action plan, which it submitted along with its response to the CAO, backfired on it when the World Bank board rejected the plan completely and asked it to submit another action plan. In addition to this, Civil Society Organizations (CSOs) from all over the world placed the following demands in front of IFC:

- Stop any further funding to Dinant
- Ensure that the affected communities' concerns are addressed
- Implement a consultation mechanism that involves the farmers' organizations in the development and implementation of a much stronger and more comprehensive action plan to correct the deficiencies highlighted by the audit;
- Rewrite the action plan to include:
  - Commissioning of an independent investigation of the underlying systemic reasons;
  - An admission from IFC CEO Jin Yong Cai of the multiple failures identified by the CAO;
  - A commitment to carry out human rights impact assessments;
  - A commitment to consider in their assessments, the findings of UN human rights monitoring bodies as well as regional human rights systems;
  - Credible consultation with affected communities, including Free, Prior, and Informed Consent, where applicable, for projects taking place on or with impact on their lands;
  - A commitment to conflict-sensitive investments that promote long-term peace and reconciliation.[46]

According to experts, Dinant did not show any sign of guilt of wrongdoing. Experts opined it was not too late for the company to accept its wrongdoings and work for reconciling with the

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45 "IFC Management Response to CAO Audit," www.ifc.org/wps/wcm/connect/REGION__EXT_Content/Regions/Latin%20America%20and%20the%20Caribbean/Strategy/Corporacion_Dinant#mgmtresponse, January 3, 2014.

46 "CSO Response to the CAO Investigation into IFC Investment in Corporación Dinant, Honduras," www.oxfam.org/sites/www.oxfam.org/files/cso-statement-cao-investigation-ifc-dinant-investment-20jan2014.pdf, January 20, 2014.

communities along with accepting the demands put forward by IFC. At the same time, IFC had to come up with a new action plan which it had to prepare in consultation with Dinant and farmers' organizations in Honduras.

The questions remained — would IFC back out from releasing its next round of funding and what would the implication of the decision be for Dinant and if IFC decided to go ahead with the funding, what kind of binding commitments and assurances would it expect from Dinant? Perhaps referring to the Equator Principle would help IFC take an appropriate decision *(Refer to Exhibit VII for Equator Principles)*. Also on a broader and bigger scale, it remains to be seen what kind of impact the Dinant episode would have on future IFC funding of sustainable projects in conflict zones.

Exhibit I

IFC's Project Cycle

1. **Business Development**

   Guided by IFC's strategic goals, our investment officers (IOs) and business development officers identify suitable projects. This initial conversation with the client is critical in helping us understand their needs and determining whether there is a role for IFC.

2. **Early Review**

   The IO prepares a description of the project, IFC's role, the anticipated contribution to development and benefits to stakeholders, and any potential deal-breakers. Lessons from previous projects are considered here and, in some cases, a pre-appraisal visit is conducted to identify any issues in advance. IFC senior management then decides whether to authorize project appraisal.

3. **Appraisal (Due Diligence)**

   The investment team assesses the full business potential, risks, and opportunities associated with the investment through discussions with the client and visits to the project site. The following questions are asked: Is the investment financially and economically sound? Can it comply with IFC's social and environmental Performance Standards? Have lessons from prior investments been taken into account? Have the necessary disclosure and consultation requirements been met? How can IFC help the client further improve the sustainability of the project or enterprise?

4. **Investment Review**

   The project team makes its recommendations to IFC departmental management, who will decide whether to approve the project. This is a key stage in the investment cycle. The team and departmental management must be confident that the client is able and willing to meet IFC standards and work with us to improve the sustainability of their enterprise.

5. **Negotiations**

   The project team starts to negotiate the terms and conditions of IFC participation in the project. These include conditions of disbursement and covenants, performance and monitoring requirements, agreement of action plans, and resolution of any outstanding issues.

6. **Public Notification**

   A Summary of Proposed Investment (SPI) for the project and the environmental and social review, where applicable, are posted on IFC's website before being submitted to the Board for review. The length of the disclosure period is determined by the category of the project.

7. **Board Review and Approval**

   The project is submitted to IFC's Board of Directors for consideration and approval through regular or streamlined procedures. "Streamlined" means that the members of the Board review the documents but don't meet to discuss the project. This option is available to low-risk projects of a small enough size. Certain small projects can be approved by IFC management under delegated authority. The due diligence process and public disclosure remain the same in all cases. The Board demands that each investment haseconomic, financial, and development value and reflects IFC's commitment to sustainability.

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8. Commitment

IFC and the company sign the legal agreement for the investment. This includes the client's agreement to comply with the applicable Performance Standards, to immediately report any serious accident or fatality, and to provide regular monitoring reports. The legal agreement will also covenant the client's Action Plan.

9. Disbursement of Funds

Funds are often paid out in stages or on condition of certain steps being completed as agreed in the legal agreement.

10. Project Supervision and Development Outcome Tracking

We monitor our investments to ensure compliance with the conditions in the loan agreement. The company submits regular reports on financial as well as social and environmental performance, and information on factors that might materially affect the enterprise. Ongoing dialogue during supervision allows IFC to support clients, both in terms of solving issues and identifying new opportunities. We also track the project's contribution to development against key indicators identified at the start of the investment cycle.

11. Evaluation

We evaluate projects on a regular basis. To help improve our operational performance, annual evaluations are conducted based on a stratified random sample of projects that have reached early operating maturity.

12. Closing

We close our books on the project when the investment is repaid in full or when we exit by selling our equity stake. In specific cases we may decide to write off the debt. Our goal is to help the client reach a high level of sustainability that will continue long after our involvement has ended.

Source: "IFC Project Cycle," www.ifc.org/wps/wcm/connect/corp_ext_content/ifc_external_corporate_site/ifc+projects+database/projects/aips+added+value/project+cycle.

Exhibit II

IFC's Performance Standards

1. IFC's Sustainability Framework articulates the Corporation's strategic commitment to sustainable development, and is an integral part of IFC's approach to risk management. The Sustainability Framework comprises IFC's Policy and Performance Standards on Environmental and Social Sustainability, and IFC's Access to Information Policy. The Policy on Environmental and Social Sustainability describes IFC's commitments, roles, and responsibilities related to environmental and social sustainability. IFC's Access to Information Policy reflects IFC's commitment to transparency and good governance in its operations, and outlines the Corporation's institutional disclosure obligations regarding its investment and advisory services. The Performance Standards are directed toward clients, providing guidance on how to identify risks and impacts, and are designed to help avoid, mitigate, and manage risks and impacts as a way of doing business in a sustainable way, including stakeholder engagement and disclosure obligations of the client in relation to project-level activities. In the case of its direct investments (including project and corporate finance provided through financial intermediaries), IFC requires its clients to apply the Performance Standards to manage

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environmental and social risks and impacts so that development opportunities are enhanced. IFC uses the Sustainability Framework along with other strategies, policies, and initiatives to direct the business activities of the Corporation in order to achieve its overall development objectives.

2. Together, the eight Performance Standards establish standards that the client is to meet throughout the life of an investment by IFC:

Performance Standard 1	Assessment and Management of Environmental and Social Risks and Impacts
Performance Standard 2	Labor and Working Conditions
Performance Standard 3	Resource Efficiency and Pollution Prevention
Performance Standard 4	Community Health, Safety, and Security
Performance Standard 5	Land Acquisition and Involuntary Resettlement
Performance Standard 6	Biodiversity Conservation and Sustainable Management of Living Natural resources
Performance Standard 7	Indigenous Peoples
Performance Standard 8	Cultural Heritage

3. Performance Standard 1 establishes the importance of (i) integrated assessment to identify the environmental and social impacts, risks, and opportunities of projects; (ii) effective community engagement through disclosure of project-related information and consultation with local communities on matters that directly affect them; and (iii) the client's management of environmental and social performance throughout the life of the project. Performance Standards 2 through 8 establish objectives and requirements to avoid, minimize, and where residual impacts remain, to compensate/offset for risks and impacts to workers, Affected Communities, and the environment. While all relevant environmental and social risks and potential impacts should be considered as part of the assessment, Performance Standards 2 through 8 describe potential environmental and social risks and impacts that require particular attention. Where environmental or social risks and impacts are identified, the client is required to manage them through its Environmental and Social Management System (ESMS) consistent with Performance Standard 1.

4. Performance Standard 1 applies to all projects that have environmental and social risks and impacts. Depending on project circumstances, other Performance Standards may apply as well. The Performance Standards should be read together and cross-referenced as needed. The requirements section of each Performance Standard applies to all activities financed under the project, unless otherwise noted in the specific limitations described in each paragraph. Clients are encouraged to apply the ESMS developed under Performance Standard 1 to all their project activities, regardless of financing source. A number of cross-cutting topics such as climate change, gender, human rights, and water, are addressed across multiple Performance Standards.

5. In addition to meeting the requirements under the Performance Standards, clients must comply with applicable national law, including those laws implementing host country obligations under international law.

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6. The World Bank Group Environmental, Health and Safety Guidelines (EHS Guidelines) are technical reference documents with general and industry-specific examples of good international industry practice. IFC uses the EHS Guidelines as a technical source of information during project appraisal. The EHS Guidelines contain the performance levels and measures that are normally acceptable to IFC, and that are generally considered to be achievable in new facilities at reasonable costs by existing technology. For IFC-financed projects, application of the EHS Guidelines to existing facilities may involve the establishment of site-specific targets with an appropriate timetable for achieving them. The environmental assessment process may recommend alternative (higher or lower) levels or measures, which, if acceptable to IFC, become project- or site-specific requirements. The General EHS Guideline contains information on cross-cutting environmental, health, and safety issues potentially applicable to all industry sectors. It should be used together with the relevant industry sector guideline(s). The EHS Guidelines may be occasionally updated.

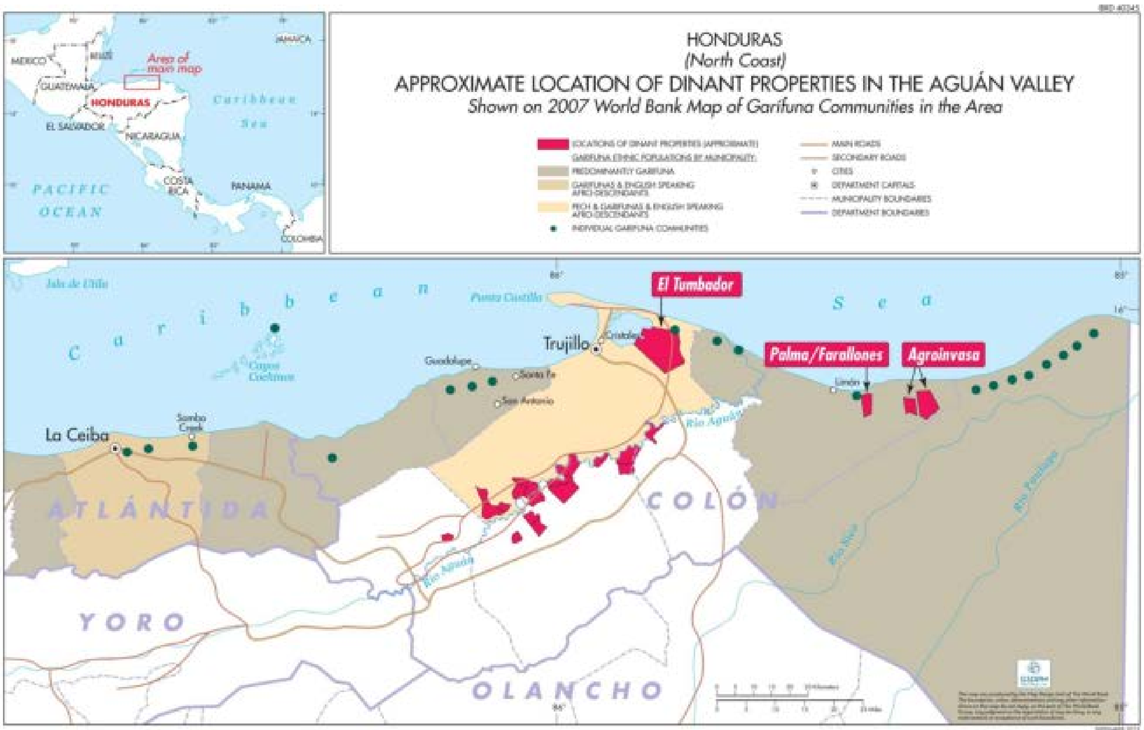
7. When host country regulations differ from the levels and measures presented in the EHS Guidelines, projects are expected to achieve whichever is more stringent. If less stringent levels or measures are appropriate in view of specific project circumstances, a full and detailed justification for any proposed alternatives is needed as part of the site-specific environmental assessment. This justification should demonstrate that the choice for any alternative performance level is protective of human health and the environment.

8. A set of eight Guidance Notes, corresponding to each Performance Standard, and an additional Interpretation Note on Financial Intermediaries offer guidance on the requirements contained in the Performance Standards, including reference materials, and on good sustainability practices to help clients improve project performance. These Guidance /Interpretation Notes may be occasionally updated.

Source: "Performance Standards on Environmental and Social Sustainability," www.ifc.org, January, 2012.

Exhibit III

Approximate Location of Dinant Properties in the Bajo Aguán and Garifuna Communities in the Area



Source: "CAO Audit of IFC Investment in Corporación Dinant S.A. de C.V., Honduras," www.cao-ombudsman.org/documents/DinantAuditCAORefC-I-R9-Y12-F161_ENG.pdf, December 20, 2013.

Exhibit IV

ESAP Conditions of Disbursement
(Listed and Falling Due Prior to November 5, 2009)

ESAP Management Measure	ESAP Deadline	CAO Observations
1.1 Management Systems		
(a) Assign experienced, corporate-level staff to lead the ESMS development and implementation on both environmental and occupational health and safety issues.	Prior to 1st disbursement	In disclosed ESAP but omitted from ESAP as Annexed to Loan Agreement. No evidence of E&S review prior to 1st disbursement.
(b) Prepare a detailed plan for development and implementation of all aspects of the ESMS, including definition of roles and responsibilities along with schedule for actions, for review and approval by the lenders.	Prior to 1st disbursement	As above
1.2 Human Resources		
(a) ... comply with pregnancy and maternity requirements in accordance with the Honduran Labor Code.	Prior to 1st disbursement	As above
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(b) ... develop an alternative working model to find a better option to regulate the maximum allowed working hours per shift (day and night) and per week.	Develop a proposal and timeframe prior to 1st disbursement	As above
(c) ... develop and implement a formal grievance mechanism for all workers	Within 6 months of commitment	As above
2.1 Waste Management		
Carry out a study of stack emissions from all boilers, and prepare a plan, with costs and schedule, to address any noncompliance with Honduran laws and regulations and with IFC guidelines for PM, SO2, and NOx.	Prior to 1st disbursement	COD reviewed by E&S staff prior to 1st disbursement.
2.3 Fire and Life Safety		
Carry out a formal fire and life safety review, according to IFC Guidelines, of all facilities by a certified professional, and prepare a plan for implementation of any required corrective actions within a time frame acceptable to the lenders.	Within 6 months of commitment	No evidence of E&S review prior to 1st disbursement.
3. Community Health and Safety		
Develop and implement a formalized grievance mechanism in accordance with IFC's Performance Standard 1 and international good practice in order to ensure that specific concerns of communities are received and addressed (also see IFC's Stakeholder Engagement Good Practice Handbook for guidance).	Within 6 months of commitment	No evidence of E&S review prior to 1st disbursement.
4. Sustainable Agriculture		
Audit all palm oil production and processing operations and prepare a workplan and schedule for meeting international standards for sustainable palm oil production (including the RSPO Principles and Criteria, and other standards as available) and achieving independent certification.	Within 4 months of commitment	No evidence of E&S review prior to 1st disbursement.
Suspend the use of any pesticides that are listed in the Stockholm Convention, and dispose of any remaining stocks as appropriate.	Prior to 1st disbursement	No evidence of E&S review prior to 1st disbursement.
Develop a land acquisition protocol which specifies procedures to ensure that all land acquisition complies with company policies on land acquisition and land use, and IFC Performance Standard 5.	Within 6 months of commitment	No evidence of E&S review prior to 1st disbursement.

Source: "CAO Audit of IFC Investment in Corporación Dinant S.A. de C.V., Honduras," www.cao-ombudsman.org/documents/DinantAuditCAORefC-I-R9-Y12-F161_ENG.pdf, December 20, 2013.

Exhibit V

Actions Taken by Dinant till the End of 2013

Security

- Following IFC's request, Dinant hired a security and human rights consultant, who provided comprehensive security training for the company's management team.
- Dinant is in the process of adopting new security protocols that define and clarify the appropriate use of force. Dinant's contracted security company has formally agreed to the Voluntary Principles. This is a first in Honduras.
- Dinant's managers at each major site and facility have conducted detailed risk assessments, including specific mitigation measures. They have received intensive training on the Voluntary Principles on Security and Human Rights.
- Dinant has developed and disclosed a human rights policy that is consistent with the Voluntary Principles on Security and Human Rights.
- Dinant management has met with various stakeholders to discuss security issues, including Honduran public security forces, Honduran Human Rights Commission, representatives from the European Union, the US Embassy, and NGOs.

Stakeholder Engagement, Social Assessment. and Community Development

- Following IFC's recommendations, Dinant has hired consultants with extensive community engagement experience to conduct a comprehensive stakeholder mapping and socio-economic baseline survey of the communities surrounding its facilities. The survey is expected to be rolled out to 43 communities in January 2014.
- The aim is to better understand the issues currently impacting communities and to bring strategic focus and overall coordination to Dinant's existing corporate social responsibility programs, such as funding for school teachers, clinics, and conservation programs.

Environmental and Social Management

- In accordance with the Environmental and Social Action Plan, Dinant has completed a labor audit, and is implementing a corrective action plan that focuses on improvements to its working conditions, occupational health, and fire and life safety. It is investing in upgrades for its processing operations, including wastewater treatment, atmospheric emissions controls for boilers, and occupational health and safety measures,
- Assisted by external consultants and the commitment of substantial internal resources, Dinant has conducted an extensive evaluation of its environmental, health, and safety (El•IS) management capacity and procedures and is currently developing the required plans and procedures to achieve certification under the ISO 1400l and OHSAS 18000 international standards. The certification process for all of its manufacturing and distribution activities is expected to be completed in 2014.
- Dinant has completed initial diagnosis of its palm oil production activities in order to meet, and be eligible for, certification under the Roundtable on Sustainable Palm Oil (RSPO), which promotes the production and use of sustainable palm oil. As part of its efforts to meet certification criteria and to improve its environmental and social performance, Dinant is currently mobilizing financing to make necessary improvements to upgrade pollution control measures at its oil mills. This will significantly reduce atmospheric emissions and discharge of industrial effluents.

Source: "IFC Response to CAO Audit of Dinant," www.cao-ombudsman.org/documents/IFCResponsetoCAOAuditofDinant_Jan32014.pdf, January 3, 2014.

Exhibit VI

IFC's Five-Point Action Plan

Action	Responsibility	Expected Timeline
In accordance with its commitment and ongoing efforts to strengthen community engagement, Dinant will continue to collaborate with proper authorities to investigate any credible allegations of unlawful or abusive acts of its security personnel against communities/stakeholders in the Aguan and take action to prevent recurrence if the allegations are found to be true. As appropriate, Dinant will also refer such allegations to the relevant authorities, and, based on its findings, assess the feasibility of remediation to affected parties	Dinant to implement with IFC guidance	Targeting 12 months with estimated completion no later than the next 24 months
Dinant will develop a more comprehensive vetting process for security personnel.	Dinant to implement. IFC to supervise and monitor.	Targeting 3 months with estimated completion no later than the next 12 months, with quarterly updates to management + CAO
Dinant will train in-house and third-party guards on the new security protocols that define and clarify appropriate use of force, and to ensure a common understanding of its procedures.	Dinant to implement. IFC to supervise and monitor.	Targeting 3 months with estimated completion no later than the next 12 months, with quarterly updates to management + CAO
Dinant will implement a grievance mechanism to address communities' concerns and complaints, and provide feedback in a consistent and timely manner, while remaining attentive to the unique needs of each community in which it operates.	Dinant to implement. IFC to supervise and monitor.	Targeting 3 months with estimated completion within the next 12 months, with quarterly updates to management + CAO and pending positive political developments and adequate security on the ground.
IFC will review, and if necessary strengthen, its approach to the management of environmental and social risks in fragile and conflict-affected areas. In particular, IFC will review its experience, and that of other DFIs, related to clients' use of security forces in very high-risk environments.	IFC to review and amend as needed. IFC to report back semi-annually to the World Bank and IFC President, the IFC Executive Vice-President, and CAO on progress related to these actions.	Estimated completion within the next 12 months

Source: "IFC Response to CAO Audit of Dinant," www.cao-ombudsman.org/documents/IFCResponsetoCAOAuditofDinant_Jan32014.pdf, January 3, 2014.

Exhibit VII

Equator Principles

Large infrastructure and industrial Projects can have adverse impacts on people and on the environment. The Equator Principles Financial Institutions (EPFIs) as financiers and advisors work in partnership with their clients to identify, access, and manage environmental and social risks and impacts in a structured way and on an ongoing basis. Such collaboration promotes sustainable environmental and social performance and can lead to improved financial, environmental, and social outcomes.

Principle 1: Review and Categorization

- Category A – Projects with potential significant adverse environmental and social risks and/or impacts that are diverse, irreversible, or unprecedented;
- Category B – Projects with potential limited adverse environmental and social risks and/or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures; and
- Category C – Projects with minimal or no adverse environmental and social risks and/or impacts.

Principle 2: Environmental and Social Assessment

For all Category A and Category B Projects, the EPFI will require the client to conduct an Assessment process to address, to the EPFI's satisfaction, the relevant environmental and social risks and impacts of the proposed Project.

Principle 3: Applicable Environmental and Social Standards

The Assessment process should address compliance with relevant host country laws, regulations, and permits that pertain to environmental and social issues.

Principle 4: Environmental and Social Management System and Equator Principles Action Plan

For all Category A and Category B Projects, the EPFI will require the client to develop or maintain an Environmental and Social Management System (ESMS).

Principle 5: Stakeholder Engagement

For all Category A and Category B Projects, the EPFI will require the client to demonstrate effective Stakeholder Engagement as an ongoing process in a structured and culturally appropriate manner with Affected Communities and, where relevant, Other Stakeholders. For Projects with potentially significant adverse impacts on Affected Communities, the client will conduct an Informed Consultation and Participation process

Principle 6: Grievance Mechanism

For all Category A and, as appropriate, Category B Projects, the EPFI will require the client, as part of the ESMS, to establish a grievance mechanism designed to receive and facilitate resolution of concerns and grievances about the Project's environmental and social performance.

Principle 7: Independent Review

For all Category A and, as appropriate, Category B Projects, an Independent Environmental and Social Consultant, not directly associated with the client, will carry out an Independent Review of the Assessment

Principle 8: Covenants

An important strength of the Equator Principles is the incorporation of covenants linked to compliance. For all Projects, the client will covenant in the financing documentation to comply with all relevant host country environmental and social laws, regulations, and permits in all material respects.

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Principle 9: Independent Monitoring and Reporting To assess Project compliance with the Equator Principles and ensure ongoing monitoring and reporting after Financial Close and over the life of the loan, the EPFI will, for all Category A and, as appropriate, Category B Projects, require the appointment of an Independent Environmental and Social Consultant, or require that the client retain qualified and experienced external experts to verify its monitoring information which would be shared with the EPFI. **Principle 10: Reporting and Transparency** The client and EFPI are required to adhere to reporting requirements, in addition to the disclosure requirements in Principle 5.

Source: "Equator Principles," www.equator-principles.com/resources/equator_principles_III.pdf, June, 2013.

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