

The CAO's First Case: Pangué Hydroelectric Project, Chile

June 2010

This report summarizes the complaint handling process by the Compliance Advisor/Ombudsman (CAO) on the Pangué Hydroelectric project in the Alto Bio Bio, Chile

The Pangué Hydroelectric Project is a 450MW hydroelectric dam on the Bio Bio River in Chile. Completed in September 1996, the dam was built and operated by Empresa Electrica Pangué S.A. IFC held a 2.5% equity investment in Pangué following an investment agreement in October 1993 until divestment in July 2002. IFC also invested and arranged loans of \$170 million in the project, which were prepaid in May 1997.

In July 2002, a group of indigenous Pehuenche women filed a complaint with the CAO alleging that the Pangué hydroelectric project was adversely impacting communities and the environment in the Alto Bio Bio watershed. The complainants also stated that the company had not adequately compensated people affected by the project.



Despite divestment in 2002, CAO accepted the complaint based on the fact that the complaint related directly to IFC's role in the project over a number of years; to promises and commitments

made; and to previous opinion by independent investigations and consultant reports requiring certain actions be undertaken by IFC.

In March 2006, a settlement agreement was finalized that focused on supporting and providing funds for local development capacity building. At the request of the complainants, CAO Ombudsman continued to monitor the settlement by working with local and indigenous organizations to address broader cultural impacts of the project. The CAO began to work with the Mapuche University, local Pehuenche institutions, and We Monguen, an indigenous organization based in the Alto Bio Bio.



Such development-related involvement with a community is unusual for the CAO; however the commitment was made by former President of the World Bank Group James Wolfensohn and the CAO has carried it out, maintaining its involvement in the region and aiming to make a lasting positive impact in this project-affected Pehuenche community.

The CAO's approach in supporting the community was two-pronged. On one hand there was a clear need for economic development and income generation that needed to be addressed. On the other there was a series of negative impacts to cultural identity and the unity of indigenous communities that the

people felt were important to mitigate and if possible reverse.

The CAO's work began with the formation of the Kume Rakiduum organization where several activities were undertaken, including training of Pehuenche leadership, capacity building among Pehuenche families, production of bi-lingual education materials, establishment of an indigenous radio station and creation of a woman's empowerment program.

As intra-communal relationships evolved and changes in local leadership took place, Kume Rakiduum, the organization which up until that point had undertaken most of the projects related to CAO/World Bank funds, was dissolved. We Monguen was created in its place and carried on in the same spirit as its parent organization, becoming the focal point for the CAO's efforts and financial support.

Activities of We Monguen

In October 2008 We Monguen was formed as an indigenous community center with the express purpose of empowering indigenous women and addressing their issues. The center's objectives have expanded over time as its capacity to unite and empower Pehuenche communities has increased, and today it includes several programmatic pillars and receives support from the Municipality of Alto Bio Bio.



Under its economic development pillar, We Monguen embarked on two very important initiatives. The first was the creation of communal hot-houses for the cultivation of vegetables, which has benefited more than 20 families in the Alto Bio Bio. This was initially

started in order to ensure the sustainability of the Pehuenche diet during long winters in remote areas where fresh produce is hard to come by. We Monguen has also pursued this as means for producing goods for market in order to generate income for the indigenous community. The construction of these hot-houses has served to promote work and development at the community level and among families, and it has made the community more self-sustainable. The communal activity has also strengthened ties and interaction among and within families.



The second initiative was the organization of Pehuenche artisanal fairs in which artisanal goods made by the indigenous community, particularly the women, could be displayed and sold. Besides encouraging economic activity, the fairs would serve as a meeting point for traditional artisans to come together and embrace their cultural heritage. In order to make this idea a reality, We Monguen liaised with local and regional organizations around the Alto Bio Bio and invested funds in a training program that would allow artisans to produce goods of greater quality, would train more artisans and would allow them to market their products.



Both of these initiatives have been widely successful. More than 500 people visited the third annual artisanal fair celebrated by We Monguen, with the support of the CAO and many other local institutions in April 2010. More than 30 local indigenous artists were able to display and sell their artisanal work. Due to its success, local authorities want it to become a tradition in the Alto Bio Bio region.



Many community members report that the Pehuenche community as a whole and many families were fractured and divided due to the construction of Pangué hydroelectric project, and later the larger hydroelectric project, Ralco. Today these same community members believe that through its work, We Monguen has managed to unite the Pehuenche community through the Artisanal Fair and revived both the need and desire to preserve their cultural identity. In general, We Monguen has achieved many outcomes through their work with the community, the most important achievements are:

- Built capacity among many women from the community
- Generated networks for future commercialization of art craft
- Motivated learning and appreciation of indigenous language Mapudungun or Chedungun
- Facilitated a space for inter-cultural engagement
- Created space for local young artisans
- Innovations in participation and reconnecting community members with their culture.

We Monguen has gained the trust of local institutions, particularly the Municipality of Alto Bio Bio, who has committed to continue supporting their hard work and serious commitment to work for and with community members aiming to develop their community. This will certainly make the organization more sustainable as they move forwards.



We Monguen has established commercial contacts with artisans and artisanal fairs elsewhere in the southern part of Chile in order to bring Pehuenche products to different markets. These contacts are crucial for the continuation of We Monguen's work, as they plan to participate in an artisanal fair in Puerto Montt during 2010.

As the CAO closes the final chapter of its intervention in the Pangué case and the remaining funds were disbursed, We Monguen's next steps included making Pehuenche handicraft available to the commercial networks and markets already identified, and initiate a more sustainable production that enables their products to reach markets outside the Alto Bio Bio. They are also considering a workshop at the Municipality to show tourists their weaving production process and offer classes.

In the long term, the challenge of continuing the work they started remains present. Hopefully with the support from institutions like the Municipality of Alto Bio Bio, the Bolivarian University, SEPADE, Pehuen Foundation, and the Inter-American Foundation they will be able to achieve their goal of opening a local market or having a local store to sell their products and to demonstrate the process of traditional weaving.

Outcomes of CAO intervention

CAO intervention and support to the communities has clearly had a positive impact at the local level. The earlier interventions had the added benefit of encouraging awareness and interest in the Pehuenche culture through education materials, capacity training and a radio station.

Through the latest developments, CAO has contributed to a resurgence in cultural activity and has helped community members reconnect with their culture and identity. Equally as important has been the opening up of spaces for communal activities. These have strengthened the bonds amongst community members, encouraged unity, and brought both civil society and government entities closer to their constituencies. Members expressed that the work CAO supported presented a real opportunity for the community and they see it as one of the only sources of empowerment in the last decades.

On the economic front, progress has been made both in stimulating a spirit of enterprise within the community and subsequently looking for avenues through which the Pehuenche can increase their economic activity. The hot houses and the artisanal fair provide very concrete examples of how this has been accomplished, and as We Monguen looks to broaden its markets and increase the production of both vegetables and crafts, the economic outlook for these initiatives looks even more promising.

CAO believes the creation of We Monguen and the products of their work are a sign of the lasting positive impact the CAO's intervention has had in this project-affected community. As the CAO exits this project, We Monguen will continue the work they have started with the community, now with support of local public authorities and private entities with presence in the Alto Bio Bio.

After CAO's intervention, the community has greater confidence in itself and its capacities. There are institutions and capacities in place for them to continue their economic growth and improve their well-being, as well as spaces for them to strengthen their culture identity and work together to maintain and preserve their culture, values, identity, and their beautiful land.





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Insights and lessons learned

The main challenges and lessons learned for CAO intervention in this case were creating the appropriate conditions for developing local capacity and sustainable income generation options, and more broadly how community members could access tangible benefits from the project.

Dilemmas and challenges at the Pangué hydroelectric around indirect impact, cumulative effects, added value of community developmental programs, and disclosure of information generated a number of lessons learned for IFC. See Pangué Hydroelectric: A Summary of The Lessons Learned Case Study [http://www.ifc.org/ifcext/home.nsf/650f3eec0dfb990fca25692100069854/c9928956932b441185256f900074d0cd/\\$FILE/pangué_summary%20\(2\).pdf](http://www.ifc.org/ifcext/home.nsf/650f3eec0dfb990fca25692100069854/c9928956932b441185256f900074d0cd/$FILE/pangué_summary%20(2).pdf)