

PUBLIC

**DOCUMENT OF THE INDEPENDENT CONSULTATION
AND INVESTIGATION MECHANISM**

**PR-MICI001-2010
PROGRAM FOR THE DEVELOPMENT OF THE VEGETABLE SPONGE
PRODUCTS INDUSTRY. SOCIAL ENTREPRENEURSHIP PROGRAM
(SP/SF-04-35-PR and ATN/SF-8984-PR)
CONSULTATION PHASE FINAL REPORT**

This document was prepared by the Project Ombudsperson for the Consultation Phase.

Under the Access to Information Policy, this document is subject to public disclosure.

Consultation Phase Final Report Loofah S.A. PR MICI001/2010



CONSULTATION PHASE

September 2011

Final Report

This report has been prepared pursuant to Article 51 of the Policy establishing the ICIM, and aims to present the work done during the Consultation Phase and the conclusions, outcomes, and lessons learned resulting therefrom.



Project Ombudsperson
Independent Consultation and Investigation Mechanism – Inter-American Development Bank
1300 New York Ave. N.W. Washington, D.C. 20577, USA
Tel: (202) 623 3952 | Fax: (202) 312 4057 | Email: mecanismo@iadb.org | www.iadb.org/icim

EXECUTIVE SUMMARY

Project: SP/SF-04-35-PR and ATN/SF-8984-PR, “Development of the Vegetable Sponge Products Industry.”

Country: Paraguay.

Request: Ms. Brigitte Fuzellier, representing Loofah S.A., submitted a complaint to the Inter-American Development Bank’s Independent Investigation Mechanism (IIM), the precursor to the Independent Consultation and Investigation Mechanism (ICIM), in connection with loan contract SP/SF-04-35-PR and technical-cooperation operation ATN/SF-8984-PR, “Development of the Vegetable Sponge Products Industry,” alleging damages to her company due to the suspension of disbursements from the aforementioned technical-cooperation operation. The request was referred to the ICIM when it became effective on 7 September 2010, and was declared eligible for the Consultation Phase on 16 December 2010, based on the application of relevant IIM policies.

Stakeholders: Brigitte Fuzellier, Requester, President of Loofah S.A.; Jerome Fuzellier, General Manager of Loofah S.A.; Carlos Ortiz, Country Office Technical Specialist; Alejandro Escobar, Multilateral Investment Fund (MIF) Technical Specialist.

ICIM work group: Isabel Lavadenz (Ombudsperson) and Fátima Andrada (Legal Operations Analyst).

Close of the consultation phase: This report describes what has taken place subsequent to the assessment phase, including preparations for dialogue, the dialogue itself, and monitoring and fulfillment of the agreement. This final report also covers the outcomes of the ICIM consultation process and the lessons learned. The Ombudsperson considers the ICIM Consultation Phase closed.

Conclusions: The case can be closed, as an agreement between the parties has been reached and fulfilled, and the Requester’s concerns have been addressed.

Outcomes: It was possible to establish dialogue between the various stakeholders involved; the Requester’s claim was settled within the framework of the Bank’s fiduciary policies on 30 September 2011; Loofah S.A. is on a stronger footing; and the ICIM recommends that the MIF pay closer attention to similar cases in the future.

Lessons learned: Monitoring of technical-cooperation operations is crucial; collaboration and dialogue are vital tools in any process; and the involvement of subject-matter experts facilitates dialogue.



Project Ombudsperson
Independent Consultation and Investigation Mechanism – Inter-American Development Bank
1300 New York Ave. N.W. Washington, D.C. 20577, USA
Tel: (202) 623 3952 | Fax: (202) 312 4057 | Email: mecanismo@iadb.org | www.iadb.org/icim

CONTENTS

1.	Introduction.....	5
2.	Dialogue and solution-seeking: submission and verification of documents	5
1.2.	Dialogue meeting	6
3.	The Agreement.....	6
4.	Consultation Phase conclusions and outcomes	7
5.	Lessons learned.....	7



Project Ombudsperson
Independent Consultation and Investigation Mechanism – Inter-American Development Bank
1300 New York Ave. N.W. Washington, D.C. 20577, USA
Tel: (202) 623 3952 | Fax: (202) 312 4057 | Email: mecanismo@iadb.org | www.iadb.org/icim

1. Introduction

Ms. Brigitte Fuzellier, representing Loofah S.A., submitted a request to the Independent Investigation Mechanism (IIM), the ICIM's precursor, in connection with loan contract SP/SF-04-35-PR and technical-cooperation operation ATN/SF-8984-PR, "Development of the Vegetable Sponge Products Industry," alleging damages to her company due to the suspension of US\$107,502.77 in disbursements from the aforementioned technical-cooperation operation. The request was referred to the ICIM when it became effective in September 2010.

The request was processed through the various stages that make up the ICIM Consultation Phase: eligibility review, assessment, dialogue and solution-seeking, agreement, and monitoring.

The request was declared eligible for the Consultation Phase on 16 December 2010.

The assessment stage, which concluded with the posting of the assessment report on the ICIM website on 29 April 2011, overlapped with the dialogue and solution-seeking stage, ending with the visit to the Loofah S.A. factory in Paraguay on 7 March 2011. Accordingly, the assessment ran from 16 December 2010 to 7 March 2011.

This final report covers:

- Monitoring of the agreements reached during the assessment and implemented in the dialogue and solution-seeking stage: (i) Loofah S.A. submitted supporting documentation for expenditures under the technical-cooperation operation to the Bank, with a copy to the ICIM; (ii) the Bank reviewed this documentation and verified that the expenditures fell within the categories established for that operation and that the IDB's respective fiduciary requirements were met; and (iii) the ICIM facilitated virtual information-sharing between the parties and called a final dialogue and agreement meeting, at which the terms of the final agreement were set.
- The design and signature of the Agreement.
- Monitoring and fulfillment of the Agreement.
- Conclusions, outcomes, and lessons learned resulting from the ICIM Consultation Phase.

2. Dialogue and solution-seeking: submission and verification of documents

The processes initiated and carried out over the course of an ICIM Consultation Phase are intended to facilitate problem-solving by providing an opportunity for dialogue among the stakeholders.

In the Loofah S.A. case, the dialogue and solution-seeking stage ran from February 2011, when the company sent its first documents to the Bank, to July 2011, when, after verification by the Bank, an agreement was finally reached to reinstate the balance of technical-cooperation resources under the cancelled operation.



Project Ombudsperson
Independent Consultation and Investigation Mechanism – Inter-American Development Bank
1300 New York Ave. N.W. Washington, D.C. 20577, USA
Tel: (202) 623 3952 | Fax: (202) 312 4057 | Email: mecanismo@iadb.org | www.iadb.org/icim

Once the parties agreed on a preliminary amount, the ICIM facilitated a dialogue meeting.

1.2. Dialogue meeting

The parties met on 19 May to jointly analyze the status of the case before the ICIM.

After timely submission of documentation by Loofah S.A., the Bank reviewed the information. With the ICIM facilitating, the MIF team and the Requester reviewed the categories and items of expenditure that fell within the company's prior activities, and agreed on a specific course of action. Still, additional supporting documentation and the corresponding outputs remained to be verified.

As part of this initial dialogue, the following next steps were identified:

- Review of additional documentation relating to expenses incurred by the company.
- Visit by the Country Office technical specialist to the factory.
- Visit by the Country Office technical specialist to Washington, D.C., and meeting with MIF and ICIM representatives.
- Reactivation of the technical-cooperation operation by MIF and Country Office representatives.
- Assistance from the ICIM with these processes.

3. The Agreement

The final Agreement was reached as described below:

After an intensive effort to review and reconstruct its accounts, Loofah S.A submitted the documentation required for it to receive the balance of the technical-cooperation funds to the Bank's Country Office in Paraguay. Subsequently, the Bank reviewed this documentation and determined that certain items of expenditure could not be considered eligible, either because of insurmountable deficiencies or because they were not relevant. This process took place from February through July 2011, concluding with a final joint review of processes and amounts with a view to the final disbursement of technical-cooperation funds.

On 29 August 2011, the parties signed an Agreement that set forth the following:

1. For the final disbursement, expenses incurred from 1 January 2008 to 31 December 2009 would be recognized.
2. Technical-cooperation operation ATN/SF-8984-PR would be considered completed.
3. The Consultation Phase led by the Project Ombudsperson would be considered closed, the parties having reached an agreement and the Requester's concerns having been addressed.
4. Pursuant to Article 52 of the Policy establishing the ICIM and at the request of Loofah



Project Ombudsperson
Independent Consultation and Investigation Mechanism – Inter-American Development Bank
1300 New York Ave. N.W. Washington, D.C. 20577, USA
Tel: (202) 623 3952 | Fax: (202) 312 4057 | Email: mecanismo@iadb.org | www.iadb.org/icim

S.A., the Project Ombudsperson duly monitored the case to verify full compliance with the Agreement. The Agreement was fulfilled on 30 September 2011 with the final disbursement to Loofah S.A.

4. Consultation Phase conclusions and outcomes

With the case before the ICIM having concluded, the following aspects of the Consultation Phase are noteworthy:

- **It was possible to establish a dialogue between the various stakeholders involved:** Because of the cancelation of the technical-cooperation funding, the relationship between the parties was either nonexistent or significantly damaged. Once the Bank and the client entered into discussions and began to work toward agreements, they were able to reestablish a constructive, harmonious relationship, leading to a satisfactory outcome for both parties. This was among the most successful aspects of the process.
- **The Requester's claim was settled within the framework of the Bank's fiduciary policies:** At the time the case was submitted, Loofah S.A. was claiming undisbursed funds from the canceled technical-cooperation operation. Through the dialogue process, once a specific amount was determined, the representatives of Loofah S.A. were able to submit all the necessary documentation required under the IDB's fiduciary framework.
- **Loofah S.A. has reestablished its relationship with the Bank:** The various setbacks experienced as a result of the cancelation of the technical-cooperation operation served to strengthen Loofah S.A., which grew from a small company into a regional and global benchmark in the specific area of vegetable sponge products. This also enabled it to regain its good standing in terms of its obligations with the Bank.

5. Lessons learned

The following lessons were drawn from the Consultation Phase:

- **Monitoring of technical-cooperation operations is crucial:** The Loofah S.A. case is special in that the program involved support for a private-sector company with a strong social impact. The assistance that the MIF provides to this type of company and project is very important, and sometimes constitutes a small company's first experience with international financing. This makes it vital to have appropriate, more "personalized" controls and monitoring mechanisms, both in the preanalysis phase and during process monitoring and oversight.
- **Collaboration and dialogue are vital tools in any process:** The opportunity for dialogue and collaboration among the participants was a key element enabling them to arrive at agreements regarding next steps as well as the decision to reactivate the operation and determine the final disbursement amount.



Project Ombudsperson
Independent Consultation and Investigation Mechanism – Inter-American Development Bank
1300 New York Ave. N.W. Washington, D.C. 20577, USA
Tel: (202) 623 3952 | Fax: (202) 312 4057 | Email: mecanismo@iadb.org | www.iadb.org/icim

- **The involvement of subject-matter experts facilitates dialogue:** The Loofah S.A. case benefited from the involvement of technical specialists. The participation of the Country Office, particularly that of the MIF technical specialist, facilitated dialogue and an understanding of the problems at hand, paving the way for potential solutions.
- **It is essential to follow the process through to its resolution:** The MIF, the Country Office, the Requester, and the ICIM were continuously involved not only in the Agreement, but also in its implementation. This went a long way toward facilitating communication among the parties and served to ensure a flow of information regarding the implementation status of agreements.



Project Ombudsperson
Independent Consultation and Investigation Mechanism – Inter-American Development Bank
1300 New York Ave. N.W. Washington, D.C. 20577, USA
Tel: (202) 623 3952 | Fax: (202) 312 4057 | Email: mecanismo@iadb.org | www.iadb.org/icim