



USAID
FROM THE AMERICAN PEOPLE

MULTILATERAL DEVELOPMENT BANKS' ASSISTANCE PROPOSALS

Likely to Have Adverse Impacts on
the Environment, Natural Resources,
Public Health, and Indigenous Peoples

April 2009

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Annex II: Mekong Trip Report (January/Feb; July 2008)

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This report does not prejudge the U.S. Government's position where final versions of projects or policies have not yet been considered by the Multilateral Development Bank (MDB) Executive Boards; rather, it serves as a record of USAID's environmental and social review and monitoring of MDB projects and policies

Multilateral Development Banks' Assistance Proposals Likely to Have Adverse Impacts on the Environment

Introduction

This Report to Congress, “Multilateral Development Banks’ Assistance Proposals Likely to Have Adverse Impacts on the Environment, Natural Resources, Public Health, and Indigenous Peoples,” is submitted in compliance with Title XIII of the International Financial Institutions (IFI) Act, as enacted in Section 537 of Public Law 100-202. These provisions instruct the U.S. Agency for International Development (USAID) to report to Congress on proposed and current Multilateral Development Bank (MDB) projects, and other assistance proposals likely to have adverse impacts on the environment, natural resources, public health, or indigenous peoples.

This report covers a seven-month period (September 2008 – April 2009) and provides to the Committee on Appropriations, the Committee on Foreign Affairs, and the Committee on Financial Services of the U.S. House of Representatives, and the Committee on Appropriations, the Committee on Banking, Housing and Urban Affairs, and the Committee on Foreign Relations of the U.S. Senate, information regarding USAID’s performance of its tasks as assigned by Title XIII of the IFI Act.

Title XIII of the IFI Act directs USAID to collaborate with other U.S. Government (USG) agencies to review Multilateral Development Bank assistance proposals to determine whether the proposals will contribute to the sustainable development of the borrowing/project country. The reviews address the potential adverse effects of proposed projects on the environment, natural resources, public health, and indigenous peoples. USAID and its partner reviewing agencies have the responsibility for making recommendations, including proposing alternative measures, which could eliminate or mitigate adverse impacts. After evaluating MDB proposals, USAID undertakes an affirmative investigation of selected projects that may have substantial adverse impacts, and ensures that the resulting information is made available to the public. USAID provides its findings from this process to the U.S. Department of Treasury.

USAID/Washington has continued to work with its regional bureaus and field missions and other USG agencies, including the Department of Treasury, the Department of State, the Environmental Protection Agency, and the U.S. Executive Directors’ Offices at the MDBs to carry out the following tasks:

- Providing adequate attention to priority MDB projects.
- Engaging with project sponsors, MDB staff, civil society, and communities affected by MDB projects.
- Engaging early in the proposal process with project countries, sponsors, and MDB staff.

MDB Project Review

MDB projects with the potential for adverse environmental and social impacts are initially identified by USAID field missions, USG agencies, and/or non-governmental organizations (NGOs). The criteria for selecting identified MDB projects for review include consideration of the following project characteristics:

- Potential adverse impacts on the environment, natural resources, public health, and/or indigenous peoples;
- Ability to serve as a model within a sector for similar projects;
- Potential adverse environmental and social cumulative impacts; and
- Potential to undermine USAID's sustainable development activities.

The MDB projects selected by USAID, in consultation with other USG agencies, for review during the period covered by this report are either candidates for financing or have been approved for financing by the African Development Bank (AfDB), the Inter-American Development Bank (IDB), the International Bank for Reconstruction and Development (IBRD) and the International Finance Corporation (IFC) – World Bank Group, and/or the Asian Development Bank (ADB). Projects reviewed fall into one of the three following categories:

1. **MDB Public Disclosure Projects.** Projects for which respective MDB institution(s) have publicly released final Environmental Impact Assessments (EIAs) prior to Board vote, and whose potential adverse environmental and social impacts have been identified by USAID/Washington, USAID field missions, other USG agencies, and/or NGOs. Projects in this category include the following:
 - Ethiopia – Gibe III Hydropower Project
 - Nepal – West Seti Hydropower Project
 - Panama – Panama Canal Expansion
2. **MDB Categorization Projects.** Projects which respective MDB institution(s) have categorized as Category B thereby not requiring an EIA or scope of public consultations, and whose potential adverse environmental and social impacts have been identified by USAID/Washington, USAID field missions, other USG agencies, and/or NGOs. Projects in this category include the following:
 - Ghana – Jubilee Oil Field - Kosmos Energy and Tullow Oil
3. **MDB Watch List.** Projects under discussion with various MDBs, but where a management decision has not been made to bring these projects into the MDB formal appraisal process or the Board date has been postponed indefinitely. Projects in this category include the following:
 - Guinea – Alumina Refinery
 - Other Projects Described in Previous USAID MDB Reports

USAID's experience has shown that waiting for final project EIAs to be released by MDBs 120 days before the Board vote often results in inadequate opportunities and unsatisfactory results in identifying, averting, or mitigating negative environmental and social impacts. To increase its effectiveness in the oversight process, USAID continues to explore new approaches to earlier engagement in the MDB project proposal process. However, earlier engagement does not obviate the need to engage with relevant stakeholders during the later stages in the project proposal process when all of the environmental and social documentation is available.

MDB Policies

In addition to reviewing MDB projects, USAID takes part in the Treasury-led interagency process of reviewing MDB policies, strategies, and action plans. Since these documents ultimately provide the framework for MDB-supported projects, it is important to ensure that they contain adequate provisions to ensure environmentally and socially sound projects.

Report structure: Following the Introduction, the report is divided into the following sections:

Section 1: MDB Public Disclosure Projects

Section 2: MDB Categorization Projects

Section 3: MDB Watch List

Section 4: MDB Policies

Section 5: Annexes

Section I

MDB Public Disclosure Projects

USAID's technical review identifies outstanding Title XIII environmental and social issues (environment, natural resources, public health, and indigenous peoples under Section 1303), and assesses the adequacy of the EIAs according to the Pelosi Amendment (Section 1307). Following each completed review, USAID develops recommendations regarding potential loan conditions in an attempt to prevent and mitigate potential environmental and social impacts and provides an assessment of the EIA for submission to the U.S. Department of Treasury for its consideration.

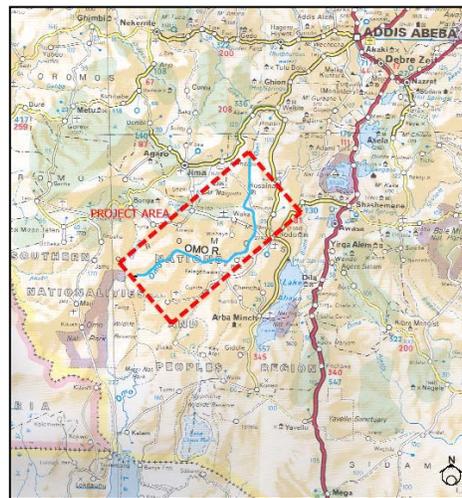
Ethiopia

Gibe III Hydroelectric Power Project

Project Description

The Gibe III hydroelectric power project is located within the Gibe-Omo River Basin, in the middle reach of the Omo River approximately 450 km south of Addis Ababa. Gibe III is the third development in a cascade of hydropower development schemes in the basin. The two previous projects are Gilgel Gibe/Gibe I, in operation, and Gibe II, under construction. Another hydropower project, Gibe IV, is expected downstream of Gibe III on the Omo River, adjacent to the country's largest national park, Omo National Park. Project documentation shows a fifth hydropower project (Gibe V) below Gibe IV, but the status of this project is unclear.

Gibe III is a 1,870 MW facility comprising a 240 m dam creating a reservoir with a surface area of at least 200 km², live storage of 11,750 million m³, underground and inclined penstocks, and a surface powerhouse equipped with 10 power generating units and switchyards. Electrical power generated by Gibe III will be available to cover peak and off-peak demand in the Ethiopian interconnected power systems, as well as also exports to Kenya's market. Power produced will be evacuated through a four double circuit 400 kV, 65 km, overhead transmission line. The commissioning of Gibe III is scheduled for 2012.



Project construction started in 2006. The day prior to USAID's visit, the Omo River was diverted through one of the three parallel diversion tunnels to below the downstream cofferdam. Work was underway on a number of project activities – completion of the remaining diversion tunnels; both upstream and downstream cofferdams; power intake tunnels; alluvium quarrying from the left bank of the Omo River; and preparing the foundation side walls for the dam.

The mission statement of the project developer, Ethiopian Electric Power Corporation (EEPCo), reflects the need for its management practices to be responsive to the socio-economic development and environmental protection of the public. Therefore, EEPCo shares responsibility with the construction supervision team to ensure the implementation of the Environmental Management Plan (EMP). EEPCo is in the process of establishing an Environmental Management Unit (EMU) to fulfill this function in coordination with the Ethiopian EPA and the Regional Environmental Protection Offices. The environmental performance of the project will be monitored on a regular basis through EEPCo's EMU and through external/third party audits.

Environmental monitoring of the project will be conducted at four levels:

1. Salini, the EPPCo contractor, has developed a set of environmental monitoring procedures and is responsible for ensuring best practices at the construction site.
2. The Environmental Inspector, a project consultant, is responsible for reviewing the environmental aspects of work plans, developing site environmental management procedures, and providing monthly reports.
3. EPPCo's EMU has overall responsibility for ensuring implementation of the EMP.
4. The Ethiopian EPA has oversight function and can undertake a surprise inspection or audit.

The project contractor has implemented an environmental monitoring program, which encompasses cleaning petroleum/chemical spillages, containing material with cement away from the river, segregating wastes and composting organic waste. An active recycling program for scrap metal, batteries, plastics and contaminated material separates materials and stores them



Omo River being diverted through one of the three diversion tunnels



Omo River upstream of project site

for pick up by various vendors for final disposition. The project undertakes facility checks to ensure that the materials are being handled in an environmentally responsible manner.

Downstream of the project is the Lower Omo Valley. This is one of the most biologically and culturally diverse regions in East Africa. An estimated 500,000 people comprising indigenous ethnic groups live in the Lower Omo Valley. At least eight groups – Bodi, Mursi, Kwegu, Kara, Hamar, Bashada, Nyangatom and Daasanach – depend on the Omo River as an integral component of their livelihoods and could potentially be impacted by the Gibe III hydropower project. The Omo River and its riverine forest provide for a wide variety of subsistence activities ranging from recession agriculture, fishing, pasture for seasonal livestock grazing, habitat for beekeeping, to wildlife for hunting. Reliance on these activities supported by the Omo River and riverine forest varies from group to group depending on their livelihood strategy.



Lower Omo Valley, overlooking Mursi Territory

Financing

The total project cost is estimated at \$1.72 billion. Due to the project procurement's non-competitive bidding process, AfDB is considering supporting Gibe III through a subcontract.

USAID Review

USAID conducted a site visit in January 2009. The trip report (Annex III) is based on information obtained from meetings with stakeholders in Addis Ababa, including the Ethiopian Electric Power Corporation, the Ethiopian Environmental Protection Authority (EPA), and the African Development Bank; a visit to the project site and downstream areas; and meetings with three indigenous ethnic group communities – the Mursi, Kara and Daasanech. The meetings focused primarily on the environmental and social aspects of the project, with particular attention paid to the relationship of the livelihoods of the indigenous ethnic groups to the Omo River and their understanding of and participation in meetings concerning the project.

Key findings of the site visit include the following:

- The project will transform these groups' subsistence lifestyle into the more formal market-based economy, which will require them to change their livelihood strategies and cultures at an accelerated pace. Currently, these groups do not have the capacity to move effectively into the mainstream of society without extensive support. They are ill-equipped to compete in the labor market due to their lack of formal education and inability to speak the national language.

- The project will enable the Government of Ethiopia (GoE) to have more control over these groups by distributing (or not distributing) food aid, providing (or not providing) agricultural inputs, and requiring payment of taxes.
- The project has the potential to exacerbate existing pressures on groups by increasing competition over decreasing resources. For example, although rainfall is variable and unpredictable, pastoralists depend upon it for agriculture or pasture. If the rains fail, the groups can lose large areas of land rapidly. With population growth reducing the amount of available highland land, agricultural activity is expanding into pastoralists' land, which also has the potential for igniting conflict.
- Survival of the indigenous ethnic groups depends on a complex cycle revolving around the Omo River flood cycle. The reliance for food security on recession agriculture and fisheries for several of the groups is greater than reported in the Environmental and Social Impact Assessment (ESIA).
- Based on discussions with elders in the three communities visited, consultations did not occur in their villages by either GoE or project consultant and they were only vaguely aware of the project.
- Transboundary impacts are an important consideration for the project, because the Omo River provides Lake Turkana (Kenya) with 80 percent of its water. No formal agreement on the project exists between Ethiopia and Kenya, although high-level discussions have reportedly taken place between the two governments. The ESIA has not been made available and consultations with Kenyans living around Lake Turkana and dependent upon the lake and river have not occurred.
- The southern part of the Omo River and Delta lies within the Ilemi Triangle, where a long-standing border dispute continues unresolved among Sudan, Kenya, and Ethiopia. Furthermore, oil and mineral exploration are increasing in the area. If the resources provided by the Omo River, such as grazing land, and Lake Turkana are degraded, conflicts may arise.



Recession agriculture, Mursi Territory

Key concerns regarding the ESIA documentation include the following:

- Baseline data do not support the conclusions reached in the ESIA concerning impacts on fisheries, ox-bow lakes, Lake Turkana, and recession agriculture.
- The cumulative impact assessment of the dams in the Omo watershed needs to be provided to the public. Reportedly, the basic conclusion of the analysis is that the proximity of the dams to one another (Gibe III is 250 km from Gilgel/Gibe I) will prevent cumulative impacts. This information is to be presented in the revised downstream ESIA.

- The ESIA for the transmission line to export power to Kenya is being carried out by EEP Co. It is not finalized and currently not in the public domain. At this point the transmission line is not being considered for financing by either AfDB or WB, although there is some discussion.

The following are initial USAID recommendations for the project:

- Additional baseline data needs to be collected and analyzed to support the conclusions reached in the ESIA concerning impacts on fisheries, ox-bow lakes, Lake Turkana, and recession agriculture.
- Based on discussions with elders in the three communities visited, additional consultations are needed; ideally, consultations should be systematic and continuous.
- Livelihood mitigation plans need to be specific for each site and ethnic group, rather than the generic plans outlined in the documents. The Project Implementation Unit (PIU) is responsible for the specifics of the plans. The PIU should include ethnic representation, nominated and chosen transparently, who can give voice to the local communities.
- An independent grievance mechanism should be established for the lower Omo Valley. Reportedly there is an established NGO representation for conflict management in the area that could be engaged.
- The Independent Panel outlined in the ESIA needs to be truly independent and include representatives of diverse ethnic groups – selected in a transparent manner – as well as NGOs and scientific experts.
- Baseline data need to be collected and consultations held with communities in Kenya around Lake Turkana.
- A conflict vulnerability assessment is needed for: (1) the indigenous ethnic groups that depend on the Omo and have already a history of conflict and (2) the Ilemi Triangle region entities that are dependent on the traditional resources of the Omo River and Lake Turkana.

Current Status

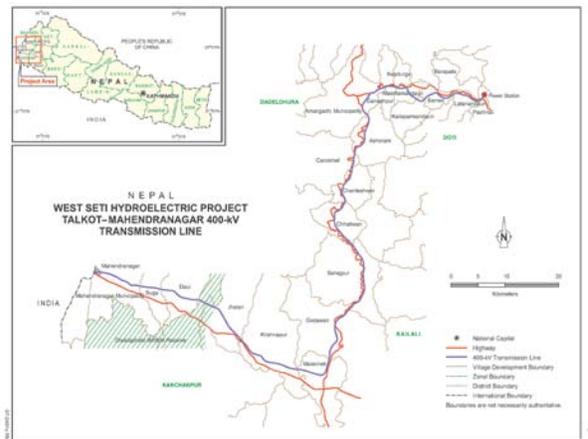
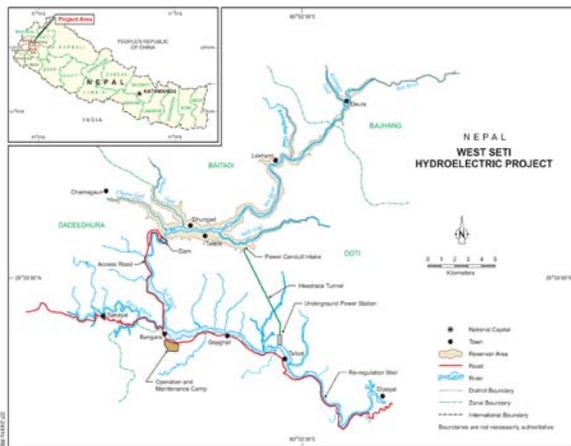
In February 2009, Friends of Lake Turkana, a community organization, submitted a request for a comprehensive investigation of the project to the AfDB's Compliance Review and Mediation Unit. The request is on behalf of the Kenyan communities living in the vicinity of Lake Turkana. The Board date has been postponed indefinitely.

Nepal

West Seti Hydropower Project

Project Description

The West Seti hydropower project is located in the Middle Mountains on the Seti River, 82 km upstream of the confluence of the Seti and Karnali rivers, forming part of the Ganges basin in Nepal's Far-Western Development Region. The project is a 750 MW facility designed to generate and export large quantities of energy to India under a Power Purchase Agreement with PTC (India) Limited. The facility comprises a 195 m concrete-faced rock-filled dam, 2,060 hectare reservoir area, 6.7 km headrace tunnel, underground power station, 620 m tailrace tunnel, 20.3 km permanent access roads, and 132.5 km 400 kV double-circuit transmission line in Nepal.



The Nepal Department of Electricity requested and obtained a revised project agreement in 2008 to enable the Government of Nepal (GoN) to take 10% free energy from the project in lieu of the original agreement of 10% of project revenues. The project is a build-own-operate-transfer scheme, with West Seti Hydro (WSH) holding a 30-year license that will provide about 24.5 years of electrical generation before full ownership is transferred to the GoN. The EIA for the project was initially prepared between 1996 and 2000. In 2007, an EIA was prepared for the project transmission line, in addition to a cumulative impact assessment and disaster mitigation plan, with all costs being updated. The project is classified as an environmental category A.

Nepal's potential for hydropower development is one of the few major development options available to the country. The total potential of hydropower is estimated to be approximately 83,000 MW of which approximately 43,000 MW are considered economically viable. At the end of 2002 only 527.5 MW has been installed.

Financing

The cost of the project is estimated at \$1.2 billion. ADB Technical Assistance was provided from the Regional Cooperation and Integration Fund in 2007 to support the GoN's participation in the project development. The project is being considered for financing through both the ADB private sector and public sector windows. The private sector component consists of a loan for \$70 million, a \$70 million partial credit guarantee, and equity investment of \$60 million. The GoN agreed in 2007 to a 15% equity stake in the project, which is to be funded by a public sector loan from the ADB.

USAID Review

USAID has initiated its technical review of the environmental and social aspects of the project and is planning to undertake a site visit in May 2009 to the project site and resettlement areas in the Terai (southern lowlands of Nepal). USAID concerns based on the environmental documentation include the following:

- The ESIA that was finalized in 2000 has not been updated and new project information, such as the Seti River Aquatic Ecology Extension Study (2007) which contains new baseline information, including species and endangered species not previously identified, has not been integrated into the original analysis.
- Mitigation measures for commercial and endangered species of fish may not be adequate.
- Consultations and transparency appear to have been inadequate, given that the ESIA and Resettlement Plan have not been translated into Nepalese.
- A conflict vulnerability assessment for the Resettlement Plan is necessary, because approximately 1,200 households will be resettled to the Terai, which has the potential to exacerbate existing ethnic/geographic tensions among the ethnic groups there. These tensions have been heightened, often violently, in the last two years. Furthermore, consideration needs to be given to how communities from the middle mountains will adapt to a completely different environment and farming systems in the Terai.
- The ESIA does not explain whether or how project vulnerability to climate change-related impacts was assessed. The dam depends on glaciers and ice fields flowing to the Seti River in the summer months, and high rates of melting are predicted to have an impact on river flows, hydrologic conditions, and therefore dam operations and life span.

USAID is also concerned about the seeming lack of economic benefits to Nepal and an inadequate cost/benefit analysis at the community level that was presented in the ESIA. Based on historic tensions between the two countries, if it is perceived that Nepal is being economically exploited by Indian interests in this project, then new tensions may be created.

The following concerns about the project have been raised by civil society:

- Quality of the ESIA, including outdated information.
- Copies of the draft ESIA and Resettlement Plan have not been disclosed to the project-affected communities in Nepalese.
- Reports that during consultations the project-affected people could not voice their concerns or raise questions regarding the project.
- Revision of the vulnerable peoples plan states that no indigenous people will be affected; this ignores the indigenous Tharu people living in the lowlands, where at least 30,000 people will be resettled from West Seti.
- Livelihood practices in the Terai are very different than those the resettled people are accustomed to including the use of various natural products, such as edible wild plants and fruits.
- Arsenic-laden water is reportedly present in the proposed resettlement area and is not mentioned in the Resettlement Plan.

Current Status

An ADB Mission visited the project site and potential resettlement areas in the Terai in March 2009. The USG is waiting for a report on their visit as there were reports of difficulties in their ability to access some areas. At present, the Board date is scheduled for June 2009.

Panama

Panama Canal Expansion

Project Description

This project consists of the construction of a third set of locks and lock complexes to handle larger freight vessels, excavation of access channels to the new locks, dredging the man-made Gatun Lake and other navigation channels to make them deeper and wider, and raising the level of



the lake by 43 centimeters. The expansion will take 12 years to complete and create 7,000 jobs during that period. The project is expected to double the Canal's throughput capacity and increase its productivity, safety, and efficiency. Project documentation states that without larger locks, Panama will suffer stagnation in Canal traffic, long-term erosion of its competitive advantage and a slowdown of the economic and fiscal contribution being made by the Canal. After the expansion, government revenues are expected to increase by as much as \$1 billion annually. In a national referendum in 2006, the project won 77 percent popular support.

The Panama Canal Authority (known as ACP by its Spanish initials) is a financially autonomous public-sector entity established under the Constitution of Panama. It holds exclusive responsibility for the administration, operation, conservation, maintenance and modernization of the Canal and related services. This is the largest project the ACP has undertaken at the Canal since its original construction.

Financing

The project cost is estimated at \$5.25 billion. The borrower, the Panama Canal Authority, will contribute \$3 billion in equity while the MDBs and bilateral agencies (IFC, IDB, JBIC, EIB, and CAF) will provide \$2.3 billion in debt financing. ACP is requesting from the IFC an "A" loan of up to \$300 million and Inter-American Development Bank (IDB) loan of \$400 million.

USAID Review

USAID raised concerns related to the long-term viability of the project. Given the significant resources and effort invested by the U.S. Government to promote the sustainable management of the Panama Canal Watershed, these issues should have been addressed before the project was approved:

- Law 12 of 2007

To codify a sustainable land use plan for the Panama Canal Watershed (PCW) based on scientific studies and a consultative process, Panama adopted Law 21 of 1997, which gives legal status to land use plans developed for the watershed region and the reverted areas. In 2003, Panama amended Law 21 of 1997 through Law 79 of 2003, which established “Superimposed Special Treatment Areas” to give “flexibility” to analyze development opportunities. The justification for the amendment was to legalize land use that existed prior to Law 21 of 1997 in the reverted areas. The amendment required interested individuals to request land use changes/exceptions within two years; the Ministry of Housing approved such requests. In 2007, Panama passed Law 12, which extended the period for requesting land use changes for an additional two years and broadened the concept (in geographic area) of the “Superimposed Special Treatment Areas” throughout the watershed, except for “Protected Areas.” An ad recently printed in a local newspaper requested a land use change pursuant to Law 12 of 2007 for the establishment of an industrial plant in the Chilibre area. The Ministry of Housing is making land use determinations on a “case-by-case basis” and although not required by law, is not considering the overall effects of housing and industrial development projects on the quality of water or total run-off in the PCW. However, the original Law 12, (1997)’s vision was that industries (e.g. non-metallic mining, cement plants) be reconverted into more sustainable activities such as agroforestry. Although it is not directly related to the expansion project itself, the cumulative effects of land use changes in the PCW allowed by Law 12 of 2007 could compromise the viability of the project. Under Law 19 of 1997, the Panama Canal Authority has jurisdiction and responsibility over the water resources of the PCW. Law 12 of 2007 has an impact on the availability of these water resources.

- The Environmental Impact Study

The Environmental Impact Study completed for the canal expansion project identified a significance value of “low” with respect to the significant direct and indirect impacts of human migration into the watershed as a result of the canal expansion project. This is a major concern, since USAID’s experience with other large-scale projects has shown that people from other regions come into the project area looking for job opportunities directly or indirectly related to

the project. The growing population inside and around the watershed will accelerate the impact on natural resources in the watershed. The EIS has dismissed this potential impact and determined the significance of this risk as "low to very low" – for example "rise of illegal hunting practices as a result of temporary employee population and people involved in indirectly related activities" was determined to be low to very low. This conclusion does not appear to be supported by the analysis presented in the documents and the mitigation measures appear to be inadequate given the potential scope of the problem, which goes beyond illegal hunting practices. USAID expects that the socio-economic phenomena will result in the unsustainable use and extraction of resources and incompatible land uses leading to the inevitable degradation of the watershed.

Based on the above concerns, the following recommendations were made:

- Prior to loan approval, require scientific studies and a consultative process for previous and future changes to the current land use plan set forth in Law 21 of 1997. The ACP has the constitutional authority to present a bill to amend this article and ensure that future land use changes only respond to scientific studies and a consultative process.
- Within the protected areas, allocate more resources from the ACP to the National Environmental Authority (ANAM) to patrol the parks to ensure there are no illegal settlements, illegal hunting, and illegal timber harvesting. ANAM does not have the human and financial resources to patrol the park as much as required, particularly if additional pressures are brought to bear.
- Outside the protected areas, improve planning for new housing developments to absorb the population growth, ensuring that they are not located in vulnerable areas and that basic infrastructure is built according to standards (e.g., the size of water treatment systems is adequate for the size of the population).
- Establish a strategy to minimize migration and its impact in the Panama Canal Watershed in conjunction with other national institutions. The socio-economic and cultural program proposed by the ACP is not equivalent to a strategy to deal with the inevitable migration problem.

Current Status

The initial response by the IDB did not address USAID's concerns prior to its board vote, so USAID raised them again prior to the IFC board vote. The IFC did not address the concerns raised by USAID.

The U.S. Executive Director supported the project at the IDB board vote, but abstained at the IFC Board vote because the IFC did not post the EIA on its website, nor did it refer to the EIA on IDB's website; as a result, it did not meet the 120-day disclosure requirement of the Pelosi Amendment.

Section 2

MDB Categorization Projects

Projects the respective MDB institution(s) have categorized as Category B, thereby obviating the requirement for an EIA or public consultation, and whose potential adverse environmental and social impacts have been identified by USAID/Washington, USAID field missions, other USG agencies, and/or NGOs. These projects are referred to in this report as MDB Categorization Projects.

Ghana

Jubilee Oil Field - Kosmos Energy and Tullow Oil

Project Description

The proposed project involves the first phase of development of the recently discovered Jubilee oil field offshore Ghana, the country's first. It includes the drilling of 17 wells, installing subsea production capacity and leasing a single-hulled floating production storage and offloading (FPSO) facility for processing, storage and handling of crude oil.

Disposal of oil-contaminated cuttings will not be carried out according to best practices but will be disposed of in the sea since there is no onshore disposal capacity. The initial estimated gross production capacity is 120,000 barrels of oil per day and will increase as the field is further developed and more reserves are proven. The project is expected to develop Ghana's domestic energy sources to address local needs in addition to generating \$375 million in federal revenue during peak production.



The IFC has classified the project as a Category B stating that there will be no significant environmental impacts. Consequently, there is no environmental impact assessment for the project. However, Ghanaian law requires an EIA for the project, although it is not expected to be completed and approved by Ghana EPA until August/September 2009.



Financing

The cost of the project is estimated at \$3.2 billion. On February 19, 2009, the IFC Board of Directors considered loans to two companies, Kosmos Energy (\$100 million) and Tullow Oil (\$115 million).

USAID Review

USAID's review of the project's environmental documents concluded that the project's offshore oil development does have the potential to pose significant environmental impacts and therefore an EIA is required. Safeguard policy and guidance from other multilateral development banks, including the European Bank for Reconstruction and Development and the World Bank, indicate that EIAs are usually required for oil and gas extraction activities. Therefore, USAID did not agree with IFC's classification of the project as a Category B. The Project's Environmental and Social Evaluation Report for Lenders did not fulfill the requirements under the Pelosi Amendment for an assessment analyzing the environmental impacts of the proposed action or public consultations.

Additionally, USAID is concerned that the approval of the project by the international finance community prior to Ghana EPA approval of the project could undermine EPA's effectiveness in reviewing the proposal and recommending any proposed conditions on the project.

USAID recommendations to improve the project at this time include:

- Conduct an EIA, including analysis of associated and cumulative impacts, with appropriate public consultation.
- Require double-hulled tankers per MARPOL Annex I and recommend consideration of double-hulled FPSOs.
- IFC, in cooperation with the World Bank in its public sector financing capacity, and the Ghanaian Government, develop plans to build an onshore processing facility for future disposal of non-water (oil-contaminated) cuttings to transition this project and future projects from dumping oil contaminated cuttings onto the ocean floor to land-based processing.

Per Title XIII, § 1307 (Pelosi Amendment) consultation requirements, USAID recommended that Treasury instruct the U.S. Executive Director to abstain during the Kosmos Energy Ghana and Tullow Oil Board vote.

Current Status

The U.S. Department of Treasury instructed the U.S. Executive Director to abstain on this project on both Pelosi Amendment and on the grounds that environmental safeguards are not sufficient to mitigate and prevent anticipated significant environmental and social impacts. This project was approved by the IFC Board of Directors on February 19, 2009. Three other Board members also abstained on the project, however project financing was approved.

Section 3: MDB Watch List

USAID continues to monitor the status of the following projects, which the MDBs show various levels of interest in supporting.

Guinea

Alumina Refinery

This project consists of the construction and operation of a bauxite mine and alumina refinery (for export) that will be the largest in the country and one of the largest operations in Africa. Other project activities include the construction, operation, and maintenance of associated facilities such as a steam and power plant for electricity generation, port facilities, and employee housing. Tax revenues for the first 15 years will be roughly 1.5% of total government revenues, rising to roughly 9% thereafter.



The project's total cost is \$6.3 billion. Project sponsors – BHP Billiton, Global Alumina Corporation (a public Canadian company), Dubai Aluminum Company Ltd (owned by the Government of Dubai), and Mubadala Development Company (owned by the Government of Abu Dhabi) – will provide \$4.1 billion in equity. Debt financing will be sourced from export credit agencies (\$1.3 billion). Additional financing includes the AfDB and the IFC, which together will provide \$662 million, and commercial banks, which will finance \$265 million.

The ESIA was posted to the AfDB website 98 days before board discussion of the project, which does not meet the 120-day requirement in the Pelosi amendment. Additionally, there were substantive concerns regarding the ESIA analysis. The associated facilities analysis did not address the initial development and expansion of the mining concession and the cumulative impacts analysis did not assess foreseeable cumulative impacts of a series of mining multi-component concessions to be exploited. Finally, the critical habitat assessment was deemed incomplete for both the chimpanzee and monkey populations and possibly other endangered, sensitive or protected fauna and flora.

The U.S. Executive Director abstained, as the proposal did not conform to the requirements under the Pelosi Amendment. In December 2008, the AfDB Board approved the \$200 million private sector loan.

The project was scheduled to go to the IFC Board on January 30, 2009. However, because of the coup (late December 2008) it has been postponed indefinitely.

Other projects listed in previous MDB Reports that continue to be on the Watch List include the following:

October 2008

Cambodia – Environment and Protected Areas Management Project

Laos/Vietnam – Ban Sok-Pleiku Power Transmission Project

Laos – Technical Assistance for Capacity Development in Hydropower and Mining Sectors

Laos – Nam Ngiep I

April 2008

Laos – Nam Ngum 3 Hydropower Project

Laos – Nam Ngum 5 Hydropower Project

Laos – Houay Lamphan Gnai Hydropower Project

Laos – Na Bong-Udon Thani Power Transmission

Indonesia – Regional Roads Development Project –Pre-feasibility Study

Vietnam – Trung Son Hydropower Project

October 2007

Cameroon – Lom Pangar Dam

Section 4 MDB Policies

In addition to reviewing MDB projects, USAID takes part in the Treasury-led interagency process of reviewing MDB policies, guidelines, strategies, and action plans. Since these documents ultimately provide the framework for MDB-supported projects, it is important to ensure that they contain adequate provisions to guarantee environmentally and socially sound projects.

Asian Development Bank Safeguard Policy Update: The ADB is undertaking a review of its three safeguard policies – environment, indigenous peoples, and involuntary resettlement – with the overarching goal of enhancing their effectiveness. Key areas of concern for USAID include the following:

- Environmental Impact Assessment – USAID regards the EIA as a substantive process, and is concerned that the ADB appears to regard it as a procedural requirement and hence the proposed ADB requirements may not be sufficiently robust. The concern is that if the substance is not adequate, e.g. sufficient baseline data and analysis, then mitigation measures will not be effective. Additionally, in USAID’s view, the alternatives analysis should not only include project level analysis but also look beyond location or design issues to include development alternatives analysis even if beyond the scope of the proponent.

- Country safeguard systems – USAID advocates for the development of specific methodology for assessing equivalency and determining acceptability; ensuring transparency to allow assessment of whether standards are, or are not, being compromised; and determining whether country capacity will be sufficient to secure standards without compromising capacity for other non-MDB related activities prior to the application of country safeguard systems.
- Associated facilities – The current definition of associated facilities is very narrow. Excluding a broader range of associated facilities limits, and even undermines, the effectiveness of any environmental assessment. Additionally, as written the policy would exclude any third-party actions to mitigate project effects as these types of facilities are excluded from the Environment Management Plan
- Indigenous peoples – The scope of project impacts on indigenous peoples needs to include not only direct and indirect impacts, but also cumulative and associated impacts. Any project affecting indigenous peoples should be a category A requiring a full EIA and consultation process. Project-affected indigenous peoples should have access to objective technical and legal assistance and counsel.
- Involuntary resettlement – The scope of project impacts on livelihoods needs to include direct, indirect, cumulative, and associated impacts and should include provisions for consequences of the project that occur over time. For example, a project may draw down the water table, which over time makes the land unproductive, or pollution emissions might jeopardize health over the long term. The loss of free ecosystem goods and services, such as water or non-timber forest products, should also be costed and included in compensation packages.
- Grievance mechanisms – There should be a safety net for those countries where project-affected communities are afraid to speak out or do not understand their rights or do not have the resources to approach the ADB Independent Review Mechanism.
- Critical habitats – The criteria for critical habitats has been weakened and a standard needs to be developed to which clients and/or ADB will be held accountable (e.g., ensuring ecosystem integrity and maintaining genetically viable populations).

Section 5

Annexes

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