MULTILATERAL DEVELOPMENT BANKS’ ASSISTANCE PROPOSALS
Likely to Have Adverse Impacts on the Environment, Natural Resources, Public Health, and Indigenous Peoples

October 2009
Contents

Introduction ....................................................................................................................................................... 1

Section 1: MDB Public Disclosure Projects ................................................................................................ 4
  Botswana - Mmamabula Energy and Morupule B Projects................................................................. 4
  Morocco – Ynna Asment Cement Plant ............................................................................................. 7
  Kenya – Mombasa-Nairobi Transmission Line ................................................................................. 8
  Nepal – West Seti Hydropower Project ............................................................................................ 9

Section 2: MDB Categorization Projects ...................................................................................................16
  Albania – Bankers Petroleum ..............................................................................................................16
  Brazil – TermoMaranhão and Pécem Thermoelectric Power Plant Projects ................. 18

Section 3: MDB Watch List ..........................................................................................................................20
  List of Previously Described Projects ............................................................................................20

Section 4: MDB Post-finance Monitoring Projects ..................................................................................21
  Brazil – Bertin Ltda................................................................................................................................ 21

Section 5: MDB Policies ................................................................................................................................23
  Asian Development Bank Safeguard Policy Update ........................................................................23

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 four-month period (April through July 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 MDB 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
- 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 four 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:
   - Botswana - Mmamabula Energy and Morupule B Projects
   - Kenya – Mombasa-Nairobi Transmission Line
   - Morocco – Ynna Asment Cement Plant
   - Nepal – West Seti Hydropower Project

2. **MDB Categorization Projects.** Projects in this Section have been categorized as Category B by their respective MDB institution(s), 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.
   - Albania – Bankers Petroleum
   - Brazil – TermoMaranhão and Pêcem Thermoelectric Power Plant Projects

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 also include projects described in previous USAID MDB Reports.

4. **MDB Post-finance Monitoring Projects.** This Section includes project(s) previously reviewed by USAID with potentially significant environmental and social impacts or projects discussed during Tuesday Group¹. These projects are referred to in this report as Post-finance Monitoring Projects.
   - Brazil – Bertin Ltda

¹ Tuesday Group is a monthly meeting of NGOs and U.S. federal agencies, co-chaired by USAID and the Bank Information Center, to address MDB project loans and policies.
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.

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.

Report structure: This 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 Post-finance Monitoring Projects
Section 5: MDB Policies
Section 1
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 to the U.S. Department of Treasury for its consideration.

Botswana

*Mmamabula Energy Project*

Project Description
The Mmamabula Energy Project (MEP) is a combined project which includes the construction of two power plants (Mmamabula and Morupule B), the greenfield development of the Mmamabula coal field, expansion of Morupule Colliery, a potential wellfield project, and the construction of transmission lines to various sites in Botswana and South Africa from both the proposed Morupule B and proposed Mmamabula power stations.

**Morupule B Power Station:** The Morupule B power station is proposed to be constructed in two phases. Phase 1 consists of a 600 MW coal-fired power plant which is planned to become operational in 2010. Phase II involves doubling the plant’s generation capacity to 1200 MW. The existing Morupule Colliery, which currently provides coal to the existing Morupule power station, proposes to expand its coal production from 1 million tonnes per annum to 4 million tonnes per annum in Phase I and 12 tonnes per annum in Phase II to accommodate Morupule B.

**Mmamabula Power Station:** Limited information is available on the proposed 2100 MW coal-fired supercritical Mmamabula power station and development of Mmamabula coal fields. EIAs are not available at this time for this set of projects.
Transmission Lines for the Mmamabula Energy Project: The transmission line project EIA includes the following components within Botswana. These lines will continue into South Africa to the proposed Delta substation.

- A 102 km, 400kV line running north past Mahalapye to the proposed Morupule B power station outside Palapye. From there it will go on to the Phokoje substation, outside Selebi Phikwe.

- In addition, there will be four 400kV lines running east, from the Mmamabula power plant to the Limpopo River and the South African border.

- A corridor for a 400kV line to the proposed Mosaditshweni substation north of Mochudi was also included in the assessment, although the development of this line will not form a component of the MEP.

- The EIA also evaluated a proposed 66kV line from Phokoje to the mine and power plant area, which will be used to supply power for construction and commissioning.

Botswana’s per capita CO2 emissions will increase to 8.7 tons (slightly above the world average) when Morupule B Phase I becomes operational. It is estimated that per capita CO2 emissions level for Botswana will be nearly 17 tons when Mmamabula and Morupule Phase II come on line. On a per capita basis, this would make Botswana the highest CO2-producing country in Africa and one of the highest in the world.

Financing
The total cost of the MEP is estimated at $15 billion with a power generating capacity of 2500MW. Of the $15 billion, the AfDB is contemplating providing $1 billion from the sovereign window and $250 million from the non-sovereign window.

Morupule B and transmission lines: The World Bank (WB) is planning to provide a Partial Risk Guarantee for the Morupule B power station, part of the transmission lines and substations, water supply connections and technical assistance. Estimated WB financing is $172 million. The AfDB plans to finance part of the transmission lines and substations; start-up fuel for commissioning of the plant and technical assistance.

Mmamabula power plant and coal mine: This project is being assessed by AfDB’s private sector arm and scheduled for Board vote in 2011. Estimated WB financing is $150 million.
USAID Review
USAID has initiated its review of these projects. USAID’s environmental and social review will consist of: (a) a review of EIA adequacy under the Pelosi Amendment, and (b) identification of outstanding Title XIII environmental and social issues (environment, natural resources, public health and indigenous peoples).

Current Status
WB and AfDB Board dates for the Morupule B power station and Mmamabula Energy Project transmission lines are scheduled for late October 2009.
**Project Description**

The Ynna Asment will be constructing a greenfield, integrated, and energy-efficient cement plant with an annual cement production capacity of 1.5 million tons in a rural agricultural area of central Morocco. The project requires the construction of a quarry, the installation of new transmission lines, the enlargement of a 4 km access road and the potential construction of a rail spur to an existing rail line 24 km from the project site. The project is expected to come on line in 2012.

**Financing**

The project is estimated to cost the equivalent of EUR 220 million. Proposed financing from the IFC consists of: (1) an equity investment of up to EUR 20.9 million for 19% of the shares of Ynna Asment and (2) a revolving partial credit guarantee for up to EUR 40 million of the project's debt financing.

**USAID Review**

Due to time constraints, USAID undertook a preliminary review of the project documentation and concurred with US EPA and Treasury’s conclusions that the EIA was of substandard quality and that the potential implications and mitigative measures are given only cursory treatment throughout the EIA. Little consideration was given to the potential impact that changes in ground water conditions from plant operations would have on farmers. Additionally, the EIA did not adequately address the cumulative impacts and associated facilities of the project. Consequently, the EIA that was made available to the public fell short of what is needed for informed public participation.

USAID concurred with Treasury’s recommendation to abstain on the proposed loan on Section 1307 (Pelosi) grounds.

**Current Status**

The U.S. Department of Treasury instructed the U.S. Executive Director to abstain on this project on Pelosi Amendment grounds. This project was approved by the IFC Board of Directors on April 16, 2009.
Kenya

*Mombasa-Nairobi Transmission Line*

**Project Description**
The Mombasa-Nairobi Transmission Line project is being developed by the Kenya Power and Lighting Company Limited. The project consists of the construction of an approximately 450 km high voltage transmission line to convey electricity from the Rabai substation near Mombasa to the Embakasi substation in Nairobi. The transmission line is a 400 kV double circuit line. The transmission line will evacuate power generated at a number of plants to be installed around Mombasa.

**Financing**
The total project cost is estimated at $275.34 million. The AfDB loan of $75 million represents 27.2% of the costs. Other co-financiers for the project are the French Development Agency (AFD) (27.9%), the European Investment Bank (EIB) (27.91%), and the Kenyan government (16.98%).

**USAID Review**
Due to time constraints, USAID’s review of this project’s EIA documentation was cursory. The project EIA only covered the transmission line and did not provide an assessment of the cumulative and associated impacts of the planned power plants that the lines were to evacuate power from. Since the sole purpose of the transmission line is to evacuate power from proposed power plants, USAID considers this “reasonably foreseeable” and as such an assessment of the cumulative and associated impacts should have been conducted even though the exact locations have yet to be determined.

USAID concurred with Treasury’s recommendation to abstain on the proposed loan on Section 1307 (Pelosi) grounds based on the absence of cumulative and associated impacts analysis.

**Current Status**
The U.S. Department of Treasury instructed the U.S. Executive Director to abstain on this project as the EIA did not look at associated or cumulative impacts of the construction of “reasonably foreseeable” power plants. The project was approved in May 2009 by the AfDB Board of Directors.
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 project is a build-own-operate-transfer scheme, with West Seti Hydro (WSH) holding a 30-year license that will provide 25 years of electrical generation before full ownership is transferred to the Government of Nepal (GoN). The project construction contract was recently awarded to a Chinese company and the power purchase agreement with India was finalized in June.

In 2008, the Nepal Department of Electricity requested and obtained a revised project agreement to enable the GoN to receive 10% of the electricity produced free of charge from the project in lieu of the original agreement of 10% of project revenues. An additional 8 MW riparian release power station is to be constructed at the base of the dam to provide energy to local communities. Additional income that will be generated by the project includes energy and capacity royalties (~$600 million); export, corporate and national taxes from WSH (~$270 million) and its shareholder dividends from the project (~$422 million).
The project is classified as an environmental category A. The Environmental and Social Impact Assessment (ESIA) for the project was initially prepared between 1996 and 2000. In 2007, an ESIA was prepared for the project transmission line, in addition to a cumulative impact assessment and disaster mitigation plan, with all costs being updated. However, as a consequence of public opposition to the proposed routing of the transmission line within Nepal, the project sponsor is undertaking a new ESIA with a significantly different route.

Financing
The total 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. USAID/Washington traveled to Nepal in June 2009 to meet with stakeholders as part of USAID’s due diligence efforts under the International Financial Institutions Act, Title XIII, Section 1303(a)(3).

USAID concerns based on the environmental documentation prior to the site visit still remain and included 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 Nepali.
- A conflict vulnerability assessment for the Resettlement Plan is necessary, because approximately 1,393 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 glacial melting rates are predicted to have an impact on river flows, hydrologic conditions, and therefore dam operations and life span.

USAID continues to be 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. There is the belief among a large number of stakeholders that the amount of free electricity generated from the project for Nepal should be greater than 10% and at least 80% of what the GoN receives should come back to West Seti for development. 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.

**USAID site visit:** A trip report is currently being drafted which will be provided to the public. In brief, the trip involved meetings with stakeholders in Kathmandu, community meetings in five villages within the proposed reservoir site that will be resettled, meetings with three communities downstream of the dam site, and a visit to the Terai, which is the proposed resettlement area. The West Seti hydropower project continues to raise a number of social issues since 2,421 households (18,269 persons) will be directly affected by the project.

**Reservoir area:** Based on discussions with a wide range of stakeholders (primarily men) from the five villages visited, there are two general positions concerning the project. One position is general support for the project given an adequate compensation package and the other position is not to support the project in its current form. In-depth discussions reveal that a key reason for wanting the project and the ability to move is the absence of GoN investment for developing the area once the project was identified approximately 15 years ago. Many interviewees felt that they have been left behind in the development process and this is their only chance to improve their livelihoods. In discussions with women, they are less sure of being resettled. Their concerns range from being safe to having access to forests for non-timber forest products, such as medicines. Most stakeholders expressed frustration that it was taking so long for the project to happen in the absence of GoN investment for development. The perspective of the stakeholders that do not want the project to go forward made it clear that they were not against hydropower per se but that the project as it is does not benefit Nepal. They also stated
that the ESIA needs to be translated into Nepali before they could ever think of supporting the project.

Of the 2,421 households, 1,393 will be resettled, and the majority is proposed for resettlement in the Terai. The communities that will be resettled will face reduced access to non-timber forest products and fisheries, which are for subsistence use and income generation. There is also the concern that the Terai is a market-based economy and their expenses will be much greater than where they currently live. This will be especially difficult for the Dalits, who make up about 5-10% of the population, have been historically, economically, and socially marginalized, and depend on the higher castes for employment. As a consequence, they are asking for an adequate compensation package, to include loss of both lowland and highland agriculture lands, and access to forests and rivers. There is a strong desire to see the resettlement land prior to moving and to have a voice in its selection. There is the perception that the land chosen will be close to the Indian border or close to riverbanks, which is not acceptable, and that the villages that are the last to relocate will have a poorer selection of land. The process needs to be carried out in an equitable manner. Each village wanted to stay as a unit in the Terai due to their culture, language and religion. There are stakeholders that would prefer to stay in the middle mountains but since there is no land available they understand that they will have to resettle in the Terai.

The villages of the middle mountains will face two major changes from resettlement in the Terai: (1) adjusting to differences in climate and (2) adapting to a new economic model. One, the temperature and climate is hotter and drier in the Terai than their traditional climate. Two, the traditional economy in the West Seti Valley provides access to free services such as water, forest products, and fish. The people without land and employment depend on villagers and these free services but the Terai as a cash-based economy lacks these free traditional services. Additionally, Dalits depend extensively on non-Dalits for their livelihoods and will also have difficulties resettling in the cash-based economy of the Terai.

The stakeholders proposed several types of assistance to mitigate resettlement stresses. These include well-developed infrastructure, cremation facilities, roads, schools, health posts, electricity, and water. It has also been suggested that families be given insurance to cover family members who die during the resettlement. A number of stakeholders are aware that the Tharu Organizations (indigenous peoples of the Terai) have publicly come out in opposition to the resettlement of households to the Terai.

Consultations: Stakeholders do not feel that there has been adequate consultation concerning the project ESIA or during development of the resettlement plan. Although there have been a number of visits by WSH, these visits were not viewed as consultations, but rather perceived as WSH talking to them about their program. In recent meetings with WSH, the stakeholders were told that with the new investors such information and consultations concerning the project will be conducted in a new way. A group of stakeholders stated that the GoN needs to take a more active role in the project and the Prime Minister and Secretary of Ministry of Water Resources should come to the reservoir site to meet with the communities.

Compensation package: Stakeholders want the compensation package to be fair, reflect international standards and be properly delivered. There is a fear of being betrayed and being given land that is not productive, which would make them effectively landless. The potential of
conflict, if this happened, was raised during discussions. Communities are requesting land compensation that varies between 1:3 to 1:7. Although these ratios were not systematically derived, they are based not only on the land that will be submerged but also the other aspects of their environment that they will lose – such as upland areas where maize and dahl grow, community forests (food, medicinal plants), water resources, including fisheries and flood timber. (Flood timber is what the river brings during the monsoon and provides fuel for a substantial period of time so the villagers do not have to cut trees.) However, the point was raised that it is not just enough to give land in the Terai but that it must be irrigated and productive. Since fertilizers will need to be purchased for Terai land, they need to be sure that wherever they are they can make a living. A number of interviewees stated that they are expecting the land will be complemented by other amenities such as rivers and forests.

There are tensions between the stakeholders and WSH concerning the land compensation ratio. The stakeholders feel that WSH is dismissing their concerns as to the reason they are proposing such ratios. To date, there has not been any technical expertise sent to determine what a proper ratio might be. Many stakeholders interviewed felt this would be a good idea and WSH seemed responsive to the idea.

Several groups commented that past relationships with the project had been good but have deteriorated over time. The reason given for this change was that communities have put forward their compensation demands and WSH said they were unrealistic without asking why communities were requesting certain demands. The tension is reflected in actions such as burning down the information center in Moribuger, blocking the road for two hours, removing ADB tents during their site visit. After these incidents, the head of WSH visited and told them that, unlike in the past, WSH will provide communities with all the information they wanted.

**Reservoir Hillside residents:** There are a number of households/communities that will remain living in the hills above the villages that are designated for resettlement. USAID was not able to interview any of these residents so information was collected from local villagers who interact with them. Reportedly, they have not been involved in any of the consultations and information concerning their livelihoods has been collected only superficially.

One community estimated approximately 300 households in their area. For these households their nearest market is Deura; when Deura is gone, their nearest market will be 4-5 hours away. Their closest health clinic is also in Deura. As the land on the hillside is not as productive as it is in the valley, there is concern as to the impacts on their livelihoods since they depend on the lower villages for food such as rice and fish. River material – sand/pebbles – is also collected for house construction. These households will lose their access to schools, markets, and clinics that are located in villages that will be relocated. In addition, some of them sharecrop on land of people who will be resettled. Stakeholders who will be resettled stated that infrastructure facilities – e.g. education and health – need to be provided for these people.

**Downstream area:** Communities downstream of the dam are generally supportive of the project. Concerns expressed include the impact of the reduced flow of West Seti on fisheries, agriculture, water supply, and microclimate; impact of increased number of workers into the area; economic stability following construction activities; and dam failure. Because of the seismicity of the area and the height of the dam, the majority of groups interviewed raised dam
failure as a significant concern. Similar to the upstream area, there is frustration that the project has taken so long to get started.

Livelihoods in the downstream area are based on agriculture and fisheries. Due to the prohibitively high costs of irrigation, vegetables are not grown in the region unlike areas upstream. The majority of households also fish for food and income. One group stated that a household can get 25-30,000 RP/month from fishing. Several communities experience food insecurity because of dependence on rainfed agriculture or limited access to land. These communities depend on fishing for food or income to purchase food. One community said they depend on fish for sustenance four months out of the year. Households that do not own land primarily depend on fishing, but also work the land of others. Additional sources of household income include remittances from family members working in India and selling sand and aggregate from the Seti River.

All stakeholders raised concern of how the low water levels will impact their practices related to cremation. WSH is discussing options such as electric cremation processes.

Consultations/Compensation: Tensions between stakeholders and WSH are increasing due to little knowledge of the type and amount of planned individual compensation and the lack of response from WSH to a list of 32-42 demands forwarded to the WSH by the downstream communities. The list is the same list referred to by the upstream communities. In fact, members of one community refused to meet with USAID, stating WSH had asked questions and has all of their information. Stakeholders want their demands fulfilled before construction begins.

Downstream of Power House: A further estimated 11,000 people downstream will be affected to varying degrees due to the permanent reduction in the flow of the Seti River and to the increases and decreases in the flow of the river flow due to discharges from the power station. The impacts will range from the loss of fisheries to unpredictable effects on agriculture.

The impacts of the project's reduced river flow downstream on endangered wildlife which depend on flood waters have not been assessed. Downstream areas include the grasslands in Bardia National Park, where a small population of the greater one-horned rhino resides, and the extent of river habitat available to the endangered Ganges dolphin. Additionally, the impacts of fisheries, including several endangered species, and blockage of migratory routes have only superficially been assessed.

Resettlement Area: The proposed area for resettlement is the purchase of private land holdings in the Terai. The Terai is the homeland of the Tharu, Nepal’s oldest indigenous peoples. Ever since malaria was eradicated in the 1950/60’s, the GoN has been clearing the forests and resettling hill people into the Terai. This has resulted over time in the social and economic marginalization of the Tharu.

The indigenous peoples organizations for the Tharu have publically voiced their opposition to having the WSH project-affected villages resettle to the Terai. In meetings, it was stressed that the Tharu organizations would never support resettlement of the hill people and that their position would not change over time or regardless of how many visitors came to discuss the issue with them. The Tharu believe they are becoming a minority in their own native land, which will result in their loss of native language, culture and identity. Based on past experiences,
local people fear that the Hill people will occupy more of their land and they will be pushed onto more marginalized land with access to fewer facilities/services.

Other issues that complicate the proposed resettlement include:

- Nepal’s rewriting of its constitution - Over 70 “tharu” NGOs have organized to propose an indigenous Tharu state – “Tharot”. The Tharu have become a strong political entity over the past years. In March 2009, there was a region-wide strike launched by the Tharu communities in support of the Tharu’s right to self-determination, their cultural identity and control over their land which effectively shut down most of the Terai region.

- The GoN promise to provide the kamaiyas (freed bonded laborers) with land and housing. The peace process resulted in an agreement to return the land seized by the landless sharecroppers during the Maoist insurgency to the former landowners pending a national process of agrarian reform and promised resettlement for the kamaiyas. For a substantial number of kamaiyas, estimated in the tens of thousands, this agreement has not been fulfilled. The kamaiyas have never forcibly occupied private land and are living on public land such as Dhangadhi’s old airport.

A number of stakeholders raised the possibility of conflict if the WSH continues with resettlement plans of the hill people into the Terai.

Current Status

Since the Board date for this project is expected in late 2009 or early 2010, and construction has not yet started, the USG is engaging with ADB project management and project sponsor to discuss possible approaches to eliminate or mitigate the social and environmental impacts prior to the Board vote.

Recently, Nepal’s parliamentary Public Accounts Committee has reported that the proposed agreement between the GoN and WSH is “extremely objectionable” and has instructed the GoN not to reach any agreement until the committee arrives at a decision. Key issues cited with the agreement includes a provision that the law of Britain is applicable for any disputes and that the GoN is liable to compensate if there is disturbance, strike or other obstructions with the project.
Projects in this Section have been categorized as Category B by their respective MDB institution(s), 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.

**Albania**

*Bankers Petroleum*

**Project Description**

This project consists of the redevelopment of the 70 km$^2$ Patos-Marinza heavy oil field and the initial evaluation of potential development of the Kucova oil field in southern Albania. Patos-Marinza is the largest onshore oilfield in continental Europe and holds substantial proved reserves (~ 67 million barrels). It is severely polluted due to the limited control and treatment of wastes and emissions and experiences considerable leakage and release of oil to the environment due to mismanagement and poor operational practices by the state-owned energy company (Albpetrol) and the use of obsolete technology. The Kucova field, which is 20 km to the east of Patos-Marinza is similar to Patos-Marinza in both reserves and contamination. Both oil fields have villages and small towns within and immediately outside of their perimeters. In Patos-Marinza an estimated 1,500 people live within 100 m of an oil well and some areas of the Kucova field are more densely settled.

Bankers has been operating in Patos-Marinza; at the time of the IFC appraisal (June 2008) it had taken over 360 wells from Albpetrol and was reactivating approximately 200 of them. Bankers will become the sole operator at Patos-Mainza as Albpetrol operations are phased out.

The proposed financing for the Patos-Marinza project components include: (1) re-activation and remediation of about 250 existing wells; (2) drilling 60 new vertical and horizontal wells; and (3) parallel testing and application of additional strategies, including waterflood and cyclic steam stimulation to increase overall recovery. Oil production from the field is expected to triple from 6,900 barrels per day (bpd) to about 20,000 bdp after completion in five years. Bankers has the right over the five years of the project to extend the production to other areas of the
Patos-Marinza field and to the Kucova field, subject to IFC and EBRD approval but without IFC Board approval, provided there is no new money.

Financing
The proposed IFC financing consists of: (1) a five-year revolving A loan facility of up to $50 million; (2) a special purpose environmental term loan of up to $5 million, and (3) a potential equity investment through warrants of about $10 million for a 4.5% share in the company. EBRD is co-financing in the same amounts.

USAID Review
The IFC gave the project a category B rating which does not require a full EIA and public consultations. The IFC justified the rating on the grounds that the impacts are limited, site specific, mitigable, and reversible. USAID’s review of the project’s environmental documents concluded that the proposed projects have the potential to pose significant environmental and social impacts and therefore an EIA and public consultations are required. In addition to the remediation component of the proposal, production is expected to triple, which raises issues including the storage of the tripling annual volume of hazardous waste and transportation and export of the increased amount of oil.

The EIA did not provide an assessment of cumulative impacts, including the new facility port currently under multiphase construction; moreover, the absence of baseline data on air and water quality makes it difficult to determine whether remediation will be necessary to meet IFC environmental guidelines. Based on these factors, USAID concurred with Treasury’s recommendation to abstain on the proposed loan on Section 1307 (Pelosi) grounds.

Current Status
The U.S. Department of Treasury instructed the U.S. Executive Director to abstain on this project on Pelosi Amendment grounds. This project was approved by the IFC Board of Directors on May 5, 2009.
Project Description

The TermoMaranhão Thermoelectric Power Plant, being developed by UTE Porto do Itaqui Geração de Energia Ltda. will consist of a 360-MW pulverized coal-fired thermoelectric power plant to be located in Northeast Brazil, in the state of Maranhão. The project will burn bituminous coal with high heat rate, low ash, low sulfur, and low mercury contents. The coal to be used by the project will be imported from Colombia and various other locations around the world.

The project will be located close to an energy transmission substation, at approximately 3 km from the port of Itaqui, which can accommodate large vessels, necessary for the transportation of the imported coal. The project will be allowed to produce and sell up to 2,759,400 MWh of energy per year corresponding to the equivalent assured energy capacity of 315-MW.

The Pecém Thermoelectric Power Plant, being developed by Porto do Pecém Geração de Energia S.A. will consist of a 720-MW pulverized coal-fired thermoelectric power plant to be located in Northeast Brazil, in the state of Ceará, within the industrial complex of Pecém. The project will burn bituminous coal with high heat rate, low ash, low sulfur, and low mercury contents. Coal will be imported from Colombia and various other locations around the world. The industrial complex of Pecém is located close to an energy transmission substation, at approximately 7 km from the port of Pecém, which can accommodate large vessels, necessary for the transportation of the imported coal. The project will be allowed to produce and sell up to 5,387,400 MWh of energy per year, corresponding to the equivalent assured energy of 615 MW.

Both plants will deliver electricity for long-term power purchase agreements to 32 distribution companies that participated in an October 2007 auction. Both projects are part of the Programa de Aceleração do Crescimento (regulated by law 11.488), a federal government program intended to accelerate the country’s growth through investments in infrastructure and certain state and federal tax-incentives.

Financing

The cost of the TermoMaranhão plant is estimated at $1.087 million with a proposed IDB A-loan of $50 million. The cost of the Pecém plant is estimated at $1.853 million with a proposed IDB A-loan of $147 million.
USAID Review
USAID’s review of the project’s environmental documents concluded that both projects have the potential to pose significant environmental and social impacts and therefore an EIA and public consultations are required. Both projects were initially considered a Category B and reclassified as Category A about a month prior to the Board date. Due to the recent reclassification the environmental documentation was not adequate. For example, the discussion of alternatives focused on the cost and followed the choice of technology rather than preceding it. Additionally, sufficient public consultation, as required for an IDB Category A project, did not occur. The IDB did not fully develop monitoring and enforcement measures of emissions and the standards do not include limits on mercury emissions. Finally, the enforcement mechanisms for NO\textsubscript{x} and SO\textsubscript{x} and greenhouse gases are inadequate as they are valid only over the life of the loan (17 years) rather than the life of the plant (30+ years).

Based on these factors, USAID concurred with Treasury’s recommendation to abstain on the proposed loan on Section 1307 (Pelosi) grounds.

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 energy policy grounds. This project was approved by the IDB Board of Directors on March 20, 2009.
Section 3
MDB Watch List

USAID continues to monitor the status of the following projects included in previous MDB Reports:

April 2009
Guinea – Alumina Refinery Project

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
MDB-financed projects previously reviewed by USAID which have potentially significant environmental and social impacts or projects discussed during Tuesday Group are included in this section. It should be noted at this stage of the project there is no formal leverage from the USG, and in many cases, that the MDB involved in the financing lacks leverage if the loan has been disbursed and paid back.

### Brazil

**Bertin Ltda**

**Project description:**
Bertin Ltda is one of the largest cattle companies in Brazil, with products for both domestic consumption and export. Its products include natural and processed beef, leather, cleaning products, personal protective equipment (shoes and gloves), and dog toys. The meat and leather businesses account for nearly 85% of total sales. In 2007, Bertin reported that it procured 85% of its cattle from independent farmers and kept an 80,000 head farm and a 100,000 head feedlot in reserve. The slaughtering capacity was ~5,400 head/day. Bertin undertook a major expansion and modernization investment program for its operations from 2005 – 2007 in six Brazilian states.

**Financing:**
Bertin’s overall expansion and modernization program is estimated at $424 million. The IFC Board approved financing for this project March 8, 2007 with a corporate loan of up to $90 million in the form of an A loan and a C income-participating loan to finance the ongoing investment programs. The USG abstained from voting on this project based on the 120 days EIA disclosure requirement.

**USAID review:**
Since the environmental documents were not made available on the IFC website 120 days prior to the Board vote, as required by Section 1307, the USG could not support the project. However, USAID reviewed the project based on its broader implications of deforestation rates in Brazil’s Amazon, potential impacts on indigenous peoples, and development of a cattle certification system in an effort to improve the project. Given the initial short time period between release of the safeguard documents and the initial proposed Board date, a site visit was not possible. USAID recommended that the Department of Treasury instruct the U.S. Executive Director to vote “no” due to the serious deficiencies in the EIA, leading to an inaccurate and incomplete picture of the environmental and social impacts of the project and the increased potential of deforestation in the Amazon.
Current status:
Within the past year, Bertin was fined three times by the Brazilian federal environmental agency, IBAMA, for environmental irregularities at its slaughterhouses in the state of Para, for approximately $1.7 million. Additionally it is reported that Bertin continued to purchase beef from illegal producers and expanded its acquisitions in the Amazon region, which included beef produced by ranchers that invaded and deforested indigenous land and other legally protected forests.

IFC informed its Board of Directors in June (2009) that IFC and Bertin had reached a mutual agreement in early May 2009 to discontinue their partnership, and requested immediate payment of the loan balance of approximately $30 million.
Section 5
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 Board of Directors approved its new Safeguard Policy in July 2009. During the course of the multi-year review process USAID informed the Treasury Department of its concerns about a number of policy provisions. Some important improvements were made, as summarized in the U.S. Position on the Asian Development Bank’s Safeguard Policy Statement (SPS) of July 2009. USAID supports in particular the new emphasis on making project design and operation more responsive to global climate change. That said, we agree with Treasury that the new Safeguard Policy is “not without its weaknesses”.

In particular, USAID highlights the concern in the U.S. Position “about the scope of the definitions of associated facilities and cumulative impacts” as these key elements provide fundamental underpinnings for a sound and comprehensive Environmental Impact Assessment (EIA). The U.S. Position “urged that all relevant impacts be considered in a project’s Environmental Impact Assessment (EIA)”; therefore the scope of the EIA must be monitored closely by the ADB to ensure that sufficient baseline data analysis is conducted to allow design of appropriate prevention and mitigation measures. With respect to Country Safeguard Systems, we recommend development of specific methodologies for assessing equivalency, acceptability and host-country capability, as well as ensuring broad transparency throughout the process. The three-year review of Country Safeguard Systems will provide a very important opportunity for evaluation, and individual ADB projects will continue to be reviewed by USAID and other USG agencies as provided by law.

USAID also recommends that any project that has potentially significant impacts (direct or indirect, cumulative and associated) on indigenous peoples should have a full EIA and consultation process. Special care must be taken to ensure that project-affected indigenous peoples have effective and unrestricted access to objective technical and legal assistance and grievance procedures. Similarly, customary tenure and usufruct rights (including rights to ‘free’ ecosystem services) should be taken into careful account with respect to activities that could lead to involuntary resettlement and in the development of adequate compensation packages. Finally, in critical habitats a clear and measurable standard (e.g. ecosystem integrity) needs to be developed to which clients and/or ADB will be held accountable.