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

October 2013
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Multilateral Development Bank Assistance Proposals Likely to Have Adverse Impacts on the Environment

Introduction

The U.S. Agency for International Development (USAID) submits this report in compliance with Title XIII of the International Financial Institutions (IFI) Act. These provisions instruct USAID to report to Congress on Multilateral Development Bank assistance proposals likely to have adverse impacts on the environment, natural resources, public health, or indigenous peoples (IP).

This report covers a five-month period (April 2013 through August 2013) and provides information regarding USAID’s performance of its tasks as assigned by Title XIII of the IFI Act to the Committee on Appropriations, the Committee on Banking, Finance and Urban Affairs, and the Committee on Foreign Affairs of the U.S. House of Representatives, as well as the Committee on Appropriations and the Committee on Foreign Relations of the U.S. Senate.

Title XIII directs USAID, in consultation with other U.S. Government (USG) agencies, to review the environmental and social impacts of MDB assistance proposals well in advance of such proposals’ approval to determine whether the proposals will contribute to the borrowing/project country’s sustainable development. The reviews address the potential adverse effects of proposed projects on the environment, natural resources, public health, and indigenous peoples. If there is reason to believe that any such loan is likely to have substantial adverse impacts, USAID has the responsibility for making recommendations, including proposing alternative measures, which could eliminate or mitigate adverse impacts. After evaluating MDB proposals, USAID may undertake an Affirmative Investigation of selected projects that may have substantial adverse impacts. The resulting information is available to the public in the form of an Affirmative Investigation Report. This report will be posted once final on the USAID Title XIII compliance website at http://gemini.info.usaid.gov/egat/envcomp/mdb.php. USAID provides its findings from this process to the U.S. Department of Treasury and to Congress.

USAID/Washington continues to work with USAID’s regional bureaus and field missions, as well as 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 (OUSEDs), when conducting the Affirmative Investigations and evaluating project environmental and social impact assessments (ESIAs).

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1 Section 1303(a)(1) of the International Financial Institutions Act
2 Section 1303(a)(2) of the International Financial Institutions Act
3 Section 1303(a)(2) of the International Financial Institutions Act
4 Section 1303(a)(3) of the International Financial Institutions Act
MDB Project Review

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

- Potential adverse direct, indirect and cumulative impacts on the environment, natural resources, public health, and/or indigenous peoples;
- Ability to serve as an example within a sector for similar projects;
- Potential to impact USAID’s sustainable development activities.

The MDB projects selected by USAID, in consultation with other USG agencies, for review during the period covered in this report are either candidates for financing or have since been approved for financing by Multilateral Development Banks as defined in Title XIII. Projects mentioned in this report fall into one of the following categories:

1. **MDB Proposals with Potential for Adverse Effects:** This section includes the following MDB proposals reviewed prior to Board\(^5\) consideration:
   - Solomon Islands – SolTuna Limited
   - Ethiopia – Pastoral Community Development Project III
   - Brazil – Minerva SA
   - Laos – Participatory Sustainable Forestry Management

2. **USAID Affirmative Investigations:** This section includes brief descriptions of Affirmative Investigations that USAID has conducted during the past 6-12 months.
   - Kosovo – Kosovo C Coal-Fired Power Plant
   - Democratic Republic of Congo – Grand Inga, Phase A Hydropower Project

3. **Future MDB Proposals with Potential Environmental and Social Impacts:** An Affirmative Investigation is most likely to have a positive influence on the proposal development process when the MDB and project sponsor are engaged early. For this reason the Working group on Multilateral Assistance (WGMA) maintains an early engagement project list. Proposals that were identified for this list have the potential for adverse impacts and are: 1) technical assistance or studies that have the potential to lead to additional MDB financing for project development; and/or 2) projects under discussion with various MDBs, in which a management decision has not been made on whether to bring these projects into the MDB formal appraisal process; and/or 3) projects that have not initiated an Environmental Impact Assessment/Environmental and Social Impact Assessment (EIA/ESIA), but do have a pending Board date. New projects in this category include the following:

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\(^5\) The Board of Executive Directors (the Board) is made up of appointed or elected representatives of the Bank’s member countries.
• Indonesia – Regional Road Development II Project
• Nepal – IFC InfraVentures Upper Trishuli Hydropower Project
• Mozambique – Mphanda Nkuwa Hydropower Project
• Pakistan – Dasu Hydropower Project
• India – Luhri Hydropower Project
• Nepal – Melamchi Water Supply Project
• Indo-Nepal Transmission Line
• Guatemala – Land Administration Project
• Mongolia – Orkhon River Diversion Project
• India – Nyamjung Chhu Hydropower Project (MDB funding unlikely until a territorial dispute is resolved)
• Togo – Adjarala Hydropower Project

To increase the effectiveness of the Title XIII process, USAID engages in the MDB project proposal process as early as possible, including through site visits and interviews with local, regional and international stakeholders. USAID continues this interaction with relevant stakeholders during the later stages of the project proposal process when all environmental and social documentation is available.

Report structure: This report is divided into the following sections:

Section 1: MDB Public Disclosure Projects
Section 2: USAID Affirmative Investigations
Section 3: Future Multilateral Development Bank Proposals with Potential Environmental and Social Impacts
Section I

MDB Public Disclosure Projects

USAID’s technical review identifies proposals with potential environmental and social issues (environment, natural resources, public health, and indigenous peoples under Section 1303), and assesses the ESIAs according to the Pelosi Amendment (Section 1307). Following each completed review, USAID develops recommendations regarding potential mitigation measures in an attempt to prevent and mitigate potential environmental and social impacts. USAID reviews the project and provides possible recommendations that might be used during ESIA development. The recommendations are also given to the U.S. Department of Treasury for its consideration. Some of these projects have proceeded to Board vote.
Solomon Islands
SolTuna Limited

On May 23, 2013, the project documentation for the IFC’s Proposed Investment in SolTuna Limited was made available to USG agencies for consideration at a June 6, 2013 Board meeting. USAID comments on the project were provided on May 30, 2013 and June 5, 2013. The USG abstained due to the Pelosi Amendment, which requires that the project’s environmental assessment be made publicly available by the project sponsor 120 days before it is voted on by the Board. At the same time, the USG emphasized the importance of monitoring and adherence to best practices on by catches (incidental fish caught along with targeted species) mitigation of associated fishing operations by SolTuna’s supplier. For the full U.S. position see http://www.treasury.gov/resource-center/international/development-banks/Documents/Solomon%20Islands%20SolTuna%20US%20Position.pdf.

Project Description

SolTuna is the only tuna loining and canning processor in the Solomon Islands and is based in Noro, Western Province. The proposed project consists of an expansion and upgrading of SolTuna’s tuna processing plant. It is expected that this project will strengthen the sustainability of SolTuna’s operations and help support the flow of benefits from the fishing industry to the local Solomon Islands economy by substantially increasing the amount of tuna that is processed in the Solomon Islands rather than elsewhere in the Pacific region. In 2012, the Solomon Islands enacted a policy requiring that albacore tuna caught by longliners in Solomon Island waters be processed onshore rather than exported. The plant expansion is expected to increase its tuna, (specifically albacore, due to the aforementioned policy) processing capacity from 90 to 150 metric tons per day and includes the following: wharf repair and upgrade; cold storage facility; wastewater treatment plant; and employee housing.

Albacore tuna is considered “near threatened” by the International Union for the Conservation of Nature (IUCN). Overfishing has led to the collapse of several tuna species, including the Southern Bluefin tuna, which is now considered “critically endangered”. Without sustainable tuna harvesting practices, the tuna fisheries industry could be negatively impacted.

The IFC indicated that, as part of the Environmental and Social Action Plan for this investment, the sponsor has committed to the following actions: improve identification and monitoring of by catch (for purse seine and longline operations); map bait fishing areas (for pole and line operations) against marine protected areas; institute Marine Stewardship Council (MSC) precertifications for all three fishing types (purse seine, pole and line, longline); and support the Ministry of Fisheries and Marine Resources in the implementation of the Solomon Islands Tuna Management and Development Plan.

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6 Loins are the largest cuts of meat that processors cut from a whole tuna fish.
The IFC has also indicated that the majority of SolTuna’s workforce (about 60 percent) are women. As part of the Environmental and Social Action Plan for this investment, SolTuna has agreed to implement an incentive plan for women workers with the strategic goal of increasing female representation at supervisor and management levels.

The proposed IFC investment is aligned with the World Bank Group’s Country Partnership Strategy for the Solomon Islands. The IFC is also launching a parallel engagement, the Pacific Islands Tuna Sector Advisory Program, to strengthen public sector capacity and foster public-private links in support of sustainable management of tuna stocks, with an initial focus in the Solomon Islands.

Financing
Total project cost is estimated at $27 million. The proposed IFC investment is a loan of up to $10 million.

USAID Review
USAID’s review focused on the following areas of concern:

- Target species and source material
  - The targeting of albacore, a species that may be overharvested and is already under stress, is of concern. The tuna processing plant expansion, from 90 to 150 MT/day of output, should consider focusing on the processing of skipjack tuna rather than albacore and other species that are under greater stress in the region. Skipjack resources are strong, although there is a need to look at optimization of the benefits from that resource. On-shore expansion proposed seems sustainable in light of other regional developments.
  - The information provided shows that the current and projected status of tuna and fishing pressures in the region requires further evaluation as part of the ESIA.
  - A climate change assessment would have been beneficial to determine short-term, seasonal and multi-year patterns of variability in the location and productivity of tuna habitat zones so that the industry is able to properly regulate the catch. Climate variability has demonstrable impacts on the abundance, concentration, location, and catchability of tropical tuna stocks.

- Design, Monitoring and Evaluation Program:
  - The design and monitoring/evaluation program documentation could have:
    - Tracked clearly the stated goals of addressing gender/youth employment inequities were being achieved
    - Put in place, given the stressed nature of the albacore species, a stronger monitoring and evaluation baseline that could be used to compare with the later monitoring and evaluation measurements and assess changes in the stock.

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7 A medium-sized perciform fish in the tuna family, Scombridae.
8 A concept in fishery biology which reflects the efficiency of a particular fishery.
Provided an important documentation process that allows for an understanding of the exogenous impacts, such as climate, that will likely impact tuna stocks. The issues raised in the three areas discussed above highlight potential impacts to the sustainability of the fisheries industry and the importance of a robust monitoring and evaluation program.
Based on responses from IFC and WB on concerns raised above, USAID noted the following:

- **Climate change**: It is not clear that the IFC considered alternatives that reflect the potential impact of climate change, taking into account the possibility of marine impacts due to rising ocean temperatures, changes in the El Niño Southern Oscillation, ocean acidification, and damage to corals. These are expected to affect fish migration and abundance patterns, leading to a decline in fisheries production in tropical oceans and a decline in coastal protective capacity of the Solomon Islands. Since tuna canning and processing uses a significant amount of water, freshwater supplies are likely to be seriously compromised under most climate scenarios and should be evaluated. Climate change is also predicted to significantly affect coastal areas, with possible adverse impacts on infrastructure caused by rising sea levels and erosion. Therefore, proposals to upgrade infrastructure should include a discussion of climate and weather proofing to ensure sustainability.

- **Gender**: The Pacific Women in Business (WIN) program, which appears to be having a positive impact in the region, will work with SolTuna as a lead firm to conduct a survey of the condition of women in SolTuna’s workforce and in the local community. This baseline will inform additional advisory work to be financed by the IFC through the Pacific WIN program and the Pacific islands Tuna Sector Program. However, USAID looks for the program to provide fuller baseline information to inform program design. To ensure gender equity, the program could include additional funding for training women in industry practices, fostering equality in job allocation and pay in the factory, and directly addressing the potential spillover effect of this investment, including the increased promotion of sex work in areas with visiting fishing vessels – a serious and growing concern in the Solomon Islands. To prevent further gender inequalities, and given the sharp gender role distinctions that characterize this industry, solutions that go beyond promoting female employment should be integrated into the project design.

- **Tuna species**: The stress on the primary target species – albacore– was not addressed in the ESIA. A shift to a species that is not as intensely fished such as the skipjack would help to ensure environmental and economic sustainability of this industry.

- **Actual observer coverage**: Given that the actual observer coverage is approximately 5 percent, which is insufficient, it is important to work with the government to increase observer coverage within an appropriate time frame.

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9 Vessels have onboard observers, whose role includes verification of fishing locations, reporting of fish caught on vessels, and compliance with national and international requirements. Observers record size and length of target species, where boats fail to obey the law, fishing locations, and interactions with species of “special interest” including sharks, sea turtles and whales that are also caught in fishing gear.

10 If the observer samples are an unbiased sample of the fishery, literature review and simulation studies suggest that coverage levels of at least 20 percent for common species, and 50 percent for rare species, would give reasonably good estimates of total bycatch. The required level of coverage, however, could be much higher or much lower for a particular fishery, depending on the size of the fishery, distribution of catch and bycatch, and spatial stratification of the fishery. More importantly, estimates of total bycatch from observer data can be biased (i.e., not accurate) if the coverage is less than 100%. (How Much Observer Coverage Is Enough To Adequately Estimate Bycatch? E. Babcock and E. Pikitch Pew Institute for Ocean Science (2003))
On May 16, 2013, the project documentation for the IFC’s proposed investment in Minerva S.A., a Latin American meatpacker, was made available to USG agencies for a May 30, 2013 Board consideration. USAID questions and comments on the project were provided on May 22, 2013 and May 23, 2013. The USG abstained because the project did not meet 120 day advance Pelosi disclosure requirement and other environmental and social policy concerns, particularly the delay in establishing appropriate supply chain controls in the Paraguay portion of Minerva’s operations. The U.S. position can be found at http://www.treasury.gov/resource-center/international/development-banks/Documents/IFC%20-%20LatAm%20Region%20-Minerva%20Beef%20-%20May%2020%202013.pdf.

Project Description

Minerva S.A. is one of the largest meatpackers in Latin America and the second largest beef exporter in Brazil, with a 22 percent market share of beef exports. The company operates in Brazil, Paraguay and Uruguay with plans to expand activities in Colombia. The project is projected to have significant economic benefits by: 1) creating 4,000 jobs in the frontier regions of Brazil; 2) supporting the implementation of an Environmental and Social Action Plan that promotes sustainable cattle ranching and will set a benchmark for the rest of the industry; 3) supporting continued development of a company that has broad impact on local rural communities through employment of more than 10,000 staff and linkages to a network of 9,000 farmers in Brazil, Paraguay and Uruguay; 4) contributing to global food security through a sustainable increase in beef production; and 5) promoting rural economic development in frontier regions.

Deforestation in the Amazon, according to the IFC, has decreased from 27,000 km2/yr in 2004 to 6400 km2/yr in 2011.11 After 2004, the Brazilian Federal Administration started specific programs to contain deforestation and organize land tenure in the region. Yet, cattle ranching remains a key driver of deforestation in the Amazon and accounts for 80 percent of current deforestation (Nepstad et al. 200812). The deforestation caused by cattle ranching is responsible for the release of 340 million tons of carbon to the atmosphere every year, equivalent to 3.4 percent of current global emissions.13 Beyond forest conversion, cattle pastures increase the risk of fire and are a significant degrader of riparian and aquatic ecosystems, causing soil erosion, river siltation and contamination with organic matter. Trends indicate that livestock production is expanding in the Amazon. Large sections of the Paraguayan Chaco are being deforested by cattle

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13 http://wwf.panda.org/what_we_do/where_we_work/amazon/problems/unsustainable_cattle_ranching/
ranchers from Brazil. According to satellite analysis, 232,000 and 286,742 hectares were deforested in 2010 and 2011, respectively.\textsuperscript{14} Deforestation is further exacerbated as soy developers seek to capitalize on the cattle ranchers and take over their land, pushing cattle ranching (and deforestation) into new pioneer areas.

**Financing**

Total project cost is estimated at $290 million over three years to support Minerva’s regional diversification in Brazil, Paraguay, and Uruguay and expansion into Colombia. The proposed IFC investment consists of an “A” loan of up to $60 million and an equity investment of up to $25 million in common shares of the Company, for a shareholding of up to 3 percent. Various investors and private financial institutions will cover remaining project costs.

**USAID Review**

USAID’s concerns focused primarily on: 1) Minerva’s operations in Paraguay; and 2) secondary and tertiary suppliers of cattle throughout Minerva’s operations. Some of USAID’s comments include:

- Minerva recently acquired a slaughterhouse in Paraguay as part of this project. The Chaco is the primary source location for cattle farms and is also the home to 13 indigenous ethnicities, which represent 31 percent of the region’s population. The land rights of these indigenous peoples are not officially protected, as they lack legal titles to their traditional territories. The Government of Paraguay should consider protecting them against the actions of corporate landowners or other non-indigenous ranchers or farmers. Further, the Environmental and Social Action Plan does not require immediate implementation of measures in Paraguay comparable to what is being required in Brazil. Minerva’s supply chain management for first-tier suppliers in Brazil will include a GIS mapping tool to check environmental and social information from those suppliers, and will ban suppliers that have encroached on protected areas or on IP lands, employ slave labor, do not have valid land title, are involved in land disputes and/or operate in areas deforested after July 2009. Implementation of the supply chain verification system in Paraguay in accordance with the Supply Chain Framework is not required until December 2015. This is because, in Paraguay, no GIS supplier database similar to the one in Brazil currently exists\textsuperscript{15}.

- Beef supply chain traceability to secondary and tertiary suppliers - The cattle supply chain is typically divided in three steps: breeding (0 to 9 months with tertiary supplier), calf raising (9 to 18 months with secondary supplier) and final cattle raising (18 to 36 months with primary supplier). Most of Minerva’s suppliers are the final cattle raisers or, sometimes, integrated calf/cattle raisers. As a consequence, and despite all efforts in managing sustainability aspects of beef supply, a significant portion of the cattle supply chain (secondary and tertiary


\textsuperscript{15} From notes from a May 23, 2013 phone conversation Treasury had with IFC on this project.
suppliers) are not covered by existing monitoring schemes. Most of these suppliers also don’t have a final environmental license or legal land title document, and child/forced labor is difficult to monitor in Paraguay (as it does not have a black list as in Brazil). The ESAP conditions do not cover the larger number of secondary and tertiary suppliers of first-tier suppliers and therefore do not address the issues of deforestation, forced labor and encroachment on IP land. Minerva is planning to implement a pilot certification program for full traceability of its secondary and tertiary suppliers to their 9,000 primary suppliers in Brazil. However, secondary and tertiary suppliers are more difficult to monitor and track because of their large numbers and the small size of their operations. It is questionable that Minerva will be able to implement a certification program for these suppliers given both the substantial technical and financial resources required.

USAID’s recommendations based on the comments above are: 1) to encourage additional efforts by the IFC and WB to work with the government and private sector to support traceability/certification programs with secondary/tertiary suppliers in a timely manner. This will ensure the sustainability of the entire supply chain and further reduce deforestation; and 2) to encourage the WB to actively engage in the Chaco Indigenous Peoples issues as part of their country development strategy to protect the interests and traditional territories of indigenous peoples to help them maintain their livelihoods. These recommendations were identified in meetings with Bank and IFC staff as well as in the U.S. Board statement on Minerva.
USAID commented on this project in beginning in April of 2013 through September 2013, using available Board documents. The Board voted, on this proposal, in Dec 2013. The USG abstained due to concerns about the pastoral communities. The interagency will discuss the issues identified below with the Bank.

**Project Description**

The Government of Ethiopia (GoE) vision for addressing development in pastoral and agro-pastoral areas is articulated in various policy documents, including the most recent poverty reduction strategy: The Growth and Transformation Plan (GTP) that has been under implementation since 2010/11. The GTP, which builds on earlier poverty reduction strategy papers that acknowledge the marginalization of pastoral communities, targets:

- the development of livestock production and other pastoral resources;
- the provision and expansion of social services and infrastructure to marginalized communities; and
- targeted interventions to promote food security in pastoral and agro-pastoral areas, as well as in other food insecure areas of the country.

Pastoral communities are found primarily in Eastern and Southern Ethiopia bordering Eritrea, Somalia, and Northern Kenya. They are also found, to a limited extent, in the country’s westernmost regions. Pastoralists comprise about 12 percent of the Ethiopian population living in an area in excess of 500,000 km² (61 percent of the country’s land mass).16

The Pastoral Community Development Project III (PCDP III) seeks to improve access to social and economic services for pastoralists and agro-pastoralists by improving the quality of service delivery, particularly in terms of providing options that are responsive to pastoralists’ way of life. It is the third in a multi-phased operation spanning 15 years, aimed at enhancing the livelihoods of pastoralists.

According to the World Bank, the first two phases have covered 32 woredas, an administrative unit in Ethiopia, which constitute 1/3 of the country’s pastoral and agro-pastoral woredas. Cumulatively, the first two phases enrolled 22,328 children in PCDP-funded schools, 43 percent of whom are girls; provided access to water for 249,550 people in PCDP-constructed water points serving 322,000 livestock; built animal health facilities that 31,710 families used; irrigated 672 hectares of land; and built rural roads that provided access to market for 69,000 people. The program has also helped develop grassroots financial institutions to help households support

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16 World Bank Pastoral Community Development Project III (P130276) PID posted February 2013
livelihood development and diversification of income. Nearly 448 Pastoral Savings and Credit Cooperatives have been created, and beneficiaries of these cooperatives have seen significant improvements in their livelihoods, particularly in terms of increased incomes and improved self-employment opportunities. The third phase will seek to expand the scale of these benefits.

PCDP III will continue most of the components of Pastoral Community Development Project I and II (PCDP I and II) using a community-driven development approach, with an expanded geographic focus. It will include some modifications to indicators and implementation methods to promote better quality of investments and services and ensure institutionalization of new approaches. It is proposed that PCDP III have four components (financed by the World Bank, the International Fund for Agricultural Development (IFAD) and the GoE), as follows:

a. Service Provision for Sustainable Livelihoods through community investment funds ($171 million)
b. Rural Livelihoods Program ($35 million)
c. Knowledge Management and Learning ($7 million)
d. Project Management and Monitoring and Evaluation ($17 million).

This project does necessitate a WB Indigenous Peoples Plan (IPP) requirements. Therefore, the Bank is addressing risks to Indigenous Peoples through a social assessment, and training by anthropologists and sociologists.

Financing
The proposed financing is $100 million from IDA and $95 million from IFAD. The Board is scheduled to review this proposal in December 2013.

USAID Review
USAID reviewed this project because of concerns involving pastoralist ethnic groups, as noted in a communication to Treasury staff on May 14, 2013. USAID comments stated that “an expanded environmental and social review will enable the GoE to determine in advance if there are significant direct, indirect and cumulative impacts associated with the project, enable greater public participation, and better identification and implementation of avoidance and mitigation measures. For example, if pastoralists lose land or if access to communal natural resources is restricted, it will be important to have a better understanding of the potential direct, indirect or cumulative (depending on other activities in geographic/temporal scope) impacts on either natural habitat or pastoralists livelihoods and ways to avoid/mitigate those impacts. It will also be important to understand how climate change is being taken into account in the development of this program. Finally, the Project Information Document (PID) states that “In the long-run, the GoE intends that pastoralists will convert into settled livelihood systems in the agro-pastoral areas along river basins”. Given this future direction, it will be important to identify and understand the potential cumulative impacts and implications of the GoE’s proposed large agribusiness (e.g. sugar cane with extensive water requirements) and hydropower development.” USAID recommended to Treasury on May 8, 2013 that the World Bank...

17 USAID received the Social Assessment on October 29, 2013 and has not reviewed it.
Bank expand the environmental and social assessment to improve the understanding of the developmental, social and environmental impacts by:

- ensuring the appropriate scoping of the project to identify key issues, and geographic and temporal boundaries that should be considered to provide necessary information to decision makers
- incorporating lessons learned and best practices into the proposal based on the previous two phases of PCDPs
- complementing other local positive development programs
- better identifying direct, indirect, and cumulative impacts associated with the project to provide a better understanding of potential impacts and to help develop effective avoidance and mitigation measures
- helping to ensure an encompassing and substantial public participation in the process
- promoting better program design, including identification and implementation of avoidance and mitigation measures through greater public participation, incorporation of lessons learned, and complementary with other development programs.

The above recommendations are derived from a review of documents available from April to September 2013 and input from field contacts. The success of PCDP I and II plans to improve the quality of services, by offering options that relate to the livelihood systems of pastoralists, should be evaluated and PCDP III should consider adapting its approach based on these lessons learned. The Bank has indicated to Treasury that it is taking into account the lessons learned from the first two phases and, as noted above, has undertaken a social assessment to take into account the impacts of the operation on Indigenous Peoples.

USAID suggests that the following lessons learned from past PCDP proposals be evaluated:

- In Afar Region, a local NGO, Afar Pastoralists Development Association (APDA), designed and implemented a successful education program called ‘Alternative Basic Education’ (ABE) that is tailored to the educational needs of Afar pastoralists’ children. This could serve as a model and alternative to the proposed project strategy.
- Although the infrastructure constructed was prioritized by local communities, some of the infrastructure is currently not used or is non-functional. For example, at least 10 schools in Somali and Afar are not used or are non-functional because they were built in areas where there are no water points causing pastoralists to migrate out of these areas during the dry season. In a number of other schools built under past PCDPs there are no teachers or books so parents have to enroll their children in schools in other areas.
- Animal health posts/clinics are non-functional in many cases because their fixed structures are not appropriate for pastoralist livestock production systems. Further, these clinics lack trained veterinary officers and drugs/vaccines. USAID suggests that this approach, while appropriate for sedentary livestock systems, needs to be modified in pastoralist areas to accommodate cultural norms and the migratory nature of the population.
- Although the PCDP predates the villagization program, there are overlaps between the two programs through investments in community services in the areas that have been subject to the villagization programs. This is an issue with respect to the Protection of
Basic Services (PBS) program, where funds were reportedly used to pay salaries of government staff who are also implementing the GOE’s villagization program. Where villagization has occurred, some of the implementation problems experienced in other regions have reportedly been seen in the pastoral areas such as poor quality of services or non-functional facilities. USAID has anecdotal evidence that suggests that the location for these services is not placed well. Further, inadequate community consultations may cause conflict between different resource users, block regular mobility of people and their livestock, and cause degradation of resources. For example, in Gode Zone in Somali, schools and clinics were built as an incentive for the new villages. These villages and schools were ultimately abandoned, as health services, teachers, and books were not provided, and the promised services were not delivered.

The proposal mentions improving the quality of services in terms of offering options that relate to pastoralists’ livelihood systems such as development of viable income generating activities. The quality of services provided under PCDP I and II could have a full and independent evaluation to incorporate lessons learned into future projects. The World Bank welcomes improvements in the project and the USG will be coordinating with them on these issues.

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18 PCDP is different from Protection of Basic Services (PBS) Programs in that PCDP is designed to improve access to community demand-driven social and economic services for pastoralists and agro-pastoralists and PBS is designed to expand access and improve the quality of basic services by funding block grants that ensure adequate staffing and operations, and by strengthening the capacity, transparency, accountability and financial management of local governments.

19 Villagization programs run in some of Ethiopia’s regions since 2010 (5 years after the Protection of Basic Services (PBS) program had started). These programs are not supported by World Bank financing or under the multidonor funded PBS. However, the PBS and villagization as well as multiple other government programs overlap in some regions. The World Bank’s Inspection Panel (IP) registered a request for an inspection regarding the Ethiopia PBS program in October 2012. The Request to the IP came from Anuak peoples who believe that they have been or may be harmed by the Bank-supported PBS Program as a result of the World Bank’s noncompliance with its policies and procedures because the PBS Program is “contributing directly to the Ethiopian Government’s Villagization Program in the Gambella Region”. On July 12, 2013 the Board authorized the Inspection Panel to proceed with an investigation.
LAOS
Scaling-Up Participatory Sustainable Forestry Management (SUPSFM)

On May 8, 2013, the WB Project Appraisal Document (PAD) was made available to USAID for a May 31, 2013 Board Vote. USAID questions and comments on the project were provided over the course of the intervening weeks (May 14 – 31). The USG supported the proposal.

Project Description
The project development objective is to execute REDD+ activities through participatory sustainable forest management in priority areas and to pilot forest landscape management in four provinces. The Scaling-Up Participatory Sustainable Forestry Management (SUPSFM) project will build and expand on progress achieved by Government of Laos Peoples Democratic Republic in implementing participatory approaches to sustainable forest management under the Sustainable Forestry for Rural Development (SUFORD) Project.

SUPSFM will go beyond the SUFORD Project model by: (a) explicitly incorporating and monitoring forest carbon emission reductions, (b) introducing performance payments for forest carbon sequestration, (c) focusing additional efforts on developing sustainable livelihood options, and (d) fostering inter-agency coordination at the landscape scale. The following components have been designed to deliver the key results outlined above. Participatory sustainable forest management will be implemented in Production Forest Areas (PFAs), while Forest Landscape Management will be implemented in PFAs and adjacent conservation, protection, and village forests that will all form a target landscape area. Through SUPSFM, linkages will be developed with the REDD+ Readiness process and the Forest Investment Program DGM, especially with regard to aspects related to forest dependent communities, access restriction to natural resources, land tenure, customary rights, benefit sharing, and conflict resolution mechanisms.

The World Bank decided to classify the project as Category A because a large number of WB safeguards apply: environmental assessment, natural habitats, forests, pest management, physical cultural resources, indigenous peoples and involuntary resettlement. However, no significant long-term or large-scale negative environmental impacts from the project are anticipated and medium and longer term positive impacts are expected from carbon sequestration and avoided deforestation.

The Department of Treasury notes that the World Bank project includes an Ethnic Group Planning Framework, an access restriction process framework and a grievance redress mechanism.

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20 Reducing Emissions from Deforestation and Forest Degradation
21 http://www.lexadin.nl/wlg/legis/nofr/oeur/arch/lao/forest_law_official%20translation.pdf Protection Forests are forests classified for the function of protecting water resources, river banks, road sides, preventing soil erosion, protecting soil quality, strategic areas for national defense, protection from natural disasters, environmental protection, etc.
22 In summary, a Category A project is one with potentially significant environmental and social impacts.
to ensure that ethnic minorities are fully included in project benefits and that the impact on customary land or access restrictions are handled appropriately. Further, Treasury has indicated that the World Bank staff plan to hire an anthropologist for the design and implementation of the project.

**Financing**
The proposed financing is for $31.83 million in grants from both WB (IDA) and the Forest Investment Program. The project went to the Board on a streamlined no-objection basis in May 2013.

**USAID Review**
USAID provided the following technical comments on the proposal:

- The plans for integrated spatial mapping of the forest area in Northern Laos, which will enable the government at the national and sub-national levels to have a better understanding of implications and trade-offs of the various land allocations, may have a positive impact on land tenure, REDD+ goals and land use planning.
- The project is classified as a Category A, which requires an environmental and social impact assessment which should include baseline data. Therefore, the type of information required in this ESIA could be much more robust. This critical background information is required to inform project development and the design of mitigation measures, with the ultimate objective of providing sufficient information for decision makers.
- USAID understands that the intent of the proposal is to provide positive social and environmental benefits. Given the number of ethnic minorities, this complex participatory sustainable forestry proposal could have provided more detailed information such as actual forest stocking levels, which would inform economic and financial analyses and subsequent selection of villages, helping to identify, early, which ethnic minorities will be involved in the project. Greater specificity in forestry details in the ESIA could assist WB in identifying ethnic peoples and impacts and would resolve issues raised in reviews of previous SUFORD/AF programs. Providing special attention to ethnic groups and culturally appropriate communication may be needed to achieve project goals and objectives.
- USAID strongly recommended, given the breadth of the program and its move into new areas, that more than one internationally recognized ethnic minority specialist /anthropologist/ethnographer be engaged throughout all levels of the program to ensure that knowledge concerning ethnic groups is appropriately integrated.


- The ESIA baseline data should be collected prior to implementation. This allows for the assessment of potential direct, indirect and cumulative impacts. For example, potential impacts could arise from roads created under SUPSFM which could exacerbate wildlife poaching and illegal logging by facilitating ease of access.
- The project could consider how Participatory Sustainable Forest Management, Community
Action Plans, REDD+ and timber marketing will be linked and integrated, in order to reach the overall project development objective of SUPSFM.

- There could be better clarification of the implementation of REDD+ aspects of the project, specifically information on anticipated financial returns and how benefits will be shared among participants. This is a critical part of social impact mitigation.
- In keeping with the Laotian constitution, this project should comply with the rights of ethnic minorities to preserve their own traditions and cultures, as the project pursues alternative and sustainable livelihoods for these people.
Section 2

Affirmative Investigations

This section includes brief descriptions of affirmative investigations that USAID has conducted during the past 6-12 months. These reports are available at: http://gemini.info.usaid.gov/egat/envcomp/mdb.php

Kosovo – Kosovo re Coal-Fired Power Plant

The World Bank has indicated that it would, in principle, be willing to consider possible financial support for the proposed Kosovo Power Project, which includes the construction of a new coal fired power plant of about 600 MW, as part of its overall energy sector reform program for Kosovo.23 Once a winning bidder is identified, the IFC and the European Bank for Reconstruction and Development (EBRD) will work with the winner to arrange a finance package for the project. This project is not expected to come to the Board until sometime in 2014. An Affirmative Investigation Report was completed September 30, 2013 and can be found at: http://gemini.info.usaid.gov/egat/envcomp/titlexiii_index.php?y=2013&c_id=158.

Background:
Kosovo depends on dated, unreliable and inefficient coal-fired plants for the majority of its electricity supply – resulting in chronic energy shortages. These shortages hamper the economy and lead to environmentally-unsound fuel use for heating (e.g., coal and wood burnt in home stoves) and backup power (e.g., diesel). Analyses by the Kosovo state transmission company analyses predict electric demand growth to reach peak values greater than 1,700 MW by 2030, while Kosovo’s projected generation capacity is expected to remain under 1,000 MW. The economic and environmental consequences of the imbalance are expected to worsen without additional near-term, base-load generation, even with the implementation of aggressive energy efficiency measures. Protests last winter further indicate the potential for social instability stemming from poor electricity sector performance.

The Government of Kosovo’s energy strategy is multi-pronged and aims at achieving effective management of existing energy development and protection of the environment. It focuses on enhancing the security of energy supply and the diversification of energy sources. The policies and reforms are designed to attract private investment and integration of Kosovo’s energy systems into regional and European systems. The WB study, “Development and Evaluation of Power Supply Options for Kosovo (2011),” concluded the components below broadly support the GoK’s strategy:

- Private sector investment in a new lignite-fired power generation project (600 MW) and a new lignite mine – (estimated at $1.2-1.5 billion)
- Privatization of the electricity distribution and supply business (KEDS)

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23 This information was presented in a letter, dated March 13, 2012 from Philippe Le Houerou, Vice President Europe and Central Asia Region to his excellency Hashim Thaci, Prime Mistre of the Republic of Kosovo
• Private sector participation in rehabilitation and environmental upgrade to EU standards of the Kosovo B Coal Plant (increase each unit from current 270-280 MW to 300-320 MW)
• Decommissioning of the Kosovo A coal plant by 2017 to comply with the Athens’ Energy Community Treaty (estimated cost of € 60-65 million)
• Development of renewable resources including a 300-MW hydropower plant, 60 MW from small hydropower plants, and 395 MW in wind, biomass and biogas-fired power generation\(^\text{24}\)
• Promoting energy efficiency with significantly greater resources
• Promoting and supporting Kosovo’s connection in regional gas supply projects, such as the Gas Ring Project for Southeast Europe, over the next 10 to 15 years to import natural gas.\(^{25, 26}\)

The Government of Kosovo has ratified the Athens Energy Community Treaty and has transposed the EU’s energy acquis\(^{27}\) as required under the Treaty into its national legislation. The Government of Kosovo (GoK) has committed to meeting the following EU 2020 targets on climate change/energy:
• Reduce greenhouse gas emissions by 20 percent (or even 30 percent, given the right conditions) from 1990 levels
• Utilize 25 percent of energy from renewables (currently at 18 percent renewables)
• Increase energy efficiency by 20 percent.

USAID recommendations may require actions from different entities but are important components to consider for long-term sustainability. The recommendations included:

• Consider that the environmental alternatives analysis includes an analysis of renewables, increased efficiency and reducing commercial and technical losses in the current system, includes a cumulative impacts analysis appropriate to the clear statement of and rationale for the project,
• Consider that baseline data may provide a sufficient basis for a full assessment of direct, indirect, cumulative and associated facilities impacts. If the existing information contains gaps in necessary data or is incomplete in ways that are material to the assessment of impacts, the additional information should be collected using internationally recognized and/or best practice methodologies.
• Concurrently with the ESIA for KC, consider conducting a strategic environmental assessment for the energy sector that serves as a systematic decision support process, with the goal to ensure that economic viability, environmental, social and other sustainability aspects are considered effectively in policy, plan and program design.

\(^{24}\) Kosovo: Kosovo Power Project Report of the SFDCC External Expert Panel to the World Bank
\(^{26}\) WB – Kosovo –Country Partnership Strategy FY12-15
\(^{27}\) Energy acquis represents the body of all energy related EU law, regulations and policies
Consider developing specific guidelines for national soil and groundwater quality standards; soil protection measures and waste discharge limits for surface water so KC will have specific standards by which it must operate.

Establish clear guidance for national compliance limits on emissions and air quality so KC will have specific standards it must operate under, and incorporate that information into its ESIA.

Consider performing a life cycle assessment for the deployment of carbon capture and sequestration (CCS) technology such that the power plant is designed and constructed with operational CCS sufficient to reduce the plant’s carbon intensity. This life cycle assessment could provide a more comprehensive assessment of the sustainability of CCS and aid in identifying potential environmental, social or risk-related issues for incorporation into the ESIA (e.g. use of amine-stripping system, transportation and storage.)

Consider an environmental health monitoring system to provide baseline data on air, soil and water emissions to inform the KC ESIA and prior to construction of the new power plant.

Based on the information to date, other potential recommendations that could be considered during the development of the project to assist in ensuring a sustainable energy sector and that could be based on information to date, or information collected during the ESIA preparation, include:

- Establish a specific timeline and with resources to improve the regulatory framework and transmission system for renewable energies to ensure that Kosovo meets its planned target to produce 25 percent of its energy from renewable sources by 2020 (up from the current level of less than 19 percent).
- Establish a timeline and milestone measurements for consideration of other potential thermal alternatives to coal, that could support the future demand of the country such as consideration for the EU Energy Community proposal for an Energy Community Gas Ring, which would provide the option of supplying Kosovo with natural gas. The GoK and WB have also referred to this strategy in their Energy Strategy, CSP and Options paper.
- Concurrent with KC development and requirement for carbon capture, consider establishing a process and resources for future CO₂ capture, transportation and disposal at storage site when the technology is available.
- Based on the critical importance of water for Kosovo’s development in priority sectors – agriculture and power – and the conclusion of the WB water report that “climate change will worsen the already declining water supply and will pose an unprecedented water challenge after 2020,” develop a single river basin management plan for the Ibër Lepenc system with upstream and downstream riparian countries as required for EU policy. This should be a part of the effort to strategically manage Kosovo’s water resources given that the Ibër is a transboundary river.
- Establish a clear policy for the strategic allocation of water for various sectors (e.g. agriculture, water supply, power plants, industry) or issuing of long-term water usage agreements, and develop a well-defined mechanism for the resolution of competing water demands.
Democratic Republic of Congo – Grand Inga, Phase A Hydropower Project

USAID initiated an affirmative investigation of the proposed project in July 2013, undertaken by staff from USAID Washington, USAID/Kinshasa, State/Kinshasa, and the U.S. Department of Treasury. Meetings were held with stakeholders from the Government, donor community and civil society. In addition to the meetings, USAID’s site visit focused primarily on “A” of the proposed WB project and included visits to Inga 1 and Inga 2 hydropower projects, the Bundi Valley and the surrounding area where Grand Inga Phase A is proposed to be located. Meetings were also held with project-affected communities. Environmental and social information obtained from the site visit and documentation will be used primarily to provide recommendations to the WB and the DRC Government to strengthen the Terms of Reference (TOR) for the ESIA of Phase A. The information obtained has not yet been fully analysed by USAID.

The following information is a summary of the project:

The AfDB has proposed a $69 million technical assistance project (November 2013 board date) and the WB is preparing an $82 million technical assistance proposal (early 2014 board date) to support the development of the Inga 3 project. The overall project has two components. The first component, “A”, is designed to contribute to the development of a Phase A 4800 MW Hydropower Project (also known as Inga 3). This is the first stage of a series of hydropower dams that fall under the larger 40,000 MW Grand Inga project, under a phased approach matching the evolution of the regional demand”. Component A of the WB project is aimed at creating the framework for a sound and sustainable development of Inga site and of the subsequent stages of the scheme up to the full Grand Inga hydropower facility. Component A of the WB project includes feasibility studies, the ESIsAs, and capacity building within the government to manage the large scale, high profile project. The second component (B) is designed to promote the development of mid-size hydropower projects in the DRC and assessing the eligibility of carbon financing for Inga 3 and the other mid-size hydropower projects. This assistance was expected to begin in October 2013 but has now been delayed till early 2014.

AfDB contracted a Prefeasibility Report for the development of Phase A and subsequent phases of Grand Inga, which was released in September 2011 that concluded that an accelerated development of the Inga site was the recommended approach.10

Of Phase A’s expected 4,800 MW output, approximately 2,500 MW will be sold to South Africa for industry, 1,800 MW would go to the mining industry in DRC and the remaining 500 MW would feed into the national utility Société Nationale d’Electricité’s (SNEL) grid for domestic consumption. Other project components associated with Phase A include the reinforcement and construction of a 3,676 km high voltage transmission line from Inga to the mining region in eastern DRC and then south to South Africa.

28 Integrated Safeguards Data Sheet Report No. ISDSC764 23 July 2012
29 Ibid.
30 AfDB
31 Société nationale d’électricité (SNEL) is the national electricity company of DRC
Key environmental and social impact concerns are likely to focus on having a comprehensive biodiversity baseline, assessing the sedimentation impact from the network of dams and downstream Congo plume, and determining resettlement needs. Other broader challenges include completing the rehabilitation work of Inga I and II and strengthening SNEL, which is bankrupt.
Section 3
Future MDB Proposals with Potential Environmental and Social Impact:

USAID and the Working Group for Multilateral Affairs monitor the status of some projects in the project proposal process. These projects may not yet be in MDB pipelines, may not have initiated the ESIA and/or may not be scheduled for a board vote. USAID will monitor the status of these proposals and they may be considered for future Affirmative Investigations. Updated information will be provided when available. Projects on the monitoring list include those with potential impacts on biodiversity, environment/natural resources, indigenous peoples, public health and/or potential adverse cumulative environmental and social impacts. This list is not inclusive of all projects that should be monitored but provides an overview of the types of projects that are being monitored.

Projects recently added to USAID’s monitoring list:

- **Indonesia – Regional Road Development II Project (potential ADB financing)**
  The proposed project is to rehabilitate sections of national and strategic roads to strengthen domestic connectivity in selected provinces of East and West Kalimantan.

- **Nepal – IFC InfraVentures Upper Trishuli Hydropower Project (potential IFC, ADB financing)**
  This hydropower project is expected to produce 216 MW which will increase current installed hydropower capacity in Nepal by a third and current national generation by 50 percent. Power generation is solely for the domestic market. About a dozen hydropower projects are planned to be implemented along Trishuli River, between Rasuwagadhi of Rasuwa and Galchhi of Nuwakot, by the end of 2016.32

- **Mozambique – Mphanda Nkuwa Hydropower Project (potential WB, AfDB financing)**
  This hydropower project is located on the Zambezi River, 90 km downstream of the Cahora Bassa Dam and is expected to produce 1,300 MW. This project may be funded by the Chinese and therefore the banks will not be involved. However, the project is significant enough that USAID believes monitoring of the project status should continue.

- **Pakistan – Dasu Hydropower Project (potential WB financing)**
  This hydropower project is a run of river scheme located 7 km upstream of Dasu village on Indus River, 74 km downstream of Diamer Basha Dam and 350 km from Islamabad. It is expected to generate 4,000 MW.

- **India – Luhri Hydropower Project (potential WB financing)**
  This hydroelectric project is expected to generate 775 MW, per SJVN corporate notice for cumulative impacts assessment. It is located on the Sutlej River in the state of Himachal Pradesh and downstream of the 412 MW Rampur Hydropower Project currently under construction.

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- **Nepal** – Melamchi Water Supply Project (ADB additional financing/restructuring).
  The project will divert water from the Melamchi river through a 27.5 km tunnel to the Kathmandu Valley to provide additional water supply.

- **Indo-Nepal Transmission Line** (potential IFC financing)
  This project is part of a cross-border transmission line between Nepal and India, between Dhalkebar and Muzaffarpur, to facilitate up to 1,000 MW of power trade.

- **Guatemala** – *Land Administration Project II* (WB)
  This project is focused on provision of efficient and accessible cadastral and land administration services. The population of the project area is composed of 64 percent indigenous peoples in eight Departments.

- **Mongolia** – *Orkhon River Diversion Project* (WB)
  This project would divert a part of the Orkhon River to the South Gobi desert to support the mining industry. The WB, through its Mining Infrastructure Investment Support (MINIS) project, is financing pre-feasibility and feasibility studies.

- **India** – *Nyamjung Chhu Hydropower Project* (IFC)
  This hydropower project is expected to generate 780 MW. It is located on the Nyamjung Chhu River in Twang District of Arunachal Pradesh. However, the IFC is not going to fund the project, which is in disputed territory. Nonetheless, USAID believes that continued monitoring of this project is warranted.

- **Togo** – *Adjarala Hydropower Project* (potential WB financing)
  This hydropower project will have an installed capacity of 147 MW. It is located on the Mono River which borders Togo and Benin.

**Projects discussed in earlier MDB Reports to Congress that are still being monitored.**

- **Multinational:** *Study on the Ouesso-Bangui-N’djamena Road and Inland Navigation on the Congo, Oubangui and Sangha Rivers* (AfDB)
- **Guinea** – *Simandou Iron Ore Mining Project* (potential IFC financing)
- **Laos** – *Vietnam Power Interconnection Project* (potential AfDB financing)
- **Colombia** – *Ituango Hydropower Project* (potential IDB financing)
- **Cameroon** – *Herakles Oil Palm* (potential AfDB financing)
- **Kenya** – *Lamu Port, Southern Sudan-Ethiopia Transport* (AfDB-financed road study, potential additional AfDB financing)
- **Liberia** – *Dugbe Gold Project* (§8.8 million IFC equity investment for feasibility studies, potential subsequent IFC investments)
- **Regional** – *North-South Corridor: DRC, Zambia, South Africa* (potential AfDB, WB financing)
- **Regional Isaka** – *Kigali railway: Burundi, Tanzania, Rwanda* (potential AfDB financing)

The proposed MDB Board dates for the above projects are yet to be determined. Should information become available that indicates that these projects may have significant adverse impacts, USAID may consider an Affirmative Investigation.