



USAID
FROM THE AMERICAN PEOPLE

REVIEW BY THE U.S. AGENCY FOR
INTERNATIONAL DEVELOPMENT
(USAID) OF ASSISTANCE PROJECTS
CONSIDERED BY MULTILATERAL
DEVELOPMENT BANKS

April 2019

Table of Contents

Introduction	I
Review Process	I
Annex I – Current and Recent Reviews	i
1. Republic of Uganda – Kampala-Jinja Expressway Public-Private Partnership Phase I (African Development Bank [AfDB])	i
2. Burma – Shwe Taung Group Cement Project (International Finance Corporation [IFC])	iii
Annex II - Potential Future Reviews	v
1. Republic of Costa Rica – <i>Reventazón</i> Hydroelectric Project, post-approval (Interamerican Development Bank [IDB])	v
2. Federal Democratic Republic of Nepal - South Asia Sub-Regional Economic Cooperation Road Improvement Project, post-approval (Asian Development Bank [ADB])	v
4. Kingdom of Bhutan – Second Green-Power Investment Program - <i>Nyera Amari</i> Hydropower Project, pre-approval (ADB)	vii
5. Kingdom of Bhutan – Second Green-Power Investment Program – <i>Nikachhu</i> Hydropower Project, post-approval (ADB)	vii

Introduction

Title XIII of the *International Financial Institutions Act*¹ directs the U.S. Government (USG) to strengthen the environmental and social performance of each multilateral development bank (MDB) in which the United States is a shareholder.² To this end, the U.S. Agency for International Development (USAID) leads pre- and post-approval³ reviews of selected MDB projects.⁴

These reviews aim to provide recommendations for improving the environmental and social performance of MDB projects. Post-approval reviews also assess the adequacy of safeguard policies and evaluate the incorporation and effectiveness of any previous USG recommendations.

USAID's pre- and post-approval reviews are distinct from, but related to, the USG loan reviews and other Congressionally mandated MDB oversight functions led by the U.S. Department of the Treasury. If the information is not classified, USAID publishes the resulting reports on its external website⁵, and distributes them to stakeholders. USAID translates the executive summaries of its reports on MDB projects into an appropriate local language.

Title XIII further directs USAID to report semi-annually to Congress on its reviews of MDB projects. This report covers the six-month period from October 2018 to February 2019.

In the time period covered by this report, USAID reviewed projects in the Republic of Uganda and in Burma. USAID is considering five projects for review in the future.

Review Process

¹ Title XIII of the *International Financial Institutions Act*, Sections 1301-1307: https://www.usaid.gov/our_work/environment/compliance/title13.

² This includes the African Development Bank (AfDB), Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD), Inter-American Development Bank (IDB), and the World Bank Group.

³ "Approval" refers to approval of financing by a Board of Executive Directors at an MDB. USAID conducts pre-approval reviews any time prior to the vote by an MDB's Board, and post-approval reviews any time after approval by an MDB's Board.

⁴ Projects can include any type of MDB investment (e.g., project loans, technical assistance, development policy loans, risk or loan guarantees, and grants), and all phases of the investment cycle, from identification to closure.

⁵ USAID's repository of public reports is available at <https://ecd.usaid.gov/mdb.php>.

USAID conducts field reviews on a subset of MDB projects that are “particularly likely” to have “substantial” adverse impacts on the environment, natural resources, public health, or indigenous peoples.⁶ USAID selects MDB projects for field review following consultation with its Washington Bureaus and field Missions, the Offices of the U.S. Executive Director to the MDBs, the U.S. Department of the Treasury, the U.S. Department of State, the U.S. Environmental Protection Agency, other Federal Departments and Agencies, civil-society organizations, researchers, and the MDBs themselves.

Generally, USAID collects information from, and frames its analysis by, the following:

- Relevant U.S. legislation;
- Any previous USG recommendations on a particular project or safeguard;
- MDB safeguard policies and guidance;
- Publicly disclosed MDB project documents;
- International standards for best practices;
- Reports by civil society, academic institutions, and others;
- Site observations;
- Meetings with stakeholders and experts; and, especially,
- Meetings with project-affected people.

Reviews can cover any aspect of environmental and social-impact assessment and management:

- Screening;
- Scoping;
- The definition of the project area;
- Capacity of the borrower(s);
- Analysis of alternatives;
- Baseline data;
- Direct, indirect, and cumulative impacts; and
- Impacts from associated facilities.

Reviews often focus on environmental and social issues formally raised to MDBs by the USG through policy reviews or other processes. Unless specified, USAID’s findings and recommendations illuminate specific cases and are not generalizable; they frequently highlight good practice or areas for improvement.

⁶ Title XIII of the *International Financial Institutions Act*, Sections 1303(a)(3): https://www.usaid.gov/our_work/environment/compliance/title13.

Annex I – Current and Recent Reviews

1. Republic of Uganda – Kampala-Jinja Expressway Public-Private Partnership Phase I (African Development Bank [AfDB])

This review provides recommendations to strengthen the environmental and social performance of the Kampala-Jinja Expressway Public Private Partnership (KJE) project, which is comprised of a 76-kilometer (km) limited-entry tolled expressway and an 18-km section of the Kampala Southern Bypass. The project will be completed in two phases. Phase One includes the Kampala Southern Bypass and the 35-km westerly section of the KJE. Phase Two consists of a 41-km continuation of the expressway, east to Jinja. Prospective lenders for Phase One include the AfDB, among others.

Phase Two will follow as a separate project that is likely to seek future financing from multilateral development banks.



USAID’s review used desk and field research, including a literature review; more than 40 interviews with project stakeholders and experts; observations within the project’s zone of influence; and continuous engagement with the AfDB’s management and project staff. The field review, conducted in July–August of 2018, examined the entire alignment of the KJE, as Phase Two is effectively an associated facility of Phase One.

The Government of Uganda identified the KJE as key to the strategic transport priorities for the region and included it in several national development plans. The project is intended to relieve traffic congestion, improve road safety, and support the planned economic growth in the region. As such it will support regional integration between the Port of Mombasa in Kenya and the landlocked countries of Uganda, Rwanda, Burundi and the Democratic Republic of the Congo. The overall KJE project is currently planned for a 30-year term, after which project facilities will transfer to the Uganda National Roads Authority (UNRA). Both phases combined are expected to generate up to 1,500 jobs during construction, and 250 jobs during operations, most of which Ugandans are expected to take. Once operational, the KJE is expected to save up to 70 minutes of travel time between Kampala and Jinja.

In consultation with other U.S. Federal Departments and Agencies, the USAID MDB Team selected the KJE project to review based on its possible adverse environmental and social impacts, and because of the recent history of gender-based violence (GBV) and sexual exploitation and abuse (SEA) associated with a recent road project in Uganda.

The AfDB assigned the project to the ‘A’ (high) environmental-risk category. The bank disclosed the Environmental and Social Impact Assessment (ESIA) for the project in June 2018, and updated it in August 2018. The AfDB’s Board voted on the KJE on October 31, 2018. The United States, informed partly by draft findings of this field review, abstained from the vote, as the project did not meet the U.S. legal requirements for indirect impact assessment.

Preliminary themes from USAID’s findings and recommendations are summarized below. The complete and final findings and recommendations will be part of the Agency’s October 2019 Report to Congress.

1. Induced impacts—The potential induced impact (the potential for unplanned settlement/development in proximity to the road) requires a more thorough analysis in the ESIA to define the KJE’s transport corridor and “area of influence” beyond the project’s footprint.
2. Biodiversity offsets—The project’s Biodiversity Action Plan underestimates the likely impact of the project on biodiversity and is unclear about the need for a biodiversity offsets.
3. Analysis of ancillary infrastructure—The ESIA does not consider the environmental and social impacts of ancillary infrastructure—including accommodation camps, quarries, borrow pits, and an asphalt plant—because the location and size of these facilities will be selected by the private sector partner, who has not been selected yet.
4. Engaging local civil society organizations (CSOs)—The Ugandan national and local CSOs along the right-of-way can play important roles in stakeholder engagement—including on the valuation of land, resources, and property; the implementation and monitoring of resettlement; and compliance.
5. Proactive engagement on gender—In part because of familiarity with the World Bank’s cancelled Transportation Sector Development Program in Uganda, KJE project-affected people and stakeholders are aware and concerned about the risks of GBV and SEA associated with this project. This heightened awareness has led to increased participation and engagement of CSOs and project-affected people in the design and

implementation of the KJE; however, additional engagement of national and especially local CSOs could help mitigate these important risks.

6. Livelihood-compensation during planning for the project—The lengthy time gap between the demarcation of the KJE’s right-of-way and the compensation and relocation of project-affected people has had negative impacts on the livelihoods of these people. Although UNRA has committed to re-evaluating property in the right-of-way every year until the Ugandan Government pays compensation, the evaluation methodology does not capture and compensate for this type of lost income.
7. Capacity building in managing grievances—The project includes the use of Community Grievance-Management Committees (CGMC) prior to construction, which provides a valuable conduit for local people to seek solutions to their project-related concerns. Yet, to carry out their duties, some CGMCs express a need for additional training, empowerment, and financial support.

2. Burma – Shwe Taung Group Cement Project (International Finance Corporation [IFC])

In July 2017, the IFC approved financing for the expansion of an existing cement plant and limestone and mudstone quarries in the Mandalay Region of Burma, with the concurrent expansion of an associated coal mine in the Sagaing Region. Subsidiaries of the Shwe Taung Group, Limited (STG), own and operate all of the facilities.



The total cost of the project is approximately \$110 million. The IFC’s investment includes a \$15 million equity investment and an A loan of up to \$20 million to STG. The IFC is also providing support to mobilize up to \$40 million in additional debt and equity for the company.

The IFC approved the project despite a “no” vote by the United States. A primary U.S. Government concern was the use of biodiversity offsets for impacts to critical habitat, consistent with previous comments from the United States regarding the policy of the IFC and the World Bank related to biodiversity offsets.

In December 2018, USAID conducted a field review of the project. The scope of the review was the development and implementation of the project's Biodiversity Action Plan and other project-level plans, assessments, and reports relevant to environmental and social dimensions of the use of biodiversity offsets for impacts on critical habitat. The review used desk and field research, including a literature review; more than 50 interviews with project stakeholders and experts; and observations in and around the project areas.

The tentative themes of USAID's findings and recommendations appear summarized below. The complete and final set of findings and recommendations will be included in the October 2019 Report to Congress.

1. Avoiding impacts to natural and critical habitat—It is important to analyze formally alternatives for achieving the project's objectives and to disclose such analyses publicly, especially related to the coal mine in the Sagaing Region.
2. Establishing robust baseline data—Baseline data is important to monitor the success of project-site mitigation measures, calculate offset parameters that will ensure ecological equivalency, and measure net gain for critical species.
3. Analyzing potential cumulative impacts around the biodiversity offsets—It is important to understand and address cumulative impacts that could cause long-term challenges to the biodiversity net-gain and no-net-loss requirements.
4. Social and economic impacts—It is important to assess, mitigate, and estimate costs related to the potential social and economic impacts of the biodiversity offsets, and to use such information to inform conservation measures.
5. Roles and responsibilities—Formally defining the commitments of the STG, the Government of Burma, and other partners is essential to coordinate roles, responsibilities, and financial resources.
6. Corporate systems—It is important for STG to establish a formal management system for meeting its environmental, health, and safety commitments, and to achieve safeguard objectives, including those described in the Biodiversity Action Plan.

Annex II - Potential Future Reviews

1. Republic of Costa Rica – *Reventazón* Hydroelectric Project, post-approval (Interamerican Development Bank [IDB])

The *Reventazón* Hydroelectric Project (PHR) came into operation in mid-2016 and cost about \$1.4 billion to develop, including two loans from the IDB for \$960 million (#CR-L1056) and \$250 million (#CR-L1049). The 305.5-megawatt (MW) hydropower plant is one of Central America's largest. Implemented by the *Instituto Costarricense de Electricidad* (ICE), the project includes the construction of a 130-meter-high dam, flooding of a 6.9-square-kilometer (km²) reservoir and a 4.2-kilometer river diversion between the dam and powerhouse. It is expected to generate about 1,400 gigawatts (GW) of electricity annually, which would provide about ten percent of the country's total generation of power.

The IDB loans helped finance the design, construction, operation, and maintenance of the plant and its associated facilities, including transmission lines, substations and access roads. The project will affect the complex and ecologically sensitive

Reventazón-Parismina-Tortuguero hydro-biological system. A PHR aquatic offset aims to compensate for the loss of 34.2 km of *Reventazón* river connectivity (natural habitat), which could affect migratory fish species. The PHR also aims to restore and enhance critical habitat connectivity for the endangered jaguar.



The specific scope of this proposed field review would be the implementation of the PHR Biodiversity Offset Strategy. PHR appears to be exemplary, with a substantial level of effort and investment specific to the biodiversity offset and the maintenance of biological connectivity. USAID identified the project for possible review based on its potential to provide a best-in-class case study of the application and design of MDB biodiversity offsets. The lessons would contribute to a growing body of knowledge relative to USAID's examination of MDBs' treatment of biodiversity offsets.

2. Federal Democratic Republic of Nepal - South Asia Sub-Regional Economic Cooperation Road Improvement Project, post-approval (Asian Development Bank [ADB])

The objective of the Nepal Sub-Regional Economic Cooperation Road Improvement Project is to improve transport connectivity in Nepal, with a focus on

providing faster and better access to basic social services and economic opportunities. The project's roads are also integral to the international and regional road network system that connects Nepal to India, will facilitate closer trade-integration, and will contribute to Nepal's export competitiveness. In December 2016, the ADB's Board of Directors approved a \$186.8 million loan to support the project. The United States supported the project at the meeting of the ADB's Board.



USAID identified the project for possible review based on its potential cumulative and project-specific negative impacts to critical habitat for multiple endangered species in and around *Chitwan* National Park. The project's roads are also one of at least four linear developments in the area, all of which pass through sensitive biodiversity-conservation areas, including by traversing some tiger corridors that allow the cats to move between Nepal and India.

3. Republic of Kenya – Malindi-Lunga Lunga Road, pre-approval (AfDB)

The AfDB is proposing a loan of \$300 million to support improvements to a 250-km segment of the Malindi-Lunga Lunga Road along Kenya's Southern Coast. This project represents the first phase of a larger (410-km) project to improve road transportation from Malindi to the port town of Bagamoyo, 60-km north of Dar es Salaam, Tanzania. The improved Malindi-Lunga Lunga Road is expected to facilitate domestic and cross-border trade and exports from the Port of Mombasa.



USAID identified this project for potential future review because of anticipated, potentially significant adverse environmental and social impacts due to increased access to terrestrial and marine national parks and a forest reserve, and to cultural heritage sites, including medieval settlements. There was extensive flooding in the project area in early Summer 2018. The project was reviewed by an environmental and social consultant commissioned by the Government of Kenya to add elements missing from the original design to account for recent and anticipated future flooding. The AfDB plans begin appraisal of the project after the consultant submits the report to the Kenya National Highways Authority. Consideration by the AfDB Board is scheduled for late September 2019.

4. Kingdom of Bhutan – Second Green-Power Investment Program - *Nyera Amari* Hydropower Project, pre-approval (ADB)

The ADB proposes to invest approximately \$320 million to develop the *Nyera Amari* hydropower plant (HPP) in the Eastern Region of Bhutan. The project consists of two river-diversion projects (which would provide 125 MW and 315 MW of power, respectively) and transmission-system facilities. It would support both the domestic consumption of electricity in the Eastern Region of Bhutan and the export of power to India.



Bhutan is rapidly expanding its energy-generation capacity through large hydropower projects. USAID identified the *Nyera Amari* HPP for possible review largely because of the project's contribution to potential cumulative adverse environmental and social impacts.

Possible project-level and cumulative adverse impacts include those on aquatic and riparian biodiversity from changes in environmental flow; terrestrial biodiversity from associated roads and transmission lines; livelihoods and living standards from economic displacement (including both upstream and downstream impacts); and community health and safety and social cohesion, given the influx of workers and construction activities.

5. Kingdom of Bhutan – Second Green-Power Investment Program – *Nikachhu* Hydropower Project, post-approval (ADB)

In December 2014, the ADB's Board approved \$120.5 million in a mix of loans and grants to support the 118-MW *Nikachhu* Hydropower Project (HPP). The estimated total cost of the project is \$198 million. The United States supported the project at the meeting of the ADB's Board.



The project's development objectives are to supplement domestic power in East and Central Bhutan, and to export generated power to India during the Summer months. The project consists of a 33-meter-high dam with a 12-km headrace tunnel to the powerhouse.

USAID identified the *Nikachhu* HPP for possible review largely because of its potential contribution to cumulative adverse environmental and social impacts (similar to those described in relation to the *Nyera Amari* HPP; please see above). Further, the project is located adjacent to the *Jigme Singye Wangchuck* National Park, and will temporarily occupy a small percentage of the eastern biological corridor that joins it to *Wangchuck* Centennial Park.