



USAID
FROM THE AMERICAN PEOPLE

MULTILATERAL DEVELOPMENT BANKS' ASSISTANCE PROPOSALS

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

April 2013

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This report does not prejudice 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

The U.S. Agency for International Development (USAID) submits this report entitled “Multilateral Development Banks’ Assistance Proposals Likely to Have Adverse Impacts on the Environment, Natural Resources, Public Health, and Indigenous Peoples,” 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 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 six-month period (February 2012 through July 2012) 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 Foreign Affairs, and the Committee on Financial Services of the U.S. House of Representatives, as well as the Committee on Appropriations, the Committee on Banking, Housing and Urban Affairs, and the Committee on Foreign Relations of the U.S. Senate.

Title XIII 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 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. USAID and 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 the resulting information is made available to interested members of the public. USAID provides its findings from this process to the U.S. Department of Treasury and to Congress.

USAID/Washington continues to work with its 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 to complete the following tasks:

- Provide adequate attention to MDB priority projects;
- Engage with project sponsors, MDB staff, civil society, and communities affected by MDB projects; and
- Engage 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 nongovernmental organizations (NGOs). The criteria for selecting identified MDB projects for review include consideration of the following project characteristics:

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

The MDB projects selected by USAID, in consultation with other USG agencies, for review during the period covered in this report are either candidates for financing or have been approved for financing by the African Development Bank (AfDB); the International Bank for Reconstruction and Development (IBRD), the Multilateral Investment Guarantee Agency (MIGA) and/or the International Finance Corporation (IFC)—collectively, the World Bank Group (WBG); the Asian Development Bank (ADB); and/or the European Bank for Reconstruction and Development (EBRD). Projects reviewed in this report fall into one of the three following categories:

1. MDB Public Disclosure Projects. Projects for which respective MDB institution(s) have publicly released final Environmental Impact Assessments (EIAs) prior to Board¹ vote, and/or for which Board vote is expected within the next six to nine months, and/or whose potential adverse environmental and social impacts have been identified by USAID/Washington, USAID field missions, other USG agencies, and/or NGOs. This report includes the following projects in this category:

- Colombia – PetroNova, Inc.
- Ethiopia and Kenya – Eastern Electricity Highway Project (Adaptable Program Loan I)
- Mongolia – Oyu Tolgoi Gold and Copper Mine

2. MDB Post-finance Monitoring Projects. Project(s) previously reviewed by USAID with potentially significant environmental and social impacts, or projects discussed during Tuesday Group.² These projects are referred to in this report as Post-finance Monitoring Projects. This report describes the following project in this category:

- Biodiversity Conservation Corridors Initiative

3. MDB Watch List. This list includes: 1) technical assistance or studies that have the potential to lead to additional MDB or private sector financing for project development and/or 2) projects under discussion with various MDBs, in which a management decision

¹ The Board of Executive Directors (the Board) is made up of representatives of the Bank's member countries that appoint them or elect them.

² Tuesday Group is a monthly meeting of NGOs and USG agencies, co-chaired by USAID and the Bank Information Center, to address MDB project loans and policies.

has not been made to bring these projects into the MDB formal appraisal process and/or 3) for which the Board date is pending. Projects in this category include the following:

- Kosovo – Coal-fired Power Plant Project
- Multinational – Study on the Ouesso-Bangui-N’djamena Road and Inland Navigation on the Congo, Oubangui and Sangha Rivers
- Mozambique – Regional Transmission Development Program (Adaptable Program Loan Phase I)
- Nepal – Bridges Improvement and Maintenance Program
- Nepal – Hydropower Public Private partnership – Programmatic approach of series of hydropower projects
- Guinea – Simandou Iron Ore Mining Project
- DRC – Grand Inga and Inga III Hydropower Projects
- Burma – National Community Driven Development Project
- Colombia – Ituango Hydropower Project

USAID’s experience has shown that waiting for MDBs to release final project EIAs can reduce the opportunity to identify, report on, or recommend mitigations of potentially negative environmental and social impacts. Therefore, to increase the effectiveness of the oversight process, USAID continues to pursue earlier engagement in the MDB project proposal process. However, earlier engagement does not preclude the need to interact with relevant stakeholders during the later stages of the project proposal process when all of the environmental and social documentation is available.

MDB Policies, Guidelines, Strategies, and Action Plans. In addition to reviewing MDB projects, USAID takes part in the Department of Treasury-led interagency process of reviewing MDB policies, guidelines, strategies, and action plans. Since these policies, guidelines, strategies, and action plans ultimately provide the framework for MDB-supported projects, it is important that they contain adequate provisions to ensure environmentally and socially sound projects. This report provides information on the following safeguard review:

- African Development Bank – Environmental and Social Safeguards

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

Section 1: MDB Public Disclosure Projects

Section 2: MDB Post-finance Monitoring Projects

Section 3: MDB Watch List

Section 4: MDB Policies, Guidelines, Strategies, and Action Plans

Annex:

Section I MDB Public Disclosure Projects

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

Colombia



PetroNova, Inc.

Project Description

The International Finance Corporation (IFC) recently approved an equity investment in PetroNova. PetroNova is a junior oil and gas exploration company operating in Colombia. The company has identified 48 exploration prospects with estimated resources of 145 million barrels. Current exploration activities include (i) 2D and 3D seismic data collection and (ii) drilling 12 exploration wells. Exploration activities are located in the Llanos and the Caguan-Putumayo basins. The proposed investment is expected to generate benefits to the surrounding communities and provide temporary employment opportunities, as well as support for the preservation and reinforcement of indigenous culture. PetroNova is assisting local communities in establishing commercial agriculture and raising cattle to support sustainable development not dependent on the company's operations.

PetroNova's concession blocks are close to or overlap with forest reserves, and although a commitment was made to avoid exploration in the area that overlaps the Amazonia Forest Reserves, no such commitment has been made to the Mecaya-Sencella Municipal Forest Reserve. IUCN red-listed species were identified in PetroNova's Putumayo concession block. PetroNova is required to assess the potential for critical habitat designation and mitigation measures in accordance with IFC Performance Standard 6 on Biodiversity Conservation and Sustainable Management of Living Natural Resources. The area is occupied by Indigenous peoples but the extent of project impacts will only be determined at a later stage of the exploration. The IFC concluded that Free, Prior and Informed Consent (FPIC) was not necessary at this stage in the project based on the level of activities undertaken, although according to national law, indigenous peoples potentially affected by future exploratory drilling have the right to refuse any activities affecting their land.

IFC classified this project as a Category B since the environmental and social impacts were deemed to be site-specific and largely reversible.

Financing

Total project cost is estimated at \$73 million. IFC's equity investment approved by the Board was \$43.79 million, and mobilizing investments from third parties amount to \$27 million.

USAID Review

USAID's review focused on whether the Category B classification and the subsequent analysis were appropriate for this project.

PetroNova is described as a junior oil/gas exploration company. In this industry it is common for junior companies to conduct the exploratory activities and then sell their investments to major companies. As a result, it may be difficult to ensure that any social and environmental commitments made by PetroNova are retained if there is new ownership. Therefore, it is critical that a thorough review of potential impacts be assessed and that mitigation measures be budgeted for and implemented by the current and any future project sponsors. This equates to a full scale EIA that allows for early planning of the expansion in ways that seek to, first, avoid impacts, and then minimize and mitigate impacts.

Social concerns associated with the project include the following:

- The project will generate only temporary employment, and because some of the Indigenous People (IP) communities are identified as subsistence farmers/hunters/gatherers, it is unclear what social safeguards will be in place to ensure that issues surrounding temporary employment are adequately handled to ensure it is not a boom-bust experience. It is recommended that a robust Social Impact Assessment be carried out prior to project approval.
- The project states its intention to support the preservation and reinforcement of indigenous culture, however, given the short time frame for exploratory activities, it is difficult to understand how this support will be substantive.
- PetroNova is formally engaging with IFC to support the program by contributing to community development projects. However, the scope is not clear and as this is only to be done during the exploratory phase, what is the sustainability of short term contributions?
- The IFC's proposal stated that "According to national law, the indigenous peoples potentially affected by future exploration drilling have the right to refuse any activities affecting their land." However, once resources have been committed to field exploration with future development, how realistic is this commitment for IP to be able to provide substantive FPIC? FPIC should be applied in this case, as part of a cumulative impact assessment so IP will have a much better understanding of all potential impacts, not only those associated with the exploratory fields.

Environment/biodiversity concerns associated with the project include the following:

- Another company is conducting pre-feasibility studies for a new regional pipeline that would connect to the Pacific coast. This pipeline could cross the Tinigua block

and possibly the Put-2 block, both located in the Caguan-Putumayo basin. If this is the case, then there are on-going activities that could lead to development of all or partial concession fields.

- Based on the forest reserves and presence of IUCN red-listed species, PetroNova will assess the potential for critical habitat designation and implement mitigation measures in line with PS6. However, if exploration is in critical habitat – how have the points listed under PS6 for activities to go forward in critical habitat been addressed?
- Rehabilitation of impacted resources, in addition to any biodiversity offsets – as there should be no loss of habitat in critical habitats – should also be a consideration when designing and budgeting for project closeout activities. This cannot be done without sufficient baseline data, impact assessment and designed mitigation measures.
- Given the large potential impact to biodiversity, protected reserves and critical habitats, presence of indigenous peoples and the large potential social impacts, this project should be a Category A project, as it would likely have significant and irreversible resource impacts. This project development has large, reasonably foreseeable impacts which must be assessed and mitigated in a full scale EIA with full community support and FPIC.

Ethiopia and Kenya

◆ Eastern Electricity Highway Project (Adaptable Program Loan 1).

Project Description

The Ethiopia-Kenya Eastern Electricity Highway is the first phase of the Regional Eastern Africa Power Integration Program. The project has three sub-components:

1. Transmission line – this component focuses on the construction of a 1,045 km 500 kV transmission line to interconnect the electricity network of Ethiopia, at the Wolayta/Sodo substation with the Kenya network at the Suswa substation. Approximately 433 km of the line will be in Ethiopia and 612 km in Kenya.
2. Converter substations – this component covers financing the engineering design, construction and commissioning of one AC/DC converter substation in Ethiopia and in Kenya. Each substation will have a capacity of 2,000 MW.
3. Environmental and Social management – this component will implement the Environmental and Social Management Plans defined in the ESIA, Resettlement Policy Framework and the Resettlement Action Plans.

Financing

Total project cost is estimated at \$1,262.50 million. Total bank financing is estimated at \$684.00 million.

USAID Review

USAID's review focused primarily on the issue of associated facilities and concluded that hydropower generation facilities should have been included in the ESIA. USAID's definition of associated facility is "new or added/expanded facilities that are connected for the functioning of or dependent on the proposed MDB-funded project. Associated facilities may be funded, owned, constructed and operated separately." The project ESIA's technical feasibility study recommended a conceptual design including a 55km, 400 kV double circuit HVAC line from Gilgel Gibe III to Wolayta/Sodo. The Project Appraisal Document discusses other hydropower projects and implies that the Grand Renaissance hydropower project is a key generation facility: "a sensitivity analysis indicates that supply shortfalls would occur only if both the Grand Renaissance and Gibe III power plants were excluded".³ Although the WB does not have a definition for associated facilities, it did not consider any of the hydropower facilities that will provide electricity to the transmission line as associated facilities. The reason provided for the exclusion of Gibe III was that the transmission line is viable in the absence of Gibe III and Gibe III will only account for 14 percent of total electricity generated and connected to the grid. The rationale, that the transmission line does not depend on any specific hydropower project, is extrapolated to the rest of the generation facilities. As such, the WB does not consider any of the generation facilities as associated facilities. Financial analysis was not provided for the 11 hydropower facilities that are expected to provide electricity to the line to determine whether these projects were viable as stand-alone projects and if the analysis was conducted whether transmission line costs, including pro rata costs of shared transmission lines were included.

Mongolia

◆ Oyu Tolgoi Copper-Gold Mine

Project Description

The Oyu Tolgoi (OT) Copper-Gold mine is projected to be one of the largest and highest-grade copper-gold mines in the world once production is started. Oyu Tolgoi LLC, Mongolia's largest copper and gold mining company, will build and operate the mine. Oyu Tolgoi is a strategic partnership between the Government of Mongolia (34 percent stake) and Ivanhoe Mines/Rio Tinto (66 percent).



The mine is located in the Umnugobi Aimag ("South Gobi province") in Mongolia's central region. The site is approximately 550 km south of the national capital of Ulaanbaatar. The deposit ore field of Oyu Tolgoi includes mines such as Hugo Dammet, South Oyu and Kheruga. The Hugo Dammet deposit stretches between South Oyu and North Hugo, and contains high

³ Ethiopia Electricity Demand and Supply Balance Analysis

levels of copper resources. The South Oyu deposit is contained within West South Oyu, the central zone and Central Oyu.

The mine is being developed in two phases; full scale construction started in April 2010.

- Phase one is an open-pit mine, which reached 96 percent completion at the end of 2012. Commercial production is projected to begin in June 2013. This type of mine has been selected with the aim of making the mine operational in the shortest period of time.
- Phase two of the mine development is an underground mine that is estimated to be ready to begin production in 2014. Oyu Tolgoi is expected to reach full production capacity by 2018.
- Total capital invested in the construction of the first phase of the Oyu Tolgoi Project, up until the end of the third quarter of 2012, was approximately \$5.6 billion.



According to the Implementation Plan, Oyu Tolgoi, LLC. will extract a maximum of 86 million tons and a minimum of 26 million tons of ore per year. In the next 65 years during Oyu Tolgoi (OT) exploration, the company is projected to extract 2,801 million tons of soil from the open pit and 2,170 tons of soil from underground.

Financing

On May 21, 2010, Ivanhoe Mines signed a joint mandate letter with the European Bank for Reconstruction and Development (EBRD) and the International Finance Corporation (IFC) for consideration of a financing package for the construction of the planned Oyu Tolgoi mining complex. Under terms of the joint mandate letter, EBRD and IFC considered providing a two-part package consisting of:

- Up to \$300 million each from EBRD and IFC, as part of a group of primary lenders, in limited-recourse project financing under an “A loan” structure; and
- Mobilization of a further \$1.2 billion from commercial lenders under a “B loan” structure.

USAID Review

This project has been raised in “Tuesday Group” meetings by concerned NGOs. Key issues raised include: sustainability of water resource use; impact on other successful economic sectors; land use changes; and impacts on indigenous nomadic livelihoods and biodiversity. USAID undertook a site visit to Mongolia under its Title XIII legal requirements from May to

June, 2011. USAID's Trip Report was made available to the public in 2011 and included in USAID's October 2011 MDB Report to Congress.

Upon release of the final ESIA, Treasury requested USAID review of the following elements of the ESIA: biodiversity, herders/indigenous peoples (IP), associated facilities, and cumulative impacts. US EPA reviewed the project's mining and water components.

Biodiversity baseline data: The substance of the ESIA does not provide adequate biodiversity baseline data to be able to undertake a proper assessment and analysis of the project's impacts and determination of whether Performance Standard (PS) 6, paragraph 17 requirements are met.

There is no baseline data of population size, distribution within the project area and movement of threatened and endangered species (e.g. khulan, gazelle) that will be affected. Only regional and global information was provided. The supplementary technical information acknowledges that there is inadequate baseline data, and the Biodiversity Action Plan calls for OT to commence in-field biodiversity baseline for the Houbara Bustard and for large ungulates. Additionally, EBRD is seeking derogations from its environmental policy due to a lack of baseline biodiversity data and the construction of transmission lines through critical habitat – an Important Bird Area for the Houbara bustard.

Methodology for surveying large mammal populations needs to be carried out via aerial surveys. Aerial surveys are required to determine khulan/gazelle distribution and numbers, and to establish a baseline for determining impacts of movements around the development area. Annual surveys for population size should be conducted in the spring before foaling/calving to obtain minimum adult population size. Surveys for distribution should be conducted multiple times during the year to capture seasonal changes and long distance movements in distribution. Additionally, a program should be in place to mark and monitor individual animals to identify changes in behavior associated with development activities and to better understand habitat needs to inform actions that would expand the range of khulan/gazelle.

Biodiversity Offsets Strategy and Net Positive Impacts (NPI) forecast are “very approximate estimates based on inadequate baseline and lack comparable data”. The estimate of indirect mortality from increased hunting was “...essentially based on expert opinion and educated guesswork rather than empirical evidence – better information from field studies is needed...”. Biodiversity offsets are only for up to 20 years and overlap with current mining exploration leases (which cover most of the offset landscape) with the potential of being converted to actual mine exploration and operation. Additionally the “losses and offset gains were estimated against a static baseline, meaning that there is assumed to be no acceleration in development in the southern Gobi region and concomitant increased impacts on biodiversity” . NPI also does not include cumulative impacts from the number of other developments proposed and underway in the region . Conservation metrics are based on Quality Habitat, not population status, so even if habitat is maintained there may be no populations left.

Associated facilities: USAID considers the 450 MW coal fired power plant (CFPP) to be an associated facility. USAID expects MDBs to apply the same environmental assessments and

procedures that apply to the MDB-financed facilities.

As of January 30, 2013, an ESIA had not been prepared for the CFPP. Although the project is currently sourcing its electricity from China, the project is required to source electricity from Mongolian sources after 2017. Therefore, the construction of a CFPP will be required for the functioning of the project. During USAID's site visit, the presence and convenient location of the production coal mine was discussed as the primary source of brown coal for the CFPP. The reasons provided for the lack of an ESIA are the uncertainty about when and where the plant would be built, as well as its size – it is possible that a larger plant could be built which would also provide electricity to nearby mining towns. USAID's technical assessment is that the power plant ESIA requirement cannot be excused on the basis of uncertainty as to its final size since the project sponsors know the minimum size (450 MW). It is possible to identify and assess alternative sizes using the best available technology. Examples of potential impacts that need to be considered as part of the overall ESIA include water usage for inclusion in the water balance calculations, as well as calculations of particulate and CO₂ emissions. These impacts are also critical to consider not only with respect to the specific project but also within the scope of cumulative impacts. In addition, an ESIA on the CFPP would also have had to consider in detail other alternative energy sources, including renewables.

Cumulative impacts: USAID's technical assessment only looked at cumulative impacts in relation to biodiversity per Treasury's request to look at biodiversity aspects of the project. The lack of adequate biodiversity baseline data to be able to undertake a proper assessment and analysis of the project's and other past, current and foreseeable future development impacts does not provide an adequate basis for analysis. In addition to the lack of baseline data, the absence of an assessment of impacts, and the lack of any avoidance and/or mitigation plans, the document provided cannot be considered an adequate cumulative impact assessment. The focus of the discussion seems to minimize OT's contribution to the problem.

IP/Herders/Consultations: USAID understands that the herders have self-identified as Indigenous Peoples with traditional pastoral, semi-nomadic livelihoods dependent on rangeland. USAID is not in a position to support the conclusion that herders are not indigenous peoples.

Under IFC 2006 Performance Standard 7 (Indigenous Peoples), there must be free, prior and informed consultation, and under IFC 2006 Performance Standard I (Environmental Assessment), there must be "effective consultation". Information gathered during USAID's site visit does not align with Rio Tinto's responses concerning the adequacy of the consultation process. As stated in USAID's trip report, "Several herders did not want to be identified as they feared it would cause problems for their and other herder families." Below are additional selections from the site visit report.

Project information/Political Pressure There was consensus that from the beginning there was a lack of information on the project, a lack of understanding of the herders' land ownership laws and knowledge of their own rights. Previous government officials told at least a couple of herder families to not complain or speak out against the project and that they were asking for too much. Consequently, herder families signed the resettlement contracts without adequate knowledge of what they were signing. There was also at least one instance where it appears

that the head of the family was provided misinformation by local government officials and consequently was not at home when the contract was signed. The residents in the area where the groundwater will be taken never agreed to OT using it and are still protesting. In discussions with herders, it is clear that there continues to be a lack of information and confusion. One family stated that local citizens affected by the mining do not have much opportunity to speak out so wanted to meet with the USAID team. There was discussion about herder families going to court but they lacked the knowledge and means.

Involuntary resettlement The process for resettlement was reportedly short. OT asked the herders to find pasture but the herders said they did not have adequate time to select and consequently their selections of sites were not good. OT built new fences, animal shelters for livestock and also dug wells at the new sites. For one herder family, the well had broken within a year of operation and the animal shelter made from wood was not as well constructed and protective as their previous stone one. This family was also located approximately 400 m from the Tavan Tolgoi coal road. They acknowledged being consulted and selecting the site but they had no knowledge that the coal haul road would be so close.

Conclusion: USAID recommends further investigations of the following:

- potential impacts on biodiversity due to lack of baseline data;
- the efficacy of the proposed net positive impacts and biodiversity offset in the absence of baseline data, time frame, legal requirements and overlap with mining exploration leases;
- independent determination on the status of herders as Indigenous Peoples; and
- resolution of conflicting information on the adequacy of consultations.

It may be possible that the IFC Compliance Advisor and Ombudsman Office's findings will help resolve USAID's concerns on the adequacy of the consultations.

Current Status

The project was approved by both IFC and EBRD. IFC's investment of a \$300 million A loan and a B loan of up to \$600 million (to be syndicated to international commercial banks as part of the project's proposed \$4 billion in debt financing) was approved by the Board on February 28, 2013. EBRD's investment of up to \$400 million A loan and arrange syndication of up to \$1 billion to commercial banks (a B loan) was approved by the Board on February 26, 2013.

The Department of Treasury instructed the USED's of both MDBs to abstain based on environmental policy ground and legislative mandates (Pelosi Amendment).

Section 2

MDB Post-finance Monitoring Projects

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

Cambodia, Laos, Vietnam

Biodiversity Conservation Corridors Initiative

Project Description

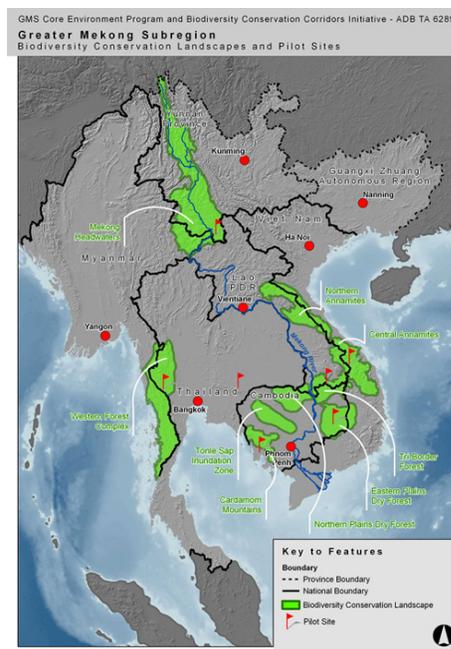
The Biodiversity Conservation Corridors Initiative (BCI) is part of an ADB regional assistance program intended to address the probable impacts on the environment resulting from economic development in the Greater Mekong Subregion (GMS). Biodiversity Conservation Corridors overlap with the proposed economic corridors in Cambodia, Laos, and Vietnam. The BCI was initially funded at \$400,000, which was approved by the ADB Board in December 2004. The project was officially launched in April 2006. The long-term goal of the BCI is that, by 2015, GMS countries will have established priority biodiversity conservation landscapes and corridors for maintaining the quality of ecosystems and encouraging sustainable use of natural resources while improving people's livelihoods.

The ADB Board approved the proposal for Phase 2 in December 2010 via a loan to Vietnam and grants to Cambodia and Laos. The project is proposed to further enhance transboundary cooperation for preventing and mitigating fragmentation of the biodiversity rich forest landscapes of the Cardamom Mountains and Eastern Plains Dry Forest in Cambodia, the Triborder Forest areas in southern Laos and the Central Annamites in Vietnam.

In December 2012, the ADB Board approved \$14.8 million in technical assistance (TA) for the Core Environment Program and Biodiversity Conservation Corridors Initiative.

Financing

In 2012, in the absence of a request for discussion or a sufficient number of abstentions or objections, the ADB Board approved an \$8.3 million increase to the original TA amount that will be financed on a grant basis by the Government of Sweden. The increase in the amount of TA will support the scaling up of activities under the original TA framework and extend the implementation period by one year.



USAID Review

USAID has conducted a number of site visits over the past 5-6 years to BCI sites in Laos, Vietnam, Cambodia and Thailand and reported in previous MDB Reports to Congress. Based on these site visits and review of documentation, USAID continues to be concerned that there is a gap between what is being proposed in Phase 2 and what is happening on the ground, resulting in the financial investment being undermined by other GMS economic corridor activities. At this point in project development, there is no reason to not have identified indicators and measures to determine the effectiveness of the BCI programs. USAID site visits have identified a lack of support for continuing BCI activities in the absence of continued financing, making long term sustainability a concern. For example, in Thailand, BCI phase I ended and Thailand did not continue phase 2, whereas the GMS economic corridors are continuing to be developed across the Tenasserim corridor—affecting ecosystem functions, fragmenting landscapes and impacting tiger habitat and movement. Furthermore, conflicts with hydropower development and mining concessions were raised as key issues by stakeholders as undercutting the success of the BCI. There continues to be a disconnect between the requirements for the capacity building of oversight agencies and the fast pace of development, resulting in a continued imbalance between environment and infrastructure development.

Section 3

MDB Early Project List

USAID continues to monitor the status of new projects and those that were included in previous MDB reports. Updated information is provided when available.

Kosovo: Coal-Fired Power Plant

The World Bank agreed to consider a partial risk guarantee for a new, coal-fired power plant (to be called Kosovo C or Kosovo re) as part of its overall energy sector reform program for Kosovo. IFC expects to be approached by the winning bidder to arrange a finance package for the project. This project is not expected to come to the Board until late 2013 or early 2014.

Kosovo's energy needs are seasonally dependent, with a high and sustained peak load from October through April. The Government of Kosovo has ratified the Athens Energy Community Treaty and has transposed the EU's energy acquis⁴ 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
- Achieve 25 percent of energy from renewables
- Increase energy efficiency by 20 percent

The primary goal of Kosovo's energy strategy is to ensure security and adequacy of supply to meet the country's energy needs. The strategy is proposed to be met by the following components:

- Private sector investment in a new lignite-fired power generation project (600 MW) and a new lignite mine (estimated at €1.4 billion (\$2 billion))
- Privatization of the electricity distribution and supply business (KEDS)
- Private sector participation in rehabilitation and environmental upgrade to EU standards of Kosovo B (increase capacity to 600 MW)
- Decommissioning of Kosovo A by 2017 to comply with the Athens' Energy Community Treaty (estimated cost of €60-65 million (\$77-84 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
- Promoting energy efficiency with significantly greater resources

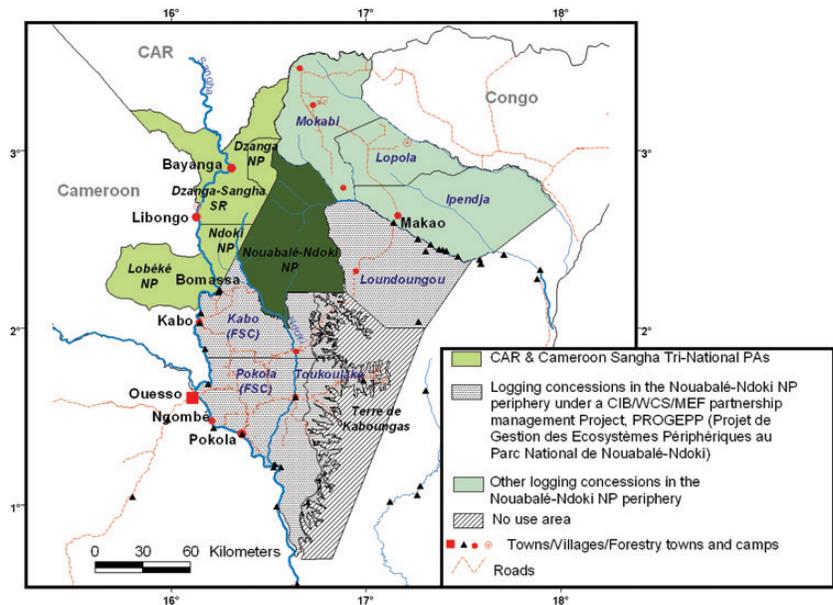
The World Bank Country Partnership Strategy (FY12-15) also includes the EU Energy Community concept to develop the Balkans regional gas-ring over the next 10-15 years to import natural gas.

USAID's review of the project is at a preliminary stage because the project is at an early phase in the project cycle. The final Terms of Reference for the ESIA and the request for project investor bids have not been released to the public. USAID initiated an affirmative investigation of the proposed project in December 2012, undertaken by staff from USAID Washington, USAID/Kosovo, and Treasury. Meetings were held with stakeholders from the government, donor community, business community, and civil society. In addition to the meetings, visits were made to both Kosovo A and B power plants and the nearby active and planned coal mines. Information collected from the affirmative investigation will be made available to the public.

⁴ Energy acquis represents the body of all energy related EU law, regulations and policies

Multinational: Study on the Ouesso-Bangui-N'djamena Road and Inland Navigation on the Congo, Oubangui and Sangha Rivers

USAID continues to engage with the U.S. Executive Director's office at the AfDB on this project following the USG site visit in October 2011 (reported on in the April 2012 MDB Report to Congress). In brief, the AfDB approved a technical assistance (TA) grant of approximately \$11.8 million to Chad, the Democratic Republic of the Congo (DRC), and the Republic of Congo on December 1, 2010, to support a study of how to increase regional transport networks. The United States supported the grant, which funds the technical, environmental, and economic feasibility of developing the Ouesso-Bangui-N'djamena road and waterways on the Congo, Oubangui and Sangha Rivers, in order to facilitate transport along the Kinshasa/Brazzaville-Bangui-N'djamena corridors. The DRC and the Republic of the Congo are considering both a road and waterway transport network in this region given the density of forests and bodies of water. The study's objective is to determine the optimal paths and then determine what component should be funded through a future AfDB operation. The study will run through 2013 and will look at developing sections of the Ouesso-Bangui and Bassangoa Mbaïkoro road; and how to improve the navigation on the Congo-Oubangui-Sangha Rivers. Procurement of contracts will follow AfDB rules.



OUSED and USAID staff have been engaging with AfDB staff to seek periodic updates on the status of the feasibility studies and various paths for the road/waterways network. AfDB staff may consider reworking the alignment of a road component of the project about which USAID expressed concern regarding potential negative impacts on a biodiversity-rich area and indigenous peoples.

Mozambique – Regional Transmission Project

This project was first identified as a project to follow in 2009 because the first phase concentrates on concurrent development of coal and hydropower generation, and on building a 1200 km North-South High-voltage direct current transmission line to transmit power to South Africa. WB proposed financing to contribute to the investment and technical assistance focused on the development of the first stage of the North-South Transmission backbone line required for the first Tete Province Generation project(s)

which include Moatize coal-fired power plant, Benga coal-fired power plant, Mphanda Nkuwa 1,500 MW hydropower plant and Cahora Bassa North Bank 850-1,000 hydropower plant.

The ESIA for the transmission line is not yet available to the public. Given the potential environmental and social impacts of this project and its associated facilities, USAID is planning to undertake an affirmative investigation in mid-May 2013.

Nepal - Bridges Improvement and Maintenance Program

This is one of the first two projects to be supported under the Program-for-Results (PforR). PforR is a new World Bank financing instrument that was approved by the WB's Board of Executive Directors on January 24, 2012. PforR is designed for the World Bank's client countries to link the disbursement of funds directly to the delivery of defined results. The goal of PforR is to improve the design and implementation of their development programs and achieve lasting results by strengthening institutions and building capacity. The project is not Category A.

Though this project has been awarded, subprojects are being designed which should be monitored, with an eventual affirmative investigation. The focus of this project is on (i) planning, technical design, and quality control of bridges; (ii) major and minor maintenance of existing bridge assets; and (iii) new bridge construction. Specific activities with potential significant environmental impact include:

- major maintenance of 233 bridges, totaling 10,900 meters in length
- minor maintenance of 95 bridges, totaling 3,500 meters in length
- construction of approximately 121 new bridges, totaling 6,000 meters, which includes 95 bridges (5,000 meters) in the Department of Roads' backlog of bridge construction, as well as 26 new bridges (1,000 meters)

The total project cost is \$147 million, with the GoN financing \$87.6 million and the WB financing \$60 million. ADB, JICA, China and India are financing Nepal's remaining bridge program. The World Bank approved financing in June 2012. The U.S. position on this program strongly supported the concept behind the new instrument and that the 5 percent lending commitment for the first two years would give sufficient time to test the implementation of the instrument and to identify/correct problems prior to any decision made to expand the program.

Nepal – Hydropower Public Private Partnership – Programmatic approach of series of hydro projects (FY14)

IFC InfraVentures is a fund created by IFC in 2008 to support and proactively develop private and public-private partnership infrastructure projects in the world's poorest countries. IFC InfraVentures signed a Joint Development Agreement (JDA) with Korean and Nepali sponsors for the 216 MW Upper Trishuli hydropower project. Through the JDA, IFC InfraVentures has become a co-developer of the Project with the right to become a 15 percent equity investor.

USAID understands that the use of different Bank instruments to support the project is under discussion.

Guinea – Simandou Iron Ore Mining Project

The Iron Ore project is jointly owned by Rio Tinto, IFC, Aluminum Corporation of China (Chinalco) and the Government of Guinea. It is expected to produce 95 million tons of high grade iron ore per annum. At a cost of over \$10 billion, it is expected to be Africa's largest private sector investment. The mine site is located within the Pic de Fon Classified Forest, covering 252 km² of which approximately 35 percent remains as natural habitat according to Conservation International's assessment in 2002. The Pic de Fon and Oueleba deposits lie within the West Africa Guinean Forest Hotspot and the Upper Guinea Forests Endemic Bird Area. Pic de Fon is also a Key Biodiversity Area, which is a site of international importance for the conservation of biodiversity, as recognized by Conservation International and IUCN. Since the mine is located in critical habitat, a biodiversity offset is considered the key component in achieving compliance with the Rio Tinto Biodiversity Strategy and the critical habitat requirements as defined in IFC's Performance Standard 6. Although potential biodiversity offset sites have been identified in the Guinée Forestière region and along the rail route, challenges include the adequacy of the offsets, the effectiveness of implementation and the long-term management of these areas.

IFC has a \$150 million equity investment in the project which was approved in May 2012. MIGA is considering providing political risk insurance guarantees for the railways and the port. A possible WB loan is also under discussion [waiting for additional info from Treasury.]

DRC – Grand Inga and Inga III Hydropower Projects

Inga Falls are considered to hold the future of Africa's power generation. The largest waterfall in the world by volume, Inga Falls is being considered as the future site of a 39,000-44,000 MW hydroelectric power plant. This will be the largest facility of its kind in the world, more than doubling China's Three Gorges Dam. Currently the falls support two dams, Inga I (1972) and Inga II (1982), with a design capacity of 351 MW and 1,424 MW respectively; however they are only operating at 40 percent capacity due to improper maintenance.

The next phase in the hydropower development on Inga Falls is the construction of Inga III, with a design capacity of 4,300-5,000 MW. The final phase in the hydropower cascade is the construction of Grand Inga. At the completion of the project the power supplied could electrify up to 500 million Africans currently without power. With mineral rich deposits nearby, several foreign investors have looked to help partner with the DRC. In exchange for companies building energy intensive smelting operations, DRC would guarantee the required electricity from the expanded dams.

In 2007, the WB approved the Regional and Domestic Power Market Project. The project consists of five main components: (i) Generation: rehabilitation of Inga 1 and Inga 2 hydropower stations; (ii) Transmission: construction of a new 400 kV transmission line from Inga to Kinshasa; (iii) Distribution: rehabilitation, reinforcement and expansion of the power

distribution system in Kinshasa; (iv) Capacity building - strengthening of Société nationale d'électricité's operational capabilities including activities regarding the governance within the utility specifically and in the sector generally; and (v) Project Implementation - provision of consulting services for engineering, management and supervision of implementation, procurement and financial management services.

The WB is expected to bring to the Board a technical assistance proposal to prepare technical studies for Inga III in October 2013. Given the absence of an EIA for the initial construction of Inga I and Inga II, the environmental and social legacy issues associated with both dams and the potential environmental and social impacts of this suite of projects, USAID plans to undertake an affirmative investigation to gain a better understanding of the issues, to be able to provide effective input into the upcoming TA.

Laos – Vietnam Power Interconnection Project

ADB is considering financing a 500 kV transmission line and a substation, Ban Sok, to be used as a common transmission facility for the transmission of power from the Xe Kaman I (488 MW), Upper Se Kong 3 (152 MW), Lower Se Kong 3 (96 MW), and Dak Emeule (138 MW) hydropower projects. A total of 11 hydropower projects have been identified in southern Laos with a total installed capacity of 1,300 MW, out of which about 1,000 MW will be exported through the Ban Sok-Pleiku power transmission line.

Burma – National Community Driven Development Project

ADB and WB approved each bank's respective interim country partnership strategy in October and November 2012, respectively. The IFC will be working to support private sector development and access to finance. In addition, the World Bank's Board of Directors approved an \$80 million National Community Driven Development Project and Emergency Project on November 1, 2012. The project focuses on five components:

- 1) Community Block Grants (\$52.2 million) to finance three annual cycles of, on average, \$27,000 for priority community level infrastructure in about 640 village tracts in 15 townships.
- 2) Facilitation and Capacity Development (\$14.2 million) to finance technical assistance and institutional support at the union/township levels
- 3) Knowledge and Learning (\$1.8 million) to help government staff as well as representatives of the community and civil society learn from community based approaches implemented within Burma.
- 4) Implementation Support (\$11.8 million) to support project management at the union and township levels.
- 5) Emergency Contingency Response (no funding) to allow for the rapid reallocation of grant proceeds from other components.

Prior to the WB Board vote, Burmese civil society organizations made an official request to postpone the project until the World Bank held broad consultations with the public. During this period of time, civil society, community based organizations and local people met with the Burmese representative of the World Bank on three separate occasions. At each of these meetings, civil society and community representatives called for the Bank to take adequate time for a broad consultation with the people to obtain their recommendations. Subsequently, an official request was filed for postponement of the Community Driven Development project with the Bank's Inspection Panel on October 29, 2012.

A February 2013, WB Implementation Status and Results stated that the project secretariat had been established with available staff, the operations manual had been drafted, the recruitment of the union level NGO/firm had started and several consultation meetings had been held with stakeholders.

Colombia – Ituango Hydropower Project

IDB approved a \$1.5 million feasibility study for the 2400 MW Ituango hydroelectric project located on the Cauca River in Colombia. Once completed, this will be Colombia's largest hydropower project. This project is located in dry forests which are home to IUCN Red Listed species. An increase in mining, tourism infrastructure and deforestation for agriculture in the region has resulted in widespread habitat loss. Moreover, none of the region's dry forest is currently protected. The proposed dam will flood the remnant tracts of dry forest in the northern range of a recently discovered new bird species. In addition to environmental concerns, the project has faced resistance from local interest groups for small scale miners and cocoa farmers. Revolutionary Armed Forces of Colombia (FARC) is alleged to have mobilized around 7,000 displaced people in protest against the project construction. The final EIA is not expected until 2014.

Other projects being watched include:

- Cameroon – Herakles Oil Palm (potential AfDB financing)
- Kenya – Lamu Port, Southern Sudan-Ethiopia Transport (AfDB financed road study, potential additional AfDB financing)
- Laos – Nam Ngiep I Hydropower (potential ADB financing)
- Laos – Xe Pian-Xe Namnoy hydropower (potential IFC investments of one of the developers, Korean KOWEPO)
- Liberia – Dugbe Gold Project (\$8.8 million IFC equity investment for feasibility studies, potential subsequent IFC investments)
- Peru – Conga Gold Mine (potential WB/IFC financing)

Section 4

MDB Policies, Guidelines, Strategies, and Action Plans

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 that they contain adequate provisions to guarantee environmentally and socially sound projects.

African Development Bank – Environmental and Social Safeguard Policies

The African Development Bank is in the final stages of revising its environmental and social safeguard policies. The revised AfDB safeguards paper was released on December 28, 2012 for consideration by the AfDB Committee on Development Effectiveness on January 15, 2013.

USAID's review of the most recent version continue to raise similar technical concerns to those raised during the review of IFC Performance Standards and Asian Development Bank safeguards. Examples of USAID's continued technical concerns are provided below for two of the Operational Safeguards (OS):

OS I. Operational Safeguard on Environment and Social Assessment

- **Alternatives analysis** – Consideration of reasonable alternatives provides the opportunity to consider other ways to achieve the desired outcome and often provides valuable insights into ways to improve the proposal. Alternatives analysis needs to look beyond location or design issues to consider alternative means of achieving the development objectives of the project. The analysis should include a substantive analysis of a “no-project” scenario which provides a baseline to enable decision makers to compare the magnitude of environmental effects of the action alternatives. The alternative analysis must also look at environmental and social, as well as technical and economic, aspects of the various scenarios. In the absence of such considerations, the EIA tends to be directed towards supporting or affirming a stated project proposal.

The most recent version of OS I did not provide language that addresses USAID's concerns. OS I requires consideration of real alternatives with respect to the project's location and/or design.

- **Associated facilities definition** – Associated facilities is a term of art that is used to describe facilities that, while not financed by the MDBs are connected to a MDB-financed project. Environmental and social impacts of an associated facility can be at least as serious as, or greater than those from the MDB-financed component (e.g., a coal mine would be expanded to supply a new MDB-financed power plant). The scope of analysis for associated facilities needs to include an assessment of direct, indirect and cumulative impacts.

AfDB's proposed definition continues to be too narrow to capture an adequate assessment of associated facilities for decision makers. However, AfDB has captured associated facilities impacts in their assessment of cumulative impacts.

- Cumulative impact definition – The scope of cumulative impacts needs to include any existing projects or reasonably foreseeable future projects—whether MDB-financed or not—which, because of their temporal, spatial, or geographic boundaries, can impact the same resources that the proposed project could impact. Cumulative impacts must be evaluated along with the direct and indirect effects of each alternative. At present, AfDB’s proposed definition is too narrow to fully capture cumulative impacts and it is not required to assess alternatives.
- Baseline data – There is no guidance on the adequacy of baseline data collection that is to be collected in order to have enough information to be able to assess impacts meaningfully.
- At a minimum, for Category I projects, vulnerable groups and indigenous populations should be provided with independent technical and legal support throughout the process to ensure adequate project participation.

OS 3. Operational Safeguard on Biodiversity and Ecosystem Services

- The impact assessment process is narrowly defined and there needs to be inclusion of cumulative impacts and associated facilities impacts.
- The assessment of biodiversity and ecosystem values should be conducted by internationally-recognized independent experts and not project sponsor contractors.
- AfDB-financed activities are allowed in critical habitats and allow for biodiversity offsets. Biodiversity offsets cannot qualify as mitigation measures for impacts and are not supported by conservation science as viable. Critical habitats are so named precisely because they are irreplaceable and one cannot offset the loss of a unique habitat. Due to these issues, AfDB should not finance activities in critical habitats.
- Mitigation measures for projects developed in natural habitats are to be designed and implemented to achieve either net benefit to or no net loss of biodiversity (if feasible). Both of these outcomes are unattainable given the timeframe and type of data that is collected for AfDB projects, and because of data availability, given the complexity of ecological systems and processes.
- Management of ecosystem processes is narrowly construed to identifying “priority ecosystem services.”

Annex-Trip Reports

TBD

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