

Key Concerns Regarding AfDB's Consideration to Support the Gibe 3 Hydropower Dam in Ethiopia: A Discussion Document

20 January 2009

This document was prepared for an upcoming phone conference between civil society groups and the African Development Bank on the Bank's forthcoming consideration of funding for the Gibe 3 Dam in Ethiopia. The civil society groups which requested the phone conference include: Bank Information Center, Campagna per la Riforma della Banca Mondiale, Friends of Lake Turkana, and International Rivers.

Clarifying Questions

Who are other current or proposed financiers for the Gibe 3 Dam?

Is the Bank involved in funding the proposed Gibe-Kenya transmission line?

What is the status of this project, including other possible financiers?

We understand that an economic, financial and technical assessment is planned. The IPPF located at the Bank intended to help finance this study. Has IPPF support been approved and disbursed for this study? Will the Bank consider project lending prior to the results of this study?

1. CONTRACT PROCUREMENT

The Bank has identified the Government of Ethiopia as the borrower for the Gibe 3 Dam project. The project's primary contract, worth an estimated \$1.7 billion, was awarded in July 2006 by the Government of Ethiopia to Italian construction company, Salini, without any bidding process.

The contract does not adhere to the Bank's standard procurement guidelines which require international competitive bidding nor does it follow the four basic considerations which guide Bank procurement policy.¹ The World Bank has indicated to the Government of Ethiopia that it could not consider a project loan because the contract has been awarded and the process did not follow World Bank procurement guidelines. Inquiries regarding project procurement were made to the Bank's Procurement and Fiduciary Services Department on November 11, 2008 and January 9, 2009. Allowing the Bank to finance the project through a rare exception would negate the purpose and intention of the Bank's existing procurement guidelines and would set an unacceptable precedent.

Relevant excerpts from the Bank's Rules of Procedure for Procurement of Goods and Works:

¹ The procurement policy of the Bank is generally guided by four basic considerations: (a) the need for economy and efficiency in the implementation of projects including the provision of related goods and services ; (b) the Bank's interest as a cooperative institution in giving all eligible contractors and suppliers from developed and developing countries equal opportunity to compete in the supply of goods and works financed by the Bank; (c) the Bank's interest, as a development institution in encouraging the development and participation of contractors and suppliers from regional member countries of the Bank; and (d) the importance of transparency in the procurement process.

2.1.1 The Agreement establishing the ADB requires that the proceeds of any loan be used *with due attention to considerations of economy and efficiency*. Therefore, as a matter of policy, *the Bank requires that there should be international competitive bidding for the procurement of goods and works needed for the implementation of projects financed with loans from the Bank*, except where the Boards of Directors decide otherwise.

2.1.2 Although the Bank normally finances only part of the cost of contracts under projects and programs, it requires that in most cases *a system of international competitive bidding be used in purchasing any goods and in contracting for works needed to implement any of the projects or programs wholly or partially financed with its loans*. Furthermore, the Bank requires that any other bidding procedures and contract awards which may be used for procurement of goods and works on projects and programs wholly or partially financed by the Bank should be *subject to conditions acceptable to the Bank*, consistent with its policies and the purpose for which the loan is being granted.

2.3.1 Procurement of goods, works and related services under the Bank's loans shall be made through international competitive bidding (paragraph 2.1.1) as defined in Chapter 3 of these Rules. However, subject to the Bank's prior approval, other forms of procurement (Chapter 4) could be agreed upon by the Borrower and the Bank, *whenever it can be established that this is done with due regard for transparency, economy and efficiency in the implementation of the project*.

3.25 Sub-contracts: Where any services may be sub-contracted, *the sub-contract shall include all the conditions applicable to the main contractor or supplier including the specific procurement requirements of the Bank*. The rights and obligations of the subcontractor are governed only by the sub-contract. The sub-contractor has no status under these Rules.

3.40.4 Award of Contract: *A contract which is awarded without the Bank's approval shall not be eligible for Bank financing*.

Questions

Given the existing project contract awarded to Salini, how does the Bank intend to adhere to the Bank's procurement policy in consideration of this project?

Has the Board of Directors been approached, or will they be, to consider an exception to these procurement rules?

2. PROJECT LEGACY, 2006 TO DATE

Construction of Gibe 3 Dam commenced in 2006 without an approved environmental impact assessment, a flagrant violation of Ethiopian environmental law. No project documentation addresses this issue nor evaluates project impacts incurred during construction, prior to approval of the ESIA in July 2008. Project documents do not identify this situation nor any concerns about the impacts of this violation. The Bank has not identified how its involvement could be affected by this egregious violation.

The Bank's Environmental and Social Assessment Procedure policy states:

2.5 The projects financed by the Bank shall comply with *the RMC's environmental and social legislation, policies and guidelines, with local and national requirements on public consultations and disclosure, as well as with international agreements ratified by the borrowing country.*

3.16 OPs shall undertake a Pre-approval Audit with SDPRU assistance if the scoping exercise indicated *a need for evaluating past and present environmental and social liabilities* associated with the project.

Questions

How is the Bank addressing the violations of local law in the first two years of project construction?

What actions is the Bank taking to address project impacts to date?

Has the Bank undertaken a Pre-approval Audit?

What other Bank policies address its responsibilities in addressing impacts of a project already under construction?

3. POOR SOCIAL AND ENVIRONMENTAL ASSESSMENT

Gibe 3 Dam poses serious social and environmental impacts. The project's Environmental and Social Impact Assessment, Additional Downstream Study, Environmental and Social Management Plan and Resettlement Action Plan were approved by the Ethiopian Environmental Protection Authority in July 2008. These documents do not sufficiently acknowledge or assess the project's impacts.

The ESIA documents misrepresent project benefits and risks and are of overall poor quality. Analysis is often simplistic and conclusive statements are consistently made without a reasonable basis. Risks to health and livelihoods of affected communities are particularly poorly addressed. Comprehensive baseline studies have not been conducted. Mitigation measures are inadequate, unrealistic and do not acknowledge the failure of similar mitigation measures in Ethiopia.

We believe that the inadequacy of the ESIA documents represents numerous violations of the Bank's Environmental and Social Assessment Procedures and numerous safeguard policies, including policies on Involuntary Resettlement, Gender, and Poverty Reduction.

Key examples of sub-standard analysis include:

Misrepresentation of project benefits:

- Restoration of Turkana basin, based on simplistic statements, is stated as a benefit, yet the dam poses a grave ecological risk to Lake Turkana (details below)
- Displacement of firewood use by electricity is unlikely, as firewood is used for cooking and heating, energy-intensive household uses. Most households which

are connected to the grid will continue to use firewood or charcoal for these purposes,

- Reservoir fishing was also considered a benefit of Gilgel Gibe Dam, but a ban on fishing has since been established there.

Poor and inaccurate baseline information:

- Baseline health studies are inadequate
- Upstream and downstream areas were studied separately, not clear why
- Current use of food aid is overstated in the Lower Omo Valley and the independence and self-sufficiency of the valley's resource economy is not adequately identified
- Complete neglect of identifying the social context of the Turkana region
- Lack of comprehensive geological studies including slope stability, particularly given current geological complications of Tekeze and Gilgel Gibe 2 hydro projects.

Inadequate consideration of project alternatives:

- ESIA documents only discuss *alternative layouts* of the Gibe 3 Dam, but neglect any discussion of alternatives to meet the identified needs.
- Energy supply alternatives should have been identified, including: geothermal potential, a planned wind farm, and other small, medium and large hydro dam options.
- Gibe 3 is also an export revenue scheme. There is no discussion of why hydropower exports are the preferred investment for possible export revenue schemes.
- Small and medium hydrodams are not considered.

Many project impacts are poorly analyzed and/or quickly dismissed:

- Some 275 Hadiya nomadic households (about 1,400 people) will lose grazing lands in the reservoir region (as identified in a 2006 version of the EIA) but the current ESIA states they will not be negatively affected, nor will receive any compensation.
- Biodiversity loss and impacts to protected areas are quickly dismissed as negligible.
- Lack of hydrological modeling of the Omo Basin to determine risks in a changing climate
- Cumulative impacts of existing and planned dams, along with extensive irrigation plans along the Omo, are not assessed at the basin level.

Unsuitable mitigation measures leave hundreds of thousands at risk of diminished quality of life and livelihoods:

- The artificial flood is based on insufficient methodology and analysis, lacks identification of areas the planned flood would no longer reach and if the flood could achieve the required level of food productivity.
- The determination of the environmental flow is based on unsound methodology and could further harm the downstream ecosystem rather than protect it. Observers say the environmental flow at Gilgel Gibe Dam has not been consistently respected.

- Buffer zone around the reservoir is planned, but the buffer zone around the reservoir of Gilgel Gibe Dam has reportedly not been effectively enforced, resulting in riverbank erosion.
- Mitigation of health impacts around the reservoir region lack sufficient detail and requirement. Health infrastructure for communities surrounding the reservoir may not be reinforced as suggested.

Questions

What is the Bank's position on the adequacy of the current ESIA documents?

Did the Bank undertake an Environmental and Social Scoping (ESS), prior to the launch of the project preparation mission? Was an Environmental and Social Scoping Memorandum (ESSM) prepared prior to project preparation, as recommended by the Bank's Environment and Social Assessment policy?

Did the Bank review the ESA studies prior to the launching of project appraisal mission, as required? What were its results?

Has any Strategic Impact Assessment been undertaken at the sectoral or regional levels to consider the broader contexts of this project?

4. RISKS TO ETHIOPIAN INDIGENOUS COMMUNITIES

The ESIA identifies a total population in the Lower Omo region of 500,000 people. At least 100,000 of those people are directly engaged in flood recession cultivation. Flood recession cultivation and herding are the basis of the local resource economy practiced by indigenous communities of the Lower Omo Valley. Because of this region's isolation, lack of infrastructure and longtime government neglect, this local economy acts as the primary community safety net for these communities and provides virtually all of the isolated region's food security during most years.

As planned, the Gibe 3 Dam will regulate the Omo River flow and eliminate the seasonal flood which is the basis of the Valley's flood recession cultivation. The impacts and risks of these ecosystem changes go beyond the livelihoods of those 100,000 people directly engaged in this practice and poses risks to herders and others who participate in the area's existing food security and economic system.

The extent of these risks is severely underestimated. Project documents lack an understanding of the role of flood recession cultivation in the area's local economy and food security. Without adequate mitigation, the impacts of this loss will diminish the quality of life for much of the area's population, create food insecurity, chronic hunger and poor health, and food aid dependence. It could also result in resource conflicts and a general unraveling of the region's social safety net. Confidential sources say that the communities have a high level of independent food security and most receive very little food aid (and only during extreme years), contrary to the ESIA's statements that these communities are chronically food insecure and regularly depend on food aid.

The project's proposed mitigation, namely an artificial flood, is unlikely to support the existing level of flood recession cultivation. The methodology and analysis of this

mitigation measure does not consider whether it can achieve the quantity of food production existing under natural conditions. The short, intense duration of the flood, may not replicate the process required for cultivation. The artificial flood will require compliance from the dam operators, and no clear measures for compliance are identified. Non-compliance with the planned, artificial flood is at risk when it may interfere with profitable, hydropower generation.

Questions

How does the Bank intend to address the risks and mitigation measures of the Lower Omo Valley?

5. TRANSBOUNDARY ISSUES IN KENYA

The Omo River is the primary source of water for Kenya's Lake Turkana, the world's largest desert lake. The Gibe 3 Dam poses serious social and environmental risks which could ultimately cause the lake's ecosystem to collapse. An estimated 200,000 people who depend on the resources of Lake Turkana for fishing, herding and cultivation are at risk due to impacts caused by losses of water quantity and quality.

These transboundary impacts and risks are misrepresented and almost completely ignored within the project documents. This project affects a transboundary waterway and should require official agreement from the government of Kenya, but we are not aware of any such agreements. Friends of Lake Turkana is in touch with area MPs concerned about this issue. On 10 December, the following question was raised by Parliament to the Kenyan Minister of Water:

“Considering the Omo River is a transboundary River, can the Minister for Water & Irrigation explain to the house if there has been adequate consultation between the Ethiopian government and Government of Kenya, and if any agreements have been made – and if so, what they are. Considering that this project would have serious environmental and social impacts, and putting in mind the Government of Kenya is one of the highest purchasers of [Gibe 3] hydro electric power.”

A full response is still awaited, although Friends of Lake Turkana have met repeatedly with the Minister to share information about the issue.

As planned the Gibe 3 Dam poses a major threat to the sustainable management of the Turkana Basin, contrary to the ESIA's findings that it could benefit the basin's restoration. This threat undermines the intent and vision of the Bank's Policy for Integrated Water Resources Management (2000) which states:

4.2.2 ... analysis of lending operations includes *an assessment of the impact of individual water projects on other sources of water, other users, on people, and the environment at basin level, including transboundary waters*. The Bank will develop operational instruments that encourage consultation and prevent conflicts among riparian countries. Good practices will be identified and mainstreamed into operational work.

The Bank's Environmental and Social Assessment Procedures also states:

2.6 Bank-financed projects that may affect several countries (such as international or transboundary projects) shall comply with national laws, policies and guidelines in place in the various affected countries.

Questions

Is the Bank aware of any riparian agreements between Ethiopia and Kenya regarding this project?

How is the Bank addressing the transboundary issues raised with regard to poorly assessed social and environmental impacts, lack of mitigation, and lack of consultation with affected communities?

6. CONSULTATIONS, DISCLOSURE AND CIVIL SOCIETY REPRESSION IN ETHIOPIA

There is virtually no public awareness of the project, project impacts, nor access to project information in the country. Consultations with affected communities have included relatively few individuals; many affected peoples remain completely unaware of the impacts posed by this project. Consultative surveys meant to be completed by indigenous tribes in the Lower Omo Valley were reportedly filled out by local officials without the knowledge or input of the communities. Potentially affected communities in Kenya have not been consulted at all.

The ESIA documents have not been made accessible to the majority of project affected peoples, most of whom are extremely poor and located in the Lower Omo Valley and Northern Kenya. Not only are the documents physically unavailable to these communities, but the documents are not available in languages accessible to most affected peoples. Nor have efforts been made to inform these communities of project documents in an effective way. The lack of availability of project documents for affected peoples is a violation of the Bank's consultation and public disclosure policies.

There are also legitimate fears from within Ethiopia that NGOs, affected communities, and academics who express critical concerns of the project risk government retaliation. No action has been taken to ensure affected communities and the Ethiopian public are well-informed and able to express their views on project impacts without fear of government reprisal.

Public consultations are reportedly ongoing and ESIA related documents still undergoing revision, but the leverage of affected communities to ensure concerns and impacts are addressed is severely hampered because project authorization has been given and construction started. Communities will have little recourse to ensure that issues brought up in ongoing consultations are sufficiently addressed.

From the Bank's Policy on Information Disclosure:

4.24: Environmental and Social Impact Assessments (ESIAs) are prepared by the borrower for Category 1 projects with potentially substantial environmental and social impacts. ***Local populations shall be informed of the results of the ESIA and their opinions about proposed recommendations solicited.***

4.25 Before the Bank Group proceeds to an appraisal mission for Category 1 projects, available ESIA studies shall be released in the borrowing country project area at some public place *accessible to potential beneficiaries, affected group and local CSOs*. Once the ESIA is released in the borrowing country and submitted officially to the Bank Group, it will be made available to the public through the PIC, website and the field offices where such offices are in place.

Questions

How does the Bank intend to address concerns about inadequate project-level consultations and information disclosure, and broader concerns about the lack of space for civil society discussions in Ethiopia?

What was the Bank's experience of participatory consultations undertaken during project identification, project preparation and project appraisal missions?

7. FINANCIAL RISKS FOR ETHIOPIA

This project poses serious financial risks to the Government and people of Ethiopia. Project costs and cost-effectiveness have not been adequately reviewed, including for impacts to the country's debt sustainability. Due to the questionable procurement of the project contract, the contract may financially exploit the position of Ethiopia by allowing undue financial benefit to the contractor and the government may not be aware of the totality of its exposure to risks of project under-performance, including risks from low-hydrology and climate change.

The IMF has raised concerns that Ethiopia is at risk of accruing an unsustainable level of debt. According to recent IMF reports, the government continues to lack a comprehensive strategy for managing its debt, and risk of debt distress is "moderate".

Questions

Has the Bank undertaken a review of the primary project contract?

Is the Bank considering this project's impact on Ethiopia's debt sustainability, given the context of EEPSCO's aggressive plans for more capital-intensive supply projects, and recent, costly delays of Gilgel Gibe 2 and Tekeze Dam?

Does the project contract inequitably place geological or other risks which may not have been properly studied on the Government of Ethiopia?