

Cameroon – Lom Pangar Hydropower Project (LPHP)

March 27, 2012

U.S. Position

The United States welcomes the discussion on the proposed \$132 million credit to the Republic of Cameroon for the Lom Pangar Hydropower Project (LPHP). This is a critical, high risk/high reward operation for both Cameroon and the Bank. It is central to the Bank's mission – helping Africa develop its energy potential and expand access to electricity – and central to Cameroon's development plan. However, a project of this complexity and risk needs strong safeguards, appropriate policies, and perhaps most importantly, adequate government capacity. The United States therefore commends the Bank and Government of the Republic of Cameroon (GRC) for their agreement on significant improvements in those aspects of the project since last November, when this operation was considered by the Africa Development Bank (AfDB). As currently proposed, this project is one that the United States can now support. However, strong implementation is critical. Therefore, the United States calls on the Bank to continue its high level engagement with Cameroon throughout implementation and to ensure strong oversight and supervision, sufficient strengthening of GRC capacity, and continued work on electricity reform so that this operation can be a success. The United States also calls on Management to provide reports to the Board and the public on project implementation, at least annually.

A project of this scale requires a comprehensive strategy that addresses critical policy reforms in Cameroon's power sector as well as develops long-term risk mitigation frameworks to lessen the impact of this project on vulnerable populations. The United States hopes that the key reforms underlying the GRC's new electricity law (NEL) are implemented as expected to enable an environment for continued private sector engagement in the sector. The United States is disappointed by the government's current embrace of sole source concessions for power generation, but believe that the provisions requiring competitive bidding, optimization of plant size and power auto-producers' contribution to the national power grid will help improve the situation.

The United States supports NEL's protecting the rights of all energy contractors and concessionaires within a one year period starting on the NEL's promulgation date. The United States hopes that, in the meantime, all the concession contracts, especially that of AES, the main private company in the energy sector, will be equitably renegotiated without any risk to the generation of power in Cameroon. The Transmission Public Company (TPC), created by the NEL, is another important element of the reforms to the power sector. The United States hopes that details about the TPC's design and role in the power sector are available to Board members this year. The United States encourages both the GRC and the Bank to follow through on the reform agenda.

As the project moves into implementation, it is critical that the enhanced safeguards and environmental measures be put in place. The establishment of a water tariff, which pays for project costs and environmental management, provides a secure funding source to protect Deng Deng National Park. Strict controls on wood salvaging and controlled access to the forests to prevent illegal logging and poaching are essential, especially before the reservoir is filled. The establishment of a reservoir management plan to monitor and address water quality issues is a

good idea. The United States strongly supports the establishment of a downstream monitoring plan, and hope that the requirement for mitigation measures if changes occur will have force. The United States appreciates that the overall compensation/development plan for affected communities goes beyond Bank requirements.

The United States also commends the government for its commitment to implement a broad-based process for consultation on use of the Sanaga River's water resources. As the United States understands it, the purpose of this is to work out a balanced approach--basically one that harnesses power while respecting basic watershed functioning. The United States understands and hopes that this process will be supported with appropriate technical expertise and that its work will be integrated into establishing operating regimes for existing and new hydropower infrastructure. The United States welcomes the provisions in the loan covenant on the operation of river basin management that will take into account equitable sharing by all users and environmental flow, and the parallel technical assistance by the Bank for river basin management. The United States recommends that the Expert Panel be asked to advise on the development of an operational plan.

The United States appreciates Bank assurances that the salvage operation will be strictly limited to those areas that would be inundated by the reservoir, with clearly defined no go zones. The United States notes the Bank's commitment to putting in place a strong monitoring and enforcement framework, with oversight by third party technical NGOs and an Independent Observer. Lastly, the United States supports the proposed closure of access to the site prior to filling the reservoir. It is imperative that the Bank actively supervise this critical phase of the operation to ensure that it does not result in expansion of logging beyond the limited areas allowed for salvage. The United States expects that failure to abide by the commitments on the salvage operation would be considered a serious breach of the loan covenants, and request that problems be reported immediately.

Looking ahead to other large energy development projects in Africa, the United States would urge much closer MDB collaboration on project preparation.