Proposed IFC Investment in Mira Power Limited for the Gulpur Hydropower Project

Pakistan

January 21, 2015

The United States opposes IFC's proposed investment in Mira Power Limited for the Gulpur Hydro Project, and wishes to be recorded as voting "no." It is the United States' view that the environmental risks associated with this project outweigh its potential benefits. The project sets an unacceptable precedent for IFC engagement in areas of critical habitat. The United States remains supportive of helping Pakistan to address its ongoing and severe energy crisis through increased electricity generation and sectoral reforms, which includes well-designed hydropower projects. The United States is committed to continuing to partner with Pakistan in this effort. However, in this particular case, the United States does not believe that IFC has accurately judged the risks of this investment.

When IFC proposes to finance a project in sensitive critical habitat such as the Poonch River – home to two endangered fish species, one of which is critically endangered – the Performance Standards require that the project will cause no harm to the endangered species, and will result in a net gain. The United States believes that the methodology used to assess the environmental impacts of this project, as well as to assess the potential benefits of the proposed mitigation measures, was fundamentally flawed.

First, the methodology sets an unjustifiably low "no project" environmental baseline: inevitable and complete degradation of the critical habitat due to unchecked illegal mining and fishing. Measured against such a baseline, the ESIA showed a "net gain" in biodiversity, even while the model predicts a net <u>loss</u> relative to present-day conditions. By this logic, any adverse impacts of the project on critical habitat would be acceptable, provided those impacts do not result in devastation as severe as a continued trend of unchecked illegal activity (the baseline). In our view, using a "dynamic" baseline to assess projects in critical habitat in this context is an unacceptable approach to implementation of the IFC Performance Standard (PS) on biodiversity (PS 6). This PS requires a two-step analysis that it be "demonstrated" that the relevant biodiversity will not be harmed and will likely be left better off. Replacing a "current" baseline with a "dynamic" baseline that is based on various hypotheses about future actions and inactions invites "loading the dice," and erodes the fundamental requirement that it be demonstrated that the project will not result in harm. Moreover, even if a "dynamic" baseline were consistent with PS 6, in this case, the dice are loaded with a baseline that sets the lowest-possible "no project" bar.

Second, the ESIA makes unrealistic assumptions regarding factors beyond the project sponsor's control, further loading the dice with the best-possible "with project" alternative. For example, it assumes:

- no further watershed development by Pakistan or India (a questionable, yet critical, assumption, given that the Cumulative Impact Assessment concludes that construction of the five planned projects on the Poonch River would change the entire river into a series of lakes and low-flow sections);

- early and major benefits from an untested program to reduce gravel and de-foresting activities elsewhere in the watershed – a program to which no project funds are dedicated; and
- no livelihood losses that could lead to implementation risks for the program to reduce gravel and de-foresting activities.

Third, the proposed mitigation measures are inadequate. IFC policy stipulates that offsets – measures to replace habitat adversely impacted by the project – are a mitigation of last resort for Tier 1 habitats (as the project site is in), and further notes that it would be difficult (if not impossible) in practice to demonstrate an offset in a Tier 1 habitat. Located on a river considered to be the endangered Mahaseer's "last resort," this project would block its migration to important breeding habitat, yet proposes a program of artificial hatcheries and off-site habitat stabilization which has not yet proven successful. This project also would inundate the breeding habitat of the critically endangered Kashmir catfish, yet proposes no offset program for these catfish and selects a level of minimum environmental flow that is insufficient to protect them.

Beyond the flaws in the environmental analysis, we are concerned about the apparent lack of coordination between the IFC and the World Bank on this project. As the project document highlights, addressing Pakistan's energy needs is a pillar of the World Bank Group Country Partnership Strategy for Pakistan. When the IFC engages in a project such as Gulpur, where many of the mitigating actions depend on parties beyond the IFC's and the project sponsor's influence, there is a strong argument for World Bank engagement in order to help support and strengthen these actions. In this case, the United States would have strongly preferred to see better coordination between the IFC and the World Bank to promote alternative livelihoods for miners and fishermen and to support better river basin planning.

Finally, the United States questions the decision not to highlight these risks more prominently in the project document or to bring this project to the Board for discussion. In a case where the risks are clearly significant and the potential development benefits are modest, the United States believes the Board must be actively involved – at a minimum through a comprehensive project document, if not a full Board discussion – to weigh potential tradeoffs.

In sum, the United States believes this project sets an unacceptable precedent for the implementation of IFC's Performance Standards and does not strike the right balance between economic development and environmental preservation. For these reasons, the United States wishes to be recorded as voting "no."