

**U.S. Position on the Compliance Review Report of the IDB Invest Guatemala projects
Generadora San Mateo S.A. and Generadora San Andrés S.A**

Tuesday, August 3, 2021

This Compliance Review Report on two IDB Invest Guatemala projects – Generadora San Mateo and Generadora San Andrés -- illustrates the importance of recognizing and addressing the complexity of the social and environmental context in order to deliver projects which will help meet the energy needs of Central American countries with critical needs. The recently published USG root causes strategy for Central America underscores the important role of multilateral development banks (MDBs) in infrastructure development, as well as the need to improve energy infrastructure and promote climate resilient electricity generation. We reiterate our zero-tolerance for violence and retaliation in any form, and stress that dialogue and consultation are the best means for reducing social tension and mitigating risks.

Therefore, the United States supports all 29 recommendations proposed by the Independent Consultation and Investigation Mechanism (MICI) in its report and instructs management to prepare a robust action plan no later than two months after the settlement date. MICI should then monitor the implementation of the action plan.

Given the likelihood of an exit from the transaction, IDB Invest has a responsibility to take measures that can help decrease tensions and ensure that the harm on communities and project-affected people is recognized and compensated appropriately. IDB Invest's eight areas of noncompliance elevate its responsibility to ensure that its exit from the project is responsible. In particular, indigenous women in the project area should be consulted and be given a proper platform to voice their concerns.

Two recommendations are important to highlight:

First, recommendation 27, to establish a procedure or mechanism that allows projects to be reclassified after the screening/classification phase. It is imperative to have a mechanism in place that is a check and balance on operations to ensure proper classification. Publicly reclassifying a project as a Category A, even after the project has been initiated, ensures that the appropriate environmental and social safeguards are applied. This is even more critical in areas where contextual risks are high, as they were in this case. IDB Invest was already treating this operation as a Category A (internally) but did not make it a Category A (publicly) even after it was restructured. Management should use this project as a catalyst to create a mechanism to prevent such mis-categorization from happening with future projects.

Second, on recommendation 29, MICI's forward thinking approach regarding what a responsible exit would entail is appreciated. As mentioned, Management should prepare a transition plan for a responsible exit which, at a minimum, should contain all measures described by MICI in recommendation 29. The United States urges Management to work closely with the client to secure any external resources necessary to implement the transition plan. Proper consultations with project-affected peoples during project exit will be essential. The need for significant attention to the elevated risk of reprisals during this phase must be emphasized, as the region

struggles with violence toward environmental defenders. We take this opportunity to recognize IDB Invest's proactive approach to the sensitive topic of reprisals, as highlighted by the good practices note published earlier this year jointly with the IFC.

Additionally, Management should include in its action plan: the carrying out of an updated environmental and social impact assessment, a social baseline study, and an evaluation of the gender-differentiated impacts in order to map out an adequate and responsible exit strategy that ensures that the information about the impact of this project is accurate.

To close, the United States recognizes that this is a complex and difficult situation for all parties involved, and believes that IDB Invest has a responsibility to pursue those avenues that may help reduce the tensions generated by this investment and address the harms that have been incurred.