

U.S. Position
Proposed World Bank (International Development Association) Investment in
Dasu Hydropower Stage-1 Project, Pakistan

June 10, 2014

The United States welcomes the opportunity to lend support to the World Bank and Pakistan's effort to launch the Dasu Hydropower Project, which represents an important investment for strengthening Pakistan's energy sector and its economic stability.

The United States supports the critical project objective of increasing Pakistan's electricity supply using low-cost and low emissions hydroelectric resources. The United States also supports the Dasu project's efforts to improve socio-economic services for local communities in the project area and strengthen the capacity of the Water and Power Development Authority (WAPDA) to execute hydropower projects in Pakistan. The Dasu project can help address Pakistan's chronic energy crisis, which currently causes households, farmers, and businesses to endure routine blackouts and costs the country an estimated 2 percent of GDP annually.

In addition to the direct development benefits, the United States appreciates the positive impacts the project can play in supporting the Government of Pakistan's (GOP) efforts to strengthen the performance of the energy sector and reduce the sector's stress on the government's fiscal position. The Dasu project will help reduce the price adjustment necessary to attain full cost recovery and reduction of subsidies compared to what would have been required through additional and more expensive thermal capacity. However, further efforts by the GOP to continue reform of electricity tariff rates and to address government non-payment in the sector are critical.

On project financing, the United States appreciates the useful presentation of the three financing scenarios for Dasu and notes the significant risks to the financing strategy as laid out in the project documentation. The United States welcomes staff's candor in discussing the risks involved and the potential mitigants if there are shortfalls in projected commercial or export credit agency financing under the base case. The United States encourages the World Bank and the GOP to take the steps necessary to avoid such financing shortfalls while also working to avoid cost overruns in this project.

On environmental issues, the United States appreciates the project document's detailed discussion of other energy options and comparisons of the environmental, social, and economic risks. Furthermore, the United States recognizes the high quality of the environmental assessment for the main structure, power generation facilities, and preparatory works that resulted from extensive stakeholder consultations and included a comprehensive cumulative impact assessment, a thorough discussion of the alternatives, including a without-project alternative, and alternatives for resettlement.

While the United States welcomes the provision of data in the "Environmental Assessment and Review Framework", the United States would have preferred that the Bank and the GOP have completed a detailed environmental and social impact assessment (ESIA) for the high voltage

transmission lines from Dasu to Islamabad prior to project appraisal. The United States welcomes the fact that this project is funding the ESIA for the transmission lines and strongly urges that the ESIA be completed in a timely manner, fully taking into account stakeholder concerns, be publicly disclosed in accordance with Bank policies, examine all reasonable alternative routes and cumulative transmission lines impacts from other potential projects, and prioritize avoidance of social and environmental impacts over mitigation. Moreover, construction of the transmission lines should adhere to currently accepted best practices regarding avian electrocution and collision avoidance (e.g., the Avian Power Line Interaction Committee's "Reducing Avian Collisions with Power Lines" and "Suggested Practices for Avian Protection on Power Lines").

The United States urges the World Bank promptly to undertake the ESIA of the transmission lines, and looks forward to the opportunity to carefully review the ESIA when the financing for the construction of the lines comes before the Board. In the highly unlikely event that the Bank does not finance the transmission lines and other aspects of the overall project, the United States also notes the strong set of legal covenants that mandate the Government of Pakistan's compliance with World Bank environmental and social safeguards and robust governance and anti-corruption safeguards.

The United States commends the Bank for its robust social impact analysis and the GOP for the extensive public consultations amongst the affected local stakeholders. Such analysis and consultations are critical for mitigating the potential impacts of large-scale infrastructure projects such as Dasu and can also help minimize problems and delays during project implementation. The United States strongly supports the project's well-considered assistance strategy (i.e., the Social Resettlement Management Plan and the Development Fund) to improve the livelihoods of affected communities through the provision of basic infrastructure, education, health, vocational training, as well as livestock and agricultural extension services.