

CAO Audit of IFC Investment in Coastal Gujarat Power Limited, India

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Key Observations and Findings

On Due Diligence in its Environmental and Social (E&S) Review of the Project

CAO finds that IFC's review of its client's E&S assessments was not "commensurate with...risk" in relation to fisher people seasonally resident on Tragadi and Kotadi *bunders* (Pg 19 para 1)

CAO finds that IFC paid insufficient attention to the requirements of the Performance Standards that the client prepare an "adequate, accurate and objective" assessment of "all relevant E&S risks and impacts of the project" based on "appropriate social baseline data". (Pg 19 para 1)

CAO finds this to be of particular concern in relation to the complainant communities given that they are statutorily recognized as educationally and socially disadvantaged and acknowledged by IFC to be vulnerable. (Pg 19 para 1)

CAO finds IFC has overlooked the requirement of PS6¹ that the client's E&S assessment "take into account the differing values attached to biodiversity by specific stakeholders." (Pg 19 para 1)

These issues are compounded by the absence in the E&S assessments of a clear articulation of "the project's area of influence." (Pg 19 para 1)

CAO finds that IFC should have required that its client commission additional E&S assessment in order to ensure compliance. (Pg 19 para 1)

Without this baseline or assessment, CAO finds that neither IFC nor its client is in a strong position to refute or respond to claims regarding the impact that the project is having or will have on these households. (Pg 19 para 1)

On Disclosure and Consultation Requirements & Assessment of Community Support

IFC engaged with this project based on the view that it will have no or negligible negative impact on the communities living seasonally on the *bunders*. (Pg 21 para 4)

IFC did not pay adequate attention to verifying whether pre-project consultation requirements were met in relation to groups (including fisher people) that had been identified in the E&S assessment process as project affected community resource users resident outside these villages. (Pg 21 para 4)

¹ There are eight Performance Standards (PS) establish standards that the client is to meet throughout the life of an investment by IFC:

Performance Standard 1: Assessment and Management of Environmental and Social Risks and Impacts

Performance Standard 2: Labor and Working Conditions

Performance Standard 3: Resource Efficiency and Pollution Prevention

Performance Standard 4: Community Health, Safety, and Security

Performance Standard 5: Land Acquisition and Involuntary Resettlement

Performance Standard 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources

Performance Standard 7: Indigenous Peoples

Performance Standard 8: Cultural Heritage

...consultations were organized with a focus on fishing communities, CAO notes that these occurred after key decisions in relation to the design of the cooling system had been made. (Pg 21 para 5)

CAO ... finds that IFC failed to assure itself that directly affected fishing communities were engaged in “effective consultation” (Pg 22 para 1)

CAO notes inadequate attention to PS1 requirements that consultation should be “based on the prior disclosure of relevant and adequate information, including draft documents and plans” and “should begin early in the Social and Environmental Assessment process” (Pg 22 para 1)

CAO notes IFC’s view that “while the process could have been better, the outcome is consistent with the PSs.” CAO disagrees, finding rather that a lack of effective consultation with fishing communities early in the project cycle process resulted in missed opportunities to assess, avoid and reduce adverse potential adverse impacts of the project in accordance with the objectives of PS1. CAO also finds that shortcomings in the consultation and disclosure process described above hindered efforts to “build and maintain over time a constructive relationship” with project affected communities, which as articulated in PS1 is the “purpose of community engagement.” (Pg 22 para 2)

On Marine Impact

CAO finds that the IFC’s E&S review regarding marine impact did not meet the due diligence requirements set out in the Sustainability Policy. In particular, CAO finds that IFC’s E&S review was not “appropriate to the nature and scale of the project” or “commensurate with... risk” (Pg 29 para 1)

CAO finds that important opportunities were missed to: (a) request more detailed baseline information about the marine environment of the affected area; (b) incorporate appropriate analysis of the potential marine (and associated social) impact of the project into design considerations and the client’s E&S management system; and (c) develop a framework to support adequate marine impact monitoring (specifically, monitoring that goes beyond gross changes to marine ecological receptors). (Pg 29 para 2)

CAO finds that IFC did not adequately assure itself that the thermal plume from the seawater outfall would comply with the relevant 3°C criterion at the edge of the mixing zone (IFC General EHS Guidelines 2007, p.25). No mixing zone was defined in the marine EIAs or subsequently; thus compliance cannot be demonstrated. (Pg 29 para 3)

...none of the cited assessments engage with the livelihoods of the Complainant fishing communities in any detail or meet the stakeholder engagement requirements of PS6. (Pg 29 para 5)

CAO finds that IFC’s position reflective of a tendency to accept the findings of its client’s impact assessments without undertaking a review commensurate with what IFC had acknowledged were significant risks to the marine environment emerging from the project. A thorough review, CAO finds, would have raised questions as to evidentiary and methodological basis for the more categorical findings in the various marine impact assessments, both in relation to the project’s marine impacts and its impacts on the livelihoods of the complainants. (Pg 30 para 3)

On Air Pollution

...given concerns from the residents of the *bunder* regarding air quality, it would also be good practice to conduct regular air monitoring for both ambient particle concentrations and deposited

dust on or near the *bunder* and report back on this publically. In the light of any monitoring or modeling, it may also be appropriate to consider all the various dust control measures on site (for PM₁₀, RPM, SPM, TSP) and amend the EMP (Environment Management Plan) to ensure that impacts on the *bunder* are minimized. (Pg 34 para 1)

Following the Thermal Power Guidelines (1998), plants greater than 500 MW_e in degraded airsheds, are required to apply offset provisions to ensure that there is no net increase in the total emissions of particulates or sulfur dioxide within the airshed. (Pg 34 para 2)

CGPL currently has some coal sourcing issues, which may require the issue of air emissions to be revisited to ensure compliance can be maintained. The potential addition of additional generating capacity at CGPL will also have an impact on emissions compliance. (Pg 34 para 6)

CAO also finds that IFC has failed to ensure that its client has correctly applied the requirements of the Thermal Power Guidelines (1998), in an airshed that should be classified as degraded. (Pg 35 para 1)

CAO finds this point to be moot as: (a) both the CEIA and SEIA data indicated that the airshed was degraded according to the applicable Thermal Power Guidelines (1998); and (b) CGPL's E&S consultant has reported since at least May 2009 that both NAAQS and IFC ambient air standards are being exceeded. (Pg 35 para 6)

CAO thus restates its finding that IFC failed to correctly apply the requirements of the Thermal Power Guidelines (1998), which place no net increase requirements for particulates and SO₂ on large thermal power plants in degraded airsheds. (Pg 5 para 7)

CAO notes that changes in the quality of coal being used may, when the plant is at full capacity, cause an exceedance of the IFC guideline of 500 tons (metric) of sulfur dioxide per day (EHS Thermal Power Guidelines, 1998). (Pg 36 para 2)

On Land Acquisition and Involuntary Resettlement (PS5)

The Resettlement Plan was not updated when the final location of the intake and outlet channels was determined in 2008. (Pg 37 para 4)

IFC has engaged with this project based on the understanding that it will have no or negligible negative impact on the communities living seasonally on the *bunders*. (Pg 38 para 2)

CAO finds that IFC did not take the steps necessary to ensure that the application of PS5 in relation to the Complainants was properly assessed. As a result, neither IFC nor CGPL considered the more detailed requirements of PS5. (Pg 38 para 2)

CAO finds insufficient evidence to support the above conclusions. In particular, CAO reaffirms that the project has not produced a social baseline or impact assessment that covers the households living seasonally on the *bunders*. (Pg 39 para 1)

CAO finds that there are sufficient indications of project-related displacement (both physical and economic) as to require objective assessment. (Pg 39 para 1)

IFC has failed to meet the requirements of the Sustainability Policy (of IFC). (Pg 39 para 1)

On Monitoring and Mitigation of E&S concerns

...it is not apparent to CAO that adequate monitoring against mandated E&S requirements is possible on the basis of this reporting (Annual E&S Performance Reporting by a contracted consultant): the lacking element being a consolidated articulation of the requirements, against which performance is monitored, using verifiable data. (Pg 41 para 3)

IFC acknowledges that CGPL's current E&S Management Plans have not been disclosed to the affected communities (or the Complainants). Further, CAO did not find any indication that environmental monitoring data are reported to affected communities (or the Complainants), with the exception of the air quality monitoring board outside the site. (Pg 42 para 1)

CAO finds that CGPL's E&S commitments are expressed in terms that are difficult to monitor. (Pg 42 para 3)

CAO has concerns that a framework for managing E&S impact that can be effectively monitored or audited has yet to be established; the element lacking is a consolidated articulation of the requirements, against which performance is monitored, using verifiable data. (Pg 42 para 3)

IFC is unable to demonstrate either that its client's monitoring is commensurate to risk (as required by PS1) or that its supervision allows it to meet the stated purposes of supervision as set out in the ESRPs: namely, the development and retention of information needed to assess the status of E&S compliance. (Pg 42 para 3)

On Cumulative Impacts

Cumulative impacts arising from the overall development of the coastal area include (but are not limited to) the following: ambient air quality, noise, groundwater pollution, seawater pollution, labor influx, and impact on livelihoods. (Pg 43 para 6)

The SEIA (Supplemental Environmental Impact Assessment) is limited to a study of the cumulative impact levels of CGPL and Adani Power Phase I (660MW_e out of 4620 MW_e) on ambient SO₂ levels. (Pg 44 para 1)

In CAO's view, IFC's interpretation of PS1 in relation to cumulative impact as applying only to permitted projects was unduly narrow. PS1 requires consideration of cumulative impact in relation to developments that were realistically defined (including but not limited to those permitted). (Pg 45 para 1)

CAO finds that IFC should have advised that CGPL's consideration of cumulative impact needed to go beyond that contained in the SEIA (2007). (Pg 45 para 1)

The context of development of the MPSEZ raises issues in relation to both third-party risk and regional/strategic impact assessment. MPSEZ is a major industrial development and its owners, the Adani Group, have been the subject of multiple allegations of environmental wrongdoing in recent years, particularly in relation to the destruction of mangroves around MPSEZ. As well as being a neighbor, CGPL is a significant client of MPSEZ, with a long-term contract for stevedoring services at the West Port. It is also noted that the cooling intake channel that CGPL and Adani Power share was built as part of the MPSEZ. (Pg 45 para 3)

CAO finds that IFC's E&S review paid inadequate attention to ensuring that the project's risks and impacts were "analyzed in the context of [its] area of influence" as required by PS1, particularly as this requires consideration of "areas potentially impacted by cumulative impacts...from project related developments that are realistically defined at the time the E&S assessment is undertaken" (Pg 46 para 3)

Concretely, this would mean, advising that the MEIA (Marine Environmental Impact Assessment - 2009) should have considered any cumulative impact emerging from the development of the West Port (including associated shipping traffic). (Pg 46 para 3)

Further, CAO would have expected to see more robust analysis and reporting in relation to the cumulative impact of CGPL and Adani Power Phases II-IV on the airshed. (Pg 46 para 3)

Cumulative assessment of the full impact of the two power stations on the airshed would have been particularly important given CGPL's obligations to comply with no net increase provisions for PM and SO₂ under the World Bank Group's 1998 Thermal Power: Guidelines for New Plants. (Pg 46 para 3)

...third-party E&S risk emerging from the project's proximity and relationship with MPSEZ needed to be better assessed, with mitigation measures developed commensurate to CGPL's level of influence. (Pg 46 para 4)