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Office of the Compliance Advisor Ombudsman (CAO)

COMPLIANCE INVESTIGATION REPORT

IFC Investment in enso Albania (Project #30979)

Complaint 01

CAO Investigation of IFC's Environmental and Social Performance in Relation to its Investment in enso Albania (Lengarica Hydropower Project)

Office of the Compliance Advisor Ombudsman
for the International Finance Corporation (IFC) and the
Multilateral Investment Guarantee Agency (MIGA),
Members of the World Bank Group

About CAO

CAO's mission is to serve as a fair, trusted, and effective independent recourse mechanism and to improve the environmental and social accountability of IFC and MIGA.

CAO (Office of the Compliance Advisor Ombudsman) is an independent post that reports directly to the President of the World Bank Group. CAO reviews complaints from communities affected by development projects undertaken by the two private sector arms of the World Bank Group, the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA).

CAO's compliance function oversees investigations of IFC/MIGA's environmental and social performance, particularly in relation to sensitive projects, to ensure compliance with policies, standards, guidelines, procedures, and conditions for IFC/MIGA involvement, with the goal of improving IFC/MIGA environmental and social performance.

For more information about CAO, please visit www.cao-ombudsman.org

Table of Contents

About CAO	2
Acronyms	4
Executive Summary	5
Overview of CAO’s Compliance Process	7
1. Background	8
1.1. Investment	8
1.1.1 IFC’s Investment in enso Albania.....	8
1.1.2 Lengarica Hydropower Project.....	8
1.2. Complaint and CAO Assessment.....	9
1.3. Investigation Scope and Methodology.....	10
1.3.1 Scope of the Compliance Investigation	10
1.3.2 Methodology	11
1.3.3 Applicable IFC Policy and Performance Standards.....	11
1.4. Overview of IFC’s Review and Supervision of the Investment.....	13
1.4.1 IFC’s Environmental and Social Pre-Investment Review.....	13
1.4.2 Commitment and E&S Action Plan.....	13
1.4.3 Project Supervision	14
2. Analysis and Findings	14
2.1. Endangered species and natural/critical habitat	14
2.1.1. IFC Requirements.....	15
2.1.2. Discussion and Findings	16
2.2. Impacts on Tourism-based Livelihoods	21
2.2.1. IFC Requirements.....	21
2.2.2. Discussion and Findings	22
2.3. Protected areas and natural monuments	23
2.3.1. IFC Requirements.....	24
2.3.2. Discussion and Findings	24
2.4. Disclosure, consultation and stakeholder engagement	28
2.4.1. IFC Requirements.....	28
2.4.2. Discussion and Findings	29
3. Conclusion and Observations	31
Annex 1: Summary of CAO Investigation Findings	33
Annex 2: Chronology of Project Milestones	35

Acronyms

Acronym	Definition
CAO	Office of the Compliance Advisor Ombudsman (IFC and MIGA)
E&S	Environmental and Social
ESAM	Environmental and Social Action and Monitoring Plan
ESIA	Environmental and Social Impact Assessment
ESMP	Environmental and Social Management Plan
ESMS	Environmental and Social Management System
ESRS	Environmental and Social Review Summary
ESRP	Environmental and Social Review Procedures
IFC	International Finance Corporation
IUCN	International Union for Conservation of Nature
MW	Megawatt
PS	Performance Standards
SEP	Stakeholder Engagement Plan
SPI	Summary of Proposed Investment
TOR	Terms of Reference

Executive Summary

This CAO compliance investigation responds to a June 2015 complaint from the Organic Agriculture Association, on behalf of two community members, regarding the environmental and social impacts of the Lengarica hydropower project (“Lengarica HPP”) in Albania. The Lengarica HPP was partially financed by IFC.

In September 2011, the IFC Board approved equity financing of up to €6 million (US\$8.66 million equivalent) in enso hydro energji sh.p.k. (“enso Albania”), an Albanian holding company established by Austrian asset manager enso hydro GmbH (“the client”). The investment represented up to 20% equity in enso Albania. The client aimed to invest around €100 million in small hydropower projects in Albania, with a total installed capacity of up to 50MW. At the time of IFC’s investment, the client had two hydropower projects under development in Albania, Lengarica and Mati.

The Lengarica HPP is an 8.9 MW run-of-river hydropower plant built on the lower Lengarica river, a tributary of the Vjosa river in Permet District in southern Albania. The Lengarica HPP weir is situated approximately 7 km from the Vjosa river. The Lengarica HPP consists of a regulator, a 4-km tunnel, a forebay, a 3.7-km penstock, a powerhouse, and a 6.5-km transmission line to the Permet substation. The powerhouse is located 2 km upstream the Vjosa river, north of Petran village.

A June 2015 complaint to CAO raised the following allegations regarding IFC’s investment in enso Albania, and the environmental and social impacts of the Lengarica HPP:

- IFC’s failure to adhere to its own E&S policies and standards, particularly inadequate due diligence; and requirements of Performance Standard 6 (Biodiversity Conservation and Sustainable Natural Resource Management) regarding natural and critical habitats, and legally protected areas.
- Adverse impacts on tourism-based livelihoods as a result of project construction, particularly its effect on water activities and natural landscapes with touristic and cultural appeal.
- Non-compliance with applicable national legislation as relates to (a) the project’s location inside the *Bredhi i Hotovës-Dangelli* National Park, a designated protected area; (b) adverse impacts to natural monuments which are applied the first level of protection per national law; and (c) the environmental permitting process.
- Inadequate stakeholder engagement and disclosure of information.

This compliance investigation provides analysis and findings regarding IFC’s review and supervision of the Lengarica HPP around four sets of issues raised in the complaint:

- a) Impacts on endangered species and natural/critical habitats;
- b) Impacts on ecosystem services, in particular the ecotourism value of the Lengarica river;
- c) Impacts on protected areas and natural monuments; and
- d) Disclosure, consultation and stakeholder engagement.

CAO’s investigation considers IFC’s performance against the requirements of the Performance Standards (PS) and other relevant IFC policy requirements. It also considers whether the project has had verifiable adverse environmental and/or social outcomes.

This report finds that there were material deficits in IFC’s pre-investment review of the project, but that these have largely been corrected during supervision. Outstanding issues identified in CAO’s compliance review relate to: (a) disclosure of the E&S assessment and monitoring information for the Lengarica HPP; (b) the assessment and mitigation of project impacts on tourism; and (c) the

alignment of the Lengarica HPP with the management plan for the *Bredhi i Hotovës-Dangelli* National Park, within which it is located.

Commencing with the alleged biodiversity impacts, CAO finds that IFC's E&S review overlooked a number of shortcomings in the client's assessment of Lengarica HPP risks and impacts. These included errors and omissions in the client's ESIA related to: (a) the identification of endangered and endemic species; (b) a lack of assessment of cumulative impacts emerging from the construction of multiple hydropower projects in the Lengarica river system; and (c) the lack of assessment of the adequacy of proposed environmental flow metrics. These deficits in IFC's review were, however, addressed during project implementation as additional biodiversity studies were commissioned and a biodiversity monitoring program was established. Monitoring results to date do not suggest that the construction of the Lengarica HPP has led to measurable adverse impacts on biodiversity. In these circumstances, CAO finds that IFC's supervision has been adequate.

The issue of the Lengarica HPP's location within the *Bredhi i Hotovës-Dangelli* National Park was also overlooked when IFC approved the investment in 2011. After this issue was raised by stakeholders in 2014, however, IFC took steps to assure itself that the client had obtained necessary permits for the construction and operation of the Lengarica HPP. While the complainants contest the legitimacy of the permitting process, such questions are outside the scope of a CAO compliance review. Nevertheless, the location of the Lengarica HPP within a National Park triggers the protected area provision under PS6, and CAO finds that additional supervision is required to ensure that the operations and programs of the client are aligned with the management plan for the Park.

Impacts of the Lengarica HPP on tourism were noted in IFC's pre-investment review, but IFC did not ensure that they were assessed and mitigated in accordance with the requirements of PS1 or PS6 prior to construction of the project. IFC's subsequent supervision of the Lengarica HPP confirms project impacts on certain types of ecotourism activities, particularly kayaking in the Lengarica Canyon. However, in relation to these impacts, IFC has not ensured adequate stakeholder consultation or that appropriate measures to minimize, mitigate and/or offset impacts were added to the ESAP as required by PS1.

Application of IFC's disclosure, consultation and stakeholder engagement requirements to the Lengarica HPP is incomplete. Stakeholder consultation during the design phase of the Lengarica HPP was limited. Subsequently, IFC worked with the client to prepare a Stakeholder Engagement Plan which documented client engagements with broader stakeholder groups during the period 2013 – 2015. Contrary to the requirements of PS1 and IFC's disclosure policy, IFC did not ensure disclosure of the client's June 2011 ESIA on which IFC based its E&S review. Disclosure of subsequent E&S assessment and monitoring documentation is lacking, as is local language information on project E&S risks and impacts.

In light of the findings contained in this compliance investigation report, CAO will keep this investigation open for monitoring, and will issue a monitoring report no later than one year after publication of this investigation. CAO will monitor the situation until actions taken by IFC assure CAO that non-compliance findings are addressed.

Overview of CAO's Compliance Process

CAO's approach to its compliance mandate is set out in its *Operational Guidelines* (March 2013).

When CAO receives an eligible complaint, it first undergoes an assessment to determine how CAO should respond. If CAO's compliance function is triggered, CAO will conduct an appraisal of IFC's/MIGA's involvement in the project and determine whether an investigation is warranted. CAO's compliance function can also be triggered by the World Bank Group President, the CAO Vice President, or senior management of IFC/MIGA.

CAO compliance investigations focus on IFC/MIGA and how IFC/MIGA assured itself/themselves of a project's E&S performance. The purpose of a CAO compliance investigation is to ensure compliance with policies, standards, guidelines, procedures, and conditions for IFC/MIGA involvement, and thereby improve the institution's environmental and social (E&S) performance.

In the context of a CAO compliance investigation, at issue is whether:

- The actual E&S outcomes of a project are consistent with or contrary to the desired effect of the IFC/MIGA policy provisions
- A failure by IFC/MIGA to address E&S issues as part of the appraisal or supervision resulted in outcomes contrary to the desired effect of the policy provisions

In many cases, in assessing the performance of a project and implementation of measures to meet relevant requirements, it is necessary to review the actions of the IFC client and to verify outcomes in the field.

CAO has no authority with respect to judicial processes. CAO is neither a court of appeal nor a legal enforcement mechanism, nor is CAO a substitute for international court systems or court systems in host countries.

Upon finalizing a compliance investigation, IFC/MIGA is given 20 working days to prepare a public response. The compliance investigation report, together with any response from IFC/MIGA is then sent to the World Bank Group President for clearance, after which it is made public on CAO's website (www.cao-ombudsman.org).

In cases where IFC/MIGA is found to be out of compliance, CAO keeps the investigation open and monitors the situation until actions taken by IFC/MIGA assure CAO that IFC/MIGA is addressing the noncompliance. CAO will then close the compliance investigation.

1. Background

1.1. Investment

1.1.1 IFC's Investment in enso Albania

In September 2011, the IFC Board approved equity financing of up to €6 million (US\$8.66 million equivalent) in enso hydro energji sh.p.k. (“enso Albania”), an Albanian holding company established by Austrian asset manager enso hydro GmbH (“the client”).¹ The investment represented up to 20% equity in enso Albania.

The client aimed to invest around €100 million in small hydropower projects in Albania, with a total installed capacity of up to 50MW. These projects were envisaged as complementing IFC's ongoing advisory support to the Government of Albania in strengthening the country's renewable energy regulatory framework. It was also aligned with IFC's approach to climate change mitigation. At the time of IFC's investment, the client had two hydropower projects under development in Albania, Lengarica and Mati. Additional projects were envisaged, but none had been reported as being developed at the time of writing this report. IFC's expected additionality included: (a) mitigating long-term regulatory risks given the limited track record of the power sector in Albania; (b) offering its stamp of approval in support of the client's investment plan to attract further investment; (c) strengthening the client's E&S management systems and policies; and (d) establishing a long-term partnership with the client through an equity investment, leveraging IFC's experience in financing power generation projects in deregulated markets.²

1.1.2 Lengarica Hydropower Project

The Lengarica hydropower project (“Lengarica HPP”) is an 8.9 MW run-of-river hydropower plant built on the lower Lengarica river, a tributary of the Vjosa river in Permet District in southern Albania.

The Lengarica HPP weir is situated approximately 7 km from the Vjosa river. The Lengarica HPP project consists of a regulator, a 4-km tunnel, a forebay, a 3.7-km penstock, a powerhouse, and a 6.5-km transmission line to the Permet substation. The powerhouse is located 2 km upstream the Vjosa river, north of Petran village.

The map below shows the location of the Lengarica HPP, its main components, and natural monuments located in the project area.

¹ IFC, Summary of Proposed Investment, enso Albania, September 2011 - <https://goo.gl/Xmzuec>

² *Ibid.*

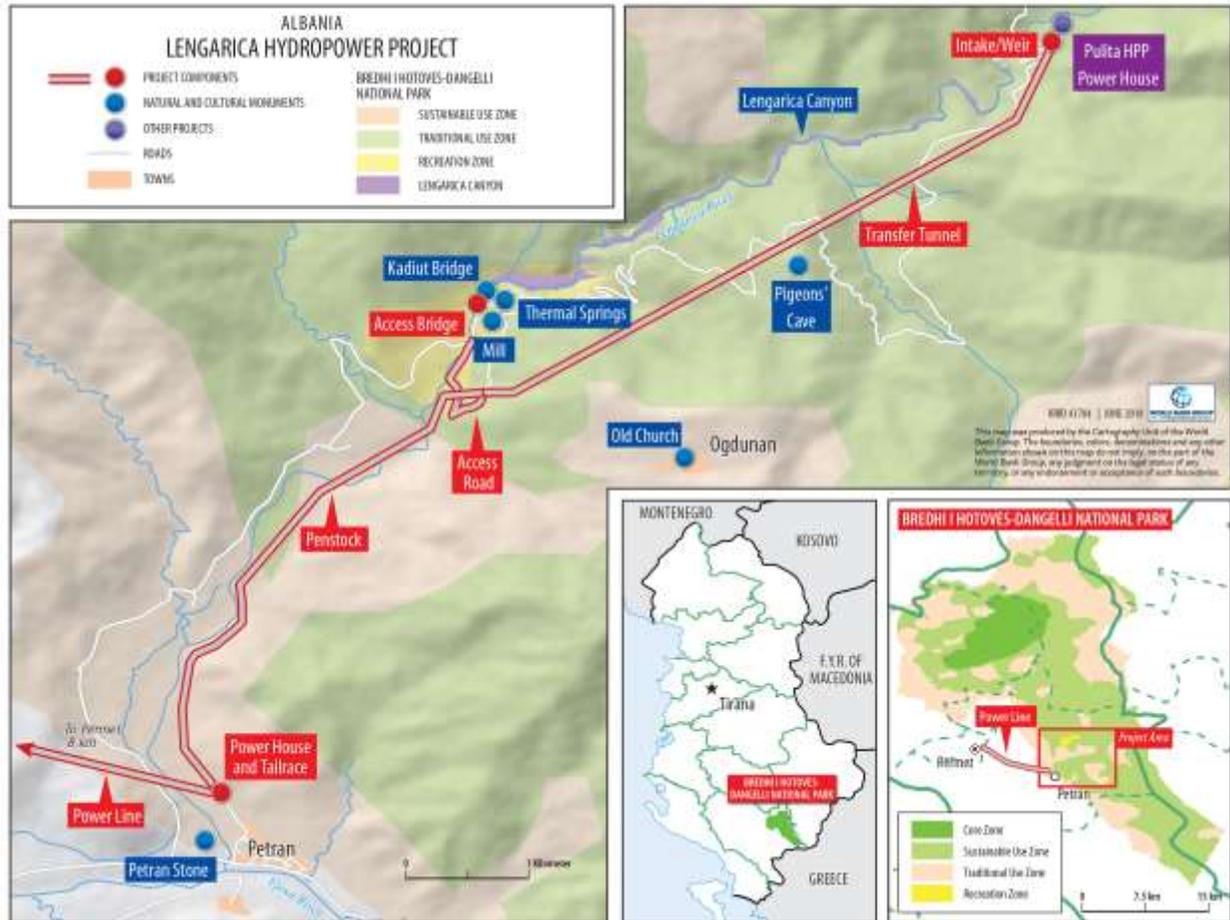


Figure 1 – Lengarica Hydropower Project, Albania
(Source: World Bank Group)

The Lengarica HPP was awarded a build-operate-transfer (BOT) concession of 35 years by the Albanian Ministry of Economy, Trade, and Energy in 2008. In June 2011, the client applied for an environmental permit, which was initially refused in October 2011. It subsequently received the permit in January 2012, after submission of additional information.

The Lengarica HPP was developed by Lengarica and Energy sh.p.k. (“LaE”), a Special Purpose Vehicle fully owned by enso Albania. The Lengarica HPP also received support from the Development Bank of Austria (OeEB) and the Green for Growth Fund (“GGF”) as co-financiers, as well as Intesa Saopaulo Bank.³ Construction of the Lengarica HPP began in July 2013, and operation started in November 2015.

1.2. Complaint and CAO Assessment

In June 2015, the Organic Agriculture Association lodged a complaint with the CAO on behalf of two community members. CAO determined that the complaint was eligible in July 2015. Allegations raised by the complainants are:

³ The client refinanced the Lengarica HPP in October 2017, with GGF and OeEB participation being pre-paid, and the debt being taken up by the local branch of Intesa Sanpaolo Bank.

- IFC's failure to adhere to its own E&S policies and standards, particularly inadequate due diligence; and requirements of Performance Standard 6 (Biodiversity Conservation and Sustainable Natural Resource Management) regarding natural and critical habitats, and legally protected areas.
- Adverse impacts on tourism-based livelihoods as a result of project construction, particularly its effect on water activities and natural landscapes with touristic and cultural appeal.
- Non-compliance with applicable national legislation as relates to (a) the project's location inside the *Bredhi i Hotovës-Dangelli* National Park, a designated protected area; (b) adverse impacts to natural monuments which are applied the first level of protection per national law; and (c) the environmental permitting process.
- Inadequate stakeholder engagement and disclosure of information.

An assessment of the complaint was completed by CAO in November 2015. As summarized in CAO's Assessment Report,⁴ the company indicated that they undertook required due diligence for the Lengarica project. They state that the concession was granted before the area was designated as a National Park and note that the core zone of the park is approximately 9 km from the Lengarica HPP footprint. They contend that the Lengarica HPP is designed to be small-scale and highly invisible, with 95 percent of the construction underground, and limited environmental impacts. The company states that they have addressed issues raised by local stakeholders, such as impacts to thermal springs, access to water for irrigation, and impacts to tourism, by undertaking studies or putting measures in place to address these issues, for example through a rehabilitation plan to restore the area, building a fish pass to enable fish migration, and rehabilitation of cultural monuments. They report that the studies that have been carried out, including an Environmental Impact Assessment (EIA) and an investigation by the Ministry of Environment, have concluded there are limited or no environmental impacts from the Lengarica HPP.

In terms of national legislation, the company acknowledges that parts of the Lengarica HPP fall within the National Park, but that the park has designated zones where certain activities are permitted, and they believe the project falls within such designated zones. They note that the Lengarica HPP has a valid environmental license issued in January 2012.

Regarding community consultation, the company states that they have held public meetings and information sessions, and have invited NGOs, affected people, and others to visit the Lengarica HPP project site and share their concerns. They report limited uptake of these opportunities. Their understanding is that there is local support for the project and the economic activity it has brought to the area.

Following an attempt at dispute resolution, the complaint was transferred to CAO's compliance function in February 2016. CAO's preliminary compliance appraisal, dated May 2016, concluded that issues raised by the complainants warranted a compliance investigation of IFC's performance in relation to this investment.⁵

1.3. Investigation Scope and Methodology

1.3.1 Scope of the Compliance Investigation

This investigation was conducted in accordance with the CAO Operational Guidelines (2013).⁶

⁴ CAO Assessment Report, enso Albania, November 2015 - <https://goo.gl/9ojM9P>

⁵ CAO Compliance Appraisal Report, enso Albania, May 2016 - <https://goo.gl/t9TQeq>

⁶ CAO Operational Guidelines, 2013 - <https://goo.gl/XDr6pN>

As set out in the Terms of Reference (ToR) for this compliance investigation, the investigation considers whether:

1. IFC's pre-investment E&S review of the Lengarica HPP, in particular its potential impacts on biodiversity and ecosystem services was commensurate to risk;
2. IFC's pre-investment review adequately considered project impacts on ecotourism livelihood activities;
3. IFC ensured proper application of Performance Standard 6 to the Lengarica HPP, in particular given the project's location in a National Park and the presence of rare and/or endangered species in the area; and
4. IFC ensured proper application of its consultation and disclosure requirements to the Lengarica HPP.⁷

In considering IFC's environmental and social (E&S) performance in relation to this project, CAO has been conscious not to expect performance at a level that requires the benefit of hindsight. Rather, the question is whether there is evidence that IFC applied relevant requirements considering sources of information available at the time.

CAO's compliance mandate is focused on IFC's E&S performance. In accordance with CAO's Operational Guidelines, this report documents investigation findings with respect to IFC's compliance with relevant requirements and adverse environmental and/or social outcomes, including the extent to which these are verifiable.

As in all cases, the scope of the investigation includes developing an understanding of the immediate and underlying causes for any non-compliance identified by CAO.

1.3.2 Methodology

This compliance investigation is based on a review of relevant documentation and discussions with IFC, the client, the complainants and other stakeholders. CAO has also sought the input of an external biodiversity expert. During a visit to Albania in November/December 2016, the CAO investigation team held meetings with:

- The complainants;
- Two civil society organization representatives, specializing in the environmental protection of the Vjosa River, and in tourism in the Lengarica HPP area;
- Representatives of the Albanian Ministry of Environment at national and regional levels;
- Public officials of the project area;
- IFC client's management at headquarters level, and local team in the project area;
- Client contractors in charge of environmental monitoring of the Lengarica HPP;
- An Albanian academic specializing in biodiversity conservation.

CAO's visit included a tour of the project facilities and surrounding area. Meetings were conducted in-person and by phone throughout the length of the investigation process. The investigation also considered secondary materials provided by various stakeholders and public domain information.

1.3.3 Applicable IFC Policy and Performance Standards

As set out in its Operational Guidelines (2013), CAO oversees investigations of IFC's E&S performance, by ensuring compliance with IFC policies, Performance Standards, guidelines and procedures whose violation may lead to adverse environmental and/or social outcomes (para 4.3).

⁷ CAO Terms of Reference for Compliance Investigation, enso Albania, June 16, 2016 - <https://goo.gl/fr7Rd1>

IFC's commitment to sustainable development is articulated in its Sustainability Framework and includes IFC's Policy on Environmental and Social Sustainability (the "Sustainability Policy"); the IFC Performance Standards (PS), which an IFC client is expected to meet throughout the life of an IFC investment; and the Policy on Disclosure of Information. IFC's environmental and social appraisal and supervision guidance for investment activities is defined in the Environmental and Social Review Procedures (ESRP).

IFC's investment in enso Albania was made in the context of the 2006 Sustainability Framework. The investment was approved under ESRP version 6.0 and supervised under subsequent versions of the ESRP. CAO has therefore analyzed IFC's performance against the requirements of the above framework.

The Sustainability Policy sets out IFC's high level commitments in the following terms, emphasizing the mitigation hierarchy and a commitment not to externalize the costs of projects on people who are poor or vulnerable:

Central to IFC's development mission are its efforts to carry out its investment operations and advisory services in a manner that 'do no harm' to people or the environment. Negative impacts should be avoided where possible, and if these impacts are unavoidable, they should be reduced, mitigated or compensated for appropriately. In particular, IFC is committed to ensuring that the costs of economic development do not fall disproportionately on those who are poor or vulnerable, that the environment is not degraded in the process, and that natural resources are managed efficiently and sustainably. IFC believes the client's regular engagement with local communities about matters that directly affect them plays an important role in avoiding or reducing harm to people and the environment.⁸

According to the Performance Standards and the Sustainability Policy, IFC's responsibility for E&S oversight commences prior to making an investment in a company and continues throughout the period of an investment. At the pre-investment stage, IFC reviews the E&S risks and impacts of a proposed investment and agrees with the client on measures to mitigate these risks in accordance with the Sustainability Policy and Performance Standards. As required by the 2006 Sustainability Policy, IFC's E&S review should be "appropriate to the nature and scale of the project" and "commensurate to the level of social and environmental risks and impacts" (para. 13). In conducting the E&S review, IFC considers the E&S risks as assessed by the client and the "the commitment and capacity of the client" to manage these risks (para. 15). IFC also considers the client's "track record" in relation to E&S issues.⁹ A central principle of the Sustainability Policy is that "IFC does not finance new business activity that cannot be expected to meet the Performance Standards over a reasonable period of time" (para.17).

Following approval and investment, IFC monitors the project to ensure compliance with the conditions in the investment agreements and applicable IFC policies and standards. As set out in the ESRP, "the purpose of E&S supervision is to develop and retain the information needed to assess the status of compliance with the Performance Standards, general and sector-specific Environmental Health and Safety (EHS) Guidelines, and the Environmental and Social Action Plan (ESAP or Action Plan)" agreed with the client.¹⁰ The 2006 Sustainability Policy further states that "if a client fails to comply with its social and environmental commitments, as expressed in the Action Plan of legal agreement with IFC, [IFC will] work with the client to bring it back into compliance to the extent feasible, and if the client fails to reestablish compliance, exercise remedies when appropriate" (para. 26).

⁸ IFC Policy on Social and Environmental Sustainability, April 2006, para. 8

⁹ ESRP 3, para.3.2.3, version 1, April 2006.

¹⁰ ESRP 6, para.1, version 5, August 16, 2010.

1.4. Overview of IFC's Review and Supervision of the Investment

1.4.1 IFC's Environmental and Social Pre-Investment Review

IFC carried out an appraisal visit to Albania for the enso investment in June 2011, and disclosed an Environmental and Social Review Summary (ESRS) for the investment in August 2011.¹¹ IFC designated the investment as Category B, meaning that it was expected to have limited adverse social or environmental impacts that were few in number, generally site-specific, largely reversible and readily addressed through mitigation measures.¹²

The ESRS notes that IFC's due diligence focused on the client's capacity to "undertake adequate environmental and social impact assessments and manage the [ESHS] risks and impacts associated to the acquisition, engineering, construction and operation of hydropower projects and associated facilities (e.g. access road, transmission line), particularly those related to construction management, determination of environmental flow and biodiversity impact mitigation; and effectively consulting and engaging with project-affected communities."¹³ This approach was adopted because the client was expected to develop multiple hydropower projects in Albania, to which it would have to apply the IFC Performance Standards. At the same time, IFC's review included field visits to the two hydropower projects under consideration by the client (Lengarica and Mati). IFC also reviewed and commented on the June 2011 ESIA for the Lengarica HPP.

1.4.2 Commitment and E&S Action Plan

The investment description that was submitted to the IFC Board prior to investment approval outlines the following actions as being of primary importance for the Lengarica HPP's compliance with IFC's E&S requirements:

- Environmental flow monitoring;
- Alternatives analysis to avoid impacts on hot springs, ancient bridges, and the Lengarica canyon; and
- Assessment of the biodiversity value of the Lengarica river system, and mitigation measures thereof.

An E&S Action Plan (ESAP) was disclosed on IFC's website along with the ESRS in August 2011.¹⁴ The ESAP contained actions at the level of the IFC client, as well as Lengarica HPP-specific actions. Relevant to the Lengarica HPP, the ESAP included requirements that the client:

- Develop and implement its Environmental Management Plan (EMP) and Environmental and Social Management and Monitoring Plan (ESMP) (to be developed prior to construction).
- Maintain and monitor a year-round environmental flow of 0.2 m³/s (report annually).
- Complete an additional assessment of hydrogeological impacts, including impacts on geothermal springs (prior to IFC's first disbursement).
- Retain an independent biodiversity expert to design and manage the development and implementation of a robust biodiversity monitoring program to ensure that the Lengarica HPP impacts on biodiversity are minimized, including issues related to environmental flow, thermal waters, and endemic species of the "red list" in extinction danger (to be developed prior to IFC's first disbursement and report annually).

The IFC Board approved the proposed investment in September 2011, and a first disbursement was made in March 2013.

¹¹ IFC, Environmental and Social Review Summary, enso Albania, August 29, 2011 - <https://goo.gl/8V1RRR>

¹² IFC Policy on Social and Environmental Sustainability, April 2006, para. 18.

¹³ IFC, Environmental and Social Review Summary, enso Albania, August 29, 2011 - <https://goo.gl/8V1RRR>

¹⁴ *Ibid.*

1.4.3 Project Supervision

IFC's supervision of its investment in enso Albania commenced in 2012 and is documented in annual reviews of the company's reporting to IFC and site supervision visits reports. IFC carried out supervision visits in February 2014; March 2015; May, September, and December 2016; and April 2017. IFC's supervision was further informed by monitoring reports produced by the client's environmental consultants, internal meetings and phone calls with the client.

IFC and the client, along with other lenders, agreed that a consultant would be engaged to develop a biodiversity monitoring program for the Lengarica HPP. The consultant was contracted by Finance in Motion (Green Growth Fund). An Environmental and Social Action and Monitoring Plan (ESAM) was prepared by the consultant and finalized in January 2013. The consultant who prepared the ESAM was also in charge of monitoring the implementation of the ESAM throughout the life of the project.

Construction of the Lengarica HPP started July 2013, and the project came into operation in November 2015.

2. Analysis and Findings

This section provides CAO's compliance analysis and findings. It considers IFC's review and supervision of the Lengarica HPP around four sets of issues raised in the complaint:

- e) Impacts on endangered species and natural/critical habitats;
- f) Impacts on ecosystem services, in particular the ecotourism value of the Lengarica river;
- g) Impacts on protected areas and natural monuments; and
- h) Disclosure, consultation and stakeholder engagement.

In relation to each of these themes, the section summarizes relevant IFC requirements and provides CAO's assessment of their application to the project by IFC.

2.1. Endangered species and natural/critical habitat

The complainants allege that IFC failed to ensure that the Lengarica HPP complied with Performance Standard 6 (PS6) on Biodiversity Conservation and Sustainable Natural Resource Management, particularly regarding project impacts on natural and critical habitats. The complaint claims that the project threatens thermal waters due to construction activities. It further claims that the removal of freshwater from the river threatens the ecosystem of a protected zone, and that the project will impact key evolutionary processes in the area. Given the nature of the project and the concerns raised in the complaint, CAO has given particular attention to the following issues:

- a) assessment of Lengarica HPP impacts on endangered and endemic species;
- b) assessment of cumulative impacts on biodiversity; and
- c) methodology used to determine the minimum environmental flow required for the Lengarica HPP.

Issues related to the Lengarica HPP's location in the *Bredhi i Hotovës-Dangelli* National Park are dealt with separately in section 2.3. below.

Summary of CAO Findings

Gaps in the client's ESIA for the Lengarica HPP were overlooked in IFC's pre-investment E&S review. These included: (a) lack of appropriate information on endangered and endemic species

in the area of impact; (b) lack of assessment of cumulative impacts considering other hydropower projects being developed in the Lengarica river system, especially the Pulita HPP immediately upstream from the Lengarica HPP; and (c) lack of assessment of the adequacy of proposed environmental flow metrics. IFC's review did not require additional assessments to close these gaps as required by the Sustainability Policy.

In this context, CAO finds that IFC did not ensure that the client met the requirement that "the Assessment process will be based on current information, including an accurate project description, and appropriate social and environmental baseline data" (PS1, para. 4).

IFC did, however, require the client to retain a biodiversity expert to design and manage the implementation of a biodiversity monitoring program. Though not required by IFC, the client tasked the biodiversity consultant to conduct a gap analysis of the ESIA against the requirements of PS6. As a result, additional assessments of the biodiversity impacts of the project were recommended.

During IFC's supervision of the Lengarica HPP, the client conducted additional assessments. These addressed deficiencies identified in the 2011 ESIA in relation to potential impacts on endangered species. On the basis of available information, IFC's conclusion that the project does not impact critical habitats is consistent with the requirements of PS6.

While IFC requested from the client that the environmental flow be monitored once the Lengarica HPP is in operation, IFC did not require its client to undertake an assessment to confirm the suitability of the estimated environmental flow, thus not complying with the requirements of the Sustainability Policy, para. 15. Given the complexity and challenges of validating the environmental flow, IFC encouraged the client to adopt an adaptive management framework. Monitoring results to date do not suggest that the Lengarica HPP has led to measurable adverse impacts on biodiversity. In these circumstances, CAO finds that IFC's supervision of the environmental flow issue has been adequate.

2.1.1. IFC Requirements

When considering an investment, IFC's E&S review considers "social and environmental risks and impacts of the project as assessed by the client,"¹⁵ which provides a basis for IFC assess the project against its Performance Standards. Where the client's E&S assessment is not sufficient to meet the requirements set out in the Performance Standards, "IFC requires the client to undertake additional Assessment or, where appropriate, to commission Assessment by external experts."¹⁶ This may include the assessment of cumulative risks and impacts where relevant.¹⁷

PS1 provides that the project's E&S assessment be "an adequate, accurate and objective evaluation" and "be based on current information, including an accurate project description, and appropriate social and environmental baseline data."¹⁸

Where a project is located in areas of natural habitat, PS6 requires that "the client will not significantly convert or degrade such habitat."¹⁹ If this standard cannot be met, the client must demonstrate:

¹⁵ IFC Policy on Social and Environmental Sustainability, April 2006, para. 15

¹⁶ IFC Policy on Social and Environmental Sustainability, April 2006, para. 15

¹⁷ IFC Performance Standard 1, April 2006, para. 5: "Risks and impacts will be analyzed in the context of the project's area of influence. This area of influence encompasses, as appropriate: ... areas potentially impacted by cumulative impacts from further planned development of the project, any existing project or condition, and other project-related developments that are realistically defined at the time the Social and Environmental Assessment is undertaken."

¹⁸ IFC Performance Standard 1, April 2006, paras. 4 and 7.

¹⁹ IFC Performance Standard 6, April 2006, para. 7

- There are no technically and financially feasible alternatives;
- The overall benefits of the project outweigh the costs, including those to the environment and biodiversity; and
- Any conversion or degradation is appropriately mitigated.”²⁰

No net loss of biodiversity should be achieved in natural habitats where feasible, and may include a number of mitigation strategies, such as:

- Post-operation restoration of habitats;
- Offset of losses through the creation of ecologically comparable area(s) that is managed for biodiversity; and
- Compensation to direct users of biodiversity.²¹

More stringent standards apply to projects that impact critical habitat, a subset of natural habitat, defined in PS6 as “areas with high biodiversity value²², including habitat required for the survival of critically endangered or endangered species [and] areas having special significance for endemic or restricted-range species.”²³ In such areas, PS6 provides that: “the client will not implement any project activities unless the following requirements are met:

- There are no measurable adverse impacts on the ability of the critical habitat to support the established population of species...or the functions of the critical habitat...
- There is no reduction in the population of any recognized critically endangered or endangered species
- Any lesser impacts are mitigated...”²⁴

Provisions with respect to biodiversity conservation and sustainable natural resource management contained in PS6 are designed to “avoid or mitigate threats to biodiversity arising from ... operations as well as sustainably manage renewable natural resources.”²⁵ Applicability of these provisions are established during the Social and Environmental Assessment process set out in PS1 and managed through the client’s Social and Environmental Management System.

Conformity with PS6 requires that “the client ... assess the significance of project impacts on all levels of biodiversity”, with consideration for “the differing values attached to biodiversity by specific stakeholders”.²⁶

2.1.2. Discussion and Findings

IFC Pre-Investment Review of Biodiversity Impacts

Summarizing the client’s June 2011 ESIA, IFC’s ESRS,²⁷ disclosed in August 2011, notes that the Lengarica river is an area of high biodiversity value and that approximately 8 km of the river would have a reduced flow due to the Lengarica HPP. The guaranteed minimal flow is described as 20% of the minimum flow during dry periods, namely 200 liters per second (or 0.2m³/s). The ESRS notes a finding from the ESIA that “the residual water flow ... can protect different functions of the river, providing habitats for plants, wildlife and aquatic species.”²⁸ The ESRS confirms the need for a “robust biodiversity management program”, as well as additional hydrological studies

²⁰ IFC Performance Standard 6, April 2006, para. 7

²¹ IFC Performance Standard 6, April 2006, para. 8

²² Such as areas that meet the criteria of the World Conservation Union (IUCN) classification

²³ As defined by the IUCN Red List of Threatened Species or as defined in any national legislation – IFC Performance Standard 6, April 2006, para. 9

²⁴ IFC Performance Standard 6, April 2006, para. 10

²⁵ IFC Performance Standard 6, April 2006, para. 1

²⁶ IFC Performance Standard 6, April 2006, para. 4

²⁷ IFC, Environmental and Social Review Summary, enso Albania, August 29, 2011 - <https://goo.gl/8V1RRR>

²⁸ *Ibid.*

to strengthen the ESIA in relation to potential impacts on nearby thermal springs. These items are included in the E&S Action Plan (ESAP) agreed with the client. Generally, however, IFC's conclusion was that the client's ESIA represented "good international industry practice", and no additional assessment in relation to biodiversity impacts was required.²⁹

The client's ESIA mentions the presence of endangered and/or endemic species in the project area. However, CAO finds that the information provided is either incomplete, inaccurate or lacking in details in ways that would require additional assessments given the requirements of PS1 and PS6. In particular, CAO notes the following:

- The ESIA identifies the presence of "a considerable number of rare and endangered floral species along the river Lengarica (Thermal Water – Power House)" based on IUCN³⁰ classification. As examples, it mentions *Sambucus nigra*, *Cladium mariscus*, *Ranunculus lingua*, *Salix triandra*, *Juglans regia*. The ESIA also notes the presence of "rare and endangered fauna species ... mainly amphibians," listing *Salamandra salamandra*, *Triturus vulgaris*, *Bufo bufo*, *Rana dalmatina*. These amphibians are described as "protected, endangered species according to IUCN." While CAO notes that none of these species are classified as rare or endangered by IUCN,³¹ a number of them are reported as protected in Albania.³² In relation to both the flora and the amphibians listed as protected and endangered, the ESIA concludes that there will be a partial limitation of habitat due to the diversion of water from the Lengarica River.
- The ESIA refers to the presence of a critically endangered species in the project area, the European Eel (*Anguilla anguilla*). It is described as "a well-known migratory species that is spread all over the river of Vjosa and is identified within the Lengarica tributary." CAO notes that the ESIA incorrectly refers to *Anguilla anguilla* as having the IUCN classification "endangered" rather than the more vulnerable "critically endangered" classification which it has held since 2008.³³
- The ESIA states that construction of another hydropower project (Kalivac HPP) 70 km downstream from the Lengarica HPP will reduce the habitat of many endemic and migratory aquatic species. It further notes the presence of several endemic species living under stressed natural conditions due to high water salinity. These statements, however, are not elaborated upon and there is no indication of what endemic species are being referred to.

A further notable omission from IFC's review was the construction of the Pulita HPP upstream of the Lengarica HPP. While not discussed in the ESIA, technical documentation prepared as part of the IFC appraisal mentioned the Pulita HPP, stating that it was being built directly upstream from the Lengarica project. A review of available satellite images confirms that construction of the Pulita HPP was visible in September 2010 with the location of the tailrace of the Pulita HPP located approximately 60 meters upstream of the Lengarica HPP weir. However, IFC's pre-investment E&S review did not mention the Pulita HPP, nor did it require an assessment of cumulative impacts.

In relation to environmental flow required to safeguard the Lengarica river ecosystem, IFC's ESRS notes that the ESIA for the Lengarica HPP indicated a minimum environmental flow of 0.2m³/s. However, it provided limited support for the conclusion that this was an appropriate minimum flow from a biodiversity conservation perspective.

²⁹ *Ibid.*

³⁰ International Union for Conservation of Nature (IUCN)

³¹ The listed species are either not classified on the IUCN Red List or classified as of "Least Concern."

³² FAO, Global Forest Resources Assessment, 2005 – <https://goo.gl/ZUZUcC>

³³ See IUCN Red List, Classification for *Anguilla anguilla* (European Eel) - <https://goo.gl/2hxVZz>

In summary, while the 2011 ESIA flags the presence of endemic and endangered species in the project area, it does not provide information on these issues with the accuracy and detail that would be expected in a Performance Standard-compliant ESIA. The ESIA lacks analysis of cumulative impacts as is required in a context where other hydropower projects are being built in the same river system as an IFC funded project. The ESIA further lacks analysis to support conclusions on the adequacy of the proposed minimum environmental flow.

The above issues raised questions as to the quality of the ESIA. However, IFC concluded that the Lengarica HPP had a “good international industry practice ESIA” and did not require any further assessment of project impacts on biodiversity. IFC required rather that the client develop a biodiversity monitoring program to confirm that the Lengarica HPP’s impacts on biodiversity were minimized.³⁴ While important in understanding project impacts during construction and operation, the development of a monitoring program does not substitute for adequate prior assessment of impacts as per the requirements of PS1, paras 4-6.

In this context, CAO finds that IFC’s pre-investment review was not sufficient to ensure that the client had conducted an assessment of project impacts on biodiversity that met the requirements of PS1 and PS6. Absent an adequate impact assessment, including relevant social and environmental baseline data, CAO finds that IFC was not in a position to define mitigation measures necessary for the Lengarica HPP to meet IFC requirements. As discussed below, these issues were addressed to varying degrees in subsequent assessments commissioned by the client in collaboration with GGF, but they were overlooked by IFC at the pre-investment review stage.

Additional assessments commissioned by the client

As noted above, IFC and the client agreed that the client would retain a consultant to develop a biodiversity monitoring program. As contracted by the client and GGF in 2012, however, the scope of work for the biodiversity consultant expanded to include the preparation of a “Biodiversity Report”. The objective of the Biodiversity Report was to identify and close gaps in the June 2011 ESIA for the Lengarica HPP with respect to biodiversity, as per the requirements of Performance Standard 6. The Biodiversity Report was completed in May 2012.

The Biodiversity Report confirms a number of gaps in the ESIA for the Lengarica HPP, noting that sensitive habitats impacted by the Lengarica HPP were not classified, described or mapped. It also notes that species present in the project area were not fully assessed, and that habitats for threatened species inside the project area were not identified or described. It notes that baseline data was not sufficient to forecast or quantify project impacts, and comments on the lack of analysis supporting the proposed environmental flow. In summary, the report concludes that additional biodiversity assessments were required to address significant gaps identified in the ESIA. These included: (a) fish monitoring to inform the required environmental flow; (b) a survey of large carnivores; (c) a breeding bird survey; and (d) a screening of project impacts on the ecological integrity of the *Bredhi i Hotovës-Dangelli* National Park.

The studies recommended in the report were completed in the course of 2012 and informed the preparation of an Environmental and Social Action and Monitoring Plan (ESAM) for the Lengarica HPP.³⁵ The ESAM was designed to consolidate mitigation measures necessary to avoid adverse E&S impacts and comply with the client’s international requirements, including the IFC Performance Standards. The biodiversity consultant was tasked with monitoring implementation of the ESAM on the basis of client reporting and site visits. Based on the additional assessments

³⁴ IFC, Environmental and Social Action Plan, enso Albania, available at <https://goo.gl/bMqJvF>

³⁵ See ERM, Environmental and Social Action and Monitoring Plan, Lengarica Small Hydro Power Plant, <https://goo.gl/1vzfZ8>

and mitigation measures included in the ESAM, no significant residual adverse impacts on biodiversity were expected.

Critical habitat and endemic species

IFC reported to CAO that the conclusions of the 2011 ESIA and subsequent studies commissioned by the client were that the Lengarica HPP does not impact a critical habitat as defined in PS6. IFC also notes the establishment of a biodiversity monitoring program designed to ensure that biodiversity values in the stretch of the river with reduced flow are not adversely impacted.

In relation to PS6 requirements regarding critical habitat for the European eel, and in response to the complainants' allegations, IFC reported to CAO that it does not believe that the criteria are met in this case, as:

- the geographic range (habitat) for the European eel is vast;
- while the Lengarica river falls into that range, only three specimens have been captured across the four surveys undertaken as of 2016, of which two were taken close to the confluence of the Lengarica with the Vjosa river, an area downstream of the Lengarica HPP tailrace;
- monitoring surveys (2015) concluded that the low abundance gets explained once it is compared with the main river channel (Vjosa River). It appears that the population of the European eel in the Vjosa is likely to be of significance, but not in the Lengarica due to the physical and chemical barriers of the river, such as the thermal springs.

As such, IFC concluded that the area of influence of the Lengarica HPP does not overlap with the geographic area that could trigger a critical habitat criterion for the European eel.

The client's 2012 Biodiversity Report doesn't directly address the need to further investigate the broad statements in the 2011 ESIA regarding the presence of endemic species in the project area. Neither does it, however, indicate that endemic species are present in the project area, or identify project impacts on endemic species.

In this context, CAO finds that IFC's supervision took adequate steps to assure itself that the client managed risks in relation to the protection and conservation of biodiversity in compliance with PS6 requirements for critical habitat. In CAO's view, IFC's perspective that critical habitat should not be triggered for the European eel is consistent with the definition of critical habitat as per PS6, para. 9.

Environmental flow

Environmental flows describe the quantity and quality of water flows allocated to sustain riverine ecosystems. There is a significant literature on good practice methodology for calculating environmental flows, including from the World Bank and the IFC.³⁶

The client's 2012 Report on Large Carnivores, Bats and Birds of Prey notes that insufficient water in the Lengarica Canyon will impact the ecology of the river and its wildlife. The report notes that the provision of a minimum environmental flow associated with monitoring of impacts is needed to mitigate this potential moderate to severe impact. The client's 2012 Fish Survey also notes that low flow periods are critical for survival and reproduction of fish in the Lengarica river. It recommends the 0.2m³/s discharge provided for in the ESIA as a target. This is consistent with the conclusion of the client's biodiversity consultant that the proposed minimum environmental

³⁶ See World Bank, Water Resources and Environment, Technical Note C.1, Environmental Flows: Concepts and Methods, 2003 – <https://goo.gl/ewD5yG>; and IFC Good Practice Handbook, Environmental Flows for Hydropower Projects, February 2018 – <https://goo.gl/nVD85b>

flow of 0.2m³/s was in the plausible range, but needed to be monitored to ensure suitability for fish passage and dilution of thermal waters.

Relevantly, the ESAM requires: (a) the determination of required flow prior to construction or possibly during construction or operation, and (b) monitoring of the environmental flow during operation. The client subsequently commissioned a consultant to assess reduced flow conditions and related environmental implications and to propose a monitoring scheme. This assessment was completed in December 2015 and a final report was produced in February 2016, concluding that:

- Existing environmental conditions at Lengarica are not favorable for aquatic species – this is due to chemical and thermal pressures as well as morphological characteristics of the river.
- Fish and other species are nevertheless found in the project affected parts of the river.
- Aquatic species will be impacted during the operation of the HPP because of effects on the riverine ecosystem in connection to reduced flow (e.g. impacts on habitat quality and availability due to reduced water depth).
- Further effects will arise from the dilution of thermal water sources with the Lengarica river. Chloride concentrations as well as water temperature will increase on a permanent basis. The degree of harm to aquatic species cannot be assessed adequately, as calculations and interpolations are subject to uncertainty.
- In light of data inconsistency and limitations of surveys, likely effects during operation can only be predicted with some uncertainty.
- Therefore, it will be necessary to assess the resulting environmental impacts by a thorough long-term monitoring program during operation.

To address the monitoring need, the consultant proposed and was engaged to conduct a two-year biodiversity monitoring program. This included water discharge, quality and aquatic biodiversity monitoring. During this two-year program, the consultant prepared four monitoring reports, in August 2016, December 2016, August 2017, and April 2018.

The results of this initial monitoring phase can be summarized as follows:

- Pre-operational conditions have been altered to a certain degree, however, no immediate risks to biodiversity were detected that would require an adaptation of the environmental flow.
- Continuous measurements and surveys showed that appropriate water depths and discharge amounts have been established at all measuring stations. Therefore, fish migration was possible during the monitoring period. On hot summer days, one section of the river is likely to show obstacles for migrating fish, but this was also the case before operation.
- Abiotic factors, namely chloride concentrations, water temperature (due to thermal springs discharge) and sediments are the most adversely impacted environmental factors during the Lengarica HPP's operational phase. While the influence of increased chloride concentrations is uncertain and requires further monitoring, water temperature alterations were assessed as significant.
- Survey results of the two years of fish monitoring show that all key species are still present, and distribution shows similar patterns as during pre-operation. In general, it was observed that the Lengarica river still provides suited habitats for reproduction. However, further monitoring is recommended, as higher temperature levels and increased chloride concentrations could potentially have adverse impacts on the fish population.

CAO notes that the ESAM also required a fish pass to be built at the weir, and monitoring of the fish pass during construction and operation. The fish pass was completed and put into operation in October 2015. The monitoring program assessed the efficacy of the fish pass. The client's monitoring report noted that the section of the river above the Lengarica HPP weir was degraded

and often dry, due to the presence of the Pulita HPP, which does not provide an environmental flow. The monitoring program concluded that migration of fish above the Lengarica HPP weir was not favorable as there were no suitable habitats directly upstream.

In summary, while acknowledging that the Lengarica HPP will change the natural dynamic of the river, IFC is of the view that an environmental flow sufficient to protect the ecological functions of the river was determined in the ESIA and would be maintained. As noted above, the minimum environmental flow of 0.2m³/s described in the ESIA was prescribed without assessing the adequacy of the proposed environmental flow regime nor alternative flow scenarios. CAO finds that the Sustainability Policy (para. 15) required additional assessment to confirm or invalidate the proposed environmental flow at that stage.

However, given the complexity and challenges of validating the environmental flow, IFC encouraged the client to adopt an adaptive management framework. This included monitoring of the biodiversity impacts of the environmental flow recommended in the ESIA. The monitoring program commissioned by the client applies an appropriate methodology and covers relevant indicators. While ongoing monitoring is deemed necessary, results to date do not suggest that the Lengarica HPP has led to measurable adverse impacts on biodiversity. In these circumstances, CAO finds that IFC's supervision of the environmental flow issue was adequate.

2.2. Impacts on Tourism-based Livelihoods

The complainants allege that the Lengarica HPP is causing adverse impacts on tourism-based livelihoods, particularly impacts on water activities such as kayaking, the touristic value of the area's natural and cultural monuments, and on the integrity of the Benja thermal springs.

Summary of CAO Findings

At pre-investment stage, IFC did not ensure that the client's E&S assessment of the Lengarica HPP considered "the differing values attached ... by specific stakeholders, as well as identify impacts on ecosystem services" (PS6, para. 4), in particular impacts on ecotourism. Measures to minimize, mitigate and/or offset project impacts on the touristic value of the area were not included in the ESAP.

IFC's subsequent supervision of the Lengarica HPP confirms project impacts on certain types of ecotourism activities, particularly kayaking in the Lengarica Canyon. However, in relation to these impacts, IFC has not ensured adequate stakeholder consultation or that appropriate measures to minimize, mitigate and/or offset impacts were added to the ESAP as required by PS1.

2.2.1. IFC Requirements

PS6 provides that impacts on ecosystem services,³⁷ including cultural services (e.g. recreation and ecotourism, aesthetics, inspiration, educational values, sense of place), be identified during the Social and Environmental Assessment process.³⁸ Such impacts are to be "analyzed in the context of the Lengarica HPP's area of influence",³⁹ which should be defined and refined in consultation with affected stakeholders. In consideration of these impacts, the client "may need

³⁷ As per IFC's Guidance Note 6 para. G4, ecosystem services are "the benefits that people obtain from ecosystems"

³⁸ IFC Performance Standard 6, April 2006, para. 4

³⁹ IFC Performance Standard 1, April 2006, para. 5

to consult with key stakeholders that for the purpose of Performance Standard 6 include potentially affected communities, public authorities and independent experts”.⁴⁰

Measures and actions developed to address identified impacts on ecosystem services “will favor the avoidance and prevention of impacts over minimization, mitigation, or compensation, wherever technically and financially feasible. Where risks and impacts cannot be avoided or prevented, mitigation measures and actions will be identified...”⁴¹

2.2.2. Discussion and Findings

IFC’s Pre-Investment E&S Review

The client’s June 2011 ESIA includes information relevant to the complainants’ concerns about Lengarica HPP impacts on the area’s natural monuments and touristic appeal. The ESIA concludes that the Lengarica HPP will limit water flow in the Lengarica Canyon, a natural monument as per Albanian law, and that it will decrease its touristic and landscape values. The ESIA notes that the Lengarica Canyon is frequented by tourists that like mountainous tourism and water sports. It also notes that the Benja thermal springs are known for their curative values, and that the rocky canyon and the pigeons’ cave at the eastern part of the canyon, are well-known touristic attractions.

The ESRS reflects the above information, noting that the Lengarica river has a natural canyon of high natural scenic value, and that the company designed the Lengarica project to avoid visual impacts on the canyon, including nearby thermal springs and ancient bridges. The ESRS also notes that a hydrological study was conducted to assess project’s impacts on the Benja thermal springs. The ESAP required the client to carry out a strengthened hydrological study.

At IFC’s pre-investment review stage, CAO finds that further analysis of risks and impacts related to ecosystem services (including impacts on the area’s visual and touristic appeal) was necessary to assess and mitigate these impacts. CAO notes, however, that the ESAP does not contain mitigation measures in relation to such impacts, nor does it require the client to undertake additional assessments to better understand these impacts.

IFC’s Supervision

The ESAM identifies potential adverse impacts on ecotourism, citing the thermal waters and kayaking as sources of income to be assessed for impact. Reflecting this commitment, the client commissioned a Tourism Impact Assessment dated March 2013. The Tourism Impact Assessment concludes the Lengarica HPP will have an overall positive impact on tourism development in the area, as part of the project community investment plan is aimed at improving the infrastructure of the area as a touristic attraction point. It further notes, however, that the project will have an adverse impact on some tourism activities, such as kayaking in the Lengarica river, which is presented as a small but growing touristic attraction.

In September 2013, the client completed a Landscape and Visual Impacts Assessment confirming that the Lengarica HPP will decrease the canyon’s touristic and landscape values for a narrow group of receptors, i.e. tourist(s) that like mountainous tourism and water sports. It notes that the canyon being the most remote part of the area for tourists, potential landscapes changes (construction of a weir, reduced flow in the river) will only impact a specific segment of tourists who engage in hiking, rafting and kayaking.

⁴⁰ IFC Guidance Notes, April 2006, Guidance Note 6 para. G4

⁴¹ IFC Performance Standard 1, April 2006, para. 14

An ESAM implementation monitoring report prepared by the client's E&S consultant in 2013⁴² flagged concerns raised by local stakeholders regarding potential impacts on tourism, including possible disturbance of the Benja thermal springs. The report notes allegations that no consultation had been conducted with the tourism office of Permet and that the Tourism Impact Assessment report was never circulated to relevant stakeholders. In 2014, the client's E&S consultant documented further concerns regarding project impacts on tourism, raising questions as to the possibility of supporting kayaking activities in the river, and whether additional mitigation measures were needed. In its 2014 supervision documentation, IFC acknowledges the client's tourism impact studies, noting the conclusion that the project will have minimal visual impact on the landscape. However, there is no indication that IFC assured itself that these assessments were carried out including consultation with relevant stakeholders, as per the requirements of PS1 and PS6.

In May 2016 the client organized a release of water to accommodate a kayaking group on the Lengarica River, during an IFC supervision visit. IFC was involved in the organization of this event and advised the client to consider how to accommodate requests from kayaking groups in the future. The issue of a regular kayaking event on the Lengarica is also flagged in the client's Stakeholder Engagement Plan, though this appears not to have eventuated.

CAO acknowledges that IFC's supervision of the Lengarica HPP has captured the issue of project impacts on ecosystem services, particularly as relates to ecotourism and the broader touristic value of the area. However, CAO finds that IFC has not ensured that the client's consultation and disclosure requirements were met in relation to assessments carried out during supervision. PS1 requires IFC to assure itself that relevant stakeholders were consulted and appropriate mitigation measures added to the project ESAP.

2.3. Protected areas and natural monuments

The complainants assert that the Lengarica HPP should not have been permitted under Albanian law on protected areas, and does not meet IFC's requirements in relation to protected areas, as it is located inside the *Bredhi i Hotovës-Dangelli* National Park. The complainants further assert that the Lengarica HPP has had adverse impacts on natural monuments including the Lengarica Canyon, Petran Stone, Benja's pigeons cave, the Kadiu Bridge, and thermal waters, which are granted the highest levels of protection under national law.⁴³

The complainants note that in October 2011, the Albanian Ministry of Environment denied the client authorization for the Lengarica HPP, based on its location within the National Park and in an area that is protected due to its proximity to natural monuments. It is, however, not contested that the Ministry of Environment later approved the Lengarica HPP (in January 2012).

Summary of CAO Findings

IFC's pre-investment review did not identify the Lengarica HPP as being located in the *Bredhi i Hotovës-Dangelli* National Park. As a result, IFC did not trigger PS6, para. 11, which sets out client requirements when planning a project in a legally protected area. Similarly, IFC did not consider issues related to the application of Albanian law on protected areas.

⁴² From the information available to CAO, the report was not translated into Albanian.

⁴³ Under Albanian law, decision of the Council of Ministers No. 676 (20.12.2002) proclaimed the natural monuments of Albania as protected zones. Natural monuments are declared as such by Albanian authorities, and can be specific trees based on their dimensions and their age; caves and stones in specific shapes; water resources with highlight esthetical and touristic values.

In 2014, after public concerns were raised in relation to the Lengarica HPP's location in a national park, IFC reviewed a legal opinion commissioned by the client. This provided assurance that the client had obtained necessary permits for the construction of the Lengarica HPP.

CAO finds, however, that ongoing supervision is required to ensure compliance with PS6 requirements in relation to: (a) alignment of the Lengarica HPP with the National Park's management plans; and (b) consultation with protected area stakeholders.

2.3.1. IFC Requirements

IFC's Performance Standard 6 on Biodiversity Conservation and Sustainable Management of Living Natural Resources sets out requirements when a project is operating in a protected area.⁴⁴ PS6 provisions require that the client (i) "act in a manner consistent with defined protected area management plans"; and (ii) "consult protected area sponsors and managers, local communities, and other key stakeholders on the proposed project" (para. 11). IFC also requires its clients to comply with applicable national law.⁴⁵

2.3.2. Discussion and Findings

CAO has confirmed that the area where the Lengarica HPP is located was declared as part of the *Bredhi i Hotovës-Dangelli* National Park when it was expanded in 2008, several years before IFC considered an investment in the project.⁴⁶ However, IFC reported that the project team was not aware of the Lengarica HPP's location in the National Park at the time of IFC's pre-investment E&S review. While the June 2011 ESIA references the 2008 Government of Albania decision that expanded the National Park, it does not include a map of the Park and does not specify where the Lengarica HPP is located in relation to its boundaries. Rather, it states that the project would not "interfere in" nearby "protected zones" such as the Park, that the Lengarica river ecosystem is not a protected zone, and that there are no protected zones near the Lengarica HPP.

According to Decision of the Council of Ministers No. 1631,⁴⁷ the usage restrictions for the four zones of the National Park include the following:

- The **Core zone** includes the main natural habitats of *Bredhi i Hotoves* defined as a zone with high values related to nature and biodiversity. In this zone the first level of protection is applied, which provides an undisturbed territory.
- The **Sustainable use zone** includes forest and pasture habitats, around the core zone to which it serves as a buffer zone. Seasonal economic activities that do not affect the ecological integrity of the ecosystem are permitted (grazing, medicinal plants collection, secondary forest production).
- The **Recreational zone** comprises an area of recreation in the nature, in accordance with the functions of the protected area, ecological and landscape values, touristic and cultural values. This zone includes part of forests, meadows and agriculture land in the forestry massif of *Bredhi i Hotoves*, and the thermal waters.
- The **Traditional use zone** enables the continuity of traditional and economic activities. New activities can be permitted, but only after an environmental permit has been issued. In this

⁴⁴ A protected area for the purposes of PS 6 is one that is legally protected for the protection or conservation of biodiversity (PS6, FN6).

⁴⁵ IFC Performance Standards, Introduction, para. 3, 2006

⁴⁶ See: Decision No. 1631 proclaiming the natural ecosystem of Bredhi I Hotoves-Dangelli as national park, 2008 - <https://goo.gl/EvDtAU>

⁴⁷ *Ibid.*

zone, which mainly is used by local inhabitants, are included: agriculture, aquatic territories, forestry land, territories close to the inhabited centers.⁴⁸

The figure below shows that the Lengarica HPP lies within zones 2, 3, and 4 of the National Park.

IFC reported to CAO that it first became aware of issues regarding the National Park in November 2014, after protests took place in Tirana, i.e. six years after the expansion of the park and more than a year after construction of the Lengarica HPP started. IFC then raised the issue with the client. IFC met with the consultant who prepared the Lengarica HPP's ESAM to better understand the implications of the project's location in a protected area. IFC reported to CAO that the Lengarica HPP's footprint is outside the core protection zone of the National Park, and covers the areas designated for sustainable, traditional, and recreational use.

⁴⁸ Bredhi i Hotoves – Dangel National Park Management Plan, September 2013 - <https://goo.gl/tjuqMe>

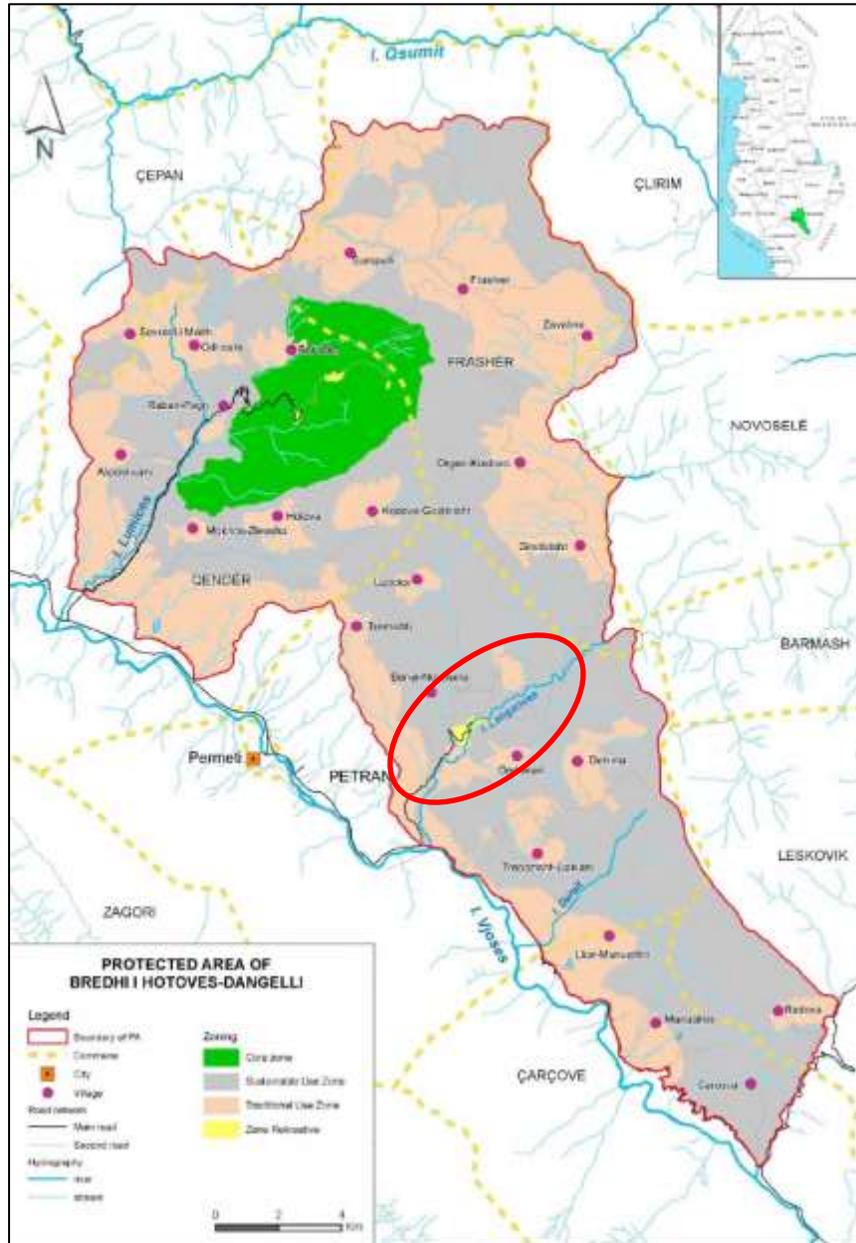


Figure 2 – Zoning of the *Bredhi i Hotoves* National Park
 (Source: *Bredhi i Hotoves – Dangelli* National Park Management Plan)

In October 2014, the complainants submitted a letter to several ministers, as well as the World Bank and IFC offices in Albania, disputing the Lengarica HPP’s legality. The letter put forward a number of arguments regarding the impacts of the Lengarica HPP on the National Park and nearby natural monuments. Of relevance to the issues raised in the complaint, the letter questions the legality of the Lengarica HPP on the basis of the Law on Protected Areas (2002) which prohibits the construction of roads and high voltage power lines in National Parks (Art. 6). It argues that the Lengarica HPP contravenes requirements of Art. 9 of the Law on Protected Areas that prohibit activities that leading to a change in the natural state of water reserves, water resources, lakes and wetland systems. The letter also argues that the Lengarica HPP, in particular the

reduction of water flow in the Lengarica river, and the construction of a concrete bridge near the historical Kadiu Bridge, has adverse impacts on designated natural⁴⁹ and cultural⁵⁰ monuments that are not permitted under the Law on Protected Areas (Art. 7) and the Law on Cultural Heritage (2003, Art. 38).

The complainants point to the Albanian Ministry of Environment's decision of October 2011 which denied permission to build the Lengarica HPP based on: (a) its location within the *Bredhi i Hotoves* National Park; (b) it having considerable negative impacts on the Lengarica Canyon, a natural monument under the Law on Protected areas; and (c) it having considerable negative impacts on the Benja thermal springs due to deviation of the natural flow of the Lengarica river.⁵¹

A November 2014 opinion from an Albanian law firm, commissioned by the client in response to these allegations, acknowledges the Lengarica HPP as falling within the three zones of the National Park described above. The opinion refers to the January 2012 decision of the Ministry of Environment, whereby it reversed its October 2011 decision, and approved the Lengarica HPP. The opinion concludes that the Lengarica HPP has not engaged in any activities prohibited by the Law on Protected Areas, and that it has complied with relevant permitting requirements. It concludes that the complainants' concerns regarding the legitimacy of actions by state authorities in issuing the relevant licenses and authorizations are not substantiated.

IFC reported to CAO that it reviewed the conclusions of this legal opinion after becoming aware of the complainants' concerns. In considering the application of PS6 para. 11 to the project, IFC concluded that (1) only the core zone had been explicitly designated for the protection or conservation of biodiversity; and (2) the company had fulfilled its requirements in terms of consultation and ongoing monitoring by an independent consultant.

IFC reported to CAO that there was no known management plan for the *Bredhi i Hotovës-Dangelli* National Park. Therefore, IFC's perspective was that the company could only act in a manner consistent with the definitions of the protected zones where it operates, which IFC considered was done. However, CAO found that, while there was no management plan at the time of IFC's approval of the project in 2011, a management plan for the *Bredhi i Hotovës-Dangelli* National Park was completed in September 2013⁵² and adopted in December 2014.⁵³

Relevantly, the management plan identifies the hydropower sector as a potential threat to be monitored closely through the verification of correct implementation of mitigation measures and environmental permitting conditions. The management plan emphasizes the development of low-impact tourism and recreational activities. It also notes stakeholder engagement and resourcing challenges to the realization of the National Park's conservation objectives. In discussions with CAO, government representatives responsible for the administration of protected areas expressed challenges in the effective implementation of the management plan, noting the enormity of the undertaking and limited resources for bringing it into fruition.

In summary, at pre-investment stage, IFC did not consider the Lengarica HPP's compliance with national law in relation to protected areas, and it did not identify the Lengarica HPP's location within the boundaries of the *Bredhi i Hotovës-Dangelli* National Park. While the Lengarica HPP footprint does not overlap with the core zone of the Park, it is located within areas that are legally

⁴⁹ Specifically the Thermal Waters of Benja, Lengarica Canyon, Cave of Pellumb, and Petran Stone

⁵⁰ Specifically the Pigeon Cave and the Bridges of Kati and Dash.

⁵¹ Decision of the Albanian Ministry of Environment, Forestry and Water Administration, October 2011 – <https://goo.gl/4DL4qt>

⁵² Bredhi i Hotoves – Dangelli National Park Management Plan, September 2013 - <https://goo.gl/tjuqMe>

⁵³ Government of Albania, Ministry of Environment, Document of Strategic Policies for the Protection of Biodiversity in Albania, December 2015, page 36 – <https://goo.gl/eXGhGp>

designated for biodiversity conservation, as a result of which PS6 provisions on protected areas apply.

In 2014, after public concerns were raised in relation to the Lengarica HPP's location in a national park, IFC reviewed a client commissioned legal opinion. This provided assurance that the client had obtained necessary permits for the construction of the Lengarica HPP. While the complainants contest the legitimacy of the permitting process, such questions are outside the scope of a CAO compliance review.

For projects located within a protected area IFC's role also includes ensuring that its client is operating in a manner consistent with any management plan for the protected area (PS6, para. 11). This was not done as neither IFC nor its client were aware of a 2013 management plan for the National Park.

2.4. Disclosure, consultation and stakeholder engagement

The complainants allege that the company did not adequately address local concerns about the Lengarica HPP expressed by community members. They also assert that information about the project was not disseminated to relevant stakeholders in a manner consistent with the requirements of the Performance Standards.

Summary of CAO Findings

At pre-investment stage, CAO finds that IFC did not comply with relevant disclosure requirements. In particular, (1) IFC did not ensure that the client “publicly disclose[d] the Assessment document [and] Action Plan to the affected communities” (PS1 para. 20), including the 2011 ESIA on which IFC based its E&S review; and (2) IFC did not “make available electronic copies of, and where available, web links to ... relevant social and environmental impact assessment documents” (Disclosure Policy, para. 13).

Pre-construction consultation was limited to stakeholders directly affected by land acquisition and access to irrigation, excluding broader stakeholder groups such as those working in the tourism industry in the area. IFC did not ensure that the client undertook a process of consultation that provided these groups “with opportunities to express their view on project risks, impacts, and mitigation measures” (PS1, para. 21).

IFC did not ensure that the client met its disclosure requirements in relation to E&S monitoring (PS1, para. 26). During project supervision, however, CAO acknowledges IFC's efforts to ensure that the client prepared a Stakeholder Engagement Plan and scaled up its engagement with broader stakeholder groups, such as tourism operators.

2.4.1. IFC Requirements

IFC's Policy on Disclosure of Information requires the institution to “make available electronic copies of, and where available, web links to, any relevant social and environmental impact assessment documents prepared by or on behalf of the client, including the Action Plan.”⁵⁴ The Policy further notes that “there is a presumption in favor of disclosure with respect to the information [regarding activities supported by IFC], absent a compelling reason not to disclose such information.”⁵⁵ The client is similarly obliged to publicly disclose any Assessment documents and Action Plan where applicable, and “provide periodic reports that describe progress with

⁵⁴ IFC Policy on Disclosure of Information, April 2006, para. 13(a)

⁵⁵ IFC Policy on Disclosure of Information, April 2006, para. 9

implementation of the Action Plan on issues that involve ongoing risk to or impacts on affected communities, and on issues that the consultation process ... has identified as of concern to those communities.”⁵⁶

In accordance with PS1, community engagement should be “conducted on the basis of timely, relevant, understandable and accessible information.”⁵⁷ IFC expects clients to consult with affected communities “in a manner that provides ... communities with opportunities to express their views on project risks, impacts, and mitigation measures, and allows the client to consider and respond to them.”⁵⁸ The client is responsible for ensuring that consultation is “based on the prior disclosure of relevant and adequate information” and tailored to the “language preferences of the affected communities.”⁵⁹

When operating in a protected area, PS6 requires IFC clients to “consult protected area sponsors and managers, local communities, and other key stakeholders on the proposed project.”⁶⁰

2.4.2. Discussion and Findings

IFC’s Pre-Investment E&S Review

As per the requirements of its 2006 Policy on Disclosure of Information, IFC’s ESRS notes that IFC and the client will disclose: (a) information on the management of social and environmental risks and impacts with the company’s projects and operations, (b) the Lengarica updated ESIA (2011) and (c) the ESAP dated 25 August 2011.⁶¹

While information on the client’s management of E&S risks and impacts of the Lengarica HPP were disclosed in the ESRS and ESAP, IFC did not disclose the 2011 ESIA, on which it based its E&S review. The ESIA was not disclosed by the client either, nor was it translated into Albanian. CAO thus finds that IFC: (1) did not ensure that the client “publicly disclose the Assessment document to the affected communities” (PS1 para. 20), and (2) did not “make available electronic copies of, and where available, web links to, any relevant social and environmental impact assessment documents prepared by or on behalf of the client” (Disclosure Policy, para. 13). Noting the lack of translation of E&S assessment documentation into Albanian, CAO further finds that IFC did not ensure the client’s compliance with the requirements of PS1, to tailor its information and consultation processes to the language preferences of the affected communities, in a manner that is culturally appropriate (para. 21).

Pre-investment engagement with directly affected stakeholders consisted of a questionnaire collected from inhabitants of Petran municipality. This was conducted in early 2011 as part of the updated ESIA.⁶² As reported to CAO by the client, this was done in the context of the negotiation of servitude agreements between the company and community members for the use of lands, and to facilitate access to irrigation for agricultural purposes. During CAO’s visit to the Lengarica HPP, local officials and the company reported that multiple discussions occurred between the company and communities that were affected by land acquisition. However, it appears that the client did not conduct any consultation with other potentially affected groups, such as local tourism operators or users of the Benja springs during the design phase of the Lengarica HPP.

⁵⁶ IFC Performance Standard 1, April 2006, para. 26

⁵⁷ IFC Performance Standard 1, April 2006, para. 19

⁵⁸ IFC Performance Standard 1, April 2006, para. 21

⁵⁹ IFC Performance Standard 1, April 2006, para. 21

⁶⁰ IFC Performance Standard 6, April 2006, para. 11

⁶¹ IFC, Environmental and Social Review Summary, enso Albania, August 29, 2011 - <https://goo.gl/8V1RRR>

⁶² *Ibid.*

Therefore, CAO finds that IFC did not ensure that the client undertook a process of consultation that provided “affected communities with opportunities to express their view on project risks, impacts, and mitigation measures”, as per the requirements of PS1, para. 21.

IFC’s Supervision

With the exception of the 2013 ESAM, which is disclosed in English on the client’s website, social and environmental impact assessments or monitoring reports were not disclosed by IFC or the client.⁶³ The client reported that such documents were provided upon request at headquarters and at project level. Post approval E&S documentation produced by the client is listed on the client’s website, but not disclosed. In April 2016, the company disclosed an environmental flow monitoring report in English, upon encouragement from IFC. Client E&S assessments and monitoring reports were not translated into Albanian either in full or in summary.

From 2014 onwards, IFC’s supervision documentation indicates efforts to encourage the client to strengthen its stakeholder engagement activities. The need for enhanced community engagement was also identified by the independent monitoring consultant in November 2013, observing that an overall record on stakeholder engagement and communication was not available.

The client completed a Stakeholder Engagement Plan (SEP) for Lengarica in 2016. Engagement with various stakeholder groups is documented in the SEP. The SEP as reviewed by IFC confirms that the Lengarica HPP had limited engagement with broader stakeholder groups before construction started. It indicates that further meetings with project stakeholders took place between 2013 and 2015 at local and national levels, including a roundtable with civil society organizations in Tirana in October 2014 but provides limited information about ongoing stakeholder engagement activities.

CAO notes that the client established a local information office in Permet and appointed a community liaison officer (CLO) in 2012, and that the client installed a complaint box in 2013. The SEP describes the role of the CLO and process for grievance handling. The company advised CAO that to date, neither civil society nor community members have requested further information regarding the Lengarica HPP.

In summary, CAO acknowledges IFC’s supervision efforts to ensure that the client scaled up its engagement with broader stakeholder groups and prepared a Stakeholder Engagement Plan. Nevertheless, IFC’s supervision of client E&S disclosures falls short of the requirements of Performance Standard 1. In particular, CAO finds that IFC has not ensured that the client met requirements to disclose E&S monitoring information in a format accessible to the affected communities (PS1, para. 26).

⁶³ Such as the 2012 Biodiversity Report, Hydrogeology Report, Report on large carnivores, bats and birds, Assessment of fish species, and the 2013 Tourism Impact Assessment and Landscape and Visual Impact Assessment.

3. Conclusion and Observations

This compliance report responds to a complaint regarding the environmental and social impacts of the Lengarica hydropower project in Albania, developed by IFC's client, enso Albania. It considers IFC's review and supervision of the project against the requirements of the Performance Standards and other relevant IFC policy requirements.

The 2015 complaint from local residents and environmentalists asserts that the Lengarica HPP has had impacts on endangered species and natural/critical habitats. It alleges impacts on ecosystem services, in particular the ecotourism value of the Lengarica river and on nearby protected areas and natural monuments. It also alleges that the Lengarica HPP has not complied with IFC's disclosure, consultation and stakeholder engagement requirements.

This report finds that there were material deficits in IFC's pre-investment review of the project but that these have largely been corrected during supervision. Outstanding issues relate to: (a) disclosure of the E&S assessment and monitoring information for the Lengarica HPP, (b) the assessment and mitigation of project impacts on tourism; and (c) the alignment of the Lengarica HPP with the management plan for the *Bredhi i Hotovës-Dangelli* National Park, within which it is located.

Commencing with the alleged biodiversity impacts, CAO finds that IFC's E&S review overlooked a number of shortcomings in the client's assessment of Lengarica HPP risks and impacts. These included gaps and errors in the client's ESIA related to: (a) the identification of endangered and endemic species. (b) a lack of assessment of cumulative impacts emerging from the construction of multiple hydropower projects in the Lengarica river system, and (c) the lack of assessment of the adequacy of proposed environmental flow metrics. These deficits in IFC's review, were however, addressed during project implementation as additional biodiversity studies were commissioned and a biodiversity monitoring program was established. Monitoring results to date do not suggest that the Lengarica HPP has led to measurable adverse impacts on biodiversity. In these circumstances, CAO finds that IFC's supervision has been adequate.

The issue of the Lengarica HPP's location within the *Bredhi i Hotovës-Dangelli* National Park was also overlooked when IFC approved the investment in 2011. After this issue was raised by stakeholders in 2014, however, IFC took steps to assure itself that the client had obtained necessary permits for the construction and operation of the Lengarica HPP. While the complainants contest the legitimacy of the permitting process, such questions are outside the scope of a CAO compliance review. Nevertheless, the location of the Lengarica HPP within a National Park triggers the protected area provision under PS6, and CAO finds that additional supervision is required to ensure that the operations and programs of the client are aligned with the management plan for the Park.

The Lengarica HPP impacts on tourism were noted in IFC's pre-investment review, but IFC did not ensure that they were assessed and mitigated in accordance with the requirements of PS1 or PS6 prior to construction of the project. IFC's subsequent supervision of the Lengarica HPP confirms project impacts on certain types of ecotourism activities, particularly kayaking in the Lengarica Canyon. However, in relation to these impacts, IFC has not ensured adequate stakeholder consultation or that appropriate measures to minimize, mitigate and/or offset impacts were added to the ESAP as required by PS1.

Application of IFC's disclosure, consultation and stakeholder engagement requirements to the Lengarica HPP is incomplete. Stakeholder consultation during the design phase of the Lengarica HPP was limited. Subsequently IFC worked with the client to prepare a Stakeholder Engagement Plan which documented client engagements with broader stakeholder groups during the period

2013 - 2015. Contrary to the requirements of PS1 and IFC's disclosure policy, IFC did not ensure disclosure of the client's June 2011 ESIA on which IFC based its E&S review. Disclosure of subsequent E&S assessment and monitoring documentation is lacking, as is local language information on project E&S risks and impacts.

In light of the findings contained in this report, CAO will keep this investigation open for monitoring, and will issue a monitoring report no later than one year after publication of this investigation. CAO will monitor the situation until actions taken by IFC assure CAO that non-compliance findings are addressed.

Annex 1: Summary of CAO Investigation Findings

Endangered species and natural/critical habitat	
Pre-Investment E&S Review	<p>Gaps in the client’s ESIA for the Lengarica HPP were overlooked in IFC’s pre-investment E&S review. These included: (a) lack of appropriate information on endangered and endemic species in the area of impact; (b) lack of assessment of cumulative impacts considering other hydropower projects being developed in the Lengarica river system, especially the Pulita HPP immediately upstream from the Lengarica HPP; and (c) lack of assessment of the adequacy of proposed environmental flow metrics. IFC’s review did not require additional assessments to close these gaps as required by the Sustainability Policy.</p> <p>CAO thus finds that IFC did not ensure that the client met the requirement that “the Assessment process will be based on current information, including an accurate project description, and appropriate social and environmental baseline data” (PS1, para. 4).</p> <p>IFC did, however, require the client to retain a biodiversity expert to design and manage the implementation of a biodiversity monitoring program. Though not required by IFC, the client tasked the biodiversity consultant to conduct a gap analysis of the ESIA against the requirements of PS6. As a result, additional assessments of the biodiversity impacts of the Lengarica HPP were recommended.</p>
Supervision	<p>During supervision, the client conducted additional assessments, which addressed deficiencies identified in the 2011 ESIA in relation to potential impacts on endangered species. On the basis of available information, IFC’s conclusion that the Lengarica HPP does not impact critical habitats is consistent with the requirements of PS6.</p> <p>While IFC requested from that the environmental flow be monitored once the Lengarica HPP is in operation, IFC did not require the client to undertake an assessment to confirm the suitability of the estimated environmental flow, thus not complying with the requirements of the Sustainability Policy, para. 15.</p> <p>Given the complexity and challenges of validating the environmental flow, IFC encouraged the client to adopt an adaptive management framework. Monitoring results to date do not suggest that the Lengarica HPP has led to measurable adverse impacts on biodiversity. In these circumstances, CAO finds that IFC’s supervision of the environmental flow issue has been adequate.</p>
Impacts on tourism-based livelihoods	
Pre-Investment E&S Review	<p>IFC did not ensure that the client’s E&S assessment of the Lengarica HPP considered “the differing values attached ... by specific stakeholders, as well as identify impacts on ecosystem services” (PS6, para. 4), in particular impacts on ecotourism. Measures to minimize, mitigate and/or offset project impacts on the touristic value of the area were not included in the ESAP.</p>
Supervision	<p>While IFC’s supervision of the project has captured the issue of Lengarica HPP impacts on ecotourism, CAO finds that IFC’s did not ensure that stakeholders were consulted, assessments disclosed, and measures to minimize, mitigate and/or offset impacts were added to the ESAP.</p>
Protected areas and natural monuments	
Pre-Investment E&S Review	<p>IFC’s review did not identify the Lengarica HPP as being located in the <i>Bredhi i Hotovës-Dangelli</i> National Park. As a result, IFC did not trigger PS6, para. 11, which sets out client requirements when planning a project in a legally protected area. Similarly, IFC did not consider issues related to the application of Albanian law on protected areas.</p>

Supervision	<p>In 2014, after public concerns were raised in relation to the Lengarica HPP’s location in a national park, IFC reviewed a legal opinion commissioned by the client. This provided assurance that the client had obtained necessary permits for the construction of the Lengarica HPP.</p>
	<p>CAO finds, however, that ongoing supervision is required to ensure compliance with PS6 requirements in relation to: (a) alignment of the Lengarica HPP with the National Park’s management plans; and (b) consultation with protected area stakeholders.</p>
Disclosure, consultation and stakeholder engagement	
Pre-Investment E&S Review	<p>At pre-investment stage, CAO finds that IFC did not comply with relevant disclosure requirements. In particular, (1) IFC did not ensure that the client “publicly disclose[d] the Assessment document [and] Action Plan to the affected communities” (PS1 para. 20), including the 2011 ESIA on which IFC based its E&S review; and (2) IFC did not “make available electronic copies of, and where available, web links to ... relevant social and environmental impact assessment documents” (Disclosure Policy, para. 13).</p> <p>Pre-construction consultation was limited to stakeholders directly affected by land acquisition and access to irrigation, excluding broader stakeholder groups such as those working in the tourism industry in the area. IFC did not ensure that the client undertook a process of consultation that provided these groups “with opportunities to express their view on project risks, impacts, and mitigation measures” (PS1, para. 21).</p>
Supervision	<p>IFC did not ensure that the client met its disclosure requirements in relation to E&S monitoring (PS1, para. 26). During project supervision, however, CAO acknowledges IFC’s efforts to ensure that the client prepared a Stakeholder Engagement Plan and scaled up its engagement with broader stakeholder groups, such as tourism operators.</p>

Annex 2: Chronology of Project Milestones

Date	Milestones, Events, and Documents
2006	
	Build Operate Transfer ("BOT") concession contract signed by Hasi Energji sh.p.k.
	Rights and duties of concession transferred to Lengarica SPV
2008	
	Bredhi Hotoves-Dangelli National Park expands to its current 34,000 hectares (previously approx. 2,000 hectares)
Apr	Concession granted to HASI Energji sh.p.k.
2009	
	Enso negotiates with Lengarica license holders HASI
Apr	Minister of Economy amends concessionary agreement reduced from two stages to one
2010	
	Enso acquires majority stake in the Lengarica HPP through HASI Energy sh.p.k.
	Construction activity on Pulita HPP initiated
2011	
	Tender design submitted to Ministry of Energy and Industry and Ministry of Environment
Mar	IFC initial client request
Apr	IFC concept review meeting
Jun	IFC appraisal visit
Jun	Updated ESIA commissioned by Green for Growth Fund Technical Assistance
Aug	IFC investment review meeting
Aug	Summary of Proposed Investment (SPI), Environmental and Social Review Summary (ESRS), and Environmental and Social Action Plan (ESAP) posted on IFC's disclosure website.
Sep	Environmental permit request submitted
Sep	IFC Board approval
Oct	Environmental permit submitted by Lengarica & Energy refused with request for additional information, including project coordinates, project components, rehabilitation measures, and impact mitigation
Nov	Requested documents submitted to Ministry

Date	Milestones, Events, and Documents
Dec	Public consultation/community perception questionnaire delivered (100 participants)
2012	
Jan	Lengarica project receives environmental permit.
Feb	IFC commitment (signing of the legal documentation relating to the investment)
Apr	Environmental Process Manual developed
May	Environmental and Social Action and Monitoring Plan (ESAM) Environmental and Social Action and Monitoring: Biodiversity Report Environmental and Social Action and Monitoring: Hydrogeology Report
Jun	Report on Large Carnivores, Bats and Birds of Prey in Lengarica HPP area
Aug	Survey of the Streamfish (Lengarica) of the Central Reaches of the Vjosa River, Spase Shumka and Pellumb Aleksi
Sep	Lengarica project receives approval from Council and Agricultural Association of Petran Municipality
2013	
Mar	Assessment of Impact of Hydro Power Plant on Tourism Development of Petran Commune
Mar	IFC first disbursement
Jun	ERM Environmental and Social Action and Monitoring: Appropriate Assessment Screening Final Report
Jul	Lengarica begins construction
Nov	Concerns raised by local authority representative regarding Lengarica HPP's impacts on thermal waters
2014	
Jan	Pulita HPP (directly upstream from Lengarica HPP) moves to operational phase
Feb	IFC Supervision Site Visit
Oct	Petition letter submitted to World Bank Albania Country Manager, IFC Albania Country Manager, Minister of Energy and Industry, Minister of Environment and Minister of Culture (<i>petition letter No. 298/4 Prot.</i>)
Oct	Enso Hydro holds NGO meeting/public information event in Tirana
Oct	IFC responds to petition letter
Nov	Client-commissioned legal opinion concerning <i>petition letter no. 298/4</i>
Nov	Stakeholder meeting in Tirana
2015	
Mar	Monitoring of fish presence in Lengarica river

Date	Milestones, Events, and Documents
Mar	IFC Supervision Site Visit
Jun	CAO complaint lodged by the Organic Agriculture Association
Jul	CAO complaint found eligible
Sep	IFC receives a new petition letter. No response was provided.
Nov	Lengarica moves to operational phase
Dec	CAO assessment report released
2016	
Feb	Report on Residual Flow and Environmental Implications
Feb	CAO Dispute Resolution Conclusion Report released
May	IFC Supervision Site Visit
May	CAO compliance appraisal report released
Jun	CAO terms of reference for compliance investigation released
Aug	First Biodiversity Monitoring Report
Sep	IFC Supervision Site Visit
Nov-Dec	CAO compliance investigation team visit to Albania
Dec	Second Biodiversity Monitoring Report
Dec	IFC Supervision Site Visit
2017	
Apr	IFC Supervision Site Visit
Aug	Third Biodiversity Monitoring Report
Oct	The client refinances the Lengarica project. GGF and OeEB participation is pre-paid, and the debt is taken up by the local branch of Intesa Sanpaolo Bank.
2018	
Apr	Fourth Biodiversity Monitoring Report