



COMPLIANCE MONITORING REPORT

IFC Investment in Enso Albania

Project # 30979

Complaint 01

Second Monitoring Report of IFC's Response to: CAO Investigation of IFC's Investments in Enso Albania (Lengarica Hydropower Project)

April 19, 2022

Office of the Compliance Advisor Ombudsman (CAO)

About CAO

The Office of the Compliance Advisor Ombudsman (CAO) is an independent recourse and accountability mechanism that receives complaints from communities and persons who may be affected by the projects that the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) support. The CAO reports directly to the Boards of IFC and MIGA (“the Board”) and is fully independent of IFC/MIGA management.

CAO was established in 1999. As of July 2021, CAO carries out its work in accordance with the [IFC/MIGA Accountability Mechanism Policy](#) (“the CAO Policy”).

Through the exercise of its complementary dispute resolution, compliance, and advisory functions, CAO’s mandate is to:

- Facilitate the resolution of complaints from people who may be affected by IFC/MIGA projects or sub-projects in a manner that is fair, objective, and constructive;
- Enhance the environmental and social outcomes of projects in which those institutions play a role; and
- Foster public accountability and learning to enhance the environmental and social performance of IFC and MIGA and reduce the risk of harm to people and the environment.

Following transitional arrangements, agreed as part of the CAO Policy, this compliance monitoring report was prepared following [CAO’s 2013 Operational Guidelines](#).

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

Executive Summary

This is CAO's second compliance monitoring report following its 2018 compliance investigation of IFC's investment in the Lengarica Hydropower Project run by Enso Albania. This report reviews actions IFC has taken to address the investigation's non-compliance findings.

IFC's ongoing supervision of the project has partially addressed CAO's non-compliance findings in relation to the project. CAO's finding regarding the need to disclose project environmental and social assessment and monitoring information has been addressed. However, IFC has not fully addressed findings regarding the need to: (a) assess and mitigate project impacts on tourism, especially kayaking, or (b) verify that the project operations are consistent with the management plan of the National Park within which it is located, particularly in relation to biodiversity conservation and tourism. As a result, overall, CAO concludes that actions taken by IFC to address CAO's compliance investigation findings are partially unsatisfactory. However, since neither IFC nor Enso have proposed any further action to address CAO's investigation findings, CAO concludes that further monitoring has limited value, and has decided to close this compliance monitoring process with a partially unsatisfactory result.

CAO Process

CAO's compliance investigation relates to IFC's investment in the Lengarica Hydropower Project, ("Lengarica HPP" or "the project"), an 8.9 MW run-of-river hydropower plant on the lower Lengarica river in southern Albania. The project is located in the Bredhi i Hotovës-Dangelli National Park and significantly limits the water flow through the Lengarica Canyon, which is a recognized natural monument under Albanian law. The compliance investigation was completed in response to a complaint regarding the environmental and social (E&S) impacts of the Lengarica hydropower project ("Lengarica HPP" or "the project"). The project was constructed and is operated by IFC's client, Enso Albania ("the company"). The complaint alleges that the project has adverse impacts on endangered species, critical habitats, and the ecotourism value of the Lengarica river and the surrounding National Park in which the project is located. The complainants are particularly concerned that the project limitations on water flow through the Lengarica canyon extinguish its value as a kayaking destination. The complainants also allege that the development of the project was characterized by the lack of appropriate stakeholder consultation and disclosure of information.

In October 2018, CAO issued an investigation report that included non-compliance findings in relation to IFC's due diligence and supervision of the project. CAO's non-compliance findings related to: (a) non-disclosure of E&S assessment and monitoring information for the Lengarica HPP; (b) a lack of consideration of whether the operations of the Lengarica HPP are consistent with the management plan for the Bredhi i Hotovës-Dangelli National Park ("the National Park"), within which it is located; and (c) a lack of appropriate assessment and mitigation of the project's impacts on tourism. While CAO found shortcomings in IFC's review of the client's initial assessment of project impacts on biodiversity, CAO found that this issue had been appropriately addressed during IFC's supervision of the project, as monitoring results did not suggest a measurable adverse impact on biodiversity.

CAO's first monitoring report in relation to this project, issued in 2019, noted that IFC had disclosed required E&S information, and thus closed finding (a) above. This monitoring report thus focusses on actions taken to address CAO's open findings, (b) and (c) above.

Project Consistency with the National Park's Management Plan

IFC's 2018 response to CAO's compliance investigation included a commitment to discuss and agree with the client specific actions regarding the client's role in supporting the implementation of the National Park's management plan and its underlying objectives. While CAO notes that the client has engaged with the relevant authorities in relation to the development of a *future management plan* for the National Park, CAO did not find any evidence of either client or IFC discussions of the *current* management plan, or of actions Enso could take to support its implementation. Given that the project has been operating since 2015 and the current National Park management plan is valid through 2024, this represents a risk that the project may be operating in a way that is not aligned with the conservation and tourism objectives of the National Park's management plans and a departure from Performance Standard 6, para. 11. Thus, CAO concludes that IFC actions to address this finding are partially unsatisfactory.

Assessment and Mitigation of Project Impacts on Tourism

IFC's 2018 response to CAO's compliance investigation included a commitment to agree with the client on specific actions to be included in the E&S Action Plan regarding engagement with the kayaking community, with specific reference to the possibility of scheduling water release days to enable recreational kayaking. CAO notes the client has discussed the issue of providing water flows for recreational kayaking with relevant authorities. However, no structured stakeholder consultation in relation to the project's impacts on tourism has been documented, and engagement with the kayaking community has been minimal. Moreover, no measures to mitigate project impacts on tourism generally or kayaking specifically have been developed or implemented. CAO therefore concludes that IFC's response to this finding is partially unsatisfactory.

Introduction and Background

CAO's compliance function conducts investigations of IFC or MIGA's environmental and social (E&S) performance to assess their compliance with relevant requirements and to improve their institutional performance. After a CAO compliance investigation is completed, management provides a response and CAO monitors IFC's supervision of the project until actions taken by IFC/MIGA assure CAO that IFC/ MIGA is addressing the noncompliance.¹

This compliance monitoring report relates to CAO's investigation of IFC's investment in Enso Albania ("the compliance investigation").² CAO conducted the compliance investigation in response to a complaint received in June 2015 from local residents and environmentalists regarding the impacts of the Lengarica hydropower project ("Lengarica HPP" or "the project") in southern Albania. The project was constructed and is operated by IFC's client, Enso Albania ("the company"). The complainants claimed that the project has impacts on endangered species and natural or critical habitats. They alleged impacts on ecosystem services, in particular the ecotourism value of the Lengarica river, and on protected areas and natural monuments nearby. They also alleged that the project had not complied with IFC's disclosure, consultation, and stakeholder engagement requirements.

CAO released a compliance investigation report in response to the complaint in October 2018. The investigation made several non-compliance findings in relation to IFC's due diligence and supervision of the project.³

Compliance issues in relation to IFC's supervision of the project, as identified in CAO's compliance investigation, related to:

- (a) non-disclosure of the E&S assessment and monitoring information for the Lengarica HPP;
- (b) a lack of consideration for the Lengarica HPP's consistency with the conservation and tourism objectives of the management plan for the Bredhi i Hotovës-Dangelli National Park ("the National Park") within which it is located; and
- (c) a lack of assessment or mitigation of the project's impacts on tourism.

While CAO found shortcomings in IFC's review of the client's initial assessment of project impacts on biodiversity, CAO found that this issue had been appropriately addressed during supervision through the client's engagement of a biodiversity expert and the conduct of additional biodiversity assessments that addressed the initial deficiencies. Further, CAO found that monitoring results did not suggest a measurable adverse impact on biodiversity in the project area. As a result, this issue falls outside the scope of CAO's monitoring.

A management response from IFC was released, together with CAO's investigation report in 2018.⁴ IFC's response envisaged a number of actions to address the investigation's findings at project level. Its response also described the improvements IFC had already made at the level of policy, procedure, practice, and knowledge to address the underlying causes of CAO's non-compliance findings.

In December 2019, CAO released its first monitoring report in relation to this project. The 2019 monitoring report considered actions taken by IFC between October 2018 and November 2019.⁵

¹ CAO Operational Guidelines (2013), para. 4.4.6.

² The CAO investigation, IFC's response to the investigation, and related materials are available on the CAO website. See <https://bit.ly/3vjUm1X>

³ CAO Compliance Investigation Report, Enso Albania-01, October 2018. See <https://bit.ly/3pjGxg9>

⁴ IFC's Response to CAO Compliance Investigation Report of IFC's investment in Enso Albania, September 2018. See <https://bit.ly/3M2KjEv>

⁵ CAO Compliance Monitoring Report, Enso-01, December 2019 - <https://bit.ly/36MKjIN>

The 2019 monitoring report acknowledged the disclosure by IFC of the required E&S information, including the 2011 Environment and Social Impact Assessment (ESIA) for the project and Enso's regular updates on monitoring the flow of the river. Thus, CAO closed its investigation finding related to the disclosure of the E&S assessment. Considering pending actions by IFC and Enso Albania, the 2019 monitoring report left open CAO's findings in relation to: (a) the Lengarica HPP's consistency with the management plan for the National Park within which it is located, and (b) the need for the assessment and mitigation of project impacts on tourism.

This second monitoring report documents IFC's response to the pending non-compliance findings in the period between January 2020–February 2022.

Observations from CAO Monitoring (January 2020–February 2022)

This section summarizes CAO's open compliance investigation findings and IFC's response to them. It then reviews and analyzes actions IFC has taken to address the compliance investigation findings. A summary of the complainants' views regarding IFC's engagement to address CAO's findings is also included.

CAO finding regarding the need to ensure that the operation of the Lengarica HPP is consistent with the management plan of the National Park within which it is located

CAO Finding

CAO's investigation found that IFC's pre-investment review did not identify the Lengarica HPP as being located within a recently expanded National Park and, as a result, IFC did not apply PS6 requirements for projects that are located within protected areas. When this issue was raised by stakeholders in 2014, 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, CAO's investigation concluded that such questions were outside the scope of a CAO compliance review. Nevertheless, CAO found that the location of the Lengarica HPP within a National Park triggered the protected area provisions under IFC Performance Standard 6 (Biodiversity Conservation). These require IFC clients to ensure that projects located within protected areas operate in a manner that is consistent with any protected area management plan that is in place in order to promote and enhance the conservation aims of the protected area. CAO found that additional supervision was required to ensure that the operations and programs of the client were consistent with the management plan for the National Park.

IFC Response

In its response to this finding, IFC Management committed to: "Discuss and agree with [the client] on the role it can play in supporting implementation of the [Bredhi i Hotoves-Dangelli National Park] management plan" with "specific actions" to be agreed and included in the ESAP by October 2018.⁶

IFC and Client Actions Taken to Address Finding

The client's 2019 and 2020 Annual Monitoring Reports, as submitted to IFC, report that Enso held a meeting with the National Agency for Protected Areas (NAPA) and the Ministry of Environment to discuss the National Park management plan in 2019. As reported by Enso, these two national agencies said the National Park management plan needed updating and a timeline was to be determined by the Ministry of Environment. They also advised Enso that they had begun the

⁶ IFC's Response to CAO Compliance Investigation Report of IFC's investment in Enso Albania, September 2018 – <https://bit.ly/3M2KjEv>

process of drafting a long-term management plan for the Benja thermal springs, one of the most visited areas of the National Park, close to the Lengarica HPP. Enso expressed its willingness to provide the relevant data from its environmental monitoring of the area to contribute to the development of such a plan.

A 2021 site supervision visit, conducted for IFC by a consultant, included meetings with relevant stakeholders, including NAPA and the regional government office in charge of supervising and enforcing protected area legislation in the National Park. Both agencies stated the existing management plan for the National Park had been drafted in 2012, adopted in 2014, and would be valid through 2024. Both agencies noted that the management plan would be updated and adapted to local circumstances following its expiration in 2024, but no specific timeline was provided for this process. The agencies also reported that the Albanian Development Fund would be implementing a management plan for the Benja springs. IFC's consultant recommended that Enso engage with Albanian Development Fund to obtain information on the Benja springs management plan, report on the Lengarica HPP's environmental and social monitoring activities, and coordinate efforts in relation to this natural attraction. IFC has not proposed any further action be taken to address this issue.

CAO Observations and Monitoring Conclusions

A protected area management plan describes actions needed to ensure that a protected area achieves the biodiversity conservation and other purposes for which it was established. For this reason, IFC's PS6 requires that businesses ensure their operations are consistent with the management plans of any protected area in which they operate.

IFC's actions have not addressed CAO's finding regarding the need to ensure that the operations and programs of the Lengarica HPP are consistent with the management plan for the Bredhi i Hotovës-Dangelli National. Positively, CAO notes that the client has discussed the development of the *future management plan* for the National Park with relevant authorities. However, IFC was not able to provide CAO with a copy of the existing National Park management plan upon request, and CAO did not find any evidence of client or IFC assessments of the current management plan to verify that the client's operations are consistent with its goals and requirements. Given that the project has been operating since 2015 and the current National Park management plan is valid through 2024⁷, this represents a risk that the project may be operating in a way that is not aligned with the conservation and tourism objectives of the National Park. IFC has not met the commitment contained in its response to the CAO compliance investigation to agree with the client on "specific actions" it can take in "supporting implementation of the [National Park] management plan" which is active through 2024. Thus, CAO concludes that IFC's actions to address the investigation findings regarding the need to ensure that the Lengarica HPP operations and programs are consistent with the existing management plan for the National Park is *partially unsatisfactory*.

CAO finding regarding the need to assess and mitigate project impacts on tourism

CAO Finding

CAO's investigation noted that potential project impacts on tourism were identified in IFC's pre-investment review. However, IFC did not ensure that these impacts were assessed and mitigated, in accordance with the requirements of Performance Standards 1 or 6, prior to the construction

⁷ As CAO noted in its 2015 compliance investigation report, and subsequently confirmed by the relevant authorities, there is currently a management plan for the National Park which is valid until 2024.

of the project. IFC's subsequent supervision of the project confirmed there were impacts on certain types of ecotourism activities, in particular on kayaking in the Lengarica canyon, where the river experiences significantly less water flow due to the project. In this context, CAO found that IFC did not ensure that adequate stakeholder consultation had taken place or that appropriate measures to minimize, mitigate, and/or offset impacts on tourism were added to the Environmental and Social Action Plan (ESAP), as required.

IFC Response

To address this issue, IFC committed to agree with the client on "specific actions ... regarding engagement with the kayaking community" which would be included in the ESAP by October 2018. IFC's response also noted that it had already started discussions with the local mayor, with a view to agreeing a framework for water to be released for recreational kayaking on planned days during the kayaking season.

IFC and Client Actions Taken to Address Finding

The client's 2019 and 2020 Annual Monitoring Reports note discussions with NAPA and the Ministry of Environment regarding the role the company could play in managing tourism-related impacts of the Lengarica HPP. The Annual Monitoring Reports also note Enso's willingness to assist kayak sports events in the Lengarica Canyon by offering to discuss the timelines and requirements for recreational flows of water with NAPA, as the canyon manager. The client's 2020 Annual Monitoring Report notes that Enso suggested two approaches to support eco-tourism to the Mayor of the Përmet municipality and regional protected areas administration: (1) to provide an information board to keep tourists informed about the regulations and the ecological sensitivities of the area, and to announce specific kayaking days, and (2) to provide enough water for kayaking in a regulated way. However, according to Enso's 2020 report, the relevant authorities had not demonstrated an interest in these proposals and the matter was still pending.

IFC's 2021 site supervision visit, conducted through an external consultant, included on-site observations regarding ecotourism activities in the project area. The consultant visited the Benja springs near the project. The consultant observed the presence of local and international tourists and camping vehicles in the area, noting that the site lacked the proper management and infrastructure needed for camping. In this context, the consultant noted the potential for cumulative impacts developing at the thermal springs, particularly on the riverbed and its banks, as a result of the Lengarica HPP project and tourism combined. While the specific nature of these impacts is not discussed, the consultant recommended that Enso liaise and cooperate with the relevant authorities to mitigate them.

IFC's consultant also discussed the Lengarica HPP's impacts on tourism with a number of local stakeholders. The Mayor of Përmet, the consultant noted, did not raise concerns about the potential impact of the project on tourism. A rafting and camping site manager in a town approximately 14km from the project did not express any concerns regarding project impacts on his company's activities or business either, however, the consultant noted that this operator's water sport operations were focused on the Vjose river and not on the Lengarica river, where the Lengarica HPP is located.

Other stakeholders IFC's consultant spoke with regarding the impact of the project on tourism included the regional protected areas administration and a local office of an NGO which supports human rights and sustainable development. The regional protected areas administrator is reported as saying the agency does not have any concerns regarding the Lengarica HPP's operations as long as the level of water released by the project is maintained at permitted levels (though these are not sufficient for kayaking). With regards to kayaking and other tourist activities in the canyon, the administrator noted that, because of flash flooding and the high risk it poses in the canyon, the activities need to be well regulated and managed. The NGO staff that the

consultant spoke to are not reported as having raised concerns regarding the project's impact on tourist activities in the canyon. However, members of its staff suggested that Enso provide support for cleaning the canyon's visitors' area and for installing and maintaining a flood alarm system to monitor the water levels required for kayaking during the March to May season.

IFC's consultant also made note of the fact that the upcoming Albanian Development Fund project for the management of the Benja springs did not refer to Enso's proposal to provide water for kayaking on specific days and in a properly regulated manner. The consultant concluded that Enso does not have any current commitments regarding support of kayaking activities.

IFC has not proposed any further specific action be taken to address this issue.

CAO Observations and Monitoring Conclusions

IFC's actions have partially addressed CAO's findings regarding the need to ensure that the impacts of the Lengarica HPP on tourism are assessed and mitigated in accordance with the requirements of Performance Standards. IFC and its client have confirmed that there are project impacts on tourism. In particular, it is acknowledged that opportunities for kayaking in the Lengarica canyon have been significantly reduced because the project removes most of the water flow through the canyon.⁸ While IFC has reached in principle agreement with the client to release water into the canyon for designated kayaking days, it is not clear whether and to what extent the proposed schedules and flow levels of these releases address the impacts the project has had on whitewater recreational activities. No structured stakeholder consultation to assess impacts or the effectiveness of the proposed water release schedules and flow levels release, including meaningful consultations with the affected kayaking community, have been reported. Also, despite discussions with relevant authorities, the client has not found a way to put its plan for designated kayaking days into action. As a result, CAO concludes that IFC's response to this finding is thus *partly unsatisfactory*.

Complainants' Perspective

CAO contacted the complainants to get their feedback on the actions taken by IFC in response to the compliance investigation. According to the complainants, the company allowed some water to flow into the canyon during the summer tourist season in September 2020. However, they maintain that the quantity of water provided was insufficient to restore the area's ecosystem to its condition prior to the construction of the Lengarica HPP project. The complainants also said there has not been any communication between the complainants and IFC's client, Enso. They maintain their position that the company's operation permit should be revoked, the Lengarica project should be demolished, and the canyon should be restored to its natural state.

Conclusion

This CAO monitoring report has documented actions taken by IFC in response to CAO's compliance investigation of IFC's investment in Enso Albania. It notes that IFC has previously satisfactorily addressed its finding regarding the disclosure of E&S assessment and monitoring information for the Lengarica HPP. The outstanding issues addressed in this monitoring report relate to: (a) the need to ensure that the project is operating in a way that is consistent with the

⁸ The minimum ecological flow for the project was calculated in the ESIA at 0.200 m³/s based on a figure of 20% of the minimum flow during dry seasons.

management plan for the National Park within which it is located, and (b) the need for the client to assess and mitigate the project's impacts on tourism according to the Performance Standards. CAO's conclusion is that these issues have not been fully addressed in the course of IFC's project supervision. CAO's overall conclusion is that IFC's response to CAO's compliance investigation is partially unsatisfactory. However, since no further specific action is being proposed by IFC to address CAO's findings, CAO has determined that ongoing monitoring is of limited value and has decided to close this compliance monitoring process.