



**May 12, 2014**

**#010\14**

**TO:** Resident Representative  
CC: Khairy Al-Jamal, D. Enkhbaatar  
World Bank Mongolia Office  
MCS Plaza -5<sup>th</sup> Floor  
Ulaanbaatar, Mongolia

Dear Sir\Madame,

Rivers without Boundaries is an international network of civil society organizations, which part of international monitoring organizations concerned with the issues of transboundary impacts of large hydro projects on the environmental and society. We have addressed our concerns around planned hydro project in Mongolia to the relevant WB officers without satisfactory reaction to our concerns in the past. We request your kind attention to these concerns as well as assistance in obtaining responses to the below questions that have not been answered fully by the relevant WB offices and officers.

### **Questions related to the MINIS Project**

We write to express our growing concerns about the Mongolian Mining Infrastructure Investment Support (MINIS) Project, a technical assistance project currently being financed by the World Bank (WB). One component of this project, which was approved by the Board of Directors in May 2011, is to finance the feasibility studies for a number of mining-related infrastructure sub-projects, primarily in South Gobi. Presently MINIS's most advanced sub-projects are "Flow Regulation of Orkhon River and Construction of Water Reservoir Complex" and the Shuren Hydropower Plant (HPP) both centered in Bulgan aimag.

Rivers without Boundaries Coalition is a collaborative international network of organizations and experts dedicated to preserving the health of transboundary river basins in the northeast Eurasia through joint advocacy and promoting best practices in river management (<http://www.transrivers.org/about/>). Both the Orkhon Project (which includes the diversion of water from the Orkhon River down to the South Gobi) and the Shuren hydropower project on the Selenge River pose severe environmental and social risks to those living within the watershed. These projects will also have significant transboundary impacts, as the Orkhon River (the longest river in Mongolia) is the main tributary to the Selenge River protected under United Nations Ramsar Convention, which is in turn the key tributary of Lake Baikal in Russia. Lake Baikal is protected under national legislation as well as the United Nations World Heritage Convention.

We have been closely watching this project from its start in 2011 and repeatedly required explanation what is the rationale for WB support to development of those projects having multiple huge political, economic, environmental and social risks. For three years we

repeatedly received an answer that the WB decision on whether to proceed with these projects is to be made in the future.

We ask that the World Bank respond in writing to our following concerns regarding the MINIS project. Our specific questions and requests fall under 5 major areas of concern: (1) the new Environmental and Social Management Framework; (2) the Shuren HPP feasibility study Terms of Reference; (3) the Orkhon-Gobi feasibility study Terms of Reference; (4) the MINIS mid-term review; and (5) the sub-project selection process and project viability.

**1. The project's new [Environmental and Social Management Framework](#), adopted in November 2013:**

1.1. The [Contract Award Notice](#) for the Shuren HPP Feasibility Study Terms of Reference (TOR) consultancy states that:

"Another objective of the assignment is to assist WB and Working Group in adjusting the MINIS Environmental and Social Management Framework to specify sufficient safeguard policy measures for the Shuren HPP and effective mechanisms to ensure its implementation."

Has the abovementioned framework already been amended with the help of this consultant? If so, please provide justification of why it does not incorporate key issues related to water infrastructure projects?

1.2. The new "amended" ESMF states several times that "most of the projects are expected to be in the Southern Mongolia Region," and the studies reviewed in Annex 1 are also primarily specific to the South Gobi. However, the list of projects<sup>1</sup> pursued by MINIS reveals that only one infrastructure development project is inside the Southern Gobi region, namely the Tavan Tolgoi Thermal Power Project, while five projects are located outside the South Gobi region.

Please explain when and why has the MINIS Project Management Unit (PMU) selected to pursue projects that lie outside the focus area of the MINIS project's initial mandate? Are there plans to adjust the ESMF to accurately reflect all key risks and safeguards associated with the projects that have been identified for support under the MINIS project?

1.3. The ESMF states the following: "If funding is used to prepare a power plant, then the March 2010 Operation Guidelines on Criteria for Screening Coal Projects under the Strategic Framework for Development and Climate Change would be followed."

Why has there been no reference to World Bank OP 4.07 on Water Resources Management, when MINIS is currently considering supporting feasibility studies for two hydropower plants? What guidelines will be used to safeguard freshwater ecosystems and population dependent on them?

1.4. The ESMF outlines the initial screening process of potential environmental and social safeguards risks of candidate projects in Annex 2.

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<sup>1</sup> WB Progress ReportNo:ISR12903

Have the MINIS sub-projects undergone this screening process? If so, please send or direct us to the Ministry of Environment and Green Development (MEGD's report and World Bank's East Asia and Pacific Safeguards Secretariat review results for comments.

- 1.5. In the safeguards screening checklist included in the new ESMF, the application of the World Bank's and International Finance Corporation's Indigenous Peoples policies is stated to refer to "ethnic minorities," which is a notion far from equal to that of Indigenous Peoples.

Why does the new ESMF refer to the plans as Ethnic Minority Development Plans instead of Indigenous Peoples? Will the project treat local traditional pastoralists as land-based mobile groups subject to the Indigenous Peoples safeguards policies?

- 1.6. ESMF states: "Once a project's categorization and requirements for safeguards documents have been jointly agreed by the World Bank and MEGD, the environmental experts in MEGD will be responsible for developing TORs for EIAs with project-specific requirements based on the sample TORs in Annex 5."

Meanwhile TORs for Orkhon and Shuren sub-projects envision both preliminary EAS and drafting TORs for detailed EIAs, and process and contents described for those does not fully correspond to what is described in Annex 5 of ESMF. Moreover Annex 5 is omitting some key needs related to EIA of rivers systems and transboundary natural phenomena. Most alarming is that TORs for Orkhon and Shuren sub-projects do not follow procedure for public involvement clearly described in Annex 5.

We would like to know what is being done to correct these discrepancies.

- 1.7. The PMU was supposed to develop an appropriate grievance redress mechanism, to be incorporated in the Operational Manual, which will be regularly monitored and evaluated by the PMU during implementation of projects.

Please share or direct us to the documentation on this mechanism.

- 1.8. Please provide us an update on the progress of the following capacity building activities as described in the ESMF:
  - Hiring a part-time Environment and Social Safeguards Specialists for five years in PMU. Could you please provide us the contact details for this person?
  - Conducting a World Bank and PMU jointly organized safeguards workshops for stakeholders. Please inform us of the agenda of this workshop so that we may send representatives, if necessary.

"Conducting a World Bank and PMU joint study tour to environmentally and socially friendly projects." Please list the names of projects have been visited.

## **2. Developing the Terms of Reference (TOR) for the Feasibility Study for the "Shuren Hydropower Plant" Project**

- 1.1. According to the MINIS website, the contract for developing the TOR for the Shuren HPP feasibility study was awarded to a joint venture between Mongol Management

Center Co., LTD, (Lead Partner, Mongolia) and Kleinwasserkraft GmbH (Partner, Germany). Unfortunately, we could not find either firm using the names provided by MINIS so that we may understand their level of expertise and provide our feedback.

Please provide contact details for these two firms and information on previous experience in large hydropower feasibility studies?

- 1.2. The [TOR for “Developing the TOR for a Feasibility Study”](#) contains **4 pages of requirements for relatively detailed engineering design to be done by the Consultant**, while requirements for a Preliminary Economic and Financial Study occupy just 4 lines. **We consider these extensive engineering studies to be an inappropriate use of funds at such an early stage of planning.**

In our opinion this may mean that MINIS funds are misused to produce actual dam design using money earmarked for pre-feasibility studies and analysis of alternatives. Please provide the justification for incorporating such engineering studies in the development of the abovementioned TOR and why the economic feasibility part has been practically neglected?

- 1.3. Please provide us copies of the following reports so that we may review and comment on them:

- According to the TOR "the Consultant shall suggest how to apply specific safeguard policies of the World Bank to ‘Shuren Hydropower Plant’ Project where it defines specific necessary measures to fulfill policy requirements. The Consultant shall also explore specific applications of IFC Project Performance Standards, international conventions and treaties". We would like to the result of review this review.
- The Report on preparatory studies, Environmental Assessment , and option assessment (of alternatives)
- The scope and methodology of cumulative impact assessment conducted by the consultant.
- The review on joint management of surface water between Russia and Mongolia.
- The outcomes of specific consultations with the downstream communities and the downstream country potentially affected by the project.
- Draft TOR for Detailed Environmental and Social Impact Assessments with Public Consultations Plan for “Shuren Hydropower Plant” Project.

Draft ToR for Detailed Economics and Finance Study, and Technical-Engineering Study for “Shuren Hydropower Plant” Project. These documents should also be made available for public comments and subject to formal public hearings in Ulaanbaatar and Bulgan aimag.

According to publication on energy investments prepared by Energy Charter and Mongolian Government the Shuren HPP will produce the most expensive electricity among all other hydropower options. In addition, the large hydropower, in general, is the most costly and delayed option to provide renewable energy in Mongolia, where solar and wind resources are readily available. Suggested analysis of alternatives falls short to standards outlined for EIA in Annex 5 of ESMF. Why is the WB supporting and encouraging the development of the most costly and inefficient option of

renewable energy production in Mongolia? Why requirements to analysis of alternatives are limited to coal plant and electricity imports, and do not include other renewable energy options (e.g. Gobitech initiative of Energy charter, etc) and alternative means to manage\meet peak demands?

TOR section on EA requires Consultant to " Identify key stakeholders especially project affected people first, and start the two rounds of public consultation following the public consultation procedures of the WB". Please share with us list identified stakeholders, public participation plan and instruct us how RwB Coalition representatives can participate in this process.

**1.4 Public consultation:** RwB is aware of public presentations on the WB MINIS projects in Khanbogd and Dalanzadgad South Gobi aimed aimg collecting "public opinion and support" for this river diversion project. These project "briefing" trips by Orkhon-Gobi Project Team have taken place in 2013 and in 2014. We are not aware of any stakeholder consultations taking place in areas for the planned dam and along the proposed pipeline. Same issue applies to Shuren project. While there is a great deal of public opinion surveying and building in support of this project there has been no information disclosed to the communities to be affected by this project in Mongolia and down-stream areas in Russia (Buryatia). Please provide policy justification for this discriminative approach to project information disclosure and consultations with stakeholders.

## **2. Developing the Terms of Reference ( TOR) for the Feasibility Study for the "Flow regulation of Orkhon river and construction of water reservoir complex" Project**

3.1 According to the MINIS website, the contract for developing the TOR for the "Flow regulation of Orkhon river and construction of water reservoir complex" (the Orkhon-Gobi Project) feasibility study was awarded to Prestige Co., Ltd. The October 2013 procurement schedule states that this TOR should have been completed by January 2014.

Has this Feasibility study TOR and associated reports been completed on schedule? If so, could you please share a copy of these documents with us? Resulting document should also be made available for public comments and subject to formal public hearings in Ulaanbaatar and Bulgan aimag.

3.2 In November 2012 WB task manager G. Ollivier promised to RwB representative that all alternatives would be considered in early stages of analysis for Shuren and Orkhon. The [TOR for developing the TOR for the Orkhon Complex Feasibility Study](#) prescribes the screening of supply alternatives for future development of surface waters to Southern Gobi to augment local groundwater resources. Components of the MINIS project, that is designed to strengthen ability to monitor and manage groundwater in Gobi by the end of 2013 has not started.

How comparative assessments of proposed pipeline and options to use groundwater in Gobi could be compared without implementation of initial stages of Component 3 that should collect and analyze necessary information?

Why does the TOR not prescribe to review supply alternatives from alluvial groundwater from the North Mongolia to the Southern Gobi? This potentially could be a cheaper and likely much less risky alternative to reservoir building as proposed under this project.

3.3 Could you please send us copies of the following reports so that we may review and comment on them?

- The Initial Financial, Economical and Institutional Screening Report.
- The Initial Environmental and Social Screening Report.
- The "Preliminary review of principal policy documents on water infrastructure development (National "Water" Programme)" which was a part of Initial Environmental and Social Screening.
- ToRs for the pre-feasibility assessment phase of the Feasibility Study (task 3)
- ToR for Detailed Environmental and Social Impact Assessments with Public Consultations Plan
- ToR for Economics and Finance Study

3.4 Consultant should have done a survey of future water demand in the area and preliminary economic analysis.

How did this include local herder communities and if they are among potential users what would be technical means to distribute water to remote herder camps and resulting costs of this water. What subsidies for use of this water are envisaged for local communities under the current project scheme?

3.5 We would like to clarify the World Bank's position regarding new Mongolian legislation on water tariffs.

Recently Mongolia adopted "differentiated" water tariffs in various regions, that make groundwater much more expensive than surface water, even if it comes from alluvial deposits on river floodplains. RwB believe that water should have higher price and differentiation between specific water sources makes certain ecological sense. However in its current form such policy creates distortion by introducing strong incentives for inefficient spending on costly dams and associated delivery infrastructure, while making prohibitively costly less risky exploitation of alluvial aquifers connected to rivers.

3.6 We would like to know why WB supports such uneconomic policies on which lie at the foundation of the Orkhon-Gobi project?

#### **4. The MINIS project Mid-Term Review**

4.1. According to the latest [Implementation Status Report](#) from December 2013, the MINIS mid-term review was scheduled for 31 October 2013.

Did this mid-term review take place? If so, could you publicly disclose the resulting report, including with RwB in particular?

If this review has not taken place, can RwB arrange a meeting with the mid-term review team to discuss our concerns with the MINIS project and related WB policies?

4.2. Why does Implementation Status Report refer to current stage of Orkhon and Shuren projects as "pre-feasibility phase" while in reality Orkhon TOR Task3 prescribes to develop "ToRs for the pre-feasibility assessment phase of the Feasibility Study", which clearly means that pre-feasibility phase will start after those TORS are developed? Does this mean that WB seeks to skip crucial pre-feasibility phase that focuses on analysis of alternatives?

## 5.The Sub-Project Selection Process and Project Viability Assessment

**5.1.The December 2013 ISR states the viability of the three priority projects will be determined at the end of phase 2 (June 2014).** As we have previously communicated to staff at the World Bank, the MINIS project has a relatively poor record in the selection and handling of the particular infrastructure projects it seeks to support.

From our perspective, the projects for which the feasibility studies are being prepared for now would be considered excessively risky under the World Bank's environmental and social safeguard policies. We also find that these sub-projects are not directly related to the original MINIS objectives and geographic scope - **therefore possibly it requires new decision from the Board of Directors of the WB.**

5.2. Comparing several "TOR for development of TOR for feasibility studies" we see striking differences between structure and scope of documentation to be produced even for very similar sub-projects like Orkhon and Shuren subproject, which makes comparison between sub-projects and selection of most viable of them to conduct feasibility studies very difficult. For example in contrast to Orkhon TOR Shuren Hydro TOR does not include " the Initial Financial, Economical and Institutional Screening Report and the Initial Environmental and Social Screening Report to be summarized and delivered together with report to the WG, MINIS, WB for review in 1.5 months from assignment start...".

Therefore, we would like to learn more about the structure of sub-project evaluation, including but not limited to the following:

- Criteria used to determine project viability,
- Rules for cancelling inappropriate projects,
- Process of project evaluation, used by WB team
- Participation of managers and stakeholders in project evaluation, and
- Methodology of documenting evaluation outcomes.

We look forward to your written response to our specific questions and requests above, preferably in two weeks' time, as this will inform our further conversation with you.

Sincerely,

Sukhgerel Dugersuren  
Mongolia Coordinator