

2008

# THE GILGEL GIBE AFFAIR

An analysis of the Gilbel Gibe hydroelectric projects in Ethiopia



How states and corporations do business using international public money

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## Introduction

In March 2006, the Prosecutors' Office in Rome instigated criminal proceedings concerning the biggest aid credit ever granted since the creation of the Italian development revolving fund: EUR 220 million for the Gilgel Gibe II hydroelectrical project.

A few months later, in Italy Campagna per la Riforma della Banca Mondiale (CRBM) initiated an independent investigation into the case and in November 16-30, 2007 undertook a joint fact finding mission in Ethiopia with International Rivers (USA), in cooperation with CEE Bankwatch Network.

This study is the outcome of a desk research and a collection of interviews with a range of Ethiopian and international stakeholders. It is focused on the three large hydro projects called Gilgel Gibe I, II and III along the Omo river basin, in southwestern Ethiopia. Gibe I is already constructed and Gibe II and III are under construction.

The Gibe hydroprojects can be considered as a very singular case of public-private partnership, where the public sector is represented by the Ethiopian Electric Power Corporation (EPCo) – the fully state-owned and the sole electric utility in the country – and the private sector is represented by Salini Costruttori S.p.A., an eminent Italian construction firm that has a strong presence in many African countries.

The study is a first step for further examination and it approaches each project on different aspects, analysing the role of the main project financiers: the World Bank, the European Investment Bank, the African Development Bank and the Italian government.

Following a short overview of the current Ethiopian political situation and the energy sector in the country, the study focuses on the environmental and social assessment of Gilgel Gibe I, the only plant of the three that is currently operational. As for Gilgel Gibe II, attention is mainly given to the possible irregularities involved in the Italian loan. In the Gilgel Gibe III sections, a critical review of the available environmental assessment documents as well as a project compliance analysis with the World Commission on Dams' recommendations is provided. The research also includes a short overview of other dams in in Uganda, Ethiopia and Sierra Leone that also feature Salini's involvement.

The study is a contribution to the international campaign "Counterbalance. Challenging the EIB", and it analyses the role of the European Investment Bank in the Gibe dams, and provides the bank with a series of recommendations concerning the current decision-making process for a potential new loan to Gilgel Gibe III dam.

Overall, the study illustrates the dangers that accompany large energy infrastructure projects whenever the interests of a major private company coincide not only with weak governance in the host country but also very clear willingness from financial institutions to provide funding, in spite of alarming project oversights and impacts. The study shows how goals to eradicate poverty and support local communities can be easily compromised when major corporations and/or political elites are intent on maximising profits.

We would like to warmly thank all the people who contributed to this study, often challenging non-transparent and repressive institutions in Ethiopia, as well as in Italy. Without them this work would not have been possible.

*Campagna per la Riforma della Banca Mondiale, CEE Bankwatch Network*

*February 2008*

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1 "Counterbalance. Challenging the EIB" is a campaign promoted by CEE Bankwatch Network (Europe) Both ENDS (Netherlands) Bretton Woods Project (UK) Campagna per la Riforma della Banca Mondiale (Italy), Les Amis de la Terre (France), Urgewald (Germany), Weed (Germany,) with the aim of making the EIB contribute to the EU development agenda to eradicate poverty, foster sustainable development and achieve the Millennium Development Goals (MDGs).

# 1. Background

## 1.1 Development, debt and poverty reduction strategy

Ethiopia is the second most populous country in Africa. The current population of 71 million<sup>1</sup> is expected to more than double by 2050. Agriculture accounts for half the country's GDP and 90 percent of its exports. Of the 85 percent of the population which participates in the agricultural sector, almost all are rural, small-scale subsistence farmers.

Ethiopia has an official per capita annual Gross National Income of USD 145<sup>2</sup>. The relevant Ethiopian institutions affirm that these figures no longer correspond to the country's actual reality and in 2007 the government conducted a new population survey in order to update its national database and figures. The results of this survey will be known in the coming months.

According to the OECD, "Ethiopia's stock of total external debt fell to USD 6 billion in 2005/06 from USD 7.2 billion in 2003/04, reflecting relief granted under the HIPC initiative. 80.9 percent of the total debt was owed to multilateral creditors, followed by bilateral creditors (13.2 percent) and commercial lenders (5.9 percent). Ethiopia reached the completion point under the HIPC initiative in April 2004. As a result, Ethiopia will receive further debt relief of USD 2.4 billion from the World Bank in July 2007. Reductions in debt service are to be used for poverty reduction initiatives"<sup>3</sup>.

At the same time the government is continuing to rack up debt. In the field of energy alone, between 2004 and 2007 the publicly owned electric company EEPCo signed loan agreements with multilateral and bilateral agencies for around EUR 1 million. The same investment policy approach is ongoing in other sectors like road expansion and telecommunications. This latest fast indebtedness could easily generate an unsustainable situation once again.

1 World Bank, "Little data book on Africa", 2007

2 Ibidem

3 AfDB/OECD "African Economy Outlook", 2007

Ethiopia completed its first Poverty Reduction Strategy Program (PRSP), the Sustainable Development and Poverty Reduction Program, in July 2002. It was followed by two Annual Progress

Reports (APRs) in December 2003 and July 2005. The current strategy, the Plan for Accelerated and

Sustained Development to End Poverty (PASDEP), was finalised in January 2007 and approved by the parliament. The PASDEP is a five year programme based on the following priorities: i) Commercialisation of agriculture ii) Geographical differentiation iii) Population iv) Gender iv) Infrastructure with a special focus on roads, energy, irrigation v) Risk Management vi) Delivery of services to reach the MDGs vii) Employment.

## 1.2 Findings and considerations about Ethiopian current situation

Back in October 2005, a resolution of the European Parliament expressed "its serious concern at the government's attempts to reverse the democratic process, including the introduction of an absolute majority requirement for the submission of agendas in the forthcoming parliament, which render the opposition's gain meaningless"

The resolution followed national elections in the same year in which the Ethiopian People's Revolutionary Democratic Front (EPRDF), led by Meles Zenawi, claimed victory. The opposition refused to accept election results and alleged election fraud. In the months that followed two protests ended in bloodshed and repression, leaving 193 people dead and hundreds more injured. Thousands of protesters were arrested and subsequently pardoned prior to the celebration of the Ethiopian new millennium. EPRDF remained in power.

According to a report by Amnesty International, the "parliament established a Commission of Inquiry to investigate the killings during the 2005 demonstrations. The Commission, headed by a judge, took evidence from the public and NGOs and interviewed CUD [opposition] leaders in

prison. In July, the Commission's chairperson fled the country and his replacement did the same in September. They alleged that the Prime Minister had instructed them to change their finding - that the security forces had committed excessive force - which they were not willing to do".

The fact finding mission (FFM) conducted in November 2007 encountered a very worrying prevailing situation concerning freedom of expression within Ethiopian civil society. Local environmental associations that were met during the visit clearly refused to tackle the energy issue and to talk publicly about the impacts of dams due to legitimate concerns about government persecution.

## 2. The Ethiopian Energy Sector

### 2.1 Baseline figures and information

Ethiopia has one of the world's lowest levels of access to modern energy services, and relies primarily on traditional biomass<sup>1</sup>. According to the World Bank, only 12 percent of Ethiopians have access to electricity, and there is a great disparity between the access rates of urban and rural residents<sup>2</sup>. While 17 of every 20 Ethiopians live in rural areas, only 2 percent have access to electricity compared to 86 percent of urban residents. According to the figures of the Ethiopian Ministry of Mines and Energy, the average per capita consumption is 34 KWh per year and the total number of customers is 1.3 million<sup>3</sup>.

Approximately 90 percent of the population depends on biomass energy for household use because of the limited supply of alternative energy and the relatively high cost of electricity (and other cooking fuels) compared with the low average income per capita. Only seven percent of Ethiopia's original forestland remains. Much of the deforestation is due to the expansion of crop and grazing lands and the collection of fuel wood. This massive deforestation is causing severe erosion and loss of top soil in many of Ethiopia's river basins.

Ethiopia's peak domestic demand as of January 2006 was 587 MW while the country's installed grid-based capacity is 767 MW. Hydropower accounts for over 85 percent of Ethiopia's 767 MW of existing generating capacity, and comes from eight dams (see Table 1). Ethiopia's hydro potential is estimated to be one of the highest in Africa (be-

tween 30,000 and 45,000 MW) and over 300 sites have been identified for possible future development. In addition there is one geothermal plant with a capacity of 7MW, three diesel generators with a capacity of 80 MW and – off grid - three small hydro plants and 45 diesel stations with a total capacity of 30 MW.

Table 1. Operational hydropower plants and installed capacity

	Plant	Installed Capacity MW	Year of Original Commission
1	Awash II HPP	32	1966
2	Awash III HPP	32	1974
3	Finchaa HPP	134	1973
4	Koka HPP	43.2	1960
5	MelkaWak-ena HPP	153	1988
6	TisAbbay I HPP**	11.4	1964
7	Tis Abay II**	74	2001
8	Gilgel Gibe I	184	2004

The development of hydropower is a heavily politicised issue. The colonial-era water use agreements for the Nile Basin are seen by many Ethiopians to have stymied the country's "right" to the earlier development of a hydro-based economy. It is expressed by many as an issue of national sovereignty and fundamental to the development of Ethiopia.

In 1997 the former state-owned Ethiopian Electric Light and Power Authority [EELPA] was restructured to a commercially oriented corporation known as the Ethiopian Electric Power Corporation (EEPCo). EEPCo is fully state-owned and currently the sole electric utility in the country.

1 Population statistics from the World Bank's Little Data Book on Africa 2007.

2 Proportion of Ethiopia's urban residents taken from United Nations, Department of Economic and Social Affairs, Population Division. 2006. World Urbanization Prospects: The 2005 Revision. Urban and Rural Areas Dataset (POP/DB/WUP/Rev.2005/1/Table A.2), dataset in digital form. Available on-line at <http://esa.un.org/unup/>. New York: United Nations. Calculations based on these two sources of statistics.

3 The Ethiopian Energy Sector Status and Strategic Plan, Ethiopian Ministry of Mines and Energy, May 2007

## 2.2 The 25 year Master Plan

In 2005, the Government of Ethiopia released an aggressive 25 year national energy master plan. The original aim of the Master Plan was to give an operational framework to the National Energy Policy issued in 1994. The plan was based on a study prepared by Canadian firm, Acres International Ltd<sup>4</sup> in 2003. The plan is updated annually by EEPCo, and major new large dams such as Gilgel Gibe III have been added to the plan. The plan identifies a required investment of USD 3.4 billion between 2005 and 2015. New power generation accounts for USD 2.4 billion of the needed financing, or 70 percent of the investment cost. However, the plan excludes from its investment requirements those costs related to “distribution, rural electrification and network reinforcement resulting from demand growth,” and this amount does not include the committed investments for Tekeze, Gilgel Gibe II and Tana Beles dams as well as 23 transmission lines and 26 substations.

In 2005, the plan sought to triple the power supply in five years (to 2,842 MW by 2010). This is a marked increase over Acres’ original plan to double the country’s generation capacity (then 473 MW) in ten years (to 981 MW by 2012). The original study also predicted that national demand would not reach 2,335 MW until 2025<sup>5</sup>. However, the 2006 update shows that the Government of Ethiopia now predicts peak domestic demand of 3,039 MW as soon as 2016 (more than five times the recorded peak demand of 587 MW in 2006). The predicted growth in demand would require 1,145 MW of new supply beyond the completion of the current projects under construction (see 2.4).

4 Acres was debarred by the World Bank for corruption under World Bank contracts for the Lesotho Highlands Water Project.

5 EEPCo also sought expertise from Lahmeyer on four hydro projects identified in the Acres’ study: Gojeb, Beles, Chemoga-Yeda, and Halele-Werabesa. Both Acres and Lahmeyer were debarred by the World Bank for corruption under World Bank contracts for the Lesotho Highlands Water Project.

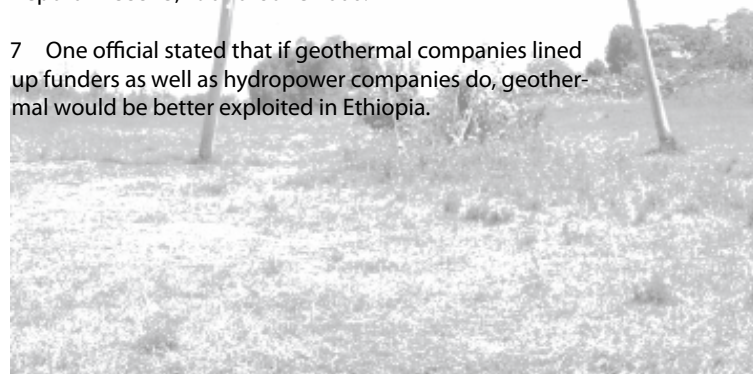
While increasing access to modern energy services is vital for poverty alleviation in Ethiopia, the current generation and grid expansion is far beyond domestic needs. The new hydro projects will increase the grid supply far beyond projected growth in domestic demand, raising concerns about the prioritisation and financial risk of developing so many projects simultaneously. The World Bank in 2006 considered unrealistic the EEPCo investment programme.<sup>6</sup>

The master plan’s supply expansion gives virtually all its attention to new hydro generation and does not include any substantial strategy for diversifying the national energy portfolio. While Ethiopia’s geothermal potential is rated at 1,000 MW, the master plan mentions only two sites which would expand the supply by 37 MW<sup>7</sup>. However, these projects are not listed in the expansion plan within the master plan. The plan has no enthusiasm for solar power potential and no solar projects are identified. No wind power projects are mentioned either, however the possibility of a wind supply project of 80 – 120 MW was raised repeatedly during interviews and it is hoped that this will be added to the next revision of the master plan. The Yayu coal mine was included as the only non-hydro supply project in the current expansion. However, according to government officials, plans to develop the coal mine have since been dropped.

Neither the master plan nor the PASDEP and the national related policy, identify electricity exports

6 World Bank “Implementation Completion Report on a Credit in the amount of US\$200 million to the Federal Democratic Republic of Ethiopia for an Energy II project”, Report N° 35573, 29th of June 2006.

7 One official stated that if geothermal companies lined up funders as well as hydropower companies do, geothermal would be better exploited in Ethiopia.



as a priority, but the plan also calls for exporting nearly half (908 MW) of the new supply (2,053 MW) which the government hopes to develop by 2016.

### 2.3 Universal Electricity Access Programme

Although the master plan does not explicitly discuss household-level distribution expansion and connections, EEPCo is currently undertaking an aggressive 5 year plan called the Universal Electrification Access Programme to increase access to electricity from 15 to 50 percent of the population, or in other words, to 6,000 rural towns and villages by 2010. However, as defined by the Minister of Mines and Energy access “refers to not necessarily getting the electricity service but having low-voltage infrastructure nearby”<sup>8</sup>. At the beginning of the programme two years ago, EEPCo had 700,000 customers in 470 towns. EEPCo says it has electrified an additional 758 towns and villages in 2007. While EEPCo claims to have already increased energy access from 17 percent to 22 percent between 2005 and 2007, figures reflecting direct access to electricity remain at only 12 percent<sup>9</sup> of the population. **The program has received a total of USD 255 millions in World Bank loans.**

### 2.4 Ongoing projects and donors involved in the Ethiopian Energy Sector

Today, there are five hydro electrical projects under construction: Gilgel Gibe II (428MW), Tekeze (300 MW), Beles (400 MW), Amerti-Neshi (100 MW), Gilgel

Gibe III (1870 MW). According to government documents from 2005, the last three projects were not even identified in a list of projects under construction, study and design (see Table 2)<sup>10</sup>. Projects chosen for construction seem to be opportunistic and dependent on contractor influence and are not necessarily in line even with short-term planning processes. Such unpredictability and

Table 2. 2005 Ongoing and Foreseen projects

List of projects	Status as of 2005	Installed capacity (Megawatt)
<b>Ongoing construction projects (2005)</b>		
	<b>Year of Completion</b>	
Tekeze/TK_5	2008	300
Gilgel Gibe-II	2008	420
<b>Ongoing study projects</b>		
	<b>Level of Study</b>	
Baro Hydropower Project	Feasibility Study	800
Karadobi Multipurpose project	Prefeasibility Study	1700
Genale GD-3 Multipurpose project	Feasibility Study	245
Genale GD-6 Hydropower project	Prefeasibility Study	244
Wabe Shebele WS 18 Multipurpose project	Feasibility Study	87
<b>Upcoming study/design projects (2005-10)</b>		
	<b>Level of study/design</b>	
Baro Hydropower Project	Design	800
Genale GD-3 Multipurpose project	Design	245
Wabe Shebele WS-18 Mutlipurpose project	Design	87
Karadobi Multipurpose project	Feasibility/Design	1700
Genale GD-6 Hydropower project	Feasibility/Design	244
Mendaia Hydropower project	Prefeasibility/Feasibility	1700
Border Hydropower project	Prefeasibility/Feasibility	1780
Tams Multipurpose project	Prefeasibility/Feasibility	1020
Mabil Hydropower project	Prefeasibility/Feasibility	1440
Birbir Hydropower project	Prefeasibility/Feasibility	467
Dobus Multipurpose project	Prefeasibility/Feasibility	741
Didesa Hydropower project	Prefeasibility/Feasibility	308
Source: MoWR		

8 The Ethiopian Energy Sector Status and Strategic Plan, Ethiopian Ministry of Mines and Energy, May 2007

9 Datas Sources: World Bank, EEPCo, Ministry of Energy and Mines

10 Source: Ethiopian Ministry of Water Resources.

fast-tracking of new projects makes project decision-making far less accountable to the public and other stakeholders, and substantially dilutes the value of longer-term sectoral planning.

The Ethiopian energy sector is supported by five main donors: the World Bank, the European Investment Bank, the African Development Bank, the Chinese and the Italian government. Their contribution to the ongoing generation projects is summarised in table 3 (see next page).

As the table shows, the World Bank is not involved, in any of the five electrical generation projects, its priorities are actually addressed to the electricity access expansion in rural areas.

**Table 3:** Hydro electrical projects under construction and respective donors

Project	Total cost Millions of Euro	Installed Capacity MW	EEPCo	International financiers
Tekeze	300	300		Chinese Government
Gilgel Gibe II	490	428	220	EIB, Italian Government
Beles	530	435	530	none
Amerti-Neshe	120	100	120	Loan of Export Import Bank of China
Gilgel Gibe III	1.400	1870	unknown	Possible financiers: JPMorgan Chase, AfDB, EIB, Govt of Italy

The World Bank is currently supporting three rural electrification programmes, two under the UEAP respectively for USD 133,4 millions and USD 130 millions respectively. The third one is an off-grid energy access increase consisting mainly of micro hydro and solar, for USD132 millions. The World Bank additionally financed USD 41 millions for the construction of the Ethio-Sudan interconnection. The bank is also willing to finance the Ethio-Kenya interconnection as well. The Ethio-Kenya feasibility study is currently under development with the

support of the AfDB, the French cooperation and the German bank KfW. The AfDB is also financing the construction of the Ethio-Djibouti interconnection. The Chinese are supporting the transmission lines expansion through the practice of suppliers credits.

Investments in new, large hydropower schemes, such as Gilgel Gibe III will create a surplus of electricity but are being justified by their potential for exporting to neighbouring countries.

According to EEPCo, the utility predicts the export of 200 MW to both Djibouti and Sudan, and 500 MW to Kenya. Additionally, a feasibility study is underway to consider exporting 50 MW to Yemen (via Djibouti) (see Table 4). The master plan also discusses possible future exports to Somalia, Eritrea and Egypt. The utility is currently negotiating power purchase agreements with Djibouti, Sudan and Kenya though none have been signed to date. EEPCo's predictions for export to Djibouti and Sudan are higher than those reported in associated project documents and the media, which report 120 MW for Djibouti and 100 MW for Sudan. A Sudan-Ethiopia transmission connection is being studied (although the Government of Sudan will soon commission the 1,250 MW Merowe Dam, which will double the national grid supply). Kenya has reportedly signed a Memorandum of Understanding with Ethiopia and a transmission connection is under study.

Ethiopia is already over-dependent on hydropower in its energy portfolio, however, upon inquiry, the government ministries responsible shared no concerns about the hydrological impacts which may accompany climate change. There also seem to be no government or sectoral studies to address the questions of climate change and drought vulnerability in the Ethiopian energy sector. With the addition of the Tekeze, Gilgel Gibe II and Tana Beles dams, the country's energy supply will be 94 percent hydropower. If Gilgel Gibe III is commissioned, it will push the amount up to 96 percent. One official responded that the country has 12 watersheds, and not all the river basins could be



affected simultaneously by drought.

However, when asked if any studies had been conducted to review Ethiopia's hydrological vulnerability to drought or climate change which could negatively affect hydropower supply, a representative of the Ministry of Energy responsible for hydro projects and representatives from EEPCo were unaware of any such studies and seemed unconcerned about the issue.

In 2003, Ethiopia suffered its most severe drought in 20 years, reducing reservoir levels across the country, and forcing sudden and severe power rationing in Addis Ababa which lasted for six months. Power cuts of 15 hours twice a week were estimated to cost the economy 15 percent of the daily GDP or USD 200 millions in annual productivity, due mostly to reduced outputs of industries by up to 40 percent. Power cuts are not only experienced during droughts. Existing reservoir capacities are also greatly impaired by high siltation loads due to loose soils, often exacerbated by deforestation and erosion.

As Ethiopia moves in the direction of becoming an electricity exporter, it seems irresponsible to move forward without having an adequate project, watershed, and national level studies of predicted hydrological changes and risk of drought. Additionally, the response from officials that not all Ethiopian watersheds could experience drought simultaneously implies an accepted risk that drought may reduce some power generation some of the time. Following this logic, it is worth questioning the cost-effective nature of such a hydro-dependent power plan, should an over-supply be built in order to compensate for potential drought-induced power losses.

#### **2.4 Organization of Ethiopia's energy sector and decision-making**

The national utility, EEPCo, continues to be government owned but was corporatised in 1997 by Regulation no. 86/1997 under the Public Enterprises Proclamation No. 25/1992. At the time EEPCo was corporatised, the Ethiopian Electricity Agency

(EEA) was created as a regulatory agency for the utility. However, the power of the EEA is extremely limited. For example, EEA reviews EEPCo tariffs annually but does not have the power to set the tariffs or even approve them. EEPCo is also overseen by a board of directors who are responsible for EEPCo's financial situation, but it is unclear how much knowledge, influence, or will the board has with regard with EEPCo's activities. As one of the country's oldest and most powerful government owned corporations, EEPCo is staunchly entrenched in its centralised energy planning philosophy and has a vast enthusiasm for expanding the grid. EEPCo has a reputation for its political power and institutional lack of transparency.

Like EEPCo, the Ministry of Mines and Energy (MME) sees a centralized electricity grid as the sole solution to Ethiopia's energy needs. "Suppressed" domestic demand coupled with the opportunity for power exports are regularly cited as justification for significant hydro-expansion. Displacement of biomass household fuels and a consumer preference for grid-based energy are also common reasons cited by government officials to support grid expansion plans. Officials expect that the grid should reach every area within 15 years, and any gaps should be filled by off-grid projects.

Ethiopia's energy sector is governed primarily by MME, which works closely with EEPCo and is responsible for the authorisation of new power supply projects. The Ministry of Water Resources is responsible for the development phase of hydropower projects. The MoWR has five department teams involved in hydropower design: 1) environment; 2) watershed; 3) dams/hydro planning; 4) electromechanical; 5) geotechnical. However, the teams are involved on a project-specific level, and when questioned about watershed level base studies, the MoWR reported that they did not exist. When the MoWR studies a new project, it is supposed to send the project Terms of Reference to the EPA, which is responsible for approving project EIAs and ensuring compliance with environmental standards. A steering committee between the Ministry of Mines and Energy and

the Ministry of Water Resources meets quarterly to coordinate their work, including hydro dams, but ultimate authority for new hydrodams seems to lie with the MME but all the real decision maker remains EEPCo.

A new hydropower project is supposed to receive three licenses (or permits) prior to construction: one from the Environmental Protection Authority (EPA), one from the Ministry of Water Resources (MoWR) for water use, and a permit from the regional authority which oversees land use. However, documentation for specific project licenses was not publicly available, and contradictory statements were made by differing government agencies about the existence of certain project licenses.

Both the EPA and MoWR have responsibilities to monitor projects during construction and operation, but both agencies cited inadequate staffing as a major barrier to fulfilling their heavy programme responsibilities. According to the MoWR, it visits each dam site during construction and monitors the project after construction is complete. But the Ministry reports that it is able to monitor only three to four dams per year. While the MoWR sends its recommendations to consultative authorities and says it follows up afterwards, there is no compliance mechanism in place to insure that recommendations are implemented.

The EPA similarly noted that it lacks the leverage to require compliance with environmental safeguards and often doesn't receive project EIAs until after construction has begun. At the time of our visit, the EPA had not yet received the EIA for Gilgel Gibe III, which had already been under construction for more than one year. The EPA was established in 2002 in the framework of the newly adopted Environmental Impact Assessment proclamation which made the EIA compulsory in the country, but agency staff report that the under-resourced agency is not integrated with the government's objectives and was established only to satisfy the requirements of international donors. By law, the EPA is required to provide its opin-

ion within one week of receiving an EIA. This is a short turnaround time under any scenario and is particularly unrealistic for a unit with only three members of staff. The fact of the matter is that it is impossible for such a small unit to adequately complete these duties. The EPA also notes that there is no control on the implementation of the Environmental Management Plan, nor does the agency have the capacity to challenge high profile international consultants which often conduct the project's EIA.

The government is attempting to fast-track many of the projects outlined in its master plan. The opportunity for destructive impacts is increased by a the strong centralization of power within the energy sector, the lack of transparency and the lack of public accountability for decisions.

An Environmental Monitoring Unit (EMU) was set up within EEPCo during construction of the Gilgel Gibe I Dam. An official from the EMU explained that its purpose is to monitor the environmental impacts of construction and operation of projects, and prepare Environmental and Social Impact Assessments for transmission lines. The official stated that, like MoWR and EPA, the EMU has limited capacity, while at the same time acknowledging that hydro dams cause huge impacts. The EMU does not have the power to enforce compliance with environmental safeguards, only to give advice on environmental issues and to advocate for compliance.

Conversations with civil society groups in Ethiopia show that questioning the government's energy sector plans is highly risky, and no groups are actively pursuing the issues of hydropower dams nor talking publicly about the risks due to legitimate concerns of government persecution. In this situation, extremely limited and inadequate public consultation has been organised during the implementation of Gilgel Gibe II as well in the preparation of Gilgel Gibe III.

## 3. The genesis of Gilgel Gibe III

### 3.1 Approaching the Gilgel Gibe hydroelectrical projects

The Omo river begins at the confluence of the Gibe and Gojeb rivers in the Oromia and Southern Nations and Nationalities Peoples regions located in southwestern Ethiopia. With a total length of almost 600 kilometres the Omo River flows to the south where it empties into Lake Turkana at the border with Kenya.

The Gilgel Gibe Dam and the Gilgel Gibe II extension are both located on the Gilgel Gibe River, a tributary of the Gibe River (Gilgel means "little" in



Amharic language). Gilgel Gibe II consists of a tunnel which channels water from the Gilgel Gibe reservoir through a 26 kilometres tunnel to turbines downstream and empties near the confluence with the Gibe River.

Gilgel Gibe III is located on the Omo River 150 kilometres downstream of the Gilgel Gibe II outlet. The three projects should be looked upon as a single case: they not only affect the same basin but they were built by the same contractor, the Italian firm *Salini Costruttori S.p.A.*

### 3.2 Gilgel Gibe I

#### 3.2.1 Introduction

The Gilgel Gibe dam is located on the Gilgel Gibe river, a small tributary of the main Gibe river situated approximately 260 kilometres southeast of Addis Ababa. The project dates back to 1985 but it was effectively built between 1997 and 2003. It has been operational since February 2004 and generates 183 MW. The project consists of a 40 metre high dam which created a reservoir of 63 square kilometres, with an underground power house with three turbines. The creation of the reservoir resulted in the displacement of 1,964 households totalling 10,000 people.

The project was financed by the World Bank (USD 200 million), the European Investment Bank (EUR 41 million), the Austrian Development Cooperation and the Government of Ethiopia. The total cost of the project has been approximately 280 million of Euro. The construction work has been provided by Salini Costruttori involving more than 15 international companies.

#### 3.2.2 Existing institutional impacts assessment and completion reports

The Environmental Protection Authority (EPA) conducted a project impact assessment audit in 2006<sup>1</sup>. The World Bank also released its project implementation completion report in 2006<sup>2</sup>. The EPA's audit critically investigated the effectiveness of the dam's construction and management and its completions with the Environmental Management Plan (EMP) contained in the EIA. Despite the lack of a strong methodology, due mainly to the lack of human resources and specialised skills that EPA faces (see 2.4), the report highlights a number

<sup>1</sup> Report on Environmental impact assessment auditing of Gilgel Gibe I and II Hydroelectric projects, Ethiopian environmental Protection Authority, February 2006

<sup>2</sup> Implementation Completion Report (IDA-30190 PPF-P9880) on a Credit in the amount of US\$ 200 millions to the Federal democratic Republic of Ethiopia for an energy II project. World Bank, June 29, 2006.

of non-compliance elements. Among them the most relevant are:

- The EMP established a buffer zone of 8 kilometres around the reservoir and indicated that this zone should not be used, among other things, for grazing purposes. Currently the zone is used for intensive cattle grazing.
- The EIA required, during the dry season, a minimum release flow water of 1.1 cubic metres per second. The release of water is yet to be made yet.

Moreover, the report states that the EIA document (and related contracts) were vague and incomplete especially regarding the specific measure to be taken up, the budgetary issues and the identification of roles and responsibilities. There are several unforeseen aspects in the EIA and in this regard the report expresses strong fears that water related vector borne diseases might be introduced or aggravated.

The World Bank's completion report rates the overall outcome of the project as "moderately satisfactory" expressing concerns for the weak financial performance of EEPCo due *"to a large investment as well as tariff issues [...] Tariffs remained frozen for 7 years, and were only increased in June 2006. The long term sustainability of the power sector depends on realistic, cost-reflective tariffs" adding that "The Bank has repeatedly expressed concerns about the overoptimistic demand growth assumptions (supply driven), about EEPCo's financial capability to implement large scale hydro projects, and on the inclusion of hydro plants which did not seem to result from a sound least cost planning process, such as Gojeb and Tekeze. As of today, there is a Master Plan prepared by a consulting company, but this plan has not been officially endorsed by EEPCo, resulting in an uncertain scenario as far as the supply and demand visions for the power sector are concerned"*<sup>3</sup>.

<sup>3</sup> Implementation Completion Report n° 35573, World Bank, June 2006

It is important to note that the report was released in June, less than one month before the signing of Gilgel Gibe III's contract. The World Bank doesn't even mention the project in its analysis. It lists instead, Gojeb and Tekeze. The construction of the Gojeb dam never began, and the Tekeze dam is currently under construction. Among other issues, the WB report covers displacement and resettlements affirming that *"environmental and social safeguards comply with the Bank's and national policies. In resettlement matters, this project was the first one in the history of Ethiopia to carry a constitutional resettlement under the New Constitution. It was acknowledged by the Parliament of Ethiopia (in 2001) to be a model for future resettlement. The Bank has also acknowledged (June 2001) the project as good practice."*

The findings of our independent mission, described in the following paragraph, reveal that the resettlement is far from being good practice.

### 3.2.3 Impact Assessment from direct observation

The Fact Finding Mission included a field visit to the Gibe and Omo region. The visit was broken down into two stages:

1. **At Jimma University**, located near the Gilgel Gibe Dam reservoir, a multi-disciplinary project is underway to look at a variety of impacts from the reservoir, including the incidence of malaria and soil erosion. The title of the project is "Investigating the Impact of the Gilgel Gibe dam. A multidisciplinary approach towards capacity building". It is supported by the Belgian Flemish Inter-University Council – University Development Cooperation (VLIR-UOS). This institutional university cooperation programme started on July 1st 2007 and will last ten



years. The research will investigate the following aspects of the dam's impact: Zoonotic and animal disease, child and health nutrition, environmental health and ecology, epidemiology and infectious disease, soil fertility. Academics involved in the research were met during the field visit.

## 2. Visit to two resettled villages (site 5 and site 8) and interviews with villagers.

**Resettlement.** Evidence from the visit to the communities, supported by information collected in 2000 by Mr. Kassahun Kebede<sup>4</sup>, reveals that the resettled and host communities have had their



lives negatively affected by the resettlement, and that the government has no effective means in place to monitor the impacts of the resettlement. No effective means are available to resettled families for submitting and seeking reso-

lution of grievances related to their dislocation and resettlement.

Families were resettled on swamp land of poor agricultural quality which was dissimilar from their previous land. These marshy areas also make excellent breeding grounds for mosquitoes. In many places, those resettled were placed onto lands which were used by the host communities for grazing animals. Both those resettled and the host communities lost their grazing lands without compensation and the resettlement produced a conflict in land management with the hosting community due to the lack grazing land.

4 "Re-relocation and dislocation of communities by 'development projects': the case of Gilgel Gibe dam (1962-2000) in Jimma zone, Southwest Ethiopia", Master of Arts in Social Anthropology, Addis Abeba University, May 2001

While the addition of corrugated iron roofing seems to be seen universally as an improvement in the resettlement housing, some villagers reported that they were promised but did not receive cement floors, resulting in the floors being water logged and dirty during the rainy season. Others villagers noted that latrines were poorly built or not built at all.

Villagers reported a decrease in their cattle and other livestock. Three heads of household from Site 8 informed us that their cattle had decreased from 20 to three, 25 to four and six to zero. The first two men reported receiving Birr 700 and Birr 1,000 respectively as compensation for crops<sup>5</sup>, whilst the third men received nothin. Each household received two and half hectares of land regardless of their previous land holdings in the reservoir area. One man in Site 5 reported having 25 cattle and eight hectares before the resettlement. He now has two oxen and two cattle, and the allotted two and half hectares. "The land here is less productive, our previous land was fertile," he said. "Unless one applies fertilizer, there is no production."

Food production, which went up in the first year due to project-provided fertilisers and machine ploughing, has since decreased. According to a 2005 resettlement evaluation by the World Bank, the average crop yield has reduced by 54 percent and the number of livestock owned by resettled households has been reduced by 72 percent. The report also notes that the social infrastructure such as schools, health clinics, and water points are in poor condition and in need of immediate maintenance.

Villagers also told us that they had not been given the opportunity to visit the resettlement site beforehand despite official claims that visits had been made. They reported that house to house visits were made by project officials prior to the resettlement. In Site 5, a man informed us that at

5 At the time of compensation (1999- 2000), the floating exchange rate was likely about 6-7 Birr to the US\$, representing \$10 – 12, \$143 – 167, and \$0 respectively.

least eight families had abandoned their resettlement sites after appealing to local authorities but with no effective response. In addition, there is a major problem of lack of employment opportunities for young people. According to the World Bank the resettlement cost was estimated at USD 4,600 per household.

Both the World Bank and the Ethiopian Government consider the Resettlement Action Plan completed.

**Health.** Regarding health, villagers reported that there are no check ups or follow ups, and the treatment at the health centre has not improved. The incidence of malaria and typhoid has increased around the reservoir but there are no baseline studies for comparison of data. The research programme at Jimma University will pay important attention to quantifying the increase of vectors born diseases. The same is true with the regard to increase of HIV in the area, due to the presence of foreign workers and related increase of prostitution. A considerable increase has been reported but the lack of baseline information constrains the quantification.

**Environment and safety.** During the visit there was not release from the dam, contravening EIA provision (3.2.2). Also the downstream of the river was completely dry. On the other hand, emergency releases are often practised during the rainy seasons in order to protect the infrastructure. There are no adequate means of information for alerting the local population on emergency water releases. In the summer of 2006 a flash floods from the Omo River, caused widespread destruction, in Dashenech and Nyangatom districts of south Omo zone. This resulted in the deaths of 364 people and the displacement of another 15,000 with the total destruction of 15 villages. Houses, infrastructure, and agricultural crops were wiped out. The role of the dam in the flood is not clear but there may have been an emergency release.

**Infrastructure and services.** According to the EIA's management plan, new schools and health

centres should be constructed but only renovation of existing schools and health posts has taken place. Teachers from the school at site 5 reported a total of 1,123 students, aged seven to 22, and ten classrooms. Some of the students reportedly walk up to two hours to the school. The borehole located at the Site 5 school is reported to be completely dry, and another borehole was added more recently by a foreign NGO. The resettlement sites have no electricity despite being crossed by the high voltage transmission line. In the surrounding of the reservoir, electricity is present but not public lighting is provided.

The reservoir flooded the main road connecting Jimma to Addis Ababa. Coming from Addis Ababa in direction of Jimma the paved road has been closed forcing vehicles to make a detour around the reservoir on a sandy road increasing the distance of 40 kilometres (one hour).



Seven years later, those displaced by the Gilgel Gibe I Dam continue to suffer the effects of a poor resettlement programme. Livestock wealth and crop productivity have declined, project infrastructure has not been maintained, resource conflicts between the host and resettled communities continue, and the traditional sharing of resources with the next generation has been impaired. Affected households had limited ability to influence the resettlement process beforehand, and have found no effective means to have their ongoing problems addressed. This has not been a model of successful resettlement, and is an indicator of the government's lack of interest or capacity to adequately address the social issues of dam development. Considering the fast-tracking of dam construction underway in Ethiopia, a legally binding mechanism which would address grievances of dam-displaced individuals, including those resettled by Gilgel Gibe I, would help guarantee

the rights of displaced individuals and ensure that those resettled by future projects benefit rather than become further impoverished.

### 3.3 Gilgel Gibe II

In May 2004, only a few months after the Gilgel Gibe dam became operational, *Salini Costruttori S.p.A.* and *EEPCo* signed a new Engineering Procurement Construction (EPC) Contract for the building of the Gilgel Gibe II hydroelectric plant. The estimated cost of the plant was EUR 490 million. Gilgel Gibe II is a 25-kilometer long tunnel that generates power by exploiting the drop between the



basin created by the Gilgel Gibe I dam on the Gilgel Gibe river and the river Omo. The contract was signed following a direct negotiations between the two companies; no international tender was

called, contravening the procurement procedures issued by the Ethiopian Ministry of Finance and Economic Development<sup>6</sup>. When this was made public by the local media<sup>7</sup>, the Ethiopian government justified this “exception” on the grounds of Salini’s profound knowledge of the project and its established capability of attracting international donors as well as the national energy emergency and the consequent need to redress the imbalance between electricity supply and demand as rapidly as possible, since this gap was hindering

<sup>6</sup> In 2004, this contract procurement was governed by the 1991 Ministry of Finance and Economic Development Procurement Directives No.1/1991 and amendments. This was repealed July 7, 2005 when the Federal, Public Government Procurement Directive went into effect.

<sup>7</sup> Article published in “Addis Fortune”, 12 May 2004

the country’s economic growth. However, in 2004 the overall national installed capacity was already satisfying the domestic demand and the criteria of urgency used to justify the lack of competitive international tender, was completely unjustified.

#### 3.3.1 The Italian participation

In October 2004 The Directors’ Committee of the Italian Directorate General for Development Cooperation (DGCS) approved the allocation of a EUR 220 million aid credit to Ethiopia (as well as a grant of EUR 505,000 for monitoring and evaluation) for the realisation of the Gilgel Gibe II hydroelectric project. The loan is the biggest aid credit ever granted since the creation of the Italian development revolving fund to finance a project that had already been contracted to an Italian company, Salini Costruttori, in breach of all national and international standards on transparency and fair competition. Ironically, Italy had just formally approved the cancellation of debt payments of EUR 300million owed by Ethiopia. The Directors’ Committee provided no explanation regarding its decision to approve the funding regardless of the negative opinions expressed in the only two documents upon which its decision was based:

- **The opinion of the DGCS Technical Evaluation Unit.** This unit, among other things, pointed out that:

- 1) the contract was secured through direct negotiation, contrary to existing DGCS procedures, Italian law (law 109/94), and the current procedures undertaken by International Organisations and the European Union in this regard;
- 2) no feasibility study had been carried out;
- 3) no costs relating to environmental impact mitigation measures were contemplated;
- 4) contract management and control procedures were given inadequate attention;
- 5) the concessionality rate of 42.29 percent was completely inappropriate, taking into account the critical debt situation of the country.

- **The opinion of the Italian Ministry of the Economy and Finance**, which expressed deep concerns on the following points:

- 1) Ethiopia is an HIPC (Heavily Indebted Poor Country), therefore, the granting of this loan is a substantial breach of Decision n. 139 of 29.7.2003 on developing countries' eligibility for aid credit.
- 2) This aid credit has a 42.29 percent concessional-level and it is in sharp contrast with IMF forecasts concerning Ethiopia.
- 3) The expected returns are assumed to come from the profits deriving from power exports and from national end-user tariffs. However, some forms of subsidy for increasing electricity access will be required, as Ethiopia ranks among the poorest countries in the world.
- 4) This is an unprecedented amount of credit since the creation of the revolving fund and it undermines the commitments that have already been made.
- 5) The overall cost of this project might not be covered in full, as Ethiopia is supposed to contribute EUR 132million.

Only three months later (in January 2005) the Italian Government ratified the cancellation of EUR 332,35 millions of Ethiopian bilateral debt. Besides possible irregularities which could have affected the decision making process, the conduct of the Italian Government was absolutely incoherent and not in line with the best practice adopted by other countries participating to the HIPC initiative aimed at preventing the reindebtement of HIPC countries and consisting in lending only small loans strictly addressed to poverty eradication and reduction projects. Between 2004 and 2006 two parliamentary questions on the Italian funds allocated to the Gilgel Gibe II project were submitted to the Lower Chamber and the Senate respectively.

**On 25th November 2005, a parliamentary question was submitted by MP's Calzolaio and Spini to the Chamber of Deputies.** The

questions sought to clarify the positions of the different ministries and institutions involved and attempted to discover the relationship between the concession of the loan and the HIPC initiative aimed at relieving Ethiopia's debt burden. **Undersecretary Luigi Mantica answered on 19th January 2005** addressed the question but gave no explanations with regard to the main issues raised.

**On 9th February 2006, a new parliamentary question was submitted by Senators Iovene, Martone, Tonini and others.** The question highlighted the fact that this was one of the highest loans ever granted for a single project, considering that the financial resources allocated by Italy in 2003 throughout the world amounted to less than EUR 180 million. It was also noted that Salini Costruttori S.p.A. had subcontracted part of the work to Società SELI, a company that in March 2005 started drilling the hydroelectric tunnel. The procedures that led to the allocation of the contract appear dubious at best. This question received no response due to end of the mandate of the current government.

In March 2006 the Prosecutors' Office in Rome instigated criminal proceedings concerning Gilgel Gibe II hydroelectric project. At the moment, it is still not possible to know the nature of the charges filed because of the investigation secrecy, though it is plausible to think that they are likely to concern alleged corruption in the DGCS.

On February 2007, the DGCS office concerned put together a file containing relevant documents on the Gilgel Gibe II case for the DGCS Secretariat to be forwarded to the Tax Squad of the Finance Police. So far, the DGCS has not been formally contacted by the investigators for checking documents and interviews people like it is practice in such cases. It is not clear if the investigation ever started. Suspicions of a cover-up are being voiced.

### *3.3.2 Others donors involved*

**SACE (Italian Export Credit Agency).** SACE's Ex-



ecutive Board rejected a guarantee application for the EIB's EUR 50 million loan to fund part of the Gilgel Gibe hydroelectric plant. The loan guarantee application was submitted to the credit agency on 27th February 2006. SACE identified some risk factors concerning the following points:

- Ethiopia's poor credit records;
- Ethiopia's unstable economic situation;
- Uncertain financial returns, since electricity is often not paid for by users and it is heavily subsidised;
- IMF forecasts on debt
- Recent worsening of the political situation.

SACE's stance is basically in line with the findings of the Technical Evaluation Unit at the Ministry of Economy and Finance, which were largely ignored by the DGCS. Nevertheless, the European Investment Bank, which as a European institution is supposed to assure the best international standards for administrative transparency, approved the project on the 17th of February 2005 and asked Salini to issue a call for tender for a the bank's funded component. The EIB's involvement in the operation is described in chapter 7.

### 3.3 The current status of Gilgel Gibe II

The project was originally planned to be commissioned in December 2007 but it is currently facing, at minimum, a one-year construction delay. A large drilling machine is stuck in the main tunnel and the problem is yet to be solved . An optimistic forecast would be a minimum delay of 18 months.

Under the EPC contract, the contractor is not only responsible for virtually all extra costs, but can also be sanctioned for delays. However the delay in question is due to geological reasons. As the construction started without accurate geological studies, the project contract included an exception of contractor responsibility for geological risk because the construction started without accurate

geological studies and this was agreed by EEPCo and Salini, to be an exception. Therefore, Salini has received an extension and is not subjected to the sanction's payment. Gilgel Gibe II, when finished, will be connected to the grid with a long transmission line to Addis Ababa and a short one to Gibe I.

Aside from the project delay and investigations into contract procurement and financing, a team from the European Commission monitoring the project identified several other "lessons learned":

*"The Project was defined without a comprehensive sector support strategy. Possible negative consequences are: limited coordination and policy influence for the long-term sector development in synergy with other interconnected sectors; limited scope for supporting best practices with regard to (socio) environmental impacts of large infrastructure projects; absence of an accompanying programme for social development and capacity building; de-link with grant programmes and projects financed by the Italian Development Cooperation in Ethiopia".<sup>8</sup>*

<sup>8</sup> Report of the Delegation of the European Commission to Ethiopia, August 2007, Available online at: <http://www.deleth.ec.europa.eu/bluebook/?q=bluebook/project/236/view>.

## 4. The Construction and the impact of Gilgel Gibe 3



### 4.1 Introduction

On 19th July 2006, Salini Costruttori S.p.A and Eepco signed the contract for the building of the Gilgel Gibe III dam on the Omo River, which is the biggest hydroelectric project ever realised in Ethiopia, with a 240-metre drop and generating 1870 MW, for a total cost of EUR 1.4 billion.

This contract, as was the previous one, was awarded through direct negotiation without an international tendering process. At the time of negotiation, public procurement was subject to Ethiopia's Federal Public Procurement Directive of 2005. The construction of the dam began immediately after the signing of the contract and, as of November 2007, 13 percent of the infrastructure was reportedly complete.

### 4.2 Project impacts overview

The dam site is located in the upper Omo basin. The area is characterised by a large plateau with a long and relatively narrow canyon where the river flows. The climate in the basin is arid to semi-arid. Upstream of the dam site, a 150 Km long reservoir will be created, flooding the whole canyon from the dam upstream to the Gibe river, and causing the Gojeb River to empty into the reservoir. The reservoir will have a surface area of about 34.150 square kilometres (the Gibe I reservoir is about 4.200 square kilometres) and 11.750 cubic metres useful capacity. Five hundreds hectares of agricultural land will be flooded as well as 1532 hectares of riverine forest and 25,506 hectares of deciduous woodland. Despite local people living mostly on the plateau, it is envisaged that around 400 households will be displaced. The banks of the rivers are mostly used as grazing land and for firewood collection and as an important route of exchange between the communities living on the both sides of the river.

Downstream of the dam's site the Omo river flows another 600 kilometres to the south, crossing the Omo National Park and reaching Lake Turkana, lo-

cated at the border with Kenya. The Omo National Park is one of the areas with the largest biodiversity in Africa and it is populated by more than fifteen different tribal groups still leaving with traditional way of agriculture and pastoralism. In 1980 the lower Omo Valley was declared a World Heritage site by UNESCO because of "*The discovery of many fossils there, especially Homo gracilis, has been of fundamental importance in the study of human evolution*".

The construction of such a mega-dam and, the consequent creation of this large reservoir will definitively compromise a very fragile and unique ecosystem, as well as the social environment of the entire region, which is nationally and internationally identified as a protected area. It is important to note that, the Gilgel Gibe IV dam is envisaged on the same basin, very close to the Omo National Park perimeter. Feasibility studies for the dam are currently ongoing, the contractor will again be Salini Costruttori.

### 4.3 Institutional aspects and public participation

Besides the contractual aspects that basically repeat the same scheme of Gilgel Gibe II, it is important to focus the attention on some local institutional aspects. According to the Environmental Impact Assessment Proclamation, issued by the Ethiopian Government in 2002 "*Without authorisation from the Authority (EPA) or from the relevant regional environmental agency, no person shall commence implementation of any project that requires an environmental impact assessment*".

The construction of Gilgel Gibe III, started in mid-2006 without an Environmental Permit and in November 2007, although two out of the three tunnels for the diversion of the water had already been completed at the dam site, the Environmental Protection Authority had still not received the EIA. It is important to note that the same practice was followed in the Gilgel Gibe II project development.

Looking at the timing of the construction, it can be argued, that the same happened with the others permits which were necessary before starting the construction.

According to "Environmental Policy of Ethiopia" adequate policies must *"recognise that public consultation is an integral part of EIAs and ensure that EIA procedures make provision for both an independent review and public comment before consideration by decision makers"*.

The local authorities affected by the dam's construction were not involved in the project's planning and they reported that everything was managed by the Federal Government. As mentioned above, the organised civil society is not



allowed to get involved and publicly express opinions about dams and energy issues, consequently they were neither invited nor informed of public meetings or hearings. With the regard to the local population extremely limited and inadequate public consultation has been organized during the preparation and the implementation of Gilgel Gibe III.

#### 4.4 Available Impact Assessment studies

The EIA, prepared by the Italian based CESI only assesses the upstream impacts of the dam. The downstream impacts are to be assessed by another Italian consultant, Agriconsulting.

Aside from the brazen exclusion of downstream assessment, the EIA contains numerous examples

of poor analysis<sup>1</sup>. The document, includes no reference at all to assessment of downstream impacts associated with the building of the new dam which could affect the Omo National Park and a UNESCO World Heritage Site. Some examples of the document's poor and misleading analysis are:

**Unaddressed Public Health Impacts:** The EIA notes that the reservoir will allow the establishment of malaria and bilharzia vectors which could have devastating effects on the health of local communities. The EIA recommends a "monitoring programme for mosquito breeding areas, the occurrence of schistosomiasis carrying snail and other vectors (onchocerciasis) in the reservoir area after the implementation of the project." However, this limited approach will not mitigate the anticipated increases in disease for the population of the affected region. Similarly, no treatment or prevention measures were officially taken to help mitigate the public health impacts from dam development around the Gilgel Gibe I reservoir. Researchers at Jimma University are finding significant increases in malaria incidence around the Gilgel Gibe I reservoir. Such increases in malaria and bilharzia are common in tropical dam reservoirs. The public health impacts from the Gilgel Gibe III reservoir should be better studied and quantified, and adequate mitigation measures included in the Environmental Management Plan.

**Archaeological assessment:** Although the EIA states that there is a low probability of discovering previously undiscovered archaeological sites, the Lower Omo Valley downstream is known for its rich archaeological sites. According to the World Bank completion report for Gilgel Gibe 1 Dam, 27 archaeological sites were found during construction of that project, but a cultural heritage management component was only came late in the implementation of the project, which created multiple logistical, financial, administrative and

<sup>1</sup> The EIA was publicly disclosed by the Italian Export Credit Agency, SACE, prior to its consideration of a project related export credit to Italian company, Salini.

political problems. While the need for an “Archaeology and Cultural Remains Management Plan” is mentioned several times in the EIA, there is no clear plan in place at present, nor any mechanism for compliance to create a plan.

**Unaddressed social impacts:** While the social impacts seem inadequately addressed as a whole, one of the most disturbing is that the EIA estimates that the grazing lands of some 275 nomadic households (about 1,400 people) will be affected by the dam’s reservoir. However, these households are not considered for compensation, nor have they been consulted. Moreover the amount for each of the 400 households taken in consideration for compensation is less than EUR 1,700 (the average for each Gilgel Gibe I displaced family was USD 4,300 in the late 1990’s).

**Emergency releases and catastrophic dam failure:** The EIA fails to address the need for downstream warning systems for emergency releases and catastrophic dam failure.

**Public consultation:** The total population of the affected region is over 210,000 people. However, the EIA lists a total of only 52 affected individuals who were officially consulted. This is an inadequate consultation process and is not in line with Chapter 10, Article 92 of the Ethiopian constitution which states that people have the right to full consultation and to the expression of their views in the planning and implementation of environmental policies and projects that affect them directly.

#### 4.5 Development impact

The electricity produced by Gilgel Gibe III dam will be mainly exported and sold to Kenya.

The hydro power plant will be connected to Gilgel Gibe II and consequently to the national grid. However, domestic demand does not require such huge potential. The energy generated by Gilgel Gibe III, as confirmed by EEP Co as well as by the relevant Ethiopian Ministries will be fully exported to Kenya and thus cannot be considered project oriented in favour of the poor.

The project will bring very limited and temporary benefits for the local communities, mainly in the form of unskilled jobs during construction. One local worker reported hearing plans to build a technical school in the area which could train locals for further work in the electricity sector, but this was not verified.

Conversations with individuals displaced by Gilgel Gibe I dam showed that their livelihoods were diminished by the resettlement, existing problems were accelerated, and that new problems had arisen without any adequate means being dealt with. The impoverishment of the displaced families was accompanied by no increase in development and improvement of services – including real access to electricity – for the surrounding communities. The fact that the Resettlement Action Plan is considered closed and identified as a best practice by the Ethiopian Government, shows that the political will does not exist to undertake an adequate assessment and coherently implementing new strategies based on the lessons learned.

As far as concerns temporary job opportunities the project will employ between two and three thousand workers, the average salary is Birr 350 Birr per month (EUR 26). A worker interviewed in the dam area reported that three people he knew already died on the site.

#### 4.6 International donors involvement

The project has not yet received any external financing. The finances for starting construction to date have been secured by EEP Co itself. As mentioned before there are five main donors in the field of energy in Ethiopia. The Chinese Government is clearly not interested in being involved in the operation. Relevant officers of each institution have been interviewed and they reported the following positions:

**World Bank:** they are not willing to finance an additional electrical generation project because there is not sufficient energy demand to justify

such a huge investment. Moreover the procurement is not in line with the bank's guidelines. Finally the bank is worried about the EEPCo's financial situation as it requires between USD 3,2 million and USD 4 million to complete the ongoing projects.

**African Development Bank:** the Bank is positive toward the project and considers that the project has reached a no-return point. Under these circumstances, it deems that it is more practical to complete the infrastructure. Although the Bank recognizes that the project's contract procurement is not in line with the Bank's guidelines, they are looking for a way to overcome this problem, namely by subcontracting the purchase and installation of electromechanical components through official and open tender procedures. They are willing to support the project up to USD 200 millions but they are waiting to know the final position of other donors before taking a final decision. The bank expects to take a final decision by mid- 2008.

**Italian government:** The Italian Government has been formally approached by the Ethiopian Minister of Foreign Affairs for a EUR 250 million loan, but its official response states that the Italian government could take into consideration a new loan for Gilgel Gibe III only after the completion of Gilgel Gibe II. Salini Costruttori is proactively lobbying all levels of the Italian Foreign Ministry in order to obtain the loan.

The ongoing criminal investigation and the DGCS's dubious conduct in the Gilgel Gibe II project appraisal, has not resulted in the Italian Government from categorically denying its participation to the new Gilgel Gibe III project.

**European Investment Bank:** the EIB has no official representatives in Ethiopia. The Bank's response to a written inquiry confirmed that it has been formally approached by EEPCo for project funding. Other donors identify the bank as a highly possible investor in the operation lending up to EUR 200 million.

**SACE:** SACE, the Italian Export Credit Agency, has officially declined a request by Salini for an export credit guarantee, a replication of its 2006 decision on Salini's request regarding Gilgel Gibe II. In a reply letter sent on January the 10th, 2008, the Italian Export Credit Agency stated that "SACE has been unable to support the [Gilgel Gibe III] project in any form".

With the regard to the transmission lines the Ethio-Kenya feasibility study is currently under development with the financial support of AfDB, the French development cooperation agency and the German bank KfW. The World Bank is interested in financing the international interconnection with Kenya.

## 5. Salini's interests in Africa



SALINI Costruttori S.p.a. is an Italian company created by Simonpietro Salini<sup>1</sup>. All the stocks are held by members of the Salini family. SimonPietro Salini is the Chair of the Board of Directors, the Technical Director, the adviser, and the President of the Executive Committee. Pietro Salini is the CEO. Salini is one of Italy's main construction companies; it has won a large number of public works contracts in Italy, including motorways and underground lines. In Africa, it won contracts for the building of the following dams: Gilgel Gibe II, Gilgel Gibe III, Beles, Bujagali, and Bumbuna. Salini Costruttori is currently involved in three other relevant hydro-electrical projects in Africa.

### 5.1 The Bujagali dam, Uganda, 2000-2007

The Bujagali saga started in 2000, when the Ugandan government and the World Bank met to discuss the possible "creation" of the dam. The Bujagali dam was immediately strongly opposed by local communities and by the most important international environmental organisations, who identified major adverse environmental impacts as well as the economic predicament the local communities could face. The first building consortium evaporated; then, rumours of corruption started to spread and the World Bank reconsidered its decision and pulled out of the venture. In the last two years, the Ugandan government returned to the charge and drew up another project, for which it received USD 360million from the World Bank in loans and guarantees and EUR 92 million from the EIB. The building of the dam was based on unfounded and erroneous studies. Local communities were incensed by it; they demanded that some alternative studies be carried out and, on 5th March 2007, they filed a complaint to the World Bank Inspection Panel. The panel is still working on this complaint. A new field visit was carried out in December 2007. The results and

<sup>1</sup> Mr Simonpietro Salini is member n° 531 of the P2 (Propaganda 2) Masonic Lodge according with the information released by the Council presidency the 17th of March 1981.

the findings are expected to be published soon. In April 2007, several environmentalist leaders involved in the protest against the Bujagali dam were arrested during a demonstration against the government's selling off of the Mabira Forest to make room for a sugar cane plantation for ethanol production. The government continues to intimidate activists, some of whom are still on trial. In May 2005, Salini won a EUR 499 million tender to build the Bujagali dam, which would cost a total USD 799 million. In addition to the World Bank and the EIB, this project also involved the Aga Khan's financial group (Akfed) and the private equity company Blackstone, the African Development Bank, Proparco (France), and Deg/KfW (Germany).

On 12th September 2007, an article in a local weekly magazine reported that Salini had started hiring people to start work on the project. Only those who could prove they belonged to the NRM (the ruling party) and who could therefore show their party membership card were employed. The next day, Salini's local spokesman Gume Ngobi immediately denied this information.

### 5.2 The Bumbuna dam, Sierra Leone, 1980-2007

The history of the Bumbuna dam dates back to 1980. This project was awarded to a group of Italian companies headed by Salini. It was awarded two aid credits of EUR 13.84 million and EUR 71.27 million respectively granted by Italy between 1982 and 1994. In 1993, the African Development Bank allocated a loan of almost USD 50 million. In 1997, due to the worsening of the political situation, the construction works were suspended. However, the contracts signed between the government and the contracting companies remained in force. Sites were patrolled using South African mercenaries and their costs were charged to the contractor (the government of Sierra Leone). In 2002, after the situation was restored to normal, Italy declared it was willing to contribute a EUR 10 million grant to support the completion of the project, on condi-

tion that there was a proven availability of financial resources to pay off the outstanding balance, which an independent company had estimated to amount to USD 37.5 million. In 2003, the working group composed of government representatives and donors met in Freetown and drew up a new cost schedule for EUR 52.6 million, plus USD 9.8 million for legal disputes between contracting companies and the Sierra Leone government. Italy committed to raising its grant to USD 18 million, while the African Development Bank and the local government committed to paying the costs of the disputes with the contracting companies.

On 25th November 2003, the Directors' Committee of the DGCS approved the allocation of EUR 18 million trust fund managed by the AfDB. Following repeated reports by the Technical Evaluation Unit, which were only partly received by the DGCS, the grant was tied to the alteration of some articles of the Grant Agreement between the Ministry of Foreign Affairs and the AfDB to guarantee that Italian funds would not be used to settle legal disputes between the government and the contracting companies. Work was resumed in 2005. However, due to the persisting unavailability of other donors, work was suspended again in May 2007. Actors at high levels failed to step in and call on all the stakeholders involved to stick to the commitments made in 2003. Instead, an "outstation" of the Italian Cooperation Agency was set up in Freetown; an external expert was sent without any prior selection procedure with the task of building a new scenario to justify further financial involvement by Italy. In July 2007, a new cost estimate found that a further USD 37 million were needed to bring the work to completion. It is now over twenty years since the start of the project and, after the spending over EUR 150 million, not a single KW of electricity has been produced.

Contracting companies are now speeding up the work in order to leave the country as soon as possible as there is a possible geological risk. In December 2007 the Italian government approved a new loan of EUR 12 million to the AfDB trust fund in order to complete the construction.

### 5.3 The Beles dam, Ethiopia 1980-2007

Tana Beles was far the most ambitious of all the projects that took shape at the outset of the Italian development cooperation activities. This colossal project in northern Ethiopia cost about 450 billion Italian Lire (EUR 230 million); the plan decided by the former dictator Menghistu, was to drain the Beles valley, resulting in the forced resettlement programme of 80,000 people decided by the former dictator Menghistu, and build reservoirs and new towns. Salini was awarded the contract. What is left today of that project? According to a former aid worker, in a 2004 interview given by and published in *Diario* magazine, now there are only "...weeds, neglected AGIP petrol stations, dams built for irrigation purposes that never became operational and that are now derelict and in danger of collapsing<sup>2</sup>". Apparently, it is now a place where mosquitoes, an old plague in Africa and many other places, thrive. Out of the 80,000 people resettled in the area today only 30,000 live there, the others returned home at the end of the restriction or died of vector born diseases. A Parliamentary Inquiry Committee that had been set up to investigate the Italian cooperation activities sent a fact finding group to the site. As published in the *Nigrizia* magazine in March 1996, they found fields with abandoned tractors, derelict dams, and decaying warehouses. They wrote that in Tana-Beles "a veritable crime had been perpetrated against the Ethiopian and the Italian peoples<sup>3</sup>".

25 years later, in 2005, Salini signed a contract with EEPCo worth €467 millions to build a dam on the Beles river.

<sup>2</sup> *Diario*, "Etiopia, gli aiuti pelosi", 17th of december 2004

<sup>3</sup> *Nigrizia*, "Come mi appalto il Tana Beles", 1st of March 1996

## 6. Gilgel Gibe III's non-compliance with the WCD recommendations

The World Commission on Dams (WCD) was a global multi-stakeholder body initiated in 1997 by the World Bank and the World Conservation Union (IUCN) in response to growing opposition to large dam projects. The Commission had a mandate to review the development effectiveness of large dams and develop internationally acceptable guidelines for their planning, construction and operation.

The Commission conducted the most comprehensive and independent review of the world's dams to date and completed its work with the launch of its final report in November 2000 which identified seven strategic priorities for developing sustainable dam's projects.

As noted below, the Gilgelle Gibe III Dam does not comply with any of the seven strategic priorities of the World Commission on Dams for the following reasons.

### Strategic Priority 1. Gaining public acceptance

The WCD says that the following should apply:

- Recognition of rights and assessment of risks are the basis for the identification and inclusion of stakeholders in decision-making on energy and water resources development.
- Access to information, legal and other support is available to all stakeholders, particularly indigenous and tribal peoples, women and other vulnerable groups, to enable their informed participation in decision-making processes.
- Demonstrable public acceptance of all key decisions is achieved through agreements negotiated in an open and transparent process conducted in good faith and with the informed participation of all stakeholders.
- Decisions on projects affecting indigenous and tribal peoples are guided by their free, prior and informed consent achieved through formal and informal representative bodies.

The aggressive electrical expansion programme of the Ethiopian Government is a completely top-down plan with virtually, no public transparency or accountability. The freedom of expression of the civil society is considerably restricted and thus many civil society groups refrain from participating in the energy sector due to fears of government repression. Where they do become involved, participation by civil society groups, affected communities and the public more generally is limited by a dearth of information and a lack of awareness of processes. According to the project EIA, only 52 individuals were consulted in the affected region and none of the nomadic households which will be affected were consulted. Public information about decisions has not been available and the public consultations are poor and inadequate. The processes are not guided by the research of prior and informed consent of the local communities but by local imposition of the projects.

### Strategic Priority 2. Comprehensive options assessment

The WCD says that the following should apply:

- Development needs and objectives are clearly formulated through an open and participatory process before the identification and assessment of options for water and energy resource development.
- Planning approaches that take into account the full range of development objectives are used to assess all policy, institutional, management, and technical options before the decision is made to proceed with any programme or project.
- Social and environmental aspects are given the same significance as technical, economic and financial factors in assessing options.
- Increasing the effectiveness and sustainability of existing water, irrigation, and energy systems are given priority in the options assessment process.
- If a dam is selected through such a compre-



hensive options assessment process, social and environmental principles are applied in the review and selection of options throughout the detailed planning, design, construction, and operation phases.

Gilgel Gibe III is an export-driven development project with no substantial impact on the meeting of energy or other direct development needs of Ethiopia. In this respect, it has not been assessed against other export-growth options based on clear needs and objectives. The Government of Ethiopia has made no attempt to identify priority energy projects in a transparent and participatory manner. Domestic energy expansion options have been almost completely limited to large hydropower and grid expansion. EEPCo has publicly encouraged contractors to build new dams in any of the hundreds of identified sites without having any watershed management plans. It has also begun to prioritize export-oriented hydropower projects which have no relevance to existing development priorities. There is no substantive options. A lack of systematic criteria and a lack of restrictions allows EEPCo to whimsically add and prioritize new dams into its annual expansion plans without any water resources management strategy or sustainable long term view. Gilgilel Gibe III is not addressed to the meeting local needs but for the trading of energy internationally. Energy diversification is almost non-existent. Electricity generation is not considered a key factor of human development but as an appealing business.

### **Strategic Priority 3. Addressing Existing Dams**

The WCD says that the following should apply:

- A comprehensive post-project monitoring and evaluation process, and a system of longer-term periodic reviews of the performance, benefits, and impacts for all existing large dams are introduced.
- Programmes to restore, improve and optimise benefits from existing large dams are identified and implemented.

Options to consider include to rehabilitate, modernise and upgrade equipment and facilities, optimise reservoir operations and introduce non-structural measures to improve the efficiency of delivery and use of services.

- Outstanding social issues associated with existing large dams are identified and assessed; processes and mechanisms are developed with affected communities to remedy them.
- The effectiveness of existing environmental mitigation measures is assessed and unanticipated impacts identified; opportunities for mitigation, restoration and enhancement are recognised, identified and acted on.
- All large dams have formalised operating agreements with time-bound licence periods; where re-planning or relicensing processes indicate that major physical changes to facilities or decommissioning, may be advantageous, a full feasibility study and environmental and social impact assessment is undertaken.

The monitoring and evaluation process for large dams in Ethiopia is inadequate and in no way tied to any compliance mechanisms. Virtually no consideration for resettlement or other social impacts were ever made during the planning, construction, or operation of Ethiopia's existing dams prior to Gilgel Gibe III Dam, under which social impacts received only inadequate, short-term attention. High sedimentation rates of reservoirs are a major problem and could benefit from specific programmes to optimise reservoir operations. Ethiopia does not have time-bound licenses for its large dams. When the construction of Gilgel Gibe III started four other hydropower plants were already under construction and not operational.

### **Strategic Priority 4. Sustaining Rivers and Livelihoods**

The WCD says that following should apply:

- A basin-wide understanding of the ecosystem

tem's functions, values and requirements, and how community livelihoods depend on and influence them, is required before decisions on development options are made.

- Decisions value ecosystems, social and health issues as an integral part of project and river basin development and prioritise avoidance of impacts in accordance with a precautionary approach.
- A national policy is developed for maintaining selected rivers with high ecosystem functions and values in their natural state. When reviewing alternative locations for dams on undeveloped rivers, priority is given to locations on tributaries.
- Project options are selected that avoid significant impacts on threatened and endangered species. When impacts cannot be avoided viable compensation measures are put in place that will result in a net gain for the species within the region.
- Large dams provide for releasing environmental flows to help maintain downstream ecosystem integrity and community livelihoods and are designed, modified and operated accordingly. There are no basin-wide studies of the Omo-Gibe River Basin and virtually no understanding or appreciation of the basin's ecological functions, values, requirements, or effects on local livelihoods. Gilgel Gibe III is the third large hydropower plant affecting the same basin of Gibe-Omo river. The feasibility study for Gilgel Gibe IV, further downstream on the Omo River, is ongoing. Gojeb River has also been identified as a possible site for a large hydropower dam. This overexploitation of the basin could lead to irreversible environmental degradation of a region with one of the highest rates of biodiversity in the world. There is no indication that avoidance of high environmental and social costs has been factored into project decisions. Again the lack of any assessment of downstream impacts, including but not limited to environmental flow requirements, is one of the most shocking examples of the non-compliance with

WCD recommendations

#### **Strategic Priority 5. Recognising Entitlements and Sharing Benefits**

The WCD says that the following should apply:

- Recognition of rights and assessment of risks is the basis for identification and inclusion of adversely affected stakeholders in joint negotiations on mitigation, resettlement and development related decision-making.
- Impact assessment includes all people in the reservoir, upstream, downstream and in catchment areas whose properties, livelihoods and non-material resources are affected. It also includes those affected by dam related infrastructure such as canals, transmission lines and resettlement developments.
- All recognised adversely affected people negotiate mutually agreed, formal and legally enforceable mitigation, resettlement and development entitlements.
- Adversely affected people are recognised as first among the beneficiaries of the project. Mutually agreed and legally protected benefit sharing mechanisms are negotiated to ensure implementation.

As the Gilgel Gibe I process has shown, affected people do not have access to the decision-making and negotiations which affect them. The lack of dialogue with the different stakeholder practiced by the Ethiopian Government during the preparation and the implementation of Gilgel Gibe III, will lead again to the same result as before. Benefit sharing mechanisms which could help ensure that affected communities receive effective support, are non-existent. The existing project impact assessment is wholly inadequate and no impact assessment of downstream areas nor of the river basin have been conducted. Entitlements, if any, will likely not be legally enforceable.

### Strategic Priority 6. Ensuring compliance

The WCD says that the following should apply:

- A clear, consistent and common set of criteria and guidelines to ensure compliance is adopted by sponsoring, contracting and financing institutions and compliance is subject to independent and transparent review.
- A Compliance Plan is prepared for each project prior to commencement, spelling out how compliance will be achieved with relevant criteria and guidelines and specifying binding arrangements for project-specific technical, social and environmental commitments.
- Costs for establishing compliance mechanisms and related institutional capacity, and their effective application, are built into the project budget.
- Corrupt practices are avoided through enforcement of legislation, voluntary integrity pacts, debarment and other instruments.
- Incentives that reward project proponents for abiding by criteria and guidelines are developed by public and private financial institutions.

As extensively reported above, the preparation and the implementation of Gilgel Gibe III is not compliant with the Ethiopian legislation on procurement, environment and public participation as well as with the respective relevant international standards. As experienced in Gilgel Gibe I, the staff and financial resources will likely be unavailable in order to monitor compliance with technical and environmental commitments. Thus far, no compliance mechanisms for social commitments are in place. Although no clear compliance plan is in place and construction has already begun.

### Strategic Priority 7. Sharing Rivers for Peace, Development and Security

The WCD says that the following should apply:

- National water policies make specific provision for basin agreements in shared river basins. Agreements are negotiated on the basis of good faith among riparian States.
- They are based on principles of equitable and reasonable utilisation, no significant harm, prior information and the Commission's strategic priorities.
- Riparian States go beyond looking at water as a finite commodity to be divided and embrace an approach that equitably allocates not the water, but the benefits that can be derived from it. Where appropriate, negotiations include benefits outside the river basin and other sectors of mutual interest.
- Dams on shared rivers are not built in cases where riparian States raise an objection that is upheld by an independent panel. Intractable disputes between countries are resolved through various means of dispute resolution including, in the last instance, the International Court of Justice.
- For the development of projects on rivers shared between political units within countries, the necessary legislative provision is made at national and subnational levels to embody the Commission's strategic priorities of 'gaining public acceptance', 'recognising entitlements' and 'sustaining rivers and livelihoods'.
- Where a government agency plans or facilitates the construction of a dam on a shared river in contravention of the principle of good faith negotiations between riparians, external financing bodies withdraw their support for projects and programmes promoted by that agency.

Gilgel Gibe III is located in a transboundary watershed, as the Omo River flows into Lake Turkana, which is shared with Kenya. Kenya is not considered a partner in the basin management but a commercial target for international energy trading. There is no known documentation of Kenya's knowledge or position on the construction of

the Gilgel Gibe III Dam. This dam, along with the cumulative effects of the first two and possibly a fourth future dam, will likely have a significant impact on the whole Omo-Turkana ecosystem, including where local populations are still tribal based and primarily dependent on the traditional use of natural resources. The environmental degradation will produce a lack of resources that could easily lead, in the future, to local and trans-boundary conflicts.

## 7. Gilgel Gibe projects and the EIB

### 7.1 EIB involvement in Gilgel Gibe I and II projects

The European Investment Bank lent EUR 41 million for the construction of Gilgel Gibe I, and EUR 50 million for Gilgel Gibe II. The bank has been formally approached by EEPCo for a new loan for Gilgel Gibe III. The EIB's participation in the operations raises various concerns about the coherence and the compliance with international standards and best practices, with EU policies and with the bank's own operational policies.

**Procurement:** The contract of Gilgel Gibe II and III have both been signed through direct negotiation without any tender procedure in non-compliance with the Ministry of Finance's guidelines as well as international procurement standards. With regard to Gilgel Gibe II (2004), the Ethiopian government justified this exception by claiming that it was a fully-fledged emergency and that it was necessary to redress the imbalance between electricity supply and demand as rapidly as possible, as this gap was hindering the country's economic growth. The European Investment Bank approved the loan in October 2005, when the contract was already signed and the construction work well advanced requiring an international tender procedure only for the EIB's funded components: the purchase and the installation of the electromechanical equipment.

The bank should look at the general contract under which its operations fall down, in order to meet the International Best Practice on Procurement as well as the EIB general principles which require contractors to observe the highest standard of ethics during the procurement and execution of contracts. The World Bank didn't support Gilgel Gibe II and it is not going to be involved in Gilgel Gibe III, because the contract was signed before the securing of finances and the inadequate procurement process. The EIB lacks a clear procurement policy and high profile standards. The EIB's Guide to Procurement states *"In order to ensure economy, efficiency, non-discrimination and transparency in procurement, the Bank requires that, in all appropriate cases, contracts in public sector op-*

*erations are procured following open or restricted procedures with publication in the OJEU. Exceptions are only warranted on the grounds of special circumstances, relating to the nature of the project or the Promoter, the estimated value of the contract, or other factors peculiar to the context of the project. In all cases, the procedures adopted must be fully justified by the Promoter".* Classification of "exceptions" and "special circumstances" are not listed in the EIB guidelines and this creates a great danger of non transparent practices.

It is important to note that an article dated 8th February 2006, in the Ethiopian newspaper "Reporter", published in the Aramaic language, reported that: "following the approval of the EUR 50 million loan, the European Investment Bank asked the Ethiopian government to ratify the loan. On that occasion, some members of Parliament pointed out that the procedures through which the Italian company secured the contract might open the way to corruption and that this called for deeper enquiry"<sup>1</sup>. No inquiry has been carried out by the European Investment Bank to clarify the situation and no mission report is available at the bank.

**Public participation:** The EIB's Project Summary Information of Gilgel Gibe Power Plant project generally states that "The proposed mitigation measures result from extensive consultation with the local population". This is not confirmed by the local communities or by the environmental associations and other local institutions. All of them reported a lack of participation and dialogue with the project's promoter and the intimidatory conduct of the Ethiopian government. The EIB's Project Summary Information of Gilgel Gibe II doesn't even specifically mention the public participation in the decision making process.

The anti-democratic conduct of the Ethiopian government limits the participation and the freedom of expression of all those who oppose

<sup>1</sup> Reporter, 8th of February 2006

it. In October 2005 the European Parliament issued a resolution about the situation in Ethiopia after the violent repression which followed the contested elections. The Parliament called on *"the Commissions to pursue and, if necessary, to step up the European Union's humanitarian policy with regard to Ethiopia and to adjust its non-humanitarian aid in accordance with progress in the democratic process"*<sup>2</sup>.

The EIB's role in ensuring the appropriate affected communities participation in the project's planning was not appropriate, the bank seemed to pay no attention to the restrictions on freedom of expression.

**Environmental and social standards:** In financing Gilgel Gibe II project, the EIB didn't carry out any prior evaluation or EIA compliance assessment for Gilgel Gibe I. As pointed out in para 3.2.3. The Gilgel Gibe I project didn't comply with many of the mitigation measure identified in the EIA. The Ethiopian Environmental Protection Authority defines the Gilgel Gibe I and II EIA documents (and related contracts) "vague and incomplete especially regarding the specific measure to be taken up, the budgetary issues and the identification of roles and responsibilities".

The EIB didn't require to EEP Co, the project's promoters, to produce adequate environmental and social impact assessment documents and didn't ensure the monitor of their implementation. The project was lacking in prior feasibility studies (see 3.3.1), geological studies (see 3.3) and didn't have the Environmental Protection Authority permit (see 4.3).

## 7.2 Recommendations for the EIB on the ongoing Gilgel Gibe III projects.

- The EIB should carry out enhanced due diligence on the criminal proceeding related to the

<sup>2</sup> European Parliament resolution on the situation in Ethiopia, P6\_TA(2005)0383, 15th of October 2005

Gilgel Gibe II loan lent by the Italian Government and thus suspended the application for Gilgel Gibe III until the outcome of this case is clear.

- The EIB should look at the general contract under which its operations fall down, to call for an international tender only for the EIB's sponsored projects component is not enough to meet the International Best Practice on Procurement. The EIB should therefore align its procurement procedures to other IFI's standards such as the World Bank.
- The EIB should acquire more information about the tender procedures followed by EEP Co concerning EIA consultants. The same Italian company CESI was selected for the EIA of Gilgel Gibe II as well as Gilgel Gibe III and it is not clear how Agriconsulting, another Italian firm, was selected for assessing the downstream impact.
- The EIB should note that the only EIA publicly available up to date, includes no reference at all downstream assessment, where the major impacts associated to the building of the new dam will affect the river, and contains numerous examples of poor analysis.
- The EIB should take into account that the construction started without the permit issued by the Environmental Protection Authority.
- The EIB should take into account in its decision making process that the project is not compliant with any of the World Commission on Dam's recommendations and thus it is not in line with the international good practice recognised by the bank as a guide for its operations<sup>3</sup>.
- The EIB should seriously consider that the Ethiopian Civil Society is restricted in expressing its opinion on certain issue such as dams and en-

<sup>3</sup> "The Bank is also guided by recognised good international practices, such as those laid down by the World Commission on Dams 27 (WCD) and the Extractive Industries Transparency Initiative (EITI)", European Investment Bank, Environmental and social practices handbook, pag. 30

ergy, and that there is no evidence that appropriate public consultations are carried out. With regard to this, the EIB in this field should follow the concerns and recommendations of the European Parliament about the democratic process in the country.

- The EIB should consider that the energy generated by Gilgel Gibe III is fully export oriented and the project can not be considered as one of poverty reduction.
- Finally given the flawed economic rationale of the entire project, the lack of adequate concessionality in the financial package and the questionable procurement procedures implemented so far, the project should be regarded as unproductive expenditure.



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