

Environmental and Social Data Sheet

Overview

Project Name:	Nepal Distribution System Upgrade and Expansion	
Project Number:	20190523	
Country:	Nepal	
Project Description:	The Project comprises a programme of schemes designed to increase access to electricity in 23 districts located in Provinces 5, 6 and 7 in the western and far-western regions of Nepal.	
EIA required:	To be confirmed.	
Project included in Carbon Footprint Exercise ¹ :	yes	

Environmental and Social Assessment

The Nepal Distribution System Upgrade and Expansion project (DSUEP) entails the construction of approximately 35 new 33/11kV substations and associated medium voltage (MV) and low voltage (LV) distribution lines. In the order of 500 km of 33kV and 5,000 km of 11kV and LV distribution lines will be constructed. The programme will also include installation of distribution transformers, low voltage capacitor banks and low voltage lines to connect new consumers to the grid. When needed, the capacity of existing lines will be increased by changing number and size of conductors. If the DSUEP had been located within the EU, certain components may fall under Annex II of the Directive 2014/52/EU amending the EIA Directive 2011/92/EU, requiring the competent authority to determine whether projects are to be subject to an environmental impact assessment (screening procedure), based on information which the developer is required to supply.

In Nepal the screening of the project components is done as per the Schedule I and II of Environmental Protection Rule (EPR) 1997 based on the type, nature and scale of the project. The EPR 1997 will define if and Initial Environmental Evaluation (IEE) or an EIA is required.

As the exact location and route of the MV and LV networks are not yet known, a final draft ***Environmental and Social Management Framework (ESMF)*** has been prepared that sets out the principles, rules, guidance, steps, responsibility and procedures for assessing and addressing environmental and social risks and impacts as part of the process of preparation of the sub-projects. The ESMF also outlines main principles for managing involuntary resettlement, as well as managing impacts on indigenous peoples, their territories, and their natural resources. The ESMF is in alignment with the environmental and social provisions of the Government of Nepal (GoN) and constitutes a common framework for the compliance of the Project with the Environmental and Social Standards of the European Investment Bank (EIB) and those of the Asian Infrastructure Investment Bank (AIIB).

The ESMF will guide Nepal Energy Authority (NEA) and stakeholders in the process of selection, screening and categorization of environmental and social risks that require further assessment and preparation of specific instruments for each of the subprojects. These

¹ Only projects that meet the scope of the Carbon Footprint Exercise, as defined in the EIB Carbon Footprint Methodologies, are included, provided estimated emissions exceed the methodology thresholds: 20,000 tonnes CO₂e/year absolute (gross) or 20,000 tonnes CO₂e/year relative (net) – both increases and savings.

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instruments may include: Environmental and Social Management Plan (ESMP), Initial Environmental Examination (IEE), Environmental and Social Impact Assessment (ESIA), Stakeholder Engagement Plan (SEP), Resettlement Action Plan (RAP), and/or Indigenous Peoples Development Plan (IPDP). When the latter two are applicable, these will be combined into a Resettlement & Indigenous Peoples Plan (RIPP).

In addition to the ESMF, an **Indigenous People Policy Framework (IPPF)** setting out the requirements for a Free Prior Informed Consent (FPIC) process and criteria for when Consent is considered to have been achieved, and a **Stakeholder Engagement Framework (SEF)** will be developed.

Environmental Assessment

A preliminary Environmental and Social Survey has been carried out by the Promoter and has identified the anticipated E&S impacts related with the DSUEP sub-projects (33 / 11 kV substations and related lines). Some of the main potential environmental and social aspects for the Project include:

- Vegetation clearance, impacts on biodiversity, increased erosion, electrocution and collision of birds, construction-related nuisances (noise, pollution, waste, traffic), and intrusion into community-owned forests.

Effective measures to avoid, minimize, mitigate, offset or compensate for the adverse impacts will be incorporated into the Project's design and ESMP. These include:

- The selection of transmission line route and substation locations to avoid sensitive habitats, and wherever possible align with the existing RoW or roads.
- Re-vegetation of affected areas and the compensation of trees as per the prevailing rule of 1:10.
- The management of construction activities as per the Project EHS Standards and minimisation of impacts on wildlife through the avoidance of sensitive seasons or times of the day.

Social Assessment

Project is expected to affect positively the beneficiary communities by enabling access to and improving quality of the electricity service. This will improve the living conditions for the beneficiaries in various ways such as increased income-generating activities, less indoor air pollution, lower risk of fires, reduced violence against women and greater security from lighting, and better educational performance by children who can read and study for longer periods of time. However, the Project also has the potential for some adverse social impacts as described below.

Involuntary Resettlement is expected to be mostly economic, but to some extent also physical, as program activities will require land acquisition (mainly for the substations) or Right-of-Way (if applicable). Based on preliminary information available, the programme schemes will cross several Indigenous People communities.

For the substations, the Promoter has identified either government land or privately owned land (i.e. one seller only) to the extent possible. Some locations could potentially affect community owned forest or tenants/ informal land users utilising the land for crops. As line

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routes have not been determined yet, impacts of the RoW specifically, will be part of the assessment for each subproject.

Programme activities will also require land acquisition, displacement of local communities, including their agricultural activities and crops, and displacement of local businesses. Many of the more isolated communities in Nepal operate on a subsistence basis and are faced with regular events of food scarcity.

All compensation shall be paid before the start of construction works, namely before PAPs lose possession of their property and have to move. The right to compensation is extended to informal occupants, tenants and nomadic people. The compensation scheme also includes special accompanying measures for vulnerable people.

Vulnerable Groups in this project are typically either low caste people, single headed households, the elderly, people with physical or mental handicaps, people facing regular events of foods scarcity and the more marginalised indigenous groups. Respective vulnerable groups will need to be included in the assessment of each subproject and require a dedicated management plan in each ESMP. Some of the lower castes, especially the Dalit will need to be taken into consideration as vulnerable groups.

Indigenous Peoples (also referred to in Nepal as Indigenous Nationalities or 'Adivasi Janajati') are defined in Nepali legislation (NFDIN Act/ 2002) as distinct communities having their own mother tongues, traditional cultures, written and unwritten histories, traditional homeland and geographical areas, plus egalitarian social structures. They constitute 36% of the total population (26.5 million), although Indigenous Peoples Organizations claim their number could be as high as 50%.

Nepal categorises its indigenous peoples based on vulnerability: Advanced, Disadvantaged, Marginalized, Highly Marginalized, and Endangered. So, any FPIC procedure developed per subproject will need to be tailored to the vulnerability level of the respective indigenous community.

FPIC or Free, Prior and Informed Consent, is a specific right originally acknowledged in the case of indigenous peoples, as recognised in the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP), ratified in 2007. FPIC refers to a process whereby an affected community of indigenous peoples arrives at a decision in accordance with their legal provisions, cultural traditions and practices. The FPIC process should produce a clear endorsement or rejection by the community concerned of the proposed intervention and a statement of all accompanying mitigating and remedial measures and benefit-sharing agreements. FPIC is to be established through good faith negotiation between promoter and indigenous communities and to be fully documented as a mutually accepted process between the parties. In the application of FPIC, the promoter should pay particular attention to the representativeness and legitimacy underpinning the process.

In line with EIB Standards 7 and 10, where the EIB operation and/or components thereof affect or threaten the customary rights and interests of indigenous communities, the EIB is to ascertain that a satisfactory FPIC process has been carried out.

FPIC is required prior to the approval and/or commencement of any project that may affect the lands, territories and resources that Indigenous Peoples customarily own, occupy or otherwise use in view of their collective right to self-determination and to their lands, territories, natural resources and related properties.

Cultural Heritage, given this cultural variety and given the geographical spread of the project, dedicated attention for impacts on tangible cultural heritage (e.g. traditional or religious structures), intangible cultural heritage (e.g. spirit dwellings), and natural heritage (e.g. holy

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sites in nature) is necessary. All to be identified through the assessment of each subproject and translated into a dedicated management plan in the ESMP.

Labour Standards and working conditions in the Nepali construction industry are generally poor and employment in the sector is mostly informal. The number of workers engaged in formal enterprises in the sector is quite low. An ILO study on “Decent Civil Works in Nepal” found that procurement of civil works in Nepal relies on community development initiatives, in addition to contracting directly with private sector firms. Therefore, labour sub-contracting and intra- and international migration plays a significant role in the industry.

The right to organize and collectively bargain do exist in the law, but their actual practice is limited. Hence, unionisation rates are low and collective bargaining practices cover only a small proportion of workers. Legislation for social protection does exist in Nepal, although coverage for workers in the construction industry is limited in practice.

So, the main social issues to be taken into account for this project are occupational safety and health, labour contracts, social protection, living conditions in contractor operated worker accommodation and safety of worker transport. As the Bank requires an ESMP to be drawn up for each subproject, management plans, including hands on guidance and practical checklists for EPC and subcontractors will need to be in place for each of these aspects.

Community Health and Safety, along with disclosure to communities on project milestones and construction related nuisances typically receive little to no attention and may lead to seriously disturbed relationships with the project. The ESMP for each subproject will need to address management of noise, pollution, waste and traffic and provide EPC and subcontractors with hands on guidance and practical checklists.

Public Consultation and Stakeholder Engagement

Stakeholder mapping and stakeholder engagement or the implementation of an FPIC process (in case indigenous peoples are present in the project area and the EIB operation and/or components thereof affect or threaten the customary rights and interests of these communities), is key to successful and constructive social management of the project.

Given the often-isolated locations of substations and related distribution lines, effective stakeholder mapping and subsequent meaningful stakeholder engagement, or (in the case of presence of indigenous peoples) the implementation of an FPIC process, will be a considerable challenge for the Promoter and its E&S staff/consultants.

Drafting culturally appropriate Stakeholder Engagement Plans, or (in the case of presence of indigenous peoples) drafting FPIC procedures for each sub-project requires coordination by a Community Relations Manager and implementation by various province-based teams of Community Liaison Officers.

Therefore, recruiting a Community Relations Manager and adequate numbers of Community Liaison Officers with the right skill sets and getting them “out there” on a regular basis, is part of this challenge.

In addition to these geographical and logistical challenges, promoter has limited familiarity with stakeholder engagement and FPIC as per the Bank’s E&S Standards.

Other Environmental and Social Aspects

The Promoter will need to put an environmental and social team in place with appropriate capabilities and skill sets; a team that has identified additional roles and responsibilities to increase the Promoter’s in-house E&S capacity for the next stages of the project.

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The ESMF outlines the specific procedures and the roles and responsibilities of the different actors, including of the promoter and contractors, to manage the environmental and social obligations of the project.

The Project comprises multiple schemes that will be co-financed by European Investment Bank (EIB) and Asian Infrastructure Investment Bank (AIIB) on a parallel basis. Although coordination will be ensured among co-financiers, EIB and AIIB will retain the responsibility to monitor the environmental and social impacts of their respective investments under the Project. Monitoring will take place through a dedicated social consultant, who will act on behalf of the Lenders carry out regular monitoring of sub projects.

EIB Carbon Footprint Exercise

The source of CO₂ equivalent (CO₂e) emissions for the Programme is the ohmic losses of the new network equipment being installed to connect new customers. Most of the households and business which will be connected to the electricity grid are currently using fossil fuel-based off-grid alternatives, in particular for households there is a high share of kerosene in lighting and commercial consumers are currently using diesel generators for their electricity use. Following the connection to the electricity grid, these users will substitute this fossil fuel combustion with electricity from the grid, which is almost exclusively generated by renewable hydropower in the case of Nepal.

Therefore, at completion, the Project is expected to enable a saving of 34 kt CO₂e per year. For the annual accounting purposes of the EIB Carbon Footprint, the project emissions will be prorated according to the EIB lending amount signed in that year, as a proportion of project cost.

Conclusions and Recommendations

Considerable and critical challenges in terms of the Promoter's E&S capacity still lie ahead. However, based on the information available in the ESMF and review thereof by Bank E&S staff, with appropriate conditions (see below) and with monitoring, the Programme is expected to be acceptable in environmental and social terms for Bank financing.

Prior to contract signature:

- An Environmental & Social Management Framework (ESMF) that also outlines main principles for managing involuntary resettlement, as well as managing impacts on indigenous peoples, their territories, and their natural resources to the satisfaction of the Bank.
- An Indigenous People Policy Framework (IPPF) to the satisfaction of the Bank.
- A Stakeholder Engagement Framework (SEF) to the satisfaction of the Bank.

Conditions to all disbursements.

- An Environmental and Social Assessment Checklist validated by Project Support Consultant to the satisfaction of the Bank for all project components to be disbursed to.
- An Environmental & Social Management Plan (ESMP), Initial Environmental Examination (IEE), Environmental & Social Impact Assessment (ESIA) as appropriate and to the satisfaction of the Bank, for all project components to be disbursed to.
- Resettlement & Indigenous Peoples Plan (RIPP) or Resettlement Action Plan (RAP) for each project component (i.e. 33/11 kV substations and the connected MV and LV

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network) as appropriate and to the satisfaction of the Bank, for all project components to be disbursed to.

- Stakeholder Engagement Plan (SEP) or FPIC procedure as appropriate and to the satisfaction of the Bank, for all project components to be disbursed to.

Undertaking prior to commencement of any site activities:

- An (in-house or third party) Environmental and Social Team in place - to the satisfaction of the Bank, for the EIB part of the project - i.e. Province 5 and Province 7, consisting of: (i) an Occupational, Health and Safety (OHS) Manager, (ii) an Environmental Manager, (iii) a Community Health and Safety (CHS) Manager, (iv) a Community Relations (CR) Manager, along with (v) province-based teams of Community Liaison Officers, as per the need determined in the assessment of each sub project.
- The Promoters undertake to implement the Project in accordance with EIB's Environmental and Social Standards (2013) and in compliance with the environmental permits and ESIA reports from the respective environmental authorities. The E&S Team will work closely together with EPC contractors and their respective subcontractors in each subproject to ensure practical compliance with the these standards.

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