

IPN REQUEST RQ 10/05

June 18, 2010

NOTICE OF REGISTRATION

**Re: Request for Inspection
CHILE: Quilleco Hydropower Project (Trust Fund No. TF056272-CL) and Laja
Hydroelectric Project**

Between November 11, 2009, and May 26, 2010, the Inspection Panel (the “Panel”) received several letters complaining about negative effects resulting from different hydropower projects on the Biobío River in Chile.¹ On April 21, 2010, the Panel received a formal Request for Inspection, which was complemented by clarifications on May 26 (dated May 24, 2010) (the “Request”). The Request was submitted by residents of Tucapel, Santa Bárbara, Ralco Lepoy, and Concepción (the “Requesters”) in the Biobío region of Chile. Two of the Requesters are representatives of the Pehuenche indigenous community affected by some of the Projects. The Requesters have asked in their correspondences that the Panel keep their names confidential.

The Request makes reference to a number of existing or proposed hydropower projects in the Biobío basin: the Angostura project, the Quilleco project, the Pangué/Ralco projects, and the Laja project. Of these different Projects, one (Quilleco) is supported by the International Bank for Reconstruction and Development (“IBRD”), and there are indications that IBRD may also be supporting the proposed Laja Hydroelectric Project (the “Projects”). The Panel notes that while the subject matter of this Request relates to different and separate IBRD-supported projects, the Requesters are the same and raise in substance similar and related issues of harm in a single Request for Inspection. Accordingly, for reasons of economy and efficiency, the Inspection Panel will consider jointly these Projects for the purposes of eligibility of the Requesters, the Request for Inspection, and whether to recommend an investigation of the issues raised in the Request.

¹ Some of the correspondence submitted to the Panel was simultaneously submitted to the Compliance Advisor Ombudsman (“CAO”) office of the International Finance Corporation (“IFC”).

The Requesters make clear that their most urgent and serious concerns relate to the proposed Angostura Hydroelectric Project. However, the Panel could not identify any IBRD support for this Project at the time of the issuance of this Notice of Registration.

The Projects

The Quilleco project is supported, in part, through an Emission Reductions Purchase Agreement (“ERPA”). The ERPA guarantee financial support for the development and operation of the hydropower facilities in exchange for Certified Emission Reductions (“CERs”) with the aim of mitigating global climate change through carbon emission reductions, under the expectation that the Project will result in reduction in greenhouse gas emissions that are additional to any that would occur in the absence of the Project.

The ERPA for the Quilleco Hydropower Project, which has already commenced operations, was entered into between Hidroeléctrica Guardia Vieja S.A. (“HGV”), a subsidiary of Colbun SA, and the IBRD as trustee of the Netherlands Clean Development Mechanism Facility (“NCDMF”), on April 27, 2006. According to Schedule 1 of the ERPA, the Project consists of a run-of-the-river power plant of 70 MW-capacity that utilizes the hydroelectric potential of the Laja river, a tributary of the lower Biobío River. The Project is located in the Commune of Quilleco, Province of Biobío.

The Project’s PAD states that part of the rationale for the Bank’s involvement is its ability to mobilize global experts with experience in the field, technical support for project preparation, supervision capacity, and development of linkages with other sources of expertise and funding. According to the PAD, IBRD Safeguards Policies that are triggered for the Quilleco Hydroelectric Project include: Environmental Assessment, Natural Habitats, and Cultural Property. The PAD further states that the Project was assigned category B for the purpose of the EA. According to the Project’s website, the closing date of the Project is December 31, 2011.

The proposed Laja Hydroelectric Project was in design by Bank Management since its Concept Review on June 13, 2007. According to Bank Project information, its appraisal date is indicated as February 5, 2009, and the signing of the ERPA is expected on April 12, 2012. However, Project information also indicates that the Project was dropped on April 21, 2009. According to the Cover Note of the Carbon Finance Document related to the Laja Project, dated October 10, 2007, the Laja project is a low-head run-of-river hydroelectric plant, located on the Laja River in the Bío-Bío Region of Chile. The project is about 20 km east from Laja and 100 km from the city of Concepción.

The Requesters also claim that the Bank has, or will have, some level of involvement in the proposed Angostura Hydroelectric Project. The Panel could not identify, however, any IBRD support for this Project at the time of the issuance of this Notice of Registration.

The Request

The Requesters state that the region where they live has been, and will be, negatively impacted by World Bank Group (both IBRD and IFC) supported hydroelectric projects. They add that the Bank's involvement has been "*the object of enormous public concern and numerous and far reaching internal investigations.*" They state that the Quilleco, Laja and Angostura Projects are existing or proposed hydroelectric dams in the areas where they live and in the same river basin.

They state that the developers and operators of these Projects should "*comply with WB environmental and social standards, and immediately cancel their plans for future irresponsible daming (sic) of the Biobio, particularly in lands of special spiritual and strategic value such as the El Piulo sector.*" They further add that the perceived non-compliance is contrary "*to the findings and recommendations of the WB investigations that have taken place in 1995-1996 (Downing Report), 1997-1998 (Hair Report) and in the period of 1999-2000 and 2002-2003 (CAO Office investigations).*"² The Requesters consider that these findings and recommendations point not only to the extremely valuable ecological and cultural resources of the area, but also to the shortcomings of the Environmental Impact Assessments. Finally, the Requesters state that all of their claims refer to "*serious violations of Bank policies and procedures in the preparation, appraisal and supervision of these projects and actual and/or potential ecological, environmental, economic and social harm.*"

The Requesters add that the Quilleco Project is the third arrangement between Hidroeléctrica Guardia Vieja, subsidiary of Colbun, and the Bank. They state that they are concerned with the way Colbun SA, or its subsidiary, is handling the Environmental Assessments and community relations in the region, which disregard the rights of indigenous people (including the Mapuche-Pehuenche) and international commitments made by the World Bank Group.

The Requesters state that they have asked the World Bank Buenos Aires Country Office for documentation regarding the Quilleco project. The Requesters consider that although the response was prompt and they received many documents, the response did not satisfy them. The Requesters claim that there is a lack of coordination and non consideration of cumulative impact studies of the Quilleco and proposed Angostura projects, operated and developed by the same company or its subsidiary, with the

² The Requesters refer to different reviews or assessments of the Panguel/Ralco Hydroelectric Project. The first is the "Downing Report," an independent evaluation of the Pehuen Foundation conducted by Mr. Theodore Downing for the IFC. The report was submitted to the IFC on May 6, 1996. The second is known as the "Hair Report." In 1996, the President of the World Bank at the time, Mr. James Wolfensohn, and IFC's Executive Vice President at the time, Mr. Jannik Lindbaek, appointed Dr. Jay Hair (then President of IUCN – the International Union for Conservation of Nature) to prepare another report; in July 1997 an edited version of the report was made public. The third is a report of CAO. In July 2002, downstream municipalities flooded by water releases from the Panguel dam's reservoir during heavy rain, together with Pehuenche families, filed a complaint with the CAO. The CAO followed up with an assessment report that was issued in May 2003.

combined and cumulative impacts of Pangué/Ralco on the endangered fish population.³ They add that they understand that the Bank is considering supporting yet another project in the basin, the Laja Hydroelectric Project, which could pose additional impacts.

With regards to the proposed Angostura Project, a key concern of the Requesters, the Requesters state that “*although the information posted in the World Bank website does not presently show that the proposed Angostura is being financed or proposed to be financed by the Bank as administrator of carbon funds, our understanding is that there are plans for selling carbon reduction (...) for this project. Such understanding is based on the facts that such financing was unofficially disclosed by a Bank source and also it apparently is mentioned or referred to in a Quilleco supervisory mission report.*”

The Requesters ask for an investigation stating that the actions of the developers and operators of the Projects in the Biobío are impeding Bank commitments from being implemented and are leading to persistent violations of the rights of Pehuenche and other communities.

The above claims may constitute non-compliance by the Bank with various provisions of the following operational Policies and Procedures:

OP/BP 4.01	Environmental Assessment
OP/BP 4.04	Natural Habitats
OP/BP 4.12	Involuntary Resettlement
OP/BP 4.10 and OD 4. 20	Indigenous Peoples
OP/BP 4.37	Safety of Dams
OP/BP 4.11 and OPN 11.03	Cultural Property
OP/BP 13.05	Project Supervision

In accordance with paragraph 17 of the Panel’s Operating Procedures (the “Operating Procedures”), I am notifying you that I have, on June 18, 2010, which is also the date of the dispatch of this notice, registered this Request in the Inspection Panel Register. Please note that the Panel’s registration is an administrative procedure and it implies no judgment whatsoever concerning the merits of the Request for Inspection.

As provided in paragraph 18 of the IBRD Resolution that established the Panel (the “Resolution”), paragraphs 2 and 8 of the “*Conclusions of the Board’s Second Review of the Inspection Panel*” (the “1999 Clarifications”), and paragraph 18(d) of the Operating Procedures, Bank Management must provide the Panel, no later than July 20, 2010, with written evidence that it has complied, or intends to comply, with the Bank’s relevant policies and procedures in relation to the above-referenced Project. The subject matter that

³ The Requesters claim that even though the Pangué/Ralco dams were directly and/or indirectly financed by the WB Group through the IFC, these projects provide the context in which the Quilleco and Laja Projects are operating and thus should be taken into account. With regards to the Biobío basin as a whole, the Requesters state that they feel that “*the IFC commitments and CAO recommendations to mitigate and/or avoid harm to the environment and people should be binding for the whole WB Group.*”

Management must deal with in a response to the Request is set out in paragraphs 3 and 4 of the 1999 Clarifications.

After receiving the Management response, the Panel will, as outlined in the 1999 Clarifications and as provided by paragraph 19 of the Resolution, “*determine whether the Request meets the eligibility criteria set out in paragraphs 12 to 14 [of the Resolution] and shall make a recommendation to the Executive Directors as to whether the matter should be investigated.*”

The Request has been assigned IPN Request Number RQ 10/05.

Yours sincerely,

Roberto Lenton
Chairperson

Mr. Robert B. Zoellick
President
International Bank for Reconstruction and Development

The Executive Directors and Alternates
International Bank for Reconstruction and Development