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MICI-BID-2016-0101

CASE CLOSURE REPORT

**PROGRAM FOR DOWNTOWN REDEVELOPMENT, MODERNIZATION OF
METROPOLITAN PUBLIC TRANSPORT, AND GOVERNMENT OFFICES**

(PR-1044, PR-L1056, PR-T1174)

(2419/OC-PR, 2316/OC-PR, ATN/OC-14762-PR)

This document was prepared by Arantxa Villanueva, Compliance Review Phase Coordinator, with the collaboration of Andrea Guevara, Case Officer, María Elisa Dugo, Case Analyst, and Julio Vázquez Aguilar, Case Assistant, under the supervision of Andrea Repetto Vargas, MICI Director.

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LINKS	
1.	Request MICI-BID-PR-2016-0101 in the MICI Public Registry https://www.iadb.org/en/mici/complaint-detail?ID=MICI-BID-PR-2016-0101&nid=21826
2.	Original Request https://www.iadb.org/document.cfm?id=40325951
3.	Eligibility Memorandum https://www.iadb.org/document.cfm?id=40433796
4.	Assessment Report of the Consultation Phase https://www.iadb.org/document.cfm?id=40711558
5.	Recommendation for a Compliance Review and Terms of Reference for Case MICI-BID-PR-2016-0101 https://www.iadb.org/document.cfm?id=40830922
6.	Compliance Review Report for Case MICI-BID-PR-2016-0101 https://www.iadb.org/document.cfm?id=EZSHARE-33351106-1402
7.	Report of the Chairperson of the Policy and Evaluation Committee http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=EZSHARE-458673191-324&CONTDISP=inline
8.	Management Action Plan https://www.iadb.org/document.cfm?id=EZSHARE-33351106-1461
9.	*
10.	*

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ABBREVIATIONS

Action plan	Management's action plan for addressing MICI recommendations
Bank or IDB	Inter-American Development Bank
Board of Executive Directors	Board of Executive Directors of the Inter-American Development Bank
Executing agency	Ministry of Public Works and Communications (MOPC)
Management	The Bank manager or managers in charge of the Program for Downtown Redevelopment, Modernization of Metropolitan Public Transport, and Government Offices (PR-L1044) or any delegate thereof
Metrobus	Integrated public transport system with high-capacity buses traveling on dedicated lanes
MICI	Independent Consultation and Investigation Mechanism
MICI Policy	Policy of the Independent Consultation and Investigation Mechanism (document MI-47-6)
MOPC	Ministry of Public Works and Communications
OP-102 of 2006	Disclosure of Information Policy, an Operational Policy in effect from 2006 to 2010
OP-102 of 2010	Access to Information Policy, an Operational Policy in effect since 2011
PMAS	Plan de Manejo Ambiental y Social [environmental and social management plan]
Program	Downtown Redevelopment, Modernization of Metropolitan Public Transport, and Government Offices (PR-L1044)
Recommendation	MICI Recommendation for a Compliance Review and Terms of Reference

I. BACKGROUND

- 1.1 The program “Downtown Redevelopment, Modernization of Public Transport, and Government Offices” (PR-L1044) is a sovereign-guaranteed specific investment loan operation for a total amount of US\$125 million. The borrower is the Republic of Paraguay, and the executing agency is the Ministry of Public Works and Communications (MOPC). The program has the general objective of improving the quality of life of the population in the intervention area through the rehabilitation and upgrading of urban transportation infrastructure in Asunción.¹
- 1.2 The program has two components: Component 1, “Urban Renewal,” and Component 2, “First Metropolitan Public Transport Corridor.” The MICI case is related to Component 2, which consists of executing infrastructure works in order to implement a 15.8-kilometer urban transport corridor (the first metropolitan public transport corridor, Metrobus). Construction of the corridor was divided into three sections. The works began in November 2016 on Subsection 3.3 (the first of the three sections that Section 3 was divided into) and only progressed up to Subsection 3.2. No works were performed on the remaining sections. Construction of Section 3 was suspended by the executing agency in October 2018, and later, in January 2019, the government decided to temporarily suspend execution of Component 2.
- 1.3 On 17 May 2016, the MICI received a Request from a group of 10 business owners and a resident of the Metropolitan Region of Asunción (the Requesters) who mainly alleged economic harm as a result of the construction and operation of the Metrobus. The Requesters claimed that the works would prevent customers from accessing their businesses, with the ensuing impact on their livelihoods and household finances, particularly in the case of vulnerable business owners. They also stated that they had not been consulted or informed about the works, their impact, and alternatives for preventing or mitigating them, such as relocation or compensation measures for individuals at risk of being displaced by the works. Additionally, the Requesters asserted the lack of environmental impact studies and the impact on historical heritage sites in downtown Asunción.
- 1.4 The Request was declared eligible on 26 July 2016.² Given that the Requesters had asked that their Request be processed for both MICI phases, it was transferred to the Consultation Phase to commence the assessment stage. During that stage, the Requesters said that they were not willing to participate in a Consultation Phase process, and they asked for the Compliance Review Phase to be initiated.³ On 25 January 2017, the Board of Executive Directors approved the Recommendation for a Compliance Review and Terms of Reference for the investigation.⁴ The Investigation Panel was subsequently formed, and the investigation was carried out between March 2017 and February 2018.

¹ [Information on the program is available on the IDB website.](#)

² [Eligibility Determination Memorandum.](#)

³ [Assessment Report of the Consultation Phase](#), pages 1 and 2.

⁴ [Recommendation for a Compliance Review and Terms of Reference](#)

II. COMPLIANCE REVIEW REPORT

- 2.1 In its Compliance Review Report,⁵ the MICI concluded that the Bank did not comply with specific requirements under Operational Policies OP-703 (Directives B.1, B.5, B.6, and B.9), OP-710, and OP-102, which include the following:
- The evaluation of environmental and social impacts on the business population in the program's area of influence, specifically considerations related to: (i) the need for baseline studies; (ii) the timely preparation of complete impact studies; and (iii) the development of appropriate environmental and social management plans that include specific mitigation measures to address the impacts on the different affected parties.
 - The dissemination processes for the program, and the participation and consultation of affected parties.
 - The identification of impacts on critical cultural sites and measures to protect their integrity during the program preparation stage and within the framework of the environmental assessment of the component.
 - The preparation of a resettlement plan prior to program approval.
 - The publication of all documentation subject to mandatory disclosure pursuant to Operational Policy OP-102.
- 2.2 Taking into account the MICI's conclusions regarding noncompliance with certain Relevant Operational Policies, the Mechanism included the following seven recommendations for the Board of Executive Directors to consider, which seek to address the noncompliance findings:

Recommendation 1	Management should ensure that there is a resettlement plan in place as soon as possible for Section 1 that has been prepared in consultation with the affected parties, complies with the requirements of Operational Policy OP-710, and includes, in particular, mitigation and compensation measures that address the specific vulnerabilities of the affected parties and ensure the restoration of their situations.
Recommendation 2	Management should conduct an environmental and social audit to confirm whether the measures designed to address impacts during the construction stage have been implemented effectively and are sufficient to address impacts on the businesses in the area, and if not, should determine the remediation of corrective measures necessary to effectively address these impacts, pursuant to the noncompliance findings indicated with respect to Operational Policy OP-710 for Section 3.
Recommendation 3	Management should monitor the contractor's actions to fulfill the guidelines of the socioenvironmental management plan (PMSA) regarding historic heritage assets and should evaluate, at the appropriate time, whether the proposed mitigation measures comply with the standards of Directive B.9.

⁵ [Compliance Review Report](#)

Recommendation 4	Within the framework of Operational Policy OP-710 and within a reasonable period of time, Management should conduct an evaluation to determine the living conditions of the affected population, and depending on the results, should establish corrective measures compatible with the requirements of the Relevant Operational Policies.
Recommendation 5	Disclose, in a timely manner, all documents produced in the future that are subject to mandatory disclosure and all updates to published documents.
Recommendation 6	Evaluate the relevance of introducing language specific to the issue of economic disruption in the Relevant Operational Policies, in order to resolve the current gap in the rules.
Recommendation 7	Management should prepare an action plan, in consultation with the MICI, for implementation of the recommendations included in this report that are approved by the Board of Executive Directors, containing an implementation schedule compatible with the operation under investigation, which the MICI will monitor pursuant to paragraph 49 of its Policy.

III. DECISION OF THE IDB BOARD OF EXECUTIVE DIRECTORS AND SUBSEQUENT ACTIONS

- 3.1 The Board of Executive Directors considered the Compliance Review Report presented by the MICI during the 2 November 2018 meeting of the Policy and Evaluation Committee. On 6 December 2018, the Board approved the MICI's seven recommendations and requested that Management prepare an action plan in consultation with the Mechanism in order to address these recommendations, and that the MICI monitor fulfillment thereof. Management's action plan was approved by the Board of Executive Directors on 7 October 2020.⁶
- 3.2 From January to February 2021, during preparation of the monitoring plan by the MICI, Management informed the Mechanism that the borrower had asked the Bank to close Component 2 (First Metropolitan Public Transport Corridor) and reallocate any uncommitted funds to Component 1 (Urban Renewal).⁷ Accordingly, the Bank extended the deadline of the final disbursement to 27 December 2021 and began the process of proposing a reformulation of the program.
- 3.3 Additionally, after notification of Management's action plan was sent, in October 2020 the Representative for the Requesters stated that he and several Requesters were no longer interested in having the case processed.

⁶ After the Board of Executive Directors considered the Compliance Review Report, Management informed the MICI that the executing agency was in the process of re-evaluating Component 2 for the Metrobus. As a result, the action plan was presented by Management once a decision was made to proceed with execution of this component.

⁷ The information contained in this reference is confidential and will not be disclosed. This is in accordance with the "Information provided in confidence; intellectual property; and business/financial" information exception referred to in paragraph 4.1 (e) of the Access to Information Policy (document GN-1831-28) of the Inter-American Development Bank.

- 3.4 As a result of the foregoing, and particularly considering that most of the MICI recommendations⁸ were aimed at renewing compliance with environmental and social safeguards during execution of Component 2, which would no longer be part of the operation, the Mechanism believed that there were no criteria to justify the use of resources and efforts to continue with the case monitoring stage.

IV. CLOSURE OF CASE PROCESSING BY THE MICI

- 4.1 In consideration of the foregoing, the Board of Executive Directors is hereby notified that the MICI will proceed to close case MICI-BID-PR-2016-0101 regarding the Program for Downtown Redevelopment, Modernization of Metropolitan Transport, and Government Offices (PR-L1044, PR-L1056, PR-T1174) after this report has been disclosed to the parties and the general public through the Public Registry.
- 4.2 However, this case closure is conditional. If circumstances change, and some aspect of Component 2 for the Metrobus is activated within the framework of the operation, the MICI could re-examine whether to reopen this case. To that end, Management is requested to notify the Mechanism of any change in circumstances with respect to Component 2 or its reactivation under the operation.
- 4.3 In addition, the MICI asks Management to inform the Board of Executive Directors, in the presentation for approval of the program reformulation, of any aspect related to the environmental and social impacts corresponding to Component 2.

V. CASE REFLECTIONS

- 5.1 In order to foster learning, and in consideration of the specific aspects of this program that led to a lack of effectiveness of the MICI process, the Mechanism believes it is important to close the case with the following reflections.
- 5.2 The Compliance Review process identified various areas of noncompliance by the Bank to ensure that environmental and social standards, which are pillars of the institution, were applied correctly in the early stages of the Bank's involvement, taking into account the needs and specific context of this type of program, and the challenges facing certain borrowers. Identification of the potentially affected population groups was lacking, particularly the business owners in the program's area of influence, which from the outset limited the scope of the evaluations of socioeconomic impacts on the population. In addition, the absence of a comprehensive risk and impact assessment for the entire Metrobus component, as well as the design of partial impact studies and management plans that were undertaken almost at the same time as the start of the works, caused delays in program implementation, inefficiencies, and additional costs and time incurred in order to correct the gaps that were identified along the way.
- 5.3 Moreover, the lack of participation and consultation processes with all affected groups generated a climate of mistrust, rejection, and social opposition to the program. In that regard, while it is important to provide information about the program benefits, it is even more vital to ensure that potentially affected individuals know what

⁸ Only one of the seven recommendations referred to institutional considerations (Recommendation 6). The MICI has confirmed that the new Environmental and Social Policy Framework of the IDB introduced specific language on the topic of economic displacement.

- impacts they may face; that they be notified of alternatives to prevent, minimize, or offset those impacts; and that they be given the opportunity to be heard and to share their opinions on the measures that they consider most appropriate for themselves. However, as was seen in this case, if the affected population is not identified during the early stages, and if all of the essential impact studies are not performed, it is not possible to conduct a consultation process with all of the guarantees offered by the Bank's Relevant Operational Policies.
- 5.4 This, along with the various specific circumstances analyzed in the MICI's Compliance Review Report, jeopardizes program success and leads to delays and the potential to incur economic and reputation-related costs for the borrowers and the Bank alike. Furthermore, it calls into question the effectiveness of the Compliance Review process and the bodies in charge of accountability, which has a double impact on communities.
 - 5.5 The complaint brought by the business owners in the program area reached the MICI in mid-2016. The case was closed in April 2021, without Management's action plan having been monitored, which was presented to the Board two years after it had approved the MICI's recommendations. While the Mechanism's processes are not quick, this time period exceeds the average processing time for a MICI case. In addition, it reflects how complexities and other aspects arising from improper application of the Bank's environmental and social safeguards can also influence the effectiveness and duration of the Mechanism's processes. Furthermore, this is not the first MICI case in which one or several of the components that were the subject of complaints were withdrawn from Bank financing due to issues that developed over time. All of the aforementioned points have led to frustration for the Requesters because of the time and effort that they invested in pursuing the case, which, from their perspective, did not produce concrete results.
 - 5.6 Therefore, the MICI believes that it is important for the Bank to reflect upon the considerations described above and glean lessons learned in order to improve its engagement in future projects. Bank support to borrowers is important, as it provides the technical capacity to ensure compliance with environmental and social safeguards in all stages of the project cycle, which is crucial in the earliest stages. This is essential, as it is one of the core aspects of the institution's added value in financing operations in the region. As for the MICI, it can only be effective as part of the institution if it can ensure that measures are taken to correct any findings of noncompliance, thereby fulfilling its accountability function.
 - 5.7 Notwithstanding the foregoing, one positive aspect to highlight in this case is that the institutional recommendation included in the Compliance Review, which had to do with explicitly regulating economic displacement in the Bank's safeguards, has been regulated in the new Environmental and Social Policy Framework of the IDB. In this manner, it contributes to institutional strengthening and the environmental and social sustainability of IDB-financed projects.