

## Nenskra hydropower project: update



The 280 MW reservoir-type Nenskra hydropower plant (HPP) is located in the Nenskra and Nakra valleys of Svaneti, northwestern Georgia. JSC Nenskra Hydro, a joint venture between Georgia's state-owned Partnership Fund (10%) and the Korean state-owned company K-Water (90%), plan to implement this one-billion-dollar project. A number of international financial institutions have also been invited to co-finance the project. The European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD) approved a USD 150 million loan and a senior secured USD 214 million loan, respectively, in February 2018. The Asian Development Bank (ADB) and the Asian Infrastructure Investment Bank (AIIB) have not yet made decisions to provide USD 314 million and USD 100 million, respectively.

Since the project was proposed, the Nenskra HPP has raised significant controversy and concerns among the indigenous Svan communities living near the proposed plant, as well as the general public in Georgia. **The accountability mechanisms of the EIB, EBRD and ADB have found numerous violations of the lenders' environmental and human rights standards, as well as violations of the rights of affected Svan communities.**

### Status of the project

Since the approval of the EIB and EBRD's loans, construction works have stopped and remain at a standstill. While the project documents planned for the main construction period to take place from March 2018 until 2022 and electricity generation from the plant was expected by 2021, it is clear that the project is far behind this schedule. According to locals, even the 'early works' stopped after the summer of 2020.

Meanwhile, the costs of the Nenskra project continue to grow and pose a threat to the fiscal stability of Georgia. Due to the COVID-19-induced emergency situation in Georgia, the depreciation rate of the national currency is extremely high. As electricity prices in the contract are fixed in US cents, the fiscal burden on the state budget has increased.

### Green light to the companies with corruption track record

In November 2020 EIB published an article<sup>1</sup> on its website granting green light to Korean Hyundai to participate in the bid for the Nenskra HPP project, raising concerns in Georgia about the company's murky

<sup>1</sup> <https://www.eib.org/en/press/news/agreement-reached-between-eib-jsc-nenskra-hydro-hyundai-hydropower-plant-georgia>

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CEE Bankwatch Network's mission is to prevent environmentally and socially harmful impacts of international development finance, and to promote alternative solutions and public participation.

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background. The article confirmed that together with the “Nenskra Hydro” and Hyundai Engineering and construction Co. (Hyundai E&C) the EIB reached an agreement to participate in the Nenskra project by making ‘certain omissions in disclosing relevant information’ by Hyundai. As it turns out the agreed conditions imply appointing a compliance monitor “to oversee and enhance its integrity compliance program in relation to compliance standards and in the fight against fraud”. In exchange for such an exception Hyundai has taken the obligation to contribute voluntarily with USD 5 million for the Community Investment Program (CIP) proposed to finance various activities, such as rehabilitation of schools and kindergartens, training activities etc.

Through this agreement, however, the EIB has allowed a company with a track record of corruption and bribery<sup>2</sup> to construct the controversial Nenskra HPP on the lands of indigenous Svans in Georgia.

It is noteworthy that another Nenskra constructor, Limak Holding, has also been involved in corruption schemes<sup>3</sup> concerning gas pipelines, water channels and other large scale infrastructure projects. Moreover, Nihat Özdemir, the chairman of Limak Holdings, was convicted for corruption in 2008, with prosecutors seeking a sentence of 30 years.

In addition to their history of corruption, none of the construction companies that are engaged in the project have any experience in constructing large-scale hydropower plants. Thus, it is unclear how Nenskra HPP lenders expect to finalise this troubled project with the proposed companies, when a more experienced former contractor, Salini Impregilo, could not manage to proceed in an earlier attempt to implement the project.

### **The project does not comply with the EIB and EBRD environmental and social standards**

After more than two years of investigation, the accountability mechanisms (EIB-CM and EBRD-PCM) of the EIB and EBRD released their final reports on the project’s compliance with the banks’ environmental and social standards in the summer of 2020. Both mechanisms found the project non-compliant with a significant number of the banks’ environmental and social policies, relating to the protection of cultural heritage, gender impacts, the assessment and management of environmental and social impacts, labour influx, information disclosure and participation of local communities and other stakeholders.

The complaint mechanisms of both banks found that their policy requirements regarding indigenous peoples were violated. According to the indigenous peoples expert consulted by the EIB-CM and EBRD-PCM, the good international practice is to ‘consult a self-proclaimed indigenous community concerning the application of any eligibility criteria that will be used in the determination of whether the group constitutes an indigenous people. Such consultation would be part of the project due diligence and demonstrates good faith when determining whether the eligibility conditions have been met’.

The EIB-CM considered both the assessment of risks and impacts as well as the measures defined in the project’s Environmental and Social Management Plan (ESMP) to address such problems insufficient.

The EIB-CM also concluded that the EIB did not take adequate steps to ensure the proper application of Standard 7<sup>4</sup> to the project; the Social Impact Assessment (SIA) was prepared under

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<sup>2</sup> <https://bit.ly/36mhcZx>

<sup>3</sup> <https://bankwatch.org/wp-content/uploads/2016/09/risky-business.pdf>

<sup>4</sup> Environmental and Social Standards 7: Rights and Interests of Vulnerable Groups;

comparable but nevertheless different standards, and its consideration by the EIB's management did not represent a due diligence approach with respect to Standard 7; and the EIB underestimated the social challenges associated with the project, particularly as relates to the assessment and management of the potential impacts of labour influx on communities.

In addition, the report found **troubling the fact that the EIB has accepted the problematic alternatives analysis without sufficient documentation of the rationale for selecting that particular course of action.**

### Recommendations

Putting aside the problematic track records of the companies involved in the Nenskra HPP, the EIB-CM confirmed that the implementation of the project was not compliant with the Bank's standards from the very beginning, including the problematic consideration of the project's alternative option. Therefore, it is practically impossible at this stage to effectively prompt the necessary improvements. Due to the fact that the project's costs continue to grow, it poses an increasingly greater threat to Georgia's fiscal stability than was estimated by the World Bank<sup>5</sup> in 2018.

Taking these factors into account, we strongly believe that the EIB should cancel its approved loan to the project and instead seek to support sustainable energy projects, including energy efficiency.

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<sup>5</sup> <https://bit.ly/3qW6XTC>