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World Bank Board Discusses Inspection Panel Report on South Africa's Eskom Investment Support Project

WASHINGTON, May 25, 2012 – The World Bank's Board of Executive Directors discussed a Management Report on May 22 together with a Supplemental Note that responds to the Inspection Panel's (IP) investigation of South Africa's Eskom Investment Support Project (EISP). The request to the Inspection Panel raised concerns about potential harm from the Eskom project in the future and the Panel did not find instances of current harm stemming from non-compliance.

The Board discussion focused on proactive actions to address potential future impacts to air, water and community services identified in the Panel Report through mitigation and monitoring measures by the South African authorities with the support and cooperation of Bank Management.

The US\$3.75 billion EISP was approved on April 8, 2010, with the objective of enhancing power supply and energy security in an efficient, sustainable manner to support economic growth and accelerate South Africa's long-term carbon mitigation strategy through emission reductions, efficiency improvements, renewable energy, and clean coal technologies.

The Request for Inspection, which focused on a specific component of the project, the Medupi power station was received on April 6, 2010, and the Board authorized a full investigation of the EISP on July 29, 2010. This is the first investigation relating to the application of the Bank's Operational Policy 4.00, Piloting the Use of Borrower Systems to Address Environmental and Social Safeguard Issues in Bank-Supported Projects.

All parties recognized that the need for electricity generation in South Africa and neighboring countries is urgent and of paramount importance to development at the national and regional level. The Executive Directors welcomed and thanked the Panel and Management for their reports and the constructive interactions during the Panel's investigative process. The Board welcomed the Supplemental Note provided by Management and its release to the public. It was agreed that Management will provide the Board with a summary of progress on project implementation in the context of the Country Partnership Strategy progress reports.

The World Bank will provide intensive support for project implementation, covering technical issues and environmental and social safeguards, including monitoring the project through 2022. This will be achieved through a review of emissions monitoring, annual ambient air quality monitoring reports, and working closely with counterparts in the Department of Environmental Affairs and Department of Water Affairs. Management will thus closely monitor the project and potential future impacts, and remain engaged with the borrower regarding the management and mitigation of any potential adverse impacts that may arise. Management noted that the extension of the timeline for project supervision marks an exceptional step put in specifically due to the magnitude and particular time frame of this project.

If requested by South African authorities and Eskom, the Bank would engage its specialists to assist them in their ongoing activities in the areas of community development, municipal and community financing, local infrastructure development and water supply and sanitation at both district and community levels. Management has stressed the inclusion of mitigation and management measures in place through South African law and systems to address each of these issues.

The Panel Chairperson, Alf Jerve, said that *“there is broad concurrence between the Panel and Management on two overarching issues pertaining to this Request, namely that South Africa’s legal and institutional framework for environmental and social safeguards supports the application of the Use of Country Systems policy, and that the Medupi power plant entails substantial environmental and social risks raised in the Request that have to be carefully managed moving forward.”* He added, *“The Panel believes that its findings represent constructive contributions towards addressing these concerns, and highlights the importance of transparency and engagement with the community in actions going forward.”*

The Panel found that in most respects, the Bank’s analysis of equivalence of safeguards complied with its policy on the “Use of Country Systems” in deciding to use the South African system for environmental and social impact management. The Panel also found specific instances of non-compliance or inconsistency with Bank policies in the areas of (a) assessment of equivalence and acceptability, in particular on issues relating to assessment of cumulative impacts, independent expert oversight and capacity constraints; (b) impacts on air quality and health; (c) impacts on water resources; (d) impacts on public infrastructure and services, and (e) inadequate consideration and economic analysis of alternatives and risks, particularly with regard to water and air externalities.

“Electricity is a key driver of economic growth, creating jobs and improving the quality of life for people in South Africa and neighboring countries,” said **Makhtar Diop, World Bank Vice President for the Africa Region**. *“Through the Eskom project, which also includes wind and solar power, we are committed to supporting South Africa’s efforts to achieve energy security, to broaden its electrical power sources to include renewable energy, and to address community concerns by supervising and monitoring project implementation in close cooperation with the South African authorities.”* He also noted that *“Bank Management is committed to have a strong team of experienced specialists in place.”*

The Executive Directors agreed on the strategic importance of the project to South Africa and the region, and the value of the Inspection Panel as an accountability mechanism. The Board also recognized South Africa's strong capacity and role in implementing this project, based on the acknowledgement that South Africa's country systems broadly meet the requirements of the Bank's policy on the “Use of Country Systems”, and noted the positive message that this Investigation has set in advancing the implementation of this policy.

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For the complete Inspection Panel Investigation Report, World Bank Management Report and Recommendation in Response to the Inspection Panel Report and World Bank Supplemental Note to the Management Report and Recommendation, please visit the Inspection Panel website:

<http://www.inspectionpanel.org/>

These reports can also be found on the EISP Project Website here:
<http://go.worldbank.org/9CRPFLBVN0>