The Asunción Metrobus project was intended to solve 30% of the interurban traffic problem in Paraguay’s capital city. Its main goal was to make movement easier for 300,000 people from Asunción, Fernando de la Mora, and San Lorenzo. The project was not free of controversy, design reconsideration, and substantial modifications, which eventually led to its cancellation. However, complaints filed by some neighbors and business owners in the area favored a substantial change in the environmental and social policies of the InterAmerican Development Bank (IDB), which financed this project. As a result of this case, the concept of economic displacement was included into the IDB Group’s environmental and social safeguards, thus contributing to institutional strengthening and the sustainability of future projects. These are some of the lessons learned through the compliance verification process carried out by the Independent Consultation and Investigation Mechanism (MICI).

The project and the complaint

The goal of the “Downtown Restructuring and Modernization of the Metropolitan Public Transport and Government Offices” project is to improve both the population’s quality of life and the urban and transport infrastructure of Paraguay’s capital city through an integrated and efficient public transportation system. IDB finances the project with 125 million dollars. Part of the project consists in creating a 15.8-km urban transport corridor, known as Metrobus.

In May 2016, 11 people filed a complaint before the MICI. Most of them had shops located next to the Metrobus route and claimed an economic impact from its construction and operation. Among other aspects, they claimed a drop in sales due to the limited access to their shops and reduced parking lots. They also reported a lack of assessments on socio-environmental and historic heritage impact and stated that they were never asked about the construction, its impact, or the mitigation measures, such as relocation or compensation.

In January 2017, MICI started its independent investigation process, which concluded in 2018 with the release of the Compliance Review Report.

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2016

May — 10 business owners and a resident file a complaint before MICI.

July — MICI verifies that the conditions for a dispute resolution process are not met.

March — MICI’s investigation process begins.

2017

2018

May — The investigation is finished.

October — The borrower suspends the construction of Section 3 of the Metrobus.

December — The Board of Executive Directors approves MICI’s recommendations and has IDB create an Action Plan to address them.

2019

January — The borrower temporarily suspends the component of the Metrobus.

2020

October — The Board of Directors approves the Action Plan created by IDB.

October — The complainants express their intention to abandon the MICI process.

2021

January — The borrower cancels the component of the Metrobus.

May — Completion of MICI’s process
INVESTIGATION FINDINGS AND RECOMMENDATIONS

MICI’s Compliance Review Report identified both compliance and non-compliance by the Bank in its social and environmental safeguards in the following areas:

1 Environment and Safeguard Compliance (OP-703)

- **Environmental analyses:** The project included environmental analyses for some of the project sections, but Metrobus’ potential risks and impacts on the entire population in the area of influence were not identified. Therefore, specific measures to manage them were also not determined.

- **The project’s widespread process:** The affected population did not receive full and specific information in keeping with the pertinent consultation requirements.

- **Cultural impact:** Potential impact on culturally relevant places was not identified and no prevention and mitigation measures were applied in the project preparation stage and the framework of the environmental assessment process.

- **Other risks assessed:** Risks about the borrower’s institutional capacity were identified and the appropriate measures were designed to manage them.

2 Involuntary Resettlement (OP-710)

- **Resettlement plan:** No resettlement plan was available before the project’s approval and, after its approval, there was non-compliance regarding one of the sections.

3 Access to Information (OP-102)

- **The Bank did not release in due time all the mandatory disclosure documents under this policy (in their versions of 2006 and 2010).**

As a result of these findings, MICI made seven recommendations, such as the elaboration of a resettlement plan with mitigation and compensation measures, a social and environmental audit, an assessment to determine the affected population’s quality of life, and measures to preserve historic heritage. Moreover, to fill in the existing regulatory gap, the investigation recommended that the Bank’s operational policies specifically incorporate economic displacement. The Board of Executive Directors approved those recommendations in December 2018.
FOUR IMPORTANT LESSONS FOR PROJECT MANAGEMENT

1. Environmental and social assessments should be timely and comprehensive. The absence of a timely and comprehensive assessment of the possible impact of the project and, therefore, of the corresponding measures to manage them, caused delays in the project’s development, additional expenses, and a time extension to fill the gaps, while they were identified.

2. The significance of the appropriate mapping of the affected parties. In this case, as not all the affected parties were identified early in the project cycle, it was not possible to carry out a consultation process with all the guarantees offered by the IDB’s operational policies.

3. The importance of significant consultation. The lack of significant processes of both participation and consultation with all the affected and interested parties led to dynamics of distrust, rejection, and social opposition to the project. In this sense, showing the benefits of the project is as important as mentioning its potential impact and management measures. Likewise, the affected and interested parties should have the opportunity to state their opinion on any topic linked to the project and to be heard.

4. The relevance of appropriate supervision by the IDB throughout the project cycle. IDB’s support to the borrowers is highly important, especially to provide technical capacity to ensure compliance with the operational policies at all stages of the project cycle. This is a key aspect of the added value that the IDB Group provides when financing operations in the region.

LESSONS FROM THE MECHANISM

In May 2021, MICI closed this case due to two main reasons. First, the borrower ceased the construction of the Metrobus and requested the non-committed funds to be reassigned to the other component of the project. Second, the complainants’ representative informed MICI that they were no longer interested in continuing the process.

For the Mechanism, the complainant’s decision is due to a lack of communication on the progress of the case over an extended period, in addition to the context of the COVID-19 pandemic. Temporary suspensions of the project added uncertainty to the terms of the Action Plan, which was approved 22 months after the approval of MICI’s recommendations. This was a frustration for the complainants, who did not see concrete results after all the time and effort they invested.

The Mechanism is currently developing internal processes to carry out faster processes that can urgently mend complainants’ situation and improve effective communication with the parties.

Compensation to affected people

After MICI closed the case, the Bank pointed out its efforts to compensate the people affected by the delays in the project.

“IDB hired a team to assess the possibilities to move forward with compensating the affected people. They contacted the affected people (via newspaper and radio advertising), especially those shopkeepers who shut down their businesses due to the project. Around 380 people went to an office specially created for this activity and they were given a debit card to receive a subsidy, once the required documentation was filed.”

Oscar Camé
Head of the Environmental and Social Solutions Unit (2022) and member of the project team.
WHAT INSTITUTIONAL CHANGES AROSE FROM THIS CASE?

A new approach to economic displacement

During the investigation, MICI found that the Bank’s operational policies only referred to resettlement (physical displacement) and that, therefore, there was a gap regarding the concept of economic displacement, i.e., situations like those of these business owners, whose economic activity had to be relocated or displaced as a consequence of the project. MICI recommended that the Bank’s safeguards include specific content on economic displacement.

The IDB’s new Environmental and Social Policy Framework (MPAS) and its corresponding Guides now include economic displacement, defined as the loss of land, assets, or access to them, which causes loss of the source of income or other means of support. This acknowledges that displaced people may suffer an economic impact due to permanent or temporary loss of access to both formal and informal economic activities. In addition, it includes elements that a plan for the restoration of subsistence means must include, with transparent, uniform, and equitable compensation. Furthermore, it points out that economic displacement is only mitigated when the affected people’s financial means are restored.

We work with you to make development better

MICI is an office of the IDB Group, independent of the Bank’s management and project teams, which addresses the environmental and social grievances of communities potentially affected by the Group’s operations. This independence allows us to work impartially and objectively to seek solutions with all parties involved: the communities alleging harm; the IDB Group, as the financier of the operation; and the borrower (company or government) executing the project.

The Compliance Review Phase conducts independent investigations to verify whether the IDB Group complied with its environmental, social, and access to information standards, recommend corrective actions, and monitor their implementation.

Other documents of this series “Investigations that generate change”:

1. Mareña Renovables: Reinforcing the “meaningful” in “meaningful consultations”