CASE STUDY

Paraguay: Asunción Metrobus

From Project Failure to Policy Change on Economic Displacement

Independent Consultation and Investigation Mechanism (MICI) -- Inter-American Development Bank (IDB)

SYNOPSIS

The cancellation of the Asunción Metrobus project left shopkeepers and informal workers facing severe income losses due to restricted customer access—despite not being physically relocated. A compliance review by the IDB's Independent Consultation and Investigation Mechanism (MICI) found that the Bank's safeguards at the time failed to adequately address economic displacement, resulting in insufficient consultation and mitigation measures. In response, the Inter-American Development Bank (IDB) revised its Environmental and Social Policy Framework to explicitly recognize economic displacement and require livelihood restoration for both formal and informal income sources. While compensation was eventually provided to over 380 affected individuals, the case underscores the need for early risk assessment, inclusive stakeholder mapping, meaningful consultation, and sustained institutional oversight to protect livelihoods in future operations.[1]

CONTEXT AND COMPLIANCE REVIEW FINDINGS

The *Asunción Metrobus* project was designed to improve public transportation for 300,000 residents in Paraguay's capital region. However, the initiative faced major setbacks due to design flaws, stakeholder opposition, and implementation challenges, ultimately leading to its cancellation.

In 2016, eleven shop owners submitted a **formal complaint** to MICI, citing:

- Loss of income caused by restricted access to their businesses;
- Inadequate consultation processes; and
- The absence of compensation or mitigation measures.

MICI's **compliance review** found that the implementation of the Bank's environmental and social safeguards was inconsistent:

- While **environmental assessments** were conducted for some project sections, they did not adequately cover the full area of influence, leaving key risks unaddressed.
- **Consultation processes** failed to meet the standards outlined in the IDB's operational policies.
- **Culturally significant sites** were not properly assessed or protected during project preparation.
- A **resettlement plan** was not in place at the time of project approval, and implementation gaps persisted in parts of the project area.
- The Bank **did not release all required disclosure documents** in a timely manner, violating its own access-to-information policies.

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[1] MICI. 2018. Investigations that generate change. Metrobus: a milestone in economic displacement management. MICI Reflections https://www.iadb.org/document.cfm?id=EZSHARE-898595437-212

One positive finding was that risks related to the borrower's institutional capacity were identified early, and partial mitigation strategies were proposed—although implementation remained limited.

OUTCOMES AND LESSONS LEARNED

One of the most significant outcomes of this case was the **institutional recognition of economic displacement** as a distinct safeguard concern. MICI identified a **regulatory gap** in the Bank's operational framework, which previously focused only on physical resettlement. In response, MICI recommended—and the Board of Executive Directors endorsed in December 2018—the **formal inclusion of economic displacement in the Bank's policies.**

The **revised Environmental and Social Policy Framework** now defines economic displacement as the loss of land, assets, or access that results in reduced income or livelihoods, including those derived from informal economic activities. It mandates that livelihood restoration plans must ensure compensation that is transparent, fair, and effective, with the goal of restoring affected persons' economic conditions to pre-project levels.

Beyond policy change, the case revealed **operational lessons** critical for future project design and implementation:

1. **Early, comprehensive risk assessments** are essential. Inadequate diagnostics contributed to delays, higher costs, and reactive mitigation measures.
2. **Accurate, inclusive stakeholder mapping** is critical. Failure to identify all affected individuals, particularly in informal sectors, weakened safeguards and hindered engagement.
3. **Meaningful consultation** builds trust and social legitimacy. The lack of participatory processes contributed to public opposition and damaged project credibility.
4. **Ongoing institutional oversight** ensures safeguards are properly implemented. Sustained support from the IDB throughout the project lifecycle can strengthen borrower capacity and promote compliance.

CASE CLOSURE

The case was formally closed in 2021 after the borrower officially terminated project implementation and requested reallocation of unspent loan funds. Complainants ultimately withdrew, citing:

- Prolonged delays;
- Insufficient communication from the Bank; and
- Disruptions caused by the COVID-19 pandemic.

The 22-month delay between the Board's approval of MICI's recommendations and the adoption of a formal Action Plan further eroded stakeholder confidence. MICI acknowledged these shortcomings and has since committed to **strengthening its internal procedures** to improve responsiveness, transparency, and engagement with complainants. Following case closure, the IDB took steps to **compensate affected shopkeepers**:

- A dedicated **outreach and registration process** was launched, including media announcements and in-person support.
- Approximately **380 individuals** received **compensation via debit card**, contingent upon documentation, to mitigate business losses caused by the project's disruptions.