

Project Name Brazil-Environmental Conservation and Rehabilitation Project

Region Latin America Caribbean

Sector Environment

Project ID 6BRAPA299

Implementing Agency Companhia Vale do Rio Doce
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1. Background. Major environmental problems in Brazil include industrial and urban pollution, deforestation and land degradation arising from weak enforcement of environmental regulations, rapid urbanization and rural poverty. In the past few years, however, the Federal Government has, through modern environmental legislation, established broad ambient quality standards, introduced procedures and requirements for environmental licenses, set aside areas for the preservation of critical ecosystems, and intervened whenever state agencies were not carrying out their responsibilities. In particular, the federal law requires all enterprises, as a condition for issuance or renewal of environmental licenses, to submit comprehensive environmental impact assessments of their ongoing operations and to implement the recommended mitigation plans. State environmental protection agencies (SEPA's), are responsible for monitoring environment quality, developing local legislation and emission standards and enforcing the law at the state level.

Companhia Vale do Rio Doce (CVRD) is a major parastatal company with mining, industrial, transport and port operations, mostly clustered along two CVRD-owned 800 to 1000 kilometers railways, constituting the Northern System (in Para and Maranhao) and the Southern System (in Minas Gerais and Espirito Santo). In the northern system, environmental considerations were incorporated in project design and operations from the start. Much more needs to be done in the older southern system to meet current environmental standards. CVRD has designed a program to

deal with the negative environmental consequences of its operations.

2. Project Objectives. The project has three major objectives: (a) to support the entire environmental program of CVRD by financing high-priority investments throughout its operations; (b) to bring about changes in CVRD's policies, systems and procedures needed to reinforce sound environmental and social policies and management; (c) to correct some of the negative indirect environmental and social impact of CVRD's operations in sensitive portions of its area of influence, in particular in the Carajas Corridor.

3. Project Description. To support these objectives, the project includes the following components: (a) air, water and soil pollution control and land reclamation investments (58% of total costs) in CVRD's mining, industrial, rail and port operations throughout the country; (b) natural resources investments, which include reforestation activities with native species and the conservation of natural forest and ecosystems in, or around CVRD's installations (7.1% of total costs); (c) socially oriented investments (21.4% of total costs) contributing to the alleviation of social problems in ecologically sensitive areas in CVRD's area of influence, including: the continuation of the Amerindian program; the provision of water supply and basic sanitation infrastructure to the towns of Parauapebas (Para), Itabira (Minas Gerais), and low-income urban areas adjacent to the Tubarao port terminal (Espirito Santo); and pilot rural extension and small business development programs; (d) studies, research, training, and technical assistance (3% of total costs) including environmental impact assessments and monitoring (in particular at the Tubarao industrial port); and socio-economic studies in CVRD's area of influence; (e) institutional strengthening of CVRD (1.9% of total costs) through the establishment of a corporate environmental information, monitoring and control and auditing system; and (f) other subprojects and studies to be defined based on the outcome of studies planned under the project and of the environmental audit program (8.1% of total costs)-- these would aim at controlling pollution and degradation, improving knowledge of, and protecting and conserving natural ecosystems, and improving the welfare of communities in CVRD's area of influence.

4. Project Cost and Financing. The Bank is considering a \$50 million loan to Companhia Vale do Rio Doce (CVRD), with the Guarantee of the Federative Republic of Brazil, to help finance

an Environmental Conservation and Rehabilitation Project, of a total cost estimated at US\$ 109.0 million. The project would be implemented by CVRD, which would also provide \$59.9 million in financing for the project.

5. Environmental Aspects. This project is classified as a category "B". The proposed investments, which consist of some forty different actions dispersed throughout CVRD's operations, intend to address pollution and land degradation problems in CVRD's facilities, and are supported by extensive documentation, all prepared by outside consultants and compulsory under Brazilian law. Supplemental environmental analysis was carried out as needed for each operation and subproject. Further investments to be identified in the course of studies and environmental audits will be based on appropriate environmental analyses and will require Bank review and approval. It is not expected that any of these investments, which are corrective in nature, will have negative environmental effects. The Amerindian components (totalling about US\$4.9 million) are not related to any of the project's investments, but constitute the continuation of the Special Amerindian Project included under the Carajas Iron Ore Project, the impact of which has already been well documented in several OED reports. Details of the program will be subject to the scrutiny of recognized experts as well as Bank review, and actions will have to conform to the criteria established for Bank involvement with tribal peoples. Their design will take into account knowledge accumulated in the course of Bank supervision and auditing activities of the earlier project. Finally, other socially oriented components include the provision of basic sanitation infrastructure to local communities, which will have positive environmental impacts.

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Note: This is information on an evolving project. Certain components may not necessarily be included in the final project.