

26/02/88

CEDI - P. I. B.
DATA 14 / 09 / 88
COD. E8D00085

Prezado Beto;

Segue um relato das atividades dos Kayapo aqui em Washington e a suas repercussões no Banco Mundial, no governo, e na sociedade civil, pelo que pode saber.

O roteiro que segue em anexo foi montado por EDF e o National Wildlife Federation quando encontraram o Posey, Paiakan e Kubē'i numa conferencia sobre florestas tropicais em Miami. A conferencia foi organizado pelo Florida Rainforest Alliance, entidade ativista local fomentado pelo Rainforest Action Network, entidade localizado em São Francisco que atua no ambito nacional gerando publicidade e patrocinando eventos sobre florestas tropicais.

Não houve grandes desdobramentos dos encontros com os assessores dos parlamentares, pelo que parece, a não ser de reforçar a ideia de que interesse e pressão parlamentar nos projetos dos bancos encontram receptividade entre as populações afetados pelos projetos. Houve conversas mais substantivas com os diretores executivos - o americano, o alemão, o ingles, e o holandês. Escutaram as denúncias dos índios e se comprometeram a averiguar as denúncias. O assistente ao diretor ingles, Tony Faint, se comprometeu a acompanhar o complexo Altamira Xingu. O fato dos índios serem recebidos com prazo tão curto para articular as reuniões se deve em parte a toda a divulgação anterior feita pelas entidades norteamericanas e europeus sobre os empréstimos setoriais para o setor energético. O resultado talvez mais interessante desses encontros é que parece que esta havendo uma articulação independente entre assessores e assistentes nos escritorios dos diretores executivos de agilizar informações sobre efeitos ambientais dos projetos. Os diretores executivos, apesar do seu poder formal de aprovar ou não projetos e definir políticas, historicamente permaneceram quase inativos. Parece que a vinda dos índios contribuiu para uma certa divergencia entre diretores executivos e técnicos do banco que esta começando a surgir em torno de questões ambientais. Nem só os diretores que falaram com os Kayapos, mas também o canadense e uma assessora do diretor italiano pediram informações e mostraram interesse nas questões ambientais relacionados com o empréstimo setorial. Essa mobilização dos diretores executivos, vindo em cima do acompanhamento das entidades do empréstimo setorial, apresenta boas possibilidades de exercer uma pressão significativa no segundo empréstimo.

Na reunião que houve no banco, os técnicos do banco presentes (Maritta Koch Weser entre outros) ficaram indignados com o tom e linguagem de dois notas a imprensa veiculados pelo EDF e NWF, ate o ponto de discutir mais isso do que as questões levantados pelos índios, e inclusive convocaram outra reunião posterior para discutir em por menores as notas. O técnico dos

índios foi que sofrerão efeitos dos projetos e nunca foram consultados ou escutados. O Posey colocou a historia do seu contrato com CNEC através do Museu Goeldi, insistindo que CNEC impossibilitava o trabalho de levantar a situação dos povos indígenas. Os técnicos reclamaram que o Banco nunca tinha financiado nenhum projeto hidroeletrico na Amazonia, pois empréstimos setoriais não financiam projetos, sendo o dinheiro desembolsado exclusivamente contra notas fiscais em dolar de dispesas de importações do setor. Esse argumento, alem de casuístico por fingir ignorancia do destino da material importado (turbinas e outros bens capitais), também não representa o entendimento dos próprios diretores executivos do banco, entre eles o norteamericano, que falou claramente durante a reunião de 19/06/86 quando o primeiro empréstimo setorial foi aprovado, dos efeitos dos subprojetos apoiados pelo empréstimo. Curiosamente, os técnicos agora em fevereiro, liberaram o minuto dessa reunião, documento desconhecido por nos ate então, visando esclarecer a sua posição. O texto (veja anexo) mostra que nem só o diretor norteamericano votou contra o empréstimo como também outro diretor, provavelmente o ingles, frisando a gravidade da situação de Itaparica. Mais tres apoiaram o empréstimo mas registraram preocupações com meio ambiente e a situação dos povos indígenas. Esses seriam o holandes, o scandanavico, e o alemão, e um deles inclusive criticou o documento apresentado pelos técnicos por não incluir informações suficientes para responder as perguntas das entidades ambientalistas.

A reunião no tesouro, segundo um economista do tesouro, foi valiosa por permitir o diretor do departamento de bancos multilaterais escutar a experiencia duma população atingida pelos projetos dos bancos. Representantes desse departamento tinham recentemente reunidos com técnicos da divisão do Brasil do Banco Mundial para discutir o setor energetico, levantando, entre outras coisas as questões colocadas no memorandum escrito por mim (veja anexo). Sobre Altamira-Xingu, o Banco garantiu que tinha "um antropologo vigiando" a situação, e que os devidos estudos foram proseguindos. Quando ficou claro que aquele "vigia antropologico" foi o mesmo Posey que estava ai denunciando descaso do CNEC e que tinha rompido o convenio, o pessoal do tesouro ficou indignado com a evidente contradição entre a versão do banco e a versão dos índios e Posey. O tesouro ja tinha preocupações com outros aspetos dos empréstimos setoriais para o setor energético, p.e. a questão de tarifas, a situação financeira do setor.

A questão do que os índios acharam ou aproveitaram da viagem fica menos clara. Parece que acharam importante saber que existe aqui índios que são advogados, e organizações de índios que trabalham junto ao congresso para defender os interesses das tribos. Reuniram com a maior entidade indígena de lobby (National Congress of American Indians) e com Indian Law Resource Center, a unica firma independente de advocacia indígena. Levanta se a questão de como assessorar tais viagens no futuro.

Enfim, o momento parece propício para levantar umas questões basicas ligadas ao empréstimo setorial. A primeira entre elas seria a capacidade da FUNAI de executar as medidas previstas no plano diretor para o setor energético. Nos estariamos em boas condições de apoiar reivindicações dai

no sentido de reorganizar o órgão ou de insistir em acompanhamento independente de demarcações e estudos. Outra seria a reivindicação de amplos setores da sociedade civil de discutir publicamente os planos do setor, e especificamente de haver uma discussão ampla do Altamira-Xingu. No mínimo, nos poderíamos insistir que o empréstimo não seja aprovado até que forem apurados todos as denúncias sendo investigadas sobre FUNAI - no Tribunal Federal de Contas, no CPI de Rondonia, e o que mas que houver.

A questão maior que vejo é de encaminhamento. Nos vamos levantar as questões notadas de uma forma ou outra, mas também surge a possibilidade de vocês - todas as entidades daí interessadas - chegar até uma posição comum sobre o empréstimo que poderá tornar meta da campanha internacional nesse caso, ou seja, de nos todos discutirmos o que que queremos que o banco faça nesse momento.

Um abraço,

Stase Schwartzman

Paidakan 4
Kube-i
Aukre (village)
Gorotire

Washington Schedule for Darryl Posey and Kayapo Indians

WEDNESDAY, February 2nd

11:40 Arrive at BWI, Flight 22, Piedmont Airlines

1:30 Briefing at EDF

3:00 Senate Foreign Operations Subcommittee Meeting
125 Capital Building

Richard Collins, legislative aide for Senator Daniel
K. Inouye (D-Hi), Phone: 224-7205

Alex Echols, legislative aide for Senator Robert W. Kasten (R-Wis)
(Kasten may show up for a few minutes) Phone: 224-5323

4:15 Meeting with Gerhard Boehmer, Executive Director for Federal Republic
* of Germany, The World Bank, 1818 H St. NW
Room E1325 Phone: 477-2295

6:00 Dinner with members of National Congress of American Indians
~~They will meet you at EDF.~~
Contact person: Gayle Chehek 546-9404 804 D ST NE.

THURSDAY, February 3rd

9:30 Meeting with Frank Vukmanic, Director, Office of Multilateral
Development Banks, U.S. Treasury Department. Room 5400
Contact person: Dave Blumgarten: 566-2067 Nick

11:00 Meeting with Ken Taylor, Survival International, 2121 Decatur
Place at Quaker House (Between R & S) Phone: 965-9305

1:30 Meeting with Congressman John E. Porter (R-Ill), 1131 Longworth Building
Contact person: Katy Moran 225-4835

2:00 Meeting with Judy Robinson, legislative aide for Congressman David
R. Obey (D-Wis) 2217 Rayburn Phone: 225-3365

4:00 Meeting with Jack Robinson, State Department, Phone 647-9462
Please go to C St. Diplomatic Entrance; he will meet you in the
lobby. Kevin Vang

6:30- Wine and Cheese Reception at the home of Ladonna Harris, 3508 Garfield St. NW 9:00 Phone: 333-3529

FRIDAY, February 4th

8:45 Meeting with U.S. Executive Director, Robert Keating (Ron Myers also attending) The World Bank, 701 19th St. entrance, Room D1328, Phone: 477-2776 Kevin Vang

10:30 Preparation for Press Conference

12:30- Press Conference, Methodist Meeting House, 100 Maryland Ave. NE
2:00 Conference Room 3.

3:00 Meeting with Paul Arlman, Executive Director for the Netherlands, The World Bank, 1818 H St. Room F1306 Phone: 477-5286 Kevin Vang

4:30 Meeting with J.A.L. Faint, Alternate Executive Director for the United Kingdom, International Monetary Fund, 11th floor, Room 120 Phone: 623-4555 Kevin

5:00 Meeting with Brazil Country Operations Chief, Gobindram T. Nankani The World Bank, 1850 I St., Room I7059 Contact person: Nancy, 676-1851

6:00 Meeting at Indian Law Resource Center with Tim Colter (includes Dinner) Phone: 547-2800, will make arrangements to meet you at the World Bank.)

543-7122



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COD. 010 : 1

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MEMORANDUM: Environmental and Social Concerns
 Related to the World Bank

Brazil Power Sector II Loan

January 11, 1987

In March of 1987, EDF and several other organizations met with World Bank staff to discuss concerns with the implementation of the Environmental Master Plan for the power sector and several specific tribal peoples and resettlement issues related to the sector. We were assured that the Brazilian Government had submitted a satisfactory plan and was taking steps to implement the measures detailed in it. This plan, which establishes criteria and goals for improving the environmental and social impact assessment and mitigation capacity of Eletrobras and the Brazilian regional power companies, was a condition for the approval of the World Bank Power Sector I loan in 1986, and difficulties in the implementation of it are one reason that the Power Sector II loan has not yet come before the Bank's Executive Board for a vote. "The Multilateral Development Banks and the Brazilian Electrical Energy Sector", available from EDF DC (contact Lori Udall, Ken Walsh, or me after February 20) contains discussion of the plan.

Since March, we have noted a number of very serious environmental and social problems related to the sector, both institutionally and with regard to specific power projects either proposed or underway. The potentially disastrous projects and the institutional problems in agencies central to ensuring even minimal compliance with the Master Plan are extremely serious. The World Bank, in our view, must be able to assure its directors, as well as populations at risk from Brazilian power projects, and concerned citizens' organizations internationally, that these problems have been fully resolved before any further loans to the power sector are approved, if the Bank is in

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fact committed to improving the environmental quality of its loans. A brief discussion of key problems follows.

Projects: Precedents and Prospects

1) The Balbina Dam - The notorious Balbina dam is of course a fait accompli unlikely to be undone. But events since the approval of the first power sector loan and since the approval of the Master Plan clearly indicate that the agencies charged with environmental protection and tribal peoples issues are unable or unwilling to fulfill the commitments they have made or indeed their legislative mandates.

The basic facts are well known: Balbina is flooding some 2,346 square kilometers of pristine tropical forest to produce 240 megawatts, about 20 times less energy than the Tucurui dam, which floods 2,160 square kilometers. The average depth of the lake formed is no more than eight meters, and virtually none of the timber has been, nor will be cleared from the catchment area, in process of filling since October of 1987. The Waimiri - Atroari Indians are directly affected by the flooding. This group has suffered a series of massacres and introduced epidemics since the late nineteenth century. In 1971 a reserve was created for the Waimiri - Atroari, which according to FUNAI anthropologists left a fifth of the area occupied by the groups outside of the legally protected area. Nonetheless, in 1981 about a third of the reserve was ceded by President Figueiredo to Paranapanema-Taboca Mining and to Eletronorte, the regional power company that built Balbina. A road, BR-174 was constructed through the area, and Taboca later constructed an additional feeder road. The groups have since official contact in 1975, suffered massive social disruption, environmental degradation, and loss of life owing to horrific health conditions. In 1975 there were perhaps 1,000 Waimiri-Atroari; today no more than 400 survive. The role of the National Indian Foundation (FUNAI), the agency responsible for Indian protection, has been that of handmaiden to the interests responsible for the devastation of the Waimiri-Atroari. Between 1975 and 1981, FUNAI carried out a series of relocations in order to clear the proposed Balbina catchment of Indians, and free Eletronorte of responsibility for indemnifications. FUNAI employees have obliged the Indians to settle near FUNAI posts and have disorganized the social and economic life of the groups. No compensation for loss of land has been made to the group.

About one third of the surviving population of Waimiri Atroari has been forcibly relocated for the Balbina dam. Although the dam had been in progress for years, until at least April of 1987 there was no resettlement plan, the legal measures (demarcation) to protect the Indian land had not been taken, and the groups had no clear idea of the physical consequences of dam construction. The area has now been demarcated, but only after the dam began to fill. The resettlement, hurried and virtually unplanned, has resulted in serious social conflicts among the Waimiri - Atroari. There is at this point no equitable recompense imaginable for the Waimiri - Atroari, but the situation requires at an absolute minimum that competent anthropologists and

legal counsel, independent of the agencies responsible for the disaster visited on this people, be contracted to explain their rights to them and help to negotiate compensation.

Environmental and social issues have in general been treated as afterthoughts. Despite environmental legislation to the contrary, authorization from the State Environmental Council for the dam was not obtained until after the dam had started to fill. Eletrobras, of which Eletronorte is a concessionary, conducted a comparative study of probable water quality in Balbina and the actual water quality in the Brokopondo dam in Surinam in 1977. The study concluded that Balbina, with its shallow reservoir and slow moving water is likely to encounter even worse problems than Brokopondo, which had its costs increased enormously by water quality problems. Nonetheless, the Balbina catchment was not deforested, and no effective measures have been proposed to avoid extremely high maintenance costs for generators and other predictable negative effects of eutrophication.

Environmental considerations were swept under the rug until the second half of 1986, when the first studies were prepared, although work on the dam had been underway since the seventies. After the dam closed, Eletronorte "discovered" some 300 previously ignored regional people living downstream from the dam, who depend for their living on the river. The drying of the river is for this population an economic and ecological disaster, and Eletronorte's attempt to address the problem by building wells for the affected families has been wholly unsuccessful.

Conclusion -

The fact that this project began before the World Bank's power sector I loan is far less relevant than the performance of Eletronorte and the agencies responsible for environmental and social issues since the loan, and since the preparation of the Environmental Master Plan, in a highly visible and already scandal-ridden project. Resettlement of the indigenous populations was done at very best in a negligent and disruptive manner and with no compensation; the flood gates were closed, apparently in advance of the scheduled date, before even minimal resource management steps such as deforesting the catchment could be taken, let alone any adequate study of the natural resources to be destroyed in the flooding; a regional population ignored until its resource base vanished has been reduced from poverty to destitution. If Bank funding for the sector is not to simply repeat such disasters wholesale, the Bank must have not only assurances but concrete evidence that the power sector, FUNAI, and the state and federal environmental agencies have vastly improved their capacities, and that the planning process has substantially changed to include public participation and real consideration of alternatives. Other cases strongly suggest that no such changes have taken place.

The Altamira - Xingu Complex: Babaquara and Kararao

These two dams, located on the Xingu river, in Para state, are expected to generate some 17,000 MW and will flood from 4,735 square kilometers (according to correspondence between CENEC, the consulting firm doing feasibility studies on the project, and the Brazilian Anthropological Association) to 7,365 square kilometers (according to an Eletronorte brochure) of uninventoried primary tropical forest. In either case, the Altamira Complex would be the largest man-made lake in the world. The project would directly affect nine indigenous areas. These are inhabited by recently contacted groups that depend for their survival on the fragile tropical forest ecosystems. The project cost is estimated at 10.6 billion dollars. Part of the city of Altamira would be flooded, and the dams would affect regional populations as well. Construction of the work would rapidly increase the population of the town of Altamira from about 45,000 to at least 100,000, in the familiar temporary megaproject boom, with attendant increases in prostitution, social disorder, and violence. The scale and location of this project could make the debacle of Balbina pale by comparison.

In our March meeting Bank staff stated that they had queried Eletronorte on the status of this project, and were assured that the project was in the stage of feasibility studies; i.e., that no decision to build the work had been taken. Bank staff from the Latin America and Caribbean Energy Department stated that in the 1987 - 1996 power sector budget only funds for feasibility studies were scheduled for the project. Nonetheless, an editorial in the respected Folha de Sao Paulo, dated Sept. 30, 1986, takes the view that Eletronorte plans to build the dams, as do several authorities on the sector. The president of Eletronorte in fact made public statements to this effect (Folha de Sao Paulo 09/28/86) Some Eletronorte sources show Kararao scheduled to start operation in 1998, and Babaquara to start operation in 2001. (Comissao Pro-Indio SP, "The Hydroelectrics of the Xingu and Indigenous Peoples") Some two hundred people have been engaged in feasibility studies at the dam site over at least the last three years. In response to inquiries by various concerned citizens' organizations about what phase the project is in, Eletronorte has been vague. Despite repeated efforts by citizens' groups to obtain information on the project, Eletronorte is unwilling to engage in public discussion of the project. The Brazilian public is at this point actively being prevented from participating in decisions on the project.

The destination of the energy to be generated from this project is of serious concern to the project's critics. If it is to go to the southern industrial centers, as Eletronorte claims, transmission costs will be high, and as the Folha points out, the transmission and maintenance problems familiar from Itaipu will be multiplied. If the energy is to go to aluminium and other high-energy consuming mineral refining works in the Carajas region, many citizens suspect that the public will continue to pay, through public debt service and residential energy bills, for highly subsidized energy prices to industry, as has been the case for the energy generated by Tucuruí.

There is no evidence that alternatives to this project have been considered, nor that the environmental and social effects of the project have been given any serious consideration in planning. The Eletronorte brochure on

the inventory of hydroelectric potential of the Xingu river and the Altamira Hydroelectric Complex, treats construction of the dams as a foregone conclusion, and contains detailed engineering specifications for the projects. The section on environment in the brochure states "In spite of still being in the early feasibility phase of development, the environmental impact of the Altamira Hydroelectric Complex is already being studied. This will be based in the experience already accumulated by Eletronorte in the establishment of reservoirs in the Amazonian area such as Tucuruí, Balbina and Samuel." The brochure makes no mention of the indigenous or regional populations that would be affected by the work. In fact, the environmental studies were only contracted in 1987, and already appear to be in suspension: the consultants contracted by CENEC to do environmental studies have reportedly been impeded by CENEC itself from carrying out their research, indicating that once again, environmental and indigenous peoples' concerns have not been incorporated into the planning process, but remain add-ons, or public relations problems, the Environmental Master Plan notwithstanding. The project is to all appearances proceeding to construction, without the legally required environmental impact study (RIMA) having been prepared, and without the legally required evaluation of the study and authorization for the project having been issued by the competent agency, in this case the state environmental agency of Para. If the Bank does not intend to disregard the Master Plan it helped to design and negotiated, it must obtain clear evidence that this is not the case before considering approval of the Power Sector II loan.

Conclusion

The project's critics include not only the Brazilian Anthropological Association and other environmental and indigenous rights organizations, but some of the most respected energy experts in the country, for example, Luiz Pinguelli Rosa, nuclear physicist and director of Interdisciplinary Energy Studies in COPPE, (Post-Graduate Program in Engineering) at the Federal University of Rio de Janeiro. While they all share serious concerns over the immediate environmental and social impacts of the project, they share perhaps even greater concerns over the implications of this projects for public participation in decisions over public works in Brazil. The Bank should not approve the power sector II loan unless it has clear evidence that: 1) natural resource surveys carried out by competent professionals for the entire area affected, and complete studies of the situation of the indigenous and regional populations directly and indirectly affected by the project, are completed; 2) the populations directly affected by the Altamira dams, including the indigenous populations, and concerned citizens' and professional groups are satisfied that their concerns over this project have been fully answered by Eletronorte. If the second condition cannot be met, the Bank should not approve the power sector II loan until the Altamira Complex is halted. At very least, the Bank will make a mockery of its own environmental policy, as well as of the Master Plan, if it approves this loan without first insisting that minimal environmental and social surveys be carried out in what is one of the energy sector's largest, most expensive, undertakings, as well as the most questionable from the point of view of the Brazilian public.

3) Manso Hydroelectric

The Manso hydroelectric, on the Manso river in the state of Mato Grosso, would generate 210 MW, and flood an area of 387 square kilometers. According to local environmental organizations and public officials, public bidding on this project was opened by Eletronorte before the legally required Environmental Impact Assessment (RIMA) was prepared and without due authorization by the state environmental agency. As planned, the dam would affect not only the Cuiaba river but the Pantanal of Mato Grosso, a unique ecosystem, and one of the most important wetlands and wildlife refuges on the continent. The migratory fish population of the Cuiaba river would be negatively affected, with effects on the food chain in the Pantanal. According to Projeto Defenda a Vida, a local environmental organization, as well as public officials and University faculty, the multiple uses proposed for the Manso project have not been supported by evidence. Construction was to start in 1987, and operation of the hydroelectric is scheduled for 1991. Under this timetable, it is difficult to imagine how adequate environmental and social impact analyses will be carried out.

Projeto Defenda a Vida and other critics point out that a less costly, more appropriate alternative, the Couto Magalhaes dams on the Araguaia river, would more effectively meet the state's energy needs with markedly less severe environmental impacts. No mention of the alternative projects is made in the Master Plan. The cost per kilowatt of energy generated by Manso is said to be orders of magnitude greater than the alternatives. The economically useful life of Manso is said to be about 9 years. Projeto Defenda a Vida has initiated legal action to halt the project and to ensure ample public participation in the selection of development alternatives.

The Bank should insist that Eletronorte demonstrate that Manso is the least-cost alternative for the state's energy needs, specifically in relation to the alternatives indicated by Projeto Defenda a Vida, before approval of the power sector II loan. The Bank should also ensure that adequate environmental impact studies of Manso are carried out (unless the project is abandoned) before approval of power sector II.

Institutional Issues -

The projects cited above suggest that the state environmental agencies and the secretariat of environment have so far had relatively little success in affecting the energy sector, and indeed have difficulty in getting the regional concessionaries to prepare and submit for approval legally required environmental impact assessments. Eletrobras and the regional companies plan to build some 136 new dams by the year 2010, so the issue of institutional capacity to assess and prevent negative environmental impacts is of considerable importance. That Eletrobras has hired 166 new employees to work on environmental issues and received an exemption from the federal hiring freeze to do so is no doubt an advance, but to very little effect if the process remains the same. Given the record of the sector - consider Balbina -

the Bank must have evidence that the planning process has changed sufficiently that such disasters will not be repeated, and not merely declarations of good intentions. Not only Eletrobras and the regional companies are responsible for environmental and indigenous protection in the sector's projects; the competent government agencies have central roles as well.

Since approximately 60% of the planned new construction would affect indigenous populations, the National Indian Foundation's (FUNAI) capacity and willingness to carry out its mandate of legally guaranteeing the land of Brazil's indigenous population, and protecting the health and welfare of that population, is of central importance.

Under present conditions there is not the slightest possibility of FUNAI effectively protecting the interests of indigenous populations affected by power projects or carrying out measures to mitigate the impacts of such projects. The World Bank itself called for the institutional strengthening of FUNAI at the outset of its now notorious Polonoroeste program, and has invested considerable effort in seeing that the terms of its loan agreement relating to indigenous land protection were carried out, with very limited success. Eight of 45 recognized Indian areas in the Polonoroeste area of influence have been fully documented as legally protected Indian areas. (CEDI, Aconteceu Especial 17: Povos Indigenas no Brasil 85/86) Such legal documentation is a minimal precondition to actual protection of Indian areas, not in itself a sufficient step to defend these lands from predatory exploitation and resource destruction. A 1987 World Bank report on the indigenous people's situation in Polonoroeste, leaked to the press, summed up current conditions: "The security and health of the Indians in the area of influence of Polonoroeste are seriously threatened, since the agency responsible for defending their interests seems unequipped to deal with the indigenous reality." (Journal do Brasil 07/23/87). The report noted the presence of illegal loggers on five indigenous reserves, as well as an illegal gold mine on one. "The administrators of the indigenous areas, the agents responsible for FUNAI posts, and at times the Indians themselves make agreements contrary to existing regulations, permitting the extraction of wood, gold, and the construction of roads and other activities damaging to the well-being of the Indians." (Ibid.) The report goes on to criticize the administrative disorganization of FUNAI, with particular emphasis on the "total lack of control or efficiency in the health services in the indigenous areas," citing "constant epidemics of tuberculosis, measles, and malaria, without due medical attention, which is the exclusive responsibility of FUNAI."

This scandalous situation lamentably represents not a local irregularity, but the administrative character of the agency on the national level. The Federal Accounting Tribunal, a federal auditing agency roughly equivalent to the General Accounting Office, on November 11, 1987, instituted a formal investigation of contracts signed by the president of FUNAI with logging firms for logging on Indian lands. A previous investigation of misappropriation of funds was already underway. The head of the Tribunal, Minister Adhemar Ghisi, stated that FUNAI's behavior, "with respect to budget and finance questions is uncontrollable and contrary to the simplest principles of self-control and

respect for the law." (Jornal do Brasil 11/12/87). In addition to the Tribunal's investigations, criminal investigation of charges of extortion were initiated by the Attorney General. The President of FUNAI publicly admits that he has signed contracts for logging on Indian lands, claiming that the agency is attempting to control a situation that exists in fact and ensure that the Indians get a fair price for the timber. However, the contracts are signed without public bidding, often in exchange for the construction of roads, houses, airstrips, and other works that are the responsibility of the agency to provide, where necessary (J do B 11/05/87), and signed without consulting the Forestry Institute (IBDF) in order that a resource management plan for logging be approved, as required by law. In one case, FUNAI signed a contract with a logging firm that had been fined by IBDF for illegally operating in a joint Indian reserve and National Park, in effect giving back timber that IBDF had confiscated. (J. do B 11/14/87) The value of the wood being removed often vastly exceeds the cost of the works given in exchange (J do B 11/20/87). This may be explained by under the table payments extracted by FUNAI in exchange for the nominal legalization of illegal logging operations. This is in fact the charge in the extortion case now pending.

In light of such monumental irregularities, and the Bank's own assessment of FUNAI's record and capabilities in the Polonoreste area, how can the Bank maintain that this agency in its present form is minimally capable of carrying out the actions required of it in the Master Plan of the power sector? A loan not made today may be made tomorrow, but the destruction of natural resources and human suffering caused by a Balbina are irreversible. For the indigenous populations affected by power sector projects, the Bank will unleash some 80 Balbinas if it does not insist on new leadership and radically improved staff quality in FUNAI before approving the power sector II loan. The Bank must insist that the serious charges against FUNAI be fully investigated and that whatever changes in the agency necessary to rectify the situation be made before the power sector II loan is considered for approval. Approval of the loan before this agency has demonstrated substantially improved capacity to carry out its mandate would be to admit that the Bank's indigenous peoples policy is of no importance. A reasonable demonstration of improved capacity would be full legal protection for the indigenous areas in previous Bank projects, including Polonoreste, Carajas Iron Ore, and the Northeast Region Rural Development loans, and demonstrably improved health services to the indigenous populations in these areas.

Recommendations

The Power Sector II Loan is said to be scheduled to come before the Bank's board as early as February 1988, but certainly by March or April. The Bank should delay the loan at least until it has: 1) ascertained for itself, by sending a mission to the area, what the actual status of the Altamira Xingu Complex is, and 2) seen the outcome of the criminal charges against and administrative investigations regarding illegal logging contracts and misappropriation of funds regarding FUNAI. To approve this loan under the present situation would be tantamount to announcing that the fate of the indigenous populations of Brazil is of no importance to the Bank, and

flagrantly contrary to the Bank's tribal peoples' policy.

The Bank's sector loan does not contain funds earmarked for specific projects, but as the Itaparica resettlement component of the first power sector loan showed, the Bank can condition approval of a sector loan on resolution of issues in particular projects. The Bank should ensure that no further engineering work on the Altamira projects are included in the sector's plans until full environmental and social impact assessments have been prepared and the populations affected, and organizations concerned with the project are satisfied that their concerns are answered. The Bank should further ensure that the Manso project does not proceed until it is shown to be the least-cost alternative, and Projeto Defenda a Vida and other concerned local organizations should be involved in this determination. Finally the Bank should guarantee that the Waimiri - Atroari have access to the information and resources they need to negotiate some form of compensation for the massive losses of life and livelihood they have suffered.

Once having determined the outcome of the investigations and charges pending against FUNAI, the Bank should insist that the quality of the agency's staff be drastically improved. The Bank should not approve the power sector II loan until this agency has demonstrated its ability to carry out its mandate, by bringing the indigenous peoples components of previous World Bank projects, notably Polonoreste and Carajas Iron Ore, into full compliance with the loan conditions, or has been replaced by another agency that does so. In this regard, the Bank could potentially fund training in health and administrative programs, as well as competent anthropological training.

In this light, the Bank should study the possibility of making low interest or no-interest funds (along the lines of IDA credits) available for environmental and social institution building. The Brazilian government points out that the conditions it has negotiated with the Bank in this area cost money, and the Bank could speed the process of strengthening environmental units in the power companies, and similar measures, by making such funds available.

International Bank for Reconstruction and Development
International Development Association
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FROM: Vice President and Secretary

July 9, 1986

Summary of Discussions at the Meeting of the Executive Directors of
the Bank and IDA, and the Board of Directors of IFC, June 19, 1986*

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* This summary consists of staff notes of the discussions, and is not an approved record.

Distribution:

- Executive Directors and Alternates
- President
- Senior Vice Presidents
- Senior Management Council
- Vice Presidents, IFC
- Directors and Department Heads, Bank and IFC

Provisions for Training

- 32. A speaker expressed the view that emphasis in the project should be more on training than technical assistance.
- 33. The staff replied that training support would be provided by both the project and by the French Caisse Centrale, which was associated with the project.

Civil Service Salary Increases

- 34. A speaker asked about the implications of civil service salary increases recently approved by the Government on the adjustment program.
- 35. The staff replied that the Government had informed the Bank that it had identified a number of measures to offset the effects of the salary increases. A World Bank mission in Zaire was now discussing these measures with the authorities.

LOAN TO BRAZIL FOR PUBLIC SECTOR MANAGEMENT

- 36. The Executive Directors approved a loan to Brazil of US\$29 million equivalent for a Public Sector Management Project. It would strengthen Brazil's public sector planning and management capabilities at the federal level in key areas of responsibility of the Ministries of Planning and Finance.

Staff Introduction

- 37. The staff said that the Government of Brazil was committed to a program of reform, economic growth and inflation control, with a strong social and antipovertry orientation. Reform of the public sector was a strategic objective. The Government's intention was to concentrate on more traditional functions such as provision of social services and basic infrastructure, leaving directly productive activities increasingly to the private sector. This would entail tighter public expenditure and deficit control to release resources for private sector activity. Several major institutional changes had already taken place prior to the Government's stabilization measures announced on February 28, which sought to eliminate inertial inflation and reestablish the stable conditions for sustained economic growth.
- 38. The Bank's strategy with respect to Brazil was described in Part II of the President's Report. In summary, the Bank sought: (1) to promote and support major structural adjustments; (2) to help develop and maintain essential infrastructure; and (3) to help increase productivity and improve living conditions among the poor.
- 39. The Public Sector Management Project would provide support for:
(1) major improvements in sector and project analysis, multi-year investment planning, social program monitoring and economic and social information systems; (2) instituting performance evaluation systems for the numerous state enterprises and developing rehabilitation programs and privatization plans for

at least 30 of them; and (3) support for the establishment and operation by the new national Treasury Secretariat of an integrated budget information and management system to exercise closer fiscal control.

40. This was the first such project proposed for Brazil, and it could be seen as a demonstration of the close policy and operational dialogue established between the central economic authorities and the Bank staff. Three additional examples were the power sector loan also on this meeting's agenda; a credit and marketing reform project scheduled for Board consideration the following week, which would support policies aimed at improving the efficiency of resource allocation in financial markets and in the agricultural sector generally; and an industrial restructuring technical assistance loan under preparation, which would support the formulation of detailed rehabilitation and privatization programs for some of the major state-owned industrial enterprises.

41. The staff said it saw as especially significant the arrangements associated with this loan for an annual exchange of views between the Government and the Bank on the execution of the federal public sector investment program during the previous year and on the program as a whole for the succeeding three years, on the basis of reports to be prepared by the Government. It was envisaged that the Bank also would prepare its own annual assessment of these activities, and that such assessments could eventually be made available to interested third parties by the Brazilian Government. These arrangements would, the staff believed, further strengthen the association between Brazil and the Bank.

Taxation Reform

42. A speaker supported the project and said it was, in Brazil's circumstances, an investment that could have a very high payoff for the country.

43. However, the speaker said he understood that there were a number of problems in the tax system and revenue collection area, but this project contained nothing that directly impacted on that. He asked if the staff was developing a dialogue with the Brazilian authorities in this area and whether it was one that the Bank would be prepared to support with appropriate technical assistance.

44. The staff said the Bank saw taxation reform as one of the key next steps in the structural changes that Brazil needed, and it intended to maintain a dialogue with the country on the matter. The Government was in the process of turning its attention to the issue, and some studies already had been done. In fact, further studies would be supported in the research components of this project.

LOAN TO BRAZIL FOR ELECTRIC POWER SECTOR REHABILITATION

45. The Executive Directors approved a loan to Brazil of US\$500 million equivalent for the Electric Power Sector Loan. The Government would transfer an amount equivalent to the loan proceeds, in cruzados, to Eletrobras, which

would in turn transfer the funds as equity contributions to four of its subsidiaries to implement priority investments included in the sector rehabilitation plan.

46. Two speakers opposed the project.

Staff Introduction

47. The staff said that the Government's decision to rehabilitate the electric power companies was consistent with its commitment to the structural adjustment of the public sector, including rehabilitation of state enterprises to ensure the efficient use of available resources. This loan would make a substantial contribution toward reducing the public deficit on a permanent basis by strengthening the financial condition of the power sector.

48. The power sector rehabilitation was based on a sectoral plan consisting of a four-year investment program and financial plan prepared over the past two years by the Government and Eletrobras with technical support from Bank staff. The investment program was based on realistic demand projections, and the planned investments would reach only the minimum amounts required to maintain acceptable service reliability levels. Investments in generation were mainly directed toward completing ongoing construction, while investments in transmission and distribution were concentrated in the expansion of existing networks in order to enable the system to utilize the energy to be generated by projects nearing completion.

49. The financial plan took into account the current economic conditions of the country and included measures to strengthen the financial situation of the sector so that its investment program could be carried out on a schedule consistent with the country's energy requirements. The plan showed that the sectoral financial situation would improve substantially during the period 1986-89 as consumer-generated revenues increased, mainly as a result of higher tariffs, and the reliance of the sector on borrowing declined. Although tariff increases had been delayed in 1986, owing to the general price freeze which accompanied Brazil's February 28 monetary reform, the financial situation of the sector would be improved substantially during 1986 through equity contributions to be made by the Government and complemented by external support, including this loan.

50. The Bank would closely monitor the process of rehabilitating the sector. The Government had agreed to send the Bank each year for its review and approval a revised rehabilitation plan for at least the subsequent four years. The Government also had agreed not to enter into any contractual arrangements regarding the implementation of major projects over \$200 million until their technical, economic and financial justification had been confirmed in a manner satisfactory to the Bank. Moreover, the Government had committed itself under this project to undertake a study of the institutional changes required in this sector, including possible partial privatization.

Reasons for Opposing the Project

51. One speaker said that his authorities had instructed him to oppose the project. Although they recognized that the loan could contribute to the

continued development of the Brazilian power sector, that a number of sector policy changes might be initiated and that Brazil was embarked on an economic adjustment effort that was showing positive results, his authorities believed the loan as negotiated was fundamentally flawed. Disbursement was designed to take place before the needed tariff adjustments were implemented, and the loan had been brought to the Board before complementary financing was even tentatively arranged and before serious environmental issues had been adequately resolved. He said that consideration of the loan was entirely premature. In the Bank's haste to meet lending targets, the Board was being asked to agree to a massive loan where the key policy adjustment needed was not a condition for disbursement, the outline of the ultimate financial package was unclear and major environmental questions, to all appearances, were being swept under the rug. The speaker said the loan as currently designed did not, in the view of his authorities, meet the criteria for an expanded Bank role in assisting the adjustment process in debtor countries.

52. Another speaker said he shared the previous speaker's concern about the electricity tariffs, and he wished to stress that the environmental protection components of the project were much too weak. They consisted mainly of promises to be fulfilled in the future with very few concrete measures supported by substantive analysis. He said consideration of the loan should be postponed until it was possible to study the resettlement plan for the Itaparica subproject, which was due to be presented by the Brazilian Government by July 15 and which the staff appraisal report had estimated would cost \$240 million to implement. This would be proper Board procedure, said the speaker, considering the important human problems in resettlement cases, the huge amount of money involved and the grave consequences for the Bank's image if the plan were not successful. At a minimum, he said, the resettlement plan should be part of the formal conditions of effectiveness of this loan. The speaker asked management to retailor the tranches in order to postpone the disbursement of \$240 million until about the middle of next year rather than allow the loan to be fully disbursed by December 31, 1986. This would make it possible to disburse upon reassuring actions, not only lofty plans, he said. If this request could not be met, he said, he wished to be recorded as opposing this loan.

Should Consideration be Postponed?

53. Another speaker said that, in principle, he was supportive of the Bank's efforts to help the Brazilian economy and the power sector. However, he said, the questions which had been raised regarding pricing and environmental issues were of great importance, and he noted that there appeared to be differences of view about them. Therefore, he suggested that, given the size of the loan and the controversial issues that had arisen, Board consideration be postponed until a small group of Executive Directors could examine in more detail all the issues involved.

54. The staff said that the loan was before the Board for a decision. Nevertheless, the staff assured the speaker that the issues had not been raised suddenly at this meeting. Over the past several months, the regional staff had been in contact with the authorities that opposed the loan. The staff said that there were no differences of view as to the facts; it was judgments that differed.

Support for the Loan and Brazil's Economic Recovery Program

55. A large number of speakers supported the loan. Many of them cited it as a good example of the role the Bank should be playing in assisting heavily-indebted countries which were embarked on adjustment programs. A number of these speakers commended the Brazilian Government's relatively successful and courageous adjustment efforts and pointed out that the country's adjustment program was one of the few in the world that appeared to be working and that had wide public support. These speakers also commended the Bank's management for its continuing dialogue with the Brazilian authorities in restructuring the country's important power sector, as well as its flexibility in negotiating this loan.

56. Several speakers stated that they specifically supported the terms and conditions of the loan as set forth in the loan documents. They said the conditionality was appropriate in Brazil's circumstances. Some of them added that, in fact, the success of Brazil's overall adjustment program was undoubtedly based on the fact that it combined the right balance of immediate and longer-term elements which took into account the particular circumstances of the country.

57. Three different speakers indicated that their authorities had considered this loan very carefully and supported it with some reluctance or difficulty, as they shared some of the concerns of those who opposed the loan. Nevertheless, these speakers said they wanted to make it clear that their authorities supported Brazil's adjustment effort generally as well as its effort to make needed adjustments in its power sector. They believed it was appropriate and important for the Bank to support both efforts. One of these speakers said his main complaint was that there was not enough conditionality, as was the case with many of the Bank's adjustment loans.

The Pace of Adjustment in Electricity Pricing

58. A speaker who opposed the loan and another speaker expressed dissatisfaction that the second tranche of the loan would be released by December 31, 1986, based only on a plan to raise electricity tariffs beginning in 1987 to produce an appropriate return by 1989. The speakers indicated that it was not clear that the Brazilian authorities had always met the pricing conditions in previous Bank loans to the sector, so they would have preferred more concrete conditions in this loan. One of them pointed out that scheduled tariff increases in this sector which were to have been made just before the Plano Cruzado price freeze went into effect February 28 had not been made. He asked what the real tariffs were now in contrast to where they had been in 1985. The other speaker asked why there had not been more tranches in this loan.

59. The staff said that although there had been some problems in compliance with tariffs in the past, on the whole the Brazilian performance had been fairly good. In 1976, when the sector had been in a strong financial position, it met the rates of return provided for in Brazilian law. However, in the late 1970s, the Government had allowed the tariffs to deteriorate in its effort to fight inflation. In 1981 when the Bank had threatened to suspend disbursements on power loans, agreement had been reached on tariff

increases that would have rehabilitated the sector financially, and the Government had complied with the agreements reached at that time. However, the rates of return had not been reached because inflation had increased faster than had been anticipated and because of some other distortions. In 1983, the Bank and the Government had agreed on rates of remuneration, and the Government had met these targets until the end of 1985.

60. This loan sought to achieve a 9.1 percent rate of remuneration by 1989, which fully met the Bank's standards in this matter. However, it was very important to note that the rate of remuneration objectives were not to be met only through tariff increases; equally important were cost reductions. The two together would produce the desired results.

61. The objective of this loan was to completely rehabilitate the sector's finances. Some of the elements which would achieve that objective, and which were included in the loan documents, were:

- Agreement on a financial plan had been reached which would bring the rate of remuneration to 9.1 percent by 1989.
- No later than November 30 of each year for the next five years, or until the Bank deemed necessary, the Government would present to the Bank for its agreement a rehabilitation program for the sector for the following year. This would include a specific investment program and specific measures that would be undertaken to meet the rate of remuneration targets, including tariff increases, cost reductions, elimination of subsidies and the like. Release of the second tranche was conditioned on such an action plan for 1987.
- It had been agreed that the Government would provide a minimum of \$1.3 billion to the sector to complete its rehabilitation program. This capitalization process, including subscription and paying in of the capital, was a condition for releasing the tranches.
- The Brazilians had agreed that they would not undertake in the future any investment in excess of \$200 million without the Bank's prior approval.
- In addition, agreement had been reached with the Government on actions for addressing sociological and environmental issues that were related to the ongoing projects in the investment program.

62. Therefore, the staff said, the Bank would, for the first time, be able to review and approve the entire sector investment program and closely monitor its size, priorities and economic viability.

63. As to why there were not more tranches, the staff said it had been designed as a fast-disbursing loan, as the documents made clear. Brazil had implemented many substantial economic reforms, but it was not getting any external capital flows except from the World Bank and the Inter-American

Development Bank (IDB). Nevertheless, the Bank's large lending program in Brazil and the continuing importance of the large power sector meant that the Bank had a continuing influence on the matter even though this particular loan was fast-disbursing.

64. Several speakers agreed with the approach outlined by the staff. One of them said the Bank was right to emphasize rates of return rather than simply tariffs as such. Nevertheless, he said he expected a very tight plan of action for 1987 before release of the second tranche.

65. A speaker asked that the Board be informed quarterly about Brazilian electricity rate charges, in both nominal and real terms. Two other speakers concurred.

66. The staff said that, since tariffs for 1987 were a condition of second tranche release, the Board would get a report on that. Also, the staff would report in 1987 on the achievement of the 1987 tariff objectives. However, the staff said it believed quarterly reporting was excessive.

The Environmental Impacts of the Subprojects

67. A number of speakers expressed concern about the environmental impacts and potential resettlement problems of the subprojects which would be financed by this loan. Some of them cited pressure on their Authorities to oppose the loan from environmental groups who appeared to have details of all of the subprojects, many of which were not discussed in the President's Report. Although many of these speakers indicated awareness that the Bank would be helping the Brazilian Government manage the environmental aspects of old projects that the Bank had not financed in the first place, they expressed concern that the Bank's image could be damaged from its association with some of these projects.

68. The speakers who opposed the loan indicated great concern that specific resolutions to these outstanding problems were not sufficiently part of the loan's explicit conditionality or a condition for release of the second tranche.

69. One of these speakers said the loan was extremely inconsistent with the desirable and established Bank policies on environment and resettlement. It was clear that 40,000 persons could be displaced by the Itaparica Dam and that it would involve great human suffering and recriminations, he said. Therefore, the only basis on which the Bank should have anything to do with the financing of the Dam would be if closure were delayed by at least the two to four years necessary to carry out a proper resettlement.

70. Further, the speaker continued, the Jiparana Dam in Rondonia would flood a portion of an Indian reservation which previous Bank financing had helped establish. Also, the loan included expenditures to mitigate the effects of the Tucuruí Dam, which the Bank had considered and then declined to finance because of the adverse environmental consequences. Even now, the plans did not include any provisions to assist the Indians that had been displaced, even though one of the direct consequences of dam construction had been the spread of fatal diseases in the Indian population.

71. Yet another folly, said the speaker, was financing for the Balbina Dam. It would flood 1,600 square kilometers of tropical forest, nearly the same area as Tucuruí, in order to generate only a small fraction of the power that Tucuruí would provide.

72. The speaker said that although the loan included a requirement for a master plan for environmental assessment of future investments in the power sector, and this was useful, he wondered how much confidence one could have that it would be carried out conscientiously when the same institutions would be implementing a series of environmental disasters at the very same time. His authorities believed that the time to begin insisting on environmentally-sound projects in the Brazilian power sector was now; this loan should be rejected in order to thoroughly reassess the investment program and eliminate those investments that were not consistent with a sound approach to environmental management or established Bank policies.

73. The other speaker who opposed the loan said that approval of the loan should be postponed until the Bank had been able to study the resettlement plan for the Itaparica project. At a minimum, the resettlement plan should be part of the formal loan effectiveness conditions, he said, but this was not stated explicitly in the documents.

74. Further, he said, the disbursement of the second tranche was contingent upon presentation of the master plan for strengthening the sector's environmental unit, but very little action would take place by the time of disbursement at the end of this year. Since Brazil's implementation record regarding environmental aspects of projects had been less than brilliant in the past, he said, he asked management to retaylor the tranches in order to postpone disbursement of the second tranche until the middle of 1987. The project oozed of balance of payments support, he added.

75. The speaker said that the Bank could not overemphasize supervision of this project, and he stressed the need for the supervision missions to include environmental specialists.

76. The staff said that the basic focus of this loan was to restructure the financial operations of Brazil's power sector, and the restructuring of Brazil's public sector management was critically dependent on a restructuring of the power sector, which was very large and important and would continue to grow. Dealing with the restructuring of the power companies involved investment projects in which the Bank in the past had not been involved. This included dams that were well advanced in construction, areas already flooded, and resettlements already required but not yet fully dealt with.

77. Therefore, the staff said it was important to be realistic about what the Bank could accomplish in that kind of situation. Without the Bank's involvement the currently inadequate approach to environmental issues would continue unchanged. Instead, this loan was the Bank's first venture into the management of environmental issues in the Brazilian power sector on a sector-wide basis. It would not be realistic to expect the Government to agree to stop construction on every project under implementation until the Bank had satisfied itself that all was well. Nevertheless, where it was still possible to make a difference, as in the Itaparica project, the loan was conditioned on

satisfactory improvements. In some of the other subprojects, work had progressed too far. The Bank had not been there when the projects were designed and constructed, and it regretted that they had been carried out as they had, but it did not make sense for the Bank to let that stand in the way of working with the Government of Brazil to develop an effective system whereby the sector would have the capacity to review individual projects from the environmental standpoint and also assist the implementing utilities take the necessary environmental measures.

78. The staff said that this loan was not being presented as a perfect picture of environmental concerns at this point in time. It was being presented as a major change in the way electric power investments would be treated in the future, suggesting that the Bank would play a large role in that and that it would be possible to redress some of the damage that had been done by previously unplanned investments.

79. The staff said that one of the most serious problems was that, although the sector now had very good guidelines as to the environmental planning work necessary, and legislation in Brazil had been improved and tightened, the staff, expertise and funds to implement the plans were not in place. This was exactly what this loan would attempt to strengthen, and this was what the master plan related to.

80. The master plan, in general terms, had already been agreed at negotiations. As a condition for disbursement of the second tranche, the staff was looking for the operational detailing as to its implementation. The master plan, a series of measures to strengthen the environmental and social work of the sector, would have immediate application to all ongoing projects as well as to those in an early planning stage.

81. Environmental aspects would be part of the annual reviews of the sector program; therefore, there would be longer-term followup. The master plan sought to improve the medium and long-term capacity in the sector, and that would take several years. Further, supervision of this loan would include environmental experts and anthropologists, as had been the case in other power loans.

82. Regarding some of the specific cases which a speaker had mentioned, the staff said that strong conditionality was tied to the satisfactory solution of the Itaparica situation. There was to be a coherent resettlement plan by July 15, prior to project effectiveness. If the Bank did not receive an acceptable resettlement action plan by that date, this condition would automatically become a condition of effectiveness and the first tranche would not be disbursed. Implementation of the plan would be reviewed as part of the review prior to the disbursement of the second tranche. In addition, agreement had been reached between the Government of Brazil and the Bank that separate financing would be made available in order to finance the irrigation schemes which needed to be built to resettle the populations in question.

83. Balbina was affecting an Indian area which was not duly demarcated. Under the master plan, the area would have to be demarcated and remedial environmental actions would be called for as well.

84. Tucuruí was different in that the Indian situation had been resolved satisfactorily, which had been due in large part to measures in the Bank-supported Carajas Iron Ore Project. Therefore, said the staff, Tucuruí was not a problem any longer.

85. The Jiparana project in Rondonia was in the POLONOROESTE project area. The Bank had analyzed it very carefully; there would indeed be marginal flooding of an Indian reservation. The river which bordered the reserve would be widened, but this represented a very small and nonessential part of the reserve. The same could be said for the adjoining Jaru Biological Reserve.

86. Several speakers who had expressed concern welcomed the staff assurances that such environmental concerns were being attended to and would be monitored closely. One of the speakers said he would appreciate a commitment by Management to try to achieve much more satisfactory agreements on these points with the Brazilian authorities during implementation. The staff responded affirmatively.

87. Another speaker asked that management provide information on the outcomes of the other projects, as well as Itaparica. He also stressed the fact that the documents presented to the Board did not point out all of the major issues over which the Board and various shareholder Governments would have difficulties with environmental groups. He asked that this be avoided in the future when this type of project was presented to the Board.

88. The staff said that the Itaparica project was the only present project that had a major resettlement issue; that was why no other projects were mentioned. If due resources were allocated, it was the staff's impression that all the cases which it knew about could be dealt with in a satisfactory manner and without any major populations being affected negatively. There were some future projects in the South of the country where resettlement was being discussed. However, all the other projects were at an early enough stage in design to allow ample room to improve the processes. In fact, one of the important agreements the Bank had reached with the sector was that the social and environmental costs should be duly considered in the future early on and included in the project analysis.

89. Another speaker noted that the Bank was, nevertheless, perceived to share in the responsibility when it got involved with environmental projects which had gone wrong, even if it had not originally funded them. In anticipation of difficulties with public opinion in his and other countries, he asked that the staff's comments regarding the environmental issues be put in writing and circulated to the Board for its use. He also asked that any announcements of this loan by the Bank be very sensitive to this matter and discuss the environmental issues carefully. The Chairman agreed.

90. Several other speakers indicated that they believed the conditions regarding environmental concerns were reasonable, realistic and appropriate.

91. While supporting the need to be concerned with environmental impacts, two speakers nevertheless stressed the truly international character of such matters and cautioned against pointing a finger at any one country. One of these speakers observed that the most serious environmental issue the world

faced at this time was the "hot house effect" which resulted from the burning of fossil fuels. Each of the Bank's shareholders had a responsibility for the environmental effects of its policies, he stressed.

92. The other speaker observed that developing countries were now bearing the brunt of environmental consciousness, which was absent when the development of some countries had taken place 200 years ago. He added that it was important to remember that many developing countries were concerned with environmental impacts and had considerable expertise and institutional mechanisms to deal with the issue.

The Sector Financial Plan and the Cofinancing Gap

93. Several speakers noted that Brazil had asked for Bank assistance in obtaining \$700 million through commercial cofinancing for this project, which would close the financial gap for 1986. If the funds were not forthcoming, the Government had agreed to a contingency plan to close the gap by providing funds itself.

94. Two speakers questioned the concept of cofinancing for the sector in the first place, since borrowing had been a problem in the sector since 1976 and the objective of the financial restructuring was to get away from reliance on borrowing and reduce the burden of debt service on the sector. In spite of this aim, one of the speakers noted that the overall financing plan showed more than \$11 billion out of \$20 billion to be financed by borrowings. Another speaker noted that the table on page 23 of the President's Report showed a major swing from borrowing to self-generated finance in the sector. He asked that this information be updated regularly to compare the projections with what actually happened; the update would be especially useful in the context of the next major loan proposed for the Brazilian power sector, he added.

95. The staff said that the debt/equity ratio of the power sector was a basic issue which this restructuring tried to address. Even over the five-year period of this project, the balance between direct contributions and additional borrowings was not optimal; however, borrowing was expected to become a rapidly decreasing share of the funding required between 1986 and 1989. In 1986, because of the price freeze on tariffs, revenues plus equity contributions were a small fraction of total financing requirements. By 1989, under this program, borrowings would drop to about one-quarter of total financing requirements. The trend was clear; therefore, the \$11 billion figure for borrowings in this period was not by itself an accurate picture of what would happen.

96. A speaker noted that income from compulsory loans, which were part of the electricity tariff paid by businesses, was listed in the financial plan under consumer-based contributions. Really, he said, this was a form of borrowing; if this item were listed under borrowing, the picture would change.

97. Several speakers said that the Bank's support of Brazil's economic recovery program through this loan and another large fast-disbursing loan which would be considered the following week should help normalize Brazil's relations with its creditors and give commercial banks the assurances and the

signal they needed to participate in the proposed cofinancing. This would be, they said, a very appropriate example of the Bank's catalytic role regarding the heavily-indebted countries.

98. One of these speakers observed that the position of a country which opposed this loan was unfortunate in this regard, as that opposition could damage the effort to get the cofinancing.

99. Another speaker stressed the importance of the Bank playing a very aggressive role in helping Brazil regain its previous access to international capital markets. Failure to get the cofinancing, said the speaker, would result in Government resources being diverted to this project and away from the social sectors and other infrastructure important to improving the living conditions of the rural and urban poor in Brazil. This situation was a test of the new catalytic role of the Bank, concluded the speaker.

100. Several other speakers expressed concern that calling on the contingency plan would only add to the strain on the Government budget. One of them said that this would leave the size and timing of the whole sector investment financing plan unclear.

101. Another speaker asked that the Board be informed of the final outcome of the financing plan.

102. The staff said that it was not certain that Brazil would be able to find the \$700 million of cofinancing indicated as the optimal solution. This was why the Bank had agreed with the Government on the contingency plan, under which the Brazilians would have to contribute \$200 million more to the financing plan in 1986. A major gap would still remain, and it would have to be closed through operating revenues, which could include further tariff increases as well as cost reductions. Regrettably, it also would mean postponement of some urgent priority investments in 1986. But, having anticipated that this might happen, there was a covenant in the loan requiring the Brazilians, on an emergency basis, to show the Bank what they would do in terms of remedial action to prevent the availability of power from deteriorating to unacceptable levels. That would be reviewed with the Brazilian Authorities in the fall.

The Role of the Paris Club

103. Several speakers indicated that they believed Brazil's chances of getting the cofinancing it sought were not good. A speaker noted that the sector financing plan did not include an export credit component, which was due to the impasse between Brazil and the Paris Club. He said that his Authorities were very concerned about the state of relations between Brazil and the Paris Club, and they had not found it at all helpful to face unilateral proposals from Brazil in that forum. He said that his chair would be reluctant to approve further fast-disbursing loans to Brazil, beyond the two being considered today and next week, until Brazil came to an accommodation with the Paris Club.

104. A different speaker said that the excellent results with regard to external accounts of Brazil's economic program would permit a normalization of

its relations with its external official creditors. Nevertheless, the speaker said he had some doubts that Brazil would be able to get the \$700 million in cofinancing; the normalization of Brazil's relations with its creditors would be an important factor for the cofinanciers who would be asked to participate in this financing plan.

105. Another speaker said his chair could face the same instructions as the first speaker if the Paris Club impasse was not resolved. But, he said, it was not clear how this Bank operation influenced the others in the context of the Baker Initiative. Was it helping or weakening the kind of reaction which commercial lenders were likely to have, he asked, as they were well aware of the impasse with the Paris Club.

106. The staff said that Brazil had informed the Paris Club that all interest due after May 1, 1986, would be paid on schedule, except the May payment which would be paid in June. Also, 15 percent of the arrears in interest and amortization payments that had accrued between January 1, 1985, and April 30, 1986, would be paid in three installments every six months starting this month. In other words, the Brazilian Government estimated that between now and June of 1987 its total payments to the Paris Club creditors would amount to about \$1.6 billion.

107. Brazil began payments to the Paris Club creditors on June 16, 1986; however, most of the payments to be made within the first installment were to begin today, June 19. Also, to accelerate the process, the Brazilian commercial banks had been authorized by the central bank to pay immediately in foreign currency to Paris Club creditors the amounts corresponding to the first installment. Moreover, the commercial banks had also been authorized to pay on schedule in foreign currency all interest payments due in the future to the Paris Club members.

108. The speaker who first raised the issue of the impasse with the Paris Club pointed out that he had already known about the above when he had made his comments.

109. The staff said that the commercial banks in contact with the World Bank agreed with the Bank that the Brazilian adjustment program was one of the most advanced in Latin America; indeed it was one of the most advanced among the heavily-indebted countries. The staff believed they were generally prepared to consider new lending to Brazil. However, they faced the same dilemma that had held up the Paris Club agreements, namely the relations between Brazil and the IMF.

110. As everyone was aware, the staff said, what was going on was a power struggle. The Brazilians believed they had done most things that anybody could reasonably expect. They were running a very large current account surplus and paying their debts on a timely basis. The current account surplus was running between \$11 billion and \$13 billion for 1986, and it was based on a very dramatic effort to expand exports. The Brazilians further would say they managed their foreign exchange flexibly, and always had, adjusting it regularly by the difference between the domestic inflation rate and the external inflation rate. They had introduced a dramatic monetary reform policy and, in addition, had followed it up with supplementary measures, which

was not always the case in all countries. They had made a commitment on the reduction of the budget deficit which was as dramatic as would be found in any formal agreement with the Fund. They had explicitly cut off, as part of the monetary reform, Banco do Brasil from providing back-door financing to the public sector.

111. The Brazilians would argue that this program was as sound as anything that would be part of a standby agreement with the Fund. Further, it was there for everyone to see. They believed it was necessary to get away from the system which had developed since Mexico suspended payments in the fall of 1982 that money would only be made available if there was an IMF agreement, regardless of whether that was necessary on the substantive merits or not.

112. On the other side, the argument said that these were all good things, but how did one know they were going to stay in place? Therefore, monitoring was needed, and the only way to assure monitoring was to have an IMF agreement. The Paris Club continued to be very firm that there would not be a formal rescheduling in the absence of a formal IMF agreement. That was the deadlock.

113. The commercial banks were less rigid; although on the whole they were inclined toward the Paris Club view, there were exceptions.

114. It was not clear how the issue would be resolved. However, the Bank believed it was an important step that Brazil was going to begin the process of clearing up its arrears. The Bank had expressed the view that it was important to clear them up and stay current until there was a different kind of agreement. Brazil had, as was known, gotten a rescheduling from the commercial banks for 1986 which had been based on a general statement of endorsement by the IMF, which said that Brazil's management of its macroeconomic policies was satisfactory.

115. The Bank management believed that in the substance of the Brazilian adjustment program the Brazilians were indeed doing things more effectively and more basically than most other countries in Latin America. Looking at it today, the Bank believed the Brazilian strategy was in fact very sound and dealt with the proper things. Therefore, the Bank management believed that the loan before the Bank's Board today supported an adjustment program which was substantially satisfactory, although much still needed to be done in areas such as taxation, decontrol of prices, agricultural restructuring and others. Further, the Bank management believed that the loan itself dealt with one important part of the public sector which was a source of deficit generation, the drain on the budget and the monetary expansion. If this program was implemented, those strains would cease and the sector would become largely self-financing.

116. Thus, the Bank management believed it was giving an important signal both to Brazil, in supporting its adjustment program, and to the commercial lenders that the Bank believed Brazil's adjustment program was sound. If it were not for the issue about whether or not a formal IMF agreement were necessary, the Bank would have no serious difficulty in raising cofinancing. But, in the presence of that unresolved issue, it was not going to be likely in the near future.

117. A speaker asked if this operation had been coordinated with the IMF.

118. The staff said it had been in constant contact with IMF staff on Brazilian developments in various ways. The information that the IMF could not gather, the Bank could, and the institutions shared information. The Bank staff had been trying to analyze with the Fund staff the evolution of the Brazilian economy since the Plano Cruzado measures were announced on February 28.

119. The IMF also was aware of what the Bank planned to do to support the Brazilian Authorities.

120. The staff said that it believed the Fund staff agreed that, although the situation was still fragile, enormous progress had been made in the Brazilian situation. They were fairly confident, as was the Bank staff, that, given the immense stakes for the Brazilian Government, it would in fact do everything it could to succeed in this endeavor, which would change the economic course of Brazil for a long time to come.

121. Regarding this particular operation, the Fund staff was informed, and they had no particular comments to make.

LOAN TO PAPUA NEW GUINEA FOR HYDROELECTRIC PROJECT

122. The Executive Directors approved without discussion a loan to Papua New Guinea of US\$28.5 million equivalent for the Yonki Hydroelectric Project.

Staff Introduction

123. The staff said that the project was a simple one which involved the construction of a dam on the Ramu River to ensure a steady flow of water throughout the year to the existing Ramu I Power Station, and two additional generators, as well as contributions to strengthen the country's electric power company.

124. Two features, however, made the project very valuable for the country. The first was the training and institution-building component which would ensure that greater attention was given to the development of nationals within the electric company. The second feature worth noting was the high degree of cofinancing and donor cooperation involved since the inception of the project. Because of the more concessional financing of the cofinanciers, the Bank's approach was to finance the residual amount not covered by them. The Bank had, however, played an important catalytic role in the development of the financing plan. The staff said it believed that this project was a good example of what could be accomplished through the cooperative efforts of donor agencies.

NEWS RELEASE

1616 P Street, NW Washington, DC 20036

1412 Sixteenth Street, N.W., Washington, D.C. 20036

For Immediate Release
February 5, 1988

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Brazilian Indian Leaders Denounce World Bank Hydro-projects in Amazon

Two leaders of the Brazilian Kayapo Indian Tribe called on the World Bank today to stop financing environmental and social destruction in the Amazon through its Power Sector Loans to Brazil. Paiakan Kayapo and Kube-I Kayapo are in Washington to protest the plight of the Kayapo Tribe, and eleven other Indian tribes whose survival is threatened by the construction of the Altamira-Xingu River Dams in the State of Para, Brazil. The Kayapo join the Environmental Defense Fund (EDF) and the National Wildlife Federation (NWF) in denouncing the Altamira-Xingu Dams as well as other dams already financed through the World Bank Power Sector loans to Brazil which have destroyed thousands of square miles of tropical rainforests, forced the relocation of thousands of indigenous people, and furthered the spread of water borne diseases.

"We have every reason to believe that the environmental and social devastation resulting from earlier dams in the Amazon will be repeated in the Altamira-Xingu River Dams," charged EDF Senior Attorney Bruce Rich. "There is clear evidence that environmental impact assessments of the Altamira-Xingu Complex are totally inadequate, and lack basic information about indigenous people who will be affected."

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The Kayapo leaders also said that information about the Altamira-Xingu dams is being withheld from Indian groups and that Brazilian government agencies have closed off the dam site area, making it impossible for Indian communities to monitor progress on the dam. "The secrecy in planning these projects is violating the rights of these people and preventing rational development planning," said Barbara Bramble, International Program Director at the National Wildlife Federation. "The World Bank should not be funding projects which don't involve local Indian communities in environmental impacts studies and in the development process."

The Babaquara and Kararao Dams are the two projects on the Altamira-Xingu River Complex in Para which will directly affect the eleven indigenous groups represented by the Kayapo Indian Leaders. These two Dams will generate 17,000 Megawatts and flood 7,365 square kilometers of pristine tropical rainforest. The dams will be financed by the \$250 Million Brazil Power Sector loan to be approved by the World Bank in September, 1988. Pressure from environmental organizations such as EDF and NWF has previously resulted in the U.S. Executive Director of the World Bank voting "No" on the first \$500 million dollar loan to Brazil's Power Sector in June, 1986. The vote on the \$250 million loan has been postponed several times due to controversy surrounding environmental and social impacts of the dams.

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WORLD BANK
"BRAZIL POWER SECTOR LOANS"
AND THE
RESULTANT ABUSES FROM HYDROELECTRIC PROJECTS

In 1986, the World Bank approved the \$500 million "Brazil Power Sector I Loan" designed to improve electrical power generating and transmission facilities in Brazil. This loan facilitated the completion of several hydroelectric projects in the Amazon Basin. These hydroelectric projects have resulted in numerous environmental and human rights abuses. Thousands of square kilometers of rainforest have been flooded without any significant forest conservation or wildlife management plans. Many groups of indigenous peoples have been uprooted and forced to relocate into less sustainable lands and health threatening conditions. This relocation coupled with massacres, epidemics and widespread exploitation has virtually decimated many native groups.

A striking example of these abuses is in the completion of the Balbina Dam in 1987. The dam is currently flooding 2,346 square kilometers of pristine tropical rainforest in order to generate only 240 megawatts of electricity. This flooding is forcing the relocation of the Waimiri Atroari Indians. The group's population has gone from 1,000 in 1975 to 400 today largely due to the invasion and mismanagement of their lands in connection with the Balbina Dam Project. Despite nearly two decades of work on the dam, the government did not generate a resettlement plan for the Indians until April 1987 as the dam was beginning to fill. Where it has been implemented at all, this hastily prepared resettlement plan has been an abject failure.

The proposed \$250 million "Brazil Power Sector II Loan" is the main reason why Brazil even bothered to generate the failed resettlement plan. As soon as the first power sector loan was approved, Brazil initiated the current request for another power sector loan in order to continue their hydroelectric development plans. Brazil, however, has failed to fulfill the conditions that the World Bank attached to the first power sector loan. Besides the failure to control the environmental and human rights abuses resulting from the major

hydroelectric projects, Brazil has yet to make the significant changes in its electrical power rate structure required by the Bank. Brazilian industries still pay less than one-third of the marginal cost of electrical power generation, which encourages the wasteful use of electricity. Because of these abuses, the World Bank has postponed its decision on the second loan until environmental, human rights and economic changes are implemented.

Two of the main projects of concern, that would likely be funded by the second power sector loan, are the Babaquara and Kararao Dams on the lower Xingu River. These two dams in Para State are expected to generate 17,000 megawatts of electricity and flood between 4,735 and 7,365 square kilometers, creating the world's largest man-made lake. This reservoir would inundate lands belonging to eleven indigenous groups. Other proposed dams on the Xingu River would inundate part of the Xingu National Park and other tribal lands. The projects are expected to cost \$10.6 billion and create huge "boomtowns" out of the small villages in the area when construction commences. The immensity of these projects coupled with the haphazard nature of previous hydroelectric development sets the stage for the mass devastation of indigenous peoples and their rainforest home.

Paiakan and Kube-I, the two Kayapo Indian chiefs who are speaking at this press conference, represent several groups directly affected by the projects. They are locked in a desperate struggle with the Brazilian Government for the survival of their people and their land. They are not the only critics, however, as some of Brazil's most respected energy experts have been very critical of the Xingu River Project.

The final decision on the "Brazil Power Sector II Loan" rests with the World Bank, which has tentatively set the vote for September 1988. The Bank has promised to scrutinize the feasibility of this and other projects with an increased emphasis on environmental, human rights and economic factors. Environmental, human rights and indigenous peoples organizations are lobbying hard to make certain that, whatever the outcome, the past abuses are not repeated.

THE WORLD BANK AND BRAZIL:
AMERINDIAN AND ENVIRONMENTAL PROTECTION UNDER THE POWER SECTOR PROGRAM

(Background Note)

This note is prompted by the need to correct a number of allegations made by the Environmental Defense Fund and the National Wildlife Federation in its news releases of February 5, 1988, titled "Brazilian Indian Leaders Denounce World Bank Hydro-projects in Amazon" and "World Bank Brazil Power Sector Loans and the Resultant Abuses from Hydroelectric Projects". While these news releases report on a meeting with the World Bank, they were in fact written and released prior to the Indians' meeting with the Bank's Brazil Department staff.

With regard to World Bank lending to the Power Sector in Brazil and to the specific allegations made in the Environmental Defense Fund/National Wildlife Federation news releases, we would like to clarify the following:

Financing. The Bank has not financed and has no plans to finance any hydro-power project in the Amazon. More specifically, it has not financed the Balbina and Tucuruí projects, and has no plans to finance the Altamira-Xingu complex, which is the object of the news releases.

The First Power Sector Loan. This loan, which was approved by the Bank's Board of Directors in June 1986, was disbursed exclusively against general country imports. It has not contributed toward the financing of hydro-power projects in the Amazon, as the proceeds of this loan were not disbursed against any specific contracts of ELETRONORTE or any other Brazilian utility. Furthermore, counterpart funding for hydro-electric projects commissioned by the sector were provided through their own resources or through non-official institutions, and not through multilateral agencies.

The Power Sector Environmental Master Plan. It was an agreement under the First Power Sector Loan that the Electric Power Sector would begin to strengthen environmental and social safeguards in identification, planning, construction and operation of power projects. As a first step, an Environmental Master Plan was developed, which set out the legal framework, expanded on and detailed environmental and social guidelines, specified the need for related institutional strengthening, and provided for the first time for project level environmental and social action plans. It also provided for independent evaluation of the implementation of the Master Plan by an independent, high level "Blue Ribbon Committee" with expertise on environmental, social, and Amerindian rights issues.

ELETRONORTE, the Brazilian Government corporation, is responsible for overseeing the implementation of the Environmental Master Plan. Under the Plan, numerous improvements have been made since June 1986:

- Resettlement. Social guidelines have led to improved resettlement planning and financing (most importantly under the Itaparica Project in Northeast Brazil).

- Amerindians. A number of Amerindian Reserves in the vicinity of Power Projects have been decreed and/or demarcated; while it was certainly impossible to avoid negative impacts of previously already completed projects such as Balbina, there have been no "massacres, epidemics and widespread exploitation" which would have "virtually decimated many native groups", as the press releases allege.

- Institution Building. The Power Sector has hired about 180 additional environmental staff, creating an environmental department in ELETROBRAS and strengthening environmental staff in the regional power companies.

- Funding. Adequate financing has been made available in the Sector for carrying out environmental tasks.

- Licencing. New and strengthened environmental licencing procedures for power projects have been enacted by the National Environmental Council and are now obligatory for all projects of the Sector.

- Evaluation. The independent Blue Ribbon Committee took its functions in early 1987.

In preparation of the proposed Second Power Sector Loan, further improvements have been initiated. Namely, studies have been commissioned to further detail provisions for issues such as resettlement, river basin planning, Amerindian safeguards, coal fired plants, and the preservation of flora and fauna. Because of their legal attributions under the Power Sector's licencing procedures, federal environmental, forestry and Amerindian institutions have received additional specialist staff. Finally, monitoring and evaluation functions within the Sector have been strengthened.

Again, the Second Power Sector Loan would not finance hydro-electric plants.

Environmental safeguards in the context of lending to Brazil's Power Sector are in keeping with the general environmental and social guidelines of the World Bank.