

Environmental and Social Impacts of IDB Projects Since the Eighth Capital Replenishment

January 2005

A report by:

Asia Pacific Environmental Exchange
Bank Information Center
Environmental Defense
Friends of the Earth – United States
InterAction
International Rivers Network

Acknowledgements

Contributors (in alphabetical order): Elizabeth Bast (Friends of the Earth), Colleen Freeman (Friends of the Earth), Aaron Goldzimer (Environmental Defense), Kari Hamerschlag (Independent Consultant), Eric Holt-Gimenez (Bank Information Center), Suzanne Hunt (Environmental Defense), Seth Nickinson (InterAction), and Glenn Switkes (International Rivers Network).

Asia Pacific Environmental Exchange (APEX) is devoted to promoting ecosystem health and ecological economics and to halting the globalization of unsustainable economic policies. Focusing on the vital areas of toxics, forests, fisheries and global trade policy, we achieve our goals through organization, education, and advocacy. <http://www.a-p-e-x.org>

Bank Information Center's (BIC) mission is to empower citizens in developing countries to influence Multilateral Development Bank financed operations and policies in a manner that fosters social justice and ecological sustainability. BIC aims to democratize the International Financial Institutions to ensure citizen participation, information disclosure, full adherence to environmental and social policies, and public accountability. www.bicusa.org

Environmental Defense is a leading U.S.-based nonprofit organization representing more than 300,000 members. Since 1967, it has linked science, economics, and law to create innovative, equitable, and cost-effective solutions to society's most urgent environmental problems. www.environmentaldefense.org

Friends of the Earth is the U.S. arm of Friends of the Earth International – the world's largest grassroots environmental network with member groups in 70 countries that campaign on the most urgent environmental and social issues of our day, while simultaneously catalyzing a shift towards sustainable societies. www.foe.org

InterAction is the largest alliance of U.S.-based international development and humanitarian nongovernmental organizations. With more than 160 members operating in every developing country, we work to overcome poverty, exclusion and suffering by advancing social justice and basic dignity for all. www.interaction.org

International Rivers Network (IRN) supports local communities working to protect their rivers and watersheds. IRN works to halt destructive water development projects, to promote sustainable alternatives, and to change the policies of financial institutions, governments, and the dam industry. www.irn.org

The case studies in this report are derived largely from sources that represent civil society perspectives. Contributors have endeavored to compile credible information by fact checking each case study with current and/or former IDB staff when possible. Not all contributing organizations have worked directly on all the six projects analyzed in this report.

Table of Contents

Introduction and Recommendations	4
Regional Integration in Latin America	7
Camisea Gas and Gas Liquids Project	9
Impacts on Indigenous Peoples and the Nahua-Kugapakori Reserve	9
Impacts Along the Pipeline Right-of-Way: “Significant and of Great Magnitude”	10
Problems in Siting, Environmental Assessment, and Offset/Mitigation: Paracas National Reserve	10
Failure to Address Associated Facilities and Induced, Regional, and Cumulative Impacts.....	11
Revenue Management	11
Failure to Provide for Adequate Monitoring and Compliance	12
Failure to Engage Meaningfully with Civil Society.....	12
Failure to Require Basic Environmental Due Diligence Prior to Loan Approval.....	12
Noncompliance with Social and Environmental Loan Conditions.....	13
Inadequacy of Environmental Safeguards – Natural Habitats Policy.....	13
Considering Financing While Under Construction – A Fait Accompli.....	14
Bolivia-Brazil Gas Pipeline Integration Project	15
Social and Environmental Impacts	15
Failure to Address All Regional or Cumulative Impacts	15
Inadequate Access to Information and Community Involvement During Project Preparation	16
Independent Monitoring and Enforcement System: An Important Step Forward Yet Needs Improvement.....	17
Upward Harmonization of Standards.....	18
Cana Brava Hydroelectric Power Project	19
Social and Environmental Impacts	19
Inadequate Environmental and Social Assessment.....	19
Inadequate Resettlement.....	20
Misleading Project Justification and No Alternatives Assessment.....	20
No Strategic Environmental Assessment.....	20
Poor Feedback Mechanisms.....	21
Lack of Accountability and Transparency.....	21
Yacaretá Hydroelectric Project	22
Social and Environmental Impacts	22
Inadequate Public Consultation.....	22
Inadequate Environmental Assessment and Environmental Mitigation Plans.....	23
Failed Implementation, Monitoring, and Enforcement.....	23
Failure of Banks to Implement Recommendations of Independent Inspection Mechanism	23
Santa Cruz-Puerto Suárez Corridor Project	25
Social and Environmental Impacts	25
Failure to Follow Recommendations in Social and Environmental Assessment.....	25
Inadequate Government Capacity to Implement Project	26
Failure to Harmonize Policies Across Donors	27
Inadequate Bank Supervision and Monitoring Mechanism	27
Belize Southern Highway Project and Environmental and Social Technical Assistance Project	28
Failure to Address Significant Impacts Identified in EIA.....	28
Poor Monitoring and Oversight of the Mitigation Process	29
Failure to Establish Baseline Indicators to Evaluate Projects.....	29
Insufficient Safeguards for Indigenous Communities.....	30
Social and Environmental Impacts	30

Introduction and Recommendations

As the largest source of public financing in Latin America and the Caribbean, the Inter-American Development Bank (IDB) has a significant impact on the natural environment as well as on the environmental policies and practices of companies and borrower governments. Over the last decade since the Eighth Capital Replenishment, the IDB has been the largest multilateral provider of development financing for Latin America and the Caribbean, approving more than \$69 billion in new loans, which represents more than half of \$128.5 billion in cumulative lending since the Bank's inception in 1961. The IDB is also a major driver of regional integration and infrastructure initiatives, including the *Plan Puebla Panamá* (PPP) and the impending *Initiative for the Integration of Infrastructure in South America* (IIRSA). Over the next decade and beyond, the ambitious infrastructure initiatives envisioned by the IDB stand to greatly impact the environment and, indeed, the overall development trajectory of IDB borrower countries. Given the urgent need to alleviate poverty and protect the region's ecological wealth and biodiversity, the IDB can and should play a leadership role in the pursuit of sustainable development and in raising social and environmental standards in Latin America and the Caribbean.

In 1991, President Iglesias was quoted in the *Financial Times* as stating, "We want the [IDB] to be seen as the environmental bank". A few years later, in 1994, the IDB's Board of Governors in the Eighth Capital Replenishment mandated that the environment be one of the Bank's four main operational priorities. Ten years after this mandate – and fifteen years after the Bank's historic and positive efforts to resolve environmental and social issues surrounding Brazilian highway *BR-364*¹ – the Bank has noticeably lessened its commitment to the environment and has weakened its environmental quality control.

During the 1990s, when the IDB's peer institutions, such as the World Bank, the Asian Development Bank, and the European Bank for Reconstruction and Development, were taking serious steps to upgrade their social and environmental policies, capacities, and accountability systems, the IDB quickly became the laggard of all major multilateral development banks and remains so today. In 1996, the IDB reorganized many of its environmental activities and created the Committee on Environment and Social Impact (CESI). However, the Bank continued to operate under an obsolete environment policy dating from 1979.

At present, the Bank is revising its 25-year old environment policy. The revision of the policy is an opportune time to evaluate the IDB's environmental performance. (Indeed, before undertaking to revise its 1979 environment policy for the first time, the IDB should have had its Office of Evaluation and Oversight (OVE) conduct a full independent evaluation of its policy and systems for environmental quality control, compliance, oversight, and supervision.) In this document, six projects in sectors that often carry high risks of harmful social and environmental impacts have been examined in an effort to better understand how negative environmental outcomes can result from IDB operations.

The following six case studies demonstrate poor environmental assessment practices; inadequate or non-existent IDB safeguards and standards; and gravely deficient systems for rigorous supervision,

¹ In the late 1980s and early 1990s, the IDB played a positive role in helping to resolve the issues surrounding Brazilian highway *BR-364* and the Program for the Environment and Indigenous Communities. *BR-364* was a 502-kilometer paved highway being built through the Brazilian Amazon that threatened rubber tappers and indigenous peoples with increased land invasions, introduced disease, and other impacts. After Chico Mendes, the founder of the National Council of Rubber Tappers, brought this to the attention of the international community, the IDB suspended disbursements; promoted and mediated meetings between rubber tappers, Indians, environmentalists, loggers, cattle raisers, the military, and the government; and helped the state of Acre and local non-governmental organizations and communities implement programs and measures to protect the environment and forest peoples.

compliance, oversight, and monitoring. Overall, in many of its operations, the IDB has a poor environmental track record, and it has failed to meet the Eighth Replenishment's mandate.

While the November 2004 draft Policy is a substantial improvement over the March 2004 advanced profile of the Policy, it still would leave the Bank with a policy framework far less rigorous than those of its peer institutions, and it still lacks many of the elements necessary to prevent the harmful environmental and social impacts that have occurred in these and other IDB-supported operations. The draft Policy lacks and should include (see accompanying matrix "Initial Analysis of the November 2004 IDB Draft Environment and Safeguards Compliance Policy" for more complete analysis, comments, and recommendations):

1. Specific elements of international good practice in environmental assessment (EA), including:
 - Less restrictive criteria for Category A projects, and inclusion of specific lists of the kinds of projects that would normally be classified as Category A and require a full EA;
 - Specifying that public consultation and disclosure, particularly with local project-affected populations, are required during scoping to identify potential impacts and relevant issues and to help establish the terms of reference for the EA; and that **ALL** EA products should be made available and allow for adequate stakeholder review and consultation;
 - More specificity regarding the required content and standards for adequate EA and Environmental and Social Management Plans; or, if critical details are left to an "Implementation Handbook", incorporating them by reference into the Policy *as having the force of compulsory policy*; and
 - Prohibitions against IDB consideration of Category A projects while construction is ongoing or while not in full compliance with Bank policies and other applicable standards, as ongoing construction constrains the IDB's ability to shape the design and implementation of a project to improve its outcomes.
2. Adequate "safeguard" policies, compatible with international norms, for environmental, social, and cultural disruption associated with projects. Good safeguards and standards serve as transparent guidelines for Bank staff, clients, and other stakeholders. Known up-front, they are the best way to counter strong institutional and political pressures and solve problems before they begin. These should include:
 - A much-improved natural habitats policy prohibiting support for projects in or impacting critical natural habitats (as defined by the World Bank), World Heritage sites, IUCN protected areas, areas in the United Nations (UN) List of National Parks and Protected Areas, World Biosphere Reserves, areas protected under the Ramsar Convention on Wetlands, or areas proposed for any of the foregoing designations, unless the project's specific and sole purpose is to significantly improve the state of the local environment.
3. Identification and requiring of specific, unambiguous internationally recognized quantitative standards for environmental performance and pollution prevention and abatement.
4. Improvements in the IDB's systems for environmental compliance, quality control, implementation, oversight, and supervision – including attention to resources, staffing, procedures, and organizational structure. Currently, there is no effective environmental quality control and compliance unit at the IDB, independent of the project team's regional environmental staff. Such a unit is urgently needed, empowered with the staff, authority, and budget to conduct rigorous analysis, oversight, its own site visits, and have full access to project information and meetings. Since the CESI consists of peers from

different parts of the Bank, overseeing compliance is not its members' primary or appropriate function. To our knowledge, CESI also does not have a role in assessing compliance during project implementation. Environmental specialists are also needed in the Loan Committee and the Legal Department, to ensure that Bank management is not isolated from critical environmental issues as they arise. Environmental supervision needs to be vastly improved, as the IDB's OVE has documented fundamental deterioration of project supervision systems.² A thorough overhaul of all of these systems is necessary in order for the Bank to be able to adequately manage environmental and social considerations in its activities.

5. Elimination of the draft policy's provision allowing reliance on borrowing members' in-country systems to identify and manage environmental and social risks and to comply with Bank safeguards. The case studies in this report document weak capacity and political will among many borrowers to carry out and implement even basic environmental assessment and management recommendations and measures – and argue strongly against the proposed ability to devolve responsibility for identification and management of environmental and social risks (and responsibility for compliance with Bank safeguard policy) to borrowing members' country systems.

Today the IDB stands at a critical juncture: if the Bank is going to advance positive development outcomes, the new Policy must incorporate environmental practices, safeguards and standards that are equal to or better than its peer institutions, and it must also adopt institutional reforms to ensure rigorous supervision, compliance, oversight, implementation, and monitoring. Otherwise, the IDB will increasingly face a “crisis of confidence” in its ability to alleviate poverty and protect the region's local communities and ecological wealth and biodiversity.

² See, for example, “The Project Supervision System: An Evaluation of use of its instruments” (Report RE-293: <http://www.iadb.org/ove/RE-293-e.pdf>), from April 2004.

Regional Integration in Latin America

The IDB is a major driver of two large-scale, controversial regional integration programs – the *Plan Puebla Panamá* (PPP) and the *Initiative for the Integration of Infrastructure in South America* (IIRSA). PPP is a \$10 billion, ten-year regional integration program affecting 62 million people living in Southern Mexico and Central America. PPP consists of eight initiatives and 20-30 separate mega-projects, such as new and improved highways, ports, dams, power and gas grids, telecommunication lines, agricultural modernization programs, and maquiladora zones. IIRSA is a similarly conceived, but more ambitious (\$20 billion) 12-country initiative spearheaded by the IDB, the Andean Development Corporation (CAF), and the Financial Fund for the Development of the River Plate Basin (FONPLATA) to coordinate and finance regional infrastructure projects in the transportation, energy, and telecommunications sectors.

Guided by the principle of “open regionalism”, both initiatives aim to make the region more attractive to foreign investment, promote exports, and increase competitiveness in world markets by providing the infrastructure and integration needed to support free trade under the Central American Free Trade Agreement and the Free Trade Area of the Americas. Largely as part of its support for PPP and IIRSA, the IDB expects to invest \$10.5 billion in transportation and energy projects between 2003 and 2005 alone.³ The IDB’s investment will leverage billions from other private and public financial institutions.

The environmental and social implications of PPP and IIRSA’s mega-projects should be considered in the context of the biological wealth and worrying environmental trends in the region. The IDB’s Environmental Strategy, approved in August 2003, points “to severe environmental degradation and the depreciation of natural capital” and states the region “is experiencing continuing deforestation, soil degradation, and loss of biodiversity”⁴.

Meanwhile, nearly half of the regions’ populations, including many indigenous peoples, live in the rural or forested areas that are often affected by major high-risk infrastructure and extractive projects. Many of the projects will also have serious ecological and social impacts, including accelerating biodiversity loss and threatening indigenous peoples’ territories.⁵

PPP and IIRSA are predicated on the idea that, by implanting a massive industrial infrastructure in remote regions, economic development will inevitably follow. The flaws in this logic are that, first, there is no trade flow today that would be increased by construction of transportation infrastructure other than exports of primary commodities such as soybeans, timber, and minerals, all of which carry heavy costs for natural environments. Secondly, the assumption that poor communities will benefit from the industrialization of the “outback” is highly doubtful – more likely will be the displacement of rural communities and the growth of poor urban communities around the industrial enclaves. Though presented

³ The IDB’s project pipeline for 2003-2005 includes \$6 billion for transportation, \$4.3 billion for energy, \$3.1 billion for water and sanitation, \$1.5 billion for urban development and housing and \$801 million for environmental protection. www.iadb.org/NEWS/Display/PRView.cfm?PR_Num=172_03&Language=English

⁴ According to the IDB’s Environment strategy, it is estimated that in only one decade (the 1990s), the region lost some 4.7 million hectares of forest per year, with the greatest losses in Brazil and the highest annual deforestation rates in Nicaragua (3.0 percent) and El Salvador (4.6 percent).

⁵ For example, according to an initial assessment by the Commission for Environmental Assessment, the Mesoamerican Transportation and Electrical Integration System (SIEPAC) will have severe impacts on the only remnants of tropical dry forest remaining on the Central American Pacific Coast. The Commission also expressed concern about fragmentation of habitats in Guatemala and Honduras in important areas of the Mesoamerican Biological Corridor and enumerated at least 10 RAMSAR sites along the Pacific Coast of Mesoamerica as potentially threatened. Dams that are planned to feed energy into SIEPAC will flood highly sensitive ecosystems and displace indigenous people in the area.

as a means to regional integration, it is not at all clear that these initiatives will enhance the type of *intra-regional* trade needed to support local development.

Against this backdrop, the need for a vastly improved, specific, well-resourced and fully implemented Environment and Safeguards Compliance Policy has never been more important as it is today.

Camisea Gas and Gas Liquids Project

One of the largest new infrastructure projects in Latin America, the \$1.6 billion Camisea Gas and Gas Liquids project in southern Peru involves 1) exploration, exploitation, and processing of gas deposits in one of the most culturally and biologically diverse areas of the Amazon rainforest; 2) pipelines to transport the gas and gas liquids from the Amazon across the Andes to the coast; and 3) a fractionation plant and export loading facility in Paracas Bay, which is also home to Peru's only marine protected area.

The IDB, through its Private Sector Department (PRI), approved a \$75 million loan and a \$60 syndicated loan in September 2003 for the pipeline component of the project – less than two weeks after the U.S. Export Import Bank Board, in an unprecedented decision, rejected the project's final application on environmental grounds. The U.S. Overseas Private Investment Corporation had also reportedly declined involvement – and Citigroup had declined further involvement – at least in part because of environmental concerns.

The construction of Camisea to date has been negligent and has likely already caused significant and irreversible harm to indigenous peoples and critical natural habitats. The chain of events set in motion by the project, as well as major expansions now getting underway, present even greater risks, which are also not being addressed properly.

Impacts on Indigenous Peoples and the Nahua-Kugapakori Reserve

Seventy-four percent of the project's concession (Block 88) and three of the project's four drilling platforms are located within the Nahua-Kugapakori Territorial Reserve for isolated indigenous peoples. Some of the peoples living in the Reserve actively avoid contacts and relationships with outsiders and are highly vulnerable to introduced diseases, such as flu and colds, to which they have no natural immunological defense. These risks are highlighted by the tragedy that befell the Nahua people in this area, almost half of whom were wiped out from introduced disease when Shell undertook exploratory operations here in the 1980s.⁶ Indeed, the Nahua-Kugapakori Reserve was created because of this tragedy.

Now, a recent study from the Peruvian Ministry of Health cites epidemics as the main factor behind high death rates and malnutrition in two vulnerable indigenous communities in the Reserve. Only two of the 31 children evaluated were not malnourished, and 75 percent of all deaths occur among children under 12. The study identifies Camisea project work camps as the most likely initial sources of the outbreaks.

In addition to the serious health risks connected with the project's presence inside the Reserve, the project's location in an area inhabited by peoples avoiding contacts with outsiders violates their rights to self-determination (the company itself documents contacts between project workers and "isolated indigenous groups"). The national indigenous federation, AIDSESEP, also alleges there has been involuntary resettlement within the Reserve.⁷ They have documented the case of a small Machiguenga community inside the Reserve whose inhabitants fled the area after feeling threatened by project employees and activities. Involuntary resettlement of indigenous peoples is a clear violation of IDB policy.

In addition, Peruvian and international civil society protested to the IDB on numerous occasions a provision in a Supreme Decree, enacted just before IDB approval that established the provisional

⁶ Glenn Harvey Shepard Jr., "Pharmacognosy and the Senses in Two Amazonian Societies" (Ph.D. diss., University of California, Berkeley), 39.

⁷ See also Kacper Swierk, "Informe del estudio de campo entre los Matsigenka del Paquiria en 2002" (2002).

“tutelage” of a government agency over the isolated indigenous groups in the Nahua-Kugapakori Reserve. Although the IDB never appeared concerned, AIDSESEP challenged the provision legally, and in November 2004, it was deemed unconstitutional.

Many titled indigenous communities in the Lower Urubamba, outside the Reserve, are also affected by the project both directly and by the general increase in traffic in the area brought on by the project. These communities have reported severe declines in fish and game and turbulent, muddy, and polluted water sources, among other impacts – likely stemming in part from poorly designed and implemented erosion control and revegetation efforts by the project companies. Moreover, the Camisea project was initiated without a comprehensive environmental or social baseline study of the area, nor was there adequate consultation with impacted communities inside or outside the Reserve before the project began.

Impacts Along the Pipeline Right-of-Way: “Significant and of Great Magnitude”

According to a U.S.-based specialist from Global Village Engineers who inspected locations along the right-of-way (ROW) (in Shimaa and Monte Carmelo) three months before IDB approval, pipeline construction “has created significant and perhaps irreversible adverse ecological impacts”. The specialist noted that, in many places, up to 100 tons of soil and vegetation per meter of pipeline had eroded into sensitive streams. Erosion control and other protective measures were absent or had failed without correction or repair, and numerous landslides were evident. Due to inefficient planning and operations, large portions of the ROW had been left exposed during the rainy season. In many places, no soil remained for effective revegetation. The specialist also observed that many stream and river crossings (for both pipelines and access roads) were made without any consideration for protecting aquatic habitat. Moreover, project companies are using invasive non-native, exotic species (such as vetiveria) to revegetate and have also allowed kudzu to spread on the ROW (non-native species, including kudzu, are also being used to revegetate the upstream area), in violation of IDB loan conditions.

As just one indication of the persistence and magnitude of the project’s environmental mismanagement, a leaked document from Peruvian Government, dated five days before IDB approval, states flatly, regarding a section of the pipeline through a key protected area, “There have not been environmental considerations in the construction of the Right of Way” (underlined in original) and, “After reviewing and overflying the entire Right of Way... the mission concludes that the negative environmental impacts generated during the construction period are significant and of great magnitude”.⁸

Problems in Siting, Environmental Assessment, and Offset/Mitigation: Paracas National Reserve

The project’s fractionation plant is in the buffer zone of Peru’s only national marine Reserve – an area that was rezoned from residential to heavy industrial zoning right before the land was purchased for the project. (A group of Peruvian non-governmental organizations (NGOs) went to the *Tribunal de Garantías Constitucionales* arguing that the change of zoning was unconstitutional, but the case was dismissed.) Paracas is also a noted United Nations RAMSAR site. The Secretary General of the RAMSAR Convention on Wetlands wrote to IDB President Iglesias and Peruvian President Toledo, urging them to honor Peru’s international environmental commitments under RAMSAR and not build these facilities in Paracas. Nevertheless, in a legally questionable move, Peruvian authorities gave a conditional and partial approval to begin part of the Paracas construction before all of the facilities had been approved, eroding and undermining the integrity of the environmental assessment process. The U.S. Government and others have determined that the environmental assessment for the Paracas facilities was inadequate. There was

⁸ Misión de Inspección Interinstitucional realizada del 01 al 04 de setiembre de 2003, “Informe de Inspección No 009 – EM – GTCI Camisea/INRENA/OSINERG/DIGESA” (Monitoring report, Ministerio de Energía y Minas, 2003), 3, 5.

also a lack of biodiversity baseline data; and the alternatives analysis, which was released long after the site was purchased, did not seriously consider environmental factors. Other sites would have had far fewer risks.

Finally, though the siting was partially justified with promises to mitigate the serious fishmeal pollution problem in the Bay, progress on that front has been disappointing to nonexistent. Pluspetrol initially promised a large sum of money for the management of Paracas; but in the end most of that money was to come from interest accruing over 40 years on a much smaller contribution. The Commission for the Sustainable Development of Paracas Bay was not funded until at least six months after its inception; and its master plan (deadline of September 2004) is still to be prepared. Of course, the fractionation plant and export facilities are already built and operating.

Failure to Address Associated Facilities and Induced, Regional, and Cumulative Impacts

Much of the project area in the rainforest, including the Lower Urubamba valley, had previously been largely inaccessible by land. However, the project's ROWs and related infrastructure threaten to open access for and lure loggers, colonists, and others to indigenous peoples' lands and nearby national parks and reserves. Indeed, the first reports of new migrants are already arriving, including unconfirmed reports of migration along the ROW. There is no clear and effective system in place, including the requisite financial, technical, human, and organizational resources, for surveillance and controlling of access. At least by the time of project inauguration and operation, guard posts required to help monitor access had not been built. Promised vegetative plugs, which might impede people traveling by foot or pack animal, are no longer planned. There is also the fear that project revenues will allow regional and local governments to build roads that will increase access into the Lower Urubamba and/or nearby protected areas.

Furthermore, Camisea companies are already beginning a \$2 billion second phase of the project (dubbed "Camisea II"), which entails expanding extraction into adjacent rainforest and indigenous areas and increasing pipeline capacity in order to eventually export liquefied natural gas. The Paracas fractionation plant and facilities will also be expanded. Although this major second phase was clearly planned and foreseeable, these activities – and their direct, cumulative, and regional impacts – were not considered or addressed in the environmental assessment of Camisea. There is just one loan condition addressing the issue (out of more than twenty loan conditions added just before loan approval under pressure from the U.S. Government): a Peruvian Government commitment to "the necessary policy and legal changes that will require all future hydrocarbon concessions with output flowing through the Camisea pipeline to conform to internationally-recognized environmental and social safeguards and standards, such as those of the International Finance Corporation" (IFC). However, to date there are no indications that project sponsors are complying with such safeguards and standards – like the IFC's Indigenous Peoples safeguard policy. Hence, the new exploration and exploitation of Block 56 is threatening to repeat many of the mistakes made in Block 88.

Revenue Management

There are no clearly defined plans for regulating the use of the main project revenues accruing to the Peruvian Government to ensure that the monies are spent effectively and in a transparent, participatory manner, for the needs of the country and affected communities. Indeed, 50 percent of the revenues are earmarked for the regional government of Cusco, which could mean that a road across natural barriers and into the Lower Urubamba will finally be built, opening the area to colonists from the highlands.

Failure to Provide for Adequate Monitoring and Compliance

There are multiple, inadequate, un-integrated, and largely non-transparent monitoring mechanisms, resulting in confusion and a lack of information about: 1) project impacts; 2) whom to report problems to; and 3) whether and how issues are resolved. None of the monitoring mechanisms address some of the project's most critical impacts, such as most social, health, and biological issues. (On biodiversity, for example, the upstream consortium did not conduct any biodiversity monitoring during construction; and the downstream consortium says it is monitoring biodiversity, but the data are not publicly available.) The community monitoring program has also been particularly flawed. Moreover, there has been no monitoring (other than a 4-member team reporting to the IDB) that is independent of the Peruvian Government and the companies; and there are no independent monitors empowered to enforce compliance by, for example, stopping construction or operation when necessary. Indeed, TGP was fined approximately US\$1,000,000 by the government for several violations during construction; TGP not only continued building, they finished the pipelines and are now in a legal battle to avoid the payments. Other projects that have been supported by other development banks – projects no more controversial than Camisea – have at least had the benefit of independent and transparent systems to monitor, investigate, and disclose project problems and allegations, such as the Chad-Cameroon project's Independent Advisory Group. No such system has been instituted by the IDB for Camisea.

In addition, despite repeated requests, and in violation of the loan conditions, the monitoring reports from the IDB's own monitors (the firm URS) have not been made public – only the monthly summaries have been disclosed. Now URS has been let go by the IDB, resulting in the Bank being without its own project monitors for some months.

In spite of a public commitment to developing a credible system of independent monitoring by IDB Executive Vice President Flannery at the IDB Annual Meetings in Lima in March 2004 and despite loan conditions requiring major strengthening of monitoring systems, virtually nothing has been done. Long after project inauguration and financial closure, discussions between the IDB and Peruvian civil society continue, with the objective of resolving the many outstanding issues related to creating and implementing a truly credible independent monitoring system.

Failure to Engage Meaningfully with Civil Society

Throughout the IDB's due diligence process, different elements of Peruvian and international civil society devoted significant resources to engagement with the Bank in an effort to improve the project. In the end, many of these groups believed that the IDB did not engage in good faith, that civil society expertise and input was not heeded, and that the IDB was more interested in getting the project done than in getting it done right. In July 2003, after extensive consultations, exchanges, and working groups, a group of 23 Peruvian civil society organizations (including the colleges of architects and biologists, indigenous federations, development groups, environmental and human rights groups, and others) released a joint position paper, which raised many of the issues above and others and provided recommendations for each – to be adopted *before approval of financing*. Nevertheless, despite this unprecedented unity among a diverse array of Peruvian civil society organizations, the IDB approved financing for the project in September 2003, without adopting the group's recommendations. Many local affected indigenous communities feel particularly excluded from the decision-making process.

Failure to Require Basic Environmental Due Diligence Prior to Loan Approval

Even though the project came to the IDB Board more than a year after the start of construction, the proposed loan conditions to be required for financial closure and disbursement included items such as: 1) an acceptable Revegetation Plan; 2) an acceptable Access Control Plan; 3) biodiversity monitoring; 4) numerous plans related to the Paracas facilities; etc. These and other items clearly should have been

developed before construction and, without question, before presentation to the Board for approval. In essence, IDB management was asking the Board to approve the transaction before these most basic components of environmental and social due diligence had been adequately prepared, thereby implicitly asking the Board to trust in the proper further preparation of this project, after Board approval and more than a year after the start of construction. Indeed, many of these items were still not in place until six months later, just months before project operation began; and many never happened at all (e.g., loan conditions requiring “full baseline reconnaissance and further impact assessment” for Paracas, “complete and thorough review” of the proposed Paracas facilities, etc.). Meanwhile, construction always continued apace.

Noncompliance with Social and Environmental Loan Conditions

In Spring and Summer 2004, Peruvian civil society provided substantial evidence of noncompliance with social and environmental loan conditions.⁹ After a site visit, the U.S. Government also expressed similar concerns. Peruvian civil society requested an independent audit of compliance with social and environmental loan conditions before financial closure and disbursement. Nevertheless, without responding substantively to civil society’s contentions, the IDB insisted that the project was in compliance and went ahead with financial closure in the summer of 2004.

Inadequacy of Environmental Safeguards – Natural Habitats Policy

The lack of a Natural Habitats policy at the Bank (it currently does not have **any** natural habitats policy and has proposed only weak natural habitats language in the November 2004 draft Environment and Safeguards Compliance Policy) meant that adequate safeguards were not in place to protect critical natural habitats. The IFC’s Policy on Natural Habitats (OP 4.04), for example, states unequivocally that, “the IFC does not support projects that, in IFC’s opinion, involve the significant conversion or degradation of critical natural habitats”. There is no dispute that the Camisea project directly impacts critical natural habitats, including areas within World Wildlife Fund’s “Global 200”¹⁰, The Nature Conservancy’s “Last Great Places” conservation campaign, and Conservation International’s “Tropical Andes” hotspot¹¹. Even the Camisea project sponsors state, “We believe the area in Block 88 would be considered a ‘critical natural habitat.’”¹² According to World Wildlife Fund, The Nature Conservancy, Conservation International, and the Smithsonian Institution, “The high conservation value accorded to the Camisea Project region... is due to its high species richness, endemism, number and diversity of habitats, and biogeographical and evolutionary processes. In all, the Camisea project would affect one of the areas of highest biological and ecological value of all forested regions in the world”¹³.

The project involves clear threats of significant conversion and degradation from both direct impacts (clearing, pollution and erosion in pristine waterways, risk of spills and accidents, etc.) and indirect and cumulative impacts (increasing access to previously isolated and nearly inaccessible regions, possibly enabling road-building into the region by local and regional governments with project royalties, luring job-seekers and resource extractors, etc.), which would have made Camisea ineligible for World Bank or IFC funding under their Natural Habitats Policy, absent significant and fundamental changes.

⁹ Much more detail on violations of loan conditions for financial closure is available upon request.

¹⁰ “The Global 200 is a science-based global ranking of the Earth’s most biologically outstanding terrestrial, freshwater, and marine habitats. Conservation International, et al., “Observations and Recommendations for the Camisea Project” (2002), 1.

¹¹ “The “hotspot” concept, defined by ecologist Norman Myers and adopted by CI as its principal conservation strategy, targets regions where the threat is greatest to the greatest number of species.

¹² “Information Exchange with Stakeholders: Appendix A”. <http://www.camisea.com.pe/dialogo08.asp> (cited 6 April 2003).

¹³ Conservation International, et al., 2.

The Camisea Consortium has argued that while the habitats affected are “critical natural habitats”, the conversion of habitat that the project risks is not “significant”, since “the quantity of land affected by the Camisea project is small compared to the overall surface of Block 88”.¹⁴ However, this neglects to take into consideration both the direct project impacts that extend beyond the project sites and the indirect project impacts. Conservation International, et al., emphasize that the secondary and cumulative impacts of the project on critical habitats risk being “more significant and more difficult to control over the long-term than direct impacts (e.g., construction of the infrastructure) themselves...Opening access to Block 88 could well be a starting point for significantly greater resource extraction and irreversible primary forest destruction...”¹⁵

Moreover, the project’s natural gas liquids fractionation plant and loading facility are located just adjacent to Peru’s only marine reserve – a noted United Nations RAMSAR and Western Hemisphere Shorebird Reserve Network site in the Humboldt marine ecoregion, which is “one of the highest priority marine areas in all of Latin America and the Caribbean”.¹⁶ Indeed, the Peruvian Government in 2002 applied to the International Maritime Organization (IMO) to declare the Paracas Reserve a Particularly Sensitive Sea Area and prohibit the navigation of tankers within the sea area of the reserve. (The same government then put the fractionation plant and export loading facilities in the Reserve’s buffer zone, thereby increasing tanker traffic.) The Peruvian Government’s application for the Particularly Sensitive Sea Area designation is one of the most eloquent descriptions of the international importance and sensitivity of the Paracas area and natural habitats and was approved by the IMO in July 2003, two months before IDB approval of Camisea.

Considering Financing While Under Construction – A Fait Accompli

One of the biggest problems with regards to Camisea was that the IDB was actively considering financing the project while it was being built, which meant that the IDB had very little ability or leverage to shape the design and implementation of the project to improve its outcomes, since the most important decisions (including where the project would be located) were fast becoming facts on the ground. This threatens to set a dangerous precedent: prospective project sponsors now know that it pays to build a project first, re-making “the facts on the ground”, and simultaneously seek IDB financing while most of the important decisions (including the siting of the project itself) are becoming irreversible.

¹⁴ “Information Exchange with Stakeholders: Appendix A”. <http://www.camisea.com.pe/dialogo08.asp> (cited 6 April 2003).

¹⁵ Conservation International, et al., 3.

¹⁶ As identified by the Biodiversity Support Program, a conservation consortium formed by The Nature Conservancy, World Wildlife Fund, and the World Resources Institute. Conservation International, et al., 2.

Bolivia-Brazil Gas Pipeline Integration Project

In 1997, the IDB approved a \$240 million loan for the construction of the \$2 billion, 3000-kilometer Bolivia-Brazil Gas pipeline, which is the largest private sector investment in Latin America, stretching from Santa Cruz, Bolivia to Porto Alegre, Brazil. The World Bank also provided a \$310 million loan.

While there were many positive environmental and social management practices employed in this project, it is essential to bear in mind that many of the improvements *only* occurred in response to substantial pressure from local, national, and international NGOs – not because the Banks vigorously aspired from the outset to meticulously adhere to their policies and achieve best practice. Still, IDB staff deserves credit for their consistent responsiveness to civil society concerns and their willingness to raise these issues with the borrowers, who in large part remained recalcitrant throughout the execution of the project. It is also important to note that the long-term upstream and downstream environmental impacts were never adequately addressed, which has resulted in significant destruction of precious natural resources in Bolivia's fragile Amazon Basin.

Social and Environmental Impacts

The Bolivia-Brazil pipeline has impacted several fragile and important ecosystems, including the Gran Chaco, a recently designated protected area of primary dry tropical forest in Bolivia; the Pantanal, the world's largest wetland; and the Mata Atlantica Rainforest of Southeastern Brazil. Significant forest clearing and lack of effective erosion control caused considerable damage during construction of the 30-meter wide right-of-way (ROW) for the pipeline.

According to Fobomade, a national environmental organization, the failure to prevent access to the ROW and feeder roads after construction has caused further disruption to the area by opening previously unoccupied areas to illegal hunting, logging and contraband activities.¹⁷ A recent NGO workshop on impacts of mega-projects in the region with local residents confirmed serious ongoing impacts from the failure to control the ROW.¹⁸ Social impacts on some local communities were severe during construction.¹⁹

In addition to these direct impacts, the pipeline's indirect upstream, downstream, and cumulative impacts have also been significant, especially those that are now occurring from new gas and oil exploration on indigenous peoples lands and protected areas in the Amazon Basin. The Bolivia-Brazil pipeline has spurred new projects downstream, including the pipeline to Cuiaba, Brazil that bisects the largest intact dry Chiquitano forest in the world. The Cuiaba pipeline has caused severe damage to this ecosystem by opening up previously untouched areas to illegal hunting, logging, and other harmful development activities.

Failure to Address All Regional or Cumulative Impacts

The IDB and the World Bank commissioned a strategic assessment that identified many of these upstream and long-term negative social and environmental impacts associated with the pipeline. The study also

¹⁷ El pantanal boliviano y los proyectos del desarrollo, Fobomade, November 2003.
www.fobomade.org.bo/pantanal_bolivia/doc/pantanal_bolivia.pdf

¹⁸ Report from a workshop on impacts of mega-projects in the Chiquitania and Pantanal. Organized by Probioma, November 2004.

¹⁹ In the town of El Carmen, residents reported shortages of food and medicine; reduced water and telephone access; pollution from noise and trash; illegal logging; construction of new access roads into the forest; misconduct by construction workers, including sexual abuse of local women.

highlighted the Bolivian government's weak institutional capacity to address these impacts, and recommended a meager \$1 million environmental action plan. The World Bank recognized that this was insufficient and proposed a \$13 million plan to control, prevent, and monitor negative social and environmental impacts in protected areas and on indigenous lands. The Bolivian government, however, rejected the World Bank's plan and in the end, the IDB only financed a \$1 million environmental action plan. The World Bank eventually funded a \$5 million learning and innovation loan (LIL) to improve environmental management in the Energy and Mining Ministry. Both of these plans were insufficient to deal with the inadequate institutional framework or other measures needed for mitigating the environmental and social upstream and downstream impacts of the project. While it may not be feasible to address every institutional weakness relating to environmental management in a single project²⁰, the Bank's senior management could have done much more by using other available lending instruments (including loans to the hydrocarbon sector) to encourage the Bolivian government to address the indirect and cumulative impacts of the project.

Inadequate Access to Information and Community Involvement During Project Preparation

During the course of project preparation, the IDB and the World Bank did not enforce their disclosure and document accessibility policies adequately. Project information was not easily accessible by NGOs; even less so for project affected communities. Little information was provided to NGOs and local communities in the initial stages of the studies as called for by the EA policy. When international NGOs made contact with local groups in the region, few had any information regarding the substance – and in some cases, the existence – of the project's social and environmental management and compensation plans. When the Banks were asked about their plans for disseminating the relevant documents, it appeared there were no plans to make these studies broadly available. It was also discovered that the Banks had planned to do a final analysis mission before the findings of all the environmental assessment studies were to be publicly released. It was only after several international NGOs brought these policy violations to the Banks' attention that positive steps were taken to disseminate the studies. Nevertheless, information distribution was slow and limited to a few select NGOs and indigenous groups in the region.²¹

Consultation practices during the initial preparation phase of the project were similarly weak. At first, local organizations had no input into the Indigenous Peoples Development Plan (IPDP) and the EIA for the project. While the Banks did eventually agree to hold consultations when the draft environmental management plans were finished, local organizations did not have an opportunity to properly comment on the plans. The consultations were simply held too late to allow groups to give meaningful input into the design of the environmental management plan. For example, Petrobras had already started construction in Bolivia, albeit without Bank consent, just prior to the first consultation meeting, thus giving participants the sense that the meetings were more a formality rather than a forum to hear input from stakeholder groups.²²

Furthermore, participants felt the quality and format of the consultations were inadequate, relying too heavily on formal presentations by consultants and sponsors. Many groups did not have the necessary information or time to analyze the documents and submit proposals before the meeting. In fact, some

²⁰ It should be noted that in Bolivia, the Bolivia-Brazil Gas Pipeline was a 100 percent private project, with no government participation in its financing, thus making the inclusion of any government-sponsored mitigation measures in the loan documents much more difficult.

²¹ For more details on the information dissemination and consultation process, see "The Bolivia Brazil Pipeline: A Model Development Project?" by Kari Hamerschlag and Attosa Soltani, March 1999. www.bicusa.org/bicusa/issues/misc_resources/454.php

²² Letter from Bank Information Center to the IDB, November 1997 http://www.redtercermundo.org.uy/tm_economico/texto_completo.php?id=1935Red-Bancos

groups arrived at the meeting without any prior information in hand.²³ In the case of the IPDP, only after a considerable pressure did a meaningful consultation and negotiation phase occur. The results were unprecedented, including approximately \$3.7 million for park management, land titling, community development, and assistance for natural resource management.

While the eventual cooperation between civil society and Bank staff in various aspects of the project was on the whole positive, and should be a goal in future projects, it came about because of pressure, not because of adherence to a strong and clear Bank policy on consultation and participation. This project certainly shows the value of civil society involvement in the project preparation and execution, but also illustrates the need for much better and more explicit policies on consultation as part of any environmental assessment process.

Independent Monitoring and Enforcement System: An Important Step Forward Yet Needs Improvement

Given the project's complexity and in response to intensive external scrutiny, the Banks created an elaborate and multilayered monitoring and quality control system that involved hiring an independent environmental auditor to guarantee compliance with environmental management plans, the IPDP, the Banks' environmental and social policies and regulatory requirements. Despite some well-intentioned plans, several problems initially prevented the system from working effectively, including: (1) the auditor's lack of independence; (2) insufficient NGO involvement in monitoring; (3) the auditor's extensive case load that included social and environmental issues; and (4) the failure of the Bolivian government supervise and monitor the project's impacts adequately, among other things.

At the beginning of the project, there was no clear definition of what constituted non-compliance and no clear response or accountability measures (including halting of the project) when violations were pointed out. Many of these issues were revealed in the handling of the social impacts occurring during construction in El Carmen.²⁴ In response to these problems, the Banks made several improvements in the system, including hiring an ombudsperson to address social impacts and formalizing NGO involvement in on-site monitoring. While the monitoring system did improve, some key deficiencies persisted, including the failure to enforce critical aspects of the Environmental Management Plan that called for timely restoration, reforestation, and revegetation and also preventing access to the ROW.²⁵

Since construction, revegetation and reforestation efforts have been slow. According to Fobomade, Gas TransBoliviano (the company that owns the pipeline in Bolivia) has failed to prevent access to the pipeline's ROW, which has allowed poachers and illegal loggers to infiltrate the sensitive areas around the pipeline.²⁶ If this is indeed accurate, this is a critical violation of the Environmental Management Plan for the project.²⁷ A recent study on environmental compliance notes that the company has finally adopted a "zero tolerance policy" with respect to ROW access and has only recently committed to locking and monitoring gates.²⁸

²³ Ibid.

²⁴ Ibid.

²⁵ It should be pointed out that some delays occurred in the areas where local communities were in charge of revegetation.

²⁶ El pantanal boliviano y los proyectos del desarrollo, Fobomade, November 2003.

²⁷ It should be noted that the company was asked by some local residents to keep the ROW open. Nevertheless, the Environmental Management Plan was strict on this point and there was a failure to enforce this requirement.

²⁸ Environmental and Social Performance Review of the Bolivia-Brazil Pipeline Project (Bolivian Sector) July 2004 www.gastransboliviano.com/en/medio/FinalReport.pdf

Upward Harmonization of Standards

The World Bank's stronger environmental and social safeguard standards led to substantial improvements in the project over what would have been required by the IDB. This is especially the case with the development of the IPDP. The World Bank's policy requires, for example, the development of this plan, whereas the IDB had no such requirement.

Although the loan from the World Bank represented a small percentage of overall project financing, the World Bank's involvement meant that the project had to conform to the World Bank's environmental and social safeguards policies, including Environmental Assessment (O.P. 4.01), Natural Habitats (O.P. 4.04.), Involuntary Resettlements (4.12), Indigenous Peoples (O.P. 4.20), Cultural Heritage (OP 4.11) and Disclosure of Information (BP 17.50). The IDB only had corresponding policies in place on environmental assessment and information disclosure. The close and effective collaboration between IDB and World Bank staff helped to ensure the upward harmonization of IDB standards to meet World Bank standards and resulted in improved supervision throughout the project's implementation.

Cana Brava Hydroelectric Power Project

Financed by \$160 million in loans from the IDB's Private Sector Department (PRI), the Cana Brava Hydroelectric project consists of the construction, operation, and maintenance of a 450 mega-watt hydroelectric power plant and a 50 km 203-kV transmission line located on the Tocantins River in the Brazilian state of Goiás. The dam is the fourth of 40 large dams and 10 smaller dams planned by the Brazilian government for the Araguaia-Tocantins river system. The IDB approved the loan to Companhia Energética Meridional (CEM), a subsidiary of Tractebel, itself a Belgian-based subsidiary of the French water multinational Suez S.A. in August 2000.

Social and Environmental Impacts

The dam was constructed in the middle of Brazil's species-rich cerrado (savanna) ecosystem, flooding an area that has been compared to the Amazon region in its level of biodiversity. In addition to the negative effects on endemic and endangered species, the dam also destroyed spawning grounds for a number of fish species in the Tocantins River. Moreover, the dam negatively affected more than 1,200 families, and the compensation and relocation packages were inadequate, leaving many families without livelihoods.

Inadequate Environmental and Social Assessment

Environmental and social assessments for the project were grossly inadequate in addressing the myriad direct, indirect, and cumulative social and environmental impacts caused by construction of a large dam in the fragile cerrado (savanna) ecosystem. The Brazilian *cerrado* has been named the most bio-diverse of the world's savannahs – with a high degree of endemism – by the Worldwide Fund for Nature.²⁹ The Environmental and Social Impact Report (ESIR) for the project, however, indicated there were few endemic species in the area and no endangered species.³⁰ Moreover, the ESIR failed to identify the interconnectivity of the river system, stating that, although the Tocantins River was home to a variety of fish species, the upper reaches were “less productive when compared with the middle and lower reaches” and that there were no endangered species identified in the area.³¹ In fact, the upper Tocantins is an important spawning habitat for many fish species that dwell downstream. Environmental problems resulting from failure to clear the reservoir area have reportedly resulted in the deaths by suffocation of thousands of fish during the period October-December, 2004.³²

Although the ESIR concluded, “There are no major indigenous populations present in the area of direct influence”,³³ the reservoir flooded areas utilized by the last surviving members of the Avá-Canoeiro indigenous group. In addition, an important community of “kalungas”, or “quilombolas”, descendants of escaped black slaves who manage their land cooperatively, were also directly affected by the flooding of the reservoir, although no mention was made of this community – or of compensation for them – in the ESIR.

The initial environmental impact study estimated the project would impact only 258 families and therefore provides for compensation and resettlement of only these families. However, affected communities reported that over 1,000 additional families have been directly affected, along with countless

²⁹ Letter to President Enrique Iglesias, Inter-American Development Bank, from Glenn Switkes, International Rivers Network, March 14, 2000. www.irn.org/programs/araguaia/index.asp?id=000314.tocantins.html

³⁰ Environmental and Social Impact Report, Cana Brava Hydroelectric Power Plant (BR-0304), May 2000, Section 4.10. www.iadb.org/exr/doc98/pro/rbr0304.pdf

³¹ Ibid.

³² O Popular newspaper, Goiânia, December 19, 2004. “MPF quer suspensão do funcionamento de usina”.

³³ Ibid, Section 4.25.

fishermen and others downstream of the project whose livelihoods previously depended on the Tocantins River, and who were not included in social impact assessments.

Inadequate Resettlement

The ESIR further required that displaced populations would at minimum receive a viable agricultural plot with basic housing, services, and infrastructure.³⁴ However, resettlement – when it has occurred – has often been to lands of extremely marginal quality, and resettled families have in many cases not received agricultural assistance, assistance in preparation of plots, and other measures promised in the resettlement agreements. The IDB hired consultants to carry out a new census of affected families, but the results of this census, according to the IDB, identified only 31 additional families eligible for resettlement, the need for compensation to an additional 30 families, and a higher level of compensation for 62 families. The methodology utilized in this audit has not been made public, and its implementation will depend on the voluntary compliance of CEM, since the loan has already been disbursed.

The Brazilian government has recently announced a regional project to help those impacted by Cana Brava, but without specifying the level of support the program will receive, making local activists skeptical that the program will achieve its goals. The IDB also has told representatives of the dam-affected peoples' movement that it plans to institute a pilot program for 57 artisanal miners who lost their livelihood as a result of the dam, but details are not known.

Misleading Project Justification and No Alternatives Assessment

The ESIR declares, “Hydroelectric power is the most desired electricity generation alternative for the specific regional area, in terms of overall benefits (e.g., efficiency, costs, environmental, etc.), especially since there are no other existing sufficient, economically viable, and environmentally advantageous fuel sources”.³⁵ However, the energy generated by the dam was in reality intended mainly to fuel industrial and population centers in South-Central Brazil, utilizing the North-South transmission line already constructed with IDB financing. Its relevance to regional power needs and alternatives was therefore minimal. There is also no evidence to indicate that the IDB had performed an in-depth analysis of energy alternatives to fuel urban areas via the national grid.

No Strategic Environmental Assessment

A project that is clearly part of a broader vision for regional hydroelectric development, to include 46 additional dams, would logically necessitate a Strategic Environmental Assessment. International Rivers Network has estimated that the new dams on this river system will together affect more than 75,000 people and will flood more than 12,000 km² of the cerrado and Amazon rainforest.³⁶ The IDB circulated a plan for such an assessment, but later stated that the plan was dropped because funds from the Japanese government would have required hiring Japanese consultants, a measure unacceptably restrictive to Brazil's National Water Agency, ANA. Given the relatively low cost of such an essential study compared with the Cana Brava loan, it is difficult to accept that the IDB has not done the study because it could not find funding.

³⁴ Environmental and Social Impact Report, Cana Brava Hydroelectric Power Plant (BR-0304), May 2000, p. 48.

³⁵ Environmental and Social Impact Report, Cana Brava Hydroelectric Power Plant (BR-0304), May 2000, Section 2.12.

³⁶ Letter to President Enrique Iglesias, Inter-American Development Bank, from Glenn Switkes, International Rivers Network, March 14, 2000.

Poor Feedback Mechanisms

From the start, affected populations and environmentalists have had serious problems in directing concerns to and receiving responses from Tractebel, and the company has proven intransigent in its negotiations on compensation and resettlement issues. The IDB has from the start failed to facilitate communications between diverse actors, directing letters of concern addressed to President Iglesias to CEM, which responded with incorrect information. This appears to reflect the differentiated treatment the IDB affords to its private sector clients. The company also categorically rejected the legitimacy of Brazil's Movement of Dam-Affected People (MAB) to organize dam-affected communities, and still refuses to negotiate directly with them. MAB states that any positive steps toward achieving adequate compensation for losses of lands and livelihoods have been the result of pressuring CEM through marches and the occupation of the dam construction site on several occasions.

Lack of Accountability and Transparency

The IDB has shown a flagrant lack of accountability in its management of the project since its approval. In October 2001, almost four months after Brazilian NGOs sent their second letter to IDB President Iglesias calling attention to the inadequate compensation for displaced families, the Bank awarded its "Best Project Team" award for "outstanding work with civil society" to the Cana Brava team. In May 2002, following the filling of the reservoir ahead of schedule, project affected peoples filed for an investigation of the project by the IDB's Independent Investigation Mechanism (IIM), alleging multiple violations of the Bank's policies and procedures in handling the Cana Brava loan. It took the IDB two years, not until July 2004, to approve the investigation.

Furthermore, both the loan document and the accompanying Social and Environmental Management Plan have been classified "confidential" by the Bank and are not available to the public. This lack of transparency makes it impossible to show concretely that the IDB's participation is responsible for any possible positive benefits of the project. The Bank's secrecy instead suggests that the IDB lacks confidence in its own social and environmental management framework to share these documents and analysis with the public.³⁷

³⁷ The IDB also missed its own deadline to release the Project Completion Report (PCR) for Cana Brava. The PCR should have been made public 180 days after the last project disbursement in February 2004, but was not available as of December 2004.

Yacyretá Hydroelectric Project

The Yacyretá Hydroelectric Project, a bi-national initiative between the governments of Argentina and Paraguay, involves a large hydroelectric dam on the Paraná River between Asunción and Buenos Aires. The project was financed with funds from the Argentine treasury, contributions from export agencies and private investors, and loans extended by the IDB and the World Bank. Originally budgeted at \$2.5 billion, the total cost of the work has inflated several times, and has actually surpassed \$15 billion. The IDB has loaned a total of \$977 million for the project, including a loan for \$130 million in 1993 largely to address environmental and social concerns with the project, and a final \$90 million in the fall of 2004 to bring the dam's reservoir up to full capacity.

Social and Environmental Impacts

The Yacyretá Dam covers the Apipé-Yacyretá rapids, an area associated with an impressive archipelago of more than 300 islands of incalculable biodiversity of avian, mammal, reptile, insect and plant species, in addition to traditional communities, including the Mbya-Guaraní, fisher folk, peasant farmers, and ranchers, all of whom used area resources sustainably for hundreds of years. Originally promoted for its multiple benefits, including electricity, irrigation, navigation, flood control, tourism, and regional development, the project was formally initiated in 1973. Thirty years later, the project's future is still uncertain, with a long chain of social and environmental impacts.

Ninety-eight percent of land that has been flooded was classified as wild land – natural ecosystems which are biologically unique. The flooding has caused irreversible disruption of fish biodiversity and fishery resources that are vital to livelihoods of the local population. The project has also caused severe pollution of the urban waterfront areas and the reservoir from untreated sewage and industrial and agricultural wastes and has increased health risks from schistosomiasis, malaria, and other diseases.

The project led to the involuntary resettlement of over 50,000 people in the two countries, including urban poor people, indigenous Mbya peoples, and peasant fisher people who have been relocated far from the river to marginal lands in Paraguay. Relocation has led to poorer quality housing, job loss, and, in some cases, child prostitution. The community of Mbya went from inhabiting an area of 50,000 hectares to a reduced, 400-hectare area of degraded ecosystems, 20 kilometers from the river. If current plans to raise the water level again go through, the reservoir could flood 160,000 hectares, including substantial wild lands and agricultural land, and could displace 80,000 people from the islands, riverbanks, and small communities in two large urban centers: Encarnación, Paraguay, and Posadas, Argentina, as well as other smaller communities.

Inadequate Public Consultation

At the time of loan preparation, new policies at the World Bank and the IDB required an Environmental Impact Assessment (EA) and a Resettlement Plan to be prepared by the borrower in consultation with affected people before the loan approval. New Bank policies also gave citizens the right to access relevant information about the project before the loans' approval. In this case, since the dam was 85 percent complete, consultation was to be part of the preparation of the two documents and implementation of the programs, rather than on the pros and cons of the entire project.³⁸

In 1992, consultations were opened for the design of Environmental Impact Mitigation and Relocation and Compensation plans. NGOs and some members of the affected communities gave substantial input

³⁸ "Accountability at the World Bank", by Kay Treackle, Bank Information Center, 1998.
www.bicusa.org/bicusa/issues/misc_resources/374.php

for the development of these plans. Nevertheless, lack of sufficient and timely information about the proposed plans – and lack of consideration by EBY of the input offered – resulted in inadequate plans.³⁹

Inadequate Environmental Assessment and Environmental Mitigation Plans

NGOs in the region and internationally opposed the two loans because the environmental assessment was inadequate and because both the environmental mitigation and resettlement plans were dependent on an improbable financing arrangement. Chief among the complaints were a lack of baseline data to determine the extent of the biodiversity losses and impacts; inadequate identification of “compensatory reserves” – areas that were supposed to compensate the countries for flooded wild lands; absence of a plan to maintain minimum water flow in a principal branch of the river, the Aña Cua; and an underestimate of the number of people who had the right to compensation and resettlement. Nonetheless, the IDB approved the loan in 2003, despite the fact that the Bank itself recognized that the plans were inadequate and that the social and environmental works were only 30 percent executed.

Failed Implementation, Monitoring, and Enforcement

Bank staff failed to ensure implementation of the loan agreement and environmental and resettlement plans and, even worse, contributed directly to the failure of the government to implement these plans. In a blatant violation of the loan agreement, the Bank staff gave approval to the governments’ decision to close the spillways and create the reservoir at its first stage of 76 meters above sea level even though the required environmental and resettlement actions had not been taken. These included resettlement and compensation for loss of livelihood for hundreds of families in urban and rural communities, completion of crucial hydro-geologic studies, and the effective establishment of compensatory reserves, among other actions.

Construction continued despite the complaints about the environmental assessment and implementation. Particularly lagging were resettlement and environmental mitigation activities. The implementation of the environmental plans was faulty, and the mitigation, relocation, and compensation tasks lagged far behind the engineering works. Thus, when the reservoir was raised to its first stage in August 1994, with “no objection” from the IDB and the World Bank, the enormous damage done to the environment and to the livelihoods of the affected communities was left largely unresolved. The filling of the reservoir was done without proper social and environmental measures, among them: removal of forested areas, rescue of fauna, creation of compensatory areas, fish migration upstream and downstream of the dam, sewage treatment plants, tributary protection, land use management plans for the Paraná watershed, and treatment of affected coastal areas.

Failure of Banks to Implement Recommendations of Independent Inspection Mechanism

In 1996, Sobrevivencia/Friends of the Earth Paraguay brought a joint complaint to the Independent Inspection Mechanism (IIM) of the IDB and to the Inspection Panel of the World Bank regarding serious impacts of the dam on the health, economic well being, and standard of living for local populations in addition to the destruction of ecosystems and other environmental damage. The project review by the IDB’s IIM panel identified problems with the project, including a lack of participation by affected populations, problems with land titling, failure to assess the size of the affected population, delays in resettlement, and loss of employment. Despite specific action plans recommended by the panels, the IDB and the World Bank did not ensure implementation of these recommendations and serious issues remained unresolved.

³⁹ “Yacyretá Hydroelectric Project: The Struggle for Participation,” by Elias Diaz Pena, Submission for the World Commission on Dams. www.dams.org/kbase/submissions/showsub.php?rec=soc077

Five years after inspection, an organization of people affected by the dam, FEDAYIM, lodged another complaint through both independent investigation mechanisms at the IDB and the World Bank. In August 2004, the IDB released a report by the IIM panel that confirmed chronic and serious problems with the Yacyretá Hydroelectric Project and cited numerous violations of IDB policy in non-enforcement of regulations on resettlement and environmental mitigation.⁴⁰ Among the most serious problems that the panel attributed directly to the Yacyretá project were flooding of houses along the river; polluted creeks and water wells; elevated incidence of health problems, including diarrheas, parasites, and skin problems; inadequate resettlement housing; and child prostitution.⁴¹

Rather than admit the veracity of the findings and recommend swift action to address the severe problems verified, the IDB's Board showed blatant disregard for the IIM conclusions and recommendations for action. In the case of Yacyretá, not only were the findings of the panel de-legitimized by Bank management, but the Board publicly misrepresented its findings in a press release on the IDB website, claiming, "Based on the investigative panel's findings, the Board of Executive Directors concluded that the IDB did comply with the normative framework applicable to the design, analyses and implementation of the project and did follow applicable procedures".⁴² Worse still, the Board then recommended final disbursement for the project. In an angry letter to Iglesias, the Panel replied, "The Board could not have concurred with our report to reach those conclusions because our report said nothing of the kind. On the contrary...the design and implementation of the project violated many of the stipulations of the Bank's policies on environment and involuntary settlement".⁴³

Until now, the Bank has utterly failed to effectively address or hold the government accountable for addressing the numerous social and environmental impacts from the project. Worse still, the Bank's uncritical posture has emboldened the plans of the governments of Argentina and Paraguay to raise the Yacyretá reservoir operating level seven meters higher to increase electricity generation.

The reservoir has been frozen at its current level since 1994, when it was recognized that mitigation plans had not been adequately prepared or executed. The further raising of the water level would flood 50 thousand additional hectares of wild lands and productive farmland and would displace some 60 thousand people. For the "completion" of the project, once again the Argentine and Paraguayan governments have requested additional financing from the multilateral banks.

Loan contracts specify that the IDB and the World Bank must give their approval before the reservoir level is raised. The multilateral development banks have an opportunity to rectify this project's sad history by insisting on the only truly wise decision: suspend the project at the 76 masl level, abandon the idea of filling the reservoir to the final level (83 masl), and begin a process of repairing the damages suffered by the affected communities and ecosystems.

⁴⁰ The Independent Investigation Mechanism found that the IDB had violated many bank policies, principally the Bank's Involuntary Resettlement policy, and had failed to follow prescribed measures for Analyzing Risk of Poverty, Community Participation, Data Gathering, Indigenous Communities, Difficulties in Transition, Compensation Packages, Follow-up and Evaluation, Establishing Legal and Constitutional Frameworks, and Conflict Resolution, as well as violations of the IDB's Environment policy, in terms of not adequately addressing urban creek and groundwater pollution. From International Rivers Network press release, July 13, 2004.

⁴¹ Final Report the Panel of the Independent Investigation Mechanism on Yacyretá Hydroelectric Project 760/OC-RG, Walter Leal Filho, Julio Ruiz Murrieta, Arthur Heyman, February 27, 2004.
www.iadb.org/iim/pr191713eng.pdf

⁴² IDB press release, August 5, 2004.

www.iadb.org/NEWS/Display/PRView.cfm?PR_Num=166_04&Language=English

⁴³ International Rivers Network, press release, July 23, 2004.

Santa Cruz-Puerto Suárez Corridor Project

In 2002, the IDB approved \$90 million in financing for the first phase of highway construction of the Santa Cruz-Puerto Suarez Export Corridor and a second \$26.5 million loan to finance the Corridor's Social and Environmental Protection program. The Corridor will be a critical link in the East-West transportation corridor, linking Pacific ports in Chile with Atlantic ports in Brazil. The road will cross through several important ecosystems, including the Pantanal and the tropical Chiquitano dry forest, which face extremely high deforestation rates. The IDB, the Andean Development Corporation (CAF), and the European Union (EU) are funding separate sections of the highway; but the CAF and the EU are relying solely on the IDB's environmental and social protection loan to serve as the umbrella framework for social and environmental mitigation and management for the entire project.

Social and Environmental Impacts

The construction of this highway will likely lead to increased deforestation as a result of conversion to agriculture, increased colonization, and illegal logging. These impacts will likely be compounded by the impacts of other large-scale development projects in the region (such as the Paraguay-Paraná waterway, the Mutún mining activities, the Bolivia-Brazil pipeline, and incipient energy and petrochemical projects in Puerto Suárez). The social impacts are expected to be equally serious, especially on local indigenous and peasant populations, the majority of whom do not have legal titles to their lands. Despite promises for land titling, little if any new titles have been secured since project approval. Plans to build the highway have already increased land speculation, intensified land disputes in the area, and created more obstacles to consolidating indigenous claims for territories of community origin (TCOs) in the Chiquitania. It is possible that the most vulnerable groups could undergo expulsion from this area and social differences between the poorer, marginalized groups and those with access to economic resources and power could be exacerbated. These negative impacts are compounded by the Bolivian government's weak institutional capacity and lack of political will to address natural resource management issues and ensure compliance with Bolivian laws.

In addition to the longer-term impacts, many social and environmental impacts are already happening as a result of road construction activities financed by the CAF and the EU. In a November 2004 workshop hosted by local NGOs, affected community members expressed concern about numerous violations of the IDB's social and environmental management plan, including the construction company's use of water from rivers without following sanitary and environmental procedures; increased traffic and pollution in the streets; sexual assault of women by the workers; worker camps in close proximity to urban areas and appropriation of local water and electricity services; and failure to respect and coordinate with the local authorities.⁴⁴

Failure to Follow Recommendations in Social and Environmental Assessment

In recognition of the profound regional impact of such a significant infrastructure project, and in response to intense pressure from NGOs, the IDB commissioned a rare Strategic Environmental Assessment (SEA) for the project in July 2000. NGOs applauded this precedent-setting step, which included significant civil society participation. The SEA cautioned that significant short- and long-term changes to the physical and social landscape of southern Bolivia would invariably result from the highway, including significant deforestation and conversion of land due to the expansion of large-scale agriculture and extractive industries and increased pressure on indigenous communities and their territories due to an influx of

⁴⁴ Report from a workshop on impacts of mega-projects in the Chiquitania and Pantanal. Organized by Probioma, November 2004.

settlers.⁴⁵ The SEA recommended that over \$81 million in social and environmental protection and compensation programs would be needed to adequately mitigate these impacts. The \$81 million plan included complementary works in the road system and potential joint environmental initiatives funded by private institutions, including partnerships aimed at the conservation of sensitive areas with Global Environment Facility (GEF) financing.

However, due to a variety of political factors and insufficient financial and execution capacity, the Bolivian government rejected the \$81 million Operations Plan. In order to solve the stalemate, a new study was commissioned to trim down the budget, including a revision of the plan by a high-level independent panel created by the IDB to prioritize the most important actions to implement. The resulting Social and Environmental Protection loan provided for \$26.5 million, which in the view of civil society was wholly insufficient to address the numerous social and environmental impacts identified in the SEA. The new project did include some important programs⁴⁶, resulting in the government accepting the Panel recommendations and the IDB moving forward with the highway loan with scaled back social and environmental safeguards. In the end, the lack of an IDB policy requiring that EA or SEA recommendations be incorporated allowed the Bank to move forward with the highway loan despite its knowledge that the project would likely accelerate environmental degradation and lead to harmful social impacts.

Inadequate Government Capacity to Implement Project

One IDB source, citing the project's difficulties, such as the propensity for government agency staff to see project funds as resources to use as they wish, referred to the social and environmental loan as "a Rolls Royce given to a Beirut taxi driver". In 2004, approximately two years after approval, the Ministry of Sustainable Development and Planning (MDSP), the principal executing agency, had still failed to demonstrate capacity or will to initiate the loan's implementation. While a change of Minister was one factor, the MDSP has a long history of weak capacity and poor implementation in a range of multilateral development bank-financed projects. Indeed, the Bank's own loan document identifies the "lack of institutional capacity of the public (and private) entities in charge to carry out the different activities" as among the primary risks associated with the project, and outlines "institutional reinforcement" measures to address this risk.⁴⁷ However, no timeline was specified for this reinforcement; nor is it clear what, if any, measures were provided for apart from providing funds for staff salaries and office expenses directly related to the implementation of the loan components.

Recently, responsibility for implementation has been transferred to a regional government, which is also known for having institutional weaknesses, and a plan has been created for a new directorate and executing entity. The IDB hopes to get both the social and environmental protection program and the highway up and running in an extremely compressed timeframe: social and environmental program in

⁴⁵ Strategic Environmental Assessment of the Santa Cruz-Puerto Suarez Corridor, Bolivia (Project No. TC-9904003-BO), Final Report, Executive Summary, 2-4.

⁴⁶ The resulting Plan included: (i) \$5.05 million for land titling of 7.2 million ha, fully covering the six municipalities cut by the highway; (ii) \$3.1 million for a 10-year Indigenous People Development Plan, to be managed by indigenous communities' representatives; (iii) \$2.25 million for a 10-year reinforcement of the budget to manage the three main protected areas (comprising 7.3 million ha); (iv) a \$2.1 million 10-year reinforcement of the Forest Agency's budget to promote sustainable management over 10 million ha of Chiquitano forest; (v) \$2.8 million for institutional building and sustainable development at the municipal level; (vi) \$2.5 million for indemnification and resettlement of affected families; (vii) \$2.4 million for environmental supervision of construction works, including community participation; (viii) \$3 million for project management and social participation. Plan-design included the creation of three trust funds managed by private foundations to allow responsible medium-term management of funds allotted to indigenous communities, forests and protected areas.

⁴⁷ Environmental and Social Protection in the Santa Cruz-Puerto Suarez Corridor (BO-0033), pp.3, 56.

February 2005, selection of highway construction company in March, and commencement of highway construction in May. The lack of a clear policy stipulating that protections must be implemented prior to approving or initiating high risk large infrastructure projects could lead to severe ecological and social consequences in this case. Another key flaw, with harmful consequences for this project (and presumably others throughout the region), is the lack of an IDB policy requiring adequate institutional capacity and political will for implementation of social and environmental protection programs.

Failure to Harmonize Policies Across Donors

Despite the fact that construction of the IDB segment of the highway has been stalled by the failure to implement the social and environmental protection loan, and despite the fact that the CAF and the EU are relying on the IDB's environmental and social protection loan for social and environmental mitigation and management for the entire project, the other sections of the road—with funds from the CAF and the EU—are already under construction. The IDB acted responsibly by conditioning funds disbursement for its segment on effective execution of key benchmarks in the social and environmental protection loan. However, because the other sections are under construction, without the necessary social and environmental protections, predictable impacts such as increased colonization of the region, land conflicts, and resulting territorial pressures are occurring in the project's area of influence.⁴⁸

The CAF's and the EU's involvement in this project were catalyzed by the IDB's participation, yet both are failing to condition their sections on implementation of social and environmental protections before construction. As a result, serious impacts are already taking place. Since it is virtually impossible for one donor to legally impose its environmental requirements on other donors, it is very important that all donors uphold at least the same high standards and conditions. The CAF and the EU's lack of commitment in this regard jeopardizes the overall social and environmental sustainability of the Corridor project and other jointly financed IDB operations. When other donors fail to uphold IDB social and environmental standards, the only point of leverage and effective recourse is for the IDB to refrain from financing projects in these cases.

Inadequate Bank Supervision and Monitoring Mechanism

The IDB acknowledged the serious institutional capacity problem among various implementing agencies, yet it did not provide for an independent monitoring mechanism to ensure fulfillment of key conditions. The Bank's lack of policy requiring independent supervision and monitoring is in part to blame for the excessive time lag in project implementation. Moreover, there are no guarantees that key social and environmental conditions will be fulfilled. If the IDB supports high-risk projects and the government clearly lacks the institutional capacity to mitigate those risks, the need for an independent monitoring mechanism, with some measure of authority, is vital for ensuring effective compliance with social and environmental conditions.

⁴⁸ El pantanal boliviano y los proyectos del desarrollo, Fobomade, November 2003.
www.fobomade.org.bo/pantanal_bolivia/doc/pantanal_bolivia.pdf

Belize Southern Highway Project and Environmental and Social Technical Assistance Project

The Belize Southern Highway Rehabilitation Project paved 104 miles of highway and upgraded 109 miles of secondary and feeder roads along the southern coast of Belize. In January 1998, the IDB approved a \$16 million loan to the Government of Belize for the \$32 million highway project.

Prior to construction, 70 percent of the project area was under forest cover, including extensive mangroves along the coast. The marine area running parallel to and south of the project contains the world's second largest coral reef, which has been recognized as a World Heritage site, and as well as the Gulf of Honduras Marine Reserve. Moreover, the project traversed traditional Mayan lands, the rights to which have long been in dispute between the Government of Belize and Mayan communities.

The project was the first ordinary capital loan the IDB made in the country, and the only project the Government of Belize was interested in at the time, which created direct pressure for IDB support for the project. The IDB's explicit rationale for undertaking the project was to increase agricultural activities and encourage tourism in Southern Belize, expand access to social services in the region, increase integration within the country and with Guatemala and Honduras, and improve the capacity of the Belizean Ministry of Works to maintain infrastructure.⁴⁹ In the mid-1990s, the Government granted 480,000 acres of forest concessions in the region, and increasing transport efficiency for logging was considered vital to regional growth. According to the IDB, the Bank's stated goal was to increase country "competitiveness". However, no indicators were defined for this objective.⁵⁰

Failure to Address Significant Impacts Identified in EIA

Several environmental and social studies were conducted for the highway project. The Environmental Impact Assessment (EIA) for the project forecasted severe environmental impacts, with 21 negative impacts predicted from the 28 elements of impact addressed in the report.⁵¹ The EIA called for further study in many of these areas before loan approval, few of which were carried out satisfactorily. The EIA also called for the funding of a protected area mitigation program in the project area before loan approval, which did not happen.

Civil society groups and local communities raised serious concerns about the environmental impacts of the road, particularly on the barrier reef that lies off the coast of Belize. The reef, a major tourist attraction and source of income for Belizeans, was extremely fragile due to a previous coral-bleaching episode caused by changes in water temperature. Clearing trees for the road would increase the amount of soil and silt washed into the ocean, while expected changes in land use to more intensive agriculture would threaten the reef with agrochemicals and pesticides. Moreover, a review of the engineering plans suggested that the conduits designed to allow water to pass under the road were too small and would allow water and soil to wash directly over the road. The impact of the road project on the marine habitat was barely addressed in the EIA.

Civil society groups were also concerned that the road would have significant social impacts, including the need to accommodate and provide services for the influx of settlers that would accompany road

⁴⁹ IDB Southern Highway Project (BL-0001), Executive Summary. www.iadb.org/exr/doc98/apr/bl1081e.htm

⁵⁰ IDB Office of Evaluation and Oversight "Country Program Evaluation, Belize 1993-2003, Executive Summary". p. 5. www.iadb.org/ove/GetDocument.aspx?DOCNUM=351799

⁵¹ Bank Information Center and Instituto del Tercer Mundo "Four Years after the Inter-American Development Bank Eighth Replenishment: An Assessment from an NGO Perspective". March 1998. www.bicusa.org/bicusa/issues/Four_Years_After.pdf

improvements. The Bank also commissioned a social impact report, which pointed out many of the project's impacts that should have been mitigated. The Bank acknowledged this study, but ignored its recommendations, and thus failing to implement measures that would have alleviated some of the social impacts of the road on surrounding communities.

Concerns by civil society and issues uncovered in a US Agency for International Development mission to the area,⁵² resulted in a separate IDB loan operation – the \$2.6 million Environmental and Social Technical Assistance Project (ESTAP), approved in March 1997. The ESTAP process was to result in a regional development plan that would safeguard indigenous rights, increase public participation, improve management of regional protected areas, and support local organizations.⁵³ The establishment of this process was one of the major concessions that enabled the Bank to gain support of the road project from reluctant Board members, but the ESTAP's outcomes were unenforceable and non-binding.⁵⁴ In addition, the regional development plan that was supposed to come out of the ESTAP process was not completed prior to the Board approval for the highway project.

Poor Monitoring and Oversight of the Mitigation Process

Once the road project was approved, the Bank failed to exercise oversight and supervision to ensure that the regional development plan would indeed be adopted and developed, even though it was the principal mitigation measure proposed in the Bank-funded EIA. There was no assurance that the regional plan would be in place before project construction. In addition, in what the US Agency for International Development calls an “egregious oversight”, the IDB and the Government of Belize failed to ensure independent funding for this project.⁵⁵

The Government of Belize established the Toledo Development Corporation (TDC) to carry out the implementation of the ESTAP process. In the end, the TDC also failed to implement the plan, but construction on the Southern Highway continued.⁵⁶ The ESTAP process dissolved in 1999 (two years early), although it was declared officially over in May 2002. Local NGOs and indigenous organizations insist that consultation and participation have been dormant since the early stages of ESTAP process, when the project documented consultations with communities in 71 indigenous “zones”. As the US Agency for International Development put it: “An approved environmental and social mitigation plan – and financial commitments to implement it – are essential to have in place prior to board approval of any infrastructure project”.⁵⁷ Had the IDB supplied adequate oversight over the mitigation efforts for the project and had the Bank made sure the Government of Belize had the will and/or the resources to carry out the mitigation measures, many negative project impacts could have been avoided.

Failure to Establish Baseline Indicators to Evaluate Projects

The IDB did not establish any baseline levels for measuring the development goals of the Southern Highway Project. In addition, the ESTAP did not have any hard benchmarks or indicators, focusing instead on institutional readiness to implement a sustainable regional development plan – what the IDB's

⁵² USAID had “Major concerns surrounded the project's potential and serious impacts on the region's biodiversity, protected areas, coastal and marine ecosystems, and social impacts on the Maya indigenous peoples and other ethnic groups”.

⁵³ Inter-American Development Bank. Belize Southern Highway Project Environmental Summary. August 5, 1997.

⁵⁴ USAID Office of Environment. “List of Upcoming Multilateral Development Bank (MDB) Projects with Possible Environmental Concerns”. April 1999. www.usaid.gov/pubs/mdb/mdb99.doc

⁵⁵ USAID “List of Upcoming MDB Projects with Possible Environmental Concerns”.

⁵⁶ IDB OVE CPE Belize 1993-2003, Executive Summary.

⁵⁷ USAID “List of Upcoming MDB Projects with Possible Environmental Concerns”.

OVE has called “process”, rather than “outcome”, goals.⁵⁸ In spite of being designed specifically to safeguard the environment and promote sustainable regional development, there was not any method established to measure whether the project was successful. Without baseline indicators, there was no way for the Bank to evaluate the effectiveness of the highway project or the ESTAP process. An adequate evaluation of each project is essential to mitigating long-term impacts and improving projects in the future.⁵⁹

Insufficient Safeguards for Indigenous Communities

The project also failed to safeguard the land rights of indigenous communities. Before the start of the project, the Government of Belize entered into concession agreements with a Malaysian logging company, Atlantic Industries, over rights to the area that the Mayans claim as their ancestral land. Despite the threat posed by loggers and other settlers because of the new road, the long-standing land dispute between the Government of Belize and the indigenous Maya communities in the project area was not resolved before loan approval and remains unresolved today. Although the Government of Belize has acknowledged its negligence with regard to land rights of the Mayan communities⁶⁰, indigenous communities still have no land rights or tenure.

Although concession procedures for logging and other uses were modified to include community consultation, communities still do not have any legal mechanism to object to or stop the concessions. The ESTAP process involved many meetings with indigenous people in southern Belize, dividing the region into zones for both consultation and implementation.⁶¹ However, the process stalled after the consultations were over, and ESTAP’s regional development plan was never actually implemented. Additionally, although ESTAP staff was predominantly Belizean, few were Mayan, and none were in technical posts. The project failed to safeguard indigenous land rights that were threatened by the project, and the information gathered during the consultation process was never translated into concrete action.

Social and Environmental Impacts

The mandate of the ESTAP was to ease social and environmental impacts associated with the construction of the highway. A special plan was prepared as a result of the process for a “two mile corridor” of protected land along the full length of the highway, ostensibly to prohibit land speculation based on appreciated land values associated with highway up-grading. Again, the plan was never implemented.⁶²

Since the road construction, Atlantic Industries has logged its new legal concessions and other land speculators have pressed into now accessible parts of Toledo District. This has created pressure on protected areas, such as the Bladen Forest Reserve, by facilitating the de-reservation of suitable agricultural lands in the buffer zones and primary rainforest is being removed to create banana and citrus plantations.

⁵⁸ IDB OVE CPE Belize 1993-2003, Executive Summary, p. 5.

⁵⁹ The IDB has also missed its own deadline to release the Project Completion Report (PCR) for the Southern Highway Project. The PCR should have been made public 180 days after the last project disbursement in April 2004, but was not available as of December 2004.

⁶⁰ Indian Law Resource Center. “International Commission Finds Belize is Violating Maya Human Rights”. Press Release, 1/21/04. www.indianlaw.org/20040121BelizePR.pdf

⁶¹ Quote from former ESTAP staff member.

⁶² Affirmed by various sources, including a former ESTAP staff member, and the OVE CPE.

Community development plans for indigenous villages were also prepared as a result of the ESTAP, but there is not any information as to whether the plans were ever used.⁶³ Land issues continue to be a problem as the road rehabilitation advances further south. There is ongoing disagreement between local Mayan groups and the Belizean government regarding the construction of a proposed road linking Guatemala and Belize (via then extension of the new Southern Highway) that goes through San Antonio, one of the largest Mayan villages in the country.

The newly paved road has unquestionably seen a great increase in traffic. The IDB's OVE indicates that there was a 386 percent growth in light vehicles and 220 percent in heavy vehicles on the Southern Highway in 2001-2002. Yet, this expansion has proceeded without any buffer zone between speeding cars and the rapidly expanding villages along the highway. No provision was made for sidewalks where the highway bisects villages, and 18-wheel logging trucks utilize once bucolic main streets. Consequently, with no driver or pedestrian education, the number of fatal traffic accidents in the area has skyrocketed.⁶⁴

Moreover, the road improvements were expected to improve access to economic opportunities for the region's residents, even though the IDB's Belize Country Paper from 1993 anticipated that "many of the first-order benefits of the road will tend to go to large landowners".⁶⁵ The Country Paper's analysis has played out, as levels of poverty in the Southern region have increased since 1997: "the latest data processed by OVE, using Belize's Household Surveys, implies that the gap between districts has widened and the levels of poverty and extreme poverty incidence in the Southern region have increased compared to the 1997 figures".⁶⁶ Belize's southernmost district, Toledo, still holds the distinction of being the country's poorest region.⁶⁷ This is in direct contrast to the IDB's goal of economically integrating Southern Belize with the rest of the country and increasing the country's overall competitiveness.

Without proper implementation and oversight, the promise of the ESTAP process turned out to be a hollow promise on the part of the IDB and the Government of Belize, and the highway project continued without adequate environmental and social mitigation. A 2003 paper by a team of Michigan researchers concluded: "[to] accelerate the pace of development in a region that has always been regarded as the most economically depressed in the country has had serious implications for the protection of natural habitats and conservation of biodiversity in the region".⁶⁸

⁶³ "Report to the Board of Executive Directors on ESTAP and the Southern Highway".
www.iadb.org/exr/doc98/apr/bl10001rp.htm

⁶⁴ According to local residents. Traffic accidents are now the number one cause of death for children 1-4 years old and adults 20-49 (especially males) in Belize. (Pan American Health Organization Country Profile for Belize: www.paho.org/english/sha/prflbel.htm. In 1997-1998, according to the Ministry of Health, traffic accidents were the number one cause of death for all Belizeans:
www.belize.gov.bz/pressoffice/cabinet_briefings/2000/cabinet_meeting10-2000.html)

⁶⁵ IDB OVE CPE Belize 1993-2003, p. 26

⁶⁶ IDB OVE CPE Belize 1993-2003, p. 26

⁶⁷ IDB OVE Belize Country Program Evaluation (CPE), 1993-2003.
www.iadb.org/ove/Documents/uploads/cache/351799.pdf

⁶⁸ Greg DeVries, Margaret Haines, Steven Hufnagel, Andrew Laird, Kyle Rearick, and Osmany Salas, "Enhancing Collaboration for Conservation and Development in Southern Belize" April 2003.
www.snre.umich.edu/ecomgt/pubs/belize.htm