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RE: Raising the level of Yacyretá reservoir

Dear Sirs,

We are writing to once again call the attention of your Banks to the current situation regarding what is termed the “Yacyretá Dam Completion Plan” and to find out what is the situation regarding the World Bank and Inter-American Development Bank’s responsibility to approve the raising of the reservoir to its design level.

Despite the fact that additional construction works required for raising the reservoir level are even further behind schedule, and most social and environmental mitigation measures have yet to be undertaken, it was announced in the press in April that the Yacyretá Binational Entity (EBY) would be raising the reservoir level. We have registered repeated complaints regarding the fact that, according to residents in the reservoir area and visual inspections by independent technical experts, the reservoir level has been arbitrarily raised for prolonged periods above the level of 76 meters above sea level at which EBY had agreed with you it would operate the dam at.

This has been corroborated as well by Parliamentarians who are part of the Special Commission to Monitor the Yacyretá Completion Plan (PTY). The Commission confirmed that EBY has raised the reservoir level in a totally irregular way, violated environmental regulations and agreements between Paraguay and the government of Argentina.

On May 15th, about 500 demonstrators blocked the bridge which links Posadas, Argentina and Encarnación, Paraguay, to demand that the Yacyretá Binational Entity (EBY) provide compensation for their removal from their homes and for their loss of employment. Former inhabitants of Yacyretá Island, who were relocated in Atinguy continue to complain about inadequate conditions, affirming that the resettlement lacks arable land, and that EBY provided housing of poor quality, without a foundation, and with very thin walls and little cement.

The continuing social problems affecting resettled families reflect the deficiencies in census carried out, and the lack of studies for providing support for these families whose quality of life has deteriorated as a result of the dam. Our concerns are mounting since the Andean Development Corporation recently provided financing for the project, apparently with no knowledge of the history of this project, and at a time when the World Bank and the IDB, which are well-aware of the problems the dam has caused, maintain a passive attitude regarding it.

On December 6th, 2005, the CAF approved a US\$ 210 million loan for the partial financing of the “Yacyretá Completion Plan”. The document entitled “Social and Environmental Aspects of the Completion of the Yacyretá Binational Hydroelectric Project with CAF Financing”¹, contains various noteworthy statements:

¹ <http://www.caf.com/attach/11/default/yaciret%C3%A1-enero6.pdf>

1) Regarding EBY's image and efficiency

According to CAF: *"The elaboration, initiation, monitoring, and evaluation of EBY's Environmental Management Plan (PMMA), in coordination with universities, highly-qualified professionals, and the academic community in both countries has made it possible to develop an important archive of knowledge and systematization of environmental information of significant scientific value. In general terms, this capital has permitted the setting up of its human resources network which is of great strategic value for the attainment of environmental sustainability in the project until now, and which sets up a solid institutional base which will guarantee environmental quality in the completion, operation, and maintenance of Yacyretá".*

CAF says that Yacyretá and EBY have successful experiences and have learned social and environmental lessons, as well as a great effectiveness which will permit the reaching of its goals at the dam's design level of 83 meters. Yacyretá's history demonstrates exactly the opposite, and even the World Bank's most recent follow-up report on the recommendations of its Inspection Panel in November, 2005 ² once again confirm various failures on EBY's part to meet its obligations and agreements.

2) On the project's final cost at the 83 meter level.

CAF says the reference cost is US\$ 812 million, of which CAF provided US\$ 210 million. The governments and EBY reported that US\$ 653 million would be needed (30% for expropriations alone), of which US\$ 90 million would come from the remaining resources in the IDB's loan 760-OC-RC, with the rest being provided by Argentina. The funds would be made available through the energia which the company EBISA would purchase for Argentina's interconnected electricity grid. The government's funds would be administered through a trust fund which would have as its exclusive beneficiary the Yacyretá Completion Plan (PTY).

The summary of planned financing (according to EBY in 2004) was:

Sources of financing in millions of U.S. Dollars

| | |
|----------------------------|----------------|
| BID 760 | \$90.0 |
| Argentina government funds | \$563.4 |
| Total | \$653.4 |

The remaining IDB funds would be earmarked for:

- Construction of 1,057 residences in Fátima, Garupá municipality, Argentina, at a total cost of US\$ 47 million.
- Construction of pipes, pumping stations, and a plant for treating liquid sewage in Encarnación, Paraguay.
- Increasing the drinking water system and sewage in the southern part of Encarnación.
- Construction de 329 residences, infrastructure, and equipment in Carmen del Paraná.
- Bidding process for the initial stage of construction works for the protection of the Agu Arroyo.

On this point, we would like to know how you arrived at the cost of US\$ 812 million. On the other hand, we are concerned regarding the possible under-estimating of the real costs of compensation and resettlement, since independent estimates (see the World Bank Inspection Panel report, 1997) estimated these costs at between US\$1 billion and US\$ 2 billion.

3) Potential seepage into Ibera wetlands

The document does not even mention the existence of the Iberá-Yacyretá Forum which has been carrying out a process to set up an independent investigation regarding this issue. In May, 2005, the Forum decided to continue the process and EBY accepted the carrying out of studies to analyze the situation at the 76 meter and 83 meter levels. This in itself should be sufficient to

² <http://siteresources.worldbank.org/EXTINSPECTIONPANEL/Resources/PanelReporti nspSecm2005-0001.pdf>

suspend the plans for raising the reservoir level, based upon the Precaution Principle agreed to at the international level for situations of this type.

4) Social aspects

CAF says that a *"basis for credibility has been generated between EBY and the community"* and that resettlements have improved the quality of life of local residents. This is additional evidence that CAF is totally unaware of the real situation of the affected communities.

Based upon these facts, we ask the World Bank and the Inter-American Development Bank:

To guarantee compliance with the Action Plan approved in May, 2004 based upon the recommendations of the Inspection Panel, with total participation and the agreement of FEDAYIM, which registered the complaint.

To inform us whether or not the Banks have registered their no-objection to the raising of the reservoir level.

To inform us what measures are being taken to guarantee that the programs for mitigation of social and environmental impacts are satisfactorily carried out before raising the reservoir level.

We ask the Andean Development Corporation:

To inform us what mechanisms it is planning to guarantee that the Yacyretá Binational Entity meets its obligations as expressed in its social and environmental mitigation plans.

We will expect your response as soon as possible,

Sincerely,

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