

[for public release]

Inter-American Development Bank (IDB)
Inspection of Cana Brava Hydropower Project (Brazil)
United States Position
Board Date: December 21, 2005

The Inspection Panel is to be thanked for a useful and comprehensive report. Based on a thorough review of the full information provided in the Panel's Report and Annexes, and the Management's Response, we concur with the Panel findings regarding the Bank's failure to comply with its policies on resettlement and project preparation.

Specifically, we agree that the final resettlement plan did not incorporate the changes recommended by the Committee on Environmental and Social Issues (CESI), and that, for some of the affected people, the outcome of the IDB-sponsored resettlement did not meet the Bank's policy requirement for living standards, access to land, natural resources, and services at least equivalent to pre-project levels.

Among other things, the final plan lacked the identification of relocation sites, agricultural production models, and analysis of impoverishment and vulnerability. The budget was set without contingency even though there was little knowledge about which options would be chosen by the affected people. There was no schedule of the linkages between the pace of dam construction, filling of the reservoir, and resettlement activities. The assumption was that, following the final plan, affected people would learn more about the options and make their choices. However, as the Panel details, affected people received little concrete information about relocation sites or income restoration plans, and were given a short deadline to make decisions.

It is also troubling that the resettlement plan assumed that cash compensation was potentially appropriate for all sub-groups of the affected population. This assumption was made despite the fact that the census had noted the extreme poverty and low education levels of the majority of the affected. It is directly in contradiction to the Bank's policy which states that "Cash compensation will only be offered as an option if the social and economic conditions of the affected population, the institutional setting and housing market, or the complementary services included in the resettlement plan, are such as to ensure that it can be invested in a manner that will restore the affected population's standard of living."

We believe there are significant "lessons learned" from this experience and trust that the management will take appropriate internal actions to ensure that it is not repeated. We are also encouraged by the news of an initiative recently taken by several local companies, with potential support by the Multilateral Investment Fund, to develop an economic and social development fund to help address the broader economic and social problems in the area. We understand that a local committee was recently established to resolve the potential cases of additional compensation identified in the social audit.

With respect to disclosure of the inspection panel's report, the IDB's Disclosure of Information Policy recognizes that some restrictions on the release of information are necessary in order to protect business confidentiality and preclude material harm to the business and competitive interests of the Bank's clients. The release of an abstract of the report written by the management of the bank, however well intended, represents a clear conflict of interest inasmuch as the management is the subject of the inspection panel's report. We think that further work needs to be done on the Independent Inspection Mechanism and/or Disclosure of Information Policies to assure that the conclusions of the Inspection Panel can be made known more directly to the public in a manner that maintains the integrity of the process.