

PARAGUAY
REFORM PROJECT FOR THE WATER AND TELECOMMUNICATIONS SECTORS
(LOAN NO. 3842-PA)

ARGENTINA
SEGBA V POWER DISTRIBUTION PROJECT (LOAN NO. 2854-AR)

Follow Up to the
Meeting of the Executive Directors of the World Bank (May 6, 2004)
on the Inspection Panel Investigation Report No. 27995 and
Management Report and Recommendation

PROGRESS REPORT ON IMPLEMENTATION
OF THE
MANAGEMENT RECOMMENDATIONS AND ACTION PLAN

August 6, 2004

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Map IBRD 33553 – Yacyretá Hydroelectric Project

ACRONYMS AND ABBREVIATIONS

BP	Bank Procedure
CDD	Community Driven Development
CPES	Centro Paraguayo de Estudios Sociológicos
EBY	Entidad Binacional Yacyretá
EMP	Resettlement and Environmental Management Plan
FEDAYIM	Federación de Afectados por Yacyretá de Itapúa y Misiones
IDA	International Development Association
IDB	Inter-American Development Bank
m ³ /s	Cubic meters per second
masl	Meters above sea level
NGO	Non-Governmental Organization
OP	Operational Policy
PARR	Plan de Acción para el Reasentamiento y la Rehabilitación (Resettlement and Rehabilitation Action Plan, component of the EMP)
PMMA	Plan de Manejo del Medio Ambiente (Environmental Management Plan, component of the EMP)
PRODECO	Pilot Community Development Project
SEGBA	Servicios Eléctricos del Gran Buenos Aires, S.A.
UNLP	University of La Plata
USD	United States Dollars

BACKGROUND

Yacyretá is a multi-billion US dollar hydroelectric facility constructed on the Paraná River, along the border between Argentina and Paraguay. The Yacyretá Hydroelectric Project (hereafter referred to as the “Project”) is the result of a joint venture established in a 1973 treaty between Argentina and Paraguay. To implement the Project, a binational entity, Entidad Binacional Yacyretá (EBY), was created with equal representation of the two countries on its Board of Directors. The Project includes construction of an earth dam about 65 kilometers long with ancillary hydraulic works, a powerhouse containing twenty turbines with the capacity to generate 3,100 MW of electricity, a navigation lock, and a fish passage facility. The dam was designed and built to operate at full capacity at a level of 83 meters above sea level (masl). However, since various resettlement, environmental and other complementary civil works have not been completed, the reservoir level was filled in 1994, as agreed, only to the level of 76 masl. With the requisite works still not completed, the hydroelectric plant has been operating at only 60 percent of its capacity ever since.

The Project has been partly financed by several Bank loans (see Annex 1): the Argentina Yacyretá Hydroelectric Project (Loan 1761-AR, 1979), the Argentina Electric Power Sector I Project (Loan 2998-AR, 1988), the Argentina Second Yacyretá Hydroelectric Project (Loan 3520-AR, 1992), and the Argentina SEGBA V Power Distribution Project (Loan 2854-AR, as amended in 1994). The Paraguay Reform Project for the Water and Telecommunications Sectors (originally called the Asunción Sewerage Project, Loan 3842-AR, 1995) financed the infrastructure works for the benefit of about 3,000 people resettled in Encarnación, Paraguay.

On May 30, 2002, the Inspection Panel registered a Request for Inspection concerning the Project, linked to Loans 3520-AR and 3842-PA. The Executive Directors authorized a full Inspection Panel investigation on September 9, 2002. The Executive Directors considered the Inspection Panel Report and the Management Response and Recommendations on May 6, 2004. At the closure of their discussion, the Executive Directors approved the Management Action Plan and requested that Management explore further measures to address the issues that had been identified and report progress to the Executive Directors in 90 days.

I. INTRODUCTION

1. On May 6, 2004, the Executive Directors of the World Bank discussed the Inspection Panel Report, “Paraguay: Reform Project for the Water and Telecommunication Sectors and Argentina: SEGBA V Power Distribution Project” (dated February 24, 2004), as well as the “Management Report and Recommendations in Response to the Inspection Panel Investigation Report” (dated April 6, 2004). During the Board meeting, the Executive Directors approved the Management Action Plan and requested that Management investigate additional measures to address the issues identified by the Panel and report to the Board in 90 days on progress made. The Board requested that the Report include progress and updates in the following areas: (a) implementation of the Bank’s Action Plan and additional measures identified by Management with respect to the affected parties (including the 2,416 families already relocated and the estimated 6,000 families to be relocated in Paraguay prior to completion of the Project); (b) grievance procedures for resolving claims related to the Project; (c) the activities of the Inter-American Development Bank (IDB) in the Project, and how the IDB and the Bank have been collaborating on issues identified during the Inspection; and (d) decisions taken with respect to the reservoir’s water level and potential impacts.

2. This report is organized in seven sections. Following this Introduction, Section II provides an update on recent events concerning the Project. Section III summarizes progress to date on the implementation of key components of the Action Plan and provides further details on the measures being taken to address the issues that have been identified. Section IV summarizes progress in establishing grievance procedures. Section V provides an update on the collaboration between the Bank and IDB. Section VI provides an update on decisions concerning the reservoir’s water level, and Section VII presents the conclusions. Annex 1 provides a brief description of Bank loans in support of the Project. Annex 2 provides a more detailed presentation of implementation progress on the Management Action Plan, in the form of an annotated matrix. A map of the Project area is also attached.

II. UPDATE ON THE YACYRETÁ PROJECT

3. *Status of the Project.* On June 4, 2004, EBY (the implementing agency) submitted a formal Project Completion Plan to the Bank and the IDB. This Plan, prepared by EBY and the Governments of Argentina and Paraguay, indicates the readiness of both the Governments and EBY to undertake a broad range of environmental and social measures in completing the Project.¹ The major expenditure items in the Project Completion Plan include the purchase of land that would be flooded by raising the reservoir to 83 masl; resettlement and rehabilitation of families on both sides of the river; relocation of parts of downtown Encarnación; relocation and construction of municipal infrastructure in Encarnación, including roads, bridges, and other municipal works; and completion of a sewerage and water treatment system in Encarnación. The Plan estimates the cost of completing the Project at USD 653.4 million – USD 65.4 million for activities that are currently underway, USD 563.7 million for additional investments to raise the reservoir level to 83 masl, and USD 24.3 million for follow-on investments after the reservoir is

¹ The Plan was approved by EBY’s governing board on May 27, 2004 (Resolution No. 1530/04).

raised to its final level. The Project Completion Plan proposes that the investments be financed by the Government of Argentina (USD 563.7 million) and the remaining proceeds of an existing IDB loan (USD 90 million).

4. The Project Completion Plan differs from earlier plans in three ways:² it has a detailed financing scheme; it is prepared at a time when Argentina is facing an energy crisis (and therefore has a greater need to complete the Project than during the past ten years); and it directly addresses the various implementation issues that have been identified, including by the World Bank. The Project Completion Plan includes a timetable for completing the environmental and social resettlement aspects of the Project and takes into account the provisions in the Legal Agreements with the World Bank on raising the reservoir above the current level. Under this plan, Project completion with the reservoir level raised to 83 masl at Encarnación (Paraguay) and Posadas (Argentina) would occur by October 2008.

5. During the coming months, the Governments of Argentina and Paraguay are expected to negotiate modifications to the financial cost-sharing and other agreements contained in the Yacyretá Treaty. The Governments have also requested a "High Level Meeting" involving the two governments, the two Banks, and EBY to negotiate details of Project completion with the Bank and IDB, and to seek remaining IDB funding. The latter would involve an extension of an existing IDB loan to use the outstanding balance. The High Level Meeting is tentatively scheduled for the fall in Washington, DC, to be hosted by IDB.

6. Two joint IDB and World Bank missions in June and July, and dialogue with the two governments and EBY at a time of an impending energy crisis in Argentina, have provided opportunities for discussion of the issues addressed in the World Bank Management Response and Action Plan. During the July mission EBY agreed, in a signed Aide Memoire, to undertake key social and environmental elements in the Bank's Action Plan; the highlights are summarized in the remainder of this report.

III. PROGRESS ON IMPLEMENTATION OF THE MANAGEMENT ACTION PLAN AND ADDITIONAL MEASURES IDENTIFIED

7. ***Current Progress on Key Measures of the Action Plan.*** In its response to the Inspection Panel's Investigation Report, Management committed the Bank to a set of measures to help achieve desired outcomes. Management distinguished between actions directly under Management control and actions over which the Bank has no direct control, although Management will use all means at its disposal to help secure their implementation. Annex 2 provides a summary of the progress since the May 2004 Board meeting in implementing the actions proposed by the Bank, as part of its Management Response. This progress is also summarized below.

8. ***Environmental Issues.*** With respect to the Project's environmental management:

- The Bank has assisted EBY in updating the screening procedures used for assessing the environmental impact of infrastructure and resettlement-related works. EBY's

² Previous Project completion plans include ones submitted by EBY to the World Bank and IDB in 2001 and 2002, although neither were implemented due to lack of financing.

governing board has requested its management to submit for approval a draft of the updated screening procedures. The updated procedures aim at enhancements in design, construction, and quality assurance of remaining civil works at existing and future resettlement sites;

- Based on terms of reference discussed with the Inspection Panel's hydrology consultant³, the Bank has retained the University of La Plata (Argentina) to initiate independent monitoring of the reservoir water level (see Section VI, below). EBY is expected to provide financing by the end of 2004 for a similar independent verification mechanism to monitor the reservoir level;
- EBY has earmarked financing in its Project Completion Plan for the long-term financing of the Project's environmental management;
- Construction of the sewerage system in Encarnación's southern zone with IDB funding is underway, with completion tentatively planned for 2006; and
- Construction of a wastewater treatment plant for the city of Encarnación with IDB funding is underway, with completion tentatively planned for 2006.

9. Regarding the financing of household connections city-wide, and the financing of sewerage infrastructure in the northern zone of Encarnación, the Bank is insisting that EBY and the Paraguayan authorities resolve this issue. The Bank has also continued urging the IDB to finance the remaining sewerage investments. At the same time, recognizing the risk that such financing may not materialize as planned, EBY is also exploring alternative technical and financial options.

10. Regarding specific issues identified by the Panel in the Arroyo Porá resettlement site, in addition to recommending general improvements in EBY's infrastructure design and implementation procedures, the Bank has both met with affected parties and insisted on several occasions (including in writing) that EBY management do everything possible to resolve a pending drainage-related problem involving several host population families as quickly as possible.

11. **Social Issues.** With respect to social issues, the Bank has assisted EBY in the design of a social communications program. A Bank communication specialist and a consultant worked with EBY in June and July 2004 to develop a framework, options, and content for a social communications program to reach all affected groups. The communication consultant has also recommended an organizational change within EBY to facilitate effective planning, implementation, and monitoring of communication activities. EBY plans to submit the social communications program for approval to its governing board during the last quarter of 2004.

12. The social communications program that EBY is developing is intended to cover the various aspects of the resettlement and rehabilitation activities in the Project Completion Plan. It is expected to inform the general public about the Project, including infrastructure works and related actions included in the Project Completion Plan, and specifically to inform the affected

³ This discussion took place with the assent of the Inspection Panel.

population about criteria and procedures to be used to confirm beneficiary status and the timetable for implementing the Project's Resettlement and Rehabilitation Plan (PARR). This would include, for example, continuing efforts to build and maintain awareness among brick and tile makers of the procedures for access to clay deposits on EBY's property.

13. EBY has agreed to update the PARR within the next eight months, as confirmed in the Aide Memoire of the July 2004 mission. A tentative timetable and methodology for the update have been agreed with EBY, recognizing that the forthcoming resettlement activities on the Paraguayan side will be complex. Large numbers of families and commercial properties remain to be resettled. During the second semester of 2004, EBY is expected to hire international staff to oversee the preparation and implementation of the updated PARR. The Bank's next resettlement supervision mission, currently planned for the last quarter of 2004, is expected to focus, inter alia, on this process.

- EBY has agreed that the methodology for the updated PARR will use up-to-date technology (including a geo-referenced database), techniques and procedures to ascertain the status of the population to be resettled.
- The update of the PARR will entail updating of the Project's socioeconomic baseline information in order to better design different resettlement alternatives and rehabilitation programs for families, businesses and industries being relocated, and programs to integrate resettled populations with host communities.
- The updated PARR is also expected to tackle the complex issue of urban redesign, especially in downtown Encarnación, where accommodation of the planned larger future reservoir is expected to involve significant redesign. As part of the ongoing discussion concerning the possible extension of the IDB loan—and as a possible condition for such an extension—the IDB and EBY have discussed allocating part of the remaining funds to technical assistance in support of this activity.

At EBY's request, the Bank plans to provide training before the end of 2004 to the Governments of Argentina and Paraguay and to EBY in developing resettlement and rehabilitation plans. The Bank has also consulted with local and regional officials in Paraguay about means to stem the flow of new settlers into the areas to be flooded. EBY is expected to examine alternative measures to control such migration, with a view to agreeing with the Government regarding the design and implementation of such measures over the next year.

14. ***Project Supervision.*** In its Action Plan, Bank Management committed to enhanced supervision to better monitor progress in addressing the issues that had been identified. Two field missions to the Project site have taken place since May 2004, and supervision will continue to be intensive. The recent supervision missions have given special attention to: (a) the social communications program; (b) grievance resolution procedures; (c) independent monitoring of the water level in the Yacyretá reservoir; (d) methodology, procedures, and timetable to update the PARR; and (e) infrastructure design and implementation problems at or near existing resettlement sites in Encarnación. The Bank's Task Team carrying out these missions has been reinforced accordingly, by including experienced staff in the areas of resettlement and related grievance and compensation mechanisms, social communication, and civil society relations. As stated in the Action Plan, the Bank has hired a civil society specialist based in the Bank's

Asunción, Paraguay office. Also, an architect/urban planner (with experience in environmental and social assessments) has joined the Bank Task Team to supervise the Project's infrastructure and housing construction.

15. *Additional Measures to Address Issues Identified by the Panel.* As noted above (paragraph 3), the two governments and EBY have agreed on a financing plan to carry out activities to address the Project's potential negative impacts and to meet their legal obligations. The Governments of Argentina and Paraguay and EBY's governing board have approved the Project Completion Plan, which earmarks funding for these activities.

16. As Management indicated during the Board discussion of May 6, 2004, two additional measures are being developed by the Government of Paraguay and EBY to assist with the handling of claims by offering funds for community driven development (CDD) type local investments. These are: (a) a fund created by the Government of Paraguay to support productive projects for people who were affected when the reservoir was filled to 76 masl but were not included in the PARR (the Productive Fund); and (b) a fund set up by EBY and managed by an NGO to implement rehabilitation programs in the resettlement sites (the Social Investment Fund).

17. The Productive Fund, with USD 3.7 million in funding remaining available for Project-affected people, has potential for addressing social needs by financing eligible productive investments in the Project area, but implementation problems remain. The Paraguayan Congress established the Fund in 2001 through legislation that specifically named 1,941 initial beneficiaries. EBY has completed a review of both the beneficiaries named in the legislation and the claimants with claims on file with EBY, and has found differences. As a result, implementation progress of the Productive Fund is delayed, pending a likely complex and drawn-out process (with partisan interests and stakeholders at the local and national level in Paraguay) of finalizing the list of eligible parties. The Bank has raised its concerns about the Fund's implementation with the Government of Paraguay and will continue to do so at the upcoming High Level Meeting.

18. The Social Investment Fund has USD 500,000 to provide CDD-type support to productive projects for resettled families as part of the rehabilitation programs included in the PARR. The Fund is modeled on a successful social investment fund program (FOPAR) implemented in Argentina in the 1990s, and is being managed by the Asunción-based CPES (Centro Paraguayo de Estudios Sociológicos). This year, the first set of grants benefiting approximately thirty families is being funded. By statute the Fund is limited to those families preparing collective proposals for productive activities, and is not available for compensation. In addition, eligibility is limited to resettled families who were registered in the census.⁴

19. In parallel, the World Bank-funded Pilot Community Development Project, or PRODECO (Loan 7109-PA, USD 9,000,000, approved on March 21, 2002), makes CDD resources available to communities in three departments, including Itapúa where Yacyretá-affected communities are located. So far, PRODECO has financed some twenty subprojects,

⁴ EBY is seeking the approval of the Government of Paraguay to include families who moved to the affected area after the 1990 census ("extra censales") and were resettled. So far, this proposed expansion of eligibility has not been approved because of its expected budgetary costs.

several of which are in the Itapúa department. PRODECO is strictly targeted on the extreme poor, and it has a funding limit of USD 1,750 per family. For this reason, only the poorest among Yacyretá-affected families meet PRODECO's eligibility criteria, most of whom appear to be waiting for potentially higher levels of compensation from the Productive Fund than are available through PRODECO.

20. A fourth additional measure is being developed to help address potential adverse effects of the Project. World Bank and IDB staff have proposed that EBY and local municipalities strengthen their institutional links to better integrate Project planning and investments with municipal management on either side of the river. During the joint July 2004 supervision mission, EBY agreed to submit to IDB and the World Bank during the last quarter of 2004 terms of reference for the provision of technical assistance to municipalities in preparing urban development plans.

IV. PROGRESS IN ESTABLISHING A GRIEVANCE MECHANISM

21. Since early May, progress has been made toward establishment of a grievance resolution mechanism in three ways. First, EBY now agrees with the urgent need to improve its own grievance resolution mechanism, in order to settle both the backlog of existing claims and address possible future claims effectively. To support this effort, the Bank has retained a law firm and an information technology consultant to help EBY organize its system for processing claims and grievances. Improving EBY's system is expected to be all the more important as the next resettlement phase on the Paraguayan side will involve more families than have been resettled to date in the Project, and EBY needs to be prepared for the possibility of a significant number of future claims.

22. Second, the IDB has agreed to finance, through its ongoing project, the cost of improving EBY's grievance resolution mechanism, including expert advice, computer systems, and training (this would not include the actual payment of claims adjudicated as valid). EBY is setting up a financial reserve fund as part of its Project Completion Plan to finance awards that may come out of these processes. EBY is expected to finalize details on this fund in the last quarter of 2004.

23. Third, the Bank has commissioned a study about possible options for independent grievance resolution mechanisms. For this purpose, the Bank has retained a lawyer with experience in arbitration, mediation and conciliation. The analytical work toward establishing such a mechanism is currently expected to be completed before the end of 2004. The ongoing analysis places priority on establishing a firm legal basis for any proposed arbitration, conciliation, or mediation mechanism in Argentine and Paraguayan law, as well as developing a credible and transparent process.

24. As is almost always the case with dispute resolution mechanisms, new grievance procedures, even when combined with an effective outreach program, will not necessarily resolve all pending claims and satisfy all demands. The Bank understands that EBY recognizes the need for a strategy to address grievances of the affected population in a consistent manner. Addressing grievances consistently will likely be a complex process.

V. COLLABORATION BETWEEN THE WORLD BANK AND THE INTER-AMERICAN DEVELOPMENT BANK

25. Since the Board discussion in May 2004, two World Bank missions have been conducted jointly with the IDB to supervise the implementation of the social and environmental aspects of the Project, and to consider any conditions surrounding the approval of possible additional IDB financing of the Project. During the joint missions, Bank and IDB staff articulated a unified, common position on these issues.

26. Available IDB financing for the Project (undisbursed funds from the ongoing Yacyretá Environment and Social Resettlement Project) includes resources for environmental works and resettlement activities integral to Project completion. While the current IDB loan for the Project was scheduled to close on July 26, 2004, a grace period of three months has been granted to allow the IDB and EBY to agree fully on the financing terms and conditions for a possible longer extension to finance key social and environmental elements of the Project Completion Plan.

27. One topic flagged by the Bank to both EBY and the IDB is the importance of completing the sewerage system in the city of Encarnación in order to avoid potentially significant adverse health effects stemming from water quality deterioration in urban lateral bays if and when the reservoir level is raised (see also paragraph 9 above). The IDB and EBY are already financing: (a) the sewerage collection system in the southern and central parts of the city; and (b) a wastewater treatment plant with sufficient capacity to serve the entire city. So far, neither EBY nor the municipality of Encarnación have near-term plans for financing the completion of the household connections and construction of sewerage collection lines in the northern part of the city, and it is not clear whether IDB funds will be available to cover the necessary remaining investments. Without resolution of the modalities and timing for completing remaining sewerage investments, overall Project completion would likely be delayed further. As mentioned above, the Bank has therefore continued to urge the IDB to finance the remaining sewerage investments; at the same time, EBY is also exploring alternative financial and technical options.

28. The IDB has had its own independent investigation of the Yacyretá Project, and the IDB Board and Management are still discussing those findings and its Management Response.⁵ As part of those discussions, on July 13, 2004, the World Bank was invited to brief the IDB Board on the World Bank Inspection Panel Investigation Report, Management Report and Recommendation and associated Action Plan. World Bank staff presented a summary of these documents. The IDB Board expressed its appreciation for the briefing.

⁵ The IDB Independent Investigation Mechanism received a request for investigation on May 16, 2002 from FEDAYIM (Federación de Afectados por Yacyretá de Itapúa y Misiones -- the same NGO that brought the World Bank IP complaint). IDB Management responded on February 14, 2003, and the IDB Board authorized an investigation on July 9, 2003. That investigation and the IDB Management Response are now complete and under discussion by the IDB Board and Management. As of August 6, 2004, no documents associated with this IDB Inspection Mechanism case have been made public.

VI. MONITORING OF THE RESERVOIR LEVEL

29. The Yacyretá Power Plant Operational Manual, updated in 1998,⁶ set forth the operational rules for the dam to maintain water levels in Encarnación and Posadas, 100 kilometers upstream. Reservoir operating rules are a complex set of procedures, particularly since water passing Encarnación–Posadas takes between five and six days to reach the dam under most conditions. The Operational Manual established that the power plant would be operated in such a way that, for a flow up to 13,000 m³/s, the expected water levels at Encarnación–Posadas would be maintained at no more than 76 masl. Water levels above 76 masl at Encarnación–Posadas are to be expected for flows above 13,000 m³/s and are consistent with operating procedures for such higher flows. At river flows above 45,000 m³/s, Encarnación–Posadas are in a state of natural flooding where the downstream dam has no impact. Prediction of water flows involves data transfer from upstream dams in Brazil (Itaipu and others) as well as prediction of rainfall and run-off in the immediate watershed of Yacyretá.

30. The Inspection Panel found that the reservoir was being operated above its legally agreed-upon level during some periods of low flow.⁷ In March 2004, Management contracted an independent study on the operation of the reservoir. This study (Valdez, 2004) confirmed that, beginning in 2001, the dam had been operated at higher levels than specified in the Operational Manual for flows less than 13,000 m³/s. Further analysis by Bank staff found that the mean daily water levels for these flows were about 75.90 masl until 2000, and increased to 76.30 masl in 2001, 76.28 masl in 2002 and 76.40 masl in 2003. In March 2004, the operation of the reservoir was adjusted to follow the Operational Manual, and according to staff analysis, the observed water levels followed Operational Manual specifications at that time.

31. To monitor the reservoir level and confirm that the reservoir is operated in accordance with the Operational Manual, the Bank is contracting the University of La Plata (Argentina) for a period of five months. This University has established a team of water resources engineers from the University of Asunción in Paraguay and University of La Plata in Argentina. According to its terms of reference, this team will: (a) analyze hydrological data collected from the Argentine and Paraguayan Coast Guards independently of EBY, monitor the reservoir level, and check compliance with pertinent provisions in Yacyretá's Operational Manual (including validation of the height-flow rate curve); and (b) publicly disseminate the information collected on the reservoir level on the two Universities' websites. During the July 2004 mission, EBY agreed to assume responsibility for financing a similar independent mechanism to monitor the water level, no later than the beginning of 2005.

⁶ Harza y Asociados CIDY. Yacyretá Power Plant Operation and Maintenance Manual, 1998.

⁷ The term "legally agreed-upon level" refers to the Legal Agreements, last amended in 1997, that bind the Republics of Argentina and Paraguay and EBY to conditions associated with Loan No. 3520-AR. As yet, the Operational Manual for operation at 76 masl, referred to in the previous paragraph, is not specifically incorporated into these Legal Agreements. During the next High Level Meeting, the Bank plans to negotiate this change with all parties.

VII. CONCLUSIONS AND NEXT STEPS

32. In conclusion, this report notes that there has been progress in several areas since the Board discussion in early May, especially: (a) steps toward resolving outstanding environmental and social issues by EBY and the local and national authorities, particularly in Paraguay where these issues have tended to be more acute; and (b) intensive performance monitoring by the Bank of those steps. EBY's Project Completion Plan includes measures to address most issues raised by Management and by the World Bank and IDB Inspection Panels. Financing under consideration by the IDB and the Government of Argentina, and a new urgency due to the energy crisis in Argentina, may help generate momentum for completing the Project.

33. Management plans to report back to the Board in one year. Several specific actions are expected to be completed during that time, including monitorable actions by EBY concerning specific environmental and social issues (particularly the social communications program and the updated PARR);⁸ various consultancies (particularly concerning a study of options for an independent grievance mechanism and independent verification of reservoir water levels); and a determination by IDB regarding its ongoing and future involvement in the Project.

34. At the same time, it may take a year or more before EBY and national authorities complete steps sufficient for many affected parties to benefit from infrastructure improvements (such as improved sanitation) or compensation (whether from an improved grievance resolution mechanism or from improved implementation of existing sources of CDD-type funding). The negotiations around the Project are complex, and the timetable set out by the two governments for resolving Project-related issues is ambitious and depends in part on some still uncertain financing. In addition, there are many implementation variables over which the Bank has no or limited influence. Backtracking, unforeseen events, and thus setbacks and delays, are possible.

35. Given this overall situation, the Bank will continue to supervise the Project intensively. Management remains committed to seeking workable solutions to support the affected people, pressing for their expeditious implementation, and helping build stronger understanding among the various actors.

⁸ See paragraphs 8, 11, 13, 14, 20, 23, 31.

ANNEX 1. OVERVIEW OF WORLD BANK SUPPORT FOR YACYRETÁ

Argentina

**Loan 1761-AR – Yacyretá Hydroelectric Project (1979),
USD 210 million equivalent**

To provide additional, least-cost, base load hydroelectric energy; improve navigation; facilitate future irrigation projects in Argentina and Paraguay; and to augment the regional fishing industry.

Loan closed June 1988 and has been fully repaid.

Loan 2998-AR – Electric Power Sector Project (1988), USD 252 million (of which USD 250 million later allocated to support Yacyretá) To improve resource allocation within the sector; improve efficiency of power utilities; promote rational use of electricity through a tariff system based on economic costs; strengthen institutional structure of electric power sector; establish and enforce policies and procedures in respect of environmental protection and resettlement aspects in connection with electric power sector projects; implement portion of Argentina's sector investment program for the years 1988 – 1989.

Loan closed June 1991 and has been fully repaid.

Amended in 1990 to finance works and services included under the Yacyretá Project for the remainder of the Loan.

**Loan 3520-AR – Second Yacyretá Hydroelectric Project (1992),
USD 300 million**

To put into operation the first six generating units of the Yacyretá power plant; ensure appropriate environmental protection and efficient handling of the social aspects related to the construction and operation of the Yacyretá power plant and motivate participation of private parties in EBY's capital or administration

Loan closed December 2000 and as of June 30, 2004, had an outstanding balance of USD 149,779,524.

Amended in 1997 (with Loan 2854-AR) to provide support to resettlement and environmental actions in Plan A and Plan B.

**Loan 2854-AR – SEGBA V Power Distribution Project (1988),
USD 276 million (of which USD 135 million later allocated to support Yacyretá)**

To support the 1988-1992 portion of the Borrower's expansion program.

Loan closed September 2002 and has been fully repaid.

Amended in 1994, 1997 and 2000 to support putting into operation first six generating units of the Yacyretá power plant; to provide support (with Loan 3520-AR) to actions in Plan A and Plan B; and to ensure appropriate environmental protection and the efficient handling of the social aspects related to the construction and operation of the Yacyretá power plant.

Paraguay

Loan 3842-PA – Reform Project for the Water and Telecommunications Sectors (formerly Asunción Sewerage Project) (1995), USD 276 million (of which USD 1.2 million allocated to infrastructure for Encarnación)

To improve the provision of urban water and sewerage services within Paraguay; improve the health conditions and the quality of life of about 250,000 inhabitants in the city of Asunción; and improve the living conditions of about 3,000 inhabitants in the city of Encarnación through the construction of infrastructure works.

Restructured in 2000 to support reform of water and telecom sectors.

Loan closed December 2003 and as of June 30, 2004, had an outstanding balance of USD 13,569,934.

**ANNEX 2:
ANNOTATED MATRIX OF THE MANAGEMENT ACTION PLAN AND PROGRESS TO DATE**

The matrix that follows indicates the specific actions proposed by the Bank as part of its Management Response to the Inspection Panel's Investigation Report, and which were approved by the Board in May 2004, together with an indication of the progress achieved to date in their implementation.⁹

Management's Action Plan in Response to Inspection Panel's Findings	Implementation Progress to Date
<i>Environment – OD 4.01</i>	
<p>Resettlement sites and civil works (Items 3, 8, 9, 40)</p> <ul style="list-style-type: none"> • Management will request that EBY update the screening process for non-dam related civil works and that it include a quality assurance protocol to evaluate the environmental conditions and the quality of the civil works in the resettlement sites. The Bank will continue to monitor engineering supervision and contractor insurance practices and will request improvements, as necessary. • The Bank will monitor the system EBY has in place to supervise civil works and request that contracts continue to include required clauses. The Bank will also continue to pay careful attention in future supervision missions to construction deficiencies. 	<ul style="list-style-type: none"> • The Bank has assisted EBY in updating the screening procedures used for assessing the environmental impact of infrastructure and resettlement-related works. EBY's governing board has requested its Management to submit for approval a draft of the updated screening procedures. The updated procedures aim at enhancements in design, construction, and quality assurance of remaining civil works at existing and future resettlement sites. • The Bank is committed to ongoing enhanced supervision of the environmental aspects of the resettlement sites and civil works.
<p>Biophysical environment – long-term (Item 6)</p> <ul style="list-style-type: none"> • The Bank will continue to monitor closely compliance with the Legal Agreements, including the environmental and social mitigation measures, and will ensure that EBY is apprised of its findings, with a view to improving EBY's capacity to maintain adequate environmental management practices for the Project over the long term. 	<ul style="list-style-type: none"> • EBY has earmarked financing for Environmental Management Plan (EMP) activities in its Project Completion Plan presented in June 2004. During the July 2004 mission, both the Bank and IDB stressed the importance for EBY to implement the actions established in the EMP.
<p>Urban and peri-urban environments – population growth, induced impacts and host populations (Item 7)</p> <ul style="list-style-type: none"> • The Bank will continue to supervise compliance with the implementation of the PMMA component of the EMP, in accordance with the provisions of the Legal Agreements. 	<ul style="list-style-type: none"> • World Bank and IDB staff have proposed that EBY and local municipalities strengthen their institutional links to better integrate Project planning and investments with municipal management on either side of the river. During the joint July 2004 supervision mission, EBY agreed to submit to IDB and the World Bank, during the last quarter of 2004, terms of reference for the provision of technical assistance to municipalities in preparing urban development plans.
<p>Reservoir level verification (Item 11)</p> <ul style="list-style-type: none"> • Management will urge the Governments of Argentina and Paraguay and EBY to establish a means for independent verification of the reservoir 	<ul style="list-style-type: none"> • To monitor the reservoir level and confirm that the reservoir is operated in accordance with the Operational Manual, and based on terms of reference

⁹ The left column is taken verbatim from the Management's Action Plan dated April 6, 2004. The Item numbers given in each row refer to Items in Annex 1 of the Management Report and Recommendations in response to the Yacyretá Inspection Panel Investigation (May 6, 2004).

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<p>level. Bank staff will monitor this and confirm that the reservoir is operated at 76 masl, in accordance with the Legal Agreements. Management will also request EBY to validate the height-flow rate curves every year.</p>	<p>discussed with the Inspection Panel's hydrology consultant,¹⁰ the Bank is contracting the University of La Plata (UNLP). The UNLP has established a team of water resources engineers from Universidad de Asuncion in Paraguay and Universidad de la Plata in Argentina. According to the terms of reference, this team will: (a) analyze hydrological data collected from the Argentine and Paraguayan Coast Guards independently of EBY, monitor the reservoir level, and check compliance with pertinent provisions in Yacyretá's Operational Manual (including validation of the height-flow rate curve); and (b) publicly disseminate the information collected on the reservoir level on the two Universities' websites.</p> <ul style="list-style-type: none"> • During the July 2004 mission, EBY agreed to assume responsibility for financing a similar independent verification mechanism to monitor the water level, no later than the beginning of 2005.
<p>Sewerage system (Items 15, 16, 17, 41)</p> <ul style="list-style-type: none"> • Management will request EBY to make all relevant drawings of sewerage systems, pumping stations, and the wastewater treatment plant, as well as any other non-dam-related civil works, available to the community. In addition, the Bank will monitor inclusion of activities to clarify the areas being covered and the proposed time frame for the coverage in EBY's social communications program. • Management will confirm that the sewerage system has been completed prior to the raising of the reservoir level to 78 masl, in accordance with the pertinent provisions of the Legal Agreements, and will urge EBY and the Paraguayan authorities to pursue IDB or other financing for the household connections. • It is expected that actions pertinent to transfer and supervision of the sewerage system in Encarnación will be undertaken by IDB prior to the raising of the reservoir level to 78 masl. • Management is urging EBY to accelerate efforts to improve the outfall of effluent from the Itá Paso resettlement site even prior to the completion of the wastewater treatment plant. 	<ul style="list-style-type: none"> • Construction of the sewerage system in Encarnación's southern zone with IDB funding is underway, with completion tentatively planned for 2006. • During supervision, the Bank has insisted that EBY identify the institutional and financial arrangements required for installation of household connections in the southern zone and construction of the sewerage system for the city's northern zone. • Construction of a wastewater treatment plant for the city of Encarnación with IDB funding is underway, with completion tentatively planned for 2006. • Management has urged IDB to finance the household connections as well as the construction of the sewerage system in Encarnación's northern zone, in addition to those parts of the system, whose construction is already supported under its existing loan. Recognizing the risk that such financing may not materialize as planned, EBY is also exploring alternative technical and financial options.

¹⁰ This discussion took place with the assent of the Inspection Panel.

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<i>Social – OD 4.30</i>	
<p>Social Communications Program (Items 18, 23, 24, 27, 28, 38, 44)</p> <ul style="list-style-type: none"> • The Bank will monitor EBY's provision and dissemination of information on the criteria and procedures to be used in order to confirm beneficiary status, as part of its implementation of the social communications program to comply with Plan B. • The Bank will monitor inclusion in EBY's social communications program of specific programs of information and consultation with host populations for planning and carrying out construction in resettlement sites. • The Bank will monitor inclusion in EBY's social communications program of provisions for strengthening the dissemination of information to affected people on the procedures that EBY employs for property appraisals. Moreover, the Bank will assess the adequacy of valuation procedures for the properties that will be expropriated prior to raising the water level further. • The Bank will monitor inclusion of improved plans for dissemination of procedures for property valuation and appeals in EBY's social communications program. • Management will confirm that the social communications program includes information on the resettlement sequence to be incorporated in the PARR component of the Revised EMP. • Management will confirm that EBY implements a social communications program, to comply with Plan B, and will urge EBY to address communication issues under the Urban Creeks Program. • During supervision, the Bank will monitor EBY's implementation of the social communications program, to improve the relations between people implementing the Project and those affected by it. 	<ul style="list-style-type: none"> • The Bank has assisted EBY in designing a social communications program. Following the Board discussion in May 2004, a World Bank communication specialist and a consultant worked with EBY in June and July 2004 in order to develop a framework, options, and content for a social communications program to reach all affected groups. • In its Project Completion Plan, EBY has earmarked resources for the implementation of this social communications program. • EBY plans to complete the preparation of the social communications program during the last quarter of 2004. The program is expected to include organizational changes within EBY to facilitate effective management oversight and follow-up. • The Bank is committed to ongoing enhanced supervision of the social communications program and its outreach to both the general public and to all affected groups.
<p>Updated PARR (Items 19, 22, 29, 30, 35, 37)</p> <ul style="list-style-type: none"> • Management will confirm that the updated PARR component of the Revised Environmental Management Plan (EMP), when completed, is in full compliance with OD 4.30 and the Legal Agreements, before the reservoir level is raised beyond 78 masl. Management will also urge EBY to make the census and relevant topographical data public, and will advise EBY on ways to improve its procedures for public review. • Management will confirm that the updated PARR component of the Revised EMP includes specific programs to promote the better integration of 	<ul style="list-style-type: none"> • EBY has agreed on a timetable and a methodology for updating the PARR. The update is expected to take eight months. The process will be integrated with the social communications program. • EBY has agreed that the methodology for the updated PARR will use up-to-date technology (including a geo-referenced database), techniques and procedures to ascertain the status of the population to be resettled. • The PARR will update the Project's socioeconomic baseline information in order to better design different resettlement alternatives and rehabilitation programs

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<p>resettled and host populations (discussions are underway).</p> <ul style="list-style-type: none"> • Management will confirm that the updated PARR component of the Revised EMP considers alternative sites and different resettlement strategies, and that both be subject to consultation. • In the updated PARR component of the Revised EMP, the Bank will confirm that the required socioeconomic data has been included. The Bank will also facilitate a workshop, planned for the third or fourth quarter of 2004, to train EBY staff and to discuss additional measures to improve the rehabilitation programs. • Management will confirm with EBY that the updated PARR component of the Revised EMP (which is required to be revised prior to raising the reservoir beyond 78 masl in accordance with the Legal Agreements), includes a realistic plan, budget and timetable for completion of resettlement activities. • Management will confirm that the updated PARR component of the Revised EMP has included provisions to continue giving priority in resettlement sequencing to the most vulnerable and most impacted groups, particularly those located in areas prone to periodic flooding, as well as the sick and elderly. 	<p>for families, businesses and industries being relocated, and programs to better integrate resettled populations with host communities.</p> <ul style="list-style-type: none"> • During the second semester of 2004, EBY is expected to hire international staff to oversee the preparation and implementation of the updated Resettlement and Rehabilitation Plan. • At EBY's request, the Bank plans to provide training by the end of the year to the Governments of Argentina and Paraguay and to EBY in developing resettlement and rehabilitation plans.
<p>Monitoring (Items 20, 30)</p> <ul style="list-style-type: none"> • The Bank will continue to advise EBY and monitor compliance with implementation of the PARR. Also, the Bank will continue to advise EBY that cash compensation is not a satisfactory means, nor is principal occupation the sole criterion for income restoration. • Management will continue to urge EBY to collect the necessary baseline data, and it will monitor how the current PARR responds to the impacts caused by displacement. 	<ul style="list-style-type: none"> • During the July 2004 mission, EBY agreed that during the updating of the PARR it would conduct a study of the socioeconomic conditions of the population to be resettled. • The Bank is committed to ongoing enhanced supervision of all Project resettlement activities.
<p>Dispute resolution / grievance procedures (Items 21, 22)</p> <ul style="list-style-type: none"> • The Bank will oversee a review during the second quarter of 2004 of existing claims against EBY in order to address issues of dissatisfaction, and propose a renewed effort (together with the IDB) to develop a credible and transparent dispute resolution process. The Bank will continue to work closely with EBY to establish this process as soon as possible. • Management will urge EBY (and provide guidance as necessary) to include in the grievance procedures a means for the reception and solution of claims that could emerge from host communities during the resettlement process. 	<ul style="list-style-type: none"> • The Bank has retained a law firm and an information technology consultant to help EBY organize its system for processing claims and grievances. The IDB has agreed to finance, through its ongoing project, the cost of improving this system, including financing expert advice, computer systems, and training. • The Bank has commissioned a study about possible options for independent grievance resolution mechanisms. For this purpose, the Bank has retained a lawyer with experience in arbitration, mediation and conciliation. The analytical work toward establishing such a mechanism is currently expected to be completed before the end of 2004.

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<p>Brick makers (Items 26, 31, 32, 33, 34)</p> <ul style="list-style-type: none"> • Management will request that EBY continue to provide small brick makers with access to clay deposits. Management also will monitor inclusion in EBY's social communications program (to comply with Plan B) of activities to ensure brick makers are aware of the location of clay deposits on EBY-owned property. • Medium and large sized industries will continue to have access to clay deposits on the land that EBY owns until the reservoir level is raised. • Management will request EBY and the Paraguayan authorities to meet the 2004 timetable for disbursing benefits under the Productive Fund to the informal workers already identified. Management will also request that EBY make every effort to identify former workers of brick and tile-making industries who did not previously receive compensation for loss of employment due to their informal status and utilize the Productive Fund to provide them with appropriate compensation. Finally, Management will confirm with EBY that the updated PARR component of the Revised EMP includes provisions for employment alternatives for both informal and formal workers who lose their employment due to industry closure or relocation. 	<ul style="list-style-type: none"> • EBY is expected to continue efforts to build and maintain awareness among brick and tile makers of the procedures for access to clay deposits on EBY's property. • The Bank is committed to closely supervising the treatment of brick and tile makers and workers under the updated PARR (see also the section on the update of the PARR).
<p>Influx of people into the Project area (Item 36)</p> <ul style="list-style-type: none"> • The Bank will urge the Paraguayan authorities to explore all available legal and administrative means, such as licensing, permitting or fiscal policies, to discourage new development or influx into the land between 78 and 84 masl until such time as EBY has adequate financial resources to acquire this land. 	<ul style="list-style-type: none"> • The Bank has consulted with local and regional officials in Paraguay about means to stem the flow of new settlers into the areas to be flooded. EBY is expected to examine alternative measures to control migration, with a view to agreeing with the Government regarding the design and implementation of such measures over the next year.

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<i>Supervision – OD 13.05 – OP/BP 13.05</i>	
<p>Technical quality and expertise (Items 7, 40, 44)</p> <ul style="list-style-type: none"> The Bank will continue to monitor the system EBY has in place to supervise civil works and request that contracts continue to include required clauses. The Bank will also continue to pay careful attention in future supervision missions to construction deficiencies. To strengthen Bank supervision, an architect/urban planner with experience in environmental and social assessments will join the Task Team to supervise issues related to infrastructure and housing for resettlement sites. EBY has informed the Bank that it will contract independent ex-post evaluations for the resettlement sites of Arroyo Porá and Itá Paso. 	<ul style="list-style-type: none"> To further strengthen the Bank Task Team, a Lead Anthropologist, specialized in supervising resettlement and rehabilitation and who also has significant operational task management experience, has recently joined the Task Team. An architect/urban planner has joined the Bank Task Team, to supervise infrastructure and housing construction.
<p>Consultation (Item 42)</p> <ul style="list-style-type: none"> In accordance with the Panel's findings, future Aide Memoires will be expanded to document the subject matter of Bank meetings with affected people, with summary findings and notes of follow-up actions needed. 	<ul style="list-style-type: none"> The June Mission documented Task Team meetings with affected people, with a summary of findings and of follow-up actions needed.
<p>Level of supervision (Items 43, 46)</p> <ul style="list-style-type: none"> The Bank will emphasize to EBY that among the works required to complete the Project, the most urgent are those related to resettlement, and that local actors and organizations must be involved in overseeing resettlement activities. In addition, the Bank will continue to send any Project-related corruption complaints received to the Department of Institutional Integrity. The Bank has recently upgraded and expanded its Asunción office, and is recruiting a civil society specialist to join in April or May 2004. Among this person's duties will be local supervision of progress implementing the PARR and other Project-related requirements. The Bank will continue to review and comment on proposals for raising the reservoir level and monitor compliance with the pertinent provisions in the Legal Agreements. In addition, the Bank intends to continue supervising the Project through the final repayment of the Second Yacyretá Loan. 	<ul style="list-style-type: none"> In the Project Completion Plan, agreed by the Governments of Argentina and Paraguay and EBY, resettlement and land acquisition have been prioritized. In addition, the Project Completion Plan includes provisions for community involvement in the resettlement process. The Bank has hired a civil society specialist based in the Bank's Asunción, Paraguay office. The Bank has continued insisting on EBY's compliance with the pertinent provisions of the Legal Agreements.
<p>Reporting (Item 45)</p> <ul style="list-style-type: none"> Based on the results of the Panel's investigation and related data gathering, Management will take into account all available information and prior experience in order to improve the quality of future reporting. In addition, Management will report to the Board annually on the implementation of the proposed Action Plan. 	<ul style="list-style-type: none"> The Bank will continue to supervise the Project intensively and plans to report back to the Board in one year.