



1. Project Data:		Date Posted : 03/29/2002	
PROJ ID: P006512		Appraisal	Actual
Project Name: Environmental Conservation & Rehabilitation (Compania Valle Do Rio Doce) Project	Project Costs (US\$M)	109	87
Country: Brazil	Loan/Credit (US\$M)	50	36
Sector(s): Board: ENV - Mining and other extractive (58%), Other social services (28%), Forestry (14%)	Cofinancing (US\$M)	59	51
L/C Number: L3924			
	Board Approval (FY)		95
Partners involved :	Closing Date	06/30/2000	06/30/2000
Prepared by :	Reviewed by :	Group Manager :	Group:
Aaron Zazueta	Andres Liebenthal	Alain A. Barbu	OEDST

2. Project Objectives and Components

a. Objectives
Support the environmental program of Compania Valle Do Rio Doce (CVRD) by financing high-priority investments throughout its operations.

- Bring about changes in CVRD's policies, systems and procedures needed to reinforce sound environmental policies and management, and help ensure that further development schemes in which CVRD would participate are planned and implemented in ways which are environmentally sound and socially fair .
- Correct some of the negative indirect environmental and social impact of CVRD 's operations in sensitive portions of its area of influence, in particular the Carajas corridor .

b. Components

1. *Pollution control and recuperation of degraded areas* . This component included a comprehensive review of CVRD's environmental program and its major associated companies . It included follow up investments to address problems related to air, water and solid discharges, and also included activities for the recovery of areas degraded by mining and waste deposits.
2. *Natural resources protection and recuperation* . This component included the preparation and implementation of management plans for forest and biological reserves under CVRD's management, reforestation of degraded areas and greenbelts along railways and mining sites, and activities to improve knowledge of natural ecosystems . It also included the transition of pig-iron smelters dependence on natural vegetation for charcoal to the use of plantation timber.
3. *Socially oriented investment* . This component included the installation of basic water supply and sewerage infrastructure in several municipalities, provisioning of services and infrastructure to several Indian communities with in the area of influence of CVRD, assistance to The Brazilian National Indian Foundation (FUNAI) in the protection of Amerindian communities in CVRD's area of influence and to complete demarcation of three Amerindian reserves .
4. *CVRD corporate environment information, monitoring and audit system* . This component supported environmental audits throughout CVRD's operations and subsequently provided support for CVRD's implementation of ISO 14001 certification for certain parts of its operations
5. *Studies* . Several studies related to environmental and social monitoring were identified at appraisal . Some of these included: monitoring pollution in Tibopeba and Itabira mines, review sanitation systems for low income communities, social diagnostics of municipalities in the CVRD's operation area, monitoring and control of CVRD's operations, review of environmental impact assessment of new subprojects .
6. *Sub projects* . At appraisal 12% of the total project funds were left unallocated . It was planned to identify subprojects aimed at reducing pollution and environmental degradation, improving knowledge and protecting natural ecosystems

c. Comments on Project Cost, Financing and Dates
The project closed on Julie 30, 2000, as expected during appraisal . Nevertheless it only spent 87.7% of the SAR estimates (109). Four project components experienced cost under runs, but one (Natural Resources) was 21%over

appraisal estimates.

3. Achievement of Relevant Objectives:

This project achieved few of its objectives mainly because the Bank and the Borrower never fully agreed on the project's objectives. At the root of the problem were two design flaws: First, the Bank overestimated its capacity to influence CRVD's management, and did not give sufficient attention to CVRD's reluctance to accept responsibility for public goods concerning environment and indigenous peoples in the northern region; Second, the Bank did not foresee the need to have contractual agreements to insure the participation of other parties (the Brazilian Institute for Environmental Protection and Renewal Resources -IBAMA, pig iron smelters and FUNAI) important to achieve project objectives. During implementation, when CRVD and the Bank disagreed on an activity CRVD generally carry out the activity with its own funds, or chose not to execute the activity at all. As a consequence the project was under spent. Also, very little was achieved in three project activities that the Bank considered of the highest priority. These are reducing the use of native vegetation for charcoal by pig-iron smelters, demarcation of indigenous lands, and promotion more self-reliance among Amerindians, and less dependence on CRVD. CRVD argued that the successful completion of these three activities depended of third parties (mainly the pig-iron smelters, IBAMA and FUNAI), and that in the absence of contractual agreements, it had no legal means to force those agencies to comply with project requirements.

Some of the most significant achievements of the project refer to the first objective, which was related to investments to prevent and correct environmental damage. Examples of these investments include the construction of a new trailing pond in Itabira, the enlargement of an existing tailings pond in Carajas and improvement of tailings ponds in other mines. Also, improvements were carried out in the Tubarao Port to reduce water pollution and beach erosion. Other accomplishments include the strengthening of CVRD's systems and procedures needed to reinforce environmental management; CVRD's adoption of a more equitable policy regarding indigenous people living in its areas of influence; and the mitigation of some of the environmental and social impacts of CRVD operations in the Carajas Corridor, including the installation of air pollution control devices, state-of-the-art air-quality monitoring systems. Modern water and swage systems were installed in the City of Parauebas.

4. Significant Outcomes/Impacts:

- CVRD made significant progress in strengthening its capacities for environmental management and monitoring. The project contributed to CVRD achieving ISO 14001 certification for several of its mines and seaport operations. CVRD also remains committed to expand certification of its activities.
- Investments in Tubarao Port, in Tabira and Carajas have prevented the increase in pollution and contributed to a cleaner environment.
- CRVD contracted an NGO to work with the Xikrin, an indigenous group in the project area, to develop and implement a timber harvest program. Log harvesting began in 2000. This activity promises to bring a steady source of income to the Xikrin through sustainable harvesting methods, this will free the Xikrin from unscrupulous sawmill operators and provide resources to meet their development needs.

5. Significant Shortcomings (including non-compliance with safeguard policies):

- While there are no apparent violations of safeguards, the ICR considers that CRVD could have done more to persuade third parties to action by using its influence as one of the larger mining companies in Brazil.
- The Government of Brazil had little involvement in the preparation, implementation and supervision of the project. Lacking project ownership, the government was not very proactive in pursuing demarcation of indigenous lands and in the enforcement of environmental regulations regarding pig-iron producers.
- Budgetary constraints prevented the Bank from mobilizing the appropriate expertise during supervision. This resulted in loss of Bank credibility by CRVD and contributed to CRVD's decision to not to execute portions of the loan in areas where no agreement could be reached.
- The environmental monitoring system focused on legal requirements and not on broader social and environmental quality issues. Thus there is a greater emphasis on having the necessary management systems in place to correct non-conformities than on environmental impacts.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Unsatisfactory	Unsatisfactory	
Institutional Dev.:	Modest	Modest	
Sustainability:	Likely	Likely	The modest accomplishments of the project are likely to be sustained.
Bank Performance:	Unsatisfactory	Unsatisfactory	
Borrower Perf.:	Unsatisfactory	Unsatisfactory	
Quality of ICR:		Satisfactory	

NOTE: ICR rating values flagged with '*' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

- In cases when the Bank has little leverage over the Borrower it is particularly important to insure that the Bank and the Borrower share the same objectives for a project during design, and that the Bank mobilize the appropriate expertise to insure good communication and credibility during supervision .
- When important project objectives require the participation of third parties, separate Project Agreements or contracts must be made. Also it is important to make sure that the scope of the project does not go be on the scope of the operation of the Borrower and other Implementing Agencies .
- Projects that are complex and address many different issues require additional resources to mobilize the appropriate expertise during supervision .
- Projects with components that require politically sensitive decisions, such as demarcation of indigenous lands and the fuel conversion by pig-iron smelters, need to carefully assess during design the type of coalitions and alliances that would be necessary to bring sufficient political support to such decisions . Financial and technical inputs, while necessary, are insufficient when seeking to promote political processes of this nature .

8. Assessment Recommended? Yes No

Why? Low achievements of objectives of this project are related to Bank shortcomings dealing with a Borrower with strong financial capacity. A more detailed review of this project could provide more information on lessons regarding how the Bank can be more effective in situations were it has little financial leverage over borrowers

9. Comments on Quality of ICR:

The ICR was well written and organized.