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OFFICE MEMORANDUM

Mr. Warren C. Baum (through Mr. Rajagopalan)

DATE: June 9, 1981

FROM: James A. Lee

BRAZIL - NW Regional Development Program - First-phase Project

1. The report of the consultant examining the environmental/agricultural aspects of the proposed subject project (Prof. Gifford), and Ms. Koch-Weser's report on the FUNAI and Amerindian issues became available in their entirety only after the Loan Committee meeting. A careful reading of Prof. Gifford's report and my discussions with him just prior to his departure further suggest that the risks attendant to this project are substantial. The report casts increasing doubt on the likelihood the project will fulfill the expectations of both the Government and the Bank's advocates. Further, it has come to my attention that of the total projected POLONORESTE budget, forestry (IBDF) is allocated 0.21%, tribal peoples (FUNAI) 2.14%, and environment (SEMA) 0.18% -- certainly not a very generous allocation to those critical elements of the project.

2. Inasmuch as the Bank will be associated with this undertaking, it should endeavor to minimize both the risks and the Bank's exposure to criticism which can be expected to escalate and take on new approaches and dimensions. In order to reduce these risks, I recommend that the Bank require the following as conditions before issuing invitations to negotiate and/or subsequently specified as loan conditions.

Tribal Peoples

- (a) All areas used by the Amerindians in the whole northwest region to be demarcated and satisfactory evidence presented that all illegal squatters evicted; and, that maintenance of the demarcation and protection from squatters will be enforced.
- (b) Satisfactory evidence that the FUNAI has initiated the recommended reform in its organization, planning, staffing and budget, that the recommended health care and immunization program for the tribal peoples has been initiated; that periodic (monthly/quarterly?) status reports on FUNAI's efforts and observed results are transmitted to the Bank (the risks inherent in this could be minimized by invoking a mutually acceptable third party to assist in the monitoring and reporting process).
- (c) That the GOB fully understands the risk to the Bank's image and possible donor governments' reactions from its association with this highly controversial project. In respect of this, the GOB will interpose no objection to the Bank's inviting those organizations and institutions critical of the project and the Bank's involvement for a frank and open exchange of information and views prior to negotiation.

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Environment/Agriculture

- (d) Passage of the Amazon Forestry Policy legislation in a form acceptable to the Bank.
- (e) Clarification of the IBDF's 50 percent rule, in conjunction with INCRA.
- (f) Institutional strengthening of IBDF as recommended by the Bank's Forestry Sector Mission in its April 1981 report; and, satisfactory evidence that the protection requirements as recommended by Prof. Gifford will be implemented with the full involvement of INCRA.

If you agree, you may wish to forward this to Mr. Barletta for his further consideration.

4. I am attaching for your perusal some further material on the Amerindian issue. As you can readily see, if these assertions are factual, the Bank is at risk in agreeing to associate itself with this particular undertaking.

Attachment

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