

U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON SCIENCE AND TECHNOLOGY

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October 15, 1984

Honorable Donald T. Regan
Secretary of the Treasury
15th and Pennsylvania Aves., N.W.
Washington, D.C. 20220

Dear Mr. Secretary:

As you may be aware, the Subcommittee on Natural Resources, Agriculture Research and Environment held hearings on September 19, 1984, to examine the role of research in tropical forest development projects.

As a result of testimony received at that hearing, I am writing to express my deep concern over the progress and impact of Brazil's Integrated Development Program for the Northwest Region (the "Polonoreste" project), for which the World Bank has loaned the government of Brazil nearly \$500 million. While the World Bank's participation in this agricultural development project was intended to help control and consolidate spontaneous migration into the rain forest regions of Rondonia and Mato Grosso in northwest Brazil, testimony at the hearing indicated that the project is in fact contributing to increased uncontrolled migration and accompanying deforestation.

Witnesses testified that the soils in the Polonoreste region have proved to be so poor that many of the small farmers who had cleared the forest to plant crops have been forced to abandon their land within a few years. The evidence also suggested that in many cases ranchers are consolidating the small parcels into large cattle ranches, despite the unsuitability of the area for sustainable grazing.

One of the major problems identified by witnesses is the imbalance in the progress of project components. While road construction components of the project have been proceeding rapidly, inviting further migration, there has been little progress in implementing the provisions of the Loan Agreement (2060 BR) which were intended to provide services to the settlers and to protect areas which were unsuitable for agricultural development. For example, the paving and reconstruction of the Cuiba-Porto Velho road (BR-364) has been completed. In contrast, several biological reserves and Amerindian reserves which should long have been in place according to the clear terms of the Loan Agreement have not been established or protected.

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Honorable Donald T. Regan
October 15, 1984
Page Two

2

Indeed, instead of attempting to slow the rate of migration pending the establishment of the services and reserves which are part of the binding loan agreement, INCRA (the Brazilian land agency) is continuing to promote migration through national prime time television advertising.

The Loan Agreement provides that Brazil and the Bank agree that "the orderly development of areas of the Program Area most suitable for agricultural development . . . and the environmental protection of areas determined to be unsuitable for agricultural development are essential to the successful carrying out of the Project." Section 3.13 of the agreement further requires the government of Brazil to "take all necessary measures to (a) discourage the agricultural exploitation of areas which have been determined to be unsuitable for agricultural development or of areas whose suitability for agricultural development has not yet been determined; and (b) to prevent the occupation of areas which have been legally defined as reserves."

Brazil's continued promotion of migration to the Northwest Region, particularly in the absence of services and the establishment of protected reserve areas, can only serve to foster uncontrolled development, unnecessary deforestation, and continued conflicts with the native Amerindian populations.

In addition, at least some of Brazil's settlement plans appear directly to violate the terms of the Loan Agreement. Of gravest concern is the construction of the President Medici-Costa Marques highway (BR-429), scheduled to be completed this November, and the planned settlement of some 10,000 families along the road in Bom Princípio, Terra Firme, Conceição, Porto Murinho, Surpresa, Cena Grande, São Domingos, Monte Cristo and São Miguel. The highway and settlement projects will lead to further migration into the Guapore valley which will directly threaten a number of reserve areas required to be established by the Bank (including the Guapore Biological Reserve, the Rio Branco Indian Park, the Picaas Novas National Park, and the still-undemarcated territory of the Uru-eu-wau-wau and Urupa-in Indians). Significantly, a soil map prepared in 1983 by EMBRAPA, the Brazilian agriculture research agency, shows that most of the soil in the area is unsuitable for small farmer agriculture.

The threat to the Amerindian population posed by the BR-429 road and the settlements would also appear to violate the terms of the Loan Agreement which require Brazil to "take all necessary measures" to protect the Amerindian population. The regional head of FUNAI, the Brazilian Indian agency, recently indicated that the BR 429 road was proceeding without the necessary Certidão Negativo (a no objection agreement) from FUNAI certifying that there were no Indians in the area.

Honorable Donald T. Regan
October 15, 1984
Page Three

3

In light of the testimony received at the hearing, action should be taken immediately to ensure compliance with the terms of the Loan Agreement and to fulfill the original intent of the Project to limit and control development in this environmentally-sensitive area. Prompt efforts to ensure compliance with the Agreement will also send an important signal to other borrowers that loan agreement provisions intended to protect the environment and native populations will be taken seriously by the Bank and that such provisions will be enforced. Specifically, the following steps should be taken:

1. Urgent action is required to stop the completion of the BR-429 highway and settlement project. Further development and construction in this area should not be permitted until such time as (a) a "no objection agreement" (as required by Brazilian law) is received from FUNAI, and (b) studies are conducted which indicate the suitability of that area for sustained small farmer agriculture.
2. The present plans for agricultural development in the Project area should be reconsidered in light of experience to date. At the same time, to prevent further deforestation, the Bank's first priority should be to consider ways to keep the farmers on the land. To this end, the Bank should immediately begin to improve the support and extension services available to the settlers. If necessary, to achieve this end, portions of the Loan Agreement could be renegotiated or a separate special project undertaken.
3. The Bank should immediately begin a research and development program to identify agricultural programs which are more likely to be economically and ecologically sound. For example, several witnesses discussed agroforestry projects which appear to hold some promise.
4. The Bank should immediately take measures to bring about compliance with the provisions of the Loan Agreement which establish and protect the biological reserves and the National Park, and which demarcate and protect the Indian reserves, including the expulsion of squatters from those areas. It is also imperative that the portions of the project requiring continuing evaluation of the impact on the environment and the Amerindians be continued.
5. The Bank should consider whether it should fund special projects aimed at improving the capabilities of FUNAI, the Brazilian Indian agency, and IBDF, the Brazilian Forestry Development Institute, to carry out the environmental protection and Amerindian protection provisions of the Loan Agreement.

Honorable Donald T. Regan
October 15, 1984
Page Four

4

I would request that the Department respond to these concerns and suggestions, indicating the response of the Bank and the actions taken by the Department. I would be pleased to discuss these issues in more detail with you, other Department officials, or members of the Bank staff.

Sincerely,



JAMES H. SCHEUER

Chairman

Subcommittee on Natural Resources,
Agriculture Research & Environment

cc: Mr. James B. Burnham
Mr. James Conrow
Mr. Stephen J. Canner
Cong. Jerry M. Patterson
Cong. Gus Yatron
Senator Bob Kasten
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5

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October 12, 1984

Mr. A. W. Clausen
President
The World Bank
1818 H Street, N.W.
Washington, D.C. 20433

Dear Mr. Clausen:

We are writing to express our grave concern over disturbing evidence of the consequences of the continued neglect of sound management of natural resources and protection of indigenous peoples in the design and implementation of World Bank projects.

Several independent sources in Brazil have called our attention to the accelerating and uncontrolled ecological and human destruction occurring in the World Bank financed Brazil Northwest Development Program (Polonoroeste). There is considerable evidence that the Brazilian agencies responsible for the program lack either the will or the institutional means to provide minimum protection to ensure the physical survival of the ecology of the Northwest region and over 6,700 Amerindians belonging to at least 34 tribal groups. Although Bank support for the Program was strictly predicated in the first Loan Agreement (No. 2060 BR) on the prompt implementation of measures to protect the environment and Amerindian population of the Program area, there are strong indications that the Bank has lost control over - or will not take effective measures to control - the destruction being unleashed in the region. Information we have received strongly indicates that the Bank's \$443.4 million investment has so far contributed to uncontrolled migration, accelerated deforestation, conversion of land to unsustainable cattle ranching, land speculation, and increased encroachment on Indian land areas. The Northwest Region's thousands of Amerindian inhabitats and irreplaceable biological diversity are threatened as never before.

In spite of this evidence -- and in disregard of the terms of the Loan Agreement for Phase I of the Program -- the Bank actually accelerated lending late last year for the third phase of Polonoroeste, which will settle 15,000 more families in the region. Although the purpose of this accelerated loan disbursement (part of the Bank's Special Action Program) was to help Brazil maintain development momentum in the face of the

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lingering world recession, it violated basic principles of sound management by accelerating funding for a program which was already encountering grave difficulties in managing the resources at hand.

The Bank's \$443,400,000 loan commitments to the three phases of the Program account for nearly one-half of one percent of Brazil's enormous foreign debt. It will be a tragedy for Brazil if this huge investment leads to the destruction of the natural resource base of Rondonia and western Mato Grosso -- and of the thousands of indigenous people and non-Indian settlers dependent on these resources -- rather than to development that is sustainable in the long term.

We urge and request the Bank to undertake effective measures to regain control over its enormous investment. In particular, we wish to know what immediate actions the Bank plans to undertake to:

1. Secure, through immediate discussions with the federal government of Brazil and the state of Rondonia, a halt to ongoing plans to settle 8,000-10,000 settlers in the Guapore Valley along the soon to be completed BR-429 (Presidente Medici-Costa Marques) highway. These planned settlements are on soils largely unsuitable for sustained cultivation by small farmers and threaten invasions of the Guapore Biological Reserve, the Pacaas Novos National Park, the Rio Branco Indian Reserve, and the still undemarcated lands of the Uru-Eu-Wau-Wau Indians. Such plans appear to be in clear violation of Section 3.13 of the Bank's Agreement with Brazil and the state of Rondonia for loan 2060 BR.
2. Provide for the immediate demarcation and protection of the extensive Indian lands in the Program area, as well as for the provision of health and other services. This is an aspect of Polonoroeste which the Bank and the Brazilian government agreed in Section 4.05 of Loan Agreement BR-2060 would be implemented by the Brazilian Indian Agency, FUNAI, but which is largely unimplemented. Numerous Indian areas are being occupied by squatters. In at least one reported case - the Lourdes Reserve - armed confrontations have occurred between Indians and settlers.
3. Promote concrete measures to deal with accelerating, indiscriminate deforestation, land speculation, and conversion to cattle pasture in areas where the Bank is financing new colonization or attempting to consolidate existing settlements; to this end, the Bank should immediately begin to improve the support and extension services available to the settlers.

4. Ensure adequate protection and management of the two Biological Reserves, the National Park, the four Ecological Stations, and the National Forests which were to be set up with Bank funding in the Polonoroeste Program Area; the National Forests have not been established or demarcated, and the other protected areas are either occupied by squatters or lack management plans and the means to implement them.
5. Ensure that the state of Rondonia redesign or cancel three planned roads - state highways 370, 377, 383 - which will crisscross the Guapore Biological Reserve and the Rio Branco Indian Reserve. These roads will link the reserves with two major federal highways and existing and planned settlements and remove all remaining hope of conserving these protected areas.
6. To implement measures 1-5 above, consider the renegotiation of the Polonoroeste loan agreements and the funding of special projects to strengthen FUNAI, the Brazilian Indian Agency, IBDF, the Brazilian Forestry Development Institute, and the government agencies charged with providing services to the settlers.
7. Insist that the Brazilian government land agency (INCRA) and the State of Rondonia halt nationwide advertising promoting further migration to the Polonoroeste region.
8. Increase the Bank's professional environmental staff and systematically implement more rigorous procedures to ensure improved environmental design so that the Bank does not repeat the costly mistakes in resource management that are occurring in Polonoroeste; a key element in improved design should be the early inclusion and participation in project planning of representatives of the local groups that are affected: indigenous peoples, farmers and settlers, environmental conservation organizations, and members of the church working in rural areas.

The prompt implementation of these measures would help to forestall increasing concern in the U.S. Congress and the West German Bundestag over evidence of the Bank's inadequate attention to sustainable management of natural resources and to the indigenous people who depend on those resources. In particular, as you may be aware, the House Banking Subcommittee on International Development Institutions and Finance has held five hearings in the past sixteen months on the multilateral banks and the environment, culminating with hearings last month on specific recommendations on measures to improve the environmental performance of the World Bank and other MDBs. In addition, the Senate Appropriations Committee has expressed its agreement with

the concern of a number of U.S. environmental organizations "over the lack of environmental consideration given by the World Bank in the formulation of its projects," and has directed the U.S. Treasury Department "to press the issue of the environment with the Bank. Recently, the House Science and Technology Subcommittee on Natural Resources, Agriculture Research and Environment held the first of a series of hearings on the environmental impacts of World Bank and other MDB agricultural projects which resulted in Chairman of that Subcommittee sending a letter of concern to the U.S. Treasury Department and Executive Director requesting that the Bank take measures similar to the ones we have outlined to deal with the urgent and disturbing problems relating to the Bank's involvement in Polonoroeste.

In the future, we urge the Bank to seriously reconsider the implications of funding programs such as Polonoroeste. These programs which serve as "escape valves" for the human consequences of government economic policies and gross inequalities in land tenure in other parts of the country, which have resulted in the migration of millions of rural farmers over the past decade and a half. The financing of the settlement of tens of thousands of families in ecologically dubious and unsuitable areas of the Amazon is clearly not a viable solution to these complex problems. In particular, by financing the construction of roads and other infrastructure in such areas (in the case of Polonoroeste, over half the Bank's financial commitment), the Bank contributes to untenable migration rates which result, as in the case of Polonoroeste, in accelerated, rampant deforestation, invasion of Indian lands, and destruction of natural areas unsuited for agriculture but possessing tremendous biological significance.

We have enclosed two memoranda that outline some of the major deficiencies in the implementation of the environmental and Amerindian components of Polonoroeste.

We wish to underscore the urgency of the situation in Polonoroeste and the need for the Bank to implement immediately the measures we have outlined and the measures which the Chairman of the House Science and Technology Subcommittee on Natural Resources, Agriculture Research and Environment is requesting the Bank to act upon. To ensure that Bank loan conditions are respected in the future, the Bank must exercise its maximum leverage in this situation, including reconsideration of planned funding for other agricultural projects in Brazil. At stake is the ecological survival of an area larger than Great Britain and the very lives of its thousands of indigenous inhabitants, as well as the credibility and image of the World Bank.

The profoundly disturbing situation in Polonocoeste underscores all the more the urgent need of the World Bank to undertake concrete measures and commit real resources, such as more professionally trained staff, to improve the ecological

design and review of its projects. Further neglect and delay of the Bank in addressing these environmental management issues will not only inflict grave long-term damage on the Bank's image, but could ultimately undermine public and legislative support for funding of the Bank in its most important donor countries.

Sincerely,

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International Program
Natural Resources Defense Council

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World Bank Urged to Halt Aid to Brazil for Amazon Development

By ERIK ECKHOLM

Critics asserted yesterday that Brazil's program to settle the Amazon frontier was harming the forests and jeopardizing Indian tribes, and they called on the International Bank for Reconstruction and Development to reassess its financial support of the project.

More than 25 environmental and anthropological groups from the United States, Brazil and other countries issued the complaint in a letter to A. W. Clausen, president of the World Bank. The critics said Brazil's poor planning was causing "accelerated, rampant deforestation, invasion of Indian lands, and destruction of natural areas unsuited for agriculture but possessing

tremendous biological significance." A spokesman for the World Bank, Peter Riddleberger, said, "This is a thoughtful letter and it will receive a thoughtful response." But he declined to offer immediate comment on specifics.

Bank Financing Major Road

The World Bank has committed \$443 million in loans to Brazil for paving a 1,000-mile road into the region, building feeder roads, providing services to settlers and establishing biological reserves.

Landless families are streaming into the project area, which includes the entire state of Rondonia and part of Mato Grosso. Most of the migrants come from southern Brazil, where mechan-

ization is displacing farm laborers.

Stories from the frontier are reminiscent of the Old West in the United States, with land disputes often settled through gunfights, farmers futilely clearing fragile soil, speculators taking over farms and settlers invading areas set aside for Indian tribes, some of which are only now making their first contacts with people of European descent.

Scientists say the unchecked clearing of the Amazonian forest in the area will exterminate several plant and animal species and could alter the regional climate.

Bank Demanded Safeguards

The World Bank wrote stringent conditions for protection of the environment and of tribal groups into the loan agreements in 1981. The Brazilians agreed to set aside several nature reserves, to limit farming to soils that could sustain it and to demarcate and protect Indian lands.

Critics now say the building of roads has speeded migration to the region but little has been done to put the safeguards into effect.

Arguing that the "credibility and image" of the World Bank was at stake, the letter from private organizations asserted: "To insure that bank loan conditions are respected in the future, the bank must exercise its maximum leverage in this situation."

Congressman Writes Letter

The letter was written by the Natural Resources Defense Council and signed by many other environmental groups, including the National Wildlife Federation and the National Audubon Society, and by the presidents of national anthropological associations in the United States and Brazil.

In a related action, Representative James H. Scheuer, Democrat of the Bronx and Queens, who is chairman of

a Congressional subcommittee concerned with natural resources, sent a letter Monday to Treasury Secretary Donald T. Regan, whose department handles Federal relations with the World Bank. Mr. Scheuer said the bank should encourage the Government of Brazil "to limit and control development in this environmentally sensitive area."

The United States holds about 20 percent of the shares of the bank, the world's largest development lending agency.

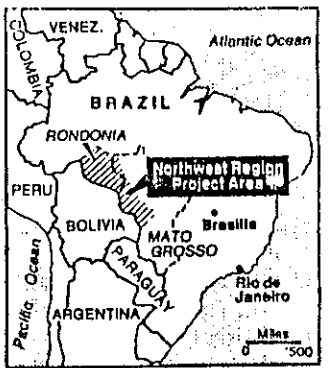
At hearings before Mr. Scheuer's Congressional subcommittee in September, José Lutzenberger, a Brazilian agronomist, said many settlers were being given plots unsuited to farming, forcing them to sell out after a few years to speculators and ranchers who were consolidating large holdings and violating forest protection laws.

Road to Pristine Forest

He and other witnesses expressed particular concern about a new road being constructed into the Guaporé Valley, the last untouched forest in Rondonia. He said the road "blatantly flouts two conditions in the World Bank's loan agreement."

The valley's soils are generally poor, he said, and the remote area is inhabited by still-undiscovered Indians who killed colonists and rubber tappers in encounters in 1961 and 1983.

The critics also urged the World Bank to strengthen its ability to reject loans that could cause harm to the environment. The bank has issued formal guidelines for environmental planning, but, according to Bruce M. Rich of the Natural Resources Defense Council and other critics, it has not yet committed the resources and staff needed to guarantee they would be put into effect.



The New York Times/Oct. 17, 1984
Brazil's Amazon frontier project involves area larger than Britain.