

**REPORT NO. 33743**

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

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

**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 (April 6, 2004)  
and Progress Report on Implementation of the Management Recommendations  
and Action Plan (August 6, 2004)**

**PROGRESS REPORT ON IMPLEMENTATION OF MANAGEMENT  
RECOMMENDATIONS AND ACTION PLAN**

**October 25, 2005**

**This document has a restricted distribution and may be used by recipients only in the performance of their official duties. Its contents may not otherwise be disclosed without World Bank authorization.**



## CONTENTS

### ACRONYMS AND ABBREVIATIONS

I. INTRODUCTION .....	1
II. UPDATE ON THE YACYRETÁ PROJECT .....	1
III. PROGRESS ON IMPLEMENTATION OF THE MANAGEMENT ACTION PLAN .....	3
Social Issues .....	4
Resettlement Plan Update.....	4
Social Communication .....	5
Monitoring of EBY Compliance with its Obligations to Affected Parties .....	6
Redevelopment of Encarnación.....	8
Additional Measures that Address Issues Identified by the Panel .....	9
Reservoir Level and Other Environmental Issues .....	10
Monitoring of Reservoir Level .....	10
Environmental Issues Associated with Future Water Level Rise.....	11
Other Environmental Issues.....	12
IV. PROJECT SUPERVISION AND COLLABORATION WITH THE IDB .....	13
V. CONCLUSIONS AND NEXT STEPS .....	15
ANNEX I. YACYRETA PROYECT OVERVIEW .....	16
ANNEX II. ANNOTATED MATRIX OF THE MANAGEMENT ACTION PLAN AND PROGRESS TO DATE .....	17

## ACRONYMS AND ABBREVIATIONS

BP	Bank Procedure
CDD	Community Driven Development
CPES	Centro Paraguayo de Estudios Sociológicos (Paraguayan Center for Sociological Studies)
EBY	Entidad Binacional Yacyretá (Yacyretá Bi-National Entity, or Corporation)
EMP	Resettlement and Environmental Management Plan
FEPREL	Fondo Económico Productivo y de Reconversión Laboral, (Productive and Retraining Fund)
FEDAYIM	Federación de Afectados por Yacyretá de Itapúa y Misiones (Federation of Yacyretá Dam Affected Persons in Itapúa and Misiones [Paraguay])
FONDIS	Social Investment Fund
IDB	Inter-American Development Bank
m <sup>3</sup> /s	[Flow rate] in cubic meters per second
Masl	Meters above sea level
NGO	Non-Governmental Organization
OP	Operational Policy (World Bank)
PARR	Plan de Acción para el Reasentamiento y la Rehabilitación (Resettlement and Rehabilitation Action Plan, component of the EMP)
PDA	Programa de Desborde de Arroyos (Creek Flood Program)
PMMA	Plan de Manejo del Medio Ambiente (Environmental Management Plan, component of the EMP)
PTY	Plan de Terminación de Yacyretá (Yacyretá Completion Plan)
SAS	Secretaria de Acción Social (Social Action Secretariat – Paraguay)
SEGBA	Servicios Eléctricos del Gran Buenos Aires, S.A. (Electricity Services Corporation of Greater Buenos Aires)
TOR	Terms of Referente
UNE	University of Encarnación (Paraguay)
UNLP	University of La Plata (Argentina)
US\$	United States Dollars
V RAN	Fifth High Level Meeting
WB	World Bank

## I. INTRODUCTION

1. Yacyretá is a multi-billion US dollar hydroelectric facility on the Paraná River, along the border between Argentina and Paraguay. The Project was 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 infrastructure works benefiting 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 and subsequently conducted a full Inspection of the Project.

2. On May 6, 2004 the Board Executive Directors discussed and approved the Management Response to the Inspection Panel's in-depth study.<sup>1</sup> The Board also asked for follow-up reporting. A 90-day Progress Report was issued on August 6, 2004. The Management Response and Recommendation also envisaged subsequent annual reports. This report constitutes the first such annual report and covers the period August 2004 –mid-September 2005.

3. Consistent with the Board's guidance, this report includes 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. Annex 1 provides a datasheet on the Project; and Annex 2 provides a more detailed presentation of implementation progress on the key issues covered in the Management Action Plan.

## II - UPDATE ON THE YACYRETÁ PROJECT

4. The Yacyretá Hydroelectric Project is the result of a 1973 treaty between Argentina and Paraguay that created the bi-national entity, Entidad Binacional Yacyretá, (EBY) to implement the Project. The Project includes construction of a dam with the capacity to generate 3,200 MW of electricity, a secondary dam with spillways to maintain ecological flows, an earth dam about 65 kilometers long, a navigation lock, irrigation water intakes, and a fish passage facility. The dam was built to operate at full capacity at a level of 83 meters above sea level (masl).

---

<sup>1</sup> Following the Inspection Panel Request for Inspection, the Executive Directors authorized a full Inspection Panel investigation on September 9, 2002. The IP report was completed and submitted to the Board on February 24, 2004 ("Paraguay: Reform Project for the Water and Telecommunication Sectors and Argentina: SEGBA V Power Distribution Project"). The "Management Response and Recommendations" was submitted to the Board on April 6, 2004.

However, since various resettlement, environmental and other complementary civil works were not then completed, it was agreed in 1994 that the reservoir level would be filled only to the level of 76 masl. With the necessary works still not completed, the hydroelectric plant has been operating at 60 percent of its capacity since that date.

5. On June 4, 2004, EBY submitted a formal Project Completion Plan (PTY) to the Bank and the IDB. This Plan, prepared by EBY and the Governments of Argentina and Paraguay, reflects the determination of both governments to complete the investments required, including the full range of necessary environmental and social measures. The PTY addresses most of the provisions in the Legal Agreements with the Bank on raising the reservoir above the current level.<sup>2</sup> Under the PTY, the reservoir level would be raised to its full height, 83 masl, by October 2008. The estimated cost of completing the Project is US\$653.4 million (as per the PTY of June 2004), including US\$65.4 million for activities currently underway, US\$563.7 million for additional investments needed to raise the reservoir level to 83 masl, and US\$24.3 million for follow-on investments after the reservoir is raised to its final level. The PTY proposes that the investments be financed by the Government of Argentina (US\$563.7 million) and the undisbursed balance of an existing IDB loan of US\$90 million (as of June 2004).<sup>3</sup>

6. Implementation of the PTY is progressing although at a slower rate than anticipated by both governments a year ago. The Argentine government estimates that, as of mid-September, 2005, delays were running at about 3-6 months. Specifically, there have been significant delays in works that were nearly ready for contracting a year ago (including the contract for the 10 km Aguapey dike, which has an estimated completion time of 36 months), and in starting up other key works, such as those associated with resettling the business district of Encarnación that will be extensively flooded when the water level rises.

7. Other factors may also contribute to delays. EBY has proposed a strategy to streamline procurement procedures, but this plan has not been approved by the two governments. Revisions to the EBY treaty between Argentina and Paraguay have been discussed but are not yet finalized. Finally, changes in the structure of EBY to improve its functioning for this phase of the Project have not been made, despite a condition of the IDB loan extension that called for a study by a high level management consultancy and subsequent implementation of management reforms.

8. Among some thirty social and environmental Legal Conditions first agreed upon between the Bank and project counterparts in 1992, over half have been met, but five others may require a year or more to complete (see Box 1). This uneven progress has led Bank Management to reaffirm in writing, both earlier this year (February 15<sup>th</sup>) and recently (July

---

<sup>2</sup> The PTY is not referenced in any Legal Agreements currently in effect since it is only a year old and the Legal Agreements were last amended in 1997. The term "Legal Agreements" mean the Loan Agreement (the Loan Agreement) entered into between the Argentine Republic (the Borrower) and the Bank, the Project Agreement (the Project Agreement) entered into between the Bank and EBY and/or the Third Owners Agreement (the Third Owners Agreement) entered into between the Argentine Republic, the Republic of Paraguay and the Bank, all dated November 16, 1992, and as thereafter amended (most recently in December 1997).

<sup>3</sup> "Environmental and Resettlement Program: Yacyretá Hydropower Project." On April 12, 2005, IDB agreed to extend the closing date for that loan until January 26, 2006. As of August 31, 2005 the undisbursed loan amount was approximately US\$62 million.

22<sup>nd</sup>), that it is not able to issue a no objection for even a partial raising of the water level, from 76 to 77 masl, at this time.

**Box 1 Overview of the Legal Conditions Requiring Compliance Prior to the Bank  
Giving its No Objection to Water Level Rise /\***

**A. Items Close to Completion**

- Compensation for Lands along the shore of the Reservoir;
- Completion of the Municipal Market in Encarnación;
- Compensation paid to all Brick and Tile Makers to whom it is due;
- Completion of the Dam Operational Manual to the satisfaction of the World Bank;
- Creation of compensatory Natural Areas for inundated lands;
- Completion of Archaeological Survey and Salvage through 77 masl plus buffer zone;
- Treatment of solid waste landfills to be inundated in Encarnación;
- Relocation of the Encarnación Municipal Slaughterhouse;
- Independent Evaluation of Environmental Management Plan by internationally known experts;
- Study of risks to human health from the urban lateral bays that will form when the reservoir level rises to 83 masl.

**B. Items Likely to Require One or More Years to Complete**

- Completed relocation, compensation paid, and issuance of land titles;
- Grievance Settlement System in place;
- Implementation of a Social Communications Program;
- Completion of Sewerage System for Encarnación;
- Legal Transfer of all public works to Local Authorities.

-----  
Note (\*): Of 30 legal conditions dating back to 1992, about half were evaluated to be completed as of the end of June, 2005. According to EBY, a few others were completed as of September 2005 (to be confirmed during the next supervision mission in the fall). A brief summary is provided in Annex 1.

### **III - PROGRESS ON IMPLEMENTATION OF THE MANAGEMENT ACTION PLAN**

9. In its response to the Inspection Panel's Investigation Report, Management's Action Plan laid out a set of measures to help achieve desired outcomes (Annex II). Some measures were and are directly under Management control, while others are actions only EBY or government authorities can take, and concerning which the Bank's role is to urge and support EBY and the government authorities. The Management Action Plan includes references to the Legal Conditions summarized above as well as other actions.

10. Since the Board approved the Management Action Plan, the Bank's Yacyretá supervision team has had four missions to the field (June, July, and December 2004, and April 2005), several smaller missions to Buenos Aires, and two small missions to Asunción (see Section IV, below). In addition, a High-Level Meeting was held in Washington on September 9-10, 2004, with Ministerial-level representatives from both governments, and high level

delegations from EBY, IDB, and the World Bank. All missions were fully coordinated with the IDB Yacyretá team.

The three main categories in the Management's Action Plan are Social, Environmental, and project supervision issues. Progress to date is summarized below.

### ***Social Issues***

11. Overall progress on settling the social issues surrounding the project is still lagging. The Bank continues to urge results and provide support to EBY and government authorities in the following areas: (a) updating and implementing the Resettlement Plan; (b) improving communications between EBY and the affected parties; (c) improving the dispute resolution and grievance procedures followed by EBY, and (d) intensive monitoring of compliance with past and current agreements.

### ***Resettlement Plan Update***

12. In July 2004, EBY agreed to update the Resettlement Plan (PARR) by February 28, 2005. The Bank has yet to receive the draft revised resettlement plan. Staff have been advised that the number of families that will require resettlement in Paraguay may be greater than the initial estimate of 6,000 and the number of families awaiting resettlement in Argentina is estimated at 800. Several missions, one joint WB-IDB-sponsored workshop, and a full-time IDB consultant (recommended by the Bank) have directly supported the PARR updating process.

13. The resettlement of 6,000 families using the same standards as in the recent housing projects designed and built by EBY in Paraguay alone would require approximately 260 hectares of land in appropriate locations of which EBY has so far acquired only a fraction. Construction of 6,800 additional homes at an estimated unit cost of US\$16,000 would generate a total cost of about US\$109 million plus the cost of land and complementary infrastructure. Considerations of cost as well as a concern with providing socially appropriate solutions to the problems of resettled families have led the Bank to repeatedly urge EBY to reconsider and diversify its resettlement model. (For example, at a two-day seminar on the topic of rehabilitation on April 11-12, 2005 in Posadas, Bank staff presented alternative approaches to income restoration based on examples from Colombia and elsewhere and argued for greater flexibility in order to meet a variety of needs.<sup>4</sup>) To date, EBY management has responded that it will not consider a different model, invoking "urban crowding," and consequent delinquency, as an explanation. Paraguayan authorities appear to support considering different options in the resettlement approach. This topic will remain a key point of discussion as EBY completes the updated Resettlement Plan. When the Bank receives that Plan, staff will review it carefully for consistency with the Bank's Policy on Involuntary Resettlement including the valuation system and attention to the most vulnerable segments of the affected population.

14. The Inspection Panel report described problems with host communities and the overcrowding of facilities caused by the influx of resettlers. However, Bank supervision

---

<sup>4</sup> A summary of findings from the workshop is available and was shared with the authorities in April 2005.



missions did not corroborate this, and the NGOs advocating on behalf of affected parties have not made this an issue in meetings with the Bank. Bank supervision confirms through community meetings and anecdotal evidence that the housing projects have improved the availability of services such as schools, nursery schools, community centers, health posts, athletic facilities, houses of worship and other facilities benefiting both host communities and resettlers.<sup>5</sup>

### ***Social Communication***

15. A prevailing attitude among residents in the Project-affected areas is that EBY is the source of nearly all the social and environmental problems in the affected communities. Local residents appear to frequently assume that EBY has unlimited resources that it could devote to resolving these problems. The continuing difficulties in EBY's communication with affected communities and individuals have delayed progress in new areas of investment and resolution of old grievances. EBY has trained teams of social workers working out of neighborhood offices (*oficinas barriales*) who appear to be well motivated and familiar with the people they serve. However, they are not empowered to speak for EBY regarding entitlements, dispute resolution, and the future timing of events.

16. In response to this situation, the Bank and IDB have urged, through the Legal Agreements as well as in response to the Inspection Panel Report, that EBY adopt an effective social communication program. The Bank has worked with EBY in the design of a two-way social communications program that goes beyond the occasional local interview and printed brochures. A Bank communication specialist and an external 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. IDB brought an expert consultant to the area in December 2004 and again in March 2005. The April 2005 Bank mission included a social development specialist familiar with post-conflict situations who participated in the workshop on rehabilitation. At EBY's request, in June 2005, IDB and the Bank jointly produced a detailed social communication program. So far, this has not been adopted by EBY.

17. On June 23, 2005, EBY notified the Bank that it had signed a contract with a consulting firm to set up a communication program for EBY, but that contract is not based on the TOR drafted by the two Banks. EBY's communication program appears to be primarily a publicity campaign aimed at projecting a positive image of EBY and its actions. Defending its actions may be a valid objective for EBY. However, as specified in the Legal Agreements, a social communication program must also provide accurate, up-to-date information to affected people and others regarding the nature of entitlements available, and clearly advise when relevant actions will be taken.<sup>6</sup> Absent such a program, rent seeking is likely to continue while demands may become ever more strident. Given the present state of affairs, the Bank's

---

<sup>5</sup> Every Bank field mission listed in Box 3, below, visited the communities and conducted meetings with affected groups.

<sup>6</sup> Amendment to Loan Agreement, December 11, 1997, Schedule B (1) (b), "Implement a Social Communications Program designed to inform all beneficiaries and affected people of the timetable of delivery for Base Program works, goods and services, together with another such program designed to inform the general public of Argentina and Paraguay regarding the progress and results of the resettlement and environmental programs (EMP)."

primary concern is to continue to urge that EBY communicate compensation rules transparently and to set a clear timetable for implementing social actions.

### ***Monitoring of EBY Compliance with its Obligations to Affected Parties***

18. Over the past year, the WB/IDB missions have held several meetings with NGOs and community groups in both Argentina and Paraguay. By far the more serious issues arise on the right bank (Paraguay). A meeting in April 2005 in Encarnación was attended by several different neighborhood groups and also by the Intendentes of Encarnación, Cambyretá and Ñeembucu and by the Catholic Bishops of Encarnación and Ñeembucú. Complaints by resettlers focused on ongoing problems relating to access to work and income, and on actual and possible future environmental problems in the immediate vicinity of housing projects. The principal issues raised are summarized in Box 2 below.

#### **Box 2: Principal Issues Raised by Community and Advocacy Groups /\***

- Unresponsiveness of EBY to community needs;
- Omission of people from entitlements, e.g. possible exclusion from the PARR;
- Inadequate programs for rehabilitation;
- Inadequate compensation for brick and tile makers;
- Improper size of pipe used for waste water in Encarnación;
- Improper design of pumping stations for sewage system;
- Flooding in the vicinity of Arroyo Porá;
- Flooding and contamination from urban creeks in Encarnación;
- Inadequate transport facilities from Arroyo Porá;
- Concerns about the possible end of Bank Project supervision; and
- The responsibility of the Banks (IBRD and IDB) for the current situation.

Note: (\*) Issues compiled from community and NGO meetings held during four separate field missions between June 2004 – April 2005, as well as from correspondence received over the past year.

19. In all meetings, in addition to listening and understanding the issues at stake, both the WB and the IDB have emphasized the need for community groups to have direct contact with EBY. At present, some community groups are unwilling to engage in direct dialogue with EBY, claiming that EBY is unresponsive to their demands and needs. At the same time, EBY staff often refuses to meet directly with affected community groups, asserting that many leaders may be driven by personal or political motives. Both the WB and IDB have continually pressed both sides to meet directly and develop more systematic two-way communication. This message has also been delivered in writing to both sides, such as in correspondence during April 2005 with the Catholic Bishops of Encarnación and Ñeembucú. In its dialogue with both governments, particularly in February 2005 at a meeting with EBY, provincial governors, and selected local mayors, the Bank urged the continued close involvement of local authorities in reducing tensions.

20. Separately, the Bank missions have also acknowledged that some community complaints over technical issues, such as the size of sewer lines or the design of pumping stations, have a weak technical basis. As the Bank has insisted in dialogue and in its aide memoire, however, they nonetheless deserve a full response from EBY.<sup>7</sup>

### **Grievance Mechanism**

21. Since May 2004, the Bank has systematically helped support EBY in improving its grievance resolution mechanism. In mid-2004, the Bank retained a law firm, Baker & McKenzie, and a systems analyst, to help EBY organize its system for processing claims and grievances. The analysis was based on a review of 61,661 notes in EBY's files (including both internal and external communications), as well as a detailed review of a sample of 200 randomly selected claims against EBY in Paraguay. Baker & McKenzie discovered that the number of registered claims for compensation against EBY amounts to some 2,577 monetary claims, far fewer than the reported 20,000 outstanding claims from affected persons or groups. Baker & McKenzie's detailed report, aimed at helping EBY develop a formal claims management system, was delivered to EBY in April 2005. Baker & McKenzie also produced a computerized case management system compatible with that used by EBY, together with a set of principles and procedures compatible with Paraguayan law for claims settlement. These principles include setting up a public information system that would advise potential claimants regarding procedures, establishing fixed response periods, and monitoring of the claims response system.

22. In addition, in late 2004, the Bank commissioned a study dealing with possible options for independent extra judicial grievance resolution mechanisms. The report<sup>8</sup> examined alternative dispute resolution systems and reviewed their strengths and weaknesses and the conditions under which they could work best. It also provided illustrative examples of alternative dispute resolution from a number of different countries and reviewed legislation pertaining to this topic in Paraguay and Argentina.

23. In July 2005, EBY announced to the Bank that it was creating a formal grievance procedure, approved by its Board of Directors on September 12, 2005. This procedure sets out specific procedures for receiving, registering, and treating complaints, and includes specific time limits for dealing with complaints. The overall process is to be overseen by EBY's Legal Department but implemented by the Resettlement Departments on right and left banks, respectively. The EBY Board resolution makes reference to the Bank's recommendations and includes a computerized system for accessing, tracking and evaluating responses to claims. The procedure is intended to provide a final response to all claims but allows for outside mediation in certain unspecified cases. The Bank regards this resolution as progress and hopes it will be implemented quickly and transparently.

---

<sup>7</sup> One point of friction has been over the design of the sewerage system in southern Encarnación. Plans were made publicly available. Bank missions have recommended that the NGOs seek the assistance of qualified engineers to review these plans, and perhaps to discuss any concerns with the construction contractors. However, some NGO representatives have not requested technical advice and have simply declared that, "while this [sewerage system design] may be standard practice elsewhere in the world, it is not acceptable in Encarnación."

<sup>8</sup> Nora Luzi, "Mecanismos de Resolución de Conflictos: Proyecto Hidroeléctrico Yaciretá," 2004.

24. With specific regard to brick and tile makers, some twenty-nine claims relating to the alleged lack of adequate compensation for the loss of raw material apparently remain unresolved. A recent monetary offer by the Paraguayan government was not accepted. There are also outstanding claims concerning whether compensation paid to some brick and tile producers to cover severance pay to their workers was actually received by those workers. In both cases, EBY's position is that it has fulfilled its obligations. The Bank's view, which has been repeatedly conveyed to EBY and government authorities throughout the year-long dialogue on dispute resolution, is that all pending claims should have the possibility of appeal to an independent extra-judicial mechanism. Until the system referred to in the previous paragraph is fully implemented by EBY, the brick and tile-related claims are likely to remain pending.

### ***Redevelopment of Encarnación***

25. The Inspection Panel Report also covered the redevelopment of Encarnación. The city has grown from a population of about 25,000 in the 1970s to approximately 65,000 today. Most of its downtown area will be flooded as the reservoir levels climb to 83 masl. During 1997-1998s, a master plan for Encarnación was prepared and a formal zoning resolution was adopted by the Municipality of Encarnación. This plan needs updating.

26. The Bank has indicated to EBY and municipal officials during its field missions in both 2004 and 2005 that these are issues that require urgent attention and full consultation with merchants and other stakeholders. EBY and the municipal authorities are only starting now, in late 2005, to address the relocation and redesign of the downtown business district of Encarnación.<sup>9</sup> EBY recently hired a firm that designed a riverside tourism development in Buenos Aires to advise on the Encarnación redevelopment. While the Bank has routinely offered during to help EBY find appropriate technical assistance, EBY's management has not wanted the Bank to be involved in this process. The next opportunity for increased Bank involvement, therefore, will be in the context of commenting on the revised PARR –which should include the redevelopment of Encarnación among its goals.

27. A related area of Bank and IDB intervention has been to encourage EBY and the local municipalities on both sides of the river strengthen their institutional links. EBY agreed to submit to IDB and the Bank, during the last quarter of 2004, terms of reference for the provision of technical assistance to municipalities in preparing urban development plans. The TOR has not been received. Still, EBY has improved its relationship with municipalities in the region as evidenced by a series of agreements signed in February 2005.

28. Regarding illegal occupation of the areas to be inundated, visual inspection of these areas does not show significant recent in-migration. Little new construction is evident and

---

<sup>9</sup> In Encarnación, EBY built a new Municipal Market but it has been empty for more than two years for logistical reasons and because merchants in downtown Encarnación have refused to move there without additional compensation. A new slaughterhouse was begun more than two years ago but also remains unfinished. The Legal Agreements require transfer ownership and operation of these facilities to the local authorities, but this has not occurred.

there are only a few homes and businesses that appear to have been built recently in the areas below 83 masl. The revised PARR should provide precise data on this issue. EBY has assured the Bank that special arrangements are in place with the Paraguayan and Argentine Police as well as a private security company to prevent additional families from settling in areas that will be flooded when the reservoir is raised beyond 76 masl. This is an obligation under the Legal Agreements. EBY also agreed in the December 2004 Aide Memoire to place highly visible signs and warnings against squatters in the areas to be inundated, but as of July 2005 it had not done so. The Bank has urged further vigilance on the part of the Encarnación municipality in meetings in June 2004 and February 2005.<sup>10</sup>

***Additional Measures that Address Issues Identified by the Panel***

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

30. The Productive Fund (FEPREL) has US\$6 million in funding available for Project affected people, but to date, only US\$2 million has been paid out to selected rice farmers, fishermen and washerwomen against claimed losses caused by the filling of the reservoirs. Following recent Government of Paraguay complaints about delays in the further release of this funding, EBY's Council recently authorized payments to additional beneficiaries certified as eligible by EBY and the Paraguayan Secretariat for Social Action (SAS). These funds are disbursed as a lump sum equivalent to US\$500 per family followed by 18 monthly payments of US\$88 each. The payments are to be used by the beneficiaries for amortization of debts, clothing, food, health care, micro enterprises, funeral costs, home appliances and other expenses, and are expected to be accounted for every 60 days. While possibly serving to satisfy grievances associated with the Project, this Fund has not supported retraining or productive activities per se.

31. The Social Investment Fund (FONDIS) is a set-aside of about US\$500 thousand by EBY to provide CDD-type support to productive projects for resettled families as part of the rehabilitation programs included in the PARR. By statute FONDIS 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 1990 census. The Fund, modeled on a social investment fund program (FOPAR) implemented in Argentina in the 1990s, was until recently managed by the Asunción-based Paraguayan Center for Sociological Studies (CPES). During 2004-2005, some five projects received support (out of some 20 that submitted applications) at a cost of about US\$35,000 each, including community

---

<sup>10</sup> Under the Legal Agreements, the Government of Paraguay has agreed to bear the costs of resettling families who moved into areas to be flooded after the latest census, the so-called "extracensales." However, all the financing for the project comes from Argentina against future revenues from the sale of electricity so, in practice, the Paraguayan authorities appear to have little incentive to tightly limit additional migration into these areas.

bakeries, a public telephone bureau, and a small clothing factory. These projects have been successful in creating viable small enterprises (at least in the short term), but approval of further projects is currently suspended because the CPES contract was not renewed. In 2005 EBY took over direct management of this fund, and the FONDIS project has not advanced since that time.

32. As seen above, EBY and the local authorities (particularly on the Paraguayan side) have relied heavily on cash payments to resettled families as a tool for rehabilitation. This has the benefit of allowing each family to decide how it wishes to invest its resources. However, it also stimulates an increasing demand for cash payments by affected people and rent seekers alike. EBY may have reduced some of the demand by requiring a signed release, but the pool of “affected” people who demand or are likely to demand additional compensation is large and expanding. In addition, cash payments may also undermine productive programs that EBY or local governments may wish to promote. Bank missions have made these points several times including in the rehabilitation workshop held in April 2005, and most recently with the Paraguayan authorities in early September 2005. To date, however, EBY and the authorities continue to rely on cash compensation as a method of rehabilitation.

33. Even in a cash-dominated environment for settling claims, a transparent and well administered claims settlement procedure is essential. A suitable grievance procedure is part of the Bank’s resettlement policy and a cornerstone of good social policy in general. The Bank has emphasized this point repeatedly during all mission discussions of dispute resolution strategy.

### ***Reservoir Level and Other Environmental Issues***

34. The main environmental issues raised by the project and included in the Management Action Plan are: (a) monitoring the reservoir water level to ensure compliance with the Legal Agreements; (b) the environmental impact of future water level rise, especially related to Encarnación sewage but also tied to biodiversity conservation; and (c) the environmental impact of the project’s civil works, including urban improvements, embankments and resettlement areas.

### ***Monitoring of Reservoir Level***

35. The Yacyretá Power Plant Operational Manual sets forth operational rules for the dam to maintain water levels in Encarnación and Posadas, 100 kilometers upstream. The Manual establishes that the power plant will be operated in such a way that, for periods of normal flow (defined as flows up to 13,000 m<sup>3</sup>/s), the expected water levels at Encarnación–Posadas would be maintained at 76 masl. Water levels above 76 masl at Encarnación–Posadas are to be expected for flows above 13,000 m<sup>3</sup>/s and are consistent with operating procedures for such higher flows.

36. The Inspection Panel found that the reservoir was sometimes being operated above the legally agreed-upon level during periods of low flow. In March 2004, Management contracted an independent study that confirmed those findings, and EBY adjusted the operation of the

reservoir to follow the Operational Manual. In July 2004, the Bank contracted further independent monitoring of the water levels for the period of August to December 2004. That analysis found that during periods of normal flow ( $<13,500 \text{ m}^2/\text{sec}$ ), again, the reservoir was being occasionally operated at levels of up to 76.7 masl at the Posadas/Encarnación axis, albeit more frequently within the band of 76 – 76.5 masl. Further analysis shows that the water levels were above 76 masl on about two-thirds of the days (69 out of 100 days total) of normal flow during the period monitored.

37. EBY responded on July 19, 2005 that it did not agree with the independent analysis showing chronic high water levels, because it was not based on the latest version of the Dam Operational Manual. That version, dated October 2004, was not accepted by the World Bank - partly because it specifically allows for operation of the dam within “Bands” that could permit operation of the reservoir at levels above 76 masl at Encarnación-Posadas.<sup>11</sup> Pending resolution of the technical disagreements over the Dam Operational Manual, the Bank is continuing to contract for the independent monitoring of the water level.<sup>12</sup>

38. Current Bank supervision efforts in this regard are focused, therefore, on three areas: (a) further efforts with a view to operation by EBY of the reservoir at or below 76 masl; (b) resolution of disagreements over the latest version of the Dam Operational Manual, which has direct implications concerning the acceptable water level; and (c) maintaining mechanisms for continuing the independent monitoring of the water level.

### *Environmental Issues Associated with Future Water Level Rise*

39. Future water level rise may create problems with disease vectors in the lateral bays that will form in creeks around Encarnación as the reservoir rises to its design level of 83 masl, particularly with regard to disease vectors. To address this problem, a sewage treatment plant and sewage collection system in Encarnación’s southern zone is underway with IDB funding. IDB advises that the design of the sewage treatment plant in Encarnación is currently being revised and the December 2005 conclusion date is no longer valid. Completion is planned for 2006.

40. As yet there is still no plan in place to make the connections to households after the sewerage investments are complete. Since household connections remain, in EBY’s view, a Municipal and household responsibility, and since the municipality of Encarnación says it has no resources to take on this task, there is no plan for financing household connections. Similarly, neither EBY nor the municipality have plans to construct sewerage collection lines in the northern part of the city (and available IDB financing is insufficient for these purposes). In response, the Bank proposed that EBY convene an expert panel to review these issues and propose a comprehensive program of measures to minimize the risks posed by the urban bays when the reservoir is operated at its design level,<sup>13</sup> but EBY prefers to evaluate the situation

---

<sup>11</sup> The Bank’s comments on Version IV of the Dam Operational Manual were sent on May 20, 2005; on July 12<sup>th</sup>, EBY responded that it disagrees with the Bank’s comments but did not provide details.

<sup>12</sup> EBY’s website includes data on reservoir levels from different sources, but not in a format that is accessible to the public or that allows verification of compliance during periods of normal flow. See the following link: <http://www.eby.org.ar/site/06/links.htm>.

only after it has completed its environmental analysis. This set of issues remains on hold, therefore, at EBY's request, since the studies it has commissioned are behind schedule and not yet complete.

41. In terms of mitigating the biodiversity impact of water level rise, the Bank has examined complaints from NGOs that payments to the NGOs responsible for managing protected areas have been delayed. EBY assured the Bank that these payments have now been made and EBY has agreed to make future payments in a timely fashion. EBY has continued to acquire land to compensate for the flooded areas. In the context of its periodic review of the Legal Agreements, the Bank has continued to insist that the compensatory protected areas are fully implemented.

### ***Other Environmental Issues***

42. The environmental impacts associated with project completion are best addressed through improved environmental screening procedures for planned infrastructure and resettlement-related works. Bank environmental staff have assisted EBY in updating its screening procedures, which include enhancements in design, construction, and quality assurance of remaining civil works at existing and future resettlement sites. A report was issued in March 2004 – and subsequently approved by the EBY Board – providing detailed guidelines on screening of potential resettlement and other sites.<sup>14</sup>

43. Regarding the specific concern identified by the Panel with flooding near the Arroyo Porá resettlement site, Bank missions have met during every field mission during 2004-05 with affected parties and EBY on this subject, and demanded that EBY do everything possible to resolve a rainwater drainage problem that periodically flooded several houses and contaminated household wells. In response, EBY provided all the host-family households in this basin with a potable water system free of charge, eliminating the well contamination problem. EBY has recently informed the Bank that this problem has now been resolved by completion of a canal to convey rainfall runoff to the Arroyo Porá Creek. Final works to cover the canal for safety reasons are underway. The status will be checked during the next supervision mission.

44. As to the quality of civil works in the Arroyo Porá resettlement site, two different Bank and IDB field missions visited the site and found the quality of construction to be generally high compared with similar sites elsewhere. The homes are large by local and regional standards and are solidly built with locally produced materials and with good quality fixtures. Streets are surfaced with paving stones and are generally well built with a few minor drainage problems that have mostly been corrected.

---

<sup>13</sup> In the December 2004 Aide Memoire and reiterated in the April 2005 Aide Memoire.

<sup>14</sup> Guía Para la Categorización y Definición de Requerimientos Ambientales de Proyectos de Infraestructura Financiados por la EBY (Marzo 2004).



#### IV - PROJECT SUPERVISION AND COLLABORATION WITH THE IDB

45. Bank Management has carried out enhanced supervision to better monitor progress in addressing the issues that had been identified. The Box below details the supervision missions conducted by the Bank since the Management Plan was adopted by the Board in May 2004. Complete documentation on these visits can be found in the Bank's electronic document retrieval system.

46. Throughout this period, the Bank and IDB have fully integrated all full missions and high-level meetings, and have coordinated informally at every step. During the joint missions, Bank and IDB staff have articulated a common position.

Box 3: List of Bank Missions and Meetings, June 2004 – mid-September 2005				
Mission Dates		Places Visited	Staff and Consultants who Participated	Topics Covered
06/08/2004	06/08/2004	Buenos Aires	E. Sánchez-Triana, TTL, Engineer D. Caminal, IDB B. Fonseca, IDB R. Pinheiro, IDB C. López-Ocaña, Consultant, IDB	Review of the Management Action Plan and preparation for Fifth High-Level Meeting (V RAN).
06/14/2004	06/21/2004	Posadas Encarnación Buenos Aires	D. Gross, co-TTL anthropologist C. Brandon, Sector Leader G. Sanchez, Civil Society Specialist R. Grané, Consulting Attorney (Baker & McKenzie) B. Fonseca, Social Specialist, IDB S. Melgaço, Resettlement Specialist, IDB	Intergovernmental Agreement: Paraguay and Argentina Trust Account Management Plan Control and Supervision Updating of PARR Grievance Mechanism Brick makers Control of Migration Social Communication Environmental Management of Civil Works Independent Verification of Reservoir Level Urban Lateral Bays Transfer of Services to Local Governments
06/13/2004	06/15/2004	Posadas Encarnación	A. van Trotsenburg, Country Director J. Redwood, Sector Director C. Brandon, Sector Leader	Management oversight, site visit, and review of financing requirements for the draft PTY
07/05/2004	07/09/2004	Buenos Aires, Posadas, Encarnación	E. Sánchez-Triana, TTL R. Grané, Consulting Attorney (Baker & McKenzie) D. Caminal, IDB B. Fonseca-Galindez, IDB R. Pinheiro, IDB C. López-Ocaña, IDB	Preparation for V RAN.

Box 3: List of Bank Missions and Meetings, June 2004 – mid-September 2005 (cont.)				
Mission Dates		Places Visited	Staff and Consultants who Participated	Topics Covered
09/09/2004	09/10/2004	Washington	A. van Trotsenburg, Country Director J. Redwood, Sector Director C. Brandon, Sector Leader D. Gross, co-TTL E. Sanchez Triana, co-TTL JD Quintero, environmental specialist E. Correa, resettlement specialist	Ministerial-level meetings with all five project parties (GoA, GoP, EBY, IDB, WB), including with relevant EDs, to discuss project completion
10/04/2004	10/05/2004	Buenos Aires	D. Gross, TTL, anthropologist D. Caminal, IDB B. Fonseca, IDB S. Melgaço, Resettlement Specialist, IDB	Updating of PARR
12/12/2004	12/21/2004	Posadas Encarnación Buenos Aires	D. Gross, TTL anthropologist G. Sanchez, Civil Society Specialist O. Nunes, Consultant, Resettlement Specialist D. Caminal, TTL, IDB M. Barros – IDB B. Fonseca-Galindez, Social Specialist, IDB C. López-Ocaña, IDB S. Melgaço, Resettlement Specialist, IDB	Trust Account Management Structure Social Communication; Claims Procedures Updating of PARR Meeting with Civil Society Environmental Management
02/01/2005	02/01/2005	Asunción	C. Brandon, Sector Leader P. Hansen, Resident Representative	Meeting with both EBY Executive Directors and Vice Minister of Finance on Bank decision to not allow water level rise.
02/2005	02/2005	Buenos Aires	A. van Trotsenburg, Country Director C. Brandon, Sector Leader	Meetings with Argentine EBY Executive Director and Argentine Sub-Secretary of Energy on Bank decision to not allow water level rise; and with Argentine Minister of Public Works and provincial and municipal leaders on project status.
04/11/2005	04/20/2005	Posadas, Encarnación, Buenos Aires	D. Gross, TTL anthropologist G. Sanchez, Civil Society Specialist J. Arboleda, Civil Society Specialist D. Caminal, TTL, IDB B. Fonseca, Social Specialist, IDB S. Melgaço, Consultant Resettlement Specialist, IDB;	Seminar on Rehabilitation Meeting with Civil Society Organizations Reservoir Level; Buffer Zone; Water quality in Urban Bays Dam Operational Manual Expropriation of Inundated Lands Housing Construction Encarnación Urban Plan Trust Fund Management Structure of PTY Social Communication

Box 3: List of Bank Missions and Meetings, June 2004 – mid-September 2005 (cont.)				
Mission Dates		Places Visited	Staff and Consultants who Participated	Topics Covered
06/14/2005	06/15/2005	Buenos Aires	C. Brandon, Sector Leader D. Caminal, TTL, IDB	Meetings with Argentine and Paraguayan EBY Executive Directors, and with Argentine Sub-Secretary of Energy to review project status.
09/07/2005	09/08/2005	Asunción	A. van Trotsenburg, Country Director C. Brandon, Sector Leader	Meetings with Vice-President of the Republic, Acting Exec. Director of EBY, EBY Finance Director; Minister and Vice-Minister of Social Action.

47. Intensive supervision will continue despite a decline in the Bank's influence to affect project implementation since the last loan's closing. EBY has not followed the Bank's recommendations and proposals in several key areas related to resettlement, environmental impacts, and municipal planning, and has resisted the Bank's insistence on opening direct channels of communication with civil society or establishing an independent grievance mechanism. In meetings with civil society organizations, the Bank has laid special stress on the fact that EBY and the relevant government authorities remain responsible for acting on the claims being made as a result of the Project.

## V - CONCLUSIONS AND NEXT STEPS

48. In conclusion, the World Bank and IDB, together, have continued their intensive supervision of the Yacyretá Project and have sought to implement the Management Action Plan approved by the Board in May 2004. Completing the project for EBY and the two governments remains a challenge, both in terms of meeting their 2008 deadline and of fulfilling the social and environmental conditions embodied in the World Bank Legal Agreements.

49. It bears reiteration that the Bank has relatively little leverage in the Project, since the last loan (Loan 3520-AR, Second Yacyretá Hydroelectric Project) is fully disbursed and closed. (It is due to be repaid in full in November 2009.) The World Bank and IDB will remain engaged through intensive supervision on the full range of sensitive issues at hand, although there are clear limits to what either can achieve in the absence of greater responsiveness and collaboration on the part of EBY and other official stakeholders. Management remains committed to seeking workable solutions, and will continue reporting to the Board of Directors on an annual basis.

# ANNEX I – YACYRETA PROYECT OVERVIEW

I. Electricity Generation as a function of water level meters above sea level (masl)									
	76 masl	77	78	80	83				
MW capacity	1,840	2,034	2,229	2,617	3,200				
- as % of installed capacity	58%	64%	70%	82%	100%				
GWh generated (capacity)	11,400	12,543	13,686	15,971	19,400				
- as equivalent of % of electricity consumed in Argentina, 2004	13%	15%	16%	19%	23%				
II. Investment									
Total investments made through 2004	\$ 6,000,000,000	approx.	not including financing costs						
- of which IBRD	\$ 900,000,000	approx							
- of which IDB	\$ 900,000,000	approx.							
III. World Bank Projects									
Argentina	Date Closed	Total Disbursed	Amt Repaid / Balance Due						
Yacyretá Hydroelectric Project (Loan 1761-AR, 1979)		USD	USD (as of end-August 2005)						
Electric Power Sector I Project (Loan 2998-AR, 1988)	06/30/1988	\$ 210,000,000	\$ 210,000,000	-					
Second Yacyretá Hydroelectric Project (Loan 3520-AR, 1992)	06/30/1991	\$ 252,000,000	\$ 252,000,000	-					
SEGBA V Power Distribution Project (Loan 2854-AR, as amended in 1994)	12/31/2000	\$ 300,000,000	\$ 162,220,000	\$ 137,780,000					
Paraguay	09/14/2002	\$ 276,000,000	\$ 276,000,000	-					
Reform Project for the Water and Telecommunication Sectors (#3842-PA, 1995)	12/31/2003	\$ 23,155,787	\$ 13,340,300	\$ 9,815,487					
IV. Interest + Principal (by FY in USD)									
	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010			
Argentina, Second Yacyretá Hydroelectric Project (#3520-AR, 1992)	\$ 30,287,902	\$ 33,340,510	\$ 34,046,370	\$ 34,806,120	\$ 35,621,490	\$ 18,124,030			
Paraguay, Reform Project, Water and Telecom Sectors (#3842-PA, 1995)	\$ 3,251,717	\$ 1,946,900	\$ 1,877,380	\$ 1,807,860	\$ 1,738,340	\$ 4,020,100			
V. Inspection Panel									
	IP Claim (Date Request Received)	Date of Mgt Response	Full IP Investigation Done?	Date of Mgt Action Plan	Date of First Progress Report	Date of Second Progress Report			
First Request for Inspection	09/30/1996	11/01/1996	No	-	-	-			
Second Request for Inspection	05/17/2002	07/10/2002	Yes	04/06/2004	08/06/2004	Sept. 2005			
VI. Status of Conditions in the Legal Agreements									
	# Complied with	# not complied with	Examples of important conditions not complied with (data as of June, 2005)						
Conditions related to:									
1 Environment	3	6	Water level management; pollution control of areas to be flooded. Resettlement of up to 8,000 families; settlement of grievances. Sewerage system for Encarnación; transfer of works. Summary: half of legal conditions completed by June 2005..						
2 Resettlement, Rehabilitation, and Grievances	11	7							
3 Infrastructure	1	2							
Totals	15	15							
VII. Bank Supervision									
	FY'92-95	FY'96-99	FY 00-03	FY04	FY05	FY06			
# of missions	6	15	34	4	4	4			
Cost of supervision (Bank budget)	n/a	n/a	1,308,683	471,645	272,000	250,000 est.			

## ANNEX II - 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.<sup>15</sup>

### Management's Action Plan in Response to Inspection Panel's Findings

### Implementation Progress to Date

#### Environment – OD 4.01

##### Resettlement sites and civil works (Items 3, 8, 9, 40)

- 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.
- The Bank assisted EBY in updating the screening procedures used for assessing the environmental impact of infrastructure and resettlement-related works. This Framework was approved by EBY's governing board in late 2004. The updated procedures are designed to enhance the design, construction, and quality assurance of remaining civil works at existing and future resettlement sites.
- The Bank will continue enhanced supervision of the environmental aspects of the resettlement sites and civil works, as well of construction deficiencies, particularly in resettlement sites.

##### Biophysical environment – long-term (Item 6)

- 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.
- Close monitoring has included field visits in June and December 2004, and April 2005, and intensive dialogue with EBY and the Argentine and Paraguayan authorities.

With regard to the biophysical environment, the Bank has investigated claims that payments to NGOs responsible for managing protected areas have been delayed, and confirmed that the situation is resolved. EBY has pledged to make future payments in a timely fashion, and has earmarked financing for Environmental Management Plan activities in its Project Completion Plan. Through its Legal Agreements, the Bank has continued to insist that the compensatory protected areas are fully funded and managed.

<sup>15</sup> 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).

(Matrix con't.)

**Management's Action Plan in Response to  
Inspection Panel's Findings**

**Urban and peri-urban environments – population  
growth, induced impacts and host populations  
(Item 7)**

- 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.

**Implementation Progress to Date**

- The Bank and the IDB have supervised the full EMP in missions conducted in June and December of 2005 and April 2005.

The Bank has strongly urged EBY to address environmental risks including, most importantly, the risk of disease vectors arising from the urban bays that will be formed as the reservoir rises. The Bank has also strongly urged adoption of a more flexible model for resettlement housing in order to accommodate different needs and demands from the resettled population, but EBY to date has also resisted incorporating such flexibility (even with demonstrably lower costs). The Bank is awaiting submission by EBY of the updated Resettlement Plan.

**Reservoir level verification (Item 11)**

- Management will urge the Governments of Argentina and Paraguay and EBY to establish a means for independent verification of the reservoir 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.

- Following Bank urging at the High Level meetings in Washington and subsequent missions in October and December, the EBY website now includes data on reservoir levels from different sources, but not in a format that is accessible to the public or that allows verification of compliance during periods of low flow. See <http://www.eby.org.ar/site/06/links.htm>.

The Bank contracted in 2004 and is continuing to contract the Universities of La Plata (UNLP) and the University of Encarnación to carry out an independent assessment of water levels. UNLP found the reservoir to be operated slightly above 76 masl at times of low flow (the relevant monitoring period) two-thirds of the time.

Current critical pending issues with EBY are: (a) further efforts to enforce the Legal Agreements to operate the reservoir more strictly at 76 masl; (b) resolution of technical disagreements over the latest draft Dam Operational Manual, which has direct implications over the acceptable water level. Pending resolution of (b), the Bank is continuing to contract for the independent monitoring of the water level.

(Matrix - con't.)

**Management's Action Plan in Response to  
Inspection Panel's Findings**

**Sewerage system (Items 15, 16, 17, 41)**

- 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.

**Implementation Progress to Date**

- Complete plans for the sewerage system, pumping station, wastewater treatment plant were made publicly available at the Bank's request in mid-2004. The Bank has remained closely engaged with EBY and both governments on the implementation of the system. For example, based on Bank insistence, EBY commissioned a study of the risks connected with the lack of sewerage in northern and eastern Encarnación when the reservoir level reaches 83 masl. The report is delayed, however, and further discussions await its completion.

Communication of these plans and timetables is covered by the protracted discussions concerning the Social Communications Plan, leading up to the Program note submitted by both Banks to EBY in June 2005.

- Construction of the sewerage system in Encarnación's southern zone and a sewerage treatment plant, both with IDB funding, are underway with completion expected for 2006. Neither World Bank nor IDB financing of household connections in Encarnación is likely. The Bank is urging EBY and local authorities to seek alternative sources of financing.
- Compliance with the Legal Agreements, which cover both construction and transfer of ownership of the sewerage collection and treatment systems, is being closely monitored.
- The construction of the sewerage collection system at Itá Paso has been accelerated and should be completed before the end of 2005.

(Matrix - con't.)

**Management's Action Plan in Response to  
Inspection Panel's Findings**

**Implementation Progress to Date**

**Social – OD 4.30**

**Social Communications Program (Items 18, 23, 24,  
27, 28, 38, 44)**

- 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.
- The Bank has continued its enhanced supervision of the social communications program and its outreach to both the general public and to all affected groups. The Bank and IDB have assisted EBY in designing a Social Communications Program. As shown in Box 3 in the main text, this was a key topic of discussion in June, September, and December 2004, and in April 2005. At EBY's request, in June 2005, the Bank and IDB jointly produced a detailed Social Communication Program—recommending specific programs of information and consultation with all affected parties for planning and carrying out construction in resettlement sites. In the same month, EBY signed a contract with a communications firm but using a TOR that did not include the approach suggested by the Bank and the IDB.
- 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.
- In response to the issues raised by the Inspection Panel, the Bank confirms that it is continuing to insist that all elements cited in the left column be included with EBY's program. The Legal Agreements also require such ongoing action. Specifically, the Bank confirms that it has systematically discussed in June, September, and December 2004, and April 2005, the topics of:
  - beneficiary status
  - consultation with host populations
  - procedures for property appraisals
  - property valuation and appeals
  - the resettlement sequence in the updated PARR
  - resettlement issues under the Plan B and Urban Creeks program.
- 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 implement a social communications program, to comply with **Plan B**, and will urge EBY to address communication issues under the **Urban Creeks Program**.



**Management's Action Plan in Response to  
Inspection Panel's Findings**

**Updated PARR (Items 19, 22, 29, 30, 35, 37)**

- 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 resettled and host populations (discussions are underway).
- 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 76 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.

**Implementation Progress to Date**

- With extensive support from both the World Bank and IDB in the form of consultant funding, workshops, TORs, and technical guidance, EBY is updating the PARR and has issued periodic reports. The updating process is seriously behind schedule but is expected to be completed this year. The methodology for the updated PARR includes use of modern geographical information systems. This is currently available for the left bank (Argentina) and will be extended to the right bank (Paraguay).
- When the Bank receives the draft revised PARR, staff will review it for consistency with the Bank's Policy on Involuntary Resettlement including attention to the most vulnerable segments of the affected and host populations.
- The Bank has consistently argued during all field missions that as standard resettlement and rehabilitation methodology, the PARR should incorporate different resettlement alternatives and rehabilitation programs for families, businesses and industries being relocated. To date, however, EBY has resisted the idea of introducing such flexibility into the PARR, although the Paraguayan municipal authorities are in favor.
- The Bank and IDB co-sponsored a two-day workshop in April 2005 to train EBY staff and discuss measures to improve the rehabilitation program. As soon as the draft PARR is produced, the Bank will review it carefully as regards the issues raised by the Inspection Panel, including:
  - socioeconomic data
  - realistic plan, budget, and timetable
  - sequencing.

(Matrix-con't.)

**Management's Action Plan in Response to  
Inspection Panel's Findings**

**Implementation Progress to Date**

**Monitoring (Items 20, 30)**

- 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.
- The Bank has been and will be continuing its enhanced supervision of Project resettlement activities. In particular, while the use of cash compensation is becoming common in the funds used on the Paraguayan side, the Bank has argued against such precedents on many occasions, including in June, September, and December 2004; at the rehabilitation workshop held in April 2005; and most recently with the Paraguayan authorities in early September 2005.
- The Bank has provided technical assistance on baseline geo-referenced data collection and usage in October and December 2004, and subsequently through the international resettlement consultant financed by the IDB.

**Dispute resolution/grievance procedures (Items 21, 22)**

- 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.
- The Bank completed its review of the EBY grievance system in 2004. A Bank-retained law firm, Baker & McKenzie, working in conjunction with a systems analyst, analyzed the back-log of existing claims and EBY's system for handling such claims. The study provided a computerized tracking system and made recommendations on improved procedures. In 2005, the same law firm provided workshop training to EBY. In September, 2005, EBY approved a new grievance system that acknowledges these inputs. The Bank will monitor closely the implementation of the newly-announced system.
- 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.
- Management and staff have urged during all field visits that EBY adopt clear procedures for receiving and settling claims from all affected parties. The aspect of receiving claims is linked to the Social Communications plan. The aspect of settling claims is addressed both in the work cited in the previous bullet, as well as in a separate study the Bank completed in late 2004 on possible options for alternative dispute resolution. Elements of this study were incorporated in the EBY resolution dated September 12, 2005. The Bank will monitor closely the implementation of the newly-announced system.

**Management's Action Plan in Response to  
Inspection Panel's Findings**

**Brick makers (Items 26, 31, 32, 33, 34)**

- 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.

**Implementation Progress to Date**

- The Bank has been assured that small brick makers have continuing access to clay pits. (In fact, the brick and tile industry is much larger now in Encarnación than it was a decade ago.) In addition, as cited above under "Social Communications Program", the Bank has urged an expanded Program to communicate with all affected parties, including brick makers.
- The Bank confirmed with EBY in October 2004 and again in September 2005 that 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.
- The Paraguayan Productive Fund will begin disbursing in late 2005, following government budget allocations approved in early Sept. 2005. As discussed at the Resettlement and Rehabilitation workshop in April 2005, as well as during field missions in October and December 2004, the Bank will carefully review provisions in the updated PARR for measures to rehabilitate workers with legitimate claims of losing their employment due to industry closure or relocation.

EBY has taken the position in the PTY that it has met or exceeded all obligations to brick and tile makers and workers. In an attempt to resolve outstanding claims, in August 2005 the Government of Paraguay made a cash offer of approximately US\$2,000 to each of the 29 unresolved brick and tile maker claimants, but it was rejected. The Bank has confirmed that the 130 former workers claiming compensation have been identified. The Bank has urged that the remaining disputes and claims by brick and tile makers, and by former workers, be submitted for appeal through an independent grievance mechanism, but there is little progress in setting up such a mechanism.

(Matrix – con't.)

### **Management's Action Plan in Response to Inspection Panel's Findings**

#### **Influx of people into the Project area (Item 36)**

- 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.

### **Implementation Progress to Date**

- The Bank has discussed the matter at length with EBY and other officials, including in June, September, October and December 2004, and April and September 2005. Local officials are adamant that responsibility for discouraging influx lies solely with EBY. While it appears that no extensive new settlement is going on between 76 and 83 masl, there is little reliable data. Collecting such data is a major theme of the Bank's support to the updated PARR.

### **Supervision – OD 13.05 – OP/BP 13.05**

#### **Technical quality and expertise (Items 7, 40, 44)**

- 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.
- Two architect/urban planners have joined the Bank team to advise on urban planning issues in Encarnación. For information, the Bank Task Team is led by a specialist in resettlement and rehabilitation and who also has significant task management experience. Other skills present on the Bank team during the course of the year include engineering, economics, environment, civil society, resettlement, communications, and law. For details, see Box 3.
- EBY has informed the Bank that it will contract independent ex-post evaluations for the resettlement sites of Arroyo Porá and Itá Paso.
- The Bank has confirmed that EBY contracted a firm to conduct ex post facto evaluations of its entire resettlement program including Arroyo Porá and Itá-Paso.

#### **Consultation (Item 42)**

- 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.
- Extensive summaries of meetings with civil society organizations in June, October, and December 2004, and in April 2005 have been prepared and are available. The Bank is focusing on encouraging more direct communications between EBY, local NGOs, and the area's Catholic Bishops.

(Matrix- con't.)

**Management's Action Plan in Response to  
Inspection Panel's Findings**

**Level of supervision (Items 43, 46)**

- 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.

**Reporting (Item 45)**

- 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.

**Implementation Progress to Date**

- The Bank has been and will be continuing to use the Legal Agreements to establish clear priorities for actions necessary before the Bank can issue a no objection to water level rise. These agreements cover all main resettlement, social, and environmental issues. This topic, given its close link to any future Bank no objection to water level rise, is central to every one of the thirteen supervision activities cited in Box 3.

The Bank will send any Project-related corruption complaints received to the Department of Institutional Integrity.

- The Bank's civil society specialist based in its Asunción office is an integral part of the team.
- The Second Yacyretá Loan is not scheduled to be repaid until November 2009, and the Bank will continue to supervise and insist on EBY's compliance with the Legal Agreements throughout the repayment period.

- The Bank will continue to supervise the Project intensively and will report to the Board again in one year's time.