Mega-project, Mega-risks
Risk Analysis for Investors in the Belo Monte Hydroelectric Complex

December 2010

Executive Summary

This publication analyzes the major financial, legal and reputational risks to public and private investors involved - current or potentially – in the Belo Monte Hydroelectric Complex planned for the Xingu river (state of Pará) of the Brazilian Amazon, in light of studies and other information currently available regarding the social, environmental, technological, economic and legal uncertainties that characterize this mega-project.

In any large project, financial risks should be estimated as precisely as possible to minimize the possibility that even small miscalculations result in severe and irreparable losses to entrepreneurs, investors, financiers and society in general. Special care should be taken in unusual cases such as the Belo Monte Complex, that would involve an unprecedented level of subsidized financing from public banks, as well as loan guarantees through bonds issued by the Federal Treasury, major investments of state pension funds and private financing.

This report presents a careful analysis of extensive documentation produced by entrepreneurs, scientists and other independent experts, NGOs, social movements, the Federal Public Prosecutor's Office (Ministério Público Federal), the federal environmental agency IBAMA, and other Brazilian and foreign institutions, related to financial, legal and reputational risks of this mega-project. The study adopts an approach similar to that of rating agencies, that allows to see how the risks of Belo Monte may impact not only threatened local populations and the environment in the region of Xingu River, but also entrepreneurs, lenders, investors and Brazilian taxpayers.

In this study, the main financial risk factors identified for the Belo Monte complex include:
• High risks associated with uncertainties regarding the cost structure of project construction, associated with topological and geological factors, engineering questions and instability in market values;

• High financial risks related to the project's potential capacity to generate electrical energy, which is far inferior to installed capacity, due to the high seasonality of the Xingu river (that will tend to worsen under scenarios of climate change) and to the low storage capacity of reservoirs in the absence of other upstream dams (currently prohibited by Brazil's National Council on Energy Policy - CNPE) to regulate river flow.

• High risks associated with the entrepreneur's ability to meet legal obligations to invest in mitigation and compensation measures related to social and environmental impacts of the project - even before the granting of an Installation License for the project;

• The high financial risks associated with the factors described above have important consequences in terms of two other types of risk to public and private investors in Belo Monte: legal risks and reputation risks. Such risks reflect, above all, the fact that national and international legal principles, related to human rights and environmental protection, as well as other policies and safeguards regarding social and environmental responsibility, have repeatedly been ignored during the planning and environmental licensing of this complex and highly controversial project.

As such, it is now time for financial institutions to carefully evaluate the risks associated with the Belo Monte mega-project, described in this publication. This report concludes that the Belo Monte Hydroelectric Complex is not currently apt for financing, due to its lack of economic, social and environmental viability, associated with problems of non-compliance with Brazilian legal requirements and international conventions. If project construction is nevertheless initiated, investors will become jointly liable for ensuing social and environmental damage, with grave risks in terms of negative financial, legal and reputational consequences.