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Folder ID: 30094092

Series: Liaison with external organizations

Dates: 01/21/1994 – 06/08/1994

Fonds: Records of the Office of External Relations

ISAD Reference Code: WB IBRD/IDA EXT-08

Digitized: 09/03/2025

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Bank Response to Bruce Rich's Paper "Mortgaging the Earth" 1994

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Bank Response to Bruce Rich's Paper - Mortgaging the Earth - 1994

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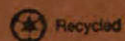
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Setting the Record Straight: The Pak Mun Power Project in Thailand.

Bruce Rich paints an entirely one-sided and misleading picture of the Thai Government, EGAT (the Thai electricity authority) and the Pak Mun power project in his book Mortgaging the Earth. The narrative misrepresents the history of consultation, the quality of the environmental assessment and the generosity of the resettlement plan. It treats unsubstantiated criticism as fact and conveniently ignores material which challenges this distorted view. It insults the Thai Government by suggesting that it is weak and unable to control its agencies. It also insults the intelligence of its audience by suggesting that Thailand could meet its annual 10 percent increase in demand for electricity by "conservation and end-use efficiency." If such simple and cheap alternatives were available, the Bank and the Thai Government (and every other government in the developing world) would be seizing them.

In reality, Pak Mun symbolized the difficult trade-offs which are involved in development -- between those affected and those who will benefit, between the local environment and the wider community, between using hydropower or non-renewable energy. The fundamental flaw in Rich's simplistic commentary on Pak Mun is that he poses a false choice. Development without trade-offs is an illusion. While he has the luxury of advocating ideologically pure but practically unworkable solutions the countries confronted with real problems do not.

Contrary to the impression given in Rich's book, EGAT and the Thai Government have dealt directly with the people affected by Pak Mun. The long record of consultations includes face-to-face meetings, group meetings and briefings, distribution of information booklets and wide dissemination of information through the local media. Between September 1988 and June 1990, EGAT convened or was involved in more than 20 consultation meetings and briefings. In addition, 20,000 copies of the publication "Pak Mun Project," detailing in Thai the resettlement plans and compensation rates have been issued. It is unfortunate that efforts to consult with NGOs have been blocked by an NGO refusal to sit at the same table as the Government and EGAT.

The Bank's resettlement policy was fully implemented in Pak Mun. The 989 families affected by the project can choose where to resettle and what to do with their resettlement money. Some have chosen to resettle near their former home sites, but on higher ground. Others have opted for the Sirindhorn resettlement area, where soils are as good as at Pak Mun and a full range of basic services (from irrigation to electricity, paved roads and schools) will be provided. The price being paid in compensation was seven times the prevailing rate and even now it is 20-30 percent above the market value. And, everyone affected by the project will now have formal legal title to their land. Before, 80 percent held no title.

Rich's propensity for skewing the evidence is illustrated in

his citing of one academic, Dr. Rainboth, who has criticized the project for its impact on fish. The project has recently been reviewed at its mid-term point by a highly specialized and respected team, including Dr. Jasper Dwyer (Ph.D., Oceanography, Aquatic Biology) and Dr. Santasiri Sornami (Professor, Faculty of Tropical Medicine, Mahidol University, and who also helped appraise the project). Their careful review found nothing which would support Dr. Rainboth's claims that the dam -- made up of gates which open fully to allow almost unimpeded passage of the river -- will cause any damage to fish stocks. Nor is there any evidence to back up Rich's claim that the project would increase the spread of parasitic diseases, such as schistosomiasis. Such diseases could become more prevalent if the project created a reservoir, but it does not.

The dam level at Pak Mun will rise and fall, and at its peak it will submerge 60 square kilometers, almost all of which is regularly flooded by seasonal rises in the river level.

To insure that the project does not have harmful side-effects, the Government has established a special committee to review and monitor the dam -- particularly its resettlement and environmental aspects -- before and after completion.

Rich's argument that conservation and end-use efficiency are alternatives to meeting Thailand's growing demand for electricity are totally unrealistic. Though the Global Environment Facility is

involved in a demand management project with EGAT, any gains from this are likely to be realized only in the late 1990s and will account for less than 2 percent of electricity demand. World Bank estimates suggest that Thailand's electricity demand will increase about 10 percent a year until 2000, demanding more than 1000 megawatts of new electricity production capacity each year. The Pak Mun Hydropower Project is a small component of this, providing a capacity of 136 megawatts. The real alternative to Pak Mun would have been turbines using light oil. These are costlier and less environmentally friendly.

The assertion that the Bank "undermined the already weak representative institutions" in Thailand is a complete misrepresentation of the facts. The debate in the Thai Government over Pak Mun, the effectiveness of local representatives in handling compensation, environmental and resettlement issues, and the responsiveness of EGAT and the Government to local concerns puts the lie to Mr. Rich's claim. The Bank is satisfied that the Pak Mun project is being implemented properly, and that difficult issues regarding effects on local people and the environment have been handled in a manner consistent with the Bank's strict 1980 resettlement policy which even Mr. Rich says, "...is an equitable one."

Setting The Record Straight: Transmigration in Indonesia

The World Bank has provided about \$500 million to support five transmigration and two Swamp Reclamation projects in Indonesia since 1976. As with all resettlement, these have been complex and difficult activities, and the results have been mixed. It is important to note though, that despite its many problems, there is another side to the Transmigration program.

Transmigration has made an important contribution in helping the Government manage the economy and reduce the numbers of poor -- Indonesia's record in reducing poverty is unmatched by other large countries at its income level. And, Transmigration provided options for many poor families who otherwise would be landless and trapped in poverty. Of the settlers surveyed between 4 and 9 years after the first three Bank projects were completed between 83% and 95% said they were satisfied with their situation. Moreover, in most cases, family incomes are higher than expected, although a much higher proportion comes from non-farm income than was planned.

While contributing to less than 10% of total program cost, Bank-assisted projects have led to improvements in the resettlement programs. These have been particularly important in improving site screening and evaluation, program management, farming systems, procedures for safeguarding the environment, support services for the settlers, and other economic and social benefits.

One example is the support given for site selection, which began under Transmigration II, when the difficulty in finding suitable sites became apparent, and which continued under Transmigration III and V. The Bank supplied considerable resources to this effort and the positive results for site selection and planning go far beyond the transmigration program itself by: (i) giving Indonesia its first country-wide resource/land use/development potential maps collating large quantities of information from many departments; (ii) giving criteria for site rejection based on environmental and social considerations, (a large number of sites were subsequently rejected based on the maps); and (iii) developing policies to take account of the needs of indigenous people in Irian Jaya.

While Rich is correct that there have been some negative environmental and social impacts, the significant positive impacts described above have also resulted. Thus, Rich's premise that the program has not produced positive results is a gross overstatement.

Setting the Record Straight -- Energy Efficiency

Bruce Rich, in his Mortgaging the Earth, expresses vigorous objection to World Bank investment in energy in the developing world. Rich and others with similar views do not acknowledge that the Bank's investment is for the economically efficient provision of electricity supply. By arguing against investment in energy they perpetrate a cruel hoax -- that people in developing countries can make do without more commercial energy. What such policies imply (though Rich does not state the implications) is that the developing world will have to make do with dung for cooking and feet and bicycle rickshaws for transport. The IIEC, whom Rich glowingly cites in his book, regards the bicycle rickshaw as an energy efficient means of transport. In one of their 1991 reports there is a picture of a proud and smiling, senior member of their staff being so transported by a thin, grim-faced and probably undernourished Asian, laboring under the strain. This illustrates an appalling insensitivity to the economic plight of millions of people in the developing world. The caption boasts this as being an energy-efficient mode of transport. This is immoral and, ironically, a recipe for precisely the environmental doomsday that Rich claims to be concerned about.

Rich not only attacks the World Bank but most of its member countries. He comes from a country where the average person uses more than 12,000 kWh of electricity a year, and where most homes, industries, farms, shops, schools, hospitals, clinics and offices

are supplied with electricity. The country is rightly proud of its ability to provide universal and ample service, and the growth of its prosperity in the present century owes much to the growth of its electricity industry. But in developing countries the situation is very different:

- 2 billion people -- eight times the population of the United States -- have no access to electricity.
- 2 billion people use fuelwood, crop residues and dung, to cook their daily meal. This not only leads to illness and death through smoke inhalation that causes respiratory illnesses, heart disease, and cancer, but is damaging to soils and forests. It consumes four times the amount of energy needed for cooking than would modern fuels and appliance.
- in thirty years, these numbers will rise to 5 billion if energy supplies are not expanded, and in forty years to 6 billion. Thus without increased energy, the number of people relying on dung, fuelwood, and crop residues would equal the entire population of the world today.
- Rich attacks India, Brazil, and Thailand for wasting energy, yet each person in India uses an average of 360 Kwh of electricity a year, barely 3 percent of that of

each American; each Brazilian an average of 1500 Kwh, or 13 per cent of each American; and each Thai an average of 900 Kwh, or 8 percent of that of each American. Africa is spared from Rich's attack but it is worth knowing that each African consumes on average only one hundredth of the electricity consumed by an American.

Rich does not acknowledge the World Bank's record on promoting efficiency in energy production and use -- work than has gone on since the Bank began operations 50 years ago. Achieving good commercial pricing policies is central to efficiency. And promotion of these policies is central to World Bank energy operations. In the 1950s and 1960s the Bank concentrated on good financial rates of return; in the 1970s and 1980s, this was extended to include marginal cost and peak load pricing (a well-established principle for raising efficiency in energy production and use); and in the 1990s, thanks to a combination of technical changes and institutional reforms in the industry, the Bank is looking toward commercialization and competition to lead the way to price, cost and energy efficiency.

Rich is wrong to claim that the Bank has "refused to ...[promote] end use efficiency". All Bank energy operations -- totaling \$3 billion or more a year -- have been concerned with end use efficiency as well as with supply side efficiency. Estimates of how much there would be to gain from adoption of commercial policies have been widely published -- in the World Development

Report of 1992, in working papers, and in refereed journals -- they show that long run demands would be decreased by about a third. Hence, if the policies the World Bank is supporting are successful, electricity demands will triple over the next 20-30 years, rather than quadruple. The capacity and energy saved would equal the entire capacity and electricity produced in the United States today.

Rich's estimates that 50 percent of the growth of demand in "Brazil, India, China, Costa Rica and many other developing countries" can "be cut" through "state of the art industrial equipment, lighting systems, air conditioners... " lack credibility, as does the claim that "the cost of such end-use efficiency investments is often a third or a quarter of the cost of new power plants". It is all part of the cruel hoax. Rich does not acknowledge that such programs, while allegedly being least cost, require extensive cross subsidies -- through give-away-\$25-light bulb programs and rebates on the tariffs of "participating consumers". If they are cost effective, why do they require huge subsidies?

Most people in developing countries would surely want state-of-the art air conditioners and refrigerators. But they cannot afford them. If they could, their electricity consumption levels would be very high. Optimistically (from an efficiency perspective), perhaps one-third of that of the United States today, or 4000 Kw per capita. If this were to be the case the total

installed capacity and output in developing countries would be (allowing for population growth within the working lifetimes of children in schools today):

- 35 trillion Kwh (000 TWh), as compared with 2.5 trillion Kwh today and 3.6 trillion Kwh in North America; and

- 9 million MW (9000 GW), as compared with roughly 0.6 million MW today and 0.9 million MW in North America.

This assumes big gains in energy-efficiency, which we believe are possible given good policies to promote it. However, the gains will not come from heavy handed interventionism espoused by Rich. Rather they will come through the good economic and commercial policies that he explicitly rejects. These calculations also assume good family planning policies and educational programs will be in place and that incomes will rise -- otherwise, populations will be much higher. (The World Bank is, of course, the largest external financier of health and education programs in the developing world -- a fact that Rich ignores throughout his book.)

Can growth in energy demands be reconciled with a better environment? Even if the rest of the world manages with one tenth

of the amount of per capita consumption of that of the United States, production and capacity requirements will still be more than 15 trillion Kwh and 4 million MW respectively, six times today's levels. But denying people electricity and modern fuels is not an option: it would leave them dependent on dung and wood for fuel, impoverished on an unthinkable scale and would guarantee the destruction of the remaining forests and woodlands as people search for fuel and for land. And the loss of crop residues and dung would undermine agricultural productivity and yields. The only sustainable route, as far as the energy industry is concerned, will be to turn to low-polluting methods of energy production -- including solar energy, on which there has been much progress recently, and about which Rich is silent.

The developing world needs energy efficiency and we believe the Bank's policies will promote it. It is counterproductive to misrepresent these policies. The developing world also will need the low-polluting technologies and the environmental policies that promote their use. The Bank will help its borrowers to pursue these opportunities, too.

Putting the Record Straight: Participation in World Bank projects

Throughout Mortgaging the Earth, Bruce Rich portrays the World Bank as a secretive institution that does not take into account the people its project effect. But that is an unfair and outdated view of how the Bank goes about its work today. Despite the fact that the World Bank lends to governments, non-governmental organizations and local people have more and more been taking active part in the design and implementation of Bank-financed projects. For without the participation of local people, development projects stand little chance of working.

The Bank's commitment to find ways to more effectively incorporate the activities and views of local people in the projects it finances can perhaps best be demonstrated by current efforts to examine projects that stress participation (both Bank-funded and those funded by other groups) and to produce a sourcebook of "Best Practice." The Sourcebook will document and describe projects that include participation and analyze what works best. It will act as a sourcebook for other Bank staff as they incorporate local participation into project design.

Two examples follow that describe the kind of work that is going on with the participation of local people. When the Best Practice Handbook is completed it will be publicly available.

In Egypt the Bank is helping to reduce poverty with an

agriculture loan in the Matruh region. The project targets the poorest farmers, who are Bedouins. Most people think of Bedouins as nomadic people but that is no longer the case in this area. UN-FAO volunteers in Egypt, and staff from the Agha Khan Foundation and GTZ told Bank staff that during the last decade the Bedouin tribes in this region have moved to a more sedentary lifestyle, although they still maintain their tribal traditions. They now raise mostly sheep and goats -- which unfortunately seriously overgraze the sparse vegetation in the area. Environmental degradation and poor resource management practices are evident throughout the area in which they live.

The farmers knew they most needed the ability to catch and retain rainwater. But there was clearly also a need to manage the environment better.

The project was developed by a Task Force consisting of people from the local government, local institutions, and the Bedouin community, using a technique called Participatory Rural Assessment. The Task Force, working with staff from a consulting firm that had experience in preparing projects in a participatory way, solicited ideas and views from local households and farmers. When it became apparent that only men turned up to meetings, special efforts were made to include women. This was important and women's contribution to the project has been significant.

Project preparation was thoroughly participatory and

empowering. And the project will be implemented through the local community. It has three objectives that aim to help the Bedouin community and their surrounding environment. First it will provide water through a system of underground cisterns and dikes and will create new fruit orchards, rangeland, and improve the management of the land. Second it will provide research and extension for the farmers, focusing on dry land farming and livestock production systems. Sub regional resource centers will be built to bring research, extension, and credit closer to the local communities. Third, it will provide finance for small farmers, landless people and rural women so they can start small businesses or farms.

Another example is in Chad, a country that values education highly. Chad's education system deteriorated during the 1979-82 war and the Government asked for the Bank's support in rehabilitating schools. The Minister of Education specifically asked the Bank to prepare the new education project in a manner that involved local people and responded to their real needs and concerns. Conferences were held with local people and local non-governmental organizations to discuss options and reach a consensus on how best to achieve the end results the people wanted. The final project included a number of components: it built and renovated classrooms, purchased and distributed textbooks and teachers guides, improved teacher training, strengthened primary school management and inspection, developed and implemented a girls' education program, improved educational practices in individual schools, strengthened parents associations and

strengthened the Ministry of Education. The process brought stakeholders at all levels together and produced a project plan that was owned by local people, local schools, donors, and Government alike.

Setting the Record Straight: The Global Environment Facility

Bruce Rich describes the Global Environment Facility's creation and evolution as exemplifying the way the Bank does business (top-down, structurally incapable of integrating environmental concerns into its mainstream activities, and so on). He illustrates what he sees as the inevitably negative consequences of the modus operandi in two GEF biodiversity projects, in Congo and Kenya. His descriptions are inaccurate, misleading and sadly prejudiced by his development philosophy

Rich describes the creation of the GEF as driven by the Bank's financial complex, its primary goal being to "sweeten the financial terms of larger Bank loan packages". In fact the GEF was a donor initiative; one of several advanced in the late 1980s. At first it was viewed with considerable concern by the Bank which feared that it would draw resources away from the Bank's mainstream activities in particular those of the International Development Agency (IDA) which lends to the poorest countries on concessional terms.

The GEF proposal was not drawn up in secret, as Rich suggests. On the contrary, there was an unprecedented level of interaction between the Bank, which was commissioned by the Development Committee in the fall of 1989 with elaborating and operationalizing the original French proposal, and the 24 countries that met at regular intervals between September 1989 and November 1990, when the scheme for the Pilot Phase was adopted.

In a world that normally faults international bureaucracies for sloth, it is surprising for Rich to criticize the Bank in this instance for its speed in putting the GEF together. Rich further complains that Congress and other legislatures did not participate in the design of the GEF. But this is not how inter-governmental negotiations work. States are represented by delegations who must seek validation of any commitments they make from national authorities.

It is totally inaccurate to suggest that government delegations were not well informed during the GEF negotiations. On the contrary, extensive documentation was provided as the concept of the GEF evolved.

Rich does, nonetheless, put his finger on one of the complications of international negotiations on the environment: because the environment cuts across so many areas, larger governmental delegations typically consist of representatives from several ministries, and ensuring consistency and coordination within governments is often as challenging as forging consensus among them. This fact of life cannot, however, be laid at the door of the Bank which Rich says forced the pace of the GEF negotiations beyond governments' ability to keep up.

The GEF agreement of November 1990 was not a definitive blueprint foisted upon unsuspecting and ill-informed governments. Rather, the explicit intention of governments was to establish an

experimental Facility (initially for a limited duration) to see how developing countries could most effectively be supported in their attempts to protect the global environment. From the beginning, the aim of governments and the implementing agencies, which include the United Nations Development Programme (UNDP) and the United Nations Environment Programme (UNEP) in addition to the World Bank, was to evaluate the experience of a three-year Pilot Phase and to use the findings in restructuring the arrangement if it was to be prolonged. This evaluation was undertaken in 1993 and its findings have helped shape arrangements for GEF II.

The Bank did not subvert the creation of a new "green fund," as Rich suggests. The idea of the GEF was never to provide an alternative institutional focus for the increasing emphasis placed on sustainability by all development agencies. Rather, it was designed to provide "new and additional" grants to cover the extra cost involved in going beyond the protection of the local and national environment (which is considered a national priority to be factored into all development planning), and extending protection to the global environment.

In many instances, the best way to leverage these global benefits is by modifying the design of projects that would otherwise go ahead without taking account of the global environmental dimension. Hence the link between GEF projects and many regular World Bank (and, in future, other institutions') loans. This is not a "sweetener" or a negation of environmental

responsibility, but a pragmatic way of helping developing countries that would not otherwise be willing, or able, to pay for the incremental costs of global environmental benefits. The aim of the GEF is not necessarily to fund more projects, but to add to their sustainability.

Rich has his story back-to-front when he asserts that the Bank tried to incorporate the Brazilian Rain Forest Fund - initiated by the Group of Seven - into the GEF. In reality, the donors wanted to create an account for this purpose in GEF. The Bank and the other GEF implementing agencies resisted this proposal because it would have run counter to the Facility's focus on problems rather than places. The fact that donors ended up contributing only a tiny fraction of the \$250 million originally envisaged for the rain forest fund is interpreted by many observers as the result of their failure to fuse the two initiatives.

The two GEF projects Rich describes as examples of the Bank's damaging stewardship of GEF resources are seriously misrepresented.

He advances the Environmental Defence Fund's (EDF) standard criticism of the GEF Congo Wildlands Protection Project. This project was examined in detail at a special consultation in Washington, D.C., in April 1992. EDF's critique - that the GEF grant was bound up in a Bank loan designed to hasten the destruction of Congo's remaining rain forest - was comprehensively rebuffed by Mike Fay, the expatriate representative of Wildlife

Setting the Record Straight: World Bank lending for Agriculture

The section in Mr. Rich's Mortgaging the Earth that discusses the World Bank's support of the agriculture sector is a good example of his habit of selectivity in quoting sources to make his case. He cites studies on the impact of the "green revolution" to back his allegation that the Bank has been misguided in its support of the agricultural sector and that its lending to the sector has increased poverty. But Rich's reliance on dated studies to conveniently make his case is evident. For example he cites studies by Griffin (1974) and Hewitt de Alcantara (1976) yet ignores the rich body of evidence accumulated during the 1980's and early 1990's which do not support his case.

A 1985 study, for example, by Ahluwalia convincingly documents the decline in rural poverty in India throughout the 1970's -- the peak years of the green revolution. Blyn's (1983) study of the green revolution in Punjab also supports that case. It concluded that small farmers' income increased relatively faster than did that of large farmers, and that employment increased without depressing real wages, resulting in benefits for landless farmers. Subsequent work by Hazell and Ramasamy (1991) in South India showed that although large farmers adopted Green Revolution technology earlier, smaller farmers had largely "caught up" (partly in response to enhanced publicly provided by research and extension) within a decade. The study shows small farmers incomes increased

as did those of agricultural laborers. Other studies, Bell, Hazell, and Slade (1982), have shown that income gains arising from the green revolution have had strong multiplier effects on the broader rural economy,.

The reliance on outdated information also afflicts Rich's discussion of the World Bank's efforts to promote the Training and Visit (T&V) extension system in India. Rich cites a study by Moore (1984), which reflects impressions -- not quantified data -- from the early years of the T&V experience in India in support of his arguments against the T & V system. Yet he ignores subsequent studies and analysis, based on empirical investigations 1/ that show the flaws in his own arguments. These have documented increased presence of extension, improved agent-farmer interaction, and a significant ability and willingness to adapt the operational principles of the system to local circumstances. For example, using contact farmers as the key link between extension agents and the farming community was modified to make greater use of group methods, and the frequency of meetings was adjusted to seasonal requirements. The coverage of farming activities was expanded to include both major and minor crops, and, in some areas, animal husbandry. Comparisons with alternative extension systems have shown advantages to the T&V approach in terms of information diffusion and interaction with farmers.

While there are several weaknesses in the agricultural extension system in India (Macklin 1992), they are certainly not

such to warrant the blanket condemnation set out by Mr. Rich in his badly researched analysis.

1/ Feder and Slade (1986), Feder, Lau, and Slade (1987), Macklin (1992), Bindlish and Evenson (1993).

Setting the Record Straight: The Impact of Adjustment

The view that adjustment programs increase poverty has stubbornly sustained itself despite the evidence. An example of why this is so is the scurrilous misinformation contained in Bruce Rich's new book Mortgaging the Earth. Rich, like others before him, movingly describes the economic hardships that many poor countries suffered in the 1980s. Unfortunately he focuses on the search for scapegoats instead of for solutions to the complex crises of underdevelopment. In Mr. Rich's conspiratorial view of underdevelopment, anything wrong in a country receiving World Bank loans must be the World Bank's fault.

The problem with this approach can be illustrated by the story of the little boy riding with his father on Washington's Beltway after an ice storm. The little boy stared at a succession of minor automobile pileups caused by the ice storm, each pileup with an ambulance -- lights flashing --standing by in case of need. "Daddy," he asked somberly, "why do ambulances cause so many accidents?"

Much of Mr. Rich's analysis is the equivalent of blaming accidents on ambulances. Countries only come to the World Bank for structural adjustment loans after a severe crisis has developed. Evaluating the success of subsequent recovery efforts supported by World Bank and International Monetary Fund (IMF) lending, requires asking questions like: (1) what was the state of the country's economy when adjustment began? (2) what else was happening to the

economy as the country adjusted? (3) what happened to countries in similar circumstances who did NOT adjust?

Rich is clearly unaware of the large body of work undertaken by the World Bank and independent scholars to answer these questions. The consensus of that work is that adjustment, as supported by World Bank and IMF lending, generally raises an economy's growth over what it would have been without such adjustment.

The evidence shows that developing countries that undertook intensive adjustment programs with funding from the World Bank experienced an increase in their average growth rates by 2.5 percent from 1981-85 to 1986-90. Those that interrupted adjustment programs or did not adjust at all had on average no change in growth from the dismal growth rates of the early 1980s.

Analysis of Sub-Saharan Africa's experience with adjustment also confirms that countries that did the most to improve their macroeconomic policies experienced the biggest increase in growth in the 1980s. Countries that undertook more limited adjustment programs and experienced a deterioration in policies suffered a decline in growth rates. While adjustment did not cure all economic problems -- for example, investment sometimes went down in adjusting countries -- it did help countries to achieve higher rates of growth than would have been the case in the absence of adjustment.

Rich blames a drop in real wages in Mexico in the 1980s as a consequence of adjustment promoted by the Bank. In fact, the decline in the real minimum wage in Mexico began in the late 70s -- well before World Bank adjustment lending -- and was then accentuated by the disastrous episode of economic mismanagement, that Mexicans call "la crisis," in the early 1980s. Since 1987, Mexican real wages have *increased* by 20 percent. Moreover, more severe drops in real wages than experienced in Mexico occurred in the 1980s in countries that did not undertake adjustment programs, for example, Peru (-70%) and Nicaragua (-90%).

Similar problems bedevil Rich's analysis of poverty and adjustment. Poverty was tragically widespread in countries in crisis long before they undertook adjustment programs. The key question is how much adjustment policies *changed* the lot of the poor. Because income distribution changes slowly over time the biggest single factor determining the welfare of the poor was how the economy as a whole was growing. And we have seen that countries following adjustment policies usually enjoyed an increase in growth. Conversely, in countries that failed to implement or sustain adjustment programs, such as Peru and Cote d'Ivoire, the economy declined and the incidence of poverty increased. In Peru, GDP per capita fell by 20 percent between 1985 and 1990. The average household in Lima experienced a decline in per capita consumption of 55 percent, and poverty increased from 0.5 percent of Lima's population in 1985-86 to 17.3 percent in 1990. Cote d'Ivoire's economy took a nose-dive after 1987; in 1987 and 1988,

the incidence of poverty rose by over 50%, and the incidence of extreme poverty more than doubled.

The evidence does not support Mr. Rich's simplistic assessment that "too often [adjustment programs] resulted in reduced education, health, and environmental protection expenditures." Among Sub-Saharan African countries undertaking adjustment programs -- sustained or not -- median real health spending in absolute terms increased by about 5 percent between 1980-83 and 1987-89, although education spending decreased by a similar amount. And among the countries that made the largest reforms in their macroeconomic policies, median health and education expenditures as a share of GDP remained virtually unchanged. By contrast, the countries that did not undertake comprehensive adjustment programs suffered a large decrease in social expenditures.

Rich is also mistaken in his claim that "adjustment did not succeed in launching export-led growth". Countries in Sub-Saharan Africa that made positive changes in their macroeconomic policies had strong export performance. Of the 22 countries for which data were available, the four countries with largest improvements in macroeconomic policies between 1981-86 and 1987-91 experienced a median increase in export growth of almost 8 percent over the same period. Those countries whose macroeconomic policies showed only modest improvement increased the growth rate of their exports by only 3 percent. In contrast, exports lost ground in the ten countries with deteriorating macroeconomic policies, with a median

fall in growth of 0.7 percent. Restoring macroeconomic stability and reducing exchange rate distortions paid off in higher export growth.

Moreover, the gains in export growth have *not* been eaten up by higher debt servicing requirements. Sub-Saharan Africa, the world's poorest region, continues to benefit from high net aggregate transfers (loan disbursements plus grants less debt service payments), amounting to over 3 percent of GNP in 1992. Total debt service as a share of exports and services has declined over the course of the 1980s, from a high of 28.2 percent in 1986 to 18.5 percent in 1992. Contrary to the impression that Rich gives, adjustment programs benefit the borrowing countries, not just their creditors.

Conclusions. A vigorous intellectual exchange on the consequences of adjustment is ongoing. All who care about the welfare of developing countries should be willing to subject both received wisdom and new ideas to the rigors of debate. But participating in this debate requires a great deal of tedious examination of data and country experience. Rich's rhetoric and insinuations do little to advance the cause of poverty alleviation and environmental protection.

Ambulances do not cause accidents. But when accidents occur, it is better to have ambulances than not.

Setting the Record Straight: Net transfers, debt and forgiveness of World Bank loans.

Some people concerned about the debt burden of developing countries have suggested the World Bank forgive its borrowers some of their World Bank debt. But World Bank debt is far less a burden than most other debt because of its low- to concessional-interest rates and because the Bank continues to provide funds at relatively low rates for new productive projects that help countries grow. It should be remembered that the multilateral development banks provide most of the funds available to developing countries. Without them there would be few affordable sources of loans for the poorest countries. If the World Bank were to forgive debt it would quickly lose its excellent credit rating which in turn would increase its cost of borrowing. These increased costs would have to be passed on to the developing countries by charging them higher interest rates on their loans.

Bruce Rich in his book Mortgaging the Earth is a proponent of this view. He also alleges that the World Bank has increased the debt burden of countries because it has been pressured to lend under the specter of net negative transfers. But Rich oversimplifies his analysis of this rather complex issue and thus draws wrong conclusions from the situation.

Each year developing countries receive external capital

inflows in the form of loan disbursements. These loans help finance investment and imports to promote economic development. In turn, developing countries make amortization payments on loans they received in previous years. The difference between these two amounts equals (debt-related) net flows. A country normally would experience positive net flows at an early stage of development (debt build-up), declining net flows as it achieves a more advanced stage of development (debt stabilization), followed by capital exports at a high level of development.

Debt generates obligations. Interest payments represent compensation to creditors for the use of their resources. If the resources have been invested productively, as they are in the case of World Bank loans, the return generated should more than cover the interest cost. Net transfers (on debt) are calculated by subtracting interest payments from net flows.

But, adding together the net transfer amounts for a group of countries, as Rich does in his book, can be misleading. Some countries in the group may be at a more mature development stage in which net flows are small and net transfers are negative. Others may have acquired levels of debt that are inconsistent with their growth prospects. Still others may be at a stage of development in which positive net transfers would be normal. Hence, the aggregate net transfer to a group of countries is a poor guide to the financial position of any individual country.

From an individual creditor's viewpoint caution also must be exercised in interpreting the effect of net transfers. If a financial institution maintains positive net transfers to all its borrowers, its asset base must grow rapidly -- roughly doubling every 10 years. Thus, the overall net transfer position of an institution will depend on, among other factors, its past lending and the rate of growth of its capital base. The World Bank has generally maintained positive net transfers consistent with the growth of its capital base and has gone along with negative transfers in the case of some of its more mature borrowers -- this is the normal practice of any sound financial institution.

As others have done before him, Rich greatly oversimplifies in his analysis and draws unwarranted conclusions on the need for debt forgiveness based on the amount of aggregate net transfers to the developing countries. In fact, net transfers to all developing countries have been positive since 1989. Only Latin America amongst regions of the developing world has experienced negative transfers (in 1989 and 1990, but not since). But Latin America has been receiving debt reduction assistance under the Brady Plan. The region with the severest debt problems is Africa, which receives the highest positive net transfers (amounting to several percent of GNP for most countries).

Rich appears to view the existence of negative net transfers as grounds for debt forgiveness. But such encouragement of "moral hazard" would likely lead to a cutoff of new financing to

developing countries by their external creditors, annihilating all hopes for economic growth and improved living conditions.

There are valid grounds for debt forgiveness, such as when a debtor country has suffered severe adverse shocks to its terms of trade and hence its export earning capacity. The World Bank has supported debt reduction under such scenarios with substantial amounts of its own funds, under the Brady Plan and with the International Development Association (IDA) debt reduction facility which is cofinanced by bilateral donors.

Rich proposes that the World Bank be demanded to forgive part of its own debt. He erroneously claims that debt service to the World Bank is eating up countries' earnings, he cites Uganda as an example. In fact, net transfers from the World Bank to Uganda and to nearly all Sub-Saharan African countries is strongly positive. Rich's claim that the World Bank's rating in the bond markets would not be adversely affected if it forgave its own debt is fallacious. The Bank's credit rating does not rest on its member governments guarantees alone. The rating depends as much on the World Bank's financial performance, as is evident from the reports of rating agencies and from the below-AAA rating that the Bank had in its early years. Indeed, should the World Bank write off its debt, its credit standing in the financial markets would deteriorate and it would subsequently need to increase the costs to its borrowers. In other words, those borrowers who are timely with their debt payments would pay for debt forgiveness to the few who are not.

Setting the Record Straight

Critics of World Bank programs and policies, including Bruce Rich in Mortgaging the Earth, often call for reform of the Bank. These critics rarely acknowledge the Bank's own commitment to such reforms, its efforts to get its member countries committed to them, nor credit either the Bank or its members for changing policies and practices to bring about such reform. The World Bank not only agrees with the general principles of each of these reforms but its efforts to implement them have been substantial. As an example, let us look at Rich's five reforms and compare them to recent Bank policy changes:

1. Public access to Bank documents in the early stages of project preparation. Recent changes are substantial. A Public Information Center (PIC) opened on January 3, 1994, in Washington D.C. to provide information on a walk-in basis, or electronically through Internet. The PIC provides a number of documents including a new document, the Project Information Document, especially prepared to give early project information to interested parties. Environmental Assessments, Environmental Data Sheets, National Environmental Action Plans, Staff Appraisal Reports, Summaries of Evaluation Reports, Country Economic and Sector Reports, and Sector Policy Papers also are available. More importantly, these documents are available to local people and non-governmental organizations in the borrowing country through the Bank's Resident

Missions.

2. An independent appeals commission. The Bank is unique among multilateral organizations in having established such an independent commission, called the Inspection Panel, in September 1993. The Panel can receive and investigate complaints from outside parties affected by projects which the Bank has helped to finance. While one would not realize it from listening to the critics or reading Rich's book which focuses on a handful of problematic projects, most projects supported by the Bank meet high standards and do not generate complaints. The Panel will provide a safety net in exceptional cases. It has full access to Bank files and will make publicly available the request for an inspection, the Panel's recommendation on the request, and the Executive Director's decision on whether to proceed when they have considered a request for inspection. The Panel's report on its investigation and the management's response will also be made public as will the Panels annual report to the Board.

3. Increased accountability of Bank staff. Rich arrives at this recommendation by setting up the proposition that "pressure to lend" is the rationale for rewarding staff and that all Bank projects are harmful. This totally misrepresents the good that most Bank projects bring about and insults a staff dedicated to helping the world's poorest. It is difficult to seriously respond to this recommendation. However the Bank is constantly evaluating its work (it makes those evaluations public) and is making efforts

to improve project performance based on the results of those evaluations. A review of the Bank's lending portfolio showed that those projects that did not reach their overall objectives often suffered because of weak implementation. Consequently, staff time allocated to project implementation and supervision will be increased and staff performance will be judged on their efforts at this stage of project work.

4. Debt forgiveness is dealt with in an attached paper. But, it should be mentioned that where debt is a barrier to development, the Bank has sought ways to help countries through loans to those countries participating in Brady-type agreements, and for the debt-burdened low-income countries through special programs such as the IDA Debt Reduction Facility (to help reduce countries' commercial debt), the Fifth Dimension (to help IDA borrowers repay outstanding IBRD debt), and the Special Program of Assistance (for Sub-Saharan Africa countries).

5. Promotion of democracy, human rights, and social equity as well as economic welfare and ecological balance. It is important to realize that the Bank is not, nor should be, an all-powerful super-governmental agency that affects changes in the policies of sovereign governments. While decisions on the nature of electoral processes must come from within, the Bank does promote openness, fairness, transparency and adherence to the rule of law through its policy guidance and technical assistance. Human rights are improved through increased education and opportunities for the poor

and for women; social equity and economic welfare is addressed by targeting the poor in projects and by providing funding for safety nets in adjustment programs; and ecological balance is taken into account in every aspect of the Bank's work from helping develop National Environmental Action Plans, to requiring environmental assessments for new projects, to funding specific projects for protecting and improving the environment. It is widely recognized by environmental groups and others that the biggest cause of environmental degradation is poverty; by helping reduce poverty the Bank helps reduce environmental degradation. Rich's analysis which seems to suggest that development leads to a reduction of democratic values, human rights, social equity, economic welfare, and ecological balance is upside down. Poverty is the biggest cause of all of these situations. The World Bank's overarching objective is to reduce poverty in the developing world.

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2/28/92

Gujarat Medium Irrigation II

Questions:

- (a) Bruce Rich says "The Gujarat Medium II Irrigation Project, which affects tribals similar to those who will be displaced by the Sardar Sarovar Projects, was approved in 1984 without project specific resettlement plans and despite documented resettlement failures during the first Gujarat Medium Irrigation Project. Subsequent supervision reported predictable widespread failure to rehabilitate the nearly 90,000 people displaced by these dams."
- (b) Mr. Rich goes on to say "the Bank is more concerned to accommodate the pressures emanating from its borrowers than to guarantee implementation of its policies."

Answers:

- (a) Our information supports the statement that the project was approved in June 1984 without project specific resettlement plans. Our information shows that an overall Resettlement Action Plan was prepared by the Government of Gujarat and submitted to the Bank in December 1985.
- (b) The SAR and the Legal Documents stated that the economic rehabilitation of persons displaced by the sub-projects should be carried out as part of the project. In 1991, the Bank took strong action to push GOG in implementing the economic rehabilitation in nine priority sub-projects. The Bank requested that socio-economic surveys and RAPs be prepared with the assistance of NGOs. The RAPs were submitted to the Bank and are being implemented. The last Credit extension has been granted only to insure that the R&R component is well established and we are considering a possible additional extension to consolidate present achievements and extend them to the remaining 13 sub-projects.

GUJARAT MEDIUM IRRIGATION II PROJECT
(Credit 1496-IN)

A. Background

The project was appraised in January 1984. A Credit of SDR 164.3 million (US\$172.0 million equivalent) was approved by the Board of Executive Directors in June 1984. The Credit was signed on June 29, 1984 and declared effective on September 21, 1984. To date SDR 120.2 million has been disbursed and SDR 15.0 million canceled. The project is to be completed in 1996. However, the Credit will be closed on March 31, 1994 after five closing date extensions.

B. Project Description

The main objectives of the project are to improve the standards of design and construction and introduce an efficient, reliable and equitable water management system in 28 medium irrigation schemes in Gujarat to enhance crop production and farmers' income. In addition, the project supports resettlement and rehabilitation (R&R) activities for project affected persons (PAPs) in all sub-projects. Special emphasis has been placed on the economic rehabilitation of oustees, introduction of rotational water supply (RWS), preparation of plans for operation and maintenance (POM), and farmers' participation through the creation of water users' associations. Under the restructured project, effective February 1991, the project main objectives remained the same but its scope was enlarged to include four additional sub-projects and the support of a Water and Land Management Institute.

C. Resettlement and Rehabilitation Aspects

Of the initial 28 sub-projects, only 22 have R&R components. It is estimated that about 23,392 PAFs or about 140,000 PAPs have been affected by the construction of 23 dams most of which were completed under Phase I of the project (Credit 808-IN, approved in 1978 and closed in 1984). The SAR for the Phase II project states that about 10,600 project-affected families still required compensation in November 1983 and provides a rather good description of the type of benefits and economic rehabilitation that should take place under the project. Several covenants of the Project Agreement indicate that Rehabilitation Committees must be established in each sub-project and that satisfactory R&R plans must be prepared and implemented. Schedule 3 of the Project Agreement describes the provisions under which the project affected persons should be rehabilitated. The Development Credit Agreement allows for the financing of training, pilot operations, monitoring and evaluation of R&R.

The R&R component of the project is being implemented by the Directorate of R&R of the Department of Water Resources (Irrigation). However, the economic rehabilitation of PAFs comes under the responsibility of the District Rural

Development Agencies which are responsible for carrying out the social and welfare schemes in the State. Each sub-project has an R&R Committee otherwise known as R&R Guidance Cells. The Government of Gujarat (GOG) does not have any R&R Act but has taken several Government Resolutions (GR) which serve as a basis for implementing R&R under the project. In general, these GRs are satisfactory to the Bank, though there is scope for improvements.

GOG's performance in R&R under the project has been mixed and did not receive the required level of attention at the beginning of project implementation. However, some improvements have been made as a result of the Bank's increased focus on R&R over the past two years. Most PAFs have now been compensated for the land and structures lost and resettled either in Government resettlement villages or in sites of their choice. In general, landed oustees have been able to recover an acceptable standard of living. GOG is taking steps to improve payment of compensation to remaining oustees by preparing policy guidelines for constituting peoples' courts to settle cases speedily. Civic amenities are being completed with particular emphasis on roads and water supply. The poorer oustees, particularly the tribals and scheduled caste households, whose economic rehabilitation needs had not been adequately addressed earlier, are now being brought under the ambit of economic support programs. The key issue now is to complete all activities in a time bound manner, and to ensure sustainable supply of support services to the oustees being given IRDP benefits.

In order to achieve full and proper rehabilitation for project outsees, GOG with the help of a well established NGO - Foundation for Public Interest -, has now (i) implemented a rapid rural appraisal of PAFs in 22 sub-projects to determine the exact living conditions of the PAFs and status of the resettlement villages, (ii) prepared an overall economic rehabilitation plan to be implemented in three years for the 22 sub-projects, and (iii) selected, in accordance with the Project Agreement, 9 sub-projects to serve as a pilot operation. On the basis of the rural appraisal, a detailed Economic Rehabilitation Action Plan was then prepared for the Sukhi sub-project with the assistance of another well established NGO - Self Employed Women's Association. This Action Plan, which is to be used as a model for the remaining sub-projects, is to be implemented in three years by the District Rural Development Agencies and comprises subsidies and soft loans to assist the PAFs in implementing a number of income generating schemes including provision of dairy cattle, draft animals, wells for irrigation and also income generating activities for women such as tailoring, sericulture, and handicrafts among others.

D. Resettlement and Rehabilitation Action Plan

GOG and the Association have agreed that economic rehabilitation would be implemented on a pilot basis in the 9 priority sub-projects, and that all activities except the purchase of land and the payment of compensation would be eligible for reimbursement under the Credit. The program has begun with an outlay of Rs. 9 M. The plans for these were prepared along the lines of the Sukhi Action Plan.

GOG has implemented the main recommendations of the last two supervision missions. An independent agency has been recruited for monitoring and evaluation of R&R. Detailed economic rehabilitation plans for the remaining 14 sub-projects are almost finalized. Several lift irrigation schemes are under implementation. Camps are being regularly held in oustee settlements. R&R guidance cells meet

regularly.

The project was due to be closed, after a fourth extension on March 31, 1993. But in view of the considerable efforts developed by the recent supervision missions and GOG's willingness to improve R&R implementation and follow the Bank's recommendations, the Bank agreed on a fifth and last extension of the Closing Date to March 31, 1994. This extension, will give a chance for the R&R Action Plans to be implemented under proper guidance and financing and also allow the project to consolidate the present improvements, thus achieving one of the project's main objectives.

Status of R&R Implementation

The Bank has been closely supervising the implementation of the agreed action plan through several R&R supervision missions: first shortly after project extension, second in August 1993, and third during the current supervision mission. Though Gujarat has not yet reached the level of implementation that was expected in the action plan, R&R performance has improved to a large extent. The status of compliance with the agreed plan is summarized below. In particular, Gujarat

- (i) has recruited the Sardar Patel Institute of Public Administration (SPIPA), an independent agency, to monitor and evaluate the implementation of the agreed economic rehabilitation plan for the first sub-project at Sukhi;

- (ii) has prepared detailed economic rehabilitation plans for the 9 priority sub-projects with emphasis on economic rehabilitation of about 4,950 BPL PAFs;

- (iii) has prepared plans and cost estimates to improve civic amenities, with emphasis on access roads and drinking water supply in the 9 priority sub-projects

- (iv) has established special courts to redress outstanding claims and in particular inadequate land compensation;

- (v) is considering the allocation of additional benefits to PAFs who had received cash compensation in lieu of land;

- (vi) is considering the enhancement of the package of benefits for housing and construction of individual latrines;

- (vii) is establishing irrigation schemes for PAFs in 11 sub-projects;

- (viii) is taking steps for integrating Government resettlement centers into host communities; and

- (ix) has allocated Rs 9 M and spent Rs 6.5 M during FY 1993/94 for the economic rehabilitation of about 500 BPL PAFs including the financing of wells for irrigation, milch cattle, housing grants, the formation of farmers' groups and other poverty alleviation schemes.

SEWA has taken up the economic rehabilitation of the Sukhi sub-project and has initiated a number of income generating schemes for women based on poultry, nurseries, leaf plate manufacturing, brick making, tomato cultivation among others. SEWA has also been instrumental in resolving, though not completely, a long outstanding issue of brackish water supply in four villages. Finally, SEWA

has been instrumental in improving the implementation of Government schemes for all categories of PAF and also in improving relationships between Government officials and PAFs.

SEWA's work program in the Sukhi sub-project has been evaluated by SPIPA and found to be very effective. The evaluation report shows the need for a participatory approach to economic rehabilitation of PAFs and confirms the role NGOs can play in facilitating the implementation of government schemes and redressing deficiencies.

FOLLOW UP ACTIONS

The implementation of R&R activities in the 9 priority sub-projects has gained momentum and will require one more year to be completed. Government officials and the NGOs involved in the economic rehabilitation process have both expressed the desire to continue their activities in the 9 priority sub-projects and even to expand them in the balance 14 sub-project with the Association's assistance. In particular, the Chief Secretary expressed, in a meeting with NGOs, the Government's willingness to expand ongoing programs to all sub-projects and support NGOs' assistance in view of the results achieved.

Within the framework of a possible final one year extension from April 1, 1994 to March 31, 1995, Government officials have agreed to the following actions:

(i) implement an action program costing about Rs 70 M during FY 1994/95 covering all 23 sub-projects with the assistance of SEWA, FPI and other NGOs;

(ii) improve the rehabilitation plans for the first 9 priority sub-projects with the assistance of FPI and finalize the rehabilitation plans for the balance 14 sub-projects. The revised rehabilitation plans would comprise Government resettlement centers and self settled sites and cover all activities including civic amenities, poverty alleviation schemes, irrigation schemes, and redressal of outstanding claims among others;

(iii) activate the Special Courts set up to redress outstanding inadequate compensation claims;

(iv) make poverty alleviation programs available to all categories of PAFs including landed PAFs who received cash compensation in lieu of land and who have been unable to regain a living standard equal to that enjoyed before resettlement;

(v) enhance the package of benefits to housing and construction of individual latrines;

(vi) expand the program of irrigation schemes for PAFs to all 23 sub-projects; and

(vii) accelerate the integration of resettlement villages within the host communities through the improvement of civic amenities and other activities as appropriate.

SARDAR SAROVAR (NARMADA) DAM AND POWER PROJECT
(Credit 1552-IN, Loan 2497-IN)

A. Background

The project was appraised March 1983 - August 1984. A Credit of SDR99.7 million (US\$100.0 million equivalent) and a Loan of US\$200 million was approved by the Board of Executive Directors on March 7, 1985. The loan and Credit were signed on May 10, 1985. On March 29, 1993 the Government requested a cancellation of the remaining amount of the Loan (US\$165.54 million). The Credit was fully disbursed on September 17, 1992.

B. Project Description

The project consists of the construction of the Sardar Sarovar dam and power complex in Gujarat, over a nine year construction period (1985-94). The specific objectives of the project are to create a major storage and diversion facility in the lower Narmada River valley and to develop, within existing physical and legal constraints, the river's multiple purpose irrigation, water supply and hydroelectric power potential to benefit more than 10 million people in the drought-prone area of Gujarat and Rajasthan. The Dam and Power Project and its companion Water Delivery and Drainage Project (Cr. 1553-IN) were closed in July 1992 and March 1993 respectively. As per the latest information and R&R policies, the estimates of submerged areas, and project affected persons, and entitlements and benefits in the three party states are summarized in the following table:

Table 1: Submerged Areas and Project-Affected Families/Persons

	<u>Gujarat</u>	<u>Maharashtra</u>	<u>Madhya Pradesh</u>	<u>Total</u>
Area Submerged (ha)	7469	9399	20722	37590
Villages (No.)	19	3	193	245
Families (No.)	4500	2731 ¹	33014	40245
Persons (No.)	18000	19650	89796	127446
R&R Program (Yr.)	1992-4	1993-7	1994-97	---

1/ Likely to increase to 3500 when socio-economic surveys are completed.

**Table 2. Comparison of Entitlements to Rehabilitation Benefits:
NWDT Award and State Provisions**

Item 1	NWDT Award 2	Madhya Pradesh 3	Gujarat 4	Maharashtra 5
A. Individual Benefits				
1. Land Allotment	a. Landed Oustees	25% or more land submerged entitled to minimum 2 ha. irrigable land with a ceiling set by the state	As per NWDT ¹ Additional Benefits: Co-sharer and joint holder will also get land equivalent to their shares in submerged land if land is recorded in their names.	As per NWDT Award. Additional Benefits: Co-shares and joint holder will get minimum 2 ha. land. As per NWDT Award. Additional Benefits: Co-shares and joint holder will get minimum 2 ha. land.
b. Encroacher Oustees	No provision for land	1 ha. to 2 ha. land for encroached land coming under submergence with 13.04.87, cut-off date and cash compensation for the balance of land if any.	2 ha. land for encroachment one year prior to issuance of notice for land acquisition, and cash compensation for the balance of land if any.	2 ha. land for encroachments up to 31.03.78 and cash compensation for the balance land if any.
c. Landless Oustees	No provision for land	a) Landless agricultural labourer. Economic package @ Rs 29,000 each b) Other landless (except SC/ST Rs 19,500 each.	a) 2 ha. land. b) Land for shop at resettlement site and Rs 5,000 as financial assistance.	(a)(b) - 1 ha. land if Oustee moves with others.
d. Major sons of above categories of Oustees	No provision for land	a) Major sons of SC/ST. Small and marginal farmers and landless agricultural labourers; Economic package @ Rs 29,000 each. b) Major sons of other Oustees Economic package @ Rs 19,500 each.	a) Major sons of all categories of Oustees except non-agricultural landless - @ 2 ha. land each. b) Major sons of non-agricultural landless family - land for shop at relocation sites and Rs 5,000 - as financial assistance.	1 ha. land to each major son and unmarried major daughter.
2. House Plots	Oustee and major son will get house plot of	As per NWDT Award.	As per NWDT Award.	As per NWDT Award. Additional Benefits: Major

^{1/} NWDT means National Water Dispute Tribunal.

	size 60' x 90' free of cost.			unmarried daughter also entitled separately.
3. Rehabilitation Grant. Grant-in-aid. Subsistence allowance, etc.	Rehabilitation grant of Rs 750/- inclusive of transportation charges to each family and major son. Grand-in-aid up to Rs 500/- for each family if total compensation received is less than Rs 2,000/-.	Rehabilitation grant of Rs 11,000 to SC/ST small and marginal farmers. Landless agricultural laborers & their major sons. For other Oustees and their major sons @ Rs 5,500/-.	As per NWDT Award. Additional Benefits: a) Subsistence allowance of Rs 15 per day for 300 days. b) Cost escalation @ 8% per year from 1980 on rehabilitation grant. c) Productive assets @ Rs 5000/-. d) Special Assistance of Rs 10,000/- to construct Pucca house plinths.	As per NWDT Award. Additional Benefits: a) Subsistence allowance Rs 15/- per days for 300 days. b) Cost escalation of 8% per year from 1980 on rehabilitation grant. c) Productive assets up to Rs 14500/- under different tribal welfare schemes. (Major unmarried daughter will also get separately).
4. Transportation Grant	Included in Rehabilitation grant of Rs 750/-.	Additional Benefits: Free transportation will be provided for shifting (if not taken, a lump sum grant of Rs 500/- to be given).	Additional Benefits: Free transportation will be provided for shifting.	Additional Benefits: Free transportation will be provided for shifting.
5. Compensation a) Land	As per Land Acquisition Act in operation at the time of acquisition.	More liberal than NWDT Award. Rate of compensation for acquired land on the basis of price of similar land in the adjacent command area.	As per NWDT Award.	As per NWDT Award.
b) Houses	As per Land Acquisition Act	More liberal than NWDT Award (replacement value of acquired houses).	As per NWDT Award.	As Per NWDT Award.
6. Civic Amenities	- One primary school (3 rooms) for 100 families - One Panchavat Ghar for every 500 families. - One dispensary for every 500 families. - One seed store for every 500 families. - One children's park for every 500 families. - One village pond for every 50 families. - Drinking water	As per NWDT Award. Additional Benefits: - Threshing ground. - Cremation & burial ground. - Social amenities for each municipal town viz water supply, sanitary arrangements, etc. - Any other facility such as middle school which was existing in the	As per NWDT Award. Additional Benefits: - Provision of NWDT Award has been relaxed for providing civic amenities as per requirement at relocation sites. - Transit accommodation.	As per NWDT Award. Additional Benefits: - Play ground for school (1 acre for primary and 2 acre for secondary). - Public latrines. - Open place for collection of animals. - Khlawadi (Threshing platform). - S.T. Stand. - Grazing Land. - Open place for Bazaar. - Cremation/

	well with trough for every 50 families.	affected village and its improvement.	burial ground. 9. Internal road. 10. Transit accom- modation.
	8. Each colony should be linked to main road by roads of appropriate standards.		
	9. One tree platform for every 50 families.		
	10. One religious place worship for every 500 families.		
	11. Electrifica- tion, water supply sanitary arrangements, etc.		
7. Other facilities	Nil	1. Grant-in-aid of Rs 1000/- per ha. per year for 2 years if interest-free loan is not taken. 2. Ex-gratia payment to cover the difference of cost of allocated land and acquired land for SC/ST and other land owners owning land up to 2 ha. For others ex- gratia @ Rs 2000 per ha. or 50% of the difference in the cost of allotted land and acquired land which ever is less.	1. Ex-gratia payment to cover the difference of cost of allotted land and acquired land. 2. Vocational and ITI training to Oustee families. 3. Preference in employment. 4. Implementatio n of all existing welfare schemes at relocation sites.
		3. Preference in Government employment and age relaxation in government jobs. 4. Implementation of all existing welfare scheme at relocation.	1. House building (interest free loan). (i) Land holder - Rs 8,000/-. (ii) Landless laborers Rs 4000/-. 2. Preference in employment of Class-III & IV Posts and reservation in project. 3. Implementation of all existing welfare scheme at relocation sites. 4. Occupancy price and development cost for allotted land at Taloda or nearby in Maharashtra will not be charged to Oustee families.

C. Resettlement and Rehabilitation Issues

Implementation of the project has been severely criticized because of inadequate policies and tardy implementation of the required R&R program, as well as delays in the assessment of the project's environmental impact and the formulation of the requisite environmental management plans.

In June 1991 the World Bank commissioned an independent review of the R&R and environmental aspects of the project. The review was completed in June 1992 and confirmed a number of deficiencies in the policies and implementation of the R&R program. In particular, it blamed: (a) the Bank for not following its own guidelines on involuntary resettlement which require that comprehensive R&R plans be prepared and approved prior to project approval, and (b) the Borrower for inadequate R&R policies and poor implementation mostly in Maharashtra and Madhya Pradesh. The Independent Review concluded that satisfactory R&R implementation would not be possible unless policy and implementation are improved considerably.

Building on the review, Bank staff worked with respective government agencies to develop an agreed detailed action plan which involved a number of improvements in R&R policies, organization and management, tighter linkages between progress on R&R and dam construction and strengthening of environmental planning and monitoring of potential environmental impact. In October 1992, the World Bank's Executive Directors agreed to continue support for the project on the basis of the agreed detailed action plan. Continued Bank support was, however, made contingent on a number of key benchmarks to be met by March 31, 1993. On March 29, 1993, the Government of India requested the Bank to cancel the remaining undisbursed portion of the Loan for the Sardar Sarovar (Narmada) Dam and Power project and announced that it had decided to complete construction work on its own. In advising the World Bank of its decision, Indian authorities emphasized that they remained committed to full implementation of the Government's previously announced action plan covering resettlement and rehabilitation (R&R) of people affected by the project as well as steps to assess and mitigate environmental risks.

D. Compliance with the Benchmarks

The Borrower's compliance with the benchmarks were submitted to the Bank on August 5, 1993. The report on the Attainment of Performance Benchmarks shows that the Borrower has met about 80% of the benchmarks, including: (i) a tribal study and analysis of each state, (ii) an improved system for monitoring and evaluating the implementation of the R&R program through a computerized MIS and the assistance of the three prominent social science institutes, (iii) the creation in Gujarat of a new R&R Organization coming directly under the Chief Minister, and (iv) the strengthening of the existing R&R Organizations in Maharashtra and Madhya Pradesh (MP). The certification process linking R&R implementation to dam construction had been established and was working reasonably well.

The action plans in Gujarat and MP were updated based on new surveys, but the number of PAPs in MP who are to move to Gujarat appears inflated. Maharashtra has obtained clearance from the Department of Environment and Forest for release of about 1,500 ha and MP had identified, but not purchased, about 1,612 ha of agricultural land. There has still been no inter-state agreement on the sharing of R&R costs.

To date Gujarat has resettled about 4200 PAF (93%), Maharashtra 1262 PAFs (46%) including those resettling in Gujarat, and MP 1400 (4%) all of whom which have

resettled in Gujarat. Maharashtra resettlement program is hampered by anti-dam resistance in about half the villages. MP's resettlement program in both MP and Gujarat is not progressing at the required pace. Because of slow progress in Maharashtra and MP, dam construction is likely to be affected in 1994-95 and possibly in the following years.

On two occasions in 1993, the closing of the construction sluices at the foot of the dam, was delayed. The gates were closed on February 23, 1994.

(a) These sluices are a set of temporary openings (10 in number) at El.18 m in the body of the dam provided purely as a part of diversion arrangement to pass the discharge in the river during low-flow periods. They have very little impact on the flood levels during the monsoon seasons, whether they are closed or not. Water levels on the upstream of the dam are governed by the volume and intensity of flow. These sluices are in no way linked to the R&R programming.

(b) It is very well known that the stilling basin area on the downstream of the sluices has so far been left untreated. Only the closure of the sluices would enable such treatment to ensure safety of the dam structure. The importance of dam safety is an accepted fact. It was earlier planned to take up the treatment before the monsoon of 1993. The same could not, however, be carried out at that stage due to problems in the R&R implementations in Maharashtra. As such the decision on the closure of the sluices was postponed to the construction year 1993-94 before the onset of monsoon of 1994. Closure of the construction sluices now will give just sufficient time to complete the minimum precautionary measure for the safety of the dam.

(c) Even though the closure of the construction sluices is in no way related to the R&R programme, it was still examined by the SSCA and NCA. Maharashtra has confirmed that the R&R in their State has been completed up to El.69 m. Gujarat has also completed R&R up to this evaluation. Madhya Pradesh is not affected at this elevation. Flora and fauna studies up to this elevation have been completed and other environmental aspects have also been taken care of.

(d) In addition to the construction sluices, four river sluices have been provided in the dam at EL.53 m. As a result of closure of the construction sluices, the permanent pondage level would rise to a maximum of El. 59 m and will remain at or below this level up to June 1994. During the monsoon of 1994, the water would raise depending on the volume of flow but would recede to El.59 m or below after the monsoon. The river sluices would ensure fluctuation of the water level in the reservoir during non-monsoon season, not only 1994 but also in 1995 till June between El 53 m and El 59 m only. As brought out earlier, R&R in respect of this permanent pondage has been fully completed.

(e) This downstream environmental effect has also been studied in detail and adequate and appropriate steps have been taken to meet the minimum requirements of flow, etc.

(f) As regards further raising of the levels of the dam blocks, this has been carefully considered, linking the same with the progress of R&R. Maharashtra has stressed the urgency and need to make available additional 1500 ha. of forest land for R&R to enable shifting of the PAPs of the Akkalkuva taluka who would be affected by submergence between levels of 69 m and 80.3 m. Ministry of Environment & Forests has since, issued clearance for release of this 1500 ha. forest land.

(g) In view of the above position, the GOI has now decided to proceed with further works as detailed below:

(i) Plug Construction sluices at El 19.0 m.

(ii) Spillway Blocks 30 & 31 will not be raised above El, 69 m; Block No. 43 will not be raised above El 70.2 m and Spillway Block Nos. 44 to 48 would be kept at El. 80.3 m, till further review is taken.

(iii) The levels of various blocks would be such that the affluxed level of El, 100 m, for flood of 100 year return period, would not be exceeded at any stage during the 1994 floods. The levels of blocks to satisfy the above condition are arrived at by analysis and confirmed by model tests.

(iv) All arrangements will be made for taking care of temporary submergence in the villages corresponding to the affluxed level of El, 100 at dam site for flood with 100 year return period.

Upper Krishna

Questions:

- (a) Bruce Rich says, "Upper Krishna I project ... closed in 1986 with a backlog of 100,000 people still to be resettled ... Upper Krishna II, a project with 250,000 outsees, was not supervised during a critical phase of implementation."

Was there really a backlog of 100,000 persons to be resettled from Upper Krishna I? When was Upper Krishna II not supervised and was it a critical phase of implementation?

Answers:

The UKP II project did pick up a backlog of about 22,526 Project Affected families (PAFs) or about 135,000 project affected persons (PAPs) affected by the Narayanpur dam who had not been properly resettled under UKP I. The status of oustees affected by Narayanpur dam is well documented in the OED Report. The Bank was aware of the problem and included a detailed R&R component under the UKP II project which was considered as one of the best at that time. Socio-economic surveys and action plans for the Narayanpur dam as well as for the Almatti dam and the canal affected persons were prepared with the assistance of MYRADA, a well established NGOs, and became part of the UKP II SAR and Legal Documents.

The UKP has been supervised at regular six month intervals since its inception. Particular attention has been dedicated to R&R aspects and as implementation was not satisfactory, the Bank suspended disbursements in October 1992. Disbursements were reinstated in February 1994 after considerable progress had been made in the policy institutional, and implementation aspects of the R&R component.

UPPER KRISHNA (PHASE II) PROJECT
(Credit 2010-IN, Loan 3050-IN)

A. Background

The project was appraised in February, 1988. A Credit of SDR 119.0 million (US\$160.0 equivalent) and a loan of US\$165.0 million were approved by the Board of Executive Directors on May 4, 1989. The Loan and Credit were declared effective on August, 1989. US\$120 million of the Loan has been canceled. Disbursements were suspended on November 3, 1992 and partly lifted in February, 1993. Full disbursements were reinstated on January, 1994. The Closing Date of the Loan and Credit is December 31, 1996.

B. Project Description:

The main objectives of the project are to increase agricultural production, incomes and direct employment opportunities for some 100,000 families in the drought-prone northern part of Karnataka by: (i) expanding irrigation over 150,000 ha, (ii) providing resettlement and rehabilitation (R&R) for project affected persons (PAPs) to ensure the restoration or enhancement of their living standards, (iii) strengthening Karnataka technical and managerial skills in irrigation project management, design, construction and O&M, and (iv) contributing toward an effective anti-malaria campaign. The project is the continuation of the Upper Krishna (Phase I) Irrigation Project Credit 788-IN approved 1978 closed 1986) which was implemented with Bank/IDA assistance.

C. Resettlement and Rehabilitation Aspects

The project comprises the Narayanpur dam which was completed under the first phase of the project and the Almatti dam which is to be raised to its spillway level under the project. The project provides for the R&R of 28,000 project affected families (PAFs) who will be affected when these two reservoirs are filled to their full supply level and an additional 12,000 project affected families (PAFs) who will be affected by the construction of canals, drains and roads in the command areas. The project SAR and legal documents give a thorough description of the R&R component and activities to be carried out by Karnataka and financed under the project.

The Government of Karnataka (GOK) has prepared a Resettlement and Rehabilitation (R&R) Act which is not yet effective pending the signature of the President of India. In the mean time, the R&R policy applicable to the project has been amply discussed with the Bank before and after appraisal and has been translated into a number of Government Orders issued 1990, 1991 and 1992. The GOK also prepared with the assistance of MYRADA - a well established NGO - a detailed R&R plan for both dams in 1989.

Though adequate policy, legal and planning frameworks exist, Karnataka's R&R performance has not been satisfactory since project inception. In the Narayanpur

reservoir area, many oustees have not been adequately compensated for the loss of land and some are still refusing to move to government resettlement villages for various reasons, including inappropriate location and inadequate infrastructure. In general, there is a large backlog in the allocation of replacement land and implementation of income generating schemes as per the legal documents. In the Almatti reservoir area, implementation of the resettlement plan is about one year late.

The Bank has succeeded, through intensive R&R supervision missions, in establishing a better dialogue with GOK and in raising the consciousness of Government and project officers on R&R issues over the past two years, particularly since the award of the contract for resuming construction of the Almatti dam in July 1991. But, as progress was still not satisfactory, the Bank sent letters to GOK dated March 30 and September 9, 1992 indicating that, unless several actions were taken to redress the prevailing situation, disbursements would be suspended. Among these actions were the: (a) reorganization and strengthening of the project R&R wing, (b) posting of a General Manager with the requisite administrative and financial powers at the head of the R&R wing, (c) consideration of adult sons as separate landless families in accordance with the legal documents, (d) updating of the short and long term plans for the Almatti dam in line with past experience, (e) improvement of the land acquisition and land allocation procedures, (f) reduction of the large backlog in economic rehabilitation activities, and (g) redressal of large number of land compensation claims.

D. Resettlement and Rehabilitation Action Plan

A mid-term review mission was organized in July 1992 which was followed up by a R&R mission in October 1992. Both missions recognized that GOK had taken a number of decisions and issued most of the Government Orders required to address the points made in the Bank's letters. In particular, GOK had posted a General Manager R&R and recognized adult sons as separate landless families but had not yet improved its performance in the field. As a result, the Bank decided to suspend disbursements as of November 3, 1992 and informed GOK that a two step procedure would be followed to resume disbursements : first disbursements for the R&R component would resume after certain agreed benchmarks would be implemented regarding the issuance of additional Government Orders on improved benefits, updating the list of eligible PAFs, revising the Almatti R&R Action plan and linking further dam construction with R&R plans; and second disbursements for the project as a whole would resume when there is tangible proof of satisfactory R&R implementation in the field as per a second set of benchmarks on the number of compensation claims redressed, the number of agricultural replacement land allocated, the number of income generating schemes implemented among others.

Following suspension, the list of benchmarks was agreed with the GOK and communicated to them by letter of November, 30, 1992. Thereafter, the Chief Secretary, GOK sent the Bank a letter dated December 8, 1992 in which he "reiterates the assurance of the Government of Karnataka that the Almatti dam spillway will not be tackled till such time the R&R picks up to keep up with the relocation program." In addition, GOK has sent copies of two additional Government Orders relating to treating major sons as landless families and establishing a high power R&R decision making committee at GOK level.

A supervision mission in February 1993 determined that GOK had made considerable progress in meeting the benchmarks for lifting suspension. In particular, the R&R wing had become operational and an initial amount of Rs 10 M had been allocated for implementing the agreed plans. Brochures on the revised package of benefits had been widely distributed to PAFs and motivators had been recruited from the affected

villages to act as liaison persons between the Resettlement Officers and the PAFs. In addition, Committees at GOK and project level had been established to coordinate R&R activities, as well as Local Grievance Cells for expediting outstanding court cases on inadequate land compensation, and Land Valuation Committees to acquire land by consent at market price. A plan linking the Almatti dam construction to R&R implementation had also been prepared. As a result, the PAFs and the Bank regained confidence in the GOK's determination to implement satisfactory R&R and the Bank proceeded with a partial lifting of suspension for the R&R and canal component as of February 26, 1993. The suspension of disbursement was maintained on the Almatti dam until some further benchmarks have been met. These refer to the issuance of ex-gratia payments for the purchase of land, the resolution of outstanding court cases and the acquisition of land by consent award.

A follow up supervision mission which was briefly delayed due to the tragic death of General Manager, R&R in October, 1993, eventually visited the project during November 15 to 20, 1993. The basic objective of the mission was to review the status of R&R implementation and determine whether all conditions for lifting suspension of disbursement on the Almatti dam have been met. The mission visited the city of Bagalkot (submergence in 1994) six priority villages in Almatti dam area (submergence in 1994) canal affected villages, villages of Narayanpur dam area, and corresponding RCs (Rehabilitation Centers).

The mission observed continued progress in the implementation of the R&R program, particularly with reference to just and expeditious payment of compensation and accelerated pace of house building and infrastructure activities in RCs. It found that while noticeable progress has been made in purchase of replacement land (665 joint accounts, 195 sale deeds) and house construction activities (2257 joint accounts), further efforts are required to (a) complete R&R action plan for the six priority villages of Almatie as per mission guidelines; (b) make good the shortfall and inadequacies in issuance of consent award and resolution of pending compensation cases through Lok Adalts; and (c) make R&R machinery operational by staffing legal, technical and monitoring cells. The GOK assured that required action for meeting the aforesaid benchmarks would be completed by December 15, upon which Bank would lift the suspension of Almatti dam.

The mission was pleased to note the increased ceiling for stamp duty waiver in favor of the PDF for purchase of replacement land (from Rs. 30,000 to Rs. 60,000), and augmentation of R&R funding to the extent of Rs. 700 m for 1993/94. While concluding the visit, the mission recommended updating socio-economic survey of the Bagalkot town and recognizing major sons and municipal tenants as independent families. It was also, proposed to entitle all below poverty line PDFs of Bagalkot town for ex-gratia grant for house construction. The mission further advised for immediate enumeration of DPFs through issue of personal ID Cards and induction of NGOs to strengthen community participation during resettlement and rehabilitation. Besides the project was asked to evolve an annual contingency plan for villages, to meet the eventuality of possible floods.

A mission visited the project sites in January 1994, and after reviewing the outstanding issues as noted by the previous November, 1993 mission, progress in achieving the remaining outstanding benchmarks, was convinced that sufficient progress had been made, to recommend the lifting of the suspension of disbursements. On February 9, the Department formally requested the lifting of suspension to senior Bank management and this was approved.

Effective Portfolio Management: Resettlement in the Upper Krishna II Project

Nearly 200,000 people will be resettlement because of the Almatti and Narayanpur dams being built in the Indian state of Karnataka. The project's appraisal report and legal documents provide thorough descriptions of the resettlement activities to be carried out by the Government of Karnataka and financed under the project. A resettlement action plan was prepared with the assistance of a large non-governmental organization (MYRADA) as part of project preparation and appraisal, and a pilot program tested the feasibility of the project's resettlement proposals.

During the first years of the project (1989-1990), Karnataka's performance was not satisfactory. Following a mid-term review and follow-up supervision, the Bank suspended disbursements. Re-instatement of project disbursement would follow a two-step procedure: (i) disbursements for the resettlement and canal components could begin once benchmarks were met that expanded entitlements and linking resettlement and civil works timetables; and (ii) disbursements for the project as a whole would resume once replacement agricultural land had been purchased and income generating schemes were started. In all, the Bank set 10 monitorable benchmarks that had to be met before the full suspension would be lifted.

Although resettlement had been relatively neglected in the past, the Government responded to the suspension by appointing a high-level committee to ensure that the benchmarks would be met. Resettlers were informed of their rights, the project's resettlement wing became operational, and money was allocated to the resettlement works. Despite these improvements the Bank maintained the suspension until the full set of benchmarks were met. Over the next year, close supervision and sustained discussions with the government helped the Borrower meet all ten benchmarks, and the suspension was lifted in March, 1994.

Although it was premature to call the resettlement program in Upper Krishna a success, several important lessons were learned about managing problematic resettlement components. Prompt action by Bank management sent the borrower a clear signal that resettlement performance counted as much as performance on other project components. In addition, the creative use of legal remedies -- the partial suspension -- allowed the borrower to compensate for the time lost on resettlement so that when disbursements resumed, the resettlement and engineering timetables were again synchronized. Finally, insisting on full compliance with the Bank's benchmarks rather than hoping for incremental improvements led to major improvements in the Borrower's approach to the entire resettlement program.

Subernarekha

Question:

- (a) Bruce Rich says, "Although the World Bank issued its first environmental review guidelines in 1984, an environmental assessment for the project was not completed until 1990,- twelve years after construction began on the Chandil dam, and nearly a year after the last funds from the Bank's US\$127.0 million 1982 loan were disbursed. The Bank itself acknowledged that the study was totally inadequate; it was based mainly on old government data rather than scientifically competent field work, and ignored a number of major issues".

Answer:

The Subernarekha I project was approved prior to the publication of the Bank's guidelines on Environment in 1984. Therefore, the Legal Documents did not contain any covenants on the environment. Complete Environment Impact Assessments (EIAs) and Environment Mitigation Plans (EMPs) were prepared in 1990-92 with foreign assistance for the possible financing of two follow up projects namely the Subernarekha Multipurpose II Project in Bihar and the Subernarekha Irrigation Project in Orissa. The Bank staff reviewed these documents and found them satisfactory and in line with the Bank's guidelines.

Question:

- (b) Bruce Rich says, "By the summer of 1988, the gates of the Chandill dam had closed, threatening some 100,000 hapless Indian tribal poor stranded without viable alternative means of subsistence."

Answer:

The construction sluices at the foot of the Chandil dam were not closed in 1988 but in 1992 creating permanent submergency for only 16 villages with about 2,500 PAF or about 15,000 PAPs, out of about 110 villages to be affected when the dam is completed. To date, the crest gates are still not completed and no permanent submergence has taken place for the balance of villages.

Question:

- (c) Bruce Rich says, "Belatedly, on October 8, 1988, the Bank suspended loan disbursements, and postponed again the closing date for the project. The Bank recommended funding in 1990, arguing that there

had been sufficient improvement in the resettlement situation to justify renewed support for the project, and started to prepare two new loans for Subernarekha, totaling US\$375.0 million."

Answer:

The Subernarekha I project was suspended for about six months in 1988/89 because of poor R&R implementation and was reinstated after a satisfactory R&R plan had been submitted. Shortly after, the project closed in 1989.

Question:

- (d) Bruce Rich says, "As all of this was occurring, (April 5, 1991, 500 people began a sit-in at Icha dam in Bihar; April 9, police arrested and detained about 250 protesters; May 13, 10,000 people marched on Patna demanding the release of the detainees) the World Bank still forged ahead in preparing huge loans for the two new projects to complete the scheme, the Subernarekha Irrigation Project and the Subernarekha Multipurpose II Project. The new loans would reward the project authorities and Indian officials who have created an environmental and human rights nightmare with well over a third of a billion dollars. In spring 1993, the Bank withdrew these projects from its lending pipeline. However, new irrigation consolidation projects for the states of Bihar and Orissa are in preparation which would support the completion of the new projects."

Answer:

When considering the possible financing of two follow up projects, the Bank observed that the agreed R&R plan for Subernarekha I had not been implemented satisfactorily by Bihar and that Orissa's R&R performance was not up to acceptable Bank standards. The Bank, therefore, required the two states to upgrade their R&R policies, carry out fresh socio-economic surveys and prepare Resettlement and Rehabilitation Action Plans (RAPs) with the assistance of NGOs. In addition, the Bank set a number of benchmarks that both states had to meet as tangible proof of satisfactory R&R implementation before the two projects could be processed further.

In late 1993, the Bank determined that both states had broadly complied with its conditions and had given proof of satisfactory R&R implementation. However, these two projects were withdrawn from its pipeline and neither have been included under the Water resource Consolidation Project in Orissa which is under active consideration for Bank financing. For the present time, the Bank is not considering the financing of a Bihar Water Consolidation project.

SUBERNAREKHA IRRIGATION PROJECT
(Credit 1289-IN)

A. Background

The project was appraised in November/December 1981. A Credit of SDR 116.3 million (US\$127.0 million equivalent) was approved by the Board of Executive Directors on August 10, 1982, signed on September 7, 1982 and declared effective on December 1, 1982. The Credit has been fully disbursed and the Credit closed on April 31, 1989 after two one-year Closing Date extensions.

B. Project Description

The main objectives of the project were to enhance crop production and farmers' income through the implementation of a time slice of the two-state Subernarekha Irrigation System. The project was implemented mostly in Bihar. Its main components were the partial completion of Chandil dam and its left bank main canal, the Ichha dam and its right bank main canal, the Kharkai canals and also the Galudih barrage and right bank link canal leading to the border of Bihar with Orissa. Other components included the construction of 21,000 ha of distribution networks, the establishment of Water and Land Management Institutes in Bihar and Orissa and studies for the completion of the project in Bihar and Orissa.

C. Resettlement and Rehabilitation Aspects

The project involved the construction of (a) the Chandil dam (Bihar) which is now almost complete except for the crest gates and (b) the Ichha dam (Orissa) which was started in 1990 but was stopped in 1992 for lack of funds. At full reservoir level, the two dams will affect about 14,000 PAFs in Bihar and 3,800 PAFs in Orissa. At present, the Chandil dam affects 6 villages completely and 10 villages partly during the monsoon season but the Ichha dam does not affect any persons or land. In addition, about 5,200 PAFs will be affected by the construction of three smaller reservoirs in Orissa namely Haldia, Jambira and Baura. Of these three reservoirs, only Jambira is in its initial stages of construction and is presently affecting 7 villages. The completion of Jambira and possibly the other two reservoirs is being considered under a Second Phase project.

The legal documents required that Bihar carry out an evaluation of its rehabilitation activities, formulate resettlement and rehabilitation (R&R) plans and prepare implementation schedules not less than two years before the submergence of the Chandil and Ichha reservoir. However, the R&R activities were to be entirely funded by Bihar without the assistance of the Association. Implementation of R&R was not satisfactory during project execution, particularly concerning the preparation of rehabilitation plans and implementation of R&R for the Chandil dam. In 1988, the Bank suspended disbursements because of inadequate planning and excessive delays in R&R implementation relative to dam construction. Disbursements were resumed six months later after submission of a satisfactory R&R plan, but the project closed soon after,

in April 1989. Subsequent Bank missions for the preparation of a possible Phase II project determined that the R&R plan has not been implemented as agreed.

The status of R&R implementation of the 2,500 PAFs who live in the 16 villages located below the crest level of the Chandil dam was in July 1992 was as follows. The majority have been resettled in new villages with house plot and house construction grants, but the economic rehabilitation of these PAFs has been constrained by the difficulty of finding replacement agricultural land. As a result, about 600 PAFs had been given government jobs, about 50 PAFs had been given government land and the balance 1,850 PAFs are waiting to be given either replacement land, government jobs or to be covered by income generating schemes. Most of these PAFs return to their paddy fields in the reservoir as soon as the water level allows it.

This project has been under severe criticism from national and international activists for a number of years. The criticisms related to the inadequacy of the compensation package, the corruption of the Resettlement Officers, and the harsh treatment of tribal oustees by the Bihar Government, among other things. The criticisms were, aggravated in August 1991, when a severe flood of the Subernarekha river affected 48 villages at the Chandil dam and two PAFs were said to have died. The official report says that the deaths were due to other reasons. Six villages were completely flooded, 12 partly flooded with 30% houses affected and 29 had only paddy fields affected.

As part of the preparation work for the proposed second phase project, Bihar and Orissa have considerably upgraded their R&R policies to meet the Bank's requirements and standards. The revised policies of Bihar and Orissa for the Subernarekha projects are quite similar and include: (i) treating affected unmarried sons of 18 years of age or more as landless oustee families, (ii) construction of resettlement villages with civic amenities, (iii) allocation of a minimum of two acres of irrigated land for oustees having more than four acres under rainfed conditions and cash compensation beyond the allocated area at market price, (iv) allocation of one acre of irrigated land and vocational training for landless oustees, (v) establishment of Land Purchase Committees to stabilize land prices and facilitate transactions between sellers and buyers, (vi) allocation, within certain limits, of permanent government jobs for landless oustees instead of the one acre irrigated land, (vii) allocation of a housing grant for oustees living in or outside resettlement colonies, (viii) provision of a resettlement grant comprising a one year subsistence allowance and a two year package of farm inputs, (ix) participation of oustee representatives in the district and project level R&R committees, and (x) establishment of a Directorate for R&R within the Revenue Department.

D. Resettlement and Rehabilitation Action Plan

At the Bank request and with the assistance of Japanese Trust Funds, Bihar and Orissa have recruited well established NGOs - namely Xavier Institute of Social Sciences for Bihar and Operational Research Group for Orissa - to assist them in the implementation of a social economic survey of PAFs for all dam sites and to prepare resettlement action plans. In July 1991, a pre-appraisal mission informed Orissa and Bihar that the Bank would not process the proposed second phase project any further until they demonstrate tangible proof of satisfactory implementation of R&R. As "tangible proof of satisfactory implementation" were the completion of the socio-economic surveys and R&R Action Plans for each dam site, and also the completion of R&R activities in all respects in the first 16 villages affected by Chandil dam (Bihar) and the first 7 villages by Jambira reservoirs (Orissa). The specific actions requested

included the issuance of 'Vikas Pustika' (household identity cards) to all eligible oustees, payment of compensation grants, allocation of house plots in resettlement sites together with house construction grant, and purchase or make available agricultural land through clearance of Government land or the purchase of land through the Land Purchase Committees to all eligible oustees.

A fact finding mission organized in June 1992 to Bihar and Orissa determined that these two states were making good progress. In particular, the Xavier Institute had completed the socio-economic surveys for the first 70 villages of Chandil and submitted a preliminary R&R plan for that dam, and the Operational Research Group had completed the socio-economic surveys and prepared detailed R&R plans for the Orissa portion of the Ichha dam and the three command area reservoirs. In addition, Bihar had recruited a rural architect to design houses for oustees and made use of local NGOs for initiating income generating schemes in some of the first resettlement villages. Orissa had completed with the assistance of the Operational Research Group a study on sabai grass rope making as a source of income for oustees and another study on encroachers. Nevertheless, the mission determined that Bihar and Orissa had still not fulfilled the Bank's conditions for tangible proof of satisfactory R&R implementation in the first 16 villages in Bihar and 7 villages in Orissa. The mission also recommended to organize seminars with NGOs to discuss how R&R policies and implementation could be further improved.

E. Bank Mission of June, 1993

After an intervening period of one year, the Bank undertook another fact finding mission in June, 1993, to review progress in R&R, and compliance with Bank's guidelines and recommendation of earlier (1991.1992) Missions.

The mission observed that GOB has made significant progress in meeting Bank's conditions and indeed in some areas, the project performance has even exceeded targets set by the Bank. Briefly, a large majority of PAFs (4563) of the first 18 villages has been relocated with compensation paid for land and structures. Besides all of them have received ID cards (and the family number has increased from 2980 to 4563 due to recognition of major sons as independent units), shifting charges, house construction grants, and over 1600 house plots have been allocated in 11 RCs. The PAFs have the autonomy to settle beyond the RCs, and owner built houses have been accorded preference over pre-built shelters. With regard to economic rehabilitation, the mission noted that though the project's achievement in securing purchase of replacement agriculture land has been rather inadequate (105 cases as against 800 required as tangible proof), nearly 65% of the PAFs have managed to purchase replacement land on their own. Besides, GOB have provided a massive number of 1700 permanent jobs to the PAFs, and initiated several training programmes for income generated schemes. Further, the project has been able to secure involvement of five NGOs in the task of community participation. A significant achievement in this regard is the establishment of a tribal museum and cultural complex at Chandil dam site, as evidence of cultural rehabilitation of the submergence area. This has brought a sense of joy and belonging to the PDFs.

Subsequent to this mission, GOB has informed the Bank recently (Nov. 1993) that apart from the first 18 villages, the project has also covered another 34 villages, in their order of submergence, by suitable rehabilitation measures, though some specific obligations towards the PAFs are yet to be completed. Besides, in response to the Bank's request, GOB and Icha dam area will be adequately resettled prior to inundation.

In case of Orissa, Bank's conditions envisaged completed of R&R activities in the six priority villages affected by Jhambira reservoir. The mission observed that out of 633 PAFs in these 6 villages, 624 have been paid compensation for land and structures, 571 have received ID cards as well as house construction grant, and 531 have brought homestead land for themselves. Since most of the PAFs have opted for self-relocation, only 2 RCs are being developed now. The newly built houses by the PAFs are found to be superior to their original habitat. In terms of economic rehabilitation, land purchase grant has been allocated to 517 PAFs, and consequently, nearly half of the land lost have been regained by the PAFs through land purchase. Beside, 249 PAFs have been employed by the GOO, 75 permanently and 174 on daily wages. The Government has strengthened the R&R Organization by inducting two resettlement workers for every village, and established camp courts as field level for resolution of outstanding disputes.

The mission was further informed that GOO has completed a study of Sabai grass cultivation and rope making as a sustained source of income for the displaced women. A study on public land encroachment has also been commissioned with a view to resettle the eligible encroachers as project displaced families.

National Thermal Power Corporation (NTPC) Power Generation

Question:

Mr. Rich refers to "the five thermal coal plants belch out huge quantities of sulfur dioxide - none are equipped with scrubbers- and emit over 1,650 pounds of mercury a year into the atmosphere. The Rihand dam reservoir and the land around it are poisoned by dangerous contamination of mercury, fluorine and chromium, and as a result the crops and fish that the half million people in the Singrauli area consume are in many cases unfit for human consumption."

Answer:

The five plants referred to are Obra (owned by Uttar Pradesh State Electricity Board), Renuagar (privately owned by Birla), and three NTPC plants namely Rihand, Singrauli and Vindhyaachal. All NTPC power plants operate well within GOI standards for ambient SO₂. There is not that much sulphur in the coal in the Singrauli area and there is therefore no need to install scrubbers. Mr Rich may be confusing it with SPM emissions, for which the EAP includes ESP upgrading programs to be completed by the first quarter of 1995.

On mercury emissions, based on data collected by the Electricite de France (EDF) for the Environmental Study of the Singrauli Area, the amount of mercury released per MWh produced in the Singrauli area is about one fifth of what is considered acceptable by the US-based Electric Power Research Institute. Even so, mercury pollution in the area remains a problem because of the existence of a large mercury polluter in the Singrauli area in the form of the chlor-alkali plant on Rihand lake. The NTPC Environment Action Plan (EAP) does not ignore this problem; on the contrary, it includes a study to establish in a scientific manner all sources of mercury contamination observed and identify options to abate it. Consultants to investigate mercury pollution by both power stations and chemical plant have been identified. The work will start shortly and will be completed in early 1996.

On fluorine and chromium levels, the EDF did find some high levels but the scientific evidence was not sufficient to draw definite conclusions let alone whether the NTPC power plants were responsible for the contamination. However under the EAP an ecological impact study has been initiated to determine the source of pollution and remedial actions. Other remedial measures included are ash slurry water recycling and closing of cooling water systems.

Question:

"In 1989, the Bank began to prepare a 'cleanup' project to remedy, retroactively at least, some of the social and environmental disruption in its Singrauli projects, as well as to promote environmental and resettlement and rehabilitation for the entire Singrauli regionBut the Indian government and NTPC refused to borrow more money for the proposed Singrauli Environment Rehabilitation Project and it was stillborn."

Answer:

The project referred to is the Regional Power Systems Project, where indeed the first studies to identify the need for remedial actions on R&R were included. The reason for aborting that operation was however not on account of R&R, but because NTPC was not in compliance with the receivable covenant. The 'clean up' component is now part of the NTPC Power Generation Project, where the original R&R component has been expanded.

Question:

"Unbeknownst to the international community, for eight other plants besides Singrauli, the Bank had completely ignored the issue of resettlement."

Answer:

The Bank has been involved in 10 different NTPC power plants, not counting the new project. While only Talcher had a specific covenant on R&R, NTPC was in no position to ignore R&R. They have always resettled and rehabilitated affected families in accordance with the law applicable at the time. We do know that it has not always led to satisfactory rehabilitation, but that is exactly what the NTPC and the Bank are addressing jointly. R&R was certainly not ignored by NTPC.

Question:

"but in one plant alone --- Farakka, for which the Bank lent NTPC US\$300 million in 1984 --- more than 50,000 had been either forcibly resettled or dispossessed. Attempts to encourage NTPC and the Indian government to consider environmental and resettlement rehabilitation programs for some of these projects also failed."

Answer:

In Farakka, families did lose land but according to our information, nobody was displaced. A first socio-economic study was completed to ascertain the present socio-economic status of the affected families, but the study was not satisfactory and we are doing another study which would enable us to design an adequate remedial action plan. In the meantime, NTPC has continued to develop community facilities.

Question:

"In 1993, the Bank approved a new \$400 million loan to NTPC to finance the first stage of a gigantic, \$4 billion investment plan to intensify coal mining and expand coal fired production of electricity in nine super thermal power plants all over India. Other loans are to follow. Under the investment plan, 3,750 megawatts of new generating capacity will be built at Singrauli alone. In the new loan, virtually no funds are allocated for compensating and rehabilitating the hundreds of thousands of people forcibly resettled or otherwise adversely affected by previous Bank-financed NTPC projects."

Answer:

This statement is full of errors. One of the most important features of the NTPC Power Generation Project is that before a power station is eligible for Bank financing certain eligibility criteria have to be met. This includes a full fledged environmental impact assessment and the preparation of a RAP for the affected people. So far we have only approved Vindhyachal II, while for Rihand II, the main prospective client (UP) is not fulfilling its commercial obligations and PIB clearance is still pending. None of the other plants have so far been approved for Bank financing.

In the Singrauli area, so far, only 2,000 MW of additional capacity will be added. The project costs for Vindhyachal II and Rihand II include funds for R&R, but these costs are not even 1% of total project cost. The additional resettlement is relatively small because it is only for the ashponds. NTPC is financing this from its own resources and we are satisfied that the budgets are adequate.

It is true that we do not have a precise estimate of R&R costs for the retrofit exercise, but the precise estimates can only be arrived at after the completion of the socio-economic surveys which are currently underway. Mr. Rich should keep in mind that NTPC's turnover is about US\$ 2 billion a year and it is certainly profitable enough to set aside funds for the retrofit exercise. In fact, in the 1994/95 NTPC budget, all R&R units will have their own separate budgets and all General Managers have been given instructions to ensure proper funding and pay attention to outstanding R&R issues. The 1994/95 budget, which is not yet finalized, will be monitored during the next supervision mission. The Bank loan will however not be used to finance the R&R expenditure, as most of it comes under operating rather than capital expenditure. Even the part of the cost that will be capitalised will be financed from NTPC's own resources. The Bank will continue to monitor this when developing the remedial action plans.

NATIONAL THERMAL POWER CORPORATION (NTPC) POWER GENERATION
(Loan 3632-IN)

Environmental Action Plan

Background

The Government of India requires NTPC to carry out a full environmental Impact Assessment (EIA) of large power generation stations before permission is given to start construction. Full environmental impact assessments have been carried out for the first two power stations (Vindhyachal II and Rihand II, 1,000 MW each) proposed to be constructed under the NTPC Power Generation project. The EIA's have been reviewed by the Bank and both power plans meet the Bank's environmental standards. Summaries of these two EIA's prepared by NTPC were distributed to the Bank's Board of Directors in April 1993. Decisions on the construction of additional power stations have not yet been finalized, but all new power stations would be subject to a full environmental analysis as per Indian law.

Whenever, resettlement and rehabilitation was involved as a result of the construction of NTPC's power stations, NTPC has carried out the R&R programs in accordance with the laws and regulations applicable in India. To ensure a common approach for all its projects NTPC adopted its own R&R policy in 1991 and this policy was further improved in May 1993. The current policy has as an objective that affected people improve or at least regain their previous standard of living and it requires a comprehensive R&R plan to be prepared in consultation with the affected people. Detailed R&R plans for Vindhyachal II and Rihand II were finalized by NTPC in early June 1994. It is recognized by NTPC that the objectives of NTPC's earlier R&R programs have not always been achieved and that some affected people may not have regained their previous standard of living. As part of the R&R policy adopted in May 1993, this problem is now being addressed and specific remedial action plans are being implemented by NTPC.

On June 29, 1993, the Bank approved the first of an anticipated three loans of US\$400 million for the National Thermal Power Corporation (NTPC) to support its least cost investment program of new coal and gas-based power stations. A significant component of the loan is the implementation of an Environmental Action Plan (EAP) which is aimed at upgrading the environmental performance of existing NTPC power stations and making the new power plants environmentally more sustainable.

NTPC currently operates 4,260 MW of coal-fired power stations in the Singrauli area and plans to add an additional 2,000 MW under the project. In other parts of India, NTPC operates another 8,794 MW of which about 2,234 MW are gas fired stations, another 3,781 MW is expected to be added over the next three years. Most NTPC's. Plans for additional NTPC power plants are in various stages of preparation.

Most of NTPC's existing power stations were designed and built when environmental standards were less stringent. They are generally operating within their design standards, but Central and State pollution control authorities are now requiring NTPC to take remedial measures to bring the existing operating power stations, into compliance with the latest, more stringent, environmental standards. To meet those challenges, NTPC also realized that its environmental management systems needed to be further developed beyond the mere compilation of environmental data for compliance purposes, towards a pro-active approach to identify and manage increasingly complex environmental and socio-economic problems and issues. NTPC therefore formulated, in consultation with the Bank, a comprehensive EAP to be implemented under the project. Part of the groundwork for the EAP was laid by the environmental study of the Singrauli Area financed under the Second Singrauli Thermal Power Project (Cr. 1027-IN) and completed in July 1991. The EAP however covers all NTPC's power stations, not only those in the Singrauli area.

Environmental Action Plan

The objectives of the EAP are to: (a) to rationalize and improve NTPC's organizational structure for environmental management at the corporate and plant levels; (b) improve environmental monitoring and preparation of environmental impact assessments; (c) execute a specific program of remedial measures at NTPC's existing power stations and make its operations environmentally more sustainable; and (d) address outstanding resettlement and rehabilitation (R&R) issues in existing stations and to upgrade NTPC's capability to prepare and execute R&R programs. The total cost of the EAP are estimated at about US\$185 million includes training of NTPC staff and technical assistance to help undertake environmental studies and implement environmental projects. NTPC started the implementation of the EAP started in early 1992 and most of the actions will be completed by 1996. More specifically the EAP includes:

Institutional Strengthening: NTPC has already restructured its organization for environment and R&R at the corporate level. The Environmental Engineering Group is now responsible for carrying out environmental assessments for new projects and pollution abatement measures in existing plants. The Environmental Management Group is responsible for monitoring discharge levels of pollutants and the effectiveness of pollution control equipment. R&R is now the responsibility of a specialized group in the Personnel and Administration Department. The new organizational structure is mirrored at each plant site. Most new positions have been fulfilled and the effectiveness of the new organization will be regularly reviewed.

Environmental management: This component focusses on: (a) developing NTPC's environmental policies; (b) standardizing effluent and emissions disposal and treatment technologies; (c) establishment of additional company training programs, to keep pace with changing environmental regulations, for workers at various management and operations levels, for environment and safety; (d) central follow-up and control on environmental compliance and safety performance of plants; (e) enhancing environmental, data collection, monitoring and analysis capability; and (f) carrying out of environmental audits.

Environmental Projects: This component includes: (a) ash management; (b) ash slurry water recycling; (c) feasibility studies for ash backfill at abandoned coal mines; (d) ash pond reclamation; (e) ash leachate analysis and groundwater contamination monitoring; (f) electrostatic precipitator upgrade program; (g)

retrofitting of closed cycle condenser cooling systems; (h) chlorine handling safety improvements; (i) upgrading spill containment provisions for bulk fuel oil storage; (j) upgrade hazardous material storage; (k) solid waste management; and (l) sanitary wastewater projects.

Resettlement and Rehabilitation: This includes manpower development to enable NTPC to effectively implement the new R&R policy. As part of the new R&R policy, NTPC will also carry out socio-economic surveys to ascertain the present economic status of project affected families (PAFs) of existing power stations and provide, where found to be needed, for funding and implementation of community development programs, including necessary income restoration measures.

The EAP will be implemented by NTPC with assistance of experts from the E7 network, a group of major utilities (Electricite du France, Hydro-Quebec, Ontario Hydro, Tokyo Electric Power Co. Kansai Electric Power, RWE Energie A.G., ENEL and Southern California Edison Corp.) Their assistance will focus on: water and air pollution monitoring, data management, modelling and control; plant energy efficiency; design and operations standards and safety; laboratory operations; human resources development; resettlement and rehabilitation; ash utilization and waste reduction; and, renewable energies. In addition, BEI (UK) will provide assistance to NTPC staff in carrying out environmental appraisals of power plants.

Although the EAP is only in its early stages of implementation, NTPC has already shown its commitment to carrying out the plan. Full implementation of the EAP will not only help NTPC to make its operations more environmentally sustainable, it would become a leader in environmental management of power stations in India, comparable with the best utilities in world.

Singrauli Region

The Government of India (GOI) with the assistance of the Overseas Development Administration (ODA) of the Government of the United Kingdom and the World Bank is preparing a development and environmental strategy for the Singrauli region. Singrauli is a major coal and power producing region straddling the boundary of the states of Uttar Pradesh (UP) and Madhya Pradesh (MP) in northern India.

The principal purposes of the study are to:

- (a) prepare a development strategy for the Singrauli region which is environmental sustainable and incorporates acceptable environmental standards;
- (b) prepare a regional environmental management strategy and pollution mitigation program to address the deteriorating environmental conditions within the region;
- (c) make recommendations on infrastructure and services requirements and on arrangements for their financing, operation and maintenance;
- (d) identify and prepare to concept stage, high priority infrastructure and services projects suitable for financing by domestic and international development assistance agencies;
- (e) make recommendations on strengthening administrative and financing arrangements for the region and on processes for the ongoing implementation; monitoring and review of the strategy; and
- (f) identify and, where possible, reconcile different development priorities through the use of an open planning process that encourages the active participation of all parties with an interest in the region's future.

The study was initiated in March 1993. Draft reports were discussed at a Technical Group meeting in New Delhi on February 10, 1994. A Steering Group Meeting of senior Government of India staff and officials is scheduled to take place soon. The final report will be ready in May, 1994. The major proposals include (a) the establishment of the Rihand Lake Regional Development Authority (RLRDA); (b) an Immediate Action Program which outlines projects that could be implemented quickly before the full strategy is in place; and (c) the Displaced Peoples Action Plan which was submitted to the Bank in November 1993, and has been reviewed by the Environment Division in the Bank's Asia Technical Department.

ROUTING SLIP		Date 3/3/94	
NAME		ROOM NO.	
Alex Shanon			
URGENT	For Action/Comment	Per Your Request	
Appropriate Disposition	Information/Discard	Returned	
Approval/Clearance	Note And Return	See My E-Mail	
File	Per Our Conversation	Signature/Initial	
RE: Mortgages - PARTICIPATION			
REMARKS			
I wrote this piece based on a discussion with Bhuvan Bhatnagar and some excerpts from his sourcebook on Participation. I've faxed a copy to him for his views			
From	Room No.	Ext.	
Lesley Simmons	T820	31785	

Putting the Record Straight: Participation in World Bank projects

Throughout Mortgaging the Earth, Bruce Rich portrays the World Bank as a secretive institution that does not take into account the people its project effect. But that is an unfair and outdated view of how the Bank goes about its work today. Despite the fact that the World Bank lends to governments, non-governmental organizations and local people have more and more been taking active part in the design and implementation of Bank-financed projects. For without the participation of local people, development projects stand little chance of working.

The Bank's commitment to find ways to more effectively incorporate the activities and views of local people in the projects it finances can perhaps best be demonstrated by current efforts to examine projects that stress participation (both Bank-funded and those funded by other groups) and to produce a sourcebook of "Best Practice." The Sourcebook will document and describe projects that include participation and analyze what works best. It will act as a sourcebook for other Bank staff as they incorporate local participation into project design.

Two examples follow that describe the kind of work that is going on with the participation of local people. When the Best Practice Handbook is completed it will be publicly available.

In Egypt the Bank is helping to reduce poverty with an

agriculture loan in the Matruh region. The project targets the poorest farmers, who are Bedouins. Most people think of Bedouins as nomadic people but that is no longer the case in this area. UN-FAO volunteers in Egypt, and staff from the Agha Khan Foundation and GTZ told Bank staff that during the last decade the Bedouin tribes in this region have moved to a more sedentary lifestyle, although they still maintain their tribal traditions. They now raise mostly sheep and goats -- which unfortunately seriously overgraze the sparse vegetation in the area. Environmental degradation and poor resource management practices are evident throughout the area in which they live.

The farmers knew they most needed the ability to catch and retain rainwater. But there was clearly also a need to manage the environment better.

The project was developed by a Task Force consisting of people from the local government, local institutions, and the Bedouin community, using a techniques called Participatory Rural Assessment. The Task Force, working with staff from a consulting firm that had experience in preparing projects in a participatory way, solicited ideas and views from local households and farmers. When it became apparent that only men turned up to meetings, special efforts were made to include women. This was important and women's contribution to the project has been significant.

Project preparation was thoroughly participatory and

empowering. And the project will be implemented through the local community. It has three objectives that aim to help the Bedouin community and their surrounding environment. First it will provide water through a system of underground cisterns and dikes and will create new fruit orchards, rangeland, and improve the management of the land. Second it will provide research and extension for the farmers, focusing on dry land farming and livestock production systems. Sub regional resource centers will be built to bring research, extension, and credit closer to the local communities. Third, it will provide finance for small farmers, landless people and rural women so they can start small businesses or farms.

Another example is in Chad, a country that values education highly. Chad's education system deteriorated during the 1979-82 war and the Government asked for the Bank's support in rehabilitating schools. The Minister of Education specifically asked the Bank to prepare the new education project in a manner that involved local people and responded to their real needs and concerns. Conferences were held with local people and local non-governmental organizations to discuss options and reach a consensus on how best to achieve the end results the people wanted. The final project included a number of components: it built and renovated classrooms, purchased and distributed textbooks and teachers guides, improved teacher training, strengthened primary school management and inspection, developed and implemented a girls' education program, improved educational practices in individual schools, strengthened parents associations and

strengthened the Ministry of Education. The process brought stakeholders at all levels together and produced a project plan that was owned by local people, local schools, donors, and Government alike.

ROUTING SLIP		Date 3/3/94	
NAME		ROOM NO.	
Alex Shakow			
☒ URGENT	For Action/Comment	Per Your Request	
☒ Appropriate Disposition	Information/Discard	Returned	
☒ Approval/Clearance	Note And Return	See My E-Mail	
☐ File	Per Our Conversation	Signature/Initial	
RE: Brazil's Mortgage			
REMARKS - just India to go.			
			
From Heley Simmons	Room No. T8020	Ext. 3785	

Setting the Record Straight: POLONOROESTE, Rondonia and Mato Grosso Natural Resources Management Projects, and the Carajas Project.

Bruce Rich reiterates many of the criticisms of these projects which have been published over the past decade. Some of which the Bank would agree with. However, given the apparent careful, quality research effort that has gone into Mortgaging the Earth, it is disappointing that Mr. Rich has systematically ignored the political, social, and institutional realities present in Brazil during the time the projects were being implemented. He has also neglected to present substantial, readily available information regarding successes achieved under these projects. Subsequently, the entire presentation is unbalanced.

While the intention of our response is not to offer a fully comprehensive evaluation of the projects we do believe readers deserve a balanced analysis that incorporates a discussion of the realities, successes, and Bank actions.

While it is difficult to recognize from Rich's discussion, there were some sound reasons for supporting POLONOROESTE.

In the early 1970s, as land became increasingly scarce in the more traditional areas of southern Brazil and prolonged droughts struck the Northeast, the trickle of migrants to Rondonia reached uncontrollable proportions. By 1977, the National Institute for Colonization and Agrarian Reform (INCRA) had settled about 28,000 families in Rondonia. At least 30,000 other had joined the marginal population in the newly created urban areas waiting for land. Still others became sharecroppers on the land of established colonists or staked out claims on the fringes of official projects, on Indian reservations, and in forest reserves. By the late 1970s, the situation in Rondonia worsened and an ever-increasing number of migrants from other parts of Brazil together with budgetary constraints nearly paralyzed INCRA. The Brazilian Government's response to the growing socio-economic problems caused by this accelerating migration was to launch the POLONOROESTE program, in 1980, with financial support from the Bank. The important point here is that POLONOROESTE did not set in motion the destructive trends which have resulted in massive deforestation in Rondonia. Rather it tried to deal with an already explosive situation.

After the 1984 mid-term review of POLONOROESTE, it became clear that assumptions under which the program was planned were significantly different from the realities under implementation. However, these were due mainly to circumstances beyond the Bank's control. Specifically: the counterpart funds that the Government was to provide dried up because of Brazil's difficult fiscal situation; investment credit needed to establish perennial crops virtually disappeared; management was overly centralized; the

integration of participating agencies was ineffective; and an even higher migration of settlers than expected resulted in unchecked deforestation and continued encroachment into unsuitable areas where soil fertility was marginal. Perhaps most important though, was the continuation of a public policy framework inconsistent with sustainable development of the Amazon region which obviously hindered effective implementation of the program. This included land registration and titling procedures which actively encouraged forest clearing, special fiscal incentives and subsidized credit lines which encouraged unsustainable livestock development, weak institutional capability of key Federal and State implementing agencies, and inadequate technical and financial support for smallholders to establish perennial crops and adopt sound environmental techniques. All of these played a major role in the deforestation process.

The Bank devoted an inordinate amount of resources to supervise POLONOROESTE implementation, and the staff involved with the program (including several highly qualified environmentalists, anthropologists, and social scientists) were continually concerned with preventing destructive deforestation and harmful impacts on indigenous populations. But the Bank, in spite of suspending disbursements during 1985, did not have at its disposal the means to coerce the Borrower into vigorously and speedily rectifying all of the problems.

While POLONOROESTE suffered from these well publicized weaknesses they have frequently masked some of the program's significant accomplishments on the institutional, technical, and environmental front. Many of these are now beginning to bear fruit and in future years they will play a critical role in helping to preserve the Amazon Region's valuable natural resource base.

When POLONOROESTE was launched, Rondonia was still a Federal Territory, converting to Statehood only in late 1981. Consequently, the new state's institutional base was quite weak. Through POLONOROESTE, key institutions such as a state agriculture research and extension services, a state forestry institute and forest military police, a state secretariat for the environment, and a state land institute were created or strengthened. Many of POLONOROESTE's physical targets were met including some of quite difficult activities like protecting and assisting Amerindian communities. More than 10,000 Amerindians benefitted from the program. And 90% of all Rondonia's Indian lands identified by FUNAI were demarcated (over 10 million ha), and more than two million ha of conservation units and forest reserves were established. POLONOROESTE laid the groundwork for major advances in technical know-how. In 1991, for example, Rondonia passed a State law to establish agro-ecological zoning for development planning. The zoning identifies areas according to their potential land use, distinguishing those capable of sustainable development from those without any known long-term

potential or which have special ecological (biological reserves) or social (Amerindian lands) significance and therefore need to be protected.

Finally, the Bank's efforts to help Brazil resolve its most pressing environmental and developmental problems are not coincidentally related to Brazil's growing political awareness and commitment to confront environmental issues. That commitment includes a new national Constitution with one of the world's most advanced chapters on the environment, reversal of policies inconsistent with sustainable development in the Amazon, creation of a new Ministry of the Environment and the Legal Amazon, to mention a few.

Rondonia and Mato Grosso Natural Resource Management Projects

Unlike his description of the POLONOROESTE program, Mr. Rich's description of the Rondonia and Mato Grosso Natural Resource Management Projects does not reflect careful research. He asserts that in preparation, appraisal, and initial implementation of these projects, the Bank has failed to: (a) involve NGOs and local groups, (b) resolve key environmental and indigenous issues, (c) rectify and learn from previous mistakes, and (d) rectify flagrant abuses before moving ahead with project implementation. These assertions do not reflect the facts.

During project design great emphasis was laid on taking into account the lessons learned from POLONOROESTE. Agro-ecological zoning was used as a starting point for project design. Agreements were reached with the Federal and State Governments to change the policy and regulatory framework which has influenced the process of environmental degradation, and to modify public investment programs in accordance with the zoning recommendations. Statewide perspectives were adopted with specific project interventions geared to the kinds of land use and environmental protection activities identified through agro-ecological zoning. The need for decentralized decision-making, rapid feedback and greater dialogue with, and responsiveness to, project beneficiaries was recognized during preparation. These needs were built into the project with appropriate organization and management arrangements, monitoring and evaluation systems, and the participation of non-governmental organizations. Without losing sight of simplicity, the projects include a range of interventions essential to avoid natural resource degradation and to enhance environmental protection in the Amazon. They include providing credit to help farmers make the transition from slash and burn to more sustainable agriculture techniques that are consistent with environmental preservation. Finally, Government assurances that no public or social infrastructure would be implemented in areas without sustainable development potential will help to ensure compliance with the projects' environmental objectives.

The projects were declared effective in January, 1993, and effective disbursements began in June. Before June, progress already was made in establishing administrative structures (which included NGOs participation in the Projects' Administrative Councils and the sectoral commissions that approve all project investments), and in conducting key environmental protection activities.

Bank staff visited the States towards the end of summer, 1993, to help move the projects forward and resolve any difficulties, particularly those related to environmental and Amerindian protection. Agreements were reached with the Federal Government to ensure that INCRA's policies and activities in the States are consistent with the agro-ecological zoning recommendations, and to start zoning activities. Agreements were

also reached to speed-up implementation of environmental and Amerindian protection and management activities and to ensure that the implementation of economically productive activities proceed in parallel with them. Follow-up after the mission found that these agreements are being implemented. Significant progress has also been made in completing the international bidding process for the zoning and bidding and contracting for socio-economic studies and demarcation of conservation units. Cooperation on land issues between INCRA and the States is progressing, and the flow of funds and decentralization of implementation authority has improved. The 1994 Annual Operating Plans for the projects are designed to further accelerate environmental and Amerindian protection activities.

An Independent Evaluating Committee which includes participation of local, national and international NGOs has been established. It will soon present a Project Progress report, along with the supervision mission's report to the Bank's Executive Directors.

While these projects have experienced some delays in implementation and are not devoid of problems they are certainly not the environmental "farces" Rich alleges them to be. Rather, they are well-designed projects to which the respective States are firmly committed. The Bank will provide the close supervision and support necessary to ensure success. A Field Representative in Mato Grosso is helping both the States and the Bank in project implementation.

Carajas Iron Ore Project

The Carajas project downfalls have been well documented and Rich draws on much of what has previously said. But, as with his analysis of POLONOROESTE, he fails to acknowledge the positive aspects of the project, or fairly apportion blame for the difficulties faced.

The multi-billion dollar Carajas iron ore project, for which the World Bank provided a loan of \$304 million in 1982, developed massive iron ore reserves in the Carajas highlands of Brazil, some 550 kilometers south of Belem. It was completed on time, achieved project iron ore output, and addressed environmental issues successfully within the project area. However, the Bank and the Companhia Vale do Rio Doce (CVRD), the state-owned company managing the project, failed to anticipate the contribution of this project to the degradation of the physical environment and human conditions in the project's indirect area of influence, due to strong migrant inflows. Notwithstanding this failure, it is difficult to isolate the share of CVRD responsibility and that of other unrelated programs (the Belem-Brasilia and Belem-Sao Luis highways, the Tucuri dam, the COLONE colonization scheme in Maranhao, and the Serra Pelada garimpo).

CVRD contracted FUNAI (the Brazilian agency for Indian affairs) to implement the Amerindian component of the project, most of which fell outside the project area. Initially faced with difficulties due to FUNAI institutional problems, CVRD was able to re-direct the component towards health and land issues. This involved demarcating lands to protect 14,000 Amerindians in an extensive area around the project area and improving living standards through education and health services. As a result demarcation of all Amerindian lands is now nearing completion. There has been a significant increase in birth rates and parallel decreases in mortality and morbidity among most Amerindian communities in the area.

There was some concern that the charcoal needed for the pig iron plants established under the project would be produced by felling rainforest trees. The problem is currently confined to six of these plants and, with the removal of tax incentives, there is very little chance of any new plants smelters being established. So far negligible additional deforestation has taken place because most of the charcoal is being obtained from sawmill and agricultural crop residues. The pig iron plants indirectly contribute to deforestation by adding some value to by-products of deforestation used for other purposes (e.g., logging for sawmills, agriculture, or livestock). But CVRD is committed to compliance of environmental obligations by suppliers of iron ore and port and rail services. In 1993, it announced it would condition these supplies on compliance with environmental regulations, especially on the obligation to implement reforestation or forest management plans which are required by

law and sanctioned by the relevant environmental authorities. If default is confirmed by these authorities supplies will be suspended. CVRD has already signed agreements with all pig iron produces in the Carajas corridor to this effect.

The Carajas project achieved its stated objectives and it addressed the environmental issues which were identified at the time of project appraisal. Appropriate steps are still being taken to address the indirect negative impacts which were not foreseen. The Bank recognizes and is acting upon the need to take into account in future project preparation the consequences its projects might have outside of the immediate project zone.

ROUTING SLIP		Date 3/8/94	
NAME		ROOM NO.	
Alex Shakow			
URGENT	For Action/Comment	Per Your Request	
Appropriate Disposition	Information/Discard	Returned	
Approval/Clearance	Note And Return	See My E-Mail	
File	Per Our Conversation	Signature/Initial	
RE: Mortgages & Debts			
REMARKS			
I've had a go at making the debt piece more "user friendly". Attached.			
From	Room No.	Ext.	
Lesley Summons	78020	31785	

Setting the Record Straight: Net transfers, debt and forgiveness of World Bank loans.

While the World Bank cannot forgive its own debt, for reasons outlined below, it strongly supports efforts to relieve countries of excessive debt burdens since this burden is a drag on economic and social development. There are valid grounds for debt forgiveness, such as when a debtor country has suffered severe adverse shocks to its terms of trade and hence its export earning capacity. The World Bank has supported debt reduction under such scenarios with substantial amounts of its own funds, under the Brady Plan and with the International Development Association (IDA) debt reduction facility which is cofinanced by bilateral donors. However, it is crucial that debt reduction and forgiveness schemes take place within the context of overall reform.

World Bank debt is far less a burden than most other debt because of its low- to concessional-interest rates and because the Bank continues to provide funds at relatively low rates for new productive projects that help countries grow. Multilateral development banks are a significant source of development finance to developing countries. Without them there would be few affordable sources of loans for the poorest countries. If the World Bank were to forgive debt it would quickly lose its excellent credit rating which in turn would increase its cost of borrowing. These increased costs would have to be passed on to the developing countries by charging them higher interest rates on their loans.

Bruce Rich in his book Mortgaging the Earth suggests that the World Bank should forgive its debt. He alleges that the World Bank has increased the debt burden of countries because it has been pressured to lend under the specter of net negative transfers. But his oversimplified analysis of the problem leads him to the wrong conclusion.

Rich develops his argument by pointing to negative net transfers as contributing to the problems of developing countries. But his description is flawed. A fairer analysis would start by describing negative net flows. Each year developing countries receive external capital inflows in the form of loan disbursements. These loans help finance investment and imports to promote economic development. In turn, developing countries make amortization payments on loans they received in previous years. The difference between these two amounts equals (debt-related) net flows. What Rich fails to acknowledge is that a country normally would experience positive net flows at an early stage of development (debt build-up), declining net flows as it achieves a more advanced stage of development (debt stabilization), followed by capital exports at a high level of development.

Debt generates obligations. Interest payments represent compensation to creditors for the use of their resources. If the resources have been invested productively the return generated should more than cover the interest cost. Net transfers (on debt)

are calculated by subtracting interest payments from net flows.

But, adding together the net transfer amounts for a group of countries, as Rich does in his book, is misleading. Some countries in the group may be at a more mature development stage in which net flows are small and net transfers are negative. Others may have acquired levels of debt that are inconsistent with their growth prospects. Still others may be at a stage of development in which positive net transfers would be normal. Hence, the aggregate net transfer to a group of countries is a poor guide to the financial position of any individual country.

From an individual creditor's viewpoint caution also must be exercised in interpreting the effect of net transfers. If a financial institution maintains positive net transfers to all its borrowers, its asset base must grow rapidly -- roughly doubling every 10 years. Thus, the overall net transfer position of an institution will depend on, among other factors, its past lending and the rate of growth of its capital base. The World Bank has generally maintained positive net transfers consistent with the growth of its capital base and has gone along with negative transfers in the case of some of its more mature borrowers -- this is the normal practice of any sound financial institution.

As others have done before him, Rich greatly oversimplifies in his description and draws unwarranted conclusions on the need for debt forgiveness based on the amount of aggregate net transfers to

the developing countries. In fact, net transfers to all developing countries have been positive since 1989. Only Latin America amongst regions of the developing world has experienced negative transfers (in 1989 and 1990, but not since). But Latin America has been receiving debt reduction assistance under the Brady Plan. The region with the severest debt problems is Africa, which receives the highest positive net transfers (amounting to several percent of GNP for most countries).

Rich appears to view the existence of negative net transfers as grounds for debt forgiveness. But such encouragement of "moral hazard" would likely lead to a cutoff of new financing to developing countries by their external creditors, annihilating all hopes for economic growth and improved living conditions.

Rich proposes that the World Bank forgive part of its own debt. He erroneously claims that debt service to the World Bank is eating up countries' earnings, he cites Uganda as an example. In fact, net transfers from the World Bank to Uganda and to nearly all sub-Saharan African countries are strongly positive. Rich's claim that the World Bank's rating in the bond markets would not be adversely affected if it forgave its own debt is fallacious. The Bank's credit rating does not rest on its member governments guarantees alone. The rating depends as much on the World Bank's financial performance, as is evident from the reports of rating agencies and from the below-AAA rating that the Bank had in its early years. Indeed, should the World Bank write off its debt, its

credit standing in the financial markets would deteriorate and it would subsequently need to increase the costs to its borrowers. In other words, those borrowers who are timely with their debt payments would pay for debt forgiveness to the few who are not.

Setting the Record Straight:
of World Bank loans.

← This one can be written a more
user-friendly way. I think - stressing
more help at the beginning that for Africa we
are supporting debt reduction + forgiveness;
that it is crucial that it be for a clearly
good purpose (part of reform); and that there
are more special IDA schemes + 5% donations
for forgiveness.

Some people concerned about the debt burden of developing countries have suggested the World Bank forgive its borrowers some of their World Bank debt. But World Bank debt is far less a burden than most other debt because of its low- to concessional-interest rates and because the Bank continues to provide funds at relatively low rates for new productive projects that help countries grow. ~~It should be remembered that the multilateral development banks~~ are a significant source of development finance ~~provide most of the funds available to developing countries.~~ ~~Without them there would be few affordable sources of loans for the poorest countries.~~ If the World Bank were to forgive debt it would quickly lose its excellent credit rating which in turn would increase its cost of borrowing. These increased costs would have to be passed on to the developing countries by charging them higher interest rates on their loans.

Bruce Rich in his book Mortgaging the Earth is a proponent of this view. He also alleges that the World Bank has increased the debt burden of countries because it has been pressured to lend under the specter of net negative transfers. But Rich oversimplifies his analysis of this rather complex issue and thus draws ^{the} wrong conclusions from the situation.

Each year developing countries receive external capital

inflows in the form of loan disbursements. These loans help finance investment and imports to promote economic development. In turn, developing countries make amortization payments on loans they received in previous years. The difference between these two amounts equals (debt-related) net flows. A country normally would experience positive net flows at an early stage of development (debt build-up), declining net flows as it achieves a more advanced stage of development (debt stabilization), followed by capital exports at a high level of development.

Debt generates obligations. Interest payments represent compensation to creditors for the use of their resources. If the resources have been invested productively, ~~as they are in the case of World Bank loans~~, the return generated should more than cover the interest cost. Net transfers (on debt) are calculated by subtracting interest payments from net flows.

But, adding together the net transfer amounts for a group of countries, as Rich does in his book, can be misleading. Some countries in the group may be at a more mature development stage in which net flows are small and net transfers are negative. Others may have acquired levels of debt that are inconsistent with their growth prospects. Still others may be at a stage of development in which positive net transfers would be normal. Hence, the aggregate net transfer to a group of countries is a poor guide to the financial position of any individual country.

From an individual creditor's viewpoint caution also must be exercised in interpreting the effect of net transfers. If a financial institution maintains positive net transfers to all its borrowers, its asset base must grow rapidly -- roughly doubling every 10 years. Thus, the overall net transfer position of an institution will depend on, among other factors, its past lending and the rate of growth of its capital base. The World Bank has generally maintained positive net transfers consistent with the growth of its capital base and has gone along with negative transfers in the case of some of its more mature borrowers -- this is the normal practice of any sound financial institution.

As others have done before him, Rich greatly oversimplifies in his analysis and draws unwarranted conclusions on the need for debt forgiveness based on the amount of aggregate net transfers to the developing countries. In fact, net transfers to all developing countries have been positive since 1989. Only Latin America amongst regions of the developing world has experienced negative transfers (in 1989 and 1990, but not since). But Latin America has been receiving debt reduction assistance under the Brady Plan. The region with the severest debt problems is Africa, which receives the highest positive net transfers (amounting to several percent of GNP for most countries).

Rich appears to view the existence of negative net transfers as grounds for debt forgiveness. But such encouragement of "moral hazard" would likely lead to a cutoff of new financing to

developing countries by their external creditors, annihilating all hopes for economic growth and improved living conditions.

There are valid grounds for debt forgiveness, such as when a debtor country has suffered severe adverse shocks to its terms of trade and hence its export earning capacity. The World Bank has supported debt reduction under such scenarios with substantial amounts of its own funds, under the Brady Plan and with the International Development Association (IDA) debt reduction facility which is cofinanced by bilateral donors. *give examples - Uganda, etc.*

Rich proposes that the World Bank ~~be demanded to~~ forgive part of its own debt. He erroneously claims that debt service to the World Bank is eating up countries' earnings, he cites Uganda as an example. In fact, net transfers from the World Bank to Uganda and to nearly all Sub-Saharan African countries ^{are} ~~is~~ strongly positive. Rich's claim that the World Bank's rating in the bond markets would not be adversely affected if it forgave its own debt is fallacious. The Bank's credit rating does not rest on its member governments guarantees alone. The rating depends as much on the World Bank's financial performance, as is evident from the reports of rating agencies and from the below-AAA rating that the Bank had in its early years. Indeed, should the World Bank write off its debt, its credit standing in the financial markets would deteriorate and it would subsequently need to increase the costs to its borrowers. In other words, those borrowers who are timely with their debt payments would pay for debt forgiveness to the few who are not.

OFFICE MEMORANDUM

DATE: March 11, 1994

TO: Mr. Alexander Shakow, Director, EXTDR

FROM: Heinz Vergin, Director, SA2

EXTENSION: 80332

SUBJECT: INDIA - Responding to Mortgaging the Earth

1. Attached please find short notes on the Gujarat Medium Irrigation II, Upper Krishna II Irrigation, Subernarekha Irrigation and National Thermal Power Corporation (NTPC) Power Generation Projects. These notes have been written following the style of the examples which you forwarded to me earlier this week.

2. We have not prepared a note on the Sardar Sarovar Project. Mr. Cambridge spoke with Ms. Simmons yesterday about this.

3. I trust this submission meets your requirements.

Attachments

RC:njd

3/11
cc: ~~JS~~
cc Matt M. Ch
AS

SETTING THE RECORD STRAIGHT: INDIA

GUJARAT MEDIUM IRRIGATION II PROJECT
(Credit 1496-IN)

Bruce Rich says "The Gujarat Medium II Irrigation Project, which affects tribals similar to those who will be displaced by the Sardar Sarovar Projects, was approved in 1984 without project specific resettlement plans and despite documented resettlement failures during the first Gujarat Medium Irrigation Project. Subsequent supervision reported predictable widespread failure to rehabilitate the nearly 90,000 people displaced by these dams." He goes on to say "the Bank is more concerned to accommodate the pressures emanating from its borrowers than to guarantee implementation of its policies."

The statement is correct that the project was approved in June 1984 without project specific resettlement plans. Our information shows that an overall Resettlement Action Plan was prepared by the Government of Gujarat and submitted to the Bank only in December 1985. However, the implied point that the Bank has recklessly disregarded the plight of 90,000 people is unsubstantiated by the facts of Bank performance. In 1991, the Bank took strong action to push The Government of Gujarat (GOG) in implementing the economic rehabilitation in nine priority sub-projects.

Mr. Rich is right that GOG's performance in R&R under the project has been mixed and did not receive the required level of attention at the beginning of project implementation. However, he fails to mention the major improvements that have been made as a result of the Bank's increased focus on R&R. Most PAFs have now been compensated for the land and structures lost and resettled either in Government resettlement villages or in sites of their choice. In general, landed oustees have been able to recover an acceptable standard of living. GOG is taking steps to improve payment of compensation to remaining oustees by preparing policy guidelines for constituting peoples' courts to settle cases speedily. Civic amenities are being completed with particular emphasis on roads and water supply. The poorer oustees, particularly the tribals and scheduled caste households, whose economic rehabilitation needs had not been adequately addressed earlier, are now being brought under the ambit of economic support programs. The key issue now is to complete all activities in a time bound manner, and to ensure sustainable supply of support services to the oustees being given IRDP benefits.

In order to achieve full and proper rehabilitation for project outsees, GOG with the help of a well established NGO - Foundation for Public Interest -, and on the insistence of the Bank has now implemented a rapid rural appraisal of PAFs in 22 sub-projects to determine the exact living conditions of the PAFs and status of the resettlement villages, prepared an overall economic rehabilitation plan to be implemented in three years for the 22 sub-projects, and selected, in accordance with the Project Agreement, 9 sub-projects to serve as

a pilot operation. On the basis of the rural appraisal, a detailed Economic Rehabilitation Action Plan was then prepared for the Sukhi sub-project with the assistance of another well established NGO - Self Employed Women's Association. This Action Plan, which is to be used as a model for the remaining sub-projects, is to be implemented in three years by the District Rural Development Agencies and comprises subsidies and soft loans to assist the PAFs in implementing a number of income generating schemes including provision of dairy cattle, draft animals, wells for irrigation and also income generating activities for women such as tailoring, sericulture, and handicrafts among others.

GOG and the Association have agreed that economic rehabilitation would be implemented on a pilot basis in the 9 priority sub-projects, and that all activities except the purchase of land and the payment of compensation would be eligible for reimbursement under the Credit. The program has begun with an outlay of Rs. 9 million. The plans for these were prepared along the lines of the Sukhi Action Plan.

GOG has implemented the main recommendations of the last two Bank supervision missions. An independent agency has been recruited for monitoring and evaluation of R&R. Detailed economic rehabilitation plans for the remaining 14 sub-projects are almost finalized. Several lift irrigation schemes are under implementation. Camps are being regularly held in oustee settlements. R&R guidance Cells meet regularly.

The project was due to be closed, after a fourth extension on March 31, 1993. But in view of the considerable efforts developed by the recent supervision missions and GOG's willingness to improve R&R implementation and follow the Bank's recommendations, the Bank agreed on a fifth and last extension of the Closing Date to March 31, 1994. This extension, will give a chance for the R&R Action Plans to be implemented under proper guidance and financing and also allow the project to consolidate the present improvements, thus achieving one of the project's main objectives.

SUBERNAREKHA IRRIGATION PROJECT

(Credit 1289-IN)

Bruce Rich says, "Although the World Bank issued its first environmental review guidelines in 1984, an environmental assessment for the project was not completed until 1990,- twelve years after construction began on the Chandil dam, and nearly a year after the last funds from the Bank's US\$127.0 million 1982 loan were disbursed."

The Subernarekha I project was approved prior to the publication of the Bank's guidelines on Environment in 1984. Therefore, the Legal Documents did not contain any covenants on the environment. Complete Environment Impact Assessments (EIAs) and Environment Mitigation Plans (EMPs) were prepared in 1990-92 with foreign assistance for the possible financing of two follow up projects namely the Subernarekha Multipurpose II Project in Bihar and the Subernarekha Irrigation Project in Orissa. Mr. Rich falsifies facts when he says that "the Bank itself acknowledged that the study was totally inadequate; it was based mainly on old government data rather than scientifically competent field work, and ignored a number of major issues". On the contrary, Bank staff reviewed these documents and found them satisfactory and in line with the Bank's guidelines.

Bruce Rich says, "By the summer of 1988, the gates of the Chandill dam had closed, threatening some 100,000 hapless Indian tribal poor stranded without viable alternative means of subsistence."

Again, Mr. Rich has his facts wrong. The construction sluices at the foot of the Chandil dam were not closed in 1988 but in 1992 creating permanent submergence for only 16 villages with about 2,500 PAFs or about 15,000 PAPs, out of about 110 villages to be affected when the dam is completed. To date, the crest gates are still not completed and no permanent submergence has taken place for the balance of villages.

Mr. Rich is correctly concerned about R&R but his information is dated and his commentary on the Bank's involvement very misleading. The status of R&R implementation of the 2,500 PAFs who live in the 16 villages located below the crest level of the Chandil dam July 1992 was as follows. The majority have been resettled in new villages with house plot and house construction grants, but the economic rehabilitation of these PAFs has been constrained by the difficulty of finding replacement agricultural land. As a result, about 600 PAFs had been given government jobs, about 50 PAFs had been given government land and the balance 1,850 PAFs are waiting to be given either replacement land, government jobs or to be covered by income generating schemes. Most of these PAFs return to their paddy fields in the reservoir as soon as the water level allows it.

This project has been under severe criticism from national and international activists for a number of years. The criticisms related to the inadequacy of the compensation package, the corruption of the Resettlement Officers, and the harsh treatment of tribal oustees by the Bihar Government, among other things. The criticisms were, aggravated in August 1991, when a

severe flood of the Subernarekha river affected 48 villages at the Chandil dam and two PAFs were said to have died. The official report says that the deaths were due to other reasons. Six villages were completely flooded, 12 partly flooded with 30% houses affected and 29 had only paddy fields affected.

Bruce Rich says, "Belatedly, on October 8, 1988, the Bank suspended loan disbursements, and postponed again the closing date for the project. The Bank recommended funding in 1990, arguing that there had been sufficient improvement in the resettlement situation to justify renewed support for the project, and started to prepare two new loans for Subernarekha, totaling US\$375.0 million."

The Subernarekha I project was suspended for about six months in 1988/89 because of poor R&R implementation and was reinstated after a satisfactory R&R plan had been submitted. Shortly after, the project closed in 1989.

Bruce Rich says, "As all of this was occurring, (April 5, 1991, 500 people began a sit-in at Icha dam in Bihar; April 9, police arrested and detained about 250 protesters; May 13, 10,000 people marched on Patna demanding the release of the detainees) the World Bank still forged ahead in preparing huge loans for the two new projects to complete the scheme, the Subernarekha Irrigation Project and the Subernarekha Multipurpose II Project. The new loans would reward the project authorities and Indian officials who have created an environmental and human rights nightmare with well over a third of a billion dollars. In spring 1993, the Bank withdrew these projects from its lending pipeline. However, new irrigation consolidation projects for the states of Bihar and Orissa are in preparation which would support the completion of the new projects."

Yet again, Mr Rich has resorted to half-truths. In fact, when considering the possible financing of two follow up projects, the Bank observed that the agreed R&R plan for Subernarekha I had not been implemented satisfactorily by Bihar and that Orissa's R&R performance was not up to acceptable Bank standards. The Bank, therefore, required the two states to upgrade their R&R policies, carry out fresh socio-economic surveys and prepare Resettlement and Rehabilitation Action Plans (RAPs) with the assistance of NGOs. In addition, the Bank set a number of benchmarks that both states had to meet as tangible proof of satisfactory R&R implementation before the two projects could be processed further. As part of the preparation work for the proposed second phase project, Bihar and Orissa have considerably upgraded their R&R policies to meet the Bank's requirements and standards. The revised policies of Bihar and Orissa for the Subernarekha projects are quite similar and include: (i) treating affected unmarried sons of 18 years of age or more as landless oustee families, (ii) construction of resettlement villages with civic amenities, (iii) allocation of a minimum of two acres of irrigated land for oustees having more than four acres under rainfed conditions and cash compensation beyond the allocated area at market price, (iv) allocation of one acre of irrigated land and vocational training for landless oustees, (v) establishment of Land Purchase Committees to stabilize land prices and facilitate transactions between sellers and buyers, (vi) allocation, within certain limits, of permanent government jobs for landless oustees instead of the one acre irrigated land, (vii) allocation of a housing grant for oustees living in or outside resettlement colonies, (viii) provision of a resettlement grant comprising a one year subsistence allowance and a two

year package of farm inputs, (ix) participation of oustee representatives in the district and project level R&R committees, and (x) establishment of a Directorate for R&R within the Revenue Department.

At the Bank request and with the assistance of Japanese Trust Funds, Bihar and Orissa have recruited well established NGOs - namely Xavier Institute of Social Sciences for Bihar and Operational Research Group for Orissa - to assist them in the implementation of a social economic survey of PAFs for all dam sites and to prepare resettlement action plans. In July 1991, a pre-appraisal mission informed Orissa and Bihar that the Bank would not process the proposed second phase project any further until they demonstrate tangible proof of satisfactory implementation of R&R. As "tangible proof of satisfactory implementation" were the completion of the socio-economic surveys and R&R Action Plans for each dam site, and also the completion of R&R activities in all respects in the first 16 villages affected by Chandil dam (Bihar) and the first 7 villages by Jambira reservoirs (Orissa). The specific actions requested included the issuance of 'Vikas Pustika' (household identity cards) to all eligible oustees, payment of compensation grants, allocation of house plots in resettlement sites together with house construction grant, and purchase or make available agricultural land through clearance of Government land or the purchase of land through the Land Purchase Committees to all eligible oustees.

A fact finding mission organized in June 1992 to Bihar and Orissa determined that these two states were making good progress. In particular, the Xavier Institute had completed the socio-economic surveys for the first 70 villages of Chandil and submitted a preliminary R&R plan for that dam, and the Operational Research Group had completed the socio-economic surveys and prepared detailed R&R plans for the Orissa portion of the Ichha dam and the three command area reservoirs. In addition, Bihar had recruited a rural architect to design houses for oustees and made use of local NGOs for initiating income generating schemes in some of the first resettlement villages. Orissa had completed with the assistance of the Operational Research Group a study on sabai grass rope making as a source of income for oustees and another study on encroachers. Nevertheless, the mission determined that Bihar and Orissa had still not fulfilled the Bank's conditions for tangible proof of satisfactory R&R implementation in the first 16 villages in Bihar and 7 villages in Orissa. The mission also recommended to organize seminars with NGOs to discuss how R&R policies and implementation could be further improved.

After an intervening period of one year, the Bank undertook another fact finding mission in June, 1993, to review progress in R&R, and compliance with Bank's guidelines and recommendation of earlier (1991.1992) Missions.

The mission observed that GOB has made significant progress in meeting Bank's conditions and indeed in some areas, the project performance has even exceeded targets set by the Bank. Briefly, a large majority of PAFs (4563) of the first 18 villages has been relocated with compensation paid for land and structures. Besides all of them have received ID cards (and the family number has increased from 2980 to 4563 due to recognition of major sons as independent units), shifting charges, house construction grants, and over 1600 house plots have been allocated in 11 RCs. The PAFs have the autonomy to settle beyond the RCs, and owner built houses have been accorded preference over pre-built shelters. With regard to economic rehabilitation, the mission noted that though the project's achievement in securing purchase of replacement agriculture land

has been rather inadequate (105 cases as against 800 required as tangible proof), nearly 65% of the PAFs have managed to purchase replacement land on their own. Besides, GOB have provided a massive number of 1700 permanent jobs to the PAFs, and initiated several training programmes for income generated schemes. Further, the project has been able to secure involvement of five NGOs in the task of community participation. A significant achievement in this regard is the establishment of a tribal museum and cultural complex at Chandil dam site, as evidence of cultural rehabilitation of the submergence area. This has brought a sense of joy and belonging to the PDFs.

Subsequent to this mission, GOB has informed the Bank recently (Nov. 1993) that apart from the first 18 villages, the project has also covered another 34 villages, in their order of submergence, by suitable rehabilitation measures, though some specific obligations towards the PAFs are yet to be completed. Besides, in response to the Bank's request, GOB and Icha dam area will be adequately resettled prior to inundation.

In case of Orissa, Bank's conditions envisaged completed of R&R activities in the six priority villages affected by Jhambira reservoir. The mission observed that out of 633 PAFs in these 6 villages, 624 have been paid compensation for land and structures, 571 have received ID cards as well as house construction grant, and 531 have brought homestead land for themselves. Since most of the PAFs have opted for self-relocation, only 2 RCs are being developed now. The newly built houses by the PAFs are found to be superior to their original habitat. In terms of economic rehabilitation, land purchase grant has been allocated to 517 PAFs, and consequently, nearly half of the land lost have been regained by the PAFs through land purchase. Beside, 249 PAFs have been employed by the GOO, 75 permanently and 174 on daily wages. The Government has strengthened the R&R Organization by inducting two resettlement workers for every village, and established camp courts as field level for resolution of outstanding disputes.

The mission was further informed that GOO has completed a study of Sabai grass cultivation and rope making as a sustained source of income for the displaced women. A study on public land encroachment has also been commissioned with a view to resettle the eligible encroachers as project displaced families.

In late 1993, the Bank determined that both states had broadly complied with its conditions and had given proof of satisfactory R&R implementation. However, these two projects were withdrawn from its pipeline and neither have been included under the Water resource Consolidation Project in Orissa which is under active consideration for Bank financing. For the present time, the Bank is certainly not considering the financing of a Bihar Water Consolidation project.

UPPER KRISHNA (I/PHASE II) PROJECT

(Credit 2010-IN, Loan 3050-IN)

Bruce Rich says, "Upper Krishna I project ... closed in 1986 with a backlog of 100,000 people still to be resettled ... Upper Krishna II, a project with 250,000 outsees, was not supervised during a critical phase of implementation."

The UKP II project did pick up a backlog of about 22,526 Project Affected families (PAFs) or about 135,000 project affected persons (PAPs) affected by the Narayanpur dam who had not been properly resettled under UKP I. The status of oustees affected by Narayanpur dam is well documented in the OED Report. The Bank was aware of the problem and included a detailed R&R component under the UKP II project which was considered as one of the best at that time. Socio-economic surveys and action plans for the Narayanpur dam as well as for the Almatti dam and the canal affected persons were prepared with the assistance of MYRADA, a well established NGO, and became part of the UKP II SAR and Legal Documents.

Mr. Rich's main concern is about the quality of R&R in the project and how the Bank supervised the project. The UKP has been supervised at regular six month intervals since its inception. Particular attention has been dedicated to R&R aspects and as implementation was not satisfactory, the Bank suspended disbursements in October 1992. Disbursements were reinstated in February 1994 after considerable progress had been made in the policy institutional, and implementation aspects of the R&R component.

Mr. Rich is right that Karnataka's R&R performance has not been satisfactory since project inception. In the Narayanpur reservoir area, many oustees have not been adequately compensated for the loss of land and some are still refusing to move to government resettlement villages for various reasons, including inappropriate location and inadequate infrastructure. In general, there is a large backlog in the allocation of replacement land and implementation of income generating schemes as per the legal documents. In the Almatti reservoir area, implementation of the resettlement plan is about one year late.

The Bank has succeeded, however through intensive R&R supervision missions, in establishing a better dialogue with GOK and in raising the consciousness of Government and project officers on R&R issues over the past two years, particularly since the award of the contract for resuming construction of the Almatti dam in July 1991. But, as progress was still not satisfactory, the Bank sent letters to GOK dated March 30 and September 9, 1992 indicating that, unless several actions were taken to redress the prevailing situation, disbursements would be suspended. Among these actions were the: (a) reorganization and strengthening of the project R&R wing, (b) posting of a General Manager with the requisite administrative and financial powers at the head of the R&R wing, (c) consideration of adult sons as separate landless families in accordance with the legal documents, (d) updating of the short and

long term plans for the Almatti dam in line with past experience, (e) improvement of the land acquisition and land allocation procedures, (f) reduction of the large backlog in economic rehabilitation activities, and (g) redressal of large number of land compensation claims.

A mid-term review mission was organized in July 1992 which was followed up by a R&R mission in October 1992. Both missions recognized that GOK had taken a number of decisions and issued most of the Government Orders required to address the points made in the Bank's letters. In particular, GOK had posted a General Manager R&R and recognized adult sons as separate landless families but had not yet improved its performance in the field. As a result, the Bank decided to suspend disbursements as of November 3, 1992 and informed GOK that a two step procedure would be followed to resume disbursements : first disbursements for the R&R component would resume after certain agreed benchmarks would be implemented regarding the issuance of additional Government Orders on improved benefits, updating the list of eligible PAFs, revising the Almatti R&R Action plan and linking further dam construction with R&R plans; and second disbursements for the project as a whole would resume when there is tangible proof of satisfactory R&R implementation in the field as per a second set of benchmarks on the number of compensation claims redressed, the number of agricultural replacement land allocated, the number of income generating schemes implemented among others.

Following suspension, the list of benchmarks was agreed with the GOK and communicated to them by letter of November, 30, 1992. Thereafter, the Chief Secretary, GOK sent the Bank a letter dated December 8, 1992 in which he "reiterates the assurance of the Government of Karnataka that the Almatti dam spillway will not be tackled till such time the R&R picks up to keep up with the relocation program." In addition, GOK has sent copies of two additional Government Orders relating to treating major sons as landless families and establishing a high power R&R decision making committee at GOK level.

A supervision mission in February 1993 determined that GOK had made considerable progress in meeting the benchmarks for lifting suspension. In particular, the R&R wing had become operational and an initial amount of Rs 10 M had been allocated for implementing the agreed plans. Brochures on the revised package of benefits had been widely distributed to PAFs and motivators had been recruited from the affected villages to act as liaison persons between the Resettlement Officers and the PAFs. In addition, Committees at GOK and project level had been established to coordinate R&R activities, as well as Local Grievance Cells for expediting outstanding court cases on inadequate land compensation, and Land Valuation Committees to acquire land by consent at market price. A plan linking the Almatti dam construction to R&R implementation had also been prepared. As a result, the PAFs and the Bank regained confidence in the GOK's determination to implement satisfactory R&R and the Bank proceeded with a partial lifting of suspension for the R&R and canal component as of February 26, 1993. The suspension of disbursement was maintained on the Almatti dam until some further benchmarks have been met. These refer to the issuance of ex-gratia payments for the purchase of land, the resolution of outstanding court cases and the acquisition of land by consent award.

A follow up supervision mission which was briefly delayed due to the tragic death of General Manager, R&R in October, 1993, eventually visited the project during November 15 to 20, 1993. The basic objective of the mission was to review the status of R&R implementation and determine whether all conditions

for lifting suspension of disbursement on the Almatti dam have been met. The mission visited the city of Bagalkot (submergence in 1994) six priority villages in Almatti dam area (submergence in 1994) canal affected villages, villages of Narayanpur dam area, and corresponding RCs (Rehabilitation Centers).

The mission observed continued progress in the implementation of the R&R program, particularly with reference to just and expeditious payment of compensation and accelerated pace of house building and infrastructure activities in RCs. It found that while noticeable progress has been made in purchase of replacement land (665 joint accounts, 195 sale deeds) and house construction activities (2257 joint accounts), further efforts are required to (a) complete R&R action plan for the six priority villages of Almatti as per mission guidelines; (b) make good the shortfall and inadequacies in issuance of consent award and resolution of pending compensation cases through Lok Adalts; and (c) make R&R machinery operational by staffing legal, technical and monitoring cells. The GOK assured that required action for meeting the aforesaid benchmarks would be completed by December 15, upon which Bank would lift the suspension of Almatti dam.

The mission was pleased to note the increased ceiling for stamp duty waiver in favor of the PDF for purchase of replacement land (from Rs. 30,000 to Rs. 60,000), and augmentation of R&R funding to the extent of Rs. 700 m for 1993/94. While concluding the visit, the mission recommended updating socio-economic survey of the Bagalkot town and recognizing major sons and municipal tenants as independent families. It was also, proposed to entitle all below poverty line PDFs of Bagalkot town for ex-gratia grant for house construction. The mission further advised for immediate enumeration of DPFs through issue of personal ID Cards and induction of NGOs to strengthen community participation during resettlement and rehabilitation. Besides the project was asked to evolve an annual contingency plan for villages, to meet the eventuality of possible floods.

A mission visited the project sites in January 1994, and after reviewing the outstanding issues as noted by the previous November, 1993 mission, progress in achieving the remaining outstanding benchmarks, was convinced that sufficient progress had been made, to recommend the lifting of the suspension of disbursements. On February 9, the Department formally requested the lifting of suspension to senior Bank management and this was approved.

NATIONAL THERMAL POWER CORPORATION (NTPC) POWER GENERATION PROJECT

(Loan 3632-IN)

Mr. Rich refers to "the five thermal coal plants belch out huge quantities of sulfur dioxide - none are equipped with scrubbers- and emit over 1,650 pounds of mercury a year into the atmosphere. The Rihand dam reservoir and the land around it are poisoned by dangerous contamination of mercury, fluorine and chromium, and as a result the crops and fish that the half million people in the Singrauli area consume are in many cases unfit for human consumption."

The five plants referred to are Obra (owned by Uttar Pradesh State Electricity Board), Renusagar (privately owned by Birla), and three NTPC plants namely Rihand, Singrauli and Vindhyachal. All NTPC power plants operate well within GOI standards for ambient SO₂. There is not that much sulphur in the coal in the Singrauli area and there is therefore no need to install scrubbers. Mr Rich may be confusing it with SPM emissions, for which the EAP includes ESP upgrading programs to be completed by the first quarter of 1995.

On mercury emissions, based on data collected by the Electricite de France (EDF) for the Environmental Study of the Singrauli Area, the amount of mercury released per MWh produced in the Singrauli area is about one fifth of what is considered acceptable by the US-based Electric Power Research Institute. Even so, mercury pollution in the area remains a problem because of the existence of a large mercury polluter in the Singrauli area in the form of the chlor-alkali plant on Rihand lake. The NTPC Environment Action Plan (EAP) does not ignore this problem; on the contrary, it includes a study to establish in a scientific manner all sources of mercury contamination observed and identify options to abate it. Consultants to investigate mercury pollution by both power stations and chemical plant have been identified. The work will start shortly and will be completed in early 1996.

On fluorine and chromium levels, the EDF did find some high levels but the scientific evidence was not sufficient to draw definite conclusions let alone whether the NTPC power plants were responsible for the contamination. However under the EAP an ecological impact study has been initiated to determine the source of pollution and remedial actions. Other remedial measures included are ash slurry water recycling and closing of cooling water systems.

"In 1989, the Bank began to prepare a 'cleanup' project to remedy, retroactively at least, some of the social and environmental disruption in its Singrauli projects, as well as to promote environmental and resettlement and rehabilitation for the entire Singrauli regionBut the Indian government and NTPC refused to borrow more money for the proposed Singrauli Environment Rehabilitation Project and it was stillborn."

The project referred to is the Regional Power Systems Project, where indeed the first studies to identify the need for remedial actions on R&R were included. The reason for aborting that operation was however not on account of R&R, but because NTPC was not in compliance with the receivable covenant. The

'clean up' component is now part of the NTPC Power Generation Project, where the original R&R component has been expanded.

"Unbeknownst to the international community, for eight other plants besides Singrauli, the Bank had completely ignored the issue of resettlement."

The Bank has been involved in 10 different NTPC power plants, not counting the new project. While only Talcher had a specific covenant on R&R, NTPC was in no position to ignore R&R. They have always resettled and rehabilitated affected families in accordance with the law applicable at the time. We do know that it has not always led to satisfactory rehabilitation, but that is exactly what the NTPC and the Bank are addressing jointly. R&R was certainly not ignored by NTPC.

"But in one plant alone --- Farakka, for which the Bank lent NTPC US\$300 million in 1984 --- more than 50,000 had been either forcibly resettled or dispossessed. Attempts to encourage NTPC and the Indian government to consider environmental and resettlement rehabilitation programs for some of these projects also failed."

In Farakka, families did lose land but according to our information, nobody was displaced. A first socio-economic study was completed to ascertain the present socio-economic status of the affected families, but the study was not satisfactory and we are doing another study which would enable us to design an adequate remedial action plan. In the meantime, NTPC has continued to develop community facilities.

"In 1993, the Bank approved a new \$400 million loan to NTPC to finance the first stage of a gigantic, \$4 billion investment plan to intensify coal mining and expand coal fired production of electricity in nine super thermal power plants all over India. Other loans are to follow. Under the investment plan, 3,750 megawatts of new generating capacity will be built at Singrauli alone. In the new loan, virtually no funds are allocated for compensating and rehabilitating the hundreds of thousands of people forcibly resettled or otherwise adversely affected by previous Bank-financed NTPC projects."

This statement is full of errors. One of the most important features of the NTPC Power Generation Project is that before a power station is eligible for Bank financing certain eligibility criteria have to be met. This includes a full fledged environmental impact assessment and the preparation of a RAP for the affected people. So far we have only approved Vindhyachal II, while for Rihand II, the main prospective client (UP) is not fulfilling its commercial obligations and PIB clearance is still pending. None of the other plants have so far been approved for Bank financing.

In the Singrauli area, so far, only 2,000 MW of additional capacity will be added. The project costs for Vindhyachal II and Rihand II include funds for R&R, but these costs are not even 1% of total project cost. The additional resettlement is relatively small because it is only for the ashponds. NTPC is financing this from its own resources and we are satisfied that the budgets are adequate.

It is true that we do not have a precise estimate of R&R costs for the retrofit exercise, but the precise estimates can only be arrived at after the completion of the socio-economic surveys which are currently underway. Mr. Rich should keep in mind that NTPC's turnover is about US\$ 2 billion a year and it is certainly profitable enough to set aside funds for the retrofit exercise. In fact, in the 1994/95 NTPC budget, all R&R units will have their own separate budgets and all General Managers have been given instructions to ensure proper funding and pay attention to outstanding R&R issues. The 1994/95 budget, which is not yet finalized, will be monitored during the next supervision mission. The Bank loan will however not be used to finance the R&R expenditure, as most of it comes under operating rather than capital expenditure. Even the part of the cost that will be capitalised will be financed from NTPC's own resources. The Bank will continue to monitor this when developing the remedial action plans.

NATIONAL THERMAL POWER CORPORATION (NTPC) POWER GENERATION
(Loan 3632-IN)

Background

Mr. Rich has raised several questions about NTPC commitment to protecting the environment and to minimizing the resettlement and rehabilitation required from its thermal power plants. The facts are that the Government of India requires NTPC to carry out a full environmental Impact Assessment (EIA) of large power generation stations before permission is given to start construction. Full environmental impact assessments have been carried out for the first two power stations (Vindhyachal II and Rihand II, 1,000 MW each) proposed to be constructed under the NTPC Power Generation project. The EIA's have been reviewed by the Bank and both power plans meet the Bank's environmental standards. Summaries of these two EIA's prepared by NTPC were distributed to the Bank's Board of Directors in April 1993. Decisions on the construction of additional power stations have not yet been finalized, but all new power stations would be subject to a full environmental analysis as per Indian law.

Whenever, resettlement and rehabilitation was involved as a result of the construction of NTPC's power stations, NTPC has carried out the R&R programs in accordance with the laws and regulations applicable in India. To ensure a common approach for all its projects NTPC adopted its own R&R policy in 1991 and this policy was further improved in May 1993. The current policy has as an objective that affected people improve or at least regain their previous standard of living and it requires a comprehensive R&R plan to be prepared in consultation with the affected people. Detailed R&R plans for Vindhyachal II and Rihand II were finalized by NTPC in early June 1994. It is recognized by NTPC that the objectives of NTPC's earlier R&R programs have not always been achieved and that some affected people may not have regained their previous standard of living. As part of the R&R policy adopted in May 1993, this problem is now being addressed and specific remedial action plans are being implemented by NTPC.

On June 29, 1993, the Bank approved the first of an anticipated three loans of US\$400 million for the National Thermal Power Corporation (NTPC) to support its least cost investment program of new coal and gas-based power stations. A significant component of the loan is the implementation of an Environmental Action Plan (EAP) which is aimed at upgrading the environmental performance of existing NTPC power stations and making the new power plants environmentally more sustainable.

NTPC currently operates 4,260 MW of coal-fired power stations in the Singrauli area and plans to add an additional 2,000 MW under the project. In other parts of India, NTPC operates another 8,794 MW of which about 2,234 MW are gas fired stations, another 3,781 MW is expected to be added over the next

three years. Most NTPC's. Plans for additional NTPC power plants are in various stages of preparation.

Most of NTPC's existing power stations were designed and built when environmental standards were less stringent. They are generally operating within their design standards, but Central and State pollution control authorities are now requiring NTPC to take remedial measures to bring the existing operating power stations, into compliance with the latest, more stringent, environmental standards. To meet those challenges, NTPC also realized that its environmental management systems needed to be further developed beyond the mere compilation of environmental data for compliance purposes, towards a pro-active approach to identify and manage increasingly complex environmental and socio-economic problems and issues. NTPC therefore formulated, in consultation with the Bank, a comprehensive EAP to be implemented under the project. Part of the groundwork for the EAP was laid by the environmental study of the Singrauli Area financed under the Second Singrauli Thermal Power Project (Cr. 1027-IN) and completed in July 1991. The EAP however covers all NTPC's power stations, not only those in the Singrauli area.

Environmental Action Plan

The objectives of the EAP are to: (a) to rationalize and improve NTPC's organizational structure for environmental management at the corporate and plant levels; (b) improve environmental monitoring and preparation of environmental impact assessments; (c) execute a specific program of remedial measures at NTPC's existing power stations and make its operations environmentally more sustainable; and (d) address outstanding resettlement and rehabilitation (R&R) issues in existing stations and to upgrade NTPC's capability to prepare and execute R&R programs. The total cost of the EAP are estimated at about US\$185 million includes training of NTPC staff and technical assistance to help undertake environmental studies and implement environmental projects. NTPC started the implementation of the EAP started in early 1992 and most of the actions will be completed by 1996. More specifically the EAP includes:

Institutional Strengthening: NTPC has already restructured its organization for environment and R&R at the corporate level. The Environmental Engineering Group is now responsible for carrying out environmental assessments for new projects and pollution abatement measures in existing plants. The Environmental Management Group is responsible for monitoring discharge levels of pollutants and the effectiveness of pollution control equipment. R&R is now the responsibility of a specialized group in the Personnel and Administration Department. The new organizational structure is mirrored at each plant site. Most new positions have been fulfilled and the effectiveness of the new organization will be regularly reviewed.

Environmental management: This component focusses on: (a) developing NTPC's environmental policies; (b) standardizing effluent and emissions disposal and treatment technologies; (c) establishment of additional company training programs, to keep pace with changing environmental regulations, for workers at various management and operations levels, for environment and safety; (d) central follow-up and control on environmental compliance and safety performance of

plants; (e) enhancing environmental, data collection, monitoring and analysis capability; and (f) carrying out of environmental audits.

Environmental Projects: This component includes: (a) ash management; (b) ash slurry water recycling; (c) feasibility studies for ash backfill at abandoned coal mines; (d) ash pond reclamation; (e) ash leachate analysis and groundwater contamination monitoring; (f) electrostatic precipitator upgrade program; (g) retrofitting of closed cycle condenser cooling systems; (h) chlorine handling safety improvements; (i) upgrading spill containment provisions for bulk fuel oil storage; (j) upgrade hazardous material storage; (k) solid waste management; and (l) sanitary wastewater projects.

Resettlement and Rehabilitation: This includes manpower development to enable NTPC to effectively implement the new R&R policy. As part of the new R&R policy, NTPC will also carry out socio-economic surveys to ascertain the present economic status of project affected families (PAFs) of existing power stations and provide, where found to be needed, for funding and implementation of community development programs, including necessary income restoration measures.

The EAP will be implemented by NTPC with assistance of experts from the E7 network, a group of major utilities (Electricite du France, Hydro-Quebec, Ontario Hydro, Tokyo Electric Power Co. Kansai Electric Power, RWE Energie A.G., ENEL and Southern California Edison Corp.) Their assistance will focus on: water and air pollution monitoring, data management, modelling and control; plant energy efficiency; design and operations standards and safety; laboratory operations; human resources development; resettlement and rehabilitation; ash utilization and waste reduction; and, renewable energies. In addition, BEI (UK) will provide assistance to NTPC staff in carrying out environmental appraisals of power plants.

Although the EAP is only in its early stages of implementation, NTPC has already shown its commitment to carrying out the plan. Full implementation of the EAP will not only help NTPC to make its operations more environmentally sustainable, it would become a leader in environmental management of power stations in India, comparable with the best utilities in world.

THE WORLD BANK GROUP

ROUTING SLIP		DATE: February 23, 1994	
NAME		ROOM NO.	
A. SHAKOW, EXTDR		T8-011	
A. STEER, ENVDR		S5-049	
2/23 cc: 18			
☐	URGENT	☐	PER YOUR REQUEST
☐	FOR COMMENT	☐	PER OUR CONVERSATION
☐	FOR ACTION	☐	NOTE AND FILE
☐	FOR APPROVAL/CLEARANCE	☐	FOR INFORMATION
☐	FOR SIGNATURE	☐	PREPARE REPLY
☐	NOTE AND CIRCULATE	☐	NOTE AND RETURN
☒	APPROPRIATE DISPOSITION	☐	
RE: Bruce Rich			
REMARKS: Attached is a second installment on the Africa Region's response to Mr. Rich (I sent you my view); regarding the Guinea Project. We still owe you Côte d'Ivoire.			
FROM K, CLEAVER, AFTDR		ROOM NO. J3-155	EXTENSION 34595

OFFICE MEMORANDUM

DATE: February 18, 1994

TO: Mr. Kevin Cleaver, Director , AFRTD

FROM: Giuseppe Topa, Forestry Specialist, AF1AG

EXT: 34532

SUBJECT: Responding to Mortgaging the Earth



Please refer to your memo to Mr. Michael Grut, former task manager of the Guinea Forestry project that is criticized in Mr. Rich's recent publication.

Below are specific remarks related to the points raised in the publication. The focus is on the project design and what the project has actually achieved during its three years of operation. As you might remember, a detailed response to WWF's criticism on the project was provided to EDS05 in January 1990. This response and relevant background material are also attached for reference.

The project viewed as a deforestation scheme.

The project was never meant to support logging operations. The quoted 75 km of roads in and around the forests were to facilitate protection, silviculture and management. 75 km of roads over 150,000 of forest amount to 0.5 meters of road per hectare, an intensity at least 20 times below the one required for logging in comparable conditions (10 meters per hectare). Hence, these roads do not signal any intention to provide direct support to logging.

To date, not a single km of road has been constructed. Forest protection has been achieved through motivating local forest surveillants. Silviculture operations have emphasized the re-planting of accessible sites for which no new roads have been necessary. A very modest length of one-meter wide observation paths has been opened to facilitate the ecology and biodiversity investigations, and these would naturally disappear.

Management plans have not been completed yet. Their preparation has however been instrumental to generating a very healthy dialogue on management issues involving stakeholders, the Government and the private sector. While some of the issues regarding the intensity of conservation versus sustainable use of forests are still being debated, there seem to be no doubt that conservation will be the main thrust of future management plans, and that these will be implemented as part of a broader framework for development of surrounding areas.

February 18, 1994

Finally, the project has recently made clear its position regarding commercial logging by drawing the government's attention to the need for immediate suspension of the only logging concession near the Dieke forest.

106,000 ha of pristine forest being opened for timber production.

The article allegedly says that real thrust of the project, "hidden in the fine prints", was to open for timber production 106,000 of pristine forest. This point was answered above. I would just like to add that this impression might have been generated by a theoretical assumption made to calculate the project economic viability. Finally according to the project findings the area of pristine forest is below the mentioned 106,000 ha. The exact area will be available by June 1994.

Cleared and cc: Mr. Nkodo (letter only)
cc: AIC Files
F. Dalencour, BB Guinea Forestry.

A:\cleav.mor

OFFICE MEMORANDUM

DATE: February 23, 1994

TO: Mr. Alexander Shakow, Director, EXT

FROM: Antony P. Cole, Chief, EA3AG *AC*

EXTENSION: 82543

SUBJECT: Responding to Mortgaging the Earth

2/24
ci 15

I refer to your memo dated February 16th, 1994 and attach a note on Transmigration that has been reviewed by Mrs. Haug. Please let me know if I can be of further assistance.

Attachment

cc: Messrs. Kaji (EAPVP), McHugh (EXC), Serageldin (ESDVP), Steer (ENVDR)
Mmes. Simons (EXTIP), Haug (EA3DR)
Messrs. Leeuwrik, Baah-Dwomoh (EA3AG), Fisher, Wiranto (RSI)

APCole:rcd

TRANSMIGRATION

Many of the facts presented in Bruce Rich's Book are taken from Bank documents, other statements are questionable or incorrect and as outlined below. However, the Book does not take account of the positive role the Bank has played in the evolution of the program and the positive feedback on the program from the vast majority of settlers surveyed between 4 and 9 years after the first three Bank projects were completed. Also, in so far as Transmigration has provided options for some of the landless poor families, when other options were negligible, the program has had a positive impact on Government's overall success in managing the economy and reducing the numbers of the poor. Indonesia's record in these areas is unmatched by other large countries at its income level.

The World Bank has financed five transmigration and two Swamp Reclamation projects since 1976, involving total lending of about US\$500 million. As with all resettlement, these have been complex and difficult activities with mixed results and some negative environmental and social impacts. While contributing to less than 10% of total program cost, Bank-assisted projects have nevertheless led to improvements in the resettlement programs. These have been particularly important in improving site screening and evaluation, program management, farming systems, procedures for safeguarding the environment, support services for the settlers, and economic and social benefits.

A clear success of Bank support to the Transmigration program was the support given for site selection, which began under Transmigration II - when the difficulty of finding suitable sites first became apparent and was continued under Transmigration III and V. The Bank supplied considerable resources to this effort and the results for site selection and planning are clear even beyond the transmigration program: (i) it gave Indonesia its first country-wide resource/land use/development potential maps collating a large quantity of information from many departments; (ii) a large number of sites were rejected for resettlement based on environmental and social considerations; and (iii) the policy towards Irian Jaya was changed after the potential impact of transmigration on indigenous people became clear. In this context, we cannot confirm that the Book's estimate of 300,000 transmigrants having moved from Java to Irian Jaya is accurate.

Bank-assisted projects directly supported the settlement of about 47,000 families in Sumatra and Kalimantan, and have assisted in the selection of suitable sites and designs for about 400,000 families in Sumatra, Kalimantan and Irian Jaya. We estimate that the transmigration program between 1979 and 1989 has involved the cultivation, by both sponsored and spontaneous migrants, of some 2 million hectares. Though this area is large, much was not in "pristine forests" as claimed by the Book. Most areas were secondary forests and "alang-alang" (grass and shrubland). The transmigration area is also less than two percent of the total forested area of Indonesia, and represents only about 40% of the area under shifting cultivation in the receiving areas. The Bank, has also supported the preparation of master plans that clearly indicate areas suitable for agricultural development and identify areas for conservation and sustainable forest production.

The book underestimates the very positive feed-back of the settlers. Based on a survey of the first three projects financed by the Bank between 83% and 95% of transmigrants were satisfied with their situation. Moreover, in most cases, family incomes are higher than expected, although a much higher proportion comes from non-farm income than was planned. The cost of installing families for the program was \$7000. The Book, thus is not accurate in stating that \$7000 could have kept a household above poverty for 13 years. In per capita terms, the comparison would be 3 years on average for the program as a whole. Moreover, the majority of Transmigrants now have a means of sustaining their livelihoods and have access to land, which they would not have had under a direct financial transfer program.

?unc

While the program has been controversial, the underlying premise that it has caused massive environmental and social damage and has not produced positive results is a gross overstatement. Resettlement is inherently difficult and complex and like other resettlement programs Indonesia's Transmigration program has had mixed results including the projects supported by the Bank. However, taken in the context of the conditions of the mid 1970s and the evolution that has taken place in the program and the economy, there have been major program adjustments from large scale expansion to consolidation and integration in regional development. This has been consistent with the changing population and employment dynamics of the Indonesian economy. The Bank has played a constructive role in helping the Government to make these adjustments and to increase its awareness of the environmental and social impacts of the Program.

(A)

To: Alex Shakow

cc: Leslie Simmonds

From: John Clark *JMC*

Date: February 21, 1994

Response to "Mortgaging the Earth"

I have read the extracts you sent to Aubrey Williams, but find I can make little in the way of comment that will be useful to your task. None of the extracts dealt with involvement of NGOs in Bank-financed projects nor in the Bank's work in the field of participatory development. I don't know if the wrong pages were sent to us but the extracts we received appeared to be a set of random pages, some quite interesting, but often not related to issues that we have particular expertise in. I'll do my best, however.

Pages 1-24 This is a description of the Bangkok Annual Meetings, the enforced resettlement needed to build the Queen Sirikit Conference Center, the PaK Mun dam and other Bank-financed operations in Thailand and a critique of the development path of Thailand.

Comments: The CD will doubtless give more detail, but the key points to make on Pak Mun are:- (a) that the Bank successfully urged the Thai authorities to opt for a project which would displace one tenth the number of the original design; (b) NGO pressure has served to heighten attention to the social and environmental issues at stake and hence has been important, but the decisions must rest with the government; and (c) that there is considerable public support for the project in the country; the Thai population rank electricity supply as one of the most pressing problems; this may be a more representative democratic expression than that of the Thai pressure groups and international NGOs who are opposed to the project.

This chapter describes "the Great Thai Enclosure" debate at the People's Forum; it may be that many NGOs are critical of the agricultural and land policies of the Thai government, but as a participant myself in the People's Forum, it seemed clear to me that the Thai NGOs were focusing on criticisms of Thai policy makers and were not seeking to make the Bank appear responsible. It was noticeable how few Third World participants talked about the Bank and the Fund, but how keen many Northern participants were to draw them into every issue and make them the culprit. The book, for example, suggests a role for the Bank in Thai forest destruction because it, together with FAO and UNDP launched the TFAP, but I don't recollect the TFAP being cited by Thai NGOs as a critical issue (nor is it, surely!)

Similarly, the Bank was neither involved in funding or designing the Q. Sirikit conference center (I think) and so had no responsibility for the resettlement problem. It is unfortunate

that many governments favor prestige developments and neglect investments in poverty reduction; this is something that the Bank is probably doing more to expose and reverse than any other institution in the world. The Bangkok annual meetings were but a small illustration of this phenomenon. When India hosted the ASIAD (Asian "Olympic games") in 1986(?) several stadiums and hotels were built for the purpose as well as new motor-way fly-overs. A high proportion of the country's investment budget and cement went into this one event.

The Bank is presented as being more powerful than it really is. It "shapes the world-view of proponents of big international development, and the Bank is its biggest funder". But to put into context the \$24 billion lending per year is equivalent to what is exchanged on international money markets every 36 minutes. It is private flows of money (both for trade and investment) which does vastly more to influence the course of global development than all official development assistance and lending combined.

This section makes some innuendos about the Bank (or top Bank staff) involvement in the BCCI scandal. It quotes a Washington journalist as saying that there were "a startling number of connections" between the Bank and BCCI, that BCCI had "considered making [Moeen] Qureshi head of First American Bankshares, a Washington-based institution illegally and secretly controlled by BCCI". Also the same sources suggest that Shahid Husain "had close connections with Abedi [BCCI founder] and his crowd and discussed going to work for BCCI". Those individuals may want to counter any slur made, but the Bank may just wish to say that the link suggested is ridiculous and mischievous.

Pages 36-7 Deals with Transmigration in Indonesia. I suggest that the CD and or Gloria Davis comment on this issue. It should be pointed out that a number of NGOs were supportive of the second phase of Bank involvement in this scheme (which focused of rehabilitation of the early transmigration sites).

Pages 130-9 (mostly on Bank-financed operations in Brazil) This suggests that the Extractive Reserve idea was adopted by the Bank in 1987 as a result of public pressure by US environment groups on the Bank. This down-plays not only the role of Brazilian and European NGOs, but also ignores the work of Maritta Koch-Weser and others inside the Bank who were actively involved in developing the concepts

p134/5 suggests that the Bank led other donors into refusing to allow NGOs into the annual donor discussion with Indonesia. As far as I recollect, the Bank was instrumental in the innovative decision to hold a special donor meeting with INGI NGOs on the occasion of the Inter-Governmental Group on Indonesia. NGOs were not present in the official meeting, but then again observers are excluded from most negotiations between governments.

pages 168-9 deal with Rondonia project in Brazil. No comment.

Pages 176-9 deal with the GEF; best to get Nick van Praag to comment.

Pages 282-9 do deal with an issue we are concerned with (grassroots NGOs and movements), but there really is nothing exceptional said here on which the Bank would want to comment

Pages 304-5 again nothing exceptional. This chapter is clearly exploring alternatives to Bank-type development. NGOs are praised, and then it is suggested that NGOs are so small that they couldn't represent aid flows on the scale of the Bank. We could point out that collectively they channel over \$7 billion to developing countries, which is similar in scale to Bank operations.

OFFICE MEMORANDUM

DATE: February 18, 1994

TO: Mr. Aubrey Williams, OPRIE

FROM: Alexander Shakow, Director, EXT

EXTENSION: 31828

SUBJECT: Responding to Mortgaging the Earth

1. Further to my E mail message of February 15, I am attaching copies of the relevant pages of Bruce Rich's forthcoming book for your review. The book has been available in bookstores for a few weeks now and although the publication date is not until next week, it is already getting attention in the media. We believe that we need to respond quickly if negative public opinion is to be minimized.

2. Andrew Steer and I will prepare a package of short pieces to respond to the major issues raised in the book. This will kick off with a cover note that addresses the broad message we want readers to have from our perspective, including a critique of Rich's apparent development "philosophy". (I attach a blurb issued by the publisher's agent which sets the tone!) This overview will also draw from the various individual pieces being done by you and others.

3. We must also react to some of the obvious oversimplifications and distortions in Rich's analysis. A series of individual brief notes are intended to do this. Thus, we ask that you read the attached sections on participation and NGO involvement in Bank operations and give a brief critique. The critique should include a statement of the Bank's view of adjustment and some examples of where Rich's expose is misleading or inaccurate. We do not want a detailed point by point disclaimer of the text, but rather a short (no more than 3 pages) argument outlining the main inaccuracies.

4. Please let me have your response by c.o.b. Wednesday, February 23. Let me know if you need more guidance. Lesley Simmons (ext. 31785) will be working on this in EXT and can also help advise on issues.

5. Thank you very much. This is very important and urgent and we are grateful for your personal attention and time.

cc: Messrs. Adams (OPRDR) Choksi (HROVP), McHugh (EXC),
Serageldin (ESDVP), Steer (ENVDR),
Ms. Simmons (EXTIP)

John,
Could we put our heads
together on this. Lesley
Simmons gives us notice
Friday - since she was
late getting it to me, and
we have an impossible
week next week.
Thanky
Aubrey
2/18

(syn·tax)

January 21, 1994

Dear Editor/Producer:

With the World Bank celebrating its 50th anniversary in July, Bruce Rich's ground-breaking expose -- *Mortgaging the Earth* (Beacon Press) -- tells the organization's untold story.

For the last half-century, time and again undeveloped countries have turned to the World Bank, the single largest source of finance for international development, for financial and economic assistance. But, as Bruce Rich reports in his scathing critique, the World Bank has done irreparable harm to the environment and to the world's indigenous peoples. As a result, we are all now facing the tremendous strain of collapsing economies worldwide.

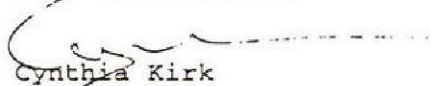
In *Mortgaging the Earth*, Bruce Rich, an internationally known expert on the environment who once consulted for the World Bank, shows how secrecy, bureaucratic arrogance, and a technocratic faith in outdated ideas of progress have fueled a little-publicized but enormously destructive global effort.

Using leaked documents from sources inside the Bank, Rich exposes, most notably, the Bank's involvement in the destruction of the Brazilian rain forest. Rich also shows how our tax dollars have subsidized the debt of private international banks; how repeatedly and without political accountability the World Bank has increased its financial support for regimes that torture and murder their subjects, from Ceausescu's Romania to Suharto's Indonesia.

Bruce Rich, senior attorney for the Environmental Defense Fund, is widely acknowledged as **the** authority on what is wrong with the World Bank. He testifies regularly before Congress, is frequently interviewed, and has written for the *Nation*, *The Ecologist*, *World Policy Journal*, and many other journals.

To discuss Bruce Rich's shocking revelations about the World Bank and how its policies threaten us all, please call me at 718/875-3502.

With best wishes,


Cynthia Kirk

Mortgaging the Earth:

The World Bank, Environmental Impoverishment, and the Crisis of Development
by Bruce Rich (Beacon Press)

384 pages; 6 x 9; Index

\$29.00 clothbound; ISBN 0-8070-4704-X

Publication Date: February 28, 1994

Beacon Press books are distributed to the trade by Farrar, Straus & Giroux.

120 CUMBERLAND STREET, BROOKLYN, NY 11211

718 875 3502

The help and suggestions of all of the people mentioned above have been extraordinarily important, but, naturally, I alone am responsible for the content of this book as well as for all errors.

I am extremely grateful to my employer, the Environmental Defense Fund, for allowing me to spend much of my time last year researching and completing this project. EDF is a remarkably creative institution, one with rare tolerance and flexibility. I would like to emphasize that the opinions and views expressed in *Mortgaging the Earth* are my personal ones and in no way necessarily represent those of the Environmental Defense Fund, its staff, national membership, supporters, or board of directors. EDF is a refreshingly diverse organization, and among the many individuals associated with it one can find a variety of viewpoints on numerous issues, including the ones I address in this book.

Washington, D.C.
June 1993



The Dwelling Place of the Angels

It was Bangkok, the humid summer rainy season of 1991. Thousands of workers toiled day and night on the most expensive public building ever constructed in Thailand, a country of 54 million people. The finance minister was anxious. The government had spent \$100 million, and after nineteen months of around-the-clock work, the gleaming, modernistic palace of concrete and glass still was unfinished. Only a few weeks remained until "the meeting," and national face was at stake.

The minister had other reasons to be worried; despite a special government allocation of an additional \$17 million for meeting-related expenses, there was one problem that no amount of money could cure in a few weeks. The Queen Sirikit Conference Center had to be built in the Sukumvit Road area, a new, rapidly growing part of town; no other place so central could be found to build such a large building, covering well over half a million square feet. But in a city with some of the worst traffic jams on earth, Sukumvit was one of the most congested areas of all. It could take two hours during morning rush hour to get there by taxi from one of the luxurious downtown hotels, and another two hours to return in the evening. Bangkok had quadrupled its population to more than 10 million in less than a generation, and the number of automobiles had increased over tenfold; the city was asphyxiating on its own growth. The traffic would be made worse during the three days of the meeting by the traditional insistence of many of the thousands of delegates on being chauffeured around town in private limousines. The vision of delegates

• MORTGAGING THE EARTH

m all over the world choking on smog in stalled limousines evoked consternation. What to do?

The government, installed by a February 1991 army coup, appreciated the virtues of military-like decisiveness: it would stop traffic and smog by shutting down most of the city. The prime minister announced that October 14 and 15, 1991, would be special national holidays in Bangkok, where more than 50 percent of the country's economic activity takes place. All banks, government offices, schools, and state enterprises would be closed.

This was just the beginning. The government set up a special medical system comprising a helicopter, two ambulances, and 830 doctors, nurses, and technicians, on call day and night, to provide free medical care to the delegates and their families. Bangkok's eight leading hospitals would be placed on emergency alert, and each of the seventeen luxury hotels lodging the delegates was matched with one of them. The director of the Bangkok General Hospital soberly assessed the health risks such a giant meeting would pose: "Our preparations have emphasized heavily . . . treatment of heart diseases, as they must be attended to urgently. All these meetings about money may create anxiety among delegates, many of whom are quite old."¹

Solving these problems only seemed to uncover more, many of them linked to Thailand's remarkable success in the past twenty years as a model of dynamic, export-oriented economic growth. The country's economic transformation had uprooted millions upon millions of people from the Thai countryside. Many of them had come to Bangkok. The city has an estimated half-million prostitutes—women, men, and children—of whom a third may be already HIV positive.

Bangkok's thousands of nightclubs and massage parlors offer one of the most lurid spectacles on the planet. International sex tourism is big business in Thailand, and an important source of foreign exchange. Two-thirds of the country's five million visitors per year are men, and great numbers of them come for sex, many from Germany, Japan, and Australia. In the brave new era of the global—the global economy, the global environment, and global competitive advantage—Bangkok has become the global brothel.²

But would the delegates appreciate—or want to be seen appreciating—all this? Rumors abounded that the glossy German weekly *Stern* was sending its own delegation of photojournalists to stalk the city's most notorious clubs and whorehouses in the hope of catching delegates cavorting at German taxpayers' expense. NBC sent a team to film the meeting. Not just the image of the delegates, but that of the country was at stake. The government sent discreet orders to precinct police to ensure that dancing girls

and boys were clothed during the meeting. The minister of health, an avuncular man popularly known as "Mr. Condom,"³ would circulate at the conference center, handing out souvenir key chains with prophylactics encased in transparent plastic as a warning that the nation faced an AIDS holocaust.* And then there were Bangkok's tens of thousands of sidewalk vendors and hawkers, a clamorous, enterprising bunch. Some in the military and the government felt uneasy with the superficial aura of anarchic unruliness that teeming hordes of street vendors presented—it seemed somehow underdeveloped, at least in comparison with the crystal palace of the new conference center. So the government forbade street vendors from selling their wares around the conference center and the delegates' hotels for the duration of the meeting.

As the countdown to the great meeting continued, there remained the most intractable, embarrassing problem of all. On three sides of the conference center sprawled clusters, indeed whole neighborhoods, of wood and cardboard shacks with corrugated metal roofs—slums—really not so bad compared with those of many other developing countries (the Philippines and India, for example), but squalid and unsightly nevertheless. One could see thousands of the unseemly poor camped on the very ramparts of the new conference center. Like the hapless armies of prostitutes and street vendors, they were rural refugees, many from Thailand's poorest region, the northeast. Fifteen thousand influential people were to fly to Bangkok for a three-day meeting to discuss money and growth—and every time they looked out a window they would see poor people going about their daily life in makeshift shacks of broken wood and corroding zinc.

This was a job for the army, the finance ministry decided. There were over one million slum dwellers in the capital, many of whom had been relocated repeatedly for new construction. The fate of another two or three thousand should pose no new problems. Finance ministry officials proposed to the Thai cabinet in late June that the communities in sight of the conference center be removed by August; the Thai National Housing Authority would provide new housing, eventually, in another neighborhood miles away. The people would be better off—and out of sight.

But the slum dwellers didn't agree; those who could find work were street vendors and day laborers in markets near the conference center; relocating them miles away would destroy the little access they had to a precarious livelihood. They appealed to the prime minister, who arranged a compromise. A total of 647 families in two slums, Duang Pitak and

* In May 1991, almost 3 percent of Thai army recruits and 1 percent of all women attending prenatal clinics tested HIV positive. By the end of the decade, the minister of health estimates, two to four million Thais will be infected.

Long Paisingto, would have to relocate ("voluntarily," the prime minister insisted), but hundreds of others would be allowed to remain in three other slum neighborhoods. Those who remained would be enlisted along with army brigades in a "beautification" program to plant trees and grass and otherwise improve the appearance of their dwellings for the aesthetic gratification of the foreign dignitaries.⁴

In early August, the prime minister toured the conference building for the first time. He was very proud; no one could deny that it was attractive and well designed, and it had been conceived and built entirely by Thais. Outside the entrance, a quarter-of-a-million-dollar gold statue, an abstract sculpture vaguely resembling a giant burning bush, would greet the delegates. According to official accounts, it symbolized prayer. But the prime minister's fancy was particularly captivated by the lavish bar, where so much important business would be conducted. He told reporters how much he appreciated the view from the corners of the barroom and the cafeteria—most of the slums adjacent to the conference center were still visible, thanks to his intervention. Thailand was still a poor country—why should it be ashamed of its own people? The areas to be bulldozed were across the street, not visible from the inside of the building; the delegates could reflect tranquilly on poverty, economics, and money while they munched hors d'oeuvres and sipped Singapore Slings—or could they? The prime minister announced to the Thai press that "the [bar] stools are too small. Foreigners who have big frames may find it uncomfortable to sit on them. I myself had difficulty sitting on them."⁵

Days later, the army moved in to evict hundreds of families from Duang Pitak; most had no more than a week's notice. Much of the vacant land would be used to build a special access road to the conference center to improve traffic circulation. As September approached, electricity and water were cut off to pressure those who still refused to move. Forty-three families huddled in the community school after their homes had been bulldozed away. By October most of Duang Pitak had been razed, and the stragglers were relocated.

The foreigners began to arrive, at first by the scores and then by the thousands and thousands, in the second week of October. The government assigned 6,365 police to ensure security and to guard against terrorism, and a special security budget of nearly \$3 million was allotted to cover the extra cost. Bangkok cops called it "the mother of all meetings." By Sunday, October 13, nearly 15,000 officials, dignitaries, and bankers from 156 different countries would convene in Bangkok.

Meanwhile, a few hundred yards from the convention center, seventy families huddled in army tents underneath an elevated expressway. In one of the tents Kusuma Wongsriuk tended her two-month-old daughter,

Ploy, who coughed and cried incessantly. Ploy had fallen ill after Kusuma and her family were relocated from the Duang Pitak slum. Ploy's older brother, Tha, had also fallen ill with respiratory problems. Kusuma told a reporter that their illness was no surprise—the area under the expressway was dark and damp, and the air was noxious, filled with dust and exhaust. The army tents had no insulation from the humid ground. The families were cut off from electricity and water, and lived by candlelight. Each family received \$240 as compensation, not enough to cover the cost of the new houses they were helping one another build. Many of the men would lose their jobs as day laborers and vendors when they moved to the new houses, and some families could not borrow enough to move; the leaky Thai army tents would be their homes for the foreseeable future. Kusuma was bitter about the money the government had spent for the three-day meeting of well-heeled foreigners. She told a reporter that the compensation the displaced families received was "too small to even pay for their hotel room for a single night."⁶

Across town, another meeting had begun, much different from the one that would take place in the Queen Sirikit Conference Center. At Chulalongkorn University, more than a thousand people, mostly Thais but also sympathetic foreigners, were gathered in a "People's Forum." It was October 8, the first day of a series of alternative meetings that would take place over the next ten days. The People's Forum had been organized by a coordinating committee of more than 200 Thai nongovernmental organizations (NGOs) concerned with the environment, social equity, and alternative economic development.

In the 1980s, NGOs had burgeoned in Thailand, responding to growing social and ecological problems accompanying the country's export-oriented economic growth. The groups were typically small, focusing on specific problems such as health care, village development, and human rights, with stalls of fewer than ten persons, many of whom were volunteers or students. Their annual budgets of a few thousand dollars a year would hardly cover the expense of a couple of short trips to Thailand by one of the development bureaucrats employed by international agencies. Some groups were national in focus, like the Project for Ecological Recovery, which has played a lead role in documenting the ecological cost of government-sponsored development.⁷

Three hundred and fifty villagers from all over Thailand had come to Bangkok for the People's Forum, and they were joined by representatives of Bangkok's street vendors, slum dwellers, numerous students and academics, and spokeswomen for the country's prostitutes. One of the first speakers was a feisty middle-aged woman named Roy Srihaphong, well known as a vocal community organizer and affectionately called "Auntie

Roy." Auntie Roy explained that she lived in Klong Toey, one of the slum neighborhoods adjacent to the Queen Sirikit Conference Center.⁸

Before the packed conference room, Auntie Roy described how she had come from the poor northeast twenty-eight years earlier in search of a better life. After all these years she was no better off, and her makeshift shelter was threatened with demolition. Auntie Roy's voice rose as she described her feelings over the past months as the conference center was built:

I pass it every day, I can see it from my window. It looks like the dwelling place of the angels. We have tried to imagine these thousands of angels arriving in their flying boats—that's what we call airplanes—and we ordinary people wonder if we will ever be able to sit in that meeting room.⁹

The World Bank and the International Monetary Fund were coming to town.

Rich Nomads and Poor

Jacques Attali, longtime advisor to François Mitterrand and president of the newly formed European Bank for Reconstruction and Development (EBRD), had just arrived in Bangkok. Attali had recently published *Millennium: Winners and Losers in the Coming World Order*, in which he portrayed the triumph of the global free market economy in terms both enthralling and distressing. With the demise of the Soviet Empire, the whole world was united by now irresistible multinational economic forces. The market-oriented production of commodities and the forces of consumption reigned over the entire planet more totally than any previous political order or religious movement in history. The new world order described by Attali would be based in the political sphere on pluralism and democracy, a fitting culmination of the past two or three hundred years of Western history.¹⁰

But the French economist saw a dark side to the glorious commodification of the globe, one that threatened the prosperous beneficiaries of the global consumer economy:

From their privileged technological perches, they will preside over a world that has embraced a common ideology of consumerism but is bitterly divided between rich and poor, threatened by a warming and polluted atmosphere, girdled by a dense network of airport metropolises for travel, and wired for instant worldwide communication. Money, information, goods, and people will move around the world at dizzying speeds. . . . Severed from any national allegiance or family ties by micro-chip based gadgets . . . the consumer-citizens of the world's privileged

regions will become "rich nomads". . . . These wealthy wanderers will everywhere be confronted by roving masses of "poor nomads"—boat people on a planetary scale—seeking to escape from the destitute periphery, where most of the earth's population will continue to live. . . .

And they will know that the prosperity that is not theirs partly comes at the price of their well-being and at the price of the environment's degradation.¹¹

At the apex of this economic world order are situated a number of unique public international financial institutions, of which the most important are the World Bank and the International Monetary Fund (IMF).^{*} The Bank and the Fund were established at an international monetary conference of the incipient United Nations, held in 1944 at the New Hampshire resort town of Bretton Woods. Linchpins of the post-World War II international economic order that produced unprecedented global growth, the Bank and the Fund have become the most important public institutions affecting economic development in the world. The IMF mainly lends to countries over the short term to remedy balance of payments deficits, and requires in exchange rigorous macroeconomic policy measures from the borrowing nations to cut internal expenditures and increase exports. In the 1980s, the Fund took on a related but new role in managing and partly financing international debt reschedulings between Third World countries and private international banks.

The World Bank lends about \$24 billion a year to more than a hundred countries to support economic development projects and programs, the total cost of which is over \$70 billion annually.^{**} It manages a port-

^{*} The other major public international financial institutions include three regional multilateral development banks (MDRs)—the Inter-American Development Bank, the Asian Development Bank, and the African Development Bank—as well as the newly created (1990) European Bank for Reconstruction and Development (EBRD). The regional multilateral development banks were founded in the 1960s to lend money to developing countries for large-scale economic development projects in their respective regions. Their structure and operations are largely modeled on the World Bank. The EBRD was established at the initiative of the French government and Jacques Attali to lend to the new market economies developing in Eastern Europe and the former Soviet Union. It too is a public international financial institution, conceived along the lines of the World Bank and regional MDRs. Chapter 3 discusses in more detail the origins and functioning of the World Bank, the IMF, and the post-World War II international economic system.

^{**} The total cost of a project that the Bank supports is typically two to three times greater than the amount of a Bank loan, because of cofinancing from local governments, private banks, and other bilateral and multilateral development assistance agencies (such as the regional MDRs, the U.S. Agency for International Development, and the foreign aid agencies of Japan and the Western European nations). Disbursements on new World Bank loans typically extend over several years, so the actual amount of money the Bank annually pays out is less than the amount of new lending commitments. In 1992 the Bank disbursed \$16.43 billion.

folio of outstanding loans totaling \$140 billion, financing development schemes totaling over a third of a trillion dollars. The World Bank operates on a larger scale than any of the other so-called public international financial institutions. More than any other entity on earth, the Bank shapes the worldview of proponents of big international development, and the Bank is its biggest funder.

The annual meeting of the two Washington-based financial behemoths typically attracts the financial elite of the entire planet: the finance ministers and central bank presidents of the 176 nations (as of 1993) that are members of the Bank and the Fund, as well as high-ranking representatives of the world's leading private commercial banks and investment banking firms. The delegates to the meeting discuss the global economy and international finance, particularly with respect to developing nations. The meetings are above all an unprecedented opportunity for the world's bankers, public and private, to cut deals among themselves and with governments.

An overriding theme of many of the annual meetings in the 1980s was the Third World debt crisis. The response of the industrialized world, led by the United States, was to use the World Bank and the IMF to lend more money to the biggest debtors, such as Mexico and Brazil, while simultaneously promoting loan conditions the objective of which was to push indebted countries to reduce domestic expenditures and to export more. The impact of these policies on the poor in many countries was devastating: real wages dropped, and government health and education services were slashed.* In countries like the Philippines and Brazil, many of the impoverished became shock troops of tropical deforestation, vainly seeking to eke out a living on poor rainforest soils. The goal of the creditor countries was to avoid major debt forgiveness or loan defaults by pressuring poorer nations to earn more foreign exchange to service their debts. The terms for these policies had a sanitized ring to them that gave little hint of their tremendous social impact: officials spoke of "structural adjustment," "policy reform," and "stabilization." In 1991, in Bangkok, the new challenge was to incorporate Eastern Europe and the former Soviet Union into the World Bank/IMF realm.

Two years out of three the annual meeting takes place in Washington. Every third year a foreign city is chosen to host the event. In 1988, it was Berlin. Many Bank and Fund officials remembered Berlin as a uniquely unpleasant place. Mobs of young Germans gathered night after night outside the city's luxury hotels pummeling drums and clanging pots and pans to deprive the delegates of sleep. The lucky few who were lodged in what

was still East Berlin could sleep and move around much more freely, thanks to the solicitous East German security forces. Demonstrators staged a sit-down blockade of the limousine convoys, and most of West Berlin's taxi drivers went on strike for an afternoon as an expression of solidarity. There were several alternative meetings involving tens of thousands of participants, including the convocation of a "Permanent People's Tribunal" to try the World Bank and IMF for crimes against humanity.

The greatest number of police since the Second World War—some 17,000 from all over Germany—were deployed to guard against potentially violent demonstrations and possible terrorism. Irritated Berliners complained that the meeting had transformed their city into "Bullenhaupstadt Europas"—the "cop capital of Europe." On the opening day of the official meetings, 80,000 demonstrators marched through the center of Berlin to protest the policies of the World Bank and the IMF. They carried banners alleging that the Bank and the Fund were destroying global ecological stability through their shortsighted development policies, and "organizing the poverty of the World's peoples."¹²

In Berlin, and now in Bangkok, the planetary boat people and marginalized urban nomads of Attali's nightmarish vision pressed alarmingly close. It was disturbing to think that their existence somehow had something to do with destruction of rainforests and global warming, not in a direct sense, but as simultaneous phenomena emanating from a common source or shared global system. They were an ontological eruption, a rude one at that. It was not so much the people themselves who were threatening, but the untidy and not very understandable reality they appeared to come from. No place was foreseen for this reality in "the dwelling place of the angels." Two worlds were colliding.

What on earth was happening?

Development or Destruction?

After Auntie Roy finished her short speech before the People's Forum on the morning of October 8, others told their stories. A former artillery officer spoke of how his life had been ruined by Thailand's first hydroelectric dam, Bhumibol, financed by the World Bank in 1964. More than 3,000 people were displaced by the dam, and the government-controlled Electrical Generating Authority of Thailand (EGAT) promised the displaced people new arable land and houses, with water, electricity, and a road. The officer, Lert Techa-in, had served his country for thirty years. But EGAT gave him and the others nothing, and twenty-seven years later Lert Techa-in accused EGAT of destroying the economic basis of many

* For more detail on the Bank's role in adjustment, see Chapter 5 and Chapter 7.

lives: "We still don't have electricity or water despite the fact that the site is only one kilometer from the reservoir and 36 kilometers from the power plant at Bhumibol."¹³ Bhumibol was only one of the first of numerous World Bank loans to EGAT for large-scale dams and power plants: sixteen loans amounting to nearly \$700 million were approved by 1991.¹⁴ Other dams that followed in the 1970s and 1980s had names little known outside Thailand: Sirindhorn, Sirikit, Sri Nakharin, Khao Laem. The Sirindhorn dam also displaced thousands, who were resettled on infertile land and suffered increased poverty. The Sirindhorn refugees have been asking for adequate rehabilitation since 1967, to no avail.

In the course of these forced displacements of the poor, EGAT had created a legacy of secrecy and contempt for local opinion, and mistrust among people affected by its projects. EGAT is largely a World Bank creation; in fact, back in the late 1950s, the Bank insisted that the Thai government create an autonomous, independent power agency, which later became EGAT, as a condition for future power loans. The Bank was not only directly responsible for EGAT's birth, it was EGAT's main source of external financing, and thus exercised an important influence in its attention—or lack of attention—to environmental and social matters over the years.¹⁵

In 1980, the Bank promulgated a policy on rehabilitation of populations displaced by large infrastructure projects such as dams (although the Bank insisted that the policy was not retroactive, so it took no responsibility for the thousands of rural Thais it had helped to impoverish through negligent resettlement in earlier projects such as Bhumibol and Sirindhorn). The 1980 policy on its face is an equitable one: the Bank requires borrowers to prepare at an early stage in project preparation a resettlement and rehabilitation plan in consultation with, and acceptable to, the people who will be displaced. The plan must put the "project-affected population" in as good an economic situation as they were beforehand, and preferably in a better one.

At the 1991 People's Forum, though, there were scores of villagers and activists from the vicinity of the latest dam project in Thailand that the World Bank was planning to finance, Pak Mun, for whom the Bank's resettlement policy was little more than a public relations hoax. They claimed the Bank was still ignoring its resettlement guidelines, as well as violating the most basic criteria of environmental assessment. A relatively small project by World Bank standards, Pak Mun was becoming a rallying cry in Thailand for opponents of high-handed technocratic negligence. The dam was to be built in northeast Thailand, near the mouth of the Mun River, the largest tributary of the mighty 4,000-kilometer Mekong. Pak Mun was a 135-megawatt "run of the river" scheme, that is, the dam would create a reservoir no higher than historically recorded maximum

flood levels of the river itself. The Bank and EGAT claimed the project would adversely affect the land of no more than 5,000 people, and require the resettlement of about 2,000 at most. The dam would be built in the middle of Kaeng Tana National Park, one of whose main attractions was the spectacular rapids downstream and upstream of the proposed dam. The Bank and EGAT insisted that the dam would not destroy the rapids.

But EGAT's history of withholding information and its high-handed treatment of villagers affected by its projects fostered tensions that prompted growing civil resistance. In March 1991, villagers from the proposed Pak Mun dam and reservoir area presented the World Bank resident representative in Bangkok with a petition of over 12,000 signatures protesting the project. The villagers asserted that EGAT had threatened them with retaliation if they continued to raise objections—not idle talk in a regime established a month before by a military coup.

In early May 1991, EGAT started building the dam, and on May 21 more than 800 villagers gathered near the site to protest the bulldozing of a small shrine in the construction area. Several arrests were made, and Thai authorities asserted that large public gatherings were illegal under martial law. Later that month, protesters rallying against Pak Mun near the dam site were fired upon by unidentified gunmen.¹⁶ Although an environmental assessment of the project had been prepared in the early 1980s, EGAT continued to refuse any public access to the environmental studies, despite several protests by Thai NGOs to the World Bank, and to EGAT itself.

Finally EGAT agreed, on June 19, to allow a major Thai environmental group, the Project for Ecological Recovery, to view the environmental assessment documents (in English) in an EGAT library 500 kilometers from the dam site. But what EGAT granted on one occasion EGAT would refuse two months later: in August, a delegation of villagers affected by the dam traveled to the EGAT head office in vain to try to view for themselves the environmental assessment.¹⁷

As approval of the World Bank Pak Mun loan became imminent in the autumn of 1991, academics and scientists in Thailand and abroad attacked the assessment as incompetent, but World Bank officials claimed it was a worthy example of sound environmental planning. University of California biologist Walt Rainboth, one of the world's leading experts on the fishes of the Mekong River basin, obtained a copy leaked to U.S. environmental groups by the U.S. Treasury Department. "Although the perception of this report might be as a travesty or caricature," Rainboth wrote, "I suggest it is much more. Based on the importance of the project and the capacity for irreversible damage, the report is *criminal* [emphasis in original]. If something like this were submitted to Congress in order

to solicit funds, its fraudulent nature would deserve criminal indictment."¹⁸

Rainboth, who had spent years studying the Mekong ecosystem, noted that its fish fauna is among the richest in the world, and that the Pak Mun dam would destroy untold identified and unidentified species. He asserted that the preparers of the assessment not only had undertaken grotesquely inadequate studies of the fish in the Mun River, but were so incompetent that they had misidentified the few species for which they did collect samples.¹⁹ Public health organizations and doctors inside and outside Thailand assailed the assessment for greatly underestimating the risks and magnitude of parasitic diseases, particularly schistosomiasis, that might spread with the creation of the dam reservoir.²⁰ (Schistosomiasis is caused by a liver fluke that has crippled and killed millions in the Third World over the past three decades. It is spread by snails that typically proliferate in large man-made reservoirs in the tropics.) The Bank flatly asserted that the risk would not be greatly increased, and that the project would enhance health precautions.

EGAT and the World Bank had much deeper problems to explain away. According to a study of the Project for Ecological Recovery, twenty-six large irrigation and hydroelectric dams have been built in Thailand since 1957, most with the financial support of the World Bank and other international donors. The same study revealed that the nine major irrigation dams in Thailand have actually provided water to only 42.13 percent of the original planned command area (irrigation area) of the projects. Not a single dam achieved its projected irrigation capacity and targets, the best performance being 69 percent of the target area. Only one of Thailand's numerous major hydroelectric dams has achieved or exceeded its projected power benefits during the past decade. Two of the more notorious World Bank-financed projects, Bhumibol and Sirindhorn, are operating at 66.47 percent and 48.61 percent, respectively, of their targeted electric generating capacity.²¹

Moreover, there had been alternatives to many of these projects. At the People's Forum, a representative of the Washington- and Bangkok-based International Institute for Energy Conservation (IIEC) revealed the results of a recent study conducted by the IIEC under the sponsorship of the U.S. Environmental Protection Agency. Investments in energy conservation and end-use efficiency* could free up over 2,000 megawatts of power in

Thailand at a fraction of the cost it would take to build fifteen dams like Pak Mun.²²

In August 1991, the U.S. Agency for International Development sent a researcher, Mark Rentschler, to Thailand to investigate the Pak Mun controversy. He discovered that the World Bank's own project documents for Pak Mun estimated that the amount of power produced by the dam could be provided at less than a quarter of the cost by energy efficiency and conservation measures. In fact, in 1989 the Thai National Energy Administration prepared an \$8-million three-year plan to free up 160 megawatts (26 megawatts more than Pak Mun) by January 1993, almost two years before the scheduled completion of Pak Mun. But the plan did not receive the needed funding, while the World Bank and EGAT prepared a \$55-million loan to support Pak Mun and the expansion of heavily polluting lignite-fired power plants in Thailand's north.²³

Given EGAT's record of technocratic high-handedness and compulsive secrecy, it is no wonder that Pak Mun was the fifth major dam project in three years to be the subject of massive grass-roots protest in Thailand. As a result, the four previous dams were indefinitely postponed: the Nam Choan, Kaeng Krung, Kaeng Sua Ten, and Haew Narok dams. And the Thai activists at the 1991 People's Forum contended that EGAT was only one of numerous Third World offspring of the World Bank, one which the Bank itself claimed was among its better pupils. In Thailand alone, 101 World Bank loans, totaling some \$4.374 billion, had fostered the creation and expansion of several powerful, semi-autonomous state agencies besides EGAT: the Industrial Finance Corporation of Thailand (IFCT), the Thai Board of Investment (BOI), and the National Economic and Social Development Board (NESDB).²⁴ The first two agencies are among the most important entities promoting and subsidizing industrial development, and the NESDB oversees all public investment planning. Thai NGOs asserted that the World Bank had undermined the already weak representative institutions of the country by setting up agencies acting as surrogate governments,* technocratic autocracies unaccountable to democratic political channels.²⁵

As the Thai People's Forum continued on into its second and third days, the focus turned to destructive World Bank-fostered agricultural

such as Thailand, the cost per unit of power for such "demand-side" energy investments is often a fraction—one-third or one-quarter—of the cost of new "supply-side" power plants. The World Bank's negligence of end-use efficiency and conservation investments is discussed in more detail in Chapter 6.

* The Thai groups rightly identified one of the more ubiquitous World Bank mechanisms for influencing developing-country economic policies and circumventing democratic institutions. We shall return to this issue in Chapter 2 and Chapter 3.

* "End-use efficiency" refers to investments in energy use and consumption that reduce total demand for power while achieving the same goals of industrial production, lighting, heating, etc. The power that is freed up can be supplied to new users and thereby replaces power that otherwise would have to be produced through investments in new generating facilities such as hydroelectric dams and coal-fired plants. In newly industrializing nations

policies. Over the past thirty years, the activists alleged, the Bank had promoted programs that encouraged the conversion of huge areas of forest into large-scale exploitations for export crops such as sugar cane, palm oil, cassava, rubber, and, of course, timber.* A typical example is the World Bank's lending for the Rubber Replanting Promotion Fund, starting with a loan of \$50 million in 1976, continuing with loans of \$142 million in 1982 and \$60 million in 1986. Through this fund the Thai government provides subsidies for farmers to convert agricultural land, forests, and smaller, traditional rubber estates into large-scale industrial plantations. Starting in the late 1970s, over twelve years the land area of rubber plantations tripled to over 1.7 million hectares, more than 5 percent of the entire land area of the country. Ninety-five percent of the rubber produced is destined for export, of which half goes to Japan.²⁶ A Moslem farmer from Thailand's south described the impact of the Bank's policy before the People's Forum:

I am so angry about this fund. It promotes the destruction of all kinds of plants. . . . They had been promoting rubber for years, but in 1985 a new government regulation actually forbade farmers to have any other species of tree on land being subsidized by the fund. If they find a mango or jack fruit tree, they charge people about 250 Baht [ten dollars] per tree.²⁷

Fishermen and small-scale rice farmers described the destruction of the coastal ecosystems on which their livelihoods depend, promoted by government tax incentives for export-oriented shrimp farming. The large-scale expansion of industrial shrimp farming helped destroy nearly half the country's coastal mangrove forests between 1985 and 1990, devastating fish habitats and causing the salinization of water supplies for rice paddies.²⁸

By 1988, some 15 million hectares, nearly half the entire land area of Thailand (totaling 31.7 million hectares) had been allotted to private logging concessions, and another tenth of the country—3.2 million hectares of forest and farmland—had been converted to export crop production.²⁹ Thailand's forest cover had declined from 53 percent of its area in 1961, to 28 percent in the late 1980s, setting the stage for widespread erosion.³⁰ In November 1988, heavy rains unleashed unprecedented floods in the south, where so much forest had been destroyed. Hundreds died, and a

* One authority on Thai forests, Larry Lohman, writes, "The economic policies promoted by the World Bank in Thailand, in short, could hardly have failed to promote uncontrollable deforestation, no matter how finely they were tuned" (Lohman, "Trees Don't Grow on Money" [see endnote 34], 1). On deforestation, growing social inequity, and the occupation of forests in Thailand and Southeast Asia by vested economic interests, see Gopal B. Thapa and Karl E. Weber, "Actors and Factors of Deforestation in 'Tropical Asia,'" *Environmental Conservation* vol. 17, no. 1 (Spring 1990): 19-26.

national outcry led the government to proclaim a ban on all logging in January 1989.*

The Great Thai Enclosure

The People's Forum of 1991 portrayed a tremendous economic, social, and ecological transformation through which Thailand's natural resources and entire land area were increasingly organized for intensive exploitation with a heavy bias toward earning export revenue. The physical occupation of so much of the country's land by large-scale development schemes over the past two decades had created millions of landless farmers. Many ended up as urban refugees in Bangkok. An estimated 10 million landless were subsisting on land administered by the Royal Forest Department. Many of them had been evicted from their ancestral lands by dams, logging concessions, and large-scale agricultural and industrial undertakings, as well as by strategic resettlement programs organized by the military in past years against communist insurrections.

It was a process that was profoundly undemocratic, ecologically devastating, and politically regressive. More than one observer compared this transformation of the Thai countryside to the enclosure of half of England's arable land that began in the late Middle Ages.**

There was no better example of the "enclosure" of Thailand's rural lands than a huge scheme that the Thai Royal Forest Department and the military touted as an unprecedented reforestation project to benefit the environment. The goal of the Khor Chor Kor program (the Forest Reserve Agricultural Land Resettlement Project) was to free up huge tracts of land administered by the Royal Forest Department for tree replanting. The first phase focused on Thailand's impoverished, drought-prone northeast, where over 1.25 million people were to be resettled over a five-year period starting in 1991. They would be forcibly evicted from about 1.5 million hectares of land and resettled onto an area only half as large which was already occupied by more than 2 million other poor Thai farmers. The government would transfer the 1.5 million hectares to large-

* However, the ban was difficult to enforce, and some illegal logging continued. Thailand's loggers and military also began to seek forestry concessions in neighboring, more pristine countries such as Burma and Laos.

** The great lords, eager for cash revenue, fenced off huge areas of formerly common grazing and pasture lands, whose customary use was essential for the survival of most of the English yeomanry. The process of enclosure lasted hundreds of years, engendering poverty, uprootedness, and suffering for much of England's population; it forged the urban masses of eighteenth- and nineteenth-century Britain and the human raw material for the Industrial Revolution and the modern English working class.

scale private industrial owners, who would plant and manage eucalyptus plantations to produce paper pulp for export. Thai-Japanese joint ventures and Royal Dutch Shell were among the prospective investors.³¹

The villagers, supported by Thai academics and environmental activists, asserted that with much less expense and human suffering reforestation could be achieved through community forestry programs administered by and belonging to the farmers themselves, using local tree species. Large-scale eucalyptus plantations would be an ecological disaster, they argued, since the fast-growing exogenous trees destroyed soil fertility and depleted water tables in semi-arid regions like the Thai northeast. Furthermore, the eucalyptus monocultures were monotonous and poisonous green deserts, sustaining virtually no biological diversity; the leaves were noxious to most animals, and the hardy, fast-growing trees outcompeted all indigenous species of plants for nutrients and water. Worse, remaining areas of natural forest in the northeast were being illegally logged so they could be replanted with the profitable tree.³²

In 1990 and 1991, sparks of resistance to the Khor Chor Kor scheme ignited. In the Pa Kham district of Buri Ram province, twelve villages with more than 2,000 families were surrounded in early 1991 by hundreds of soldiers who threatened to burn their houses if they refused to leave. The villagers argued that the Royal Forest Department was actually encouraging illegal logging in 12,000 acres of remaining natural forest in the area, so that the whole region could then be replanted. A local Buddhist monk, Phra Prajak Khuttajitto, led many of the protests. The villagers confronted the illegal loggers in nonviolent standoffs, and under the leadership of Phra Prajak ordained older trees with the saffron robes of the Buddhist priesthood in an attempt to make felling of the old forests literally a sacrilege. In the spring of 1991, Phra Prajak led a special ceremony over a period of months, in which hundreds of villagers encircled the entire Dong Yai forest with a continuous sacred Buddhist string that he had blessed. Through the spring and summer of 1991, there were continual skirmishes between villagers and the army, and Phra Prajak was arrested and released several times.³³

In September, Phra Prajak was arrested again for leading a group of 400 people in a protest against a military incursion that was attempting to carry out Khor Chor Kor in a nearby village. He was manhandled, and several villagers were beaten by government troops. As the World Bank meeting approached, Phra Prajak went into hiding.

With the Khor Chor Kor program, too, the World Bank, together with other multilateral aid agencies such as the Food and Agriculture Organization of the United Nations (FAO), and the United Nations Development Program (UNDP), played an indirect but Mephistophelean role. The three

agencies had generated an ambitious international effort in the late 1980s known as the Tropical Forestry Action Plan (TFAP), originally advertised as a plan to save the world's endangered tropical forests. The TFAP, of which the Thai "Forestry Sector Master Plan" was an offshoot, evolved into an unprecedented scheme to prepare forestry development plans for nearly all developing countries. With international funding, a giant Finnish pulp and forestry consulting company, Jaakko Poyry, was commissioned to prepare the Thai plan. Jaakko Poyry's worldwide experience includes numerous logging, pulp, and eucalyptus-planting schemes in the Brazilian Amazon, Malaysia, Burma, Indonesia, and numerous other countries. A main thrust of the plan's terms of reference (it will not be completed until late 1993) is to focus on expanding forestry production and on increasing Thai forest exports through support for eucalyptus plantations. According to one observer familiar with the plan, it "has suggested an eventual lifting of the 1989 logging ban."³⁴

The Economics of the Global Brothel

Indeed, the impassioned and disturbing People's Forum seemed to confirm what the arriving World Bank delegates across town already knew; whether the topic was eucalyptus or prostitution, it all came down to a matter of growth. Thailand's economy had grown faster than that of any other nation on earth in the early 1990s; the country had also had one of the highest increases in prostitution. Speaking before the People's Forum, Nongyao Naowarat, an education professor from Thailand's north, laid out the economics that had transformed Bangkok into the planet's brothel.

Nongyao observed that the model of development promoted by the government and international agencies like the World Bank had increased the gap between rich and poor and deprived the poor of access to the natural resources on which their livelihoods depended. She noted that most of Bangkok's prostitutes came from poor rural families in the country's north and northeast. In the north, 30 percent of the rural population was landless, and another 20 percent of farm families owned less than one rai, two-fifths of an acre. Women working as day laborers on larger farms producing export crops were paid between \$1.20 and \$1.60 a day; in factories they earned between \$.80 and \$2.00 a day. Dozens of golf courses and vacation condominiums were being built in the north, many for Japanese businessmen, who found it cheaper to fly to Thailand to play golf over a long weekend than to pay the astronomical membership fees of Japanese golf clubs. Tending grass, working as waitresses, or caddying

at golf clubs, a northern woman could earn between \$32 and \$60 a month. Prostitutes could average between \$400 and \$800 a month, and the younger, prettier, luckier ones in Bangkok could have several good years averaging over \$20,000 annually. "These are the kind of jobs the government has presented to the women of the North. Which of these jobs should they choose?" Nongyao asked.³⁵

Development as if People Mattered

Bangkok that week in 1991 was a tale not just of two cities, but of two separate planets. At the official meeting, the 156 governors of the Bank and the Fund—most of the world's finance ministers and central bank presidents—delivered, as in past years, stale canned statements on the need to spur expansion of the international economy and on the year's past events, namely the collapse of the communist world. The earth as seen from the Queen Sirikit Conference Center seemed a strangely featureless, homogeneous surface, where disembodied forces such as debt, adjustment, poverty, and the environment interacted with one another on a global scale; when something bad happened, it was called a trade-off. The only other identifiable actors were states. The fundamental solution to nearly every problem was growth, which, the speakers insisted, had to be sustainable. On this uncanny planet of the finance bureaucrats it was hard to detect individual human beings or communities making decisions or assuming responsibilities, and nonhuman forms of life, though known to predominate on Planet Earth, were strangely invisible.

The earth of the People's Forum seemed to be a different world: much of its land surface was occupied by people whose daily lives were linked to the existence of other species of animals and plants. Their livelihoods often depended on forests, watersheds, river valleys, and wetlands—which were increasingly threatened all over the world. Logically enough, their communities had often (but not always) developed practices that provided economic benefits, albeit on a local, modest scale, while ensuring ecological security. And they were fighting to safeguard this security.

In Thailand, for example, the movement to "ordain" trees and whole forests had spread all over the country; in more and more areas one could see large, old trees encircled by bright-orange monks' robes. Villages in many regions depended on and maintained traditional community forests that provided villagers with a variety of foods and medicinal herbs while protecting water tables and watersheds. One of the most interesting examples was a case study presented by the Project for Ecological Recov-

ery on Thailand's traditional irrigation system, *muang phai* (which literally means "dam, channel").³⁶

In the hill areas of northern Thailand, nearly 80 percent of the rice fields are still being irrigated by *muang phai*. This technology is small in scale and simple: weirs are built of mud, logs, bamboo, and sticks to impede but not block the flow of streams and small rivers; a system of channels brings the water to the rice fields. The weirs are intentionally built to allow a continual flow of water, and of silt and sediment. This feature is a crucial one; small concrete irrigation dams built in the north by the government were actually ripped down in some cases by villagers because they rapidly accelerated the siltation of the irrigation reservoirs and channels behind them by not allowing sediment and sand to flow through.

The most critical features of *muang phai*, however, have little to do with technology and everything with social organization and local management. Each *muang phai* dam has a local user committee, with members responsible for its maintenance. The committee agrees on an equitable sharing of both water and work for upkeep, usually in a written or oral contract which the committee reviews every year. Most important from an ecological standpoint, the *muang phai* committee also assigns responsibilities to its members for the protection of critical upland community forests on the watershed of a given stream. Numerous movements against illegal logging in the north in the late 1980s were led by such *muang phai* community water organizations.

It is in this context that large irrigation schemes, many supported by World Bank loans for large multipurpose dams like Bhumibol and Sirikit, had a disastrous impact on what had been an integrated, sustainable local system for watershed management. Control of water and conservation of watershed forests were taken out of the hands of villagers and entrusted to government agencies, the Thai Royal Irrigation and Royal Forest departments, and to large private undertakings. In some instances, the Irrigation Department, with advice from organizations like the World Bank, tried to recreate "participatory" local water-user committees, since local participation and involvement were viewed as essential for the maintenance of the systems. But such clumsy top-down efforts failed, since it was difficult to interest local farmers in intensive management of resources over which they had lost all control.

The financial cost of this destructive approach to development is immense. The Royal Irrigation Department has been increasing its budget for maintenance every year, and its growing foreign borrowings to finance large dams can only be repaid through increased export earnings, or

through further borrowing. Ironically, the *muang phai* committees collect voluntary contributions of both materials and labor from farmers for maintenance, at no cost to the government or to the national economy. In fact, construction and maintenance of the *muang phai* systems is for the most part not monetized or realized in the market economy.

The Bangkok People's Forum ended on Thursday, October 10, 1991, with a call to halt the destruction of the country's ecological stability and to reverse the ongoing economic and social marginalization of millions of Thais. The chairman of the forum, Professor Saneh Chamarik, singled out the World Bank and the IMF: "These agencies must stop thinking only about economic growth numbers because these numbers have destroyed people's lives as well as the environment." He condemned the secrecy of both organizations, and called upon them "to recognize people's basic human right of access to information about projects that will affect their lives." The Thai NGOs called for "development as if people mattered," which would put a priority on decentralized, local management of resources.³⁷

The following week hundreds of representatives of nongovernmental groups from more than forty countries attended the continuation of the nongovernmental meetings, the International Forum. Speakers from India, Brazil, Bangladesh, Indonesia, the Philippines, Malaysia, and other developing countries presented more case studies of local resistance, and alternatives to large-scale internationally financed development gone awry.

The Ball of the Nomads

During the official meetings, the world's leading banks and investment firms hosted lavish evening receptions and buffets in Bangkok's luxury hotels, as they had done every year before in Washington, Berlin, and other cities. Many big Japanese and American financial concerns had something in common to commiserate about this year: the growing number of scandals and swindles that had clouded the image of both communities. While Michael Milken was a well-known name,* few had heard of Nui Onoue, an Osaka restaurant owner and spiritualist who had used forged certificates of deposit to obtain over \$1.8 billion in loans from the Industrial Bank of Japan (IBJ), the country's most respected

financial institution. Onoue, a superstitious sexagenarian, had held seances with stockbrokers in the back of her Osaka tearoom to invoke other-worldly aid in stock picking. She was now in jail.³⁸

If there was anyone who was happy to be in Bangkok that October, it was Yoh Kurosawa, IBJ's chief. In September he had spent two weeks hiding in a Tokyo hotel room, after sending his wife and children to Europe to escape a feeding frenzy of Japanese press who had encircled his house in a day-and-night siege, shouting questions about IBJ's losses every time he emerged.³⁹ The IBJ reception at the Bangkok Hilton International Hotel was one of the more lavish and elegant ones: there was the expected champagne and caviar, but also a string quartet in black tie that played Mozart and Handel.

The biggest scandal, however, had involved many of the institutions represented at Bangkok—including the World Bank—for the most part, but not entirely, unwittingly. Only three months before, banking regulators and bailiffs in more than fifty countries had shut down the Bank of Commerce and Credit International (BCCI), an international bank based in Luxembourg and the Caymen Islands that had perpetrated the greatest financial fraud in world history. BCCI, founded by a charismatic Pakistani con man named Agha Hasan Abedi, had been the world's fastest-growing bank for two decades; its miraculous development was made possible by fraudulently misrepresenting its largely fictitious capital of \$20 billion and serving as a money-laundering conduit for, among others, the Medellín Cartel, General Manuel Noriega, the CIA, and the terrorist Abu Nidal. BCCI avoided collapse for so long by relentlessly seeking out new deposits from any source and by any means possible: one of its most important strategies was to bribe finance ministry and central bank officials of developing countries to deposit with it national hard currency reserves; another was to offer high-ranking government officials unrecorded secret accounts for moving capital out of their countries. Before BCCI's collapse, Bangladesh, Barbados, Belize, Cameroon, Guatemala, Mauritania, Nigeria, Saint Kitts and Nevis, Pakistan, Togo, Trinidad, Tunisia, Venezuela, and Zimbabwe had all entrusted some of their hard-earned foreign exchange to the rogue bank, and most of them—along with more than a million other depositors, many of them expatriate Third World workers in the Middle East and Europe—lost most of their money.⁴⁰ In the small southern African country of Swaziland, BCCI functioned as the central bank.⁴¹

Winning the confidence of and being associated with the World Bank was a critical element in BCCI's strategy. In fact, one of the main functions of the Washington office of BCCI was to cultivate relations with the Bank—with some success. The World Bank had what *Wall Street Journal* reporter Peter Truett and Washington journalist Larry Gurwin characterized as "a

* Michael Milken epitomized the "go go eighties" on Wall Street: he earned \$500 million in a single year and led his firm, Drexel Burnham Lambert, to unheard-of profits by virtually inventing and dominating the market for high-interest, high-risk corporate "junk bonds." Milken entered a federal prison on March 3, 1991, to begin serving a ten-year sentence, after having pleaded guilty to six felonies, including insider trading, fraud, and bribery.

startling number of connections" with BCCI. The official who effectively ran the World Bank from 1988 to early 1991 was its senior vice-president for operations, Moeen Qureshi. BCCI had considered making Qureshi head of First American Bankshares, a Washington-based institution illegally and secretly controlled by BCCI. Just months before the Bangkok meeting, Qureshi's brother had applied for a banking license with BCCI in Pakistan. The vice-president of the World Bank for Latin America, Shahid Husain, according to Truell and Gurwin, "had close connections with Abedi and his crowd and discussed going to work for BCCI with [World Bank] officials," and BCCI directly employed several prominent former Bank executives.⁴² The Bank used BCCI as its disbursing agent on occasion in several African countries.^{43*}

BCCI would certainly be missed by some of the people at the Bangkok meetings. The last time the Bank and the Fund held their annual extravaganza in a developing country—in Seoul, Korea, in 1985—BCCI officers were indiscreetly handing out cash bribes on the spot to Nigerian Central Bank officials as they made the rounds.⁴⁴

On Tuesday, October 15, 1991, the new head of the World Bank, Lewis Preston, delivered the traditional Bank president's opening address in the imposing grand hall of the Queen Sirikit Conference Center before 2,000 assembled delegates. This was the moment, if any, for which all the efforts of the past twenty months had been expended: the building of a \$100-million conference center in record time, the eviction of nearly 2,000 slum dwellers, the unprecedented mobilization of medical teams and security police on twenty-four-hour alert. As befitted an ex-marine and former head of the Morgan Bank, the speech had a straightforward, upbeat tone. Listening to Preston, one realized that one lived in the best of all possible worlds, given the circumstances: the industrial countries were poised for more growth, the world was becoming an integrated global market, progress was being made in managing the debt of the poorer countries, and the fall of the Soviet Empire had led to "the broad convergence of development thinking which has replaced ideological conflict." He suggested that a global consensus—on the need for free markets, sustainable economic growth, and a proper balance between the role of government and the private sector—was enveloping the world.⁴⁵

There were challenges, of course. "The pace and complexity of change

have been staggering in the last few years. The competition for capital and markets has increased. Nations of the world have become increasingly interdependent." He pointed out a paradox in this brave, uniform world, where expanding networks of communications and trade collapsed time and space to draw all places and people closer together: the new order engendered strong centrifugal forces within nations, and environmental problems that "have become steadily more urgent."⁴⁶

But for what? And why? Why had all these important people come so far, at such great expense? Why the receptions, the cocktail parties, the canned speeches of the financial rulers of the world? Why did Thailand spend tens of millions of dollars for a three-day event? Why did this exotic and ostentatious bankers' potlatch take place every year? Was it a strange anthropological rite, a convocation of the new, rich global nomads? What to compare it with—the great camel fair at Pushkar in Rajasthan, where thousands of livestock merchants and scores of castes from all over India gathered every year in a great ritual that was much more than a market or a meeting? And what was the purpose of this roller-coaster world the World Bank president painted—of growth, competition for capital and markets, integration and centrifugal forces? Why, in fact, had 2,000 slum dwellers been evicted from the Duang Pitak and Klong Paisinto shantytowns across the street in two and a half months? Why were seventy evicted families still living in tents 400 yards from the conference center as Lewis Preston gave his speech?

The World Bank's president told the assembled delegates why: "This morning I want to discuss how we can take advantage of the opportunities and deal with the challenges before us, so that we can make progress toward our ultimate objective—the reduction of poverty." In case anyone had any doubts, he restated the point: "Poverty reduction, to which I personally am fully committed, remains the World Bank Group's overarching objective."⁴⁷

"And how do we plan to realize this objective?" Preston asked. First and foremost, the World Bank "must serve as a strong leader of the worldwide development effort." The Bank would "articulate the interests of developing countries" in countless international meetings and negotiations, and "help coordinate the efforts" of innumerable government agencies and nongovernmental organizations around the world. It would "take into account the interests of the poor so that growth is equitable; environmental aspects so that development is sustainable . . . and the role of women who are vital to the development effort." More concretely, Preston pointed out, the Bank needed more money. And to move more money, "we must speed up our decision making and improve our responsiveness."⁴⁸

* These World Bank associations appear to be purely circumstantial. Many were fooled by BCCI, including Jimmy Carter and Andrew Young, and others were criminally indicted in connection with their association with the rogue bank, like Clark Clifford. There may be much more to uncover about World Bank-BCCI connections in the huge volume of documents that were seized from BCCI offices in Washington and are now dispersed among the U.S. Justice Department, the Federal Reserve, and the New York District Attorney's Office.

This vision—the bureaucratic, institutional memory of the World Bank, regurgitated and articulated by a committee of speechwriters—was giddy-ing. Lewis Preston, Jacques Attali, Yoh Kurosawa, and 15,000 bankers and officials had come to Bangkok to help Auntie Roy, Kusuma Wongsrisuk, and 2 billion other poor all over the planet. And now, Lewis Preston told the representatives of 156 countries, the World Bank needed a lot more money to do it. Not to be outdone, Michel Camdessus, chief of the International Monetary Fund, emphasized in the conclusion of his speech the need for the major industrialized nations to support a \$180-billion increase in the lending capital of his institution.

A few hours later, across town, 20,000 Thais peacefully marched, defying the warnings of the military, to protest the eight-month-old dictatorship and to demand a return to democracy.

“If People Mattered . . .”

The next day, Wednesday, October 16, 1991, numerous World Bank delegates departed; many had only stayed two or three days. The Thai government was content; “the meeting” had come off without many hitches, and the country’s international image would be enhanced. More than a thousand delegates had availed themselves of the free health services offered by the meeting’s organizers. There was only one death: a Turkish banker inadvertently killed himself with a self-administered heroin overdose.

The nongovernmental International Forum also came to an end. Activists from forty-three countries signed a declaration urging the rich nations of the world to reduce their financial contributions to the World Bank and the IMF. The declaration condemned the global development model promoted by the Bank and the Fund as environmentally disastrous, socially inequitable, and economically unsustainable. It reiterated the call of the Thai People’s Forum the week before for democratic, locally based development “as if people mattered.”



Decade of Debacles

The contrast between the official and nongovernmental meetings at Bangkok in October 1991 revealed the contradictions of a planetary social and ecological transformation that is without precedent. This transformation entails nothing less than the final physical occupation and domination of the entire surface of the earth. The processes that had transformed Thailand over the past decade were at work on a larger scale in much of the developing world. Massive internationally financed development schemes were unleashing ecological destruction and social upheaval in areas larger than many American states or European countries. Huge forests had been destroyed, gigantic river basins filled with dams, and vast agricultural expanses consolidated into larger holdings for export production at tremendous ecological cost. What was occurring was not a reasonable, measured process to increase economic welfare, but the destruction of natural and social systems whose endurance are the prerequisite, and the goal, of any sane project for longer term human development.

A large part of the earth’s land surface had become a global battlefield where millions of species were being exterminated and tens upon tens of millions of the world’s poorest people were being involuntarily uprooted and resettled. Ongoing World Bank projects were forcibly resettling more than one and a half million people worldwide, and projects in preparation would displace at least another million and a half people—appalling figures, given the Bank’s poor record in dealing with resettlement. In India alone, officially sponsored development projects had evicted more than 20 million poor from their lands and homes, mostly without compensation, since independence in 1947—2.5 percent of the current population. Increasingly, the displaced and the uprooted were protesting, actors in a larger planetary drama in which the World Bank was a leading protagonist.

grants"). World Bank Transmigration and "nucleus estate" loans went directly to resettle 71,000 families, or about 355,000 people, in Sumatra and Kalimantan. More critically, Bank loans financed the planning and site selection for the resettlement of 400,000 families, or at least 2 million additional people. In total, the World Bank can take credit for assisting in the "official" resettlement of 2.3 million people, and for catalyzing the resettlement of at least 2 million more "spontaneous" migrants.²⁵

Indonesia Transmigration left a legacy of environmental ruin. World Bank documents suggest that since the beginning of its own involvement, in the late 1970s, the program has cleared between 15,000 and 20,000 square kilometers of forest. In reality, the area is probably at least 40,000 to 50,000 square kilometers, representing over 4 percent of the forested area of Indonesia and .3 percent of the remaining tropical forests on earth.²⁶ A 1989 Indonesian government study indicated that sponsored and unsponsored resettlement in Indonesia's mangrove forests and swamps—the most extensive in the world—had converted about 35,000 square kilometers of wetlands alone.²⁷ A later World Bank study estimated that in the late 1980s deforestation in Indonesia was proceeding at a rate of roughly 10,000 square kilometers a year; one-quarter of this was caused by development projects, both public and private, and half by conversion of forests in the outer islands for agriculture, of which by far the most important cause was Transmigration.²⁸ (The remaining deforestation resulted from logging and fires.)

The social and developmental record of Indonesia Transmigration is equally dismal. By the late 1980s it had become abundantly clear that the scheme had made millions of poor people worse off. Resettlement sites in cleared mangrove forests and wetlands were beset by environmental calamities of biblical dimensions: acidic peat soils, flooding, paltry agricultural yields, and plagues of insects, rats, and wild boars. And these problems were compounded by the results of totally inadequate planning, such as poor access to markets. As in Polonoroeste in Brazil, promised agricultural extension services and inputs failed to materialize, and many people ended up trying to practice subsistence agriculture on some of the poorest soils on earth, garnering occasional cash income in the growing slum cities of the outer islands. In wetland and swamp areas, 40 to 50 percent of the settlers simply abandoned the sites.²⁹

By 1986, the World Bank's own review of Indonesia Transmigration indicated that 50 percent of the households living on project resettlement sites were living below the poverty level*—estimated at the time as an

* The Bank argues that since the transmigrants are drawn from the poorer segments of the population, they are on the whole better off because 50 percent are now above the poverty line. (World Bank, *Indonesia Transmigration Sector Review* [see endnote 21], xiv–xv.)

income of \$540 per year—and 20 percent were living below the subsistence level.³⁰ This was an astounding result, given that the average cost of installing a household, if given as a handout, would have kept a household above the poverty level for at least thirteen years. In the late 1980s, a French survey revealed that 80 percent of Indonesia Transmigration sites failed in terms of improving the living standards of their inhabitants.³¹

The most distressing situation was in Irian Jaya, where part of the World Bank Transmigration V loan planned and identified relocation sites for at least 15,000 families, or more than 75,000 people. For each "sponsored transmigrant," the government hoped to attract an equal number of "spontaneous" settlers, and by 1990 more than 300,000 Javanese had moved to Irian.³² Irian Jaya is one of the world's great reservoirs of biological and cultural diversity. Most of its 417,000 square kilometers is pristine rainforest and wetlands, and of its 1.2 million inhabitants, 800,000 are tribal Melanesians, speaking at least 224 distinct languages. Here, critics argued, Indonesia Transmigration was little more than a strategic military program to "Javanize" an ethnically and politically unreliable province in which a guerrilla insurrection had festered ever since the Indonesians annexed it from the Dutch in 1969. Many of the resettlement sites were near the border with Papua New Guinea—a rather suspicious placement, given that this was precisely the area where the Free West Papua Movement, the OPM, focused its activities, using the hinterland in Papua New Guinea as a safe refuge from Indonesian troops.³³

Irian Jaya's cities—Merauke and Jayapura—filled with refugees from the failed resettlement sites. Only a third of Merauke's inhabitants were Irianese, and many among the swollen, ex-transmigrant population had turned to the occupations of the poor in Java—prostitution and the scavenging of tobacco from discarded cigarette butts. Indonesia Transmigration was evicting the Irianese from their land, and violent conflicts erupted. At a site called Arso IV in the north, local Irianese massacred thirteen settlers and wounded many others in an incident in 1988, and further assaults and killings took place at two other resettlement sites (Arso I and II) in 1989.³⁴

Through the 1980s, numerous nongovernmental groups around the world called upon the World Bank and other development agencies to halt their support for Transmigration. Indeed, Indonesia's growing network of nongovernmental groups was particularly courageous in publicly calling upon the Bank to at least reconsider its approach to the program, and to focus future funding on rehabilitation of existing settlement sites rather than promoting their expansion. This was not an easy position, given the Indonesian's military regime's focus on Transmigration as a national security priority.

In the late 1980s, the World Bank changed its priorities along the lines

demned the Brazilian government and the World Bank for the devastation of the forest exemplified in Polonoroeste, and called for a new Amazon development policy based on the principle of "Amazonia for the Amazonians."⁴⁸

A highly effective collaboration evolved among the rubber tappers, their supporters in Brazil (groups affiliated with human rights organizations and NGOs like Mary Allegratti's Institute for Amazon Studies), and environmental activists outside Brazil, particularly environmental groups in Washington and the U.K. Over the next three years, Mendes and other Brazilian activists such as Mary Allegratti and Ailton Krenak, leader of the Union of Indigenous Peoples, traveled to Washington to lobby officials of the World Bank and IDB. Mendes met with Senator Kasten and other members of Congress and their staffs, and traveled to Miami in 1987 to lobby the governors and executive directors of the IDB at their annual meeting. He received two international environmental awards, one of them from the United Nations Environment Program.

Just before Christmas 1988, Chico Mendes was murdered, a death foretold. The patriarch and the son of a local ranching family had threatened to murder Mendes for nearly a year. Several of his predecessors, union leaders in Acre, had been murdered before him, and through the early 1990s the killings continued, part of an escalating dynamic of rural violence in the Amazon, exacerbated by the social tensions unleashed by the huge internationally financed development projects of the 1980s.

By the end of 1986, the intense public pressures of U.S. environmental groups on the World Bank and the IDB created a unique opportunity: the multilateral banks were eager to grasp any chance to show they were considering alternatives to their projects in northwest Brazil. Through that year, Steve Schwartzman and Mary Allegratti prepared a study on the economic, legal, and financial feasibility of setting up extractive reserves in the Brazilian Amazon. In early 1987, the Environmental Defense Fund (EDF) forwarded the report to the U.S. Treasury Department, which circulated it to the World Bank and the IDB. In a memorandum to the U.S. executive director of the World Bank dated April 2, 1987, none other than Ernest Stern wrote:

We fully endorse the recommendation of the report for the establishment of extractive reserves in the Amazon region. At present, these reserves are the most promising alternative to land clearing and colonization schemes, which are often questionable in environmental terms. The establishment of these reserves would permit the simultaneous conservation and economic development of large tracts of primary forests in the Amazon region, and, by attending to the long neglected needs of traditional rubber tappers, would have important social benefits as well.⁴⁹

Stern's memo was a remarkable about-face. After all, the World Bank for over two decades had been the preeminent international funder of disastrous forest-clearing and colonization schemes, and not just in Brazil. Washington generates yearly thousands upon thousands of pages of reports and recommendations on foreign aid, international development, and the global environment, many of which are rarely read even by the staffs of the institutions that prepare them. If one were to take Stern's memo at face value, the short rough draft of a report authored by two anthropologists employed by environmental groups had convinced the operations chief of the world's biggest employer of development economists of the error of its ways.

In fact, public and congressional pressure was growing and the press was beginning to portray the World Bank as an environmental ogre, ruining fifteen years of Bank public relations work. Just as Samuel Johnson observed that nothing concentrates a man's mind so effectively as the prospect of being hanged in twenty-four hours, so it might be said that the attention bureaucracies are willing to give to outside proposals that they change their ways has a strong correlation with credible threats to their funding.

Following Stern's reversal, the Bank and the IDB began to consider reprogramming part of the remaining disbursements for Polonoroeste and the Acre road loans to support the creation of extractive reserves. The two institutions also reprogrammed funds to provide for increased protection of Indian lands. The constant threats to withhold funding, particularly from the IDB, by Senator Kasten and the new chairman of the Senate Subcommittee on Foreign Operations, Democrat Daniel Inouye of Hawaii, continued to play a critical role in focusing the attention of both institutions. The National Council of Rubber Tappers and Mary Allegratti's Institute for Amazon Studies would help Brazilian authorities draft a new law which permitted communities of rubber tappers to take control of and manage what was a totally new form of land tenure. By 1992, the Brazilian government would create nineteen extractive reserves in four different states of the Brazilian Amazon, covering an area of nearly three million hectares of tropical forest.

Closing the Circle

By first organizing nationally with Brazilian human rights groups and NGOs, and subsequently joining with the Washington environmentalists, the rubber tappers closed the circle between the highest levels

of public international finance, the Brazilian national government, and local concerns. It was a novel form of international political action, linking formerly isolated constituencies. Once the World Bank and the IDB began to support the creation of extractive reserves in Acre, the political balance of power in the state was changed: the *seringueiros* were now joined to nongovernmental groups that could exercise political pressure nationally and internationally, and even more important, help channel international funding to Acre and other states in Brazil's Amazon to support conservation of the forest.

In at least one particular case, the top-down model of big international development appeared to be reversed. Local groups were taking the initiative in proposing a development alternative rooted in the ecological and social reality of the place they inhabited—and at least some people in the multilateral banks, the Brazilian government, and finally in the state government of Acre were listening and responding.* Or so it seemed.

The internationalization of local environmental controversies was only the last step in a burgeoning of social and community movements in developing nations in the 1980s. It was little known outside Brazil that by the middle of the decade there were hundreds of nongovernmental organizations in the country concerned with the environment. A few, like José Lutzenberger's AGAPAN, dated back to the worst years of military repression in the 1970s, when any criticism of the government was a physically dangerous proposition. Others, like OIKOS in São Paulo, led local neighborhood opposition to ill-conceived urban infrastructure projects; OIKOS, working with the Environmental Defense Fund in Washington, pressured the IDB to hold a local, public hearing that resulted in the IDB's withdrawal from financing a highway that would have violated one of the last park areas left in São Paulo. Some groups, like CEDI (the Ecumenical Council for Documentation and Information) and NDI (the Nucleus for Indigenous Rights), had developed remarkable research and social networking expertise that were the equal of those of most organizations in the developed world—all accomplished under conditions of financial and

* As Stephan Schwartzman points out, what was critical in the campaign of the rubber tappers was not the use of local knowledge, "but its application in the context of a campaign mounted by organizations with the political weight to gain a hearing in the [U.S.] Congress and the U.S. government agencies, and with the will to use their weight. The history of extractive reserves as a development alternative, proposed by the rubber tappers movement and eventually endorsed by the IDBs and the Brazilian government, is a history of making a specific cultural and historical reality comprehensible as a general principle" (Stephan Schwartzman, "Deforestation and Popular Resistance in Acre: From Local Social Movement to Global Network," *Centennial Review*, vol. 35, no. 2 [College of Arts and Letters, Michigan State University: Spring 1991], 420).

political uncertainty that would have done in many of their counterparts in North America or Europe.

Other circles began to close, in Indonesia, India, and elsewhere. Not only in Brazil were environmental and social action groups proliferating, but all over the developing world. Many of these NGOs became active in the late 1970s or early 1980s, when their existence was relatively unknown in the industrialized North. Their emergence was a consequence of several global trends.

The liberalizing and/or demise of military and dictatorial regimes in Latin America and Asia opened a political space for such groups. At the same time, the failures of Marxist ideology and socialist movements created a demand for new alternatives and strategies among those in many countries who organized to change society. The integration of many societies into the global market economy was accompanied by growing inequality and unprecedented ecological problems; these trends in turn created an acute need for debate on alternatives and practical ways to test them. By the late 1980s, the growing ease of private national and international communications through computer networks, faxes, and electronic mail made it possible for like-minded groups around the world to inform one another quickly of crises and to mount international letter-writing and lobbying campaigns in a matter of hours.

The collaboration of the rubber tappers and other Brazilian groups with the Washington environmentalists was really only the best-known example of the newly formed global networks between local groups in developing countries and environmental activists and advocates in the North. Often, but not always, World Bank or other international financing of destructive projects was the catalyst that spurred the creation of these networks.

In Malaysia, groups like Sahabat Alam Malaysia (SAM—Friends of the Earth, Malaysia) and the Consumers' Association of Penang were already extraordinarily active in researching and lobbying for change in their country and region, beginning in the late 1970s. In 1986, SAM coordinated the founding of two international environmental activist networks associating scores of environmental groups around the world: the Asia-Pacific Peoples Environmental Network, and the World Rainforest Movement. In early 1987, these networks became critically important in generating international support for tribal groups in Sarawak (one of two Malaysian states in North Borneo) who initiated massive, nonviolent blockades of Japanese-financed logging roads. In October 1987, the Malaysian government launched a nationwide crackdown on dissent, arresting tribal protesters in Sarawak as well as leading environmental and

4 • MORTGAGING THE EARTH

rights activists, including Harrison Ngau, a SAM activist and Penan leader from Sarawak, and Meenakshi Roman, a leading public interest environmental lawyer for SAM.

In Indonesia—the world's fifth most populous nation—environmental groups from all over the country formed WALHI, the Indonesian Environmental Forum, in 1980; by 1983 it had more than 320 participating organizations. In October 1982, more than a dozen other organizations formed SKEPHI, the Movement Against Forest Destruction.⁵⁰

But environmental and human rights groups walked a precarious tightrope in Indonesia: General Suharto's military regime permitted their existence, but overly vigorous criticism of the government could lead to the banning of an organization, the arrest of its members, or worse. In this political atmosphere, foreign criticism of projects financed by the World Bank gave groups like WALHI and SKEPHI an opportunity to join in efforts to criticize destructive schemes such as Transmigration without directly attacking the government. In 1986 and 1987 WALHI, SKEPHI, the Indonesian Legal Aid Foundation, and other Indonesian groups sent joint letters and dossiers with over fifty NGOs in ten other countries to the World Bank, calling upon the Bank to halt the financing of new Transmigration sites in pristine tropical forests.⁵¹ With the specter of another Polonoeste not far behind, the Bank conceded in December 1986 that new loans for Indonesia Transmigration would indeed go only to consolidate existing settlements* rather than to open up new areas.⁵² It appeared that on a case-by-case basis, in response to concerted international pressure, the Bank was getting out of the business of rainforest colonization.

The growing international links between Indonesian groups and NGOs abroad was also helping to create political space for freer expression and the development of civil society in an otherwise repressive regime. There was a need for more political space in the international aid deliberations on Indonesia, too. Indonesian NGOs linked up with groups in Europe and North America** to lobby at the annual meeting in The Hague of the international aid agencies with Indonesian officials to coordinate the next

* This meant that the Indonesian government, too, was reducing, if not eliminating, its expansion of Transmigration. With the collapse of oil prices in the mid-1980s, Indonesia—one of the world's largest oil exporters—was increasingly dependent on the foreign exchange provided by the World Bank; it could not finance large-scale expansion of Transmigration without further international funding.

** In the mid-1980s, the most active Indonesian NGOs institutionalized their relations with groups abroad through the creation of the INGI—the International NGO Forum on Indonesia. Formed with the support of Dutch church groups, the INGI grew to include more than twenty-five major NGOs from Indonesia and more than fifty non-Indonesian groups from eleven countries by the early 1990s.

year's development assistance. They tried to influence policy by preparing and circulating position papers on issues such as human rights, the need for environmental protection, and the role of women in development. But the aid agencies, led by the World Bank, refused to allow the NGOs to attend the meeting, and continued to withhold most information on their deliberations and decisions.

In no country was the depth and breadth of nongovernmental activism more impressive than in India. In the late 1970s and early 1980s, numerous Indian NGOs conducted a successful national campaign to halt a proposed dam that would have destroyed one of the biologically richest and most intact tropical forest areas left in the country—the Silent Valley in the southwestern state of Kerala. Saving Silent Valley became a national cause célèbre in India, prompting Prime Minister Indira Gandhi to intervene personally to halt the project in 1983.⁵³

Silent Valley was the first victory of India's burgeoning "green" movement. Increasingly, Indian environmentalists formed alliances with local peoples protesting the destruction of their livelihoods and cultures by gigantic government-promoted mega-projects, often financed by the World Bank. As would occur in Thailand several years later, small farmers and landless tribal people also protested large-scale eucalyptus plantations for commercial forestry, often financed by the Bank and other international aid agencies. The aid agencies characterized these projects as "social forestry," since they were intended to provide at least in part for fuelwood and other basic needs of the poor; instead, the international aid went principally to support commercial tree farm schemes managed by state forestry agencies and benefiting more prosperous landowners. The large-scale monoculture of eucalyptus often left the land useless for other purposes, depleting soil fertility and draining water tables in arid regions.

In numerous industrialized countries, NGOs increasingly coordinated lobbying with their counterparts in developing nations. Groups in Britain, Germany, Scandinavia, the Netherlands, Italy, Canada, and Australia launched their own campaigns to pressure their governments to push for environmental reforms in the MDBs. Parliamentary inquiries and hearings were launched, and research dossiers prepared. Finnish groups, for example, prepared a particularly devastating critique of the World Bank-financed social forestry projects that were the subject of so much protest in India. Remarkably, several officials still in government positions dealing with international development in several countries, particularly in Northern Europe, began to discreetly help the NGOs with leaked information and documents, which could have cost them their jobs.

Although the Bank reversed course in a few specific cases like Polono-

roeste and Transmigration, overall it lumbered along unchanged, a juggernaut fueled by a seemingly unstoppable, hypertrophied propensity to move huge amounts of money quickly, whatever the consequences.

Further Follies in the Amazon

World Bank loans for huge dams in Brazil spurred still more organized resistance. Two Bank-financed projects completed in the early 1980s in northeastern and southeastern Brazil, the Sobradinho and Machadinho dams, had displaced some 70,000 rural poor without adequate consultation and compensation. These experiences had generated widespread bitterness and mistrust. Yet by 1986 the Bank was planning to finance the completion of another mega-dam in the northeast, Itaparica, which was well underway without adequate plans to resettle and rehabilitate the 40,000 people it would displace. But in this case most of the people to be resettled joined rural unions sponsored by church and labor organizers to protest and fight for their rights. Once again, an international coalition mobilized, involving EDF and Oxfam—which was working on the ground at Itaparica.

The Bank was preparing a huge \$500-million "Brazil Power Sector" loan to finish not just Itaparica, but a score of other big dams. And the loan was intended to be only the first of several—to be handed out in half-billion-dollar chunks—to Brazil's national electric utility, Eletrobrás, to support a gargantuan power investment plan called the Plan 2010. The Plan 2010 called for the construction of 136 dams over a twenty-year period, of which 79 were in the rainforest; it would have destroyed the ecological and cultural integrity of much of the Amazon basin. The first Brazil Power Sector loan would help to complete and/or initiate the first 25 dams, which would flood an area the size of Connecticut and force over 90,000 people to resettle, including the 40,000 at Itaparica. As the loan was being prepared, the Bank's Energy Department was completing a study—with conclusions the Bank ignored—that indicated that in large countries like Brazil and India many if not most energy generating projects planned over the coming twenty years could be replaced by investments in end-use energy efficiency and conservation.⁵⁴

Enough was enough; when the Bank's Executive Board met on June 18, 1986, to consider the Brazil Power Sector loan, U.S. Alternate Executive Director Hugh Foster and several other executive directors expressed grave concerns about the dams. The U.K. director, using information from Oxfam, insisted that a specific loan provision be included to insure

decent resettlement and rehabilitation of the population threatened by Itaparica; if the Bank did not comply, he threatened, he could not approve the loan. Foster was more pessimistic: "Equally clear is the total absence of any possibility that the [Itaparica] resettlement will take place without extensive human suffering and bitter recriminations."⁵⁵ Sadly, events would prove him to be right.

Using information supplied in part by EDF, Foster went on to deliver a blistering condemnation of the loan before the Bank's management and Executive Board:

The Bank has been involved in regional planning in Rondonia for at least six years. One would hope at least that planning for the Indian protection aspects of projects in that state would have benefitted from the Bank's tribal people's policy and from the unfortunate experience in the Polonoroeste project.

We find instead a proposal which includes financing of the Gi-Parana Dam in Rondonia where there has been virtually no planning to address the needs of the Amerindian population or the need for protection of the environment in the immediate area of the dam. Furthermore, the dam will flood a portion of an Indian reserve which previous Bank financing helped establish. This is pure folly.⁵⁶

The U.S. representative castigated the Bank for helping to complete other disastrous projects, like the "infamous Tucurui Dam," and, "to add another folly," he continued, "the investment program includes financing for what the [loan] Appraisal Report terms 'the notorious Balbina Dam.'" He directly questioned the credibility of Bank staff attempts to put environmental window dressing on the loan through an "Environmental Master Plan" to promote environmental assessment of future Eletrobrás projects: "How much confidence can we have that it will be carried out conscientiously when the same [Brazilian government] institutions will be implementing a series of environmental disasters at the very same time?"⁵⁷

On June 19, 1986, a majority of the Bank's Executive Board approved the loan, but the United States voted against it. It was the first time any member of the World Bank had refused to approve a loan on environmental grounds. It would not be the last.

By late 1986, several countries, including Germany, Sweden, the Netherlands, and Australia were sending signals to their World Bank executive directors to press for environmental reforms that echoed those urged by the United States. In the United States, other groups formed to mobilize grass-roots action on international development and the World Bank. Randy Hayes, an environmental activist based in San Francisco, spurred the creation of the Rainforest Action Network, a group that was able to mobilize tens of thousands of letters of protest to the World Bank

solidarity with campaigns led by NGOs in the developing world. The International Rivers Network, also based in San Francisco, specialized in fighting dams all over the world and mobilized its own extensive network of activists abroad and in the United States. More radical groups, such as Greenpeace and Earth First!, also turned their attention to the Bank. At the annual Bank/Fund meeting in Washington in September 1986, U.S. NGOs coordinated the first annual alternative meeting of environmental, development, and human rights groups from around the world to protest the policies and projects of the Bretton Woods behemoths. A U.S. activist named Chad Dobson helped organize this first alternative meeting, and he would go on to found his own NGO, the Bank Information Center, which specialized in circulating confidential documents from the World Bank to groups around the world.

By late 1986, the World Bank began to resemble a fortress under siege: on September 30, coinciding with the Bank's annual meeting in Washington, Greenpeace, Earth First!, and Rainforest Action Network activists with rock-climbing expertise scaled the roof of a World Bank building in the middle of the day and hung out an immense banner, whose image was transmitted by photojournalists around the planet: "The World Bank Destroys Tropical Forests."

Besieged

In the United States the congressional hearings continued—more than twenty by 1987, held by six different subcommittees of the Senate and House. Robert Kasten called a special Senate hearing in May 1987 to record widening international criticism of the multilateral banks for their environmental negligence. Among the witnesses were nongovernmental representatives from Brazil, Indonesia, Canada, and the Netherlands. David Obey, the powerful House Democrat from Wisconsin, played a key legislative role, since he chaired the House of Representatives Subcommittee on Foreign Operations, which appropriated funds for the World Bank. Ironically, Obey and Kasten disliked one another ideologically and personally; each was particularly peeved when one would get media recognition for international environmental accomplishments and not the other. This antagonism spurred an intense rivalry and one-upmanship in their staffs, who competed to introduce every year increasingly stronger environmental reform legislation for the World Bank. Through a strange alchemy of antipathy, the two political enemies worked more effectively together to further international environmental concerns than if they had been allies and friends.

In the press and media the pressure also continued to mount. In 1986 and 1987, both the *New York Times* and the *Wall Street Journal* featured the campaign of the Washington environmentalists against the World Bank on their front pages and, perhaps more embarrassing for conscientious Bank staff, leading scientific journals such as *Nature* and *Science* carried news articles highly skeptical of the Bank's environmental record.

Two British documentary filmmakers played a unique role in stirring up international public opinion about the role of the multilateral banks in Brazil and other tropical countries. One, British producer Adrian Cowell, had traveled in and written about the Amazon forest and its inhabitants since he graduated from Cambridge in the mid-1950s. In 1980 he struck a deal with Britain's Central Independent Television Company that must have been the envy of every producer of documentaries in the world: over the next decade, Central would fund a series of films on the fate of the Amazon rainforest to be produced and directed by Cowell. "Imagine," Cowell told the Central Television executives, "if you could have had a filmmaker on site in the 1870s and 1880s to record the fate of the American West—here you have a chance to do this for the Amazon." The area Cowell chose to work in was Rondônia. More than two years into his cinematographic epic, Cowell realized that the fate of Rondônia was being decided as much in Washington, in the offices of the World Bank, as it was in Brazil.

By 1984, he was working closely with the environmental activists in Washington—Barbara Bramble, Steve Schwartzman, and the author. He filmed several of the congressional hearings, and worked closely with Chico Mendes, José Lutzenberger, and other Brazilian activists; both the making and the subsequent showing of the film series became important weapons in the fight to conserve remaining rainforests in northwest Brazil, and in helping the Brazilian activists strengthen their links with nongovernmental groups and sympathizers abroad. In the late 1980s and early 1990s, Cowell's five-hour series, *The Decade of Destruction*, would be shown in more than a dozen countries, including nationwide on PBS in the United States in October 1990.*

One of Cowell's assistants in the filming of the first episodes of *The Decade of Destruction*, Nicholas Claxton, was already an accomplished documentary filmmaker in his own right. He had won an Emmy in 1984 for *Seeds of Despair*, the BBC film that documented famine in Ethiopia and spurred the Live Aid movement of international rock concerts to raise emergency relief funds for Africa. Claxton found the theme of big interna-

* See Cowell's account of his experiences in Brazil during the 1980s, Adrian Cowell, *The Decade of Destruction: The Crusade to Save the Amazon Rain Forest* (New York: Henry Holt and Company, 1990).

with the issues the letter addressed, the World Bank Brazil country department launched a probe that required numerous Bank staff to appear before the Bank's "ethics officer,"* who attempted to ferret out who had leaked project documents—an ironic commentary on the accuracy of the NGO criticisms. In February, some members of the Bank's Executive Board, already concerned by the questions the NGOs had raised, called for a temporary delay of the loan. They had just learned that Brazil's president Sarney, in response to a request by the Rondônia governor, had issued a decree abolishing the largest Indian reserve in Rondônia on January 30, 1990, at the very moment negotiations were concluding for the new Rondônia loan. The establishment of this reserve for the Uru-Eu-Wau-Wau Indians had been one of the most important conditions of the Bank's earlier Polonoroeste loans.³⁴

But the World Bank's manager for the Rondônia loan argued that the project should be approved as quickly as possible because the Rondônia state government was strongly committed to environmental protection. In March 1990, officials sent by Governor Santana of Rondônia traveled to Brasília to lobby the Brazilian environment secretary, José Lutzenberger; they urged him not only to push for immediate approval of the loan, but to back their suggestion that the Brazilian government make the unprecedented request that the Bank disburse the entire \$167 million in one lump sum, up front, before the October 1990 election.³⁵ Lutzenberger was outraged; he sent a letter to the president of the Bank requesting that the project be delayed until more extensive consultations could be held with local NGOs later in the year, effectively killing the loan for 1990.³⁶ Jerônimo Santana was subsequently condemned by the Rondônia state legislature for malfeasance, ending his tenure in disgrace.³⁷

The Bank's Brazil country department, however, persisted with the project, without resolving its serious flaws. The World Bank Executive Board approved the Rondônia Natural Resources Management Project in the spring of 1992, over the protest of numerous local NGOs and of Oxfam, which was now also working on the ground in Rondônia. Among other things, the Brazilian groups and Oxfam pointed out in letters to the Bank's Brazil staff and the Bank's executive directors that at the very moment the Bank was presenting the loan to the board for approval, the Brazilian land agency, INCRA, was proceeding with plans to settle some

* The Bank's ethics officer is part of its Personnel Management Department; one of his or her functions is to grill staff suspected of leaking documents. The Bank's conception of ethics is remarkably self-centered, relating to compliance with internal rules affecting staff and the institution (petty corruption and harassment of other staff are typical issues). At the same time, negligent disregard of Bank environmental and social policies with disastrous consequences for whole ecosystems and hundreds of thousands of developing-country poor is not a matter of concern for the ethics officer.

50,000 new colonists a year in areas that were supposed to be set aside as protected forests and extractive reserves for rubber tappers under the Bank project. All of this was in total contravention of the Bank loan agreement, as well as a flagrant violation of Brazilian law, which requires environmental impact assessments for land settlement activities.³⁸ As the project proceeded these abuses continued, and in April 1993 twelve non-governmental organizations from Rondônia wrote the Bank imploring it to halt all disbursements on the loan.³⁹

Power for the Poor— at the Greatest Possible Cost

Energy efficiency is another area where the Bank, in Barber Conable's words, promised to "play a leadership role."⁴⁰ Of all economic sectors, energy is arguably the most important environmentally and economically for the future of the world. It has also been the Bank's largest or second largest lending area in recent years—accounting for between 14.3 and 18.6 percent of annual lending in the period 1990–1993.⁴¹

We have seen that current patterns of energy development in developing countries entail profound local and global environmental problems. Large hydroelectric dams are the main causes of forced resettlement of rural populations in many countries, and are a major factor in the destruction of forests and riverain farmlands. The growing use of coal for power production by China and India will make these countries the largest emitters of CO₂ and other gases contributing to global warming in the next century if alternatives are not found.

The cost of large-scale energy projects keeps mounting; in many developing countries one-quarter to one-third of all public investment is now going for electric power, diverting desperately scarce capital from other investments such as health, education, and conservation. Moreover, this proportion is growing and is still insufficient to meet energy demand. With considerable help from the World Bank, India's investments for energy infrastructure grew from 20 percent to 31 percent of its national budget over the 1980s.⁴²

The answer to this environmental and economic quandary has been known for years. According to internationally respected Third World energy specialists*—as well as, ironically, World Bank studies dating back

* See, for example, Amulua K. N. Reddy and José Goldemberg, "Energy for the Developing World," *Scientific American*, September 1990, 111–18. Reddy is vice-chairman of the Karnataka State Council for Science and Technology in India; the president of Brazil appointed Goldemberg as that country's secretary of the environment in April 1992.

Environment Facility to major industrialized nations, in the hope of securing funding commitments in March and starting operations in the beginning of the Bank's 1991 fiscal year, which began on July 1, 1990. On this schedule, a new, potentially multibillion-dollar arm of the World Bank would be created practically *ex nihilo* and be operating in less than nine months.

The February 1990 GEF proposal already contained the major elements of its initial form. In theory, it would be jointly sponsored by the Bank, the United Nations Environment Program (UNEP), and the United Nations Development Program (UNDP), and disburse grants to developing nations for projects in four areas of global environmental importance—conserving biodiversity, reduction of CO₂ emissions and other gases contributing to global warming, protecting the ozone layer, and cleaning up international waterways. Implicit in the proposal, but not clearly explained, were a number of other matters: all GEF investment projects would be prepared and carried out by the Bank,* and Bank GEF projects of more than \$10 million would be linked to, indeed often subsumed as, components of larger World Bank loan packages in areas where the Bank's environmental record was notoriously poor, forestry and energy, for example.

The Global Environment Facility proposal had been prepared covertly, almost secretly. NGOs, the U.S. Congress, and other national parliaments were kept in the dark; even the Bank's environmental staff initially had little information about the proposal. The Bank officially presented the GEF to the leading industrialized nations for approval at a March 1990 meeting in Paris. But even the government delegations were poorly informed and prepared; they had so little time to coordinate a position on the GEF proposal that officials from the finance, environmental, and foreign ministries of the same nation took in some cases inconsistent or contradictory positions. The GEF start-up would have to be delayed a little, while the Bank "educated" its major donor governments a bit more coherently about what they were being asked to contribute hundreds of millions of dollars to support. In November 1990, the donor governments gave the go-ahead, and committed some \$1.3 billion for a three-year GEF pilot program; at the end of the pilot phase, its successes and failures were to be evaluated to see if the effort was worth continuing, halting, or expanding.

The formulation of the Global Environment Facility was a model of the Bank's preferred way of doing business: top-down, secretive, with a basic contempt for public participation, access to information, involvement of democratically elected legislatures, and informed discussion of

alternatives.* Worse, it was a regression; it made the standard Bank loan appraisal process appear like an exercise in grass-roots democracy. The identification and choice of individual GEF projects was no better. Member countries of the GEF would meet twice a year to review a "work program," but the whole project cycle from identification to approval was mainly in the hands of the Bank; senior Bank management would have virtually total discretion in approving Bank GEF projects entailing less than \$10 million, and the others would be presented to the World Bank Executive Board—which in the Bank's forty-six-year history had never turned down a single project. UNEP formed a scientific and technical advisory panel whose task was to formulate scientific guidelines to guide the selection of projects. But the panel had no say over the original choice of the four main project areas, nor over the design of individual projects. The virtual irrelevancy of the panel became apparent when the first round, or "tranche," of GEF projects—totaling \$193 million—was prepared by the Bank and rubber-stamped by GEF member states before the panel had even developed project selection guidelines.

In the 1980s, global green movements from Russia to Brazil, from India to the United States, had linked the themes of public participation, access to information, and democratic consideration of alternatives as essential elements of environmental decision making. Environmental assessment laws in many countries (starting with the United States) embodied these principles, even if in developing nations the laws were new and weakly enforced. The European governments had expressed a willingness to contribute additional funds for global green projects mainly in response to growing popular pressure spearheaded by domestic environmental movements. What the world got in return was a travesty and a betrayal: a billion-plus dollars of potentially good money thrown after a \$24-billion World Bank annual lending portfolio largely lacking environmental credibility.

Once the GEF proposal was a *fait accompli*, the growing criticisms of nongovernmental groups in several countries pressured the Bank to set up meetings with NGOs. These meetings, which the Bank subsequently touted as examples of consultation and information-sharing, were one-

* In a letter sent to Barber Conable on March 9, 1990, several major U.S. environmental organizations as well as the Woods Hole Research Institute and the Union of Concerned Scientists stated, "We are shocked and dismayed that, despite the special interest and knowledge of NGOs and other members of the public on issues of environment and development, the Bank has refused participation to the public in the formulation and discussion of its proposal. The Bank has refused repeated requests of NGOs to review the proposal, to participate formally in the discussion process, and even to meet with Bank staff on this issue" (Natural Resources Defense Council et al., letter to Barber B. Conable, President, World Bank, 9 March 1990).

* UNDP would be the executing agency for a small number of technical assistance projects, mainly research and feasibility studies.

vided affairs where groups were informed of decisions already taken behind closed doors. Bank staff studiously circumvented criticisms of governance and lack of "transparency," that is, openness. But the Bank was hardly the only culprit, since it could rightly point out that several participant nations themselves (particularly France) insisted that NGOs not be admitted to any of the official GEF meetings, something that the Bank claimed it had no objection to.

The data the Bank made available on proposed GEF projects were limited to short, generally one-page "project description briefs," insufficient for any informed evaluation. NGOs and participating governments did not have access to other internal Bank documents and memoranda on the GEF projects, nor to any detailed information on the larger Bank loans to which many GEF projects were to be linked. Officials of the two other U.N. agencies supporting the GEF, UNDP and UNEP, bitterly complained in private that the Bank cut them off, too, from access to many of the same documents.

The consequences of the Bank's approach to environmental management can best be seen in what has been hailed as a model*—the \$10-million GEF Congo Wildlands Protection and Management Project, which became a subject of intense controversy in early 1992. On its face, from reading the one-page project brief the Bank made available to NGOs and donor nations in 1991, the plan would appear to be exemplary: it was described as a "free-standing" project to protect biodiversity in the rich, untouched Nouabele rainforest in the north of the Republic of the Congo.

But at the same time the Bank was preparing the GEF project, it had been preparing a large forestry loan for the Congo. Although the scandal over the Guinea and Côte d'Ivoire loans in early 1990 had prompted a moratorium on presenting forestry projects to the Executive Board until the Bank prepared a new forest policy, ongoing preparation of forestry projects was not halted. The Bank's Congo loan proceeded, but, in keeping with the Bank's new green image, it was baptized the "Congo Natural Resources Management Project." Unbeknownst to the GEF donor governments (like any other member of the public, they had no access to most Bank project documents), the Congo Natural Resources Management Project's main purpose—to cite World Bank project preparation documents—was to "bring forestry exploitation back to life" so that it would "regain its former place as the most stable foreign exchange earner for the Congo." The proposed loan would fund infrastructure, roads, and

technical support to remove transportation bottlenecks, with the goal of increasing logging exports.

The Congo, however, has a problem in borrowing more money from international agencies—one of the highest per capita foreign debt ratios in the world. Indeed, a highly critical UNDP report on the GEF project asserts that the World Bank was concerned by the reluctance of the Congo government to borrow for a new forestry project.⁵⁶ Thus, Bank memoranda describing the Congo Natural Resources Management Project suggest that its loan conditions require the Congo to agree to the GEF project,* and state that the larger Bank project is designed to mobilize grant funds "to make the package sufficiently concessional."⁵⁷ The Bank's intention was to use the GEF project to financially jump-start a much larger scheme to increase logging exports.

All of this might have been secret, had not the Environmental Defense Fund and other groups obtained internal World Bank documents in the autumn of 1991. The Bank's supposed partner in the GEF was bitterly critical of the GEF project: UNDP condemned the Bank proposal as one that would open up a hitherto intact, isolated rainforest area to logging and encroachment pressures, under the pretense of protecting it.⁵⁸ According to UNDP, the GEF project itself had dubious elements not described in the one-page project brief made available to governments: it would finance a twenty-five-kilometer road in the Nouabele forest area, bring at least 250 people to the area in addition to numerous construction workers, and attempt to set up organized safaris in one part of the reserve, while another part would actually be opened up to logging concessions. UNDP's recommendation was to leave the Congo's isolated northern rainforests alone and commit GEF funds to protect more immediately endangered areas in the southern, more populated part of the country. According to UNDP, the major threat to the Nouabele Reserve and surrounding area in the near future is, ironically, the GEF project itself, with its proposed road building, tourist safaris, and logging concessions.⁵⁹

One of the more bizarre and revealing aspects of the GEF Congo proj-

* Ironically, the World Bank's wildlands policy, promulgated in 1986, requires the Bank to finance the protection of equivalent areas of forests or other woodlands when a Bank loan—such as that for the Congo Natural Resources Management Project—results in the conversion of a given area of an intact ecosystem. The GEF is theoretically forbidden from funding activities that would otherwise be financed from other sources. But the wildlands policy has been difficult to carry out, since Bank staff have viewed it as a further obstacle in pushing through projects and getting governments to borrow for them. In effect, the GEF has opened up another potential loophole through which Bank staff can avoid carrying out Bank environmental policies by artfully devising packages combining Bank loans with GEF projects in which the GEF will foot the bill for environmental actions the Bank loan otherwise would have been required to finance.

* It was even the subject of a highly favorable cover story in *Time* (Eugene Linden, "The Last Eden," *Time*, 13 July 1992, 62).

to affect the lives of hundreds of millions into the hands of a few who not only are unaccountable, but claim that their decisions are dictated by objective systems of reason that are beyond appeal. These systems are ideologies. Development, too, is an ideology, the last modern ideology. We must cease seeking objective solutions to the crisis of objectivity. When we pretend that politics is banished from institutions with tremendous power to affect other humans, politics eventually reigns pervasive, camouflaged, corrupt, and unchecked.

In the World Bank we see the foundering dream of modernity, the failure of a universal institution that would attempt to predict, induce, and administer global development. The Bank's disarray may be only one sign among others of the twilight of the modern era: the collapse or weakening of multinational states such as the U.S.S.R., Yugoslavia, India, and Canada; the growth of ethnic and regional nationalisms, many of them alarmingly atavistic; the increasing appeal of religious fundamentalism not only in the Muslim world, where for the most part the promise of development has simply failed to materialize, but also in industrial countries.

In many countries there is a growing distrust of the power of multilateral institutions, which many now view as a historical regression in terms of political accountability and transparency, values embodied, however imperfectly, in the democratic procedures arduously won in Western nations through hundreds of years of social and political struggle. The attempts of European Community bureaucrats to proceed with the devolution of democratic powers to a centralized bureaucracy in Brussels have rightfully encountered resistance across the Continent.

Commentators refer to these contradictory social and political phenomena as harbingers of "postmodernity," as consequences of the very culmination of modernity in a global market and communications culture that paradoxically unleashes pluralistic forces and movements of unexpected intensity.³ The growing perception that neither local nor global economic and ecological systems are predictable from the standpoint of the state, means that the world cannot be managed through conventional centralized projects of administration and control. Peter Drucker calls this realization "no more salvation through society,"⁴ and David Korten calls it "the end of the dominant state."⁵

The postmodern world appears to be one of global interdependency rife with indeterminacy, at times at the mercy of random events that can unleash abrupt, discontinuous change. We are faced with the end of what have been characterized as grand, universal narratives (international development World Bank-style is one of the grander), with the impossibility of totalizing knowledge, and with the demise of administered society, all of which began with Descartes and Bacon. As Drucker and others have

observed, there is no longer one right answer to a given social problem, but often several, each one a function of a specific, local situation. In the place of the universal, modern project, we confront the irreducible, and somewhat menacing, because uncontrollable, heterogeneity of postmodernity.⁶

The danger and the political crisis of modern technological society are now global. The danger, we have seen, lies in the continued pursuit of self-referential, autonomous technology, and in the enclosure of the entire surface of the planet as a field for the unrestrained exercise of instrumental reason. Continuing in this direction leads not to economic equity and social equilibrium, but to increasing disorder, ecological instability, and violence. The political crisis is above all a question of the lack of accountability, responsiveness, and openness of the institutions and bureaucracies, public and private, that are the vessels and administrators of this uncanny planetary technological nihilism. The more these institutions with universal agendas try to predict, administer, and control the world, the more it evades them in increasing turbulence and chaos.

When the nation-state and the international system fail, as they increasingly do, we are left with a Somalia, a Bosnia, a Haiti, a Kashmir. We shall see many more if a way cannot be found to reinvent national and international institutions, and to find diverse alternatives to deal with the worldwide economic, political, and environmental challenges of the postmodern era.

The global environmental predicament embodies these dilemmas of postmodernity, but it may also point to a path that leads beyond them. It poses a conundrum that existing international institutions cannot unravel: the threats are increasingly worldwide, cumulative, and total, but solutions must take place at the local level everywhere on the planet. Indeed, if the proponents of limits to growth and the need for a steady-state economy are even partially right, the economic and social behavior of most of the world's inhabitants must change radically.

What on earth is to be done?

Global Civil Society

For many years, out in the forests, we have been putting our bodies between the chainsaw gangs sent by the ranchers and the trees that provide our way of life. Now, we are doing the same thing here in the city, at this hearing, with the law on our side.⁷

—Julio Barbosa, 1990

It is therefore intended that the Climate Alliance of European cities with the Amazonian peoples would make possible direct contacts between local authorities in Europe and in the Amazon region. . . . They [the inhabitants of the Amazon rainforest] are right to fear that large-scale and centrally planned environmental protection projects will . . . brush them aside and disregard their . . . requirements. There is already experience to show that nature reserves or reservations usually only drive them away or rob them of their autonomy, while the destruction of the forest often continues unabated. The Climate Alliance . . . wants to create a cooperative relationship in which the partners respect other forms of knowledge and ways of learning, i.e. of social existence.⁸

—The Climate Alliance of European Cities, working paper, 1990

We might begin by looking back once more at the Earth Summit. For all its disappointments and hypocrisies, its real significance may be the simple fact of its taking place. It took place because nation-states and international organizations were forced to respond, albeit clumsily and ineffectually, to the growing worldwide pressures of an emerging global civil society. The summit will fade into history, perhaps much more quickly than the heads of state who were present would like to think. But the deeper worldwide social and political currents that made it inevitable will continue—and intensify. These currents, and the nongovernmental movements to which they are giving birth, can be a source for the rejuvenation and restructuring of national and international institutions, and for the creation of new institutional structures. The Indian gentleman at the last debate in the Gloria Hotel was right: it was the people, after all, who had brought the governments and leaders of the world to Rio.

We have seen how over the past decade and more, around the world but with particular vehemence in developing countries, local populations long marginalized from the grand narrative of modern history are mobilizing to defend ecological balance and fight against the destruction of resources upon which their survival depends. Altogether, in the developing nations there are hundreds of thousands of NGOs with more than 100 million members.⁹ In this book we have only been able to mention the activities of a few in countries such as Thailand, Brazil, Indonesia, and India. In a country we have not examined, the Philippines, over 5 million people belong to some 16,000 NGOs, of which probably 4,000 are concerned with development and environment issues.¹⁰ Many of these developing-country NGOs are in turn members of broader-based national

coalitions, and these coalitions have become increasingly vocal and effective. Environmental, social justice, and human rights groups around the world are forming dense, flexible, information-rich networks with one another, self-organizing systems that have their own evolutionary dynamic.

These grass-roots movements, with all their limitations, have emerged as cultural and political antidotes to the dangers of technological nihilism and unaccountable bureaucracy. They embody a saving power in a time of great danger—a sense of planetary responsibility rooted in and arising from very specific local concerns. This concrete political capacity to link the local with the global is the cornerstone of emerging global civil society. It is a new phenomenon in history. Let us examine several more examples to identify other characteristics of global civil society.

First of all, at the local level the phenomenon is not as new as it may appear. Many social movements in developing nations embody in new forms long traditions of popular protest against injustice and exploitation. The Chipko movement in India started in 1973 with spontaneous interventions by women in Himalayan villages to protect local forests from logging contractors, who had been granted permits to deforest by state forestry agencies.* Although commonly thought of as an ecology movement, or even as a feminist one, Chipko is in reality a continuation of more than a century of rural revolts and peasant movements by Indian villagers against the enclosure and logging of common forest areas by state forestry agencies, first under the British, and after 1947 by the national and state governments of independent India.¹¹ Indeed, some authors have suggested that the popular origins of Chipko can be traced to a famous protest that occurred in 1763 in Rajasthan, when members of a Hindu sect sacrificed their lives to prevent tree felling ordered by the Maharajah of Jodhpur.¹²

Chipko and the rubber tappers' movement in Brazil are among the best known cases of local forest peoples organizing to protect resources held in common; there are many others. In the pine forests of Honduras

* The women literally encircled trees with their bodies, embracing them in an ultimate gesture of protection and care—thus "Chipko," which comes from the Hindi verb meaning "to hug." The Chipko protests spread through the Himalayas and to forested hill regions in the South of India such as the Western Ghats. As a result, in 1981 India's Prime Minister Indira Gandhi declared a fifteen-year ban on tree felling in the Garwahl Himalayas, the region where the Chipko protests originated. But the movement continued to spread; Ghandian activist Sunderlal Bahuguna led a 5,000-kilometer foot-march from Kashmir to Bhutan to spread the Chipko message between 1981 and 1983. In Bahuguna's words, "Ecology is permanent economy" (Bahuguna, cited in Paul Ekins, *A New World Order: Grassroots Movements for Global Change* [London and New York: Routledge, 1992], 143). (See Guha, *The Unquiet Woods* [see endnote 11], especially pp. 152–84.)

more than 6,000 families depend on resin tapping. In the early 1970s, these villagers launched logging blockades and organized cooperatives to obtain forestry concessions for extractive resin harvesting to conserve the pine trees on which their livelihood depends. Today, the villagers physically patrol the forest and limit access to loggers and agricultural encroachers; on two occasions they went to meet with the head of the national forestry agency to demand that outside logging and encroachment be halted. Ironically, the greatest threat to the pine forests of Honduras now may be proposals to transfer the forests to private timber companies, on the theory that common property resources cannot be protected.¹³

A similar tale occurred in the heavily forested Sierra de Juarez mountains of southern Mexico in 1980, when thirteen communities formed the Organization for the Defense of the Natural Resources and Social Development of the Sierra de Juarez.* In 1981, they organized the first national meeting of forest community organizations in Mexico. After a bitter fight, the communities won a major legal precedent in 1982 and established their right to community control of adjacent forests in their mountain homeland.¹⁴ Halfway around the world, on the large southern island of Mindanao in the Philippines, a comparable grass-roots movement began in the late 1980s: logging blockades by local villagers spread to protests at the regional and national level, finally leading the government to acquiesce to a logging ban for the entire Mindanao province of Bukidnon.¹⁵

A key characteristic of many of these movements is the attempt to regain local management and control of common resources that are threatened by unsustainable harvesting and exploitation. Much of the literature on such common property resources reveals a prejudice on the part of some development planners and economists that private, individual property rights are the only means to protect "the commons," for example, forests and water resources.¹⁶ Without private ownership, the thesis goes, resources held in common will simply be ravaged on a first-come-first-serve basis, since no one has a long-term interest in conserving a resource he or she does not own. The social and economic reality in many poorer countries, however, is often the contrary: private ownership and/or government management frequently has resulted in over-exploitation, while many local communities have evolved sustainable management

* They were fighting the renewal of a forestry concession to a large paper and logging enterprise, Fabricas de Papel Tuxtepec (FAPATUX). They launched their own newspaper and declared in its first edition, "We will no longer permit our natural resources to be wasted, since they are the patrimony of our children. The forest resources should be in the hands of our communities" (David Barton Bray, "The Struggle for the Forest: Conservation and Development in the Sierra Juarez," *Grassroots Development*, vol. 15, no. 3 [1991], 15).

systems for natural resources to which they have access and upon which they depend, even if they do not legally own them.*

Indeed, the proportion of national land area administered by government agencies in many developing nations is startlingly high. In India, nearly a third of the country's land is owned by the government, 22 percent of it by state forest departments. The Thai Royal Forestry Department's 7,000 employees attempt to administer 40 percent of Thailand's land, occupied by millions of farmers who are technically squatters. Fifty-five percent of the Philippine land area (occupied by more than 18 million people) is administered by the government forest agency, and 74 percent of Indonesia, occupied by between 30 and 40 million people, is the domain of that country's forest department. Many of the locally based environmental movements in developing nations are in essence movements to reverse enclosure, to regain the huge commons that have become the property of the state.

Many community-based systems of environmental knowledge and management embody a historical coevolution between particular local ecosystems and distinct human cultures. Some researchers suggest that since human societies have evolved until recently as subsystems of ecosystems, human communities all over the world have inherent self-organizing capabilities to manage local ecosystems in a sustainable fashion, provided they are not dominated or destroyed by subsequently imposed top-down control and management:

Examples include communal land tenure in high mountain meadows and forests in Torbel, Switzerland; common land management in Hirano and area villages in Japan; and the *buerta* irrigation system in the Valencia area and elsewhere in Spain. . . .

These common property institutions are found with all resource types, many of them non-traditional, covering a large range of regions and cultures throughout the world. Specific institutions can arise in less than ten years, and may endure over centuries (but evolve constantly).¹⁷

These examples illustrate a concept of critical importance: local human communities and economies, while embedded in larger social and ecological systems, can be thought of as complex adaptive systems in their own right, evolving and creating their own conditions, within their environments, of order, feedback, and adaptation.** Moreover, the widespread

* A critical need for the long term success of common property systems is the legal securing of land tenure or usufruct rights for local communities. See Stanley, "Demystifying the Tragedy of the Commons" (see endnote 13), 35.

** It is equally important to bear in mind the numerous examples of environmentally and economically *maladaptive* human societies, a good many of them "traditional" or "primi-

existence of such self-organizing capacities in human societies (at different, interconnected levels from the local to the regional, national, and international) implies the possibility of an alternative global order—or rather, set of orders—to the one based exclusively on centralized nation-states, multilateral organizations like the World Bank, and transnational corporations.

The internationalization of ecological and social conflicts in Brazil during the 1980s is a good case in point for examining the relationship between an evolving national civil society and the state. It may also illustrate the emerging qualities of a nascent global civil society. As with the Chipko movement, the protests of the Amazon rubber tappers and Indian populations have deep historical roots. The rubber tappers' resistance dates back nearly a century, and that of the Indians to the dawn of the modern age—which for indigenous populations began as a still continuing nightmare of enclosure, dispossession, and death. For Brazilian anthropologist Eduardo Viveiros de Castro, the unexpected emergence of local, national, and international environmental activism transformed not just politics in the Amazon, but the whole nature and space of international social and economic policy.

In the 1980s NGOs began to articulate local social and environmental interests on a worldwide scale, becoming an unexpected counterweight to the unchecked exercise of transnational economic interests and the geopolitical machinations of nation-states. "Establishing a new context between the local and the global, the regional and the planetary, questioning abuses of political representation at the national and international level," these groups form nothing less than a global "antibureaucracy."¹⁸

The idea of the extractive reserve itself—the most innovative solution to the dilemma of rainforest conservation—came, in the words of leading Amazon researcher Marianne Schmink, "like many other initiatives proposed by peasants, rubber tappers, and Indian groups . . . not from a planning office but from more than a decade of struggle in a changing political environment."¹⁹ The pressures of Brazilian NGOs led to the adoption in 1988 in the new Brazilian constitution of several critical provisions establishing the rights of Indians to their lands and the rights of all Brazilians to a sound and healthy environment. Brazil's leading environmental journalist, Ricardo Arnt, cites some fifteen examples in the 1980s where inter-

ative." (See Robert B. Edgerton, *Sick Societies: Challenging the Myth of Primitive Harmony* [New York: Free Press, 1992].) The point is not that a technologically advanced society is necessarily maladaptive, and a rural or traditional community necessarily in balance with its environment (both can be either adaptive or maladaptive), but that the consequences of maladaptation in a single, global culture may entail disaster on a scale unprecedented in human history.

nationally organized pressures by Brazilian and foreign NGOs not only influenced lending decisions of the World Bank and the Inter-America Development Bank, but led to specific changes in Brazilian government policy.²⁰ These changes include environmental impact procedures that provide for public participation and access to information, and (a more mixed blessing) the establishment of numerous governmental agencies concerned with environmental conservation.²¹ The expanding alliances and campaigns involving local organizations of forest inhabitants in the Amazon, national Brazilian groups, and NGOs abroad empowered local groups with resources and political credibility they had never before possessed.²²

Armed with lap-top computers, faxes, and modems, NGOs in the Amazon have formed powerful, responsive networks with national groups in São Paulo and Rio, and international NGOs in Washington, Berlin, and Tokyo. They influenced—and are continuing to influence—not only Brazilian government policy, but also the flow of public international finance, through a kind of global electronic *polis*.²³ And they were only one example of how the spread of affordable information technologies has contributed to the growing empowerment and proliferating networks of grass-roots organizations all over the developing world.²⁴ Nation-states and international organizations must wake up to a rude surprise, one they still have trouble digesting: international politics and policy must now deal not just with the negotiations and conflicts between governments, but also with those of nongovernmental organizations vis-à-vis the state and organizations of states.

Many of the achievements of the Brazilian NGO movement over the 1980s—the demarcation of new kinds of protected areas, the creation of environmental impact assessment laws and new governmental agencies—can and will fail if they are carried out in the spirit of global environmental management, treating people and localities as inputs or fields for the exercise of instrumental reason and centralized power. The effectiveness of such governmental and legalistic reforms depends on their responsiveness to the needs of civil society, and on civil society's full involvement and participation. Indeed, environmental assessments can be counterproductive if carried out without real public consultation and timely consideration of alternatives because they can merely ratify ill-considered and unsound projects.

Brazil's relatively new environmental assessment law (1986) is a case in point.²⁵ Brazil's law does not only call for environmental assessments for certain kinds of projects, it recommends that the assessments be written in publicly understandable language and requires public hearings to review the studies. For the first four years it was largely ignored, not only by the

Caribbean, and in Africa. IAF has directly supported rubber tappers' organizations in northwest Brazil, and has played a key role in financing and supporting the resin tappers' cooperatives in Honduras and the community forestry organizations in Mexico discussed earlier. Appropriate Technology International (ATI) has a mandate to provide small-scale enterprises and farmers in developing countries with environmentally benign technologies, access to capital, and marketing assistance.

Another prototype is the British private voluntary organization Oxfam, which now has operations all over the world. In Africa, for example, Oxfam works in twenty-five countries, and in most of these nations it has offices. In 1992, hundreds of Oxfam staff were at work all over Africa managing \$36 million in grants to support some 1,200 community-based projects.⁵⁹

The annual budgets of such institutions are small, less than those of many single World Bank projects: about \$30 million annually for the Inter-American Foundation, \$10 million for the ADF, and less than \$5 million a year for ATI. Their funding and operations should be expanded, and the creation of similar organizations encouraged. Both the Netherlands and Norway have established comparable public foundations for community-oriented foreign assistance.

It is true that even with substantial funding increases, the amounts of money that can be transferred from North to South through such community-oriented foreign assistance is only a small fraction of what the World Bank and its sister institutions are capable of lending. But if our examination of the Bank reveals anything, it is that foreign aid, particularly in the form of big projects, is a highly perverse and counter-productive way to move money to alleviate the very real and urgent macroeconomic pressures on developing nations. These pressures should be alleviated through debt relief and relaxation of trade discrimination against the poorer nations of the world, an alternative we shall discuss more a bit later.

The chances for reforming the Bank are in large part linked to making its member governments more accountable and responsive. The international campaign of NGOs for environmental reform of the past decade has shown that mobilized nongovernmental activism can make a difference in influencing governments and, in some respects, the multilateral development banks, but we have seen that most of the changes that have occurred so far have been more bureaucratic than substantive. The Bank's major shareholding governments have been willing to challenge individual projects and policies, but not more deeply rooted institutional problems. But we should also remember that some of the changes that the campaign

has prompted are of great environmental and social significance: for one thing, the Bank has gotten out of the business of funding agricultural colonization schemes in pristine rainforests. We shall see no more World Bank-financed Polonoroestes and Transmigrations.

When all is said and done, it is clear that the Bank's member governments find that it serves important, if dubious and disingenuous political purposes, purposes more important than the consequences of individual projects. Indeed, most of them have tacitly endorsed a situation where Bank management and staff have operated semi-autonomously over the years, withholding information from the Executive Board and on occasion misleading and deceiving the directors. For the countries of the North, we have seen that the Bank is a convenient political and financial tool in the attempt to plaster over the contradictions of inequitable North-South economic relations and provides an excuse to avoid dealing substantially with debt relief. Most recently, the Bank has been useful in bolstering cosmetic responses to public pressures to deal with the global ecological crisis. As an institution, the Bank is not suited to address these issues or to resolve them, but it serves governments as a dangerously deceptive alibi and furthers the illusion that something is being done while the problems fester.

Ministers and officials of Southern governments, while they protest against the Northern-dominated voting structure of the Bank and its arrogant negotiating tactics, have become addicted to its loans. The Bank's \$24-billion annual lending is nothing less than a global political patronage machine without precedent in world history, one that greases the gears of finance, planning, energy, and agriculture bureaucracies—and the ambitions of their cadres—around the developing world.

In the near future, the World Bank will continue to occupy a unique international political space, a kind of Archimedes' point from which powerful leverage can be exercised on certain points of the globe at a given time. Over the long term, its attraction for governments has nothing to do with what it is doing or promoting at a given moment, and everything to do with the political point in space where it is located. The leverage that can be exercised from this point, when ill used, has infused life into countless disastrous schemes which might have otherwise died natural deaths through insufficient financing and divided domestic support. Could the same leverage be used to help open up the terrain for global civil society vis-à-vis governments, to promote a necessary coevolution and coadaptation between governments and social and environmental movements? Could the Bank itself be radically restructured to reflect the values of global civil society—accountability, flexibility, transparency, freedom, care?

THE WORLD BANK GROUP

ROUTING SLIP		DATE: February 23, 1994	
NAME		ROOM. NO.	
A. SHAKOW, EXTDR		T8-011	
A. STEER, ENVDR		S5-049	
2/23 ce/LS			
☐	URGENT	☐	PER YOUR REQUEST
☐	FOR COMMENT	☐	PER OUR CONVERSATION
☐	FOR ACTION	☐	NOTE AND FILE
☐	FOR APPROVAL/CLEARANCE	☐	FOR INFORMATION
☐	FOR SIGNATURE	☐	PREPARE REPLY
☐	NOTE AND CIRCULATE	☐	NOTE AND RETURN
☒	APPROPRIATE DISPOSITION	☐	
RE: Bruce Rich			
REMARKS: Attached is a second installment on the Africa Region's response to Mr. Rich (I sent you my view); regarding the Guinea Project. We still owe you Côte d'Ivoire.			
FROM K, CLEAVER, AFTDR		ROOM NO. J3-155	EXTENSION 34595

OFFICE MEMORANDUM

DATE: February 18, 1994

TO: Mr. Kevin Cleaver, Director , AFRTD

FROM: Giuseppe Topa, Forestry Specialist, AF1AG



EXT: 34532

SUBJECT: Responding to Mortgaging the Earth

Please refer to your memo to Mr. Michael Grut, former task manager of the Guinea Forestry project that is criticized in Mr. Rich's recent publication.

Below are specific remarks related to the points raised in the publication. The focus is on the project design and what the project has actually achieved during its three years of operation. As you might remember, a detailed response to WWF's criticism on the project was provided to EDS05 in January 1990. This response and relevant background material are also attached for reference.

The project viewed as a deforestation scheme.

The project was never meant to support logging operations. The quoted 75 km of roads in and around the forests were to facilitate protection, silviculture and management. 75 km of roads over 150,000 of forest amount to 0.5 meters of road per hectare, an intensity at least 20 times below the one required for logging in comparable conditions (10 meters per hectare). Hence, these roads do not signal any intention to provide direct support to logging.

To date, not a single km of road has been constructed. Forest protection has been achieved through motivating local forest surveillants. Silviculture operations have emphasized the re-planting of accessible sites for which no new roads have been necessary. A very modest length of one-meter wide observation paths has been opened to facilitate the ecology and biodiversity investigations, and these would naturally disappear.

Management plans have not been completed yet. Their preparation has however been instrumental to generating a very healthy dialogue on management issues involving stakeholders, the Government and the private sector. While some of the issues regarding the intensity of conservation versus sustainable use of forests are still being debated, there seem to be no doubt that conservation will be the main thrust of future management plans, and that these will be implemented as part of a broader framework for development of surrounding areas.

February 18, 1994

Finally, the project has recently made clear its position regarding commercial logging by drawing the government's attention to the need for immediate suspension of the only logging concession near the Dieke forest.

106,000 ha of pristine forest being opened for timber production.

The article allegedly says that real thrust of the project, "hidden in the fine prints", was to open for timber production 106,000 of pristine forest. This point was answered above. I would just like to add that this impression might have been generated by a theoretical assumption made to calculate the project economic viability. Finally according to the project findings the area of pristine forest is below the mentioned 106,000 ha. The exact area will be available by June 1994.

Cleared and cc: Mr. Nkodo (letter only)
cc: AIC Files
F. Dalencour, BB Guinea Forestry.

A:\cleav.mor

OFFICE MEMORANDUM

DATE: March 31, 1994

TO: Mr. Lewis T. Preston

THROUGH: Matt McHugh, EXC

FROM: Alexander Shakow, EXTDR

EXTENSION: 31828

SUBJECT: "Mortgaging the Earth" -- The Bank's Response

Last week I distributed copies of the Critical Overview, part of the Bank's response to Bruce Rich's Mortgaging the Earth: The World Bank, Environmental Impoverishment, and the Crisis of Development. The Overview was based in part on valuable contributions from Bank staff who prepared background notes on various issues in Rich's book. These notes have been edited and are now available as well, on request. A set of the complete package is attached for your information.

Attachment

cc: Messrs. Karaosmanoglu, Sandstrom, Stern, Vice Presidents

March 21, 1994

In February 1994, Mortgaging the Earth: The World Bank, Environmental Impoverishment, and the Crisis of Development, by Bruce Rich, was published. The book is a strong critique of development practice in general, and of the World Bank's role in particular.

The Bank welcomes open debate on development issues. We think it is important, however, that this discussion takes place in the context of an objective overview of available data and experience. Mr. Rich's book has not provided this. Thus, the attached note represents an attempt to provide a World Bank perspective and to set the record straight.

We will be happy to provide further information on request.



Alexander Shakow
Director
External Affairs

Setting the Record Straight...

The World Bank's Response to Bruce Rich's 'Mortgaging the Earth'

Background Papers

1. A Critical Overview
2. The World Bank's commitment to environmental protection
3. Popular participation in World Bank-supported Projects
4. Reforms at the World Bank
5. Energy Efficiency in developing countries
6. The Impact of Adjustment
7. Net Transfers, Debt, and Forgiveness of World Bank loans
8. The Global Environment Facility
9. The World Bank's efforts to preserve the forests
10. World Bank lending for Agriculture
11. The Pak Mun Power Project in Thailand
12. Transmigration Program in Indonesia
13. Brazil: POLONOROESTE, Rondonia and Mato Grosso Natural Resources Management Projects and the Carajas Project

Setting the Record Straight...

'Mortgaging the Earth'—A Critical Overview

Bruce Rich's book, *Mortgaging the Earth*, is a provocative critique of development practice in general, and of the World Bank's role in particular. The book sees the development record as one of near universal failure, and the book's conclusions are predicated upon this assumption. Reality is much richer than the picture presented by the book, however. While there have certainly been disappointments and mistakes, the overall picture is one of substantial achievement. In developing countries as a whole, the past quarter century has witnessed (but Rich's book has ignored):

- a reduction in infant mortality from 120 per 1,000 to 60 per 1,000, and increase in life expectancy by 12 years;
- a doubling of food production and an increase in average nutritional intake per person of 20%;
- a doubling of secondary school enrollment rates (a tripling for girls) and a substantial rise in literacy;
- clean water made available to 1 billion people who previously lacked it;
- a doubling of average real incomes;
- a dramatic trend towards democratic forms of government.

The book takes little interest in this progress: to citizens in developing countries they matter a great deal. These achievements are certainly not grounds for complacency. While the vast majority in developing countries have benefitted from them, many (especially in Africa) have not. Mistakes have been made, environmental and social concerns have received inadequate attention, and the sheer growth of population means that the absolute magnitude of poverty is as great as ever. But making progress requires learning lessons from success as well as failure—an approach rejected by Mr. Rich.

Some of the themes of the book are important and deserve urgent and continued attention. These include: the need for more participatory forms of development and greater sensitivity to social concerns, the need for strengthened environmental institutions in developing countries, the importance of openness in decision-making in multilateral institutions, the imperative of avoiding past mistakes, and the need for further debt relief (especially in Africa). The World Bank is striving to make progress in all these areas, and in this regard Rich's book is a welcome contribution to the debate.

The book's value, however, is seriously undermined by methodological flaws, by errors and exaggerations, by its rich-country perspective, and by its rejection of the concept of sustainable development as understood by the Brundtland Commission and the Rio Earth Summit. We briefly consider each of these.

Methodological Issues

Rich's methodology is to pick the worst examples of country experiences and of World Bank performance, and generalize. This "analysis by vignette" is effective in raising emotions, but does injustice to the important and complex issues involved. Chapter 1, for example, devoted to the Thai experience, portrays development in that country as one of a total failure to meet the needs of the poor. The huge gains

in the poor's access to education, basic health care, nutrition, and sanitation in Thailand are ignored. Similarly, in Indonesia Mr. Rich neglects to note that the incidence of poverty, which was 60% in the early 1970s, has declined to 15% in 1990, an astonishing drop of 45 percentage points in two decades.

In addition, the book suffers from the common methodological flaw of failing to take account of the counterfactual—i.e., what would have happened had development programs not been followed. One example is in its treatment of structural adjustment programs which, the book concludes, have led to slower growth, cutbacks in health spending and have failed to promote exports. There is ample evidence that countries that failed to adjust to the shocks of the 1970s and early 1980s fared far worse than those that did. And, in fact, countries with intensive adjustment programs enjoyed on average increased growth rates (by 2.5 percentage points from 1981-85 to 1986-90), increased spending on health care and increased exports.

To be sure, the adjustment process is complex, and some programs have been less successful than had been hoped. A vigorous exchange on the consequences of adjustment, and on how adjustment programs can be improved, continues. But it is essential to remember that it is only countries in crisis that seek support from the World Bank for adjustment programs. Drawing conclusions from simple correlations between countries in crisis and World Bank involvement is analogous to observing the high correlation between sick people and hospitals and concluding that hospitals are bad for your health!

Errors and Outdated Information

Much of the information that Rich uses to make his argument is false, exaggerated, misleading or out-of-date. There are simply hundreds of examples of this. A small sample:

- On forest projects: the book claims that projects in Guinea and Cote d'Ivoire financed logging and that the latter displaced 200,000 people. Untrue. No logging was financed and no involuntary resettlement was supported. Further, the book implies that the Bank was involved in the Cameroon Tropical Forestry Action Plan. It was not. In fact the Bank was involved in only one of the nine cited as particularly problematic.

- On financial data: the book claims that debt service to the World Bank is eating up the earnings of African countries, such as Uganda. Untrue. World Bank net transfers to Uganda and nearly all African countries are strongly positive. Indeed overall net transfers to developing countries as a whole have been positive since 1989.

- On the achievements of the Green Revolution: the book draws from reports from the mid 1970s to conclude that new technologies have hurt the poor in India. In fact a rich array of later studies have demonstrated that rural poverty declined in the 1970s, that small farmer incomes increased faster than those of large farmers, and that employment and income opportunities for the landless rose.

- On the Global Environment Facility: the book claims that GEF proposals were "prepared covertly, almost secretly." Untrue. They were the result of an unprecedented level of interaction among official and non-governmental entities. On project specific issues, there are also many errors. For example, Rich claims that the Tana River GEF project includes forced relocation and that it is linked to a new Bank agricultural loan. Both assertions are untrue.

An Elite, "Northern" Perspective

Rich's portrayal of developing countries as beholden to the dictates of donors is condescending and inappropriate. Developing countries rightly take pride in their accomplishments and so too take responsibility for their failures. Countries such as India and Thailand receive less than 1% of their gross domestic product in official development assistance. To assign to this the impact that Rich does is illogical.

Of course the World Bank plays a significant role in assisting its member governments (its owners) but a sense of perspective is warranted. For example, the Bank finances about 3% of dams in developing countries and around 2% of total investment.

The book also exhibits a rich-country environmental criticism when dealing with issues such as energy. Rich writes from a country where the average citizen consumes 12,000 kilowatt hours of electricity per year, more than 30 times what the average Indian citizen consumes. Yet Rich opposes additional power generation, arguing instead that developing countries should make their existing supplies go further. The World Bank shares his views that every effort must be made to promote energy efficiency (and continues to make this a high priority), but makes no apology for investing in economically efficient and environmentally sound supply.

Rich's prescriptions for developing countries are in sharp contrast to the expressed desires of the citizens of those countries. The 2 billion who currently have to use sticks and dung for their energy want access to electricity. So too the 1 billion without clean water and the 1.7 billion without sanitation want access to these services. And all aspire to higher living standards and better job opportunities. This helps explain why the majority of developing country NGOs continually support funding for IDA, while Rich does not.

Current Thinking on Sustainable Development

The book is well removed from current thinking on sustainable development. Mr. Rich regards the Brundtland Commission Report "as endorsement of business as usual" and the Rio Earth summit (where 178 nations agreed to a program of action) as irrelevant or worse. This view, if not arrogant, misses out on important new insights on the links between development and the environment. While rightly pointing out the urgent need for development practitioners to incorporate environmental concerns into policy-making, the book fails to take note of a new understanding in the environmental community of the importance of development.

While no one denies there are many lessons to be learned, both cautionary and exemplary, from the way economic development has been pursued in the past, most serious environmental thinkers would now recognize that without development is essential if the environment is to be protected. They recognize that without development (including income and employment growth) there is no chance of protecting natural habitats in developing countries, and without education and higher income levels, the population in Africa, for example, will rise seven-fold. They recognize that two-thirds of tropical deforestation is caused by poverty and can't be stopped without accelerated development and economic growth. This kind of thinking is now mainstream, and embodied in the phrase "sustainable development." Rich rejects it, remaining fundamentally "anti-growth," and referring to sustainable development as "an oxymoron." Rather, he falls back on a pre-Brundtland development versus-the-environment paradigm. This makes his criticisms easier to sustain but serves neither development nor the environment well.

With 1 billion people still living in acute poverty and 1 billion being added to the world's population each decade, the option of no development is not an option at all. Urgently required are policies and programs that accelerate human and economic development in a manner that is environmentally sustainable, and thus reduce the current rate of population growth. The World Bank will continue to do its utmost to support its member countries in this endeavor. At the same time, we will continue to assess and publicize our own shortcomings as we seek to improve our effectiveness in the light of experience.

The World Bank's commitment to environmental protection

If you read Bruce Rich's *Mortgaging the Earth* and know little about the World Bank you could be led to believe that it cared nothing about the world's environment or natural resources. Nothing could be further from the truth. Because of the importance of a clean environment and the strong links between environmental degradation and poverty, the World Bank and its borrowers have integrated environmental concerns into development programs in four ways:

1. By helping member countries to set environmental priorities, formulate environmental policies and put in place the institutions -- such as environmental protection agencies -- to regulate and enforce such policies. The Bank helps borrowers prepare and implement national environmental action plans (NEAPS). These enable governments to set environmental priorities and propose environmental policies and investments within their overall development strategy. The Bank itself is the largest financier of environmental investments, policy reform and institutions in developing countries, lending a record \$2 billion for 23 projects in 1993 alone. Such Bank-financed projects are underway in more than 30 countries. They include projects to clean up pollution, protect natural habitats and biodiversity, integrate land management, and so forth. As well as these specific environmental investments, many other Bank projects have environmental benefits, too, for example those that improve sanitation and water supply and protect watersheds. The Bank also undertakes research and advises governments on how best they can manage their natural environment.
2. Environmental concerns are taken into account at each stage of a Bank loan's preparation, design and implementation. The Bank's Environmental Assessment process has positively influenced project design and in some countries has been responsible for borrowers strengthening their own procedures. The Bank helps train people from those countries that lack expertise in environmental assessment. Resettlement is of special concern. Prompted by the findings of the Morse Commission on Narmada, and an Operations Evaluation Department Review, a major review of all Bank-financed projects involving resettlement is nearing completion. Recommendations for improving programs and projects already are being implemented in cases where resettlement problems have been identified.
3. Participants at the Rio Earth Summit recognized the links between reducing poverty and protecting the environment. The Bank is helping its borrowers recognize and invest in these "win-win" opportunities. It funds projects that both help increase people's living standards while helping protect the environment. Education is an example of a win-win opportunity. And Bank lending (with special emphasis on female education) has expanded to over \$2 billion a year; lending for population, health and nutrition has risen to \$1 billion a year; and research on sustainable agriculture has been increased under the auspices of the Consultative Group on International Agricultural Research (CGIAR). Win-win policies are also being given high priority in adjustment and project loans. For example, governments are being encouraged to stop subsidizing the excessive use of environmentally sensitive resources such as energy, pesticides and water, and to improve land and property tenure for poor farmers and urban squatters. All these measures have strong positive impacts on the environment.
4. As the implementing agency of the Global Environment Facility, the Bank is helping address international environmental problems such as loss of biodiversity, ozone depletion, climate change, and protection of international waterways. The Bank is the financing mechanism for the Climate Change and the Biodiversity Conventions that were signed at Rio.

Setting the Record Straight...

Popular Participation in World Bank-supported Projects

Throughout *Mortgaging the Earth*, Bruce Rich portrays the World Bank as a secretive institution that does not take into account the impact on people of the government projects it supports. That is an unfair and outdated view of how the Bank works today. Despite the fact that the World Bank is only able to lend to governments, non-governmental organizations and local people have an increasingly active part in the design and implementation of Bank-financed projects along with others in the development business, (thirty to forty percent of Bank-supported projects involve NGOs, many in the project design stage). The Bank has learned that without the participation of local people, many development projects will not be successful. And yet we -- and others in the development business -- are still learning how this can most effectively be implemented, especially above the village level.

The Bank is committed to incorporating the activities and views of local people into the projects it finances. It is currently examining projects that stress participation (both Bank-funded and those funded by other groups) to produce a sourcebook of "Best Practice". The sourcebook will document and describe projects that include participation and analyze what works best to help staff and governments incorporate local participation into project design. When the Best Practice Handbook is completed it will be publicly available.

Two examples illustrate what is now being done:

In Egypt the Bank is helping to reduce poverty with an agriculture loan in the Matruh region. The project targets the poorest farmers, who are Bedouins. Most people think of Bedouins as nomadic people but that is no longer the case in this area. UN-FAO volunteers in Egypt, and staff from the Aga Khan Foundation and Germany's GTZ told Bank staff that during the last decade the Bedouin tribes in this region have moved to a more sedentary lifestyle, although they still maintain their tribal traditions. They now raise mostly sheep and goats -- which unfortunately seriously overgraze the sparse vegetation in the area. Environmental degradation and poor resource management practices are evident throughout the area in which they live. The farmers knew they most needed the ability to catch and retain rainwater. But there was clearly also a need to manage the environment better.

The project was developed by a Task Force consisting of people from the local government, local institutions, and the Bedouin community, using a technique called Participatory Rural Assessment. The Task Force, working with staff from a consulting firm that had experience in preparing projects in a participatory way, solicited ideas and views from local households and farmers. When it became apparent that only men turned up for meetings, special efforts were made to include women, and as a result women's contributions to the project has been significant.

Project preparation was thoroughly participatory and empowering. And the project will be implemented through the local community. It has three objectives that aim to help the Bedouin community and surrounding environment. First, it will provide water through a system of underground cisterns and dikes and will create new fruit orchards, rangeland, and improve the management of the land. Second, it will provide research and extension for the farmers, focusing on dry land farming and livestock production systems. Sub-regional resource centers will be built to bring research, extension, and credit closer to the local communities. Third, it will provide credit so that small farmers, landless people and rural women can start small businesses or farms.

Another example is in Chad, a country that values education highly. Chad's education system

deteriorated during the 1979-82 war and the Government asked for the Bank's support in rehabilitating schools. The Minister of Education specifically asked the Bank to help prepare the new education project in a manner that involved local people and responded to their real needs and concerns. Conferences were held with local people and local non-governmental organizations to discuss options and reach a consensus on how best to achieve the end results the people wanted. The final project included a number of components: it built and renovated classrooms, purchased and distributed textbooks and teacher's guides, improved teacher training, strengthened primary school management and inspection, developed and implemented a girls' education program, improved educational practices in individual schools, strengthened parent associations and strengthened the Ministry of Education. The process brought stakeholders at all levels together and produced a project plan that was owned by local people, local schools, donors, and Government alike.

Reforms at the World Bank

Critics of World Bank programs and policies, including Bruce Rich's *Mortgaging the Earth*, often call for radical "reform" of the Bank. These critics rarely acknowledge the commitment of Bank management and shareholders to change and the Bank's efforts to encourage support for further changes by its member countries. The Bank has, in fact, changed substantially over its nearly 50 years of existence, and that is one of its greatest strengths. The World Bank not only agrees with many of the general principles of the proposed reforms but has actually done much to implement them -- often, to be sure, with the encouragement of the Bank's friends and critics.

Let us look at Rich's five proposals for reform and compare them to recent Bank policy changes:

1. Increased public access to Bank documents. Recent changes are substantial. While the Bank has always made enormous amounts of material available, there has been much interest in specific project-related information. A new, much more open policy of information disclosure was agreed to by the Executive Board in September 1993. A new document is now available -- the Project Information Document, especially prepared to give early project information to interested parties. Environmental Assessments, Environmental Data Sheets, National Environmental Action Plans, Staff Appraisal Reports, Summaries of Evaluation Reports, Country Economic and Sector Reports, and Sector Policy Papers also are now being made available. These documents are available to the public in the borrowing country through the Bank's Resident Missions and access throughout the world is facilitated by Internet links to the Bank's Public Information Center in Washington.

2. An independent appeals commission. The Bank is unique among multilateral organizations in approving the establishment of an independent Inspection Panel in September 1993. The Panel will investigate complaints from outside parties that the Bank has failed to follow its own procedures and policies. While one would not realize it from listening only to the critics or reading Rich's book (which focuses on a handful of problem projects), most Bank projects do not generate such complaints (the Bank has made more than 6,300 loans since its inception fifty years ago). The Panel will provide a safety net for exceptional cases. It will have full access to Bank files and will make publicly available the results of its investigations.

3. Increased accountability of Bank staff. Rich arrives at this recommendation by setting up the proposition that "pressure to lend" is the rationale for rewarding staff and that all Bank projects are harmful. This misrepresents the good that most Bank projects bring about and belittles the efforts of a staff dedicated to helping the world's poor. The Bank constantly subjects its work to independent evaluations (which are widely circulated) and improves project performance based on the results of those evaluations and other reviews. The Bank initiated its own careful review of its lending portfolio under implementation two years ago and has instituted numerous reforms as a result which will strengthen the most important objective: getting results on the ground. Staff time allocated to project implementation and supervision will be increased and staff performance will be judged on their efforts at this stage of project work. If targeting new loans was a major objective in the minds of many in the past, the Bank's President and Board of Executive Directors have made clear that that is not the objective; good results is.

4. Rich proposes that the Bank forgive its debt. This subject is dealt with in a separate note in this series. Where the debt burden is a barrier to development, the Bank has sought ways to help countries through new loans to middle-income countries participating in Brady-type agreements: for the debt-burdened low-income countries special programs -- such as the IDA Debt Reduction Facility (to help reduce

countries' commercial debt), the Fifth Dimension (to help IDA borrowers repay outstanding IBRD debt), and the Special Program of Assistance (for Sub-Saharan Africa countries) -- have been instrumental in strengthening the economic position of indebted countries.

5. Promotion of democracy, human rights, and social equity as well as economic welfare and ecological balance. The Bank is not permitted by its Charter to engage in partisan political issues. Yet, clearly, many of the issues it addresses have major impact on the success of governments and their programs. The Bank recognizes this, and has done much to strengthen good governance -- sound management, accountability, transparency and adherence to the rule of law -- through its policy guidance, technical assistance and lending. While specific political aspects of human rights are beyond the Bank's purview, the Bank's work on the economic and social aspects of human rights is significant, e.g., through increased emphasis on education and expanded opportunities for the poor and for women; social equity and economic welfare is addressed by targeting the poor in projects and by providing funding for safety nets in adjustment programs. Ecological balance is taken into account in every aspect of the Bank's work from helping develop National Environmental Action Plans to requiring environmental assessments for new projects to funding specific projects for protecting and improving the environment. The most significant cause of environmental degradation in developing countries is poverty -- and a major cause of poverty is environmental degradation. Rich's analysis which seems to suggest that development leads to a reduction of democratic values, human rights, social equity, economic welfare, and ecological balance is upside down. Poverty is a major cause of all of these situations. The World Bank's overarching objective is to reduce poverty in the developing world.

Setting the Record Straight...

Energy Efficiency in developing countries

Bruce Rich, in his *Mortgaging the Earth*, expresses vigorous objection to World Bank investment in energy in the developing world. Rich and others with similar views do not acknowledge that the Bank's investment is for the economically efficient provision and use of electricity supply. By arguing against investment in energy they perpetuate a cruel hoax: that people in developing countries can make do without more commercial energy. What such policies imply (though Rich does not state the implications) is that the developing world will have to make do with dung for cooking and their feet and bicycle rickshaws for transport. Such insensitivity to the economic plight of millions of people in the developing world is appalling.

Rich not only attacks the World Bank but most of its member countries. He comes from a country where the average person uses more than 12,000 kilowatt-hour of electricity a year, and where most homes, industries, farms, shops, schools, hospitals, clinics and offices are supplied with electricity. The country is rightly proud of its ability to provide universal and ample service, and the growth of its prosperity in the present century owes much to the growth of its electricity industry. But in developing countries the situation is very different:

- 2 billion people -- eight times the population of the United States -- have no access to electricity.
- 2 billion people use fuelwood, crop residues and dung to cook their daily meal. This not only leads to illness and death through smoke inhalation that causes respiratory illnesses, heart disease, and cancer, but is damaging to soils and forests. These fuels consume four times the amount of energy needed for cooking than would modern fuels and appliances.
- in thirty years, these numbers will rise to 5 billion if energy supplies are not expanded, and in forty years to 6 billion. Thus, without increased energy, the number of people relying on dung, fuelwood, and crop residues would equal the entire population of the world today. This is socially and environmentally unsustainable.
- Rich attacks India, Brazil, and Thailand for wasting energy. Yet, in India, per capita consumption of electricity averages 360 kWh a year, barely 3 percent of the United States; in Brazil it averages 1500 kWh, or 13 per cent of the United States; and in Thailand 900 kWh, or 8 percent of the United States. Africa is spared from Rich's attack but it is worth knowing that per capita consumption of electricity in Africa averages only one-hundredth of the electricity consumed in the United States.

Rich does not acknowledge the World Bank's record on promoting efficiency in energy production and use -- work that has gone on since the Bank began operations nearly 50 years ago. Achieving good commercial pricing policies is central to efficiency. And promotion of these policies is central to World Bank energy operations. In the 1950's and 1960's the Bank concentrated on good financial rates of return; in the 1970's and 1980's, this was extended to include marginal cost and peak load pricing (a well-established principle for raising efficiency in energy production and use); and in the 1990's, thanks to a combination of technical changes and institutional reforms in the industry, the Bank is looking toward commercialization and competition to lead the way to price, cost and energy efficiency.

Rich is wrong to claim that the Bank has "refused to ...[promote] end-use efficiency". All Bank energy operations -- loan commitments totaling \$3 billion or more a year -- have been concerned with end-use efficiency as well as with supply-side efficiency. Estimates of how much there would be to gain from

adoption of commercial policies have been widely published -- in the World Development Report of 1992, in working papers, and in refereed journals; they show that long run demands would be decreased by about a third. Hence, if the policies the World Bank is supporting are successful, electricity demands will triple over the next 20-30 years, rather than quadruple. The capacity and energy saved would equal the entire capacity and electricity produced in the United States today.

Rich's estimates that 50 percent of the growth of demand in "Brazil, India, China, Costa Rica and many other developing countries" can "be cut" through "state of the art industrial equipment, lighting systems, air conditioners..." lack credibility, as does the claim that "the cost of such end-use efficiency investments is often a third or a quarter of the cost of new power plants". It is all part of the cruel hoax. Rich does not acknowledge that such programs, while allegedly being least cost, require extensive cross subsidies -- through give-away-\$25-light bulb programs and rebates on the tariffs of "participating consumers". If they are cost effective, why do they require huge subsidies?

Most people in developing countries would surely want state-of-the art air conditioners and refrigerators. But they cannot afford them. If they could, their electricity consumption levels would be very high. Optimistically (from an efficiency perspective), perhaps one-third of that of the United States today, or 4,000 kw per capita. If this were to be the case, the total installed capacity and output in developing countries would be (allowing for population growth within the working lifetimes of children in schools today):

- 35 trillion kWh (000 TWh), as compared with 2.5 trillion kWh today and 3.6 trillion kWh in North America; and

- 9 million MW (9,000 GW), as compared with roughly 0.6 million MW today and 0.9 million MW in North America.

This assumes big gains in energy efficiency, which we believe are possible given good policies to promote it. However, the gains will not come from heavy handed interventionism espoused by Rich. Rather they will come through the good economic and commercial policies that he explicitly rejects. These calculations also assume good family planning policies and educational programs will be in place and that incomes will rise -- otherwise, populations will be much higher. (The World Bank is, of course, the largest external financier of health and education programs in the developing world -- a fact that Rich ignores throughout his book.)

Can growth in energy demands be reconciled with a better environment? Even if the rest of the world manages with one-eighth of the amount of per capita consumption of that of the United States, production and capacity requirements will still be more than 15 trillion kWh and 4 million MW, respectively, six times today's levels. But denying people electricity and modern fuels is not an option: it would leave them dependent on dung and wood for fuel, impoverished on an unthinkable scale and would guarantee the destruction of the remaining forests and woodlands as people search for fuel and for land. And the loss of crop residues and dung would undermine agricultural productivity and yields. The only sustainable route, as far as the energy industry is concerned, will be to turn to low-polluting methods of energy production -- including solar energy, on which there has been much progress recently, and about which Rich is silent.

The developing world needs energy efficiency, and we believe the Bank's policies will promote it. It is counterproductive to misrepresent these policies. The developing world also will need the low-polluting technologies and the environmental policies that promote their use. The Bank will help its borrowers to pursue these opportunities, too.

The Impact of Adjustment

The view that adjustment programs increase poverty has stubbornly sustained itself despite the evidence. An example of why this is so is the misinformation contained in Bruce Rich's new book *Mortgaging the Earth*. Rich, like others before him, movingly describes the economic hardships that many poor countries suffered in the 1980s. Unfortunately, he focuses on the search for scapegoats instead of for solutions to the complex crises of underdevelopment. In Mr. Rich's conspiratorial view of underdevelopment, anything wrong in a country receiving World Bank loans must be the World Bank's fault.

The problem with this approach can be illustrated by the story of the little boy riding with his father on Washington's Beltway after an ice storm. The little boy stared at a succession of minor automobile pileups caused by the ice storm, each pileup with an ambulance -- lights flashing -- standing by in case of need. "Daddy," he asked somberly, "why do ambulances cause so many accidents?"

Much of Rich's analysis is the equivalent of blaming accidents on ambulances. Countries only come to the World Bank for structural adjustment loans after a severe crisis has developed. Evaluating the success of subsequent recovery efforts supported by World Bank and International Monetary Fund (IMF) lending requires asking questions such as: (1) what was the state of the country's economy when adjustment began? (2) what else was happening to the economy as the country adjusted? and (3) what happened to countries in similar circumstances which did NOT adjust?

Rich has not reflected upon the large body of work undertaken by the World Bank and many independent scholars to answer these questions. The consensus of that work is that adjustment, as supported by World Bank and IMF lending, generally raises an economy's growth over what it would have been without such adjustment.

The evidence shows that developing countries that undertook intensive adjustment programs with funding from the World Bank experienced an *increase* in their average growth rates by 2.5 percent from 1981-85 to 1986-90. Those that interrupted adjustment programs or did not adjust at all had on average no change in growth from the dismal growth rates of the early 1980s.

Analysis of Sub-Saharan Africa's experience with adjustment also confirms that countries that did the most to improve their macroeconomic policies experienced the biggest increase in growth in the 1980s. Countries that undertook more limited adjustment programs and experienced a deterioration in policies suffered a decline in growth rates. While adjustment did not cure all economic problems -- for example, investment sometimes went down in adjusting countries -- it did help countries to achieve higher rates of growth than would have been the case in the absence of adjustment.

Rich blames a drop in real wages in Mexico in the 1980s as a consequence of adjustment promoted by the Bank. In fact, the decline in the real minimum wage in Mexico began in the late 70s -- well before World Bank adjustment lending -- and was then accentuated by the disastrous episode of economic mismanagement, that Mexicans call "la crisis," in the early 1980s. Since 1987, Mexican real wages have *increased* by 20 percent. Moreover, more severe drops in real wages than experienced in Mexico occurred in the 1980s in countries that did not undertake adjustment programs, for example, Peru (-70%) and Nicaragua (-90%).

Similar problems bedevil Rich's analysis of poverty and adjustment. Poverty was tragically widespread in countries in crisis long before they undertook adjustment programs. The key question is

how much adjustment policies *changed* the lot of the poor. Because income distribution changes slowly over time the biggest single factor determining the welfare of the poor was how the economy as a whole was growing. And we have seen that countries following adjustment policies usually enjoyed an increase in growth. Conversely, in countries that failed to implement or sustain adjustment programs, such as Peru and Cote d'Ivoire, the economy declined and the incidence of poverty increased. In Peru, GDP per capita fell by 20 percent between 1985 and 1990. The average household in Lima experienced a decline in per capita consumption of 55 percent, and poverty increased from 0.5 percent of Lima's population in 1985-86 to 17.3 percent in 1990. Cote d'Ivoire's economy took a nose-dive after 1987; in 1987 and 1988, the incidence of poverty rose by over 50 percent, and the incidence of extreme poverty more than doubled.

The evidence does not support Rich's simplistic assessment that "too often [adjustment programs] resulted in reduced education, health, and environmental protection expenditures." Among Sub-Saharan African countries undertaking adjustment programs -- sustained or not -- median real health spending in absolute terms increased by about 5 percent between 1980-83 and 1987-89, although education spending decreased by a similar amount. And among the countries that made the largest reforms in their macroeconomic policies, median health and education expenditures as a share of GDP remained virtually unchanged. By contrast, the countries that did not undertake comprehensive adjustment programs suffered a large decrease in social expenditures.

Rich is also mistaken in his claim that "adjustment did not succeed in launching export-led growth". Countries in Sub-Saharan Africa that made positive changes in their macroeconomic policies had strong export performance. Of the 22 countries for which data were available, the four countries with the greatest improvements in macroeconomic policies between 1981-86 and 1987-91 experienced a median increase in export growth of almost 8 percent over the same period. Those countries whose macroeconomic policies showed only modest improvement increased the growth rate of their exports by only 3 percent. In contrast, exports lost ground in the ten countries with deteriorating macroeconomic policies, with a median fall in growth of 0.7 percent. Restoring macroeconomic stability and reducing exchange rate distortions paid off in higher export growth.

Moreover, the gains in export growth have *not* been eaten up by higher debt servicing requirements. Sub-Saharan Africa, the world's poorest region, continues to benefit from high net aggregate transfers (loan disbursements plus grants less debt service payments), amounting to over 3 percent of GNP in 1992. Total debt service as a share of exports and services has declined over the course of the 1980s, from a high of 28.2 percent in 1986 to 18.5 percent in 1992. Contrary to the impression that Rich gives, adjustment programs benefit the borrowing countries, not just their creditors.

Conclusions. A vigorous intellectual exchange on the consequences of adjustment is ongoing. All who care about the welfare of developing countries should be willing to subject both perceived wisdom and new ideas to the rigors of debate. But participating in this debate requires a great deal of tedious examination of data and country experience. Rich's rhetoric and insinuations do little to advance the cause of poverty alleviation and environmental protection.

Ambulances do not cause accidents. But when accidents occur, it is better to have ambulances than not.

Debt, Net Transfers, and Forgiveness of World Bank Loans

Critics like Bruce Rich in his *Mortgaging the Earth* argue that the World Bank cannot contribute to development if it collects more money from developing countries than it lends; he holds up the fact of negative net transfers as evidence. But citing aggregate net transfers as evidence oversimplifies the issue and leads to erroneous conclusions. The argument fails to distinguish between the loans of the International Development Association (IDA), which are extended at highly concessional rates, and those of the International Bank for Reconstruction and Development (IBRD) which are at market rates. It also fails to recognize the consequences of the fact that IBRD is a financial institution.

Rich's arguments focus on the pattern of aggregate net transfers. But these are not a useful measure of the Bank's role as a development institution. Rich fails to recognize that countries typically go through a "borrowing cycle", whereby they rely primarily on official concessional flows in the early stages of development, subsequently start to borrow on commercial terms and are finally able to repay their earlier obligations from increased earnings. The direction and relative size of net transfers thus differ depending on where in the "borrowing cycle" an individual borrower (or set of borrowers) happens to be at a particular time. It is important to distinguish between different groups of countries and their stage in development, rather than focusing on aggregate net transfers.

The Bank strongly supports efforts to relieve countries of excessive debt burdens since this burden is a drag on economic and social development. There are valid grounds for debt forgiveness, such as when a debtor country has suffered severe adverse shocks to its terms of trade and hence its export earning capacity. The World Bank has supported debt reduction under such scenarios with substantial amounts of its own funds under the Brady Plan and with IDA funding through its debt reduction facility which bilateral donors cofinance. However, it is crucial that debt reduction and forgiveness schemes take place within the context of overall reform.

Rich does not acknowledge that the Bank has adopted a conscious strategy to help its poorest countries, through IDA, establish the foundations for self-sustaining growth through concessional lending and related advice. IDA is making significant and growing positive net transfers to the poorest developing countries. It has been able to do so since it provides its credits at zero interest rates over very long periods of time (30 to 40 years) and thus with a very high grant element. IDA's ability to provide this funding is solely determined by the donor countries' willingness to provide concessional resources through the replenishment of IDA every three years.

The relatively better-off and creditworthy middle-income developing countries have, in contrast, relied on IBRD as a source of financial capital. IBRD is a market-based financial institution which finances its loans by issuing bonds and passing on to its developing country borrowers the favorable terms it receives because of its AAA-rating in the international capital market. The Bank can borrow on much more favorable terms than the developing countries can. Based on a paid-in capital of about \$10 billion, IBRD has provided a total of about \$240 billion in development loans since its existence. The fact that, as IBRD is maturing as a financial institution, its net transfers to developing countries have turned negative is not at all surprising. No financial intermediary which operates on commercial principles and without recourse to concessional funding (i.e., subsidies) from donors can expect to run positive net transfers to its borrowers all the time unless its capital base can be expanded indefinitely. This is neither justified -- because some countries will be repaying the Bank as they no longer need to borrow from it -- nor feasible because the shareholders of the Bank would simply not be willing to finance unlimited growth of the institution. At the same time, it would not be in the interest of any

single borrower to continue over protracted periods of time to borrow on commercial terms at a pace that keeps net transfers at positive levels. This would soon result in unsustainable debt burdens.

The World Bank's role in development becomes much clearer if one considers the impact of cumulative net flows from IBRD to its borrowing countries. Despite the emergence of negative transfers from IBRD, it increased the amount of debt outstanding and disbursed almost five-fold since 1980 and now disbursements stand at about \$100 billion. This represents a huge financial contribution at a time when most other financial institutions, especially the commercial banks, pulled back from development finance.

An increased financial contribution from the Bank, together with support from bilateral and other multilateral institutions, have enabled middle-income countries to adjust to the shocks of the 1980's and to build the foundations for self-sustained growth so they can focus on the key challenges of development -- improving their social sectors and the environment. The improved sustainability of middle-income countries is shown by, among other things, increases in exports from \$493 billion in 1986 to \$745 billion in 1993 and a resurgence of capital flows, which have increased to this group from \$56 billion in 1986 to \$130 billion in 1993.

Of course, the circumstances of individual countries will vary even within this group. For instance, several countries have arrived at the end of their borrowing cycle and are ready to graduate from IBRD borrowing to market sources -- net transfers from the Bank will clearly be negative in these cases -- while several other countries are just at the early stages of their borrowing cycle, such as those of the former Soviet Union (net transfers will be positive during the foreseeable future in these cases).

Rich proposes that the World Bank forgive part of its own debt. He claims, for example, that debt service to the World Bank is eating up the earnings of some countries. The example he gives is Uganda. But Uganda is an IDA borrower, and, as mentioned above, net transfers from the World Bank to Uganda, and to nearly all sub-Saharan African countries, is strongly positive. In fact, Uganda's economic reform program, designed to restore stability and set the stage for sustained growth, has been supported by IDA funding since 1988.

Rich's claim that the World Bank's (that is IBRD's) rating in the bond markets would not be adversely affected by forgiving its own debt is also false. That the Bank's credit rating depends as much on the Bank's financial performance as on government guarantees is evident from the reports of the rating agencies and from the below-AAA rating that IBRD had in its early years. The main consequence should the World Bank write off its debt, would be a deterioration of its credit standing in the financial markets and a consequent increase in the cost of loans for all its borrowers.

Setting the Record Straight...

The Global Environment Facility

Bruce Rich describes the Global Environment Facility's creation and evolution as exemplifying the way he believes the Bank does business (top-down, structurally incapable of integrating environmental concerns into its mainstream activities, and so on). He illustrates what he sees as the inevitably negative consequences of this modus operandi in two GEF biodiversity projects, in Congo and Kenya. But his descriptions are inaccurate, misleading and prejudiced by his development philosophy.

Rich describes the creation of the GEF as driven by the Bank's financial complex, its primary goal being to "sweeten the financial terms of larger Bank loan packages". In fact the GEF was a donor initiative, one of several such ideas advanced in the late 1980's. At first it was viewed with considerable concern by the Bank which feared that it would draw resources away from the Bank's mainstream activities, in particular those of the International Development Agency (IDA) which lends to the poorest countries on concessional terms.

The GEF proposal was not drawn up in secret, as Rich suggests. On the contrary, there was an unprecedented level of interaction between the Bank, which was commissioned by the Development Committee in the fall of 1989 with elaborating and operationalizing the original French proposal, and the 24 countries that met at regular intervals between September 1989 and November 1990 when the scheme for the Pilot Phase was adopted.

In a world that normally faults international bureaucracies for sloth, it is surprising that Rich criticizes the Bank in this instance for its speed in putting the GEF together. Rich further complains that the U.S. Congress and other legislatures did not participate in the design of the GEF. But this is not how inter-governmental negotiations work. States are represented by delegations which must seek validation of any commitments they make from national authorities.

It is inaccurate to suggest that government delegations were not well-informed during the GEF negotiations. On the contrary, extensive documentation was provided as the concept of the GEF evolved.

Rich does, nonetheless, put his finger on one of the complications of international negotiations on the environment: Because the environment cuts across so many areas, larger governmental delegations typically consist of representatives from several ministries, and ensuring consistency and coordination within governments is often as challenging as forging consensus among them. This fact of life cannot, however, be laid at the door of the Bank which Rich says forced the pace of the GEF negotiations beyond governments' ability to keep up.

The GEF agreement of November 1990 was not a definitive blueprint foisted upon unsuspecting and ill-informed governments. Rather, the explicit intention of governments was to establish an experimental Facility (initially for a limited duration) to see how developing countries could most effectively be supported in their attempts to protect the global environment. From the beginning, the aim of governments and the implementing agencies, which include the United Nations Development Programme (UNDP) and the United Nations Environment Programme (UNEP) in addition to the World Bank, was to evaluate the experience of a three-year Pilot Phase and to use the findings in restructuring the arrangement if it was to be prolonged. This evaluation was undertaken in 1993 and its findings have helped shape arrangements for GEF II.

The Bank did not subvert the creation of a new "green fund", as Rich suggests. The idea of the GEF was

never to provide an alternate institutional focus for the increasing emphasis placed on sustainability by all development agencies. Rather, it was designed to provide "new and additional" grants to cover the extra cost involved in going beyond the protection of the local and national environment (which is considered a national priority to be factored into all development planning), and extending protection to the global environment.

In many instances, the best way to leverage these global benefits is by modifying the design of projects that would otherwise go ahead without taking account of the global environmental dimension. Hence, the link between GEF projects and many regular World Bank (and, in future, other institutions') loans. This is not a "sweetener" or a negation of environmental responsibility, but a pragmatic way of helping developing countries that would not otherwise be willing, or able, to pay for the incremental costs of global environmental benefits. The aim of the GEF is not necessarily to fund more projects, but to add to their sustainability.

Rich has his story back-to-front when he asserts that the Bank tried to incorporate the Brazilian Rain Forest Fund - initiated by the Group of Seven - into the GEF. In reality, the donors wanted to create an account for this purpose in GEF. The Bank and the other GEF implementing agencies resisted this proposal because it would have run counter to the Facility's focus on problems rather than places. The fact that donors ended up contributing only a tiny fraction of the \$250 million originally envisaged for the rain forest fund is interpreted by many observers as the result of their failure to fuse the two initiatives.

The two GEF projects Rich describes as examples of the Bank's damaging stewardship of GEF resources are seriously misrepresented.

He advances the Environmental Defence Fund's (EDF) standard criticism of the GEF Congo Wildlands Protection Project. This project was examined in detail at a special consultation in Washington, D.C., in April 1992. EDF's critique - that the GEF grant was bound up in a Bank loan designed to hasten the destruction of Congo's remaining rain forest - was comprehensively rebuffed by Mike Fay, the representative of Wildlife Conservation International who is responsible for implementing the project on the ground. His eleven-year residency in the project area was in sharp contrast to the field experience of the EDF staffer who critiqued the project. She had been to the Congo but, it emerged, had never visited the project site.

It became clear at the Washington meeting, and in the documentation made available to all participants (which included every shred of material ever produced about the project), that the Bank project for natural resource management to which the GEF grant was originally linked would not have supported logging activities in protected areas or encouraged any increase in logging or log exports from those areas, as Rich asserts. The fact that the GEF project went ahead without the Bank loan, which was dropped because of Congo's non-accrual status, disproves Rich's suggestion that the GEF grant was bait to "jump start" the larger scheme.

The road to be built as part of the project - along which Rich envisions some massive migratory movement - is in fact a short, narrow track to allow project staff access to one corner of the project area.

Rich describes the Congo project as a "startling example of the Bank's negative environmental alchemy". The evidence suggests, rather, that it is an example of EDF's finesse at ignoring what is happening on the ground if this does not support its position.

The description of the GEF biodiversity project in Kenya is similarly misrepresented. There is no forcible resettlement of the local human population, as Rich suggests, in an area along the Tana River where the GEF project aims to protect endangered primate species. The proposed project could provide funds for people now living inside the Tana River Primate National Reserve if they choose to resettle and request assistance in doing so. Contrary to Rich's assertion, the Tana River project is not linked to a new Bank agriculture loan.

In his comments on these projects, and the GEF process generally, Rich criticizes the Bank for the insufficiency of the information it provides. He also rejects the usefulness of the frequent consultations

organized by the GEF as "one-sided affairs where groups [are] informed of decisions taken behind closed doors".

It would seem that Rich is unaware of - or chooses to ignore - many of the innovations in information-sharing and consultation with affected groups and international NGOs that have been introduced by the Bank and the other GEF implementing agencies. Indeed, many in the NGO community - as well as government - have come to see the GEF as a model in both the role NGOs have been accorded in project-specific activities and their inclusion to an unprecedented degree in consultations related to the GEF's overall policy and the operational practices of its implementing agencies.

And such changes will be built upon; a November 1993 report to governments suggests a more systematic approach to NGO involvement and consultation be one of the guiding principles in the next phase of the GEF. Their contribution will also be sought in monitoring the GEF portfolio as it matures.

Meanwhile, the entry into force of the new global environmental conventions signed at UNCED will provide the kind of guidance and local perspective that will help make GEF activities more effective in curbing damage to the global environment in the future.

Setting the Record Straight...

The World Bank's efforts to preserve the forests

Mr Rich's observations in his commentary on "Saving the Forests" cease in mid-1991. But much has happened since that time.

Rich criticizes the World Bank for having been closely involved in the design of the flawed Tropical Forestry Action Plans (TFAP) process, although he observes that the Bank subsequently distanced itself. What he does not say is that the Bank distanced itself because the program did not meet its sustainable development objectives. While the intentions of the TFAP process were impeccable, they proved to be unattainable. A description can be found in a paper by Robert Winterbottom of the World Resources Institute ("Taking Stock: the TFAP after five years," June 1990). Problems arose because the process in participating countries was taken over by forestry departments and forestry professionals. Beguiled by the prospects of greatly increased investment in public-sector managed activities, they concentrated on identifying new investments rather than analyzing the underlying causes of deforestation, and the policy and institutional changes that would be required prior to undertaking new investments.

The old adage "more haste, less speed" also came into play. Forestry departments and professionals eagerly set about preparing their TFAPs but, in their haste, they cut short consultations with interested parties and in some cases did not hold them at all.

However, to put the record straight it is important to know there are recent examples of well-prepared Tropical Forest Action Plans. These -- Ethiopia, with Bank participation, and Chile, with no Bank participation -- show that a proper consultative process can take place, but it takes years rather than the 18 months posited in the initial proposal.

Rich gets a number of facts wrong. He states for example that "by 1990, twenty-one nations had completed forestry sector reviews under the aegis of the TFAP, with the World Bank as the leader or a major participant in eight." In fact, by June 1993 eighty-three TFAP exercises had been completed or initiated. The World Bank has been involved in nine. The World Bank was not involved in the Cameroon TFAP which Rich criticizes and was involved in only one (Ghana) of the nine that were included in the World Rainforest Movement critique.

Rich cites two projects which purportedly illustrate the Bank's shortcomings in forest management. The first, in Guinea, illustrates the difficult trade-offs that have to be made in trying to protect the environment. The challenge is how to do "good" when the best is unattainable. The project never was intended, and never has, led to logging. The 75 km of roads to be built in and around the forests are to facilitate protection, silviculture and management. In fact, 75 km of roads over 150,000 hectares of forest amount to 0.5 meter of road per hectare, an intensity at least 20 times below what would be required for logging in comparable conditions. The project management has recently made clear its position regarding commercial logging by drawing the government's attention to the need for immediate suspension of the only logging concession near the Dieke forest.

The Cote d'Ivoire forest project was not "in flagrant contradiction of Bank policy" as Rich describes, since the proposed resettlement was to be voluntary, not involuntary. The public institution that man-

ages the publicly owned forests which were to be better managed under the project (Societe de Developpement des Forets (SODEFOR) has been substantially strengthened under the project. It is currently managing the forests in a more environmentally conscientious manner, and is preparing resettlement plans for priority forests. The Bank has helped with this task by funding an independent resettlement specialist to design the plans, the guiding principle of which is to encourage voluntary resettlement through an incentive scheme which will provide those who move with tenured land located outside the forest. In this way, the forests have some chance of being preserved into the future, averting the history of destruction by farmer migrants and logging companies.

Not only does the project not finance logging, it has led to a suspension of all logging in the country's gazetted (public) forest area (about 2.4 million hectares). In fact, after three years of implementation, the project has achieved considerable progress in meeting its objective of promoting the conservation and sustainable management of Cote d'Ivoire's remaining tropical moist forests. It also included an innovative institutional mechanism, the Farmers-Forests Commissions that ensures participation of local people in the design of sustainable forest management plans.

Rich credits the internal debate over these two contentious projects as giving rise to the preparation of a new, ecologically more focused policy on forests. The new forest policy was adopted in July 1991 and published in the policy paper series in September 1991. It provides the framework within which analytic work and program design have since been undertaken. A key feature of such work is to focus on the forest -- with all its users and products -- rather than forestry, and thereby to consider all the policies and institutions that may have a bearing on forest management.

The Bank is constantly evaluating its work and the work of its borrowers in an effort to improve project outcomes. As part of this evaluation, a study of the first three years of implementation of the forest policy is presently being prepared by the Bank's multidisciplinary Central Forestry Team. They are consulting with many governmental and non-governmental organizations which are being invited to critique the Bank's work as well as to make known their own successes and disappointments in forest management in order to enrich the empirical basis for improving project design.

The issue of protecting forests shows Rich to be incongruent in his views. The people in Guinea and Cote d'Ivoire who designed and implemented the projects are those who are concerned with preserving the environment. They include people in the forestry service, the park service, and people essentially interested in conservation and sustainable management. The opponents in the countries are private logging companies, those officials who obtain substantial rents from the logging companies, the elite who profit from distribution of protected land to themselves, and a few officials who genuinely do not see the benefits of conservation and sustainable management. Bruce Rich and the more radical environmental NGOs have effectively allied themselves with the latter group by contesting every effort to improve management of forest and park land by Government and donors.

An anecdote is illustrative. In November 1990 the Bank, the African Development Bank and the International Union for the Conservation of Nature (IUCN) jointly sponsored a conference to discuss the outlook for the West African Forest, in Abidjan, Cote d'Ivoire. The several African NGOs, the representatives of the West African forest and park services, the Western NGOs with projects on the ground, and the Bank were talking the same language. They were looking for ways to facilitate forest protection through sustainable management. The NGOs more involved with lobbying efforts, such as Rich's Environmental Defense Fund, Friends of the Earth, and Greenpeace, were isolated from the above groups in their consistent denunciation of all such efforts by donors and governments. The other denunciation came from the few representatives of the logging companies who were worried that the types of suggestions being put forward would reduce their profitability. The net effect: the loggers and the radical environmentalists were on the same side. Both opposed the interventions suggested to save the forests, although for different reasons.

World Bank lending for Agriculture

The section in Mr. Rich's *Mortgaging the Earth* that discusses the World Bank's support of the agriculture sector is a good example of his habit of selectivity in quoting selective sources to make his case. He cites studies on the impact of the "green revolution" to back his allegation that the Bank has been misguided in its support of agricultural investments promoting and enhancing the spread of the new technology, and that its lending to the sector has increased poverty. But Rich's reliance on dated studies to conveniently make his case is evident. For example, he cites studies by Griffin (1974) and Hewitt de Alcantara (1976) yet ignores the rich body of evidence accumulated during the 1980's and early 1990's which does not support his case.

A 1985 study by Ahluwalia, for example, convincingly documents the decline in rural poverty in India throughout the 1970's -- the peak years of the Green Revolution. Blyn's (1983) study of the green revolution in Punjab also supports that case. It concluded that small farmers' income increased relatively faster than did that of large farmers, and that employment increased without depressing real wages, resulting in benefits for landless farmers. Subsequent work by Hazell and Ramasamy (1991) in South India showed that although large farmers adopted Green Revolution technology earlier, smaller farmers had largely "caught up" (partly in response to enhanced information provided by research and extension) within a decade. The study shows small farmers incomes increased as did those of agricultural laborers. Other studies, Bell, Hazell, and Slade (1982), have shown that income gains arising from the green revolution have had strong multiplier effects on the broader rural economy.

The reliance on outdated information also affects Rich's discussion of the World Bank's efforts to promote the Training and Visit (T&V) extension system in India. Rich cites a study by Moore (1984), which reflects impressions -- not quantified data -- from the early years of the T&V experience in India in support of his arguments against the T&V system. Yet, he ignores subsequent studies and analyses, based on empirical investigations¹, that show the flaws in his own arguments. These studies have documented increased presence of extension, improved agent-farmer interaction, and a significant ability and willingness to adapt the operational principles of the system to local circumstances. For example, using contact farmers as the key link between extension agents and the farming community was modified to make greater use of group methods, and the frequency of meetings adjusted to seasonal requirements. The coverage of farming activities was expanded to include both major and minor crops, and, in some areas, animal husbandry. Comparisons with alternative extension systems have shown advantages to the T&V approach in terms of information dissemination and interaction with farmers.

While there are several weaknesses in the agricultural extension system in India (Macklin 1992), they are certainly not such to warrant the blanket condemnation set out by Mr. Rich in his badly researched analysis.

1. Feder and Slade (1986), Feder, Lau, and Slade (1987), Macklin (1992), Bindlish and Evenson (1993).

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The Pak Mun Power Project in Thailand

Bruce Rich paints an entirely one-sided and misleading picture of the Thai Government, EGAT (the Thai electricity authority) and the Pak Mun power project in his book *Mortgaging the Earth*. The narrative misrepresents the history of consultation, the quality of the environmental assessment and the generosity of the resettlement plan. It treats unsubstantiated criticism as fact and conveniently ignores material which challenges this distorted view. It underestimates the intelligence of its audience by suggesting that Thailand could meet its annual 10 percent increase in demand for electricity by "conservation and end-use efficiency". If such simple and cheap alternatives were available, the Bank and the Thai Government (and every other government in the developing world) would be seizing them.

In reality, Pak Mun symbolized the difficult trade-offs which are involved in development -- between those affected and those who will benefit, between the local environment and the wider community, between using hydropower or non-renewable energy. The fundamental flaw in Rich's simplistic commentary on Pak Mun is that he poses a false choice. Development without trade-offs is an illusion. While he has the luxury of advocating ideologically pure but practically unworkable solutions, the countries confronted with real problems do not.

Contrary to the impression given in Rich's book, EGAT and the Thai Government have dealt directly with the people affected by Pak Mun. The long record of consultations includes face-to-face meetings, group meetings and briefings, distribution of information booklets and wide dissemination of information through the local media. Between September 1988 and June 1990, EGAT convened or was involved in more than 20 consultative meetings and briefings with affected people. In addition, 20,000 copies of the publication "Pak Mun Project", detailing in Thai the resettlement plans and compensation rates have been issued. It is unfortunate that efforts to consult with NGOs have been blocked by an NGO refusal to sit at the same table with the representative of Government and EGAT.

The Bank's resettlement policy was fully implemented in Pak Mun. The 989 families affected by the project can choose where to resettle and what to do with their resettlement money. Some have chosen to resettle near their former home sites, but on higher ground. Others have opted for the Sirindhorn resettlement area, where soils are as good as at Pak Mun and a full range of basic services (from irrigation to electricity, paved roads and schools) will be provided. The price being paid in compensation was seven times the prevailing rate and even now it is 20-30 percent above the market value. And, everyone affected by the project will now have formal legal title to their land. Before, 80 percent held no title.

Rich's propensity for skewing the evidence is illustrated in his citing of one academic, Dr. Rainboth, who has criticized the project for its impact on fish. The project has recently been reviewed at its mid-term point by a highly specialized and respected team, including Dr. Jasper Dwyer (Ph.D., Oceanography, Aquatic Biology) and Dr. Santasiri Sornami (Professor, Faculty of Tropical Medicine, Mahidol University, and who also helped appraise the project). Their careful review found nothing which would support Dr. Rainboth's claims that the dam -- made up of gates which open fully to allow almost unimpeded passage of the river -- will cause any damage to fish stocks. Nor is there any evidence to back up Rich's claim that the project would increase the spread of parasitic diseases, such as schistosomiasis. Such diseases could become more prevalent if the project created a reservoir, but it does not.

The dam level at Pak Mun will rise and fall, and at its peak it will submerge 60 square kilometers, almost all of which is regularly flooded by seasonal rises in the river level.

To ensure that the project does not have harmful side-effects, the Government has established a special committee to review and monitor the dam -- particularly its resettlement and environmental aspects -- before and after completion.

Rich's argument that conservation and end-use efficiency are alternatives to meeting Thailand's growing demand for electricity are totally unrealistic. Though the Global Environment Facility is involved in a demand management project with EGAT, any gains from this are likely to be realized only in the late 1990s and will account for less than 2 percent of electricity demand. World Bank estimates suggest that Thailand's electricity demand will increase about 10 percent a year until 2000, demanding more than 1000 megawatts of new electricity production capacity each year. The Pak Mun Hydropower Project is a small component of this, providing a capacity of 136 megawatts. The real alternative to Pak Mun would have been turbines using light oil. These are costlier and less environmentally friendly.

The assertion that the Bank "undermined the already weak representative institutions" in Thailand is a complete misrepresentation of the facts. The debate in the Thai Government over Pak Mun, the effectiveness of local representatives in handling compensation, environmental and resettlement issues, and the responsiveness of EGAT and the Government to local concerns puts the lie to Rich's claim. The Bank is satisfied that the Pak Mun project is being implemented properly, and that difficult issues regarding effects on local people and the environment have been handled in a manner consistent with the Bank's strict 1980 resettlement policy which even Rich says "...is an equitable one".

Setting the Record Straight...

The Transmigration Program in Indonesia

The World Bank has provided about \$500 million to support five transmigration and two Swamp Reclamation projects in Indonesia since 1976. As with all resettlement, these have been complex and difficult activities, and the results have been mixed. It is important to note, though, that despite its many problems, there is a positive side to the transmigration program.

Transmigration has made an important contribution in helping the Government manage the economy and reduce the number of poor – Indonesia's record in reducing poverty is unmatched by other large countries at its income level. And, Transmigration provided options for many poor families at a time when they would otherwise be landless and trapped in poverty. Of the settlers surveyed between four and nine years after the first three Bank projects were completed, between 83 percent and 95 percent said they were satisfied with their situation. Moreover, in most cases, family incomes are higher than expected, although a much higher proportion comes from non-farm income than was planned.

While contributing to less than 10 percent of total program cost, Bank-assisted projects have led to improvements in the transmigration programs. These have been particularly important in improving site screening and evaluation, program management, farming systems, procedures for safeguarding the environment, and support services for the settlers.

One example is the support given for site selection, which began under Transmigration II, when the difficulty in finding suitable sites became apparent, and which continued under Transmigration III and V. The Bank supplied considerable resources to this effort, and the positive results for site selection and planning go far beyond the transmigration program itself by: (i) giving Indonesia its first country-wide resource/land use/development potential maps collating large quantities of information from many departments; (ii) giving criteria for site rejection based on environmental and social considerations (a large number of sites were subsequently rejected based on the maps), and; (iii) developing policies to take into account the needs of indigenous people in Irian Jaya.

While Rich is correct that there have been some negative environmental and social impacts, he grossly exaggerates, the significant positive impacts described above have also resulted. He is certainly inaccurate in stating that the program's cost of \$7,000 per family could have kept a household above the poverty line for thirteen years. In per capita terms it could do so for perhaps three years on average. But after the three years people would have no sustainable means of making a living and no access to land. The purpose of development is to allow people the opportunity to sustain and improve their living standards, not to provide hand-outs that when gone leave the poor as impoverished as before.

Setting the Record Straight...

POLONOROESTE, Rondonia and Mato Grosso Natural Resources Management Projects, and the Carajas Project

Bruce Rich reiterates many of the criticisms of these projects which have been published over the past decade; the Bank agrees with some of these criticisms. However, given the apparent research effort that has gone into *Mortgaging the Earth*, it is disappointing that Mr. Rich has systematically ignored the political, social, and institutional realities present in Brazil during the time the projects were being implemented. He has also neglected to present substantial, readily available information regarding successes achieved under these projects. Thus, the entire presentation is unbalanced.

While this response does not seek to offer a fully comprehensive evaluation of the projects, readers deserve a more factual and balanced analysis that incorporates a discussion of the realities, successes, and Bank actions.

While it is difficult to recognize from Rich's discussion, there were some sound reasons for supporting POLONOROESTE.

In the early 1970s, as land became increasingly scarce in the more traditional areas of Southern Brazil and prolonged droughts struck the Northeast, the trickle of migrants to Rondonia reached uncontrollable proportions. By 1977, the National Institute for Colonization and Agrarian Reform (INCRA) had settled about 28,000 families in Rondonia. At least 30,000 others had joined the marginal population in the newly created urban areas waiting for land. Still others became sharecroppers on the land of established colonists or staked out claims on the fringes of official projects, on Indian reservations, and in forest reserves. By the late 1970s, the situation in Rondonia worsened and an ever-increasing number of migrants from other parts of Brazil, together with budgetary constraints, nearly paralyzed INCRA. The Brazilian Government's response to the growing socio-economic problems caused by this accelerating migration was to launch the POLONOROESTE program in 1980 with financial support from the Bank. The important point here is that POLONOROESTE did not set in motion the destructive trends which have resulted in massive deforestation in Rondonia. Rather, these trends were well underway and the program tried to deal with the pressing socio-economic problems caused by rising spontaneous migration to the region.

After the 1984 mid-term review of POLONOROESTE, it became clear that assumptions under which the program was planned were significantly different from the realities under implementation. Specifically: the counterpart funds that the Government was to provide dried up because of Brazil's difficult fiscal situation; investment credit needed to establish perennial crops virtually disappeared; management was overly centralized; the integration of participating agencies was ineffective; and an even higher migration of settlers than expected resulted in unchecked deforestation and continued encroachment into unsuitable areas where soil fertility was marginal. Perhaps most important, though, was the continuation of a public policy framework inconsistent with sustainable development of the Amazon region, which obviously hindered effective implementation of the program. This included land registration and titling procedures which actively encouraged forest clearing, special fiscal incentives and subsidized credit lines which encouraged unsustainable livestock development, weak institutional capability of key Federal and State implementing agencies, and inadequate technical and fi-

nancial support for smallholders to establish perennial crops and adopt sound environmental techniques. All of these played a major role in the deforestation process.

The Bank devoted an inordinate amount of resources to supervise POLONOROESTE implementation, and the staff involved with the program (including several highly qualified environmentalists, anthropologists, and social scientists) were continually concerned with preventing destructive deforestation and harmful impacts on indigenous populations. But the Bank, in spite of suspending disbursements during 1985, did not have at its disposal the means to coerce the Borrower into vigorously and speedily rectifying all of the problems.

While POLONOROESTE suffered from these well-publicized weaknesses, they have frequently masked some of the program's significant accomplishments on the institutional, technical, and environmental front. Many of these are now beginning to bear fruit and in future years they will play a critical role in helping to preserve the Amazon Region's valuable natural resource base.

When POLONOROESTE was launched, Rondonia was still a Federal Territory, converting to Statehood only in late 1981. Consequently, the new state's institutional base was quite weak. Through POLONOROESTE, key institutions such as a state agriculture research and extension service, a state forestry institute and forest military police, a state secretariat for the environment, and a state land institute were created or strengthened. Many of POLONOROESTE's physical targets were met, including some of the more difficult activities like protecting and assisting Amerindian communities. Contrary to the perceptions quoted by Rich, more than 10,000 Amerindians benefitted from the program, and 90% of all of Rondonia's Indian lands identified by FUNAI were demarcated (over 10 million ha), and more than 2 million ha of conservation units and forest reserves were established. POLONOROESTE laid the groundwork for major advances in technical know-how. In 1991, for example, Rondonia passed a State law to establish agro-ecological zoning for development planning. The zoning identifies areas according to their potential land use, distinguishing those capable of sustainable development from those without any known long-term potential or which have special ecological (biological reserves) or social (Amerindian lands) significance and therefore need to be protected.

Finally, the Bank's efforts to help Brazil resolve its most pressing environmental and developmental problems are not coincidentally related to Brazil's growing political awareness and commitment to confront environmental issues. That commitment includes a new national Constitution with one of the world's most advanced chapters on the environment, reversal of policies inconsistent with sustainable development in the Amazon, creation of a new Ministry of the Environment and the Legal Amazon, to mention a few. Rondonia and Mato Grosso Natural Resource Management Projects

Mr. Rich's description of the Rondonia and Mato Grosso Natural Resource Management Projects does not reflect careful research. He asserts that in preparation, appraisal, and initial implementation of these projects, the Bank has failed to: (a) involve NGOs and local groups, (b) resolve key environmental and indigenous issues, (c) rectify and learn from previous mistakes, and (d) rectify flagrant abuses before moving ahead with project implementation. These assertions do not reflect the facts.

During project design, great emphasis was laid on taking into account the lessons learned from POLONOROESTE. Agro-ecological zoning was used as a starting point for project design. Agreements were reached with the Federal and State Governments to change the policy and regulatory framework which has influenced the process of environmental degradation, and to modify public investment programs in accordance with the zoning recommendations. Another of POLONOROESTE's lessons was that project interventions should go beyond limited areas of the state and address population movements and general state occupation patterns. Consequently, statewide perspectives were adopted with specific project interventions geared to the kinds of land use and environmental protection activities identified through agro-ecological zoning. The need for decentralized decision-making, rapid feedback and greater dialogue with, and responsiveness to, project beneficiaries was recognized during preparation. These needs were built into the project with appropriate organization and management arrangements, including: decentralizing project execution from the federal to state government; relying on contracting out project works rather than implementation by public agencies; exten-

sive training, technical assistance and consulting services; monitoring and evaluation systems; and participation of non-governmental organizations. The projects include a range of interventions essential to avoid natural resource degradation and to enhance environmental protection in the Amazon. They include providing credit to help farmers make the transition from slash and burn to more sustainable agriculture techniques that are consistent with environmental preservation. Finally, Government assurances that no public or social infrastructure would be implemented in areas without sustainable development potential will help to ensure compliance with the projects' environmental objectives.

The projects were declared effective in January, 1993, and disbursements began in June. Before June, progress already was made in establishing administrative structures (which included NGOs' participation in the Projects' Administrative Councils and the sectoral commissions that approve all project investments) and in conducting key environmental protection activities.

Bank staff visited the States towards the end of summer, 1993, to help move the projects forward and resolve any difficulties, particularly those related to environmental and Amerindian protection. Agreements were reached with the Federal Government to ensure that INCRA's policies and activities in the States are consistent with the agro-ecological zoning recommendations, and to start zoning activities. Agreements were also reached to advance implementation of environmental and Amerindian protection and management activities such as socio-economic studies, demarcation of conservation units and Amerindian reserves and to ensure that the implementation of economically productive activities proceed in parallel with them. Follow-up after the mission found that these agreements are being implemented. Significant progress has also been made in completing the international bidding process for the zoning and bidding and contracting for socio-economic studies and demarcation of conservation units. Cooperation on land issues between INCRA and the States is progressing, and the flow of funds and decentralization of implementation authority has improved. The 1994 Annual Operating Plans for the projects are designed to further accelerate environmental and Amerindian protection activities.

An Independent Evaluating Committee (IEC), which includes participation of local, national and international NGOs, has been established. The IEC's findings, along with the Supervision Mission's report, will soon be presented in a Project Progress Report to the Bank's Board of Executive Directors.

While these projects have experienced some delays in implementation and are not devoid of problems, they are certainly not the environmental "farces" Rich alleges them to be. Rather, they are well-designed projects to which the respective States are firmly committed. The Bank will provide the close supervision and support necessary to ensure success. A Field Representative in Mato Grosso is helping both the States and the Bank in project implementation.

Carajas Iron Ore Project

The Carajas project's downfalls have been well documented, and Rich draws on much of what has previously been said. But, as with his analysis of POLONOROESTE, he fails to acknowledge the positive aspects of the project, or fairly apportion blame for the difficulties faced.

The multi-billion dollar Carajas iron ore project, for which the World Bank provided a loan of \$304 million in 1982, developed massive iron ore reserves in the Carajas highlands of Brazil, some 550 kilometers south of Belem. It was completed on time, achieved projected iron ore output, and addressed environmental issues successfully within the project area. However, the Bank and the Companhia Vale do Rio Doce (CVRD), the state-owned company managing the project, failed to anticipate the contribution of this project to the degradation of the physical environment and human conditions in the project's indirect area of influence, due to strong migrant inflows. Notwithstanding this failure, it is difficult to isolate the share of CVRD responsibility and that of other unrelated programs (the Belem-Brasilia and Belem-Sao Luis highways, the Tucuri dam, the COLONE colonization scheme in Maranhao, and the Serra Pelada garimpo).

CVRD contracted FUNAI (the Brazilian agency for Indian affairs) to implement the Amerindian component of the project, most of which fell outside the project area. Initially faced with difficulties due to FUNAI institutional problems, CVRD was able to re-direct the component towards health and land issues. This involved demarcating lands to protect 14,000 Amerindians in an extensive area around the project area and in improving living standards through education and health services. As a result, demarcation of all Amerindian lands is now nearing completion. There has been a significant increase in birth rates and parallel decreases in mortality and morbidity among most Amerindian communities in the area.

There was some concern that the charcoal needed for the pig iron plants established under the project would be produced by felling rainforest trees. The problem is currently confined to six of these plants and, with the removal of tax incentives, there is very little chance of any new smelters being established. So far negligible additional deforestation has taken place because most of the charcoal is being obtained from sawmill and agricultural crop residues. The pig iron plants indirectly contribute to deforestation by adding some value to by products of deforestation used for other purposes (e.g., logging for sawmills, agriculture, or livestock). But CVRD is committed to compliance of environmental obligations by suppliers of iron ore and port and rail services. In 1993, it announced it would condition these supplies on compliance with environmental regulations, especially on the obligation to implement reforestation or forest management plans which are required by law and sanctioned by the relevant environmental authorities. If default is confirmed by these authorities, supplies will be suspended. CVRD has already signed agreements with all pig iron producers in the Carajas corridor to this effect.

The Carajas project achieved its stated objectives and it addressed the environmental issues which were identified at the time of project appraisal. Appropriate steps are still being taken to address the indirect negative impacts which were not foreseen. The Bank recognizes and is acting upon the need to take into account in future project preparation the consequences its projects might have outside the immediate project zone.

THE WORLD BANK / IFC / MIGA

OFFICE MEMORANDUM

DATE: March 1, 1994

TO: Mr. Alexander Shakow, Director, EXT

FROM: Heinz Vergin, Director, SA2

EXTENSION: 80332

SUBJECT: INDIA - Response to "Mortgaging the Earth"

1. Further to your February 16 memorandum on the above subject, my February 23, response and your communications with Richard Cambridge, I am attaching a series of brief notes which should meet fully your request. The notes cover Mr. Rich's statements and references to the Gujarat Medium Irrigation II, Sardar Sarovar Dam and Power, Upper Krishna, Subernarekha Irrigation, and National Thermal Power Corporation (NTPC) Power Generation projects. Reference has also been made to the Singrauli Region.

2. The following notes are provided:

Gujarat Medium Irrigation II

- Question and Answer format note in response to direct quotes in Rich's Book
- Note on project with emphasis on R&R

Sardar Sarovar

- Note on project with emphasis on R&R as well as most recent information received from GOI on the closing of sluice gates

Upper Krishna

- Question and Answer format note in response to direct quotes in Rich's book.
- Note on project with emphasis on Resettlement and Rehabilitation (R&R)

Subernarekha

- Question and Answer format note in response to direct quotes in Mr. Rich's book
- Note on project with emphasis on R&R

Mr. Alexander Shakow

- 2 -

March 1, 1994

National Thermal Power Corporation (NTPC)

- Question and Answer format note in response to direct quotes in Mr. Rich's book.
- Note on Power Generation project with emphasis on the Environment Action Plan

Singrauli Region

- Note on Region-Wide Bank/ODA Study on Development and Environment Strategy for the Singrauli Region.

Attachments

RC:njd

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~~cc Tm's C.~~ ⑦
~~Confidential~~
~~Do Not Use~~

Comments on "Mortgaging the Earth"

L.E. Christoffersen

Febr 3, 1994

Comments on "Mortgaging the Earth"

These comments are based on a quick reading of the book in its final galley-proof version - with a view to making some suggestions on how the Bank may respond to the critique in it.

This just-published book is written by a long-standing "World Bank basher" who reviews the whole history of the Bank and finds the basic premises on which it operates unacceptable on both environmental and developmental grounds. Bruce Rich has been a full-time Bank critic for more than a decade and works for an aggressive advocacy-type environmental NGO in Washington. He has been a considerable "irritant" to many Bank staff and managers, including Bank presidents. Yet he has a wide following and been very effective in feeding information and getting the ear of US officials, members of Congress and their staff, politicians in Europe, as well as media and a very large network of NGOs throughout the world. Within the Bank and within the official circles of governments in its member countries, his arguments will most likely be rejected as being based on misinformation and half-truths. Therefore it would be tempting not to take this book seriously.

That would be a gross mistake. This time he has produced a 318-page book based on unusually well documented inside knowledge about what goes on inside the institution, including what takes place in confidential meetings of the Board. This is far more hard-hitting than the earlier books of many other fierce Bank critics - such as Theresa Heyter, Cheryl Payer, and Susan George. Bruce Rich has had far more access to published and unpublished Bank documents - and to information often exclusively confined to Board members and to senior management. He gives in this book a believable impression that he is very knowledgeable about what goes on inside the Bank. Hence he can be very damaging to the Bank's image around the world.

Among the public at large many may consider him a valiant David fighting against the all-mighty Goliath! If the Bank is not careful with its response to this book, it could inadvertently swing sympathy for him and make him even look more heroic.

Please keep in mind that he is not just fighting the Goliath - the Bank - but that he is chasing a larger target. He disapproves of the general system of Foreign Aid as it has been practiced over the last 4 decades. He attacks the Bank since it is the most influential, but he is clearly attacking all development assistance organizations. By hitting the Bank - the most favored (by donors) - he wants to create disbelief in - and rejection of - the entire multilateral and bilateral aid system. One way of doing so is to reveal "secrets" to the world about the continuous deterioration of project quality,

caused by Bank "obsession" with increasing lending volumes , and about the Bank's inability to implement its own operational policies and directives.

He is not solely an environmental but also a developmental critic of the Bank. He condemns the basic premises of foreign aid more generally. While the Bank is the main focus for his hard-hitting critique, he has no faith in other parts of the UN system.(In what may come as a surprise to many in the Bank, on page 272 he quotes from the Nordic UN Project : " We have a governmental system in the UN that is not geared to get accountability." and then goes on to say: " The truly bad news is that in the public international system, the World Bank is possibly the most accountable and transparent institution.")

He wants the Bank cut down drastically to a much lower level of funding, he argues for focusing less on "hardware" and more on "software" products, and he wants the decision-making and policy-making made much more open and accountable to the people at grassroots levels (incl. NGOs) in member countries, not exclusively to their governments.

For more than a decade he has beavered diligently to dig up dirt on the Bank in order to attack these larger issues. This book, even though it is slanted very heavily towards a highly negative interpretation of how Bank the works, is nonetheless built on quite impressive and remarkably good inside knowledge about the Bank. Moreover, it has extensive information on the reaction and concerns of local people affected by several large-scale Bank-funded projects.

Unlike most Bank publications who mainly address specialists and international "professionals", this book is written in a conspiracy-like style that makes it quite fascinating reading (although some of the philosophical discussions stretch reader patience). It tries to speak to the "hearts and minds" of the growing body of opinion among the general public who used to be supporters of foreign aid, but who are now uneasy and critical of foreign aid and of international organizations which they suspect are answerable to, but ineffectively controlled by, representatives of largely undemocratic national governments at considerable distance from the will of the people. But it also tackles some disquieting moral and philosophical thoughts about large technological bureaucracies and their self-perpetuating tendencies .

This book will no doubt be read by large numbers of readers throughout the world. Modern information technology has been embraced with considerable effectiveness by the international NGO networks and faxed copies of it is probably already circulating widely in all parts of the world. It should not be surprising if many readers are influenced to believe that something is

fundamentally wrong in the institution and with the way in which foreign development assistance more generally is conducted.

An illustration of its immediate effect could be seen during the General Assembly of IUCN in Argentina last month. In covering this largest gathering of its kind (nature conservation and its related international scientific community) the Buenos Aires Herald (Jan 20) opened its main feature article as follows:

"Environmentalists are harshly critical of the role of international lending organizations in sustainable development. The World Bank, especially, has become notorious for funding development projects with negative environmental impact. The doomed Narmada dam project in India was just the latest in a string of mammoth Bank-linked schemes riding roughshod over local ecosystems and populations." Bruce Rich was referred to several times later in this article!

Bruce Rich challenges the core of Bank policies and *raison d'être* as a multilateral development finance institution. Development lending as pursued by the Bank is not only an environmental disaster, he claims, but the actual (mostly negative) results of its development work is in stark contrast to its poverty posture and social development objectives. Not only are local people in many Bank projects becoming poorer as a result of these projects but they are often also socially worse off - particularly under large infrastructure, forestry and land settlement projects, and under SALs.

It also challenges the Bank's lending approach, which he argues give incentives to expand volume of lending even though the quality of Bank projects are rapidly deteriorating. This deterioration of quality is in sharp contrast to what the Bank states as its intended policies and objectives. Its lending contributes to the debt crisis of the developing world. It is caught in a vicious downward spiral - the more debt, the more crisis, the more the Bank has to lend to bail out indebted countries from this crisis. He quotes extensively from the Wapenhans report.

He finds the Bank's resettlement policy laudable and good in principle. But it is an utter failure in implementation. He quotes several impressive-sounding experts who claim that they cannot find a single example of a successful implementation of project resettlement under any Bank project.

He also attacks agricultural and infrastructure lending which makes smallholders worse off and which accentuates income distribution and local power conflicts in the field. He quotes many heart-wrenching stories from project areas where beneficiaries have become more impoverished and more destitute.

Although he was very influential in pushing the US Gov. and Conable towards the Bank reorganization of 1987, he is not happy with the results. He claims that the Environmental Assessment procedures are carried out in a "band-aid" fashion to make marginal improvements in basically faulty project design and that EAs are not allowed any real influence on the Bank's hell-bent lending ambitions. The Environment Department is considered a place for banishment (exile) of uncooperative staff and unacceptable economists and ecologists (Daley and Goodland). He believes it has little positive influence on the operational side of the Bank, in particular no significant effect on the excessively "autonomous" Country Departments. The REDs are too small to make a difference and are also not taken seriously if basic country lending or country policy objectives are at stake.

How does the Bank respond?

1. Take this book seriously. Start with making it recommended reading by senior management.

Seldom will we find such a well-articulated opposing view of the Bank. This view echoes and incorporates many similar ideas by many other Bank critics, but is more readable and more extensively researched than such other books and publications. Since it will have wide following in NGOs, in media and among general public opinion in the years ahead, senior management would be well advised to be directly informed and thoroughly acquainted with this formidable opposing view.

2. Prepare quickly a brief basic fact sheet on the most obvious factual mistakes.

Be careful here. Don't try to rebut the author on all disagreeable points. The Bank sometimes tries to be too clever in wanting to score points. Avoid arguing points of interpretation. In this case limit your points to those that are clearly factually incorrect and **ONLY THOSE** which **YOU CAN EASILY PROVE**.

A few strong points revealing factual errors in a convincing way will be far more worth than a long litany of points which may meet approving nods among "super-intellectual peers" inside the Bank - but which are often not easily understood and not convincing to the general public outside the Bank.

3. Make sure that resettlement successes are clearly known.

One of the most damaging allegations in the book is that the Bank has had no successful example of implementing its 1980 resettlement guidelines. This will be a disquieting surprise to many. If wrong, please make sure that this comes out very explicitly in the forthcoming Resettlement Review and is broadly disseminated externally. (It is not enough to complain internally that more slots are needed for resettlement experts, if those on board cannot produce any tangible results of something well done).

4. The Bank's efforts to alleviate indebtedness problems must be better presented to the outside world.

The book leaves the impression that the Bank is itself is a major cause of debt problems in many developing countries. Prepare an easily readable publication - not too scholarly, please - on the many different ways the Bank Group has been working to ease these problems - IDA itself, keeping Bank interest rates lower than commercial rates, SPA, debt management as focus for policy discussions in Country Economic Reports, its long history on providing external debt data on member countries, debt alleviation through Consultative Groups, etc. (One good in-house Bank writer should be able to present such a story within a few weeks given the vast amount of available information. One idea may be to look at the study about to be completed by the Debt Division on debt problems in low-income countries. Make sure there is a very easily understood and convincing explanation on why the Bank cannot forgive its own debt).

5. How lower income groups fare under SAL-induced adjustment policies.

The allegation here is that SALs often result in poor people being worse off than before and without adjustment policies (Al Gore made a similar point regarding Russia recently). The main point in the book is that government most often protect the vested interest groups (industrial investment and other business subsidies, higher-level civil service salaries etc) at the expense of services (health, education and social services) affecting the majority of rural and urban poor.

If there are good and clearly convincing empirical results of the opposite results, make sure this message comes out loud and clear, eg. in a separate easily readable publication for the general public, provided that the results can be very easily understood and based on solid data that can withstand scrutiny! (This will also be high priority for the 1995 Copenhagen Summit on World Social Development)

6 Experiences with participation measures in EAs.

Another recurrent theme in the book is lack of any form for genuine

participation in Bank operations. There may be many ways of presenting a contrary view on this, eg NGO participation in projects, NEAPs and community involvement in natural resource management operations. However, in order to get some strong points very fast on the table - focus on good practices in EAs. Prove this point wrong by publishing a short summary on a series of clear-cut and convincing examples on real participation in EAs.

7. Energy efficiency and energy investments

The book accuses Bank staff for being solely driven by large lending for energy investments, while spending very little efforts on energy efficiency improvements. If we have a good story to tell on this topic, let us not hide such facts for the general public.

8. Wapenhans Report.

If we take it seriously, make this very well known externally.

9 Panel of independent wise men and women.

A good defense against Northern NGO critics of the Bank is to get some highly credible wise persons from the South to respond to main charges levied in the book. Many Northern NGO critics are thin on experience in developing countries, including Bruce Rich. The Bank should not alone respond to all charges in the book (much of it is directed at national governments in developing countries and at foreign aid generally). Perhaps some of the more thoughtful independent thinkers in the South can be encouraged to state how they feel about these wide-ranging charges. This does not need to be a big production - no conference - but perhaps a small consultation meeting with 4-6 highly respected leaders from the South. They should come from the private non-governmental side - and should never have been Bank staff or consultants! Give them a week to be together in a working seminar (hosted by a "neutral" institution?) and encourage them to produce a response to this book, without any Bank clearance. There is some risk, but worth a try! Getting Southern non-governmental people to "speak up" has been very successful in many recent cases, eg Ismail's Forestry Conference in Abidjan where Southern NGOs formed a group disagreeing sharply with Northern NGOs present, Kevin Cleaver in many other instances - and also AFTEN's early African NGO consultations on EA matters.

L.E.Christoffersen
February 3, 1994

A L L - I N - 1 N O T E

DATE: 16-Feb-1994 05:46pm

TO: Alexander Shakow (ALEXANDER SHAKOW)

FROM: Masood Ahmed, IECDR (MASOOD AHMED)

EXT.: 33800

SUBJECT: RE: Mortgaging the Earth - Request for Help

Alex,

- Glad to help.

- Ron Johannes in the International Finance Division will handle this. He's been alerted and is expecting copies of the excerpts relevant to debt.

Regards.

Masood

CC: Andrew Steer (ANDREW STEER)

CC: Lesley Simmons (LESLEY SIMMONS)

at the time of

"Mortgaging the Earth" -- Response

Bank response to Mortgaging the Earth will consist of an information pack made up of one pagers on the major issues raised. They must be as readable and easy to understand as Rich's book. Topics to be covered include:

1. Outline of "mainstream" development thinking showing Rich's thinking to be simplistic and out-of-date. Describe how the environment movement has come to recognize the importance of development in the same way that development people have come to understand the importance of environment. As per Andrew's em, begin with Thailand's development success as a point of entry.

Responsible:

2. Response to projects criticized in Chapter 2 -- answering any factual errors but also focusing on how the Bank itself has identified the problems itself.

- (i) Brazil: POLONOROESTE, Carajas.
- (ii) Indonesia: Transmigration.
- (iii) India: Chandil, Narmada and Sengrauli.
- (iv) Thailand: Pak Mun

Responsible:

- (i)
- (ii)
- (iii)
- (iv)

3. Resettlement Review: what the success story is.

Responsible:

4. Debt and debt reduction -- analysis of current situation, what's being done, + outline of why World Bank can't forgive its own debt. = Mason's Abundant

Responsible:

5. Impacts of adjustment lending.

Responsible:

6. Examples of Bank projects that include participation of local groups (making point that all NGOs are not like Rich's EDF).

Responsible:

7. Energy Efficiency -- the issue and the Bank's role.

Responsible:

Buy
used
mortgage

Andrew
Spec

used
see how
far off this
is
ask CD to
write a
critique of
the book
3 pages
book says
the situation is

review Ch. 1
handwritten to help

TAP: Fresh on Air; T+V in India
Kerni Clean

give HRC/SG to read

Ch 31
results

Dee
hyper Squire

A.W.

Dennis And

8. GEF -- Elaboration of what its role is, how it fits in to today's environment/development strategy + defence of Congo example. } Don John

Responsible:

8. Identify and contact others who can make these points for us. Lief's idea of a panel of independent wise men and women + some environmentalists who are our friends. How about getting an outsider (Katherine Fuller, Jacques Cousteau?) to do a book review (it could be run in F & D) its most important use, though, would be in the package.

Responsible:

L. Simmons
12/14/94

A L L - I N - 1 N O T E

DATE: 14-Feb-1994 00:57am

TO: Alexander Shakow

(ALEXANDER SHAKOW)

FROM: Andrew Steer, ENVDR

(ANDREW STEER)

EXT.: 33299

SUBJECT: The Bruce Rich Book

Alex,

Thanks for your e-mail this evening. I agree that it is desirable to get one person, familiar with the substance of the issues, to work full time for a week or two, coordinating a response to equip those who will be answering for the Bank.

I've read the book carefully, and agree with Leif and Leslie with regard to a response. We would probably all agree that any response to this book needs two strands: (i) a clear ability to address the major specific charges in the book, and (ii) a pro-active demonstration that the book's basic philosophy is many miles from the mainstream, and that some very exciting things are happening out there in the real world. On (i) many of the book's criticisms (especially the material in chapter 2) have been identified by the Bank itself. I believe we need a thorough ability to respond at a moment's notice to the factual criticisms made -- and the briefing notes prepared for the Congress earlier this year can be a useful starting point. (I would recommend that they, together with the relevant sections of the book be given to the operational people involved for updating.) We are also well equipped on the positive side of the resettlement story; chapter 3 of the Resettlement Review shows how the Bank's policy has been quite influential in improving countries' own policies (while acknowledging very clearly how poorly we've done in the past). We obviously need help from PRD and IEC on the latest empirical evidence on the impacts of adjustment and on debt reduction schemes. I have a number of suggestions in detail in my marked-up copy. ((

A word on the need for a more pro-active strand to our response. While I agree with Leif that the book certainly needs to be taken seriously, that it is well written, and will effectively hurt the Bank's image, I don't find the book particularly persuasive. While we would make a mistake taking it too lightly, we also mustn't become too impressed with it. In many respects, the book is a long way "behind the curve" in its thinking about the environment, and even more so on the broader issues of development -- and I believe that this is what should drive the pro-active part of our response. Its in the latter part

of the book that its weaknesses become clear. The arguments are essentially "pre-Rio" in their formulation. Bruce is fundamentally anti-growth, anti-technology and almost quaint in his perception of the idyllic lives of indigenous peoples (eg page 202). (An anthropologist friend of mine -- not at the Bank -- found the book's treatment of the poor to be methodologically very weak, arrogant, and amateur). In recent years environmental thinking has changed. The book recognizes that development practitioners have been forced to incorporate environmental concerns into their work (and we need to do much more). It fails to note that the environmental movement has also become much more sophisticated in its understanding of development. The book lives in a zero-sum game world of 1960s environmentalism. Most serious environmental thinkers now recognize that without development (yes that includes GDP growth) Africa's environment hasn't a chance. They recognize that without increased income earning opportunities, education, and improved health, Africa's population will rise 7-fold. They recognize that 65% of deforestation in tropical areas is caused by poverty, and can't be stopped without accelerated development. They recognize that efficiency reforms in the FSU will be essential (though not sufficient) for reduced pollution there. This kind of thinking is now mainstream -- but Bruce just can't bring himself to accept it. He calls the Brundtland Commission Report as "an endorsement of business as usual", refers to sustainable development as an oxymoron, and believes that Agenda 21 was a total sham. We need therefore to place the book where it belongs -- intellectually behind the curve, and counter to the views of 178 nations, especially including the current US administration. If the reader chooses to believe the strong criticisms of the World Bank, he/she must also buy into the books' pre-Brundtland understanding of environment versus development, since it is on this that the criticisms of the Bank are based. To the extent we are able to have others make this point for us, so much the better.

We need to identify a few "points of entry" enabling us to take the debate away from the book. The first is in chapter 1, which is all about Thailand. He has a few quotes from a few poor people to make the point that they have not benefitted from development. These need to be taken seriously (although they are backed up with no systematic evidence whatsoever), but need to be put in the context of a doubled food production in 20 years in Thailand, strong empirical evidence of sharply improved nutritional standards, much better educational and health facilities for the poor, infant mortality falling from over 100 to around 50 ...etc. These are all documented. The book doesn't seem interested in them. The average reader will be if we manage to make the point clearly. I believe there are several more in the book. The response to be prepared should seek to exploit them.

None of this should be interpreted to imply I'm complacent about our environmental performance. I'm not as you know. It's especially important that we make progress on getting a strong

committment to follow-up action from senior manangement on the resettlement review. A serious committment to more participatory project work and ESW would also be very helpful.

Mohamed and I will of course be happy to provide the services of ENV in following up. Lets talk in the morning.

Andrew

CC: Mohamed T. El-Ashry
CC: Matthew McHugh

(MOHAMED T. EL-ASHRY)
(MATTHEW MCHUGH)

A L L - I N - 1 N O T E

DATE: 07-Feb-1994 11:50am

TO: Alexander Shakow (ALEXANDER SHAKOW)

FROM: Lesley Simmons, EXTIP (LESLEY SIMMONS)

EXT.: 31785

SUBJECT: Rich's book

Alex:

I read Leif Christoffersen's notes on Rich's book. Our concerns are in agreement...that we need to take the book seriously and be very careful about how we respond. We agree it is a fascinating read, and will be widely circulated. It is important to remember, as Christoffersen points out, that Rich is criticising the Bank not just from an environmental (and resettlement) position, but is condemning foreign aid more generally.

To develop a strategy to respond to this book is going to take a task force drawing people from across the Bank. We must be quick. The book comes out on 2/23 and newspapers are already working on reviews and are asking us to provide someone to respond. Christoffersen lists some excellent elements for such a strategy. I have taken each of his suggestions and made a recommendation on how it be tackled. They are as follows:

1. Take the book seriously. Make it recommended reading by senior management (and indeed by ANYONE who is going to talk about it or respond to it in any way).

2. Prepare a brief basic fact sheet on the most obvious factual mistakes. As I mentioned in my report, it will take input from operational people on what these errors are -- I could not pick up on any in my close reading of the book. It will take people who were very closely involved to help us determine these.
RECOMMENDATION: A task force made up of people knowledgeable about the most quoted projects in the book be put to work to read the relevant sections and prepare a list of errors and/or ways in which we can respond to the criticisms. (The projects are: POLONOROESTE Carajas in Brazil, Transmigration in Indonesia, Narmada and Sengrauli in India.)

3. Resettlement is a particularly thorny issue because of the upcoming review. Rich says that the resettlement policy is laudable and good in principle but there is no example of a successful implementation of resettlement in a Bank project. Christoffersen says we must come up with some examples of successes and document them. RECOMMENDATION: Someone on the task force reviewing resettlement be given the task of documenting a success or two -- and if possible, giving us the

names of some local people who can speak to that success.

4. The Bank's efforts to alleviate indebtedness problems must be better presented to the outside world. Christoffersen recommends a booklet which he says could be written based on a study shortly to be completed by the Debt Division on debt problems in low-income countries. RECOMMENDATION: Someone from the writers group be allocated the task of preparing such a booklet or a consultant be hired.

5. Good, clear and convincing empirical results of success on how lower income-groups fare under SAL-induced adjustment policies must be documented. RECOMMENDATION: Someone from the writers group, or a consultant, work with HRO to document.

6. Prove Rich's point wrong that there is no form of genuine participation in EAs in Bank operations by documenting short summaries of example. RECOMMENDATION: ENV identify and write up such examples.

7. If we have a good story to tell on energy efficiency we should tell it. (Based on my work with the new policy paper on energy efficiency, there is little we can do to refute that only 1% of lending goes to efficiency and conservation because we haven't really kept statistics. However, someone from EGY should work on a short refute of the criticisms.)

8. A panel of independent wise men and women. RECOMMENDATION: Christoffersen is quite specific about the kind of people we should use. Staff who work with NGOs should come up with a list of possibilities based on that profile.

9. In addition to these suggestions, I think we should prepare a a less defensive piece. Something that explains the need for mainstream development economics and illustrates the improvements that have taken place -- life expectancy, infant mortality increases, and such like. If possible, this should be under the by-line of someone outside of the Bank and not seen as an obvious stake holder in the Bank. RECOMMENDATION: EXT Management may wish to work with the President's office and senior management to identify such a person, alternatively, EXT Management may wish to approach John Sewell or Jimmy Carter or some other "friend" to do so. Someone from the writers group to prepare the piece which should also be place as an op-ed in a large circulation newspaper.

If these assignments can be completed quickly, the documents should be made available in a kit to the media, congressional staff and other infumentials concerned about the ideas expressed in the book. We will obviously be getting a lot of mail on this, too. The kit could be used to respond to it.

Lesley

CC: Timothy Cullen

(TIMOTHY CULLEN)

THE WORLD BANK
INTERNATIONAL FINANCE CORPORATION
MULTILATERAL INVESTMENT GUARANTEE AGENCY

February 9, 1994

AS
cc Tuncel
JM
GR

Mr. Matt McHugh

DECLASSIFIED

AUG 22 2025

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Matt:

Both of these notes should be treated very confidentially, although I see El-Ashry inadvertently circulated them to Sven, Linn, Serageldin and Steer w/o that constraint!



Alex

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AUG 22 2025

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A L L - I N - 1 N O T E

DATE: 09-Feb-1994 03:03pm

TO: See Distribution Below

FROM: Mohamed T. El-Ashry, ENVDR (MOHAMED T. EL-ASHRY)

EXT.: 33202

SUBJECT: The Reviews of "Mortgaging the Earth" URGENT

The two reviews I sent you yesterday are for your eyes only. Please do not circulate. As you read them it will be obvious why they should not be widely circulated.

DISTRIBUTION:

TO: Sven Sandstrom	(SVEN SANDSTROM)
TO: Ismail Serageldin	(ISMAIL SERAGELDIN)
TO: Johannes Linn	(JOHANNES LINN)
TO: Andrew Steer	(ANDREW STEER)
TO: Alexander Shakow	(ALEXANDER SHAKOW)

OFFICE MEMORANDUM

DECLASSIFIED

AUG 22 2025

WBG ARCHIVES

DATE: February 2, 1994

TO: Alexander Shakow, Director, EXT

CONFIDENTIAL

FROM: Lesley Simmons

EXTENSION: 31785

SUBJECT: Mortgaging the Earth

Bruce Rich's book is a well written and interesting read that will undoubtedly reach many people and increase the number of critics and criticisms of the Bank. While Rich embellishes and exaggerates some examples, I don't think his analysis is terribly inaccurate. His writing is emotive, beginning with a chapter on the Bangkok Annual Meetings that draws comparisons between the opulence and stuffiness of the Bank meetings (limos, speeches, good living, and just one delegate death by a self inflicted drug overdose) and the poverty and powerlessness of the people of Bangkok and the delegates at the Peoples Forum.

The book's overall thesis is that the World Bank is no longer a useful organization. In fact, as he describes the history of the Bank -- which he does accurately and interestingly -- Rich suggests it never has been terribly useful. He uses Weberian theory to describe an institution whose sole function has been to perpetuate itself. He suggests that fundable projects always were but are now more and more difficult to find. But Bank staff, faced with pressure to lend if their careers are to be successful, encourage governments to finance ecological and social disasters. He claims, for example, that the T & V System in India is a failure, describing how visits are seldom made and information not passed down to farmers. But the Bank pressures officials to declare it a success. Why? To move money, the same motive that he attributes to anything the Bank does. Even efforts at reducing urban poverty which focused on upgrading slum neighborhoods suffered problems of deflection of benefit, he says, despite what he calls "laudable intentions". Why? Because social and political conditions are ignored. Rich blames the Bank for, among other things, vast income inequalities, resettlement disasters, deforestation, prostitution, propping up corrupt governments, and promoting the creation of independent autonomous project authorities such as EGAT and NTPC that operate according to their own charters and rules, often drafted in response to Bank suggestions. He claims the Bank is not accountable and describes the Board as being a rubber stamp.

To support his arguments Rich draws on OED sources and Wapenhans, as well as outsiders and gives an alarming description of Bank staff being brought before the Ethics Officer after a document was leaked to an NGO. He footnotes at one point a reference attributed to Bank staff who must be nameless if they are to retain their jobs.

The section on Bank lending to repressive governments is extremely damning -- this is one area that I am weak on and don't know why the Bank

would not have lent to Chile under Allende (although I do know the arguments for lending to Pinochet's Chile). Romania under Ceaucescu is another example. Rich's own development philosophy comes out very late in the book. While I'm not sure that influentials among our shareholders would be terribly enamored with his redistribution of wealth from North to South argument, the damage of his description of some of our worst projects and programs, is done long before most readers come to Rich's alternative philosophy. Incidentally, Rich scorns "sustainable development" which he calls an oxymoron.

The examples Rich uses to describe the failure of Bank projects are predictable. Brazil's POLONOROESTE and Carajas, Indonesia's Transmigration, India's Sengrauli and Narmada, the TFAP, Thailand's Pak Mun, in fact, new dams period (he favors energy efficiency measures and says that Bank documents on Pak Mun show energy efficiency and conservation would have been cheaper), etc.. As I read the histories of the project's development and the NGOs efforts (particularly EDF's) to point out the problems with them, I am not at all surprised that the Bank's image is so bad. While I have not worked in operations, my first assignment in IPA was to document the background to the preparation and appraisal of POLONOROESTE. I heard myself from staff who said that their views and consultant reports had been quashed and ignored. I saw the responses we wrote to EDF and others. If there are exaggerations or inaccuracies in his descriptions it is the operational people who were involved in all of these projects who will have to tell us. Only in one place did I feel Rich was on shaky ground: in his analysis of a World Bank involvement in the BCCI scandal. If it weren't for a footnote he could probably be sued for libel.

Rich does a great job, too, of taking our arguments and dismissing them. Such arguments for example, as "if the Bank wasn't funding the project things would be worse." Or that certain projects were approved before guidelines were in place -- he says they should have been retroactive but in any event, governments don't adhere to them. Even where the Bank tries to encourage participatory development as in the example of water user committees he points out we are unsuccessful. "...such clumsy top-down efforts failed, since it was difficult to interest local farmers in intensive management of resources over which they had lost control." He claims that if the full cost of resettlement and economic rehabilitation were included in project appraisals the projects would be economically non-viable. He is very scornful of our attempts to claim we are learning from our mistakes, too. He points out that our own evaluation staff (OED) are ignored. Their status is questionable, they are viewed by operational staff as outside the mainstream, and unimportant. And in any event, at whose expense is this learning-by-doing?

The GEF is described as a fund to help make Bank loans more palatable to governments by providing soft financing to go with the Bank loan and as a way of reducing the negative net transfer. He uses the Congo project as an example of how the Bank is using the GEF to do more of the same.

Perhaps the weakest point in his arguments surrounds the discussion brought in throughout the book on negative net transfers which he uses as a reason to promote forgiveness of Bank debt.

While Rich clearly would like to see the Bank abolished he concludes with a call to reduce funding as a means to pressure the Bank to restructure: by providing,

1. public access to information and participation in meaningful, open, hearings to consider alternatives before development decisions proceed (he describes the recent policy change on public information but it does not approach the depth of change he asks for).
2. an independent appeals commission (again, the inspection panel is a much watered down version of his recommendation).
3. staff to be accountable (he describes how staff responsible for earlier debacles were promoted, including the staff member responsible for public information during POLONOROESTE being promoted to work on Narmada!)
4. debt forgiveness, by allocating \$10 billion of liquid reserves to poorest countries.
5. changes in the Charter to incorporate goals commensurate with the values of global civil society -- i.e. promote democracy, human rights, and social equity as well as economic welfare and ecological balance and conservation of other life forms.

Rich wraps up by proposing a three pronged strategy (apparently for the US Congress to carry out): (i) decrease funding; (ii) support a variety of more flexible institutions and networks (he favors the programs of the Inter-American and African Development Foundations and Appropriate Technology International); and (iii) call on governments to address the agenda suppressed at the Earth Summit and strike a new global bargain on debt relief and fair trade between north and South. The 50th Anniversary of the World Bank is the appropriate time to do this.

From a public relations point of view it is difficult to know how to respond to this very damning piece of literature. I think we do need to respond to the idea of debt forgiveness and why this is not in the interest of either the industrial or the developing countries. Rich does not really examine what such a measure would do to our financial reputation (or to the status of shareholders' callable capital should our financial situation become shaky) or what repercussions it might have on the availability of low interest loans to our borrowers (although I expect he knows all of this). We should aim at explaining these issues to the US Congress, and their equivalent amongst other major shareholders.

Rich does not, of course, talk about any of the good things we have done. Because he spends so much time analyzing the inappropriateness of the institution generally, that argument is difficult to make. His chapter devoted to the description of McNamara's contribution to the growth of the Bank, for example, is likened to a Faustian enterprise. And

in Chapter 6 titled The Emperor's New Clothes he uses three areas to show that it is not just the Bank that is at fault, it is the worldwide market-based development philosophy. He illustrates the argument with discussions of resettlement, forestry, and energy.

With the resettlement review about to become public we will be even more vulnerable to Rich's criticism about this issue. If the Bank and its borrowers are to continue with the kind of projects that have brought about failure, social disruption, and hard hitting criticism, we are going to have to find some better arguments than those we have used in the past. We know there are more such projects in the pipeline.

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Comments on "Mortgaging the Earth"

L.E. Christoffersen

Febr 3, 1994

Comments on "Mortgaging the Earth"

These comments are based on a quick reading of the book in its final galley-proof version - with a view to making some suggestions on how the Bank may respond to the critique in it.

This just-published book is written by a long-standing "World Bank basher" who reviews the whole history of the Bank and finds the basic premises on which it operates unacceptable on both environmental and developmental grounds. Bruce Rich has been a full-time Bank critic for more than a decade and works for an aggressive advocacy-type environmental NGO in Washington. He has been a considerable "irritant" to many Bank staff and managers, including Bank presidents. Yet he has a wide following and been very effective in feeding information and getting the ear of US officials, members of Congress and their staff, politicians in Europe, as well as media and a very large network of NGOs throughout the world. Within the Bank and within the official circles of governments in its member countries, his arguments will most likely be rejected as being based on misinformation and half-truths. Therefore it would be tempting not to take this book seriously.

That would be a gross mistake. This time he has produced a 318-page book based on unusually well documented inside knowledge about what goes on inside the institution, including what takes place in confidential meetings of the Board. This is far more hard-hitting than the earlier books of many other fierce Bank critics - such as Theresa Heyter, Cheryl Payer, and Susan George. Bruce Rich has had far more access to published and unpublished Bank documents - and to information often exclusively confined to Board members and to senior management. He gives in this book a believable impression that he is very knowledgeable about what goes on inside the Bank. Hence he can be very damaging to the Bank's image around the world.

Among the public at large many may consider him a valiant David fighting against the all-mighty Goliath! If the Bank is not careful with its response to this book, it could inadvertently swing sympathy for him and make him even look more heroic.

Please keep in mind that he is not just fighting the Goliath - the Bank - but that he is chasing a larger target. He disapproves of the general system of Foreign Aid as it has been practiced over the last 4 decades. He attacks the Bank since it is the most influential, but he is clearly attacking all development assistance organizations. By hitting the Bank - the most favored (by donors) - he wants to create disbelief in - and rejection of - the entire multilateral and bilateral aid system. One way of doing so is to reveal "secrets" to the world about the continuous deterioration of project quality,

caused by Bank "obsession" with increasing lending volumes , and about the Bank's inability to implement its own operational policies and directives.

He is not solely an environmental but also a developmental critic of the Bank. He condemns the basic premises of foreign aid more generally. While the Bank is the main focus for his hard-hitting critique, he has no faith in other parts of the UN system.(In what may come as a surprise to many in the Bank, on page 272 he quotes from the Nordic UN Project : " We have a governmental system in the UN that is not geared to get accountability." and then goes on to say: " The truly bad news is that in the public international system, the World Bank is possibly the most accountable and transparent institution.")

He wants the Bank cut down drastically to a much lower level of funding, he argues for focusing less on "hardware" and more on "software" products, and he wants the decision-making and policy-making made much more open and accountable to the people at grassroots levels (incl. NGOs) in member countries, not exclusively to their governments.

For more than a decade he has beavered diligently to dig up dirt on the Bank in order to attack these larger issues. This book, even though it is slanted very heavily towards a highly negative interpretation of how Bank the works, is nonetheless built on quite impressive and remarkably good inside knowledge about the Bank. Moreover, it has extensive information on the reaction and concerns of local people affected by several large-scale Bank-funded projects.

Unlike most Bank publications who mainly address specialists and international "professionals", this book is written in a conspiracy-like style that makes it quite fascinating reading (although some of the philosophical discussions stretch reader patience). It tries to speak to the "hearts and minds" of the growing body of opinion among the general public who used to be supporters of foreign aid, but who are now uneasy and critical of foreign aid and of international organizations which they suspect are answerable to, but ineffectively controlled by, representatives of largely undemocratic national governments at considerable distance from the will of the people. But it also tackles some disquieting moral and philosophical thoughts about large technological bureaucracies and their self-perpetuating tendencies .

This book will no doubt be read by large numbers of readers throughout the world. Modern information technology has been embraced with considerable effectiveness by the international NGO networks and faxed copies of it is probably already circulating widely in all parts of the world. It should not be surprising if many readers are influenced to believe that something is

fundamentally wrong in the institution and with the way in which foreign development assistance more generally is conducted.

An illustration of its immediate effect could be seen during the General Assembly of IUCN in Argentina last month. In covering this largest gathering of its kind (nature conservation and its related international scientific community) the Buenos Aires Herald (Jan 20) opened its main feature article as follows:

"Environmentalists are harshly critical of the role of international lending organizations in sustainable development. The World Bank, especially, has become notorious for funding development projects with negative environmental impact. The doomed Narmada dam project in India was just the latest in a string of mammoth Bank-linked schemes riding roughshod over local ecosystems and populations." Bruce Rich was referred to several times later in this article!

Bruce Rich challenges the core of Bank policies and *raison d'être* as a multilateral development finance institution. Development lending as pursued by the Bank is not only an environmental disaster, he claims, but the actual (mostly negative) results of its development work is in stark contrast to its poverty posture and social development objectives. Not only are local people in many Bank projects becoming poorer as a result of these projects but they are often also socially worse off - particularly under large infrastructure, forestry and land settlement projects, and under SALs.

It also challenges the Bank's lending approach, which he argues give incentives to expand volume of lending even though the quality of Bank projects are rapidly deteriorating. This deterioration of quality is in sharp contrast to what the Bank states as its intended policies and objectives. Its lending contributes to the debt crisis of the developing world. It is caught in a vicious downward spiral - the more debt, the more crisis, the more the Bank has to lend to bail out indebted countries from this crisis. He quotes extensively from the Wapenhans report.

He finds the Bank's resettlement policy laudable and good in principle. But it is an utter failure in implementation. He quotes several impressive-sounding experts who claim that they cannot find a single example of a successful implementation of project resettlement under any Bank project.

He also attacks agricultural and infrastructure lending which makes smallholders worse off and which accentuates income distribution and local power conflicts in the field. He quotes many heart-wrenching stories from project areas where beneficiaries have become more impoverished and more destitute.

Although he was very influential in pushing the US Gov. and Conable towards the Bank reorganization of 1987, he is not happy with the results. He claims that the Environmental Assessment procedures are carried out in a "band-aid" fashion to make marginal improvements in basically faulty project design and that EAs are not allowed any real influence on the Bank's hell-bent lending ambitions. The Environment Department is considered a place for banishment (exile) of uncooperative staff and unacceptable economists and ecologists (Daley and Goodland). He believes it has little positive influence on the operational side of the Bank, in particular no significant effect on the excessively "autonomous" Country Departments. The REDs are too small to make a difference and are also not taken seriously if basic country lending or country policy objectives are at stake.

How does the Bank respond?

1. Take this book seriously. Start with making it recommended reading by senior management.

Seldom will we find such a well-articulated opposing view of the Bank. This view echoes and incorporates many similar ideas by many other Bank critics, but is more readable and more extensively researched than such other books and publications. Since it will have wide following in NGOs, in media and among general public opinion in the years ahead, senior management would be well advised to be directly informed and thoroughly acquainted with this formidable opposing view.

2. Prepare quickly a brief basic fact sheet on the most obvious factual mistakes.

Be careful here. Don't try to rebut the author on all disagreeable points. The Bank sometimes tries to be too clever in wanting to score points. Avoid arguing points of interpretation. In this case limit your points to those that are clearly factually incorrect and **ONLY THOSE which YOU CAN EASILY PROVE.**

A few strong points revealing factual errors in a convincing way will be far more worth than a long litany of points which may meet approving nods among "super-intellectual peers" inside the Bank - but which are often not easily understood and not convincing to the general public outside the Bank.

3. Make sure that resettlement successes are clearly known.

One of the most damaging allegations in the book is that the Bank has had no successful example of implementing its 1980 resettlement guidelines. This will be a disquieting surprise to many. If wrong, please make sure that this comes out very explicitly in the forthcoming Resettlement Review and is broadly disseminated externally. (It is not enough to complain internally that more slots are needed for resettlement experts, if those on board cannot produce any tangible results of something well done).

4. The Bank's efforts to alleviate indebtedness problems must be better presented to the outside world.

The book leaves the impression that the Bank is itself is a major cause of debt problems in many developing countries. Prepare an easily readable publication - not too scholarly, please - on the many different ways the Bank Group has been working to ease these problems - IDA itself, keeping Bank interest rates lower than commercial rates, SPA, debt management as focus for policy discussions in Country Economic Reports, its long history on providing external debt data on member countries, debt alleviation through Consultative Groups, etc. (One good in-house Bank writer should be able to present such a story within a few weeks given the vast amount of available information. One idea may be to look at the study about to be completed by the Debt Division on debt problems in low-income countries. Make sure there is a very easily understood and convincing explanation on why the Bank cannot forgive its own debt).

5. How lower income groups fare under SAL-induced adjustment policies.

The allegation here is that SALs often result in poor people being worse off than before and without adjustment policies (Al Gore made a similar point regarding Russia recently). The main point in the book is that government most often protect the vested interest groups (industrial investment and other business subsidies, higher-level civil service salaries etc) at the expense of services (health. education and social services) affecting the majority of rural and urban poor.

If there are good and clearly convincing empirical results of the opposite results, make sure this message comes out loud and clear, eg. in a separate easily readable publication for the general public, provided that the results can be very easily understood and based on solid data that can withstand scrutiny! (This will also be high priority for the 1995 Copenhagen Summit on World Social Development)

6 Experiences with participation measures in EAs.

Another recurrent theme in the book is lack of any form for genuine

participation in Bank operations. There may be many ways of presenting a contrary view on this, eg NGO participation in projects, NEAPs and community involvement in natural resource management operations. However, in order to get some strong points very fast on the table - focus on good practices in EAs. Prove this point wrong by publishing a short summary on a series of clear-cut and convincing examples on real participation in EAs.

7. Energy efficiency and energy investments

The book accuses Bank staff for being solely driven by large lending for energy investments, while spending very little efforts on energy efficiency improvements. If we have a good story to tell on this topic, let us not hide such facts for the general public.

8. Wapenhans Report.

If we take it seriously, make this very well known externally.

9 Panel of independent wise men and women.

A good defense against Northern NGO critics of the Bank is to get some highly credible wise persons from the South to respond to main charges levied in the book. Many Northern NGO critics are thin on experience in developing countries, including Bruce Rich. The Bank should not alone respond to all charges in the book (much of it is directed at national governments in developing countries and at foreign aid generally). Perhaps some of the more thoughtful independent thinkers in the South can be encouraged to state how they feel about these wide-ranging charges. This does not need to be a big production - no conference - but perhaps a small consultation meeting with 4-6 highly respected leaders from the South. They should come from the private non-governmental side - and should never have been Bank staff or consultants! Give them a week to be together in a working seminar (hosted by a "neutral" institution?) and encourage them to produce a response to this book, without any Bank clearance. There is some risk, but worth a try! Getting Southern non-governmental people to "speak up" has been very successful in many recent cases, eg Ismail's Forestry Conference in Abidjan where Southern NGOs formed a group disagreeing sharply with Northern NGOs present, Kevin Cleaver in many other instances - and also AFTEN's early African NGO consultations on EA matters.

L.E.Christoffersen
February 3, 1994

A L L - I N - 1 N O T E

DATE: 14-Feb-1994 03:08pm

TO: Jochen Kraske (JOCHEN KRASKE)

FROM: Alexander Shakow, EXTDR (ALEXANDER SHAKOW)

EXT.: 31828

SUBJECT: Rich book

For your background, per conversation. We will draw you in to help us out after you return from holiday at the end of next week...and happy reading on your trip!

CC: Lesley Simmons (LESLEY SIMMONS)

CC: Timothy Cullen (TIMOTHY CULLEN)

A L L - I N - 1 N O T E

DATE: 14-Feb-1994 00:57am EST

TO: Alexander Shakow (ALEXANDER SHAKOW)

FROM: Andrew Steer, ENVDR (ANDREW STEER)

EXT.: 33299

SUBJECT: The Bruce Rich Book

Alex,

Thanks for your e-mail this evening. I agree that it is desirable to get one person, familiar with the substance of the issues, to work full time for a week or two, coordinating a response to equip those who will be answering for the Bank.

I've read the book carefully, and agree with Leif and Leslie with regard to a response. We would probably all agree that any response to this book needs two strands: (i) a clear ability to address the major specific charges in the book, and (ii) a pro-active demonstration that the book's basic philosophy is many miles from the mainstream, and that some very exciting things are happening out there in the real world. On (i) many of the book's criticisms (especially the material in chapter 2) have been identified by the Bank itself. I believe we need a thorough ability to respond at a moment's notice to the factual criticisms made -- and the briefing notes prepared for the Congress earlier this year can be a useful starting point. (I would recommend that they, together with the relevant sections of the book be given to the operational people involved for updating.) We are also well equipped on the positive side of the resettlement story; chapter 3 of the Resettlement Review shows how the Bank's policy has been quite influential in improving countries' own policies (while acknowledging very clearly how poorly we've done in the past). We obviously need help from PRD and IEC on the latest empirical evidence on the impacts of adjustment and on debt reduction schemes. I have a number of suggestions in detail in my marked-up copy.

A word on the need for a more pro-active strand to our response. While I agree with Leif that the book certainly needs to be taken seriously, that it is well written, and will effectively hurt the Bank's image, I don't find the book particularly persuasive. While we would make a mistake taking it too lightly, we also mustn't become too impressed with it. In many respects, the book is a long way "behind the curve" in its thinking about the environment, and even more so on the broader issues of development -- and I believe that this is what should drive the pro-active part of our response. It's in the latter part

of the book that its weaknesses become clear. The arguments are essentially "pre-Rio" in their formulation. Bruce is fundamentally anti-growth, anti-technology and almost quaint in his perception of the idyllic lives of indigenous peoples (eg page 202). (An anthropologist friend of mine -- not at the Bank -- found the book's treatment of the poor to be methodologically very weak, arrogant, and amateur). In recent years environmental thinking has changed. The book recognizes that development practitioners have been forced to incorporate environmental concerns into their work (and we need to do much more). It fails to note that the environmental movement has also become much more sophisticated in its understanding of development. The book lives in a zero-sum game world of 1960s environmentalism. Most serious environmental thinkers now recognize that without development (yes that includes GDP growth) Africa's environment hasn't a chance. They recognize that without increased income earning opportunities, education, and improved health, Africa's population will rise 7-fold. They recognize that 65% of deforestation in tropical areas is caused by poverty, and can't be stopped without accelerated development. They recognize that efficiency reforms in the FSU will be essential (though not sufficient) for reduced pollution there. This kind of thinking is now mainstream -- but Bruce just can't bring himself to accept it. He calls the Brundtland Commission Report as "an endorsement of business as usual", refers to sustainable development as an oxymoron, and believes that Agenda 21 was a total sham. We need therefore to place the book where it belongs -- intellectually behind the curve, and counter to the views of 178 nations, especially including the current US administration. If the reader chooses to believe the strong criticisms of the World Bank, he/she must also buy into the books' pre-Brundtland understanding of environment versus development, since it is on this that the criticisms of the Bank are based. To the extent we are able to have others make this point for us, so much the better.

We need to identify a few "points of entry" enabling us to take the debate away from the book. The first is in chapter 1, which is all about Thailand. He has a few quotes from a few poor people to make the point that they have not benefitted from development. These need to be taken seriously (although they are backed up with no systematic evidence whatsoever), but need to be put in the context of a doubled food production in 20 years in Thailand, strong empirical evidence of sharply improved nutritional standards, much better educational and health facilities for the poor, infant mortality falling from over 100 to around 50 ...etc. These are all documented. The book doesn't seem interested in them. The average reader will be if we manage to make the point clearly. I believe there are several more in the book. The response to be prepared should seek to exploit them.

None of this should be interpreted to imply I'm complacent about our environmental performance. I'm not as you know. It's especially important that we make progress on getting a strong

committment to follow-up action from senior manangement on the resettlement review. A serious committment to more participatory project work and ESW would also be very helpful.

Mohamed and I will of course be happy to provide the services of ENV in following up. Lets talk in the morning.

Andrew

CC: Mohamed T. El-Ashry
CC: Matthew McHugh

(MOHAMED T. EL-ASHRY)
(MATTHEW MCHUGH)

A L L - I N - 1 N O T E

DATE: 12-Feb-1994 12:05pm EST

TO: Alexander Shakow

(ALEXANDER SHAKOW)

FROM: Matthew McHugh, EXC

(MATTHEW MCHUGH)

EXT.: 80309

SUBJECT: The Rich Book

Alex:

Attached is a message from Ernie which is a follow-up to my discussion with him on Thursday about the Rich book, among other things. What do you think?

Matt

The World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

DATE: February 10, 1994 07:50pm EST

TO: Matthew McHugh (MATTHEW MCHUGH)

FROM: Ernest Stern, EXC (ERNEST STERN)

EXT.: 82004

SUBJECT: The Rich Book

One person on whose availability you might check is Jochen Kraske. He is the Bank historian and working on several things but he might be able to take a 2 week break to handle this. Sven and AK agree he could do the coordination and write-up very well.
Ernie

CC: Nonna Ponferrada (NONNA PONFERRADA)

A L L - I N - 1 N O T E

DATE: 14-Feb-1994 03:17pm

TO: Jochen Kraske (JOCHEN KRASKE)

FROM: Alexander Shakow, EXTDR (ALEXANDER SHAKOW)

EXT.: 31828

SUBJECT: Rich book continued

FYI - Sorry, there seem to be duplicates here, but just throw them away (in a safe place, of course!). I'll send you the Christoffersen/ Simmons pieces for your background.

CC: Lesley Simmons (LESLEY SIMMONS)

CC: Timothy Cullen (TIMOTHY CULLEN)

A L L - I N - 1 N O T E

DATE: 13-Feb-1994 04:08pm EST

TO: Andrew Steer

(ANDREW STEER)

FROM: Alexander Shakow, EXTDR

(ALEXANDER SHAKOW)

EXT.: 31828

SUBJECT: Rich 2

Andrew - the response to Matt's em as per my other em; please
call. Alex

CC: Mohamed T. El-Ashry

(MOHAMED T. EL-ASHRY)

A L L - I N - 1 N O T E

DATE: 13-Feb-1994 03:40pm EST

TO: Matthew McHugh

(MATTHEW MCHUGH)

FROM: Alexander Shakow, EXTDR

(ALEXANDER SHAKOW)

EXT.: 31828

SUBJECT: RE: The Rich Book

Matt - That is a very good idea - and unless Andrew Steer has a better one I would think we should ask him - especially as the endorsement of two MDs should help free him up! I have just finished reading the book, and I think in re-reading the Leif Christoffersen comments that he is right on the mark. I am relieved, in a way, that the end of the book is not as hard-hitting as I anticipated - which does not mean he is gentle. One could argue that many of the suggestions he makes for change are actually underway - albeit not to the extent he wishes (openness, inspection panel, focus on implementation quality and not lending levels, etc.). And Leif's suggestions for getting together briefs on resettlement activity that has worked, what we have done about debt, and other general points that set the context, are all sound and, I think, easy to do. There is no advantage in going on at length about the individual projects, as in each case we have acknowledged error already...although Rich has not spelled out the details in a balanced fashion. And I think a broadside against his rejection of development has to be written - based on the kinds of successes we do highlight in WDRs and elsewhere.

Let me raise the issue of Kraske with Andrew and be back to you first thing Monday.

Alex

A L L - I N - 1 N O T E

DATE: 13-Feb-1994 04:06pm EST

TO: Andrew Steer

(ANDREW STEER)

FROM: Alexander Shakow, EXTDR

(ALEXANDER SHAKOW)

EXT.: 31828

SUBJECT: Bruce Rich Book

Andrew - Please see the attached from Matt - and a response I just sent him. You were putting together your own thoughts on this, I know, which is why my note to Matt suggests the idea of asking Jochen to coordinate the response is good but I just wanted to get your views first. Please call Monday AM so we can discuss. Thanks! Alex

CC: Matthew McHugh

(MATTHEW MCHUGH)

CC: Mohamed T. El-Ashry

(MOHAMED T. EL-ASHRY)

A L L - I N - 1 N O T E

DATE: 12-Feb-1994 12:05pm EST

TO: Alexander Shakow

(ALEXANDER SHAKOW)

FROM: Matthew McHugh, EXC

(MATTHEW MCHUGH)

EXT.: 80309

SUBJECT: The Rich Book

Alex:

Attached is a message from Ernie which is a follow-up to my discussion with him on Thursday about the Rich book, among other things. What do you think?

Matt

The World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

DATE: February 10, 1994 07:50pm EST

TO: Matthew McHugh (MATTHEW MCHUGH)

FROM: Ernest Stern, EXC (ERNEST STERN)

EXT.: 82004

SUBJECT: The Rich Book

One person on whose availability you might check is Jochen Kraske. He is the Bank historian and working on several things but he might be able to take a 2 week break to handle this. Sven and AK agree he could do the coordination and write-up very well.
Ernie

CC: Nonna Ponferrada (NONNA PONFERRADA)

A L L - I N - 1 N O T E

DATE: 13-Feb-1994 03:40pm EST

TO: Matthew McHugh

(MATTHEW MCHUGH)

FROM: Alexander Shakow, EXTDR

(ALEXANDER SHAKOW)

EXT.: 31828

SUBJECT: RE: The Rich Book

Matt - That is a very good idea - and unless Andrew Steer has a better one I would think we should ask him - especially as the endorsement of two MDs should help free him up! I have just finished reading the book, and I think in re-reading the Leif Christoffersen comments that he is right on the mark. I am relieved, in a way, that the end of the book is not as hard-hitting as I anticipated - which does not mean he is gentle. One could argue that many of the suggestions he makes for change are actually underway - albeit not to the extent he wishes (openness, inspection panel, focus on implementation quality and not lending levels, etc.). And Leif's suggestions for getting together briefs on resettlement activity that has worked, what we have done about debt, and other general points that set the context, are all sound and, I think, easy to do. There is no advantage in going on at length about the individual projects, as in each case we have acknowledged error already...although Rich has not spelled out the details in a balanced fashion. And I think a broadside against his rejection of development has to be written - based on the kinds of successes we do highlight in WDRs and elsewhere.

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Alex

A L L - I N - 1 N O T E

DATE: 10-Feb-1994 12:14pm EST

TO: Andrew Steer

(ANDREW STEER)

FROM: Alexander Shakow, EXTDR

(ALEXANDER SHAKOW)

EXT.: 31828

SUBJECT: Rich 2

FYI

A L L - I N - 1 N O T E

DATE: 09-Feb-1994 11:59am EST

TO: Alexander Shakow

(ALEXANDER SHAKOW)

FROM: Matthew McHugh, EXC

(MATTHEW MCHUGH)

EXT.: 80309

SUBJECT: The Rich Book

Alex:

Attached is the EM I received yesterday from Tom Blinkhorn regarding the Rich book. His suggestion that an informal group be organized to put together a strategy/responses to the allegations in the book is a view likely to be shared by others in the Bank. In any event, given the prominence the book will have within the institution, we need to be seen as responding quickly and effectively to this publication.

The EM from Lesley Simmons, which just came in, reinforces the foregoing. Should we discuss such a task force with Ernie or the President? How would such a situation normally be handled? Are you in a position to just form a task force with representation from other units, or must the direction come from top management?

As you know, one of the first questions is whether we can have a positive influence on book reviews that will be written shortly. Al's memo indicated that he has already had contact with the reviewer on the Times, but of course there will be many others to worry about as well.

I will thank Tom for his thoughts and his offer to help. I will also indicate that as we mobilize for this effort we will be back in touch with him.

Matt

A L L - I N - 1 N O T E

DATE: 08-Feb-1994 07:00am EST

TO: Matthew McHugh

(MATTHEW MCHUGH)

FROM: Thomas Blinkhorn, EC4HM

(THOMAS BLINKHORN)

EXT.: 80282

SUBJECT: EXT

Matt:

I am delighted to learn from Orsalia's em of yesterday that we are finally moving on external relations. The memo on the president's meeting with VPs to all staff is a good start; opens things up in this place a bit more.

As a former division chief in EXT and former point person for the Narmada project, I would be pleased to assist you in this important mission in any way appropriate. You may recall from the luncheon with Katherine, I am now a division chief for housing and municipal services in the Baltics and several others former countries of the Soviet Union.

There is one issue I think you should take action on immediately. It concerns the new book just on the market by Bruce Rich of the Environmental Defense Fund "Mortgaging the Earth". It is one of the most scurrilous diatribes against the Bank that I have seen in my 20 odd years here. Rich and I had many contacts and debates over Narmada; he is bright, clever and has many sources inside the institution. There are enough kernels of truth in the book to give it some credibility; but it is loaded with half-truths and inaccuracies and if not countered thoughtfully will create serious problems for the Bank all over the world.

We need to consider a strategy to deal with them, and not just defensive. There are several good, balanced people in the world (not beholden to the Bank) who could be persuaded either to write a review in important journals (i.e. Frances Cairncross in the Economist; Hiro Ishi in Asahi Shimbun; Robert Heilbroner in New Yorker , etc.) or to do a much more balanced piece about the Bank's role in environmental development. We also need to take the Rich book apart chapter by chapter and set out what is right and what wrong. This kind of analysis is necessary to answer legislators' concerns, reporter's questions etc. We might get someone like Danny Ben-Or to counter Rich's charges against the T&V system.

I suggest an informal group to work on this and would be pleased to contribute some time. I leave for the Baltics on

Friday for two weeks but can be contacted via all in one.

Best regards,

Tom

CC: Orsalia Kalantzopoulos
CC: Katherine Marshall

(ORSALIA KALANTZOPOULOS)
(KATHERINE MARSHALL)

A L L - I N - 1 N O T E

DATE: 10-Feb-1994 12:13pm EST

TO: Andrew Steer

(ANDREW STEER)

FROM: Alexander Shakow, EXTDR

(ALEXANDER SHAKOW)

EXT.: 31828

SUBJECT: Rich

FYI

A L L - I N - 1 N O T E

DATE: 09-Feb-1994 11:37am EST

TO: Matthew McHugh

(MATTHEW MCHUGH)

FROM: Alexander Shakow, EXTDR

(ALEXANDER SHAKOW)

EXT.: 31828

SUBJECT: Rich book

Re Rich's book, attached are suggestions from Lesly Simmons on how to approach it. I wanted to discuss with Andre Steer first, but you may have some thoughts on it and this will equip you for starters if Ernie or others ask what we are about.

A L L - I N - 1 N O T E

DATE: 07-Feb-1994 11:50am EST

TO: Alexander Shakow (ALEXANDER SHAKOW)

FROM: Lesley Simmons, EXTIP (LESLEY SIMMONS)

EXT.: 31785

SUBJECT: Rich's book

Alex:

I read Leif Christoffersen's notes on Rich's book. Our concerns are in agreement...that we need to take the book seriously and be very careful about how we respond. We agree it is a fascinating read, and will be widely circulated. It is important to remember, as Christoffersen points out, that Rich is criticising the Bank not just from an environmental (and resettlement) position, but is condemning foreign aid more generally.

To develop a strategy to respond to this book is going to take a task force drawing people from across the Bank. We must be quick. The book comes out on 2/23 and newspapers are already working on reviews and are asking us to provide someone to respond. Christoffersen lists some excellent elements for such a strategy. I have taken each of his suggestions and made a recommendation on how it be tackled. They are as follows:

1. Take the book seriously. Make it recommended reading by senior management (and indeed by ANYONE who is going to talk about it or respond to it in any way).

2. Prepare a brief basic fact sheet on the most obvious factual mistakes. As I mentioned in my report, it will take input from operational people on what these errors are -- I could not pick up on any in my close reading of the book. It will take people who were very closely involved to help us determine these.
RECOMMENDATION: A task force made up of people knowledgeable about the most quoted projects in the book be put to work to read the relevant sections and prepare a list of errors and/or ways in which we can respond to the criticisms. (The projects are: POLONOROESTE Carajas in Brazil, Transmigration in Indonesia, Narmada and Sengrauli in India.)

3. Resettlement is a particularly thorny issue because of the upcoming review. Rich says that the resettlement policy is laudable and good in principle but there is no example of a successful implementation of resettlement in a Bank project. Christoffersen says we must come up with some examples of successes and document them. RECOMMENDATION: Someone on the task force reviewing resettlement be given the task of documenting a success or two -- and if possible, giving us the

names of some local people who can speak to that success.

4. The Bank's efforts to alleviate indebtedness problems must be better presented to the outside world. Christoffersen recommends a booklet which he says could be written based on a study shortly to be completed by the Debt Division on debt problems in low-income countries. RECOMMENDATION: Someone from the writers group be allocated the task of preparing such a booklet or a consultant be hired.

5. Good, clear and convincing empirical results of success on how lower income-groups fare under SAL-induced adjustment policies must be documented. RECOMMENDATION: Someone from the writers group, or a consultant, work with HRO to document.

6. Prove Rich's point wrong that there is no form of genuine participation in EAs in Bank operations by documenting short summaries of example. RECOMMENDATION: ENV identify and write up such examples.

7. If we have a good story to tell on energy efficiency we should tell it. (Based on my work with the new policy paper on energy efficiency, there is little we can do to refute that only 1% of lending goes to efficiency and conservation because we haven't really kept statistics. However, someone from EGY should work on a short refute of the criticisms.)

8. A panel of independent wise men and women. RECOMMENDATION: Christoffersen is quite specific about the kind of people we should use. Staff who work with NGOs should come up with a list of possibilities based on that profile.

9. In addition to these suggestions, I think we should prepare a less defensive piece. Something that explains the need for mainstream development economics and illustrates the improvements that have taken place -- life expectancy, infant mortality increases, and such like. If possible, this should be under the by-line of someone outside of the Bank and not seen as an obvious stake holder in the Bank. RECOMMENDATION: EXT Management may wish to work with the President's office and senior management to identify such a person, alternatively, EXT Management may wish to approach John Sewell or Jimmy Carter or some other "friend" to do so. Someone from the writers group to prepare the piece which should also be place as an op-ed in a large circulation newspaper.

If these assignments can be completed quickly, the documents should be made available in a kit to the media, congressional staff and other influential concerned about the ideas expressed in the book. We will obviously be getting a lot of mail on this, too. The kit could be used to respond to it.

Lesley

CC: Timothy Cullen

(TIMOTHY CULLEN)

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(MATTHEW MCHUGH)

FROM: Alexander Shakow, EXTDR

(ALEXANDER SHAKOW)

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SUBJECT: Rich book

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DATE: 07-Feb-1994 11:50am EST

TO: Alexander Shakow (ALEXANDER SHAKOW)

FROM: Lesley Simmons, EXTIP (LESLEY SIMMONS)

EXT.: 31785

SUBJECT: Rich's book

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CC: Timothy Cullen

(TIMOTHY CULLEN)

A L L - I N - 1 N O T E

DATE: 09-Feb-1994 11:59am

TO: Alexander Shakow

(ALEXANDER SHAKOW)

FROM: Matthew McHugh, EXC

(MATTHEW MCHUGH)

EXT.: 80309

SUBJECT: The Rich Book

*Respond
- get back to
do it?*

Alex:

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A L L - I N - 1 N O T E

DATE: 08-Feb-1994 07:00am EST

TO: Matthew McHugh

(MATTHEW MCHUGH)

FROM: Thomas Blinkhorn, EC4HM

(THOMAS BLINKHORN)

EXT.: 80282

SUBJECT: EXT

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leg!
T&V!

Friday for two weeks but can be contacted via all in one.

Best regards,

Tom

CC: Orsalia Kalantzopoulos
CC: Katherine Marshall

(ORSALIA KALANTZOPOULOS)
(KATHERINE MARSHALL)

THE WORLD BANK/IFC/M.I.G.A.

ROUTING SLIP		DATE: February 8, 1994	
NAME		ROOM NO.	
S. Sandstrom			
I. Serageldin			
J. Linn			
A. Shakow			
A. Steer			
	URGENT		PER YOUR REQUEST
	FOR COMMENT		PER OUR CONVERSATION
	FOR ACTION		SEE MY EMAIL
	FOR APPROVAL/CLEARANCE		FOR INFORMATION
	FOR SIGNATURE		LET'S DISCUSS
	NOTE AND CIRCULATE		NOTE AND RETURN
RE:			
REMARKS:			
Attached are two interesting reviews/comments of Bruce Rich's book "Mortgaging the Earth," by Leif Christoffersen and Lesley Simmons. Enjoy.			
FROM: Mohamed T. El-Ashry		ROOM NO.: S-5055	EXTENSION: 33202

OFFICE MEMORANDUM

DECLASSIFIED

AUG 22 2025

WBG ARCHIVES

DATE: February 2, 1994

TO: Alexander Shakow, Director, EXT

CONFIDENTIAL

FROM: Lesley Simmons

ATTENTION: 31785

SUBJECT: Mortgaging the Earth

Bruce Rich's book is a well written and interesting read that will undoubtedly reach many people and enormously increase the number of critics and criticisms of the Bank. While Rich embellishes and exaggerates some examples, I don't think his analysis is terribly inaccurate. His writing is emotive, beginning with a chapter on the Bangkok Annual Meetings that draws comparisons between the opulence and stuffiness of the Bank meetings (limos, speeches, good living, and just one delegate death by a self inflicted drug overdose) and the poverty and powerlessness of the people of Bangkok and the delegates at the Peoples Forum.

The book's overall thesis is that the World Bank is no longer a useful organization, in fact, as he describes the history of the Bank -- which he does accurately and interestingly -- Rich suggests it never has been terribly useful. He uses Weberian theory to describe an institution whose sole function has been to perpetuate itself. He suggests that fundable projects always were but are now more and more difficult to find. But Bank staff, faced with pressure to lend if their career is to be a success, encourage governments to finance ecological and social disasters. He claims, for example, the T & V System in India is a failure describing how visits are seldom made and information not passed down to farmers. But the Bank pressures officials to declare it a success. Why? To move money, the same reason that he attributes anything the Bank does. Even efforts at reducing urban poverty which focused on upgrading slum neighborhoods suffered problems of deflection of benefit, he says, despite what he calls "laudable intentions". Why? Because social and political conditions are ignored. Rich blames the Bank for, among other things, resettlement disasters, deforestation, prostitution, propping up corrupt governments, promoting the creation of independent autonomous project authorities such as EGAT and NTPC that operated according to their own charters and rules, often drafted in response to Bank suggestions, and vast income inequalities. He claims the Bank is not accountable and describes the Board as being a rubber stamp.

To support his arguments Rich draws on OED sources and Wappenhans, as well as outsiders and gives an alarming description of Bank staff being brought before the Ethics Officer after a document was leaked to an NGO. He footnotes at one point a reference attributed to Bank staff who must be nameless if they are to retain their jobs.

The section on Bank lending to repressive governments is extremely

damning -- this is one area that I am weak on and don't know why the Bank would not have lent to Chile under Allende (although I do know the arguments for lending to Pinochet's Chile). Romania under Ceaucescu is another example. Rich's own development philosophy comes out very late in the book. While I'm not sure that influentials among our shareholders would be terribly enamored with his redistribution of wealth from North to South argument, the damage of his description of some of our worse projects and programs, is done long before most readers come to Rich's alternative philosophy. Incidentally, Rich scorns "sustainable development" which he calls an oxymoron.

The examples Rich uses to describe the failure of Bank projects are predictable. Brazil's POLONOROESTE and Carajas, Indonesia's Transmigration, India's Sengrauli and Narmada, the TFAP, Thailand's Pak Mun, in fact, new dams period (he favors energy efficiency measures and says that Bank documents on Pak Mun show energy efficiency and conservation would have been cheaper), etc.. As I read the histories of the project's development and the NGOs efforts (particularly EDF's) to point out the problems with them, I am not at all surprised that the Bank's image is so bad. While I have not worked in operations, my first assignment in IPA was to document the background to the preparation and appraisal of POLONOROESTE. I heard myself from staff who said that their views and consultant reports had been quashed and ignored. I saw the responses we wrote to EDF and others. If there are exaggerations or inaccuracies in his descriptions it is the operational people who were involved in all of these projects who will have to tell us. Only in one place did I feel Rich was on shaky ground, in his analysis of a World Bank involvement in the BCCI scandal. If it weren't for a footnote he could probably be sued for liable.

Rich does a great job, too, of taking our arguments and dismissing them. Such arguments for example, as "if the Bank wasn't funding the project things would be worse." Or that certain projects were approved before Guidelines were in place -- he says they should have been retroactive but in any event, Governments don't adhere to them. Even where the Bank tries to encourage participatory development as in the example of water user committees he points out we are unsuccessful. "...such clumsy top-down efforts failed, since it was difficult to interest local farmers in intensive management of resources over which they had lost control." He claims that if the full cost of resettlement and economic rehabilitation were included in project appraisals the projects would be economically non-viable. He is very scornful of our attempts to claim we are learning from our mistakes, too. He points out that our own evaluation staff, (OED) are ignored. Their status is questionable, they are viewed by operational staff as outside of the mainstream, and unimportant. And in any event, at whose expense is this learning by doing?

The GEF is described as a fund to help make Bank loans more palatable to governments by providing soft financing to go with the Bank loan and as a way of reducing the negative net transfer. He uses the Congo project as an example of how the Bank is using the GEF to do more of the same.

Perhaps the weakest point in his arguments surrounds the discussion brought in throughout the book on negative net transfers which he uses as a reason to promote forgiveness of Bank debt.

While Rich clearly would like to see the Bank abolished he concludes with a call to reduce funding as a means to pressure the Bank to restructure: by providing,

1. public access to information and participation in meaningful, open, hearings to consider alternatives before development decisions proceed (he describes the recent policy change on public information but it does not approach the depth of change he asks for).
2. an independent appeals commission (again, the inspection panel is a much watered down version of his recommendation).
3. staff to be accountable (he describes how staff responsible for earlier debacles were promoted, including the staff member responsible for public information during POLONOROESTE being promoted to work on Narmada!)
4. debt forgiveness by allocating \$10 billion of liquid reserves to poorest countries.
5. changes in the Charter to incorporate goals commensurate with the values of global civil -- i.e. promote democracy, human rights, and social equity as well as economic welfare and ecological balance and conservation of other life forms.

Rich wraps up by proposing a three pronged strategy (apparently for the US Congress to carry out): (i) decrease funding; (ii) support a variety of more flexible institutions and networks (he favors the programs of the Inter-American and African Development Foundations and Appropriate Technology International); and (iii) call on governments to address the agenda suppressed at the Earth Summit and strike a new global bargain on debt relief and fair trade between north and South. The 50th Anniversary of the World Bank is the appropriate time to do this.

From a public relations point of view it is difficult to know how to respond to this very damning piece of literature. I think we do need to respond to the idea of debt forgiveness and why this is not in the interest of either the industrial or the developing countries. Rich does not really examine what such a measure would do to our financial reputation (or to the status of shareholders' callable capital should our financial situation become shaky) or what repercussions it might have on the availability of low interest loans to our borrowers (although I expect he knows all of this). We should aim at explaining these issues to the US Congress, and their equivalent amongst other major shareholders.

Rich does not, of course, talk about any of the good things we have done. Because he spends so much time analyzing the inappropriateness of the institution generally, that argument is difficult to make. His chapter devoted to the description of McNamara's contribution to the growth of the Bank, for example, is likened to a Faustian enterprize. And

in Chapter 6 titled The Emperors New Clothes he uses three areas to show that it is not just the Bank that is at fault, it is the worldwide market-based development philosophy. He illustrates the argument with discussions of resettlement, forestry, and energy.

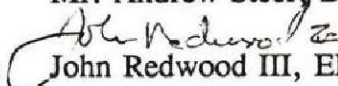
With the resettlement review about to become public we will be even more vulnerable to Rich's criticism about this issue. If the Bank and its borrowers are to continue with the kind of projects that have brought about failure, social disruption, and hard hitting criticism, we are going to have to find some better arguments than those we have used in the past. We know there are more such projects in the pipeline.

OFFICE MEMORANDUM

①
cc Leahy S.
AS

DATE: February 14, 1994

TO: Mr. Andrew Steer, Deputy Director, ENVDR

FROM:  John Redwood III, ENVLW

EXTENSION: 31693

SUBJECT: References to OED Brazil Environment Study in Bruce Rich's Recent Book

1. As per your request, I have reviewed those sections of the recently published book by Bruce Rich entitled Mortgaging the Earth: The World Bank, Environmental Impoverishment, and the Crisis of Development (Beacon Press, Boston, 1994) which refer to and/or quote from draft reports prepared as partial outputs of the OED study "World Bank Approaches to the Environment in Brazil: A Review of Selected Projects." I present a few general comments below and provide more detailed observations on each of the specific references to the OED study in Rich's book in an annex.

2. All of the direct citations from the OED study are in Chapter 6 of Rich's book, which contains a subsection on OED, and are drawn (obviously without the Bank's permission) from draft versions of the following OED reports: (i) Carajas - March 21, 1990; (ii) Sao Francisco Valley - (specific date not cited) 1990; and (iii) POLONOROESTE - November 26, 1990. I do not know how Rich obtained these reports although I was definitely not the source.^{1/} However, the draft reports, which were all labeled "Confidential," were distributed for comments first to LA1, LATEN and selected other Bank staff, and then at a later stage to the Brazilian Government, as per normal OED procedures for all evaluation studies involving particular countries. It is curious that no references are made to final versions of these reports, to the overview report for the study as a whole or to the draft case study report on urban-industrial pollution control in Sao Paulo, which was the first such report to be completed. I no longer have copies of the early drafts, so I am only able to compare Rich's citations with the text of the reports which went into grey cover (No. 10039, April 30, 1992) in the specific observations contained in the Annex.

3. My general impression of Rich's references to the OED study is that, while much of what he says is true and is indeed based on the draft reports, in many, if not most,

^{1/} I at no time gave any documentation from the study to anyone outside the Bank. I did have lunch once early on in the study (i.e., before any of the draft reports had been produced), at their request, with Bruce Rich, Steve Schwartzman and Lori Udall of the Environmental Defense Fund, who were already generally aware of the study at that time. We discussed the general purpose and nature of the exercise. I had a similar luncheon meeting, at his request, with Tom Lovejoy at the Smithsonian at about the same time.

instances he (sometimes considerably) overstates, oversimplifies, and/or distorts the findings/conclusions of the study as these are presented in the final OED documents. This appears to occur in part because the direct quotations are taken out of context and in part because Rich chooses to interpret some study results in ways that support his own pre-determined conclusions, misleadingly attributing them to OED. Specific illustrations of this are given in the Annex.

4. Given the extent to which the actual OED findings are misstated by Rich, it might now be worth (ex-post) making the five-volume grey cover April 1992 report available to the public by placing a set in the Bank's Public Information Center for consultation, especially since the overview document has been published (October 1993) and the joint dissemination seminar has already been held in Brazil (December 1993). In the spirit of greater transparency with respect to Bank efforts to learn from past experience, ENV might want to formally suggest that OED and EXT seriously consider this possibility.

cc: Mohamed T. El-Ashry, ENVDR; Alexander Shakow, EXTDR; Hans-Eberhard Kopp, OEDDR.

Annex

Specific Comments on References to OED Brazil Environment Study in Bruce Rich, Mortgaging the Earth

1. The first direct reference to the OED study is to the **draft** POLONOROESTE report and can be found on pg. 155 (Ch. 6, end note 10): "In Brazil, the government's planned, concerted efforts to modernize and rationalize agriculture from small holdings producing food for domestic consumption into a capital-intensive, export-oriented machine for earning foreign exchange resulted in the uprooting of 28.4 million people between 1960 and 1980 -- a number greater than the entire population of Argentina." This figure and the comparison with the population of Argentina are drawn from para. 27 of Annex I (and Table I-2) of the OED report. However, Rich's statement, while not incorrect, **overstates the role of government agricultural modernization policies with respect to rural outmigration**, which was due to numerous factors including rapid rural population growth and poverty, particularly in the Northeast. (Note from Table I-2 that nearly 9.4 million or the estimated 28.4 million rural outmigrants between 1960 and 1980 came from the Northeast, while close to 10 million came from Sao Paulo and the South).
2. The next reference is also on pg. 155 (end note 12): "The central point to be made here is that **increasing capitalization of agricultural production reduced the physical and social space available to small-scale producers of all types** in south-central Brazil....The analysis of extensive rural outmigration during the past several decades, in short, indicates that this phenomenon was not so much a response to relative levels of poverty in the various parts of Brazil as it was a reflection of the timing and rhythm of agricultural modernization. In this connection, it is significant that the rural exodus of the 1970's occurred first and most intensively in the more developed areas of Sao Paulo, Parana, and Rio Grande do Sul, where modern agricultural technology is most prevalent." [Emphasis added by Rich]. This was taken from paras. 27-28 in Annex I of the OED document. However, there are some differences with the final OED text. The first sentence in the OED text, for example, begins "**on a more general level, the**" rather than "the central point to be made here is that," as in Rich's citation. The rest of the sentence, however, is the same. The second and third sentences of Rich's citation are the same as in the OED version although the OED version is slightly longer: "...where modern agricultural technology is most prevalent, rather than, as in earlier decades, in the less developed Northeast and the poorer parts of the Southeast such as Minas Gerais and Espirito Santo."
3. The next set of references (pp. 157-160, end notes 16-22) are from the **draft** Sao Francisco valley report and refer essentially to the Itaparica Resettlement Project. The first direct quotation is as follows: "For the first time in any comparable Brazilian project, therefore, displacees were offered a comprehensive range of

resettlement options which did not automatically spell disaster for the a large proportion of those affected." This statement can be found in para. 6.66 of the final OED report which follows a description of the specific resettlement options actually selected by the rural population displaced by the Itaparica reservoir (para. 6.65).

4. The long footnote after this citation ("Obviously, this is a lamentable comment....."), while not entirely incorrect, **oversimplifies and distorts** the findings of the OED report. The OED report does not use the language utilized by Rich ("The same report, prepared by the Operations Evaluation Department, **indicts the Bank's record** in three 1970s projects -- the Paulo Afonso (sic) IV (Sobradinho) Hydropower and the Lower Sao Francisco Polders and Second Sao Francisco Irrigation Projects -- which **uprooted and destroyed the livelihoods of 130,000 poor without adequate restitution**. The projects caused **massive problems of downstream destruction** of floodplain agriculture and **upstream pollution** from uncontrolled use of pesticides and fertilizers, as well as the **poisoning of domestic water supplies, fish, and crops**. Poor irrigation management promoted spreading soil salinization. These projects were leading examples of the McNamara poverty strategy in Brazil, and even on these terms, they failed: the OED evaluation concludes that **the projects benefitted not the poor, but a relatively small number of landowners, concentrating large holdings, promoting a capital-intensive, export-oriented integrated agriculture** that 'may have an adverse impact on local poverty levels and food security, while also contributing to the rapid growth of urban squatter settlements.'" [emphasis to indicate principal areas of distortion in Rich's statement]. There are several problems with Rich's treatment:
 - (a) nowhere does he mention that the Lower Sao Francisco Polders and Second Sao Francisco Irrigation Projects were designed as "emergency" projects precisely to try to correct/compensate for the downstream impacts of the Sobradinho dam on the agricultural floodplain near the mouth of the river;
 - (b) the "massive" problem of downstream destruction of floodplain agriculture -- involved 9,000 ha, which were partially saved by the two Lower Sao Francisco (LSF) projects, which absorbed an estimated 15-20,000 of the estimated 50,000 displaced original rural inhabitants of the region; one reason -- not mentioned by Rich, but cited in the OED report -- why a larger number of the original displaced rural population in the lower valley was not accommodated in the LSF projects was the unexpected expansion of sugar cane for alcohol production into areas on the Alagoas side of the river that were originally intended to be used for additional polder/irrigation schemes;
 - (c) the report does not identify a "massive" problem of "upstream pollution from uncontrolled use of pesticides and fertilizers" -- although some water pollution from increased agro-chemical use for irrigated agriculture in the lower valley itself was detected; furthermore, nowhere does the OED report affirm that the

projects caused "the poisoning of domestic water supplies, fish, and crops"; what the report does say is the following (para. 21 of the Executive Summary): **"The major ecological hazard facing the valley as a whole springs from the largely uncontrolled use of agrototoxic substances such as fertilizers, herbicides and pesticides for irrigated agriculture. Contamination of domestic water supplies, crops and even fish could present a major danger to public health in the future, with some initial symptoms already being apparent."**

- (d) while it is correct that the two LSF (but not Paulo Afonso IV) projects were examples of the "McNamara poverty strategy in Brazil," the OED evaluation **does not conclude** that "the projects benefited not the poor, but a relatively small number of landowners, concentrating large holdings, promoting a capital-intensive, export-oriented irrigated agriculture..."; what the report does conclude (paras. 18-19 of the Executive Summary) is the following: **"...the creation of Lake Sobradinho has facilitated the expansion of capital-intensive irrigated agriculture (about 177,000 hectares by 1988, well over half of which was in private hands). Much of this production is oriented to higher-value export crops and is largely concentrated in the area polarized by Petrolina-Juazeiro. There has been a corresponding spread of agro-industrial processing enterprises, served by an increasingly sophisticated transport and communications network. This has had an important multiplier effect, helping to stimulate local commerce and creating employment, especially temporary wage labor....The impressive economic growth in the middle valley over the past two decades, however, has also been accompanied by a process of land concentration as small farming has become less viable and land values have risen, encouraging land sales and out-migration. As a result the traditional class of independent, semi-subsistence smallholders is gradually being replaced by more capitalized and commercially oriented farmers, many of whom have come to the area from other parts of Brazil or abroad. Although it is difficult to predict how far this process will advance, more traditional tenure relations such as sharecropping are finding a place in the new production systems. Nevertheless, these marked alterations in cropping patterns, landownership and employment structures may have an adverse impact on local poverty levels and food security, while also contributing to the rapid growth of urban squatter settlements."** [emphasis added to highlight specific differences from Rich's statement]

5. The occurrence of increased protests and social problems (including alcohol abuse) as the result of the delays in providing irrigation infrastructure for rural resettlers from Itaparica is correct (pg. 158, end note 17). However, the final OED text does not specifically mention either child abuse or divorce. The relevant section of the actual text (para. 6.80) reads as follows: "...since the actual population transfer took

place in late 1987 and early 1988, the level of frustration and associated social problems have markedly increased. Intra-communal violence **associated with alcohol abuse** has become more widespread since the move, leading to the **disintegration of some families** and a climate of tension within the community. Morale is generally low and, although farmers continue to look to the future with a degree of cautious optimism, this is tempered by growing despair over CHESF's failure to guarantee the prompt resumption of economic activities. According to company officials, resentment against officials was running so high in Caraibas [one of the rural resettlement schemes] that, for fear of being assaulted, CHESF personnel could only visit the project in unmarked cars. **CHESF has been subject to a steady stream of protest notes over this issue**, both from white farmers through POLOSINDICAL [the regional rural labor union consortium] and from the Tuxa Amerindians."

6. The description of the experience of the Tuxa Indians on pg. 159 (end notes 18-20) is correct. The first passage cited on pg. 159 ("irrigated by....commercial surplus") can be found in para. 6.74 of the final OED Sao Francisco report. The second passage ("Although acculturated....become commonplace") can be found in para. 6.75 of this report. The third citation on that page, referring to a Bank country staff memorandum ("if anything...FUNAI") is found in footnote 57 on pg. 95 of the final OED case study report.
7. The reference on pg. 160 (end note 21) to the President's Memorandum (not appraisal report) for the supplementary loan for the Itaparica Resettlement Project ("the Bank 1990 appraisal report for the \$100 million Itaparica Supplemental Resettlement loan argued that this extraordinary attention was necessary because the very credibility of the Bank's resettlement policy was at stake") is apparently based on para. 4.68 in the final OED report whose actual language -- based on the President's Memorandum -- was: "It was argued, finally, that, if the latter [i.e., a decision not to go ahead with the supplementary loan] should occur, **outside observers would question the Bank's commitment both to the project and to its own resettlement policy**, while future Bank-Government dialogue on the social and environmental aspects of hydropower development might be jeopardized." [the most relevant section has been highlighted]
8. The last citation in relation to Itaparica (pg. 160, end note 22) ("Despite its enormous cost, the Bank's Operations Evaluation Department concluded that the Itaparica Resettlement Plan was 'still considered to be the least-cost solution for carrying out a comprehensive program of this nature and indicate[s] the financial repercussions that are likely when executing and funding agencies are required to meet the full relocation obligations to the affected populations.'") is based on para. 16 of the Executive Summary of the final OED Sao Francisco report and is also largely correct. It should be noted, however, that the statement that the plan adopted for rural resettlement at Itaparica was the "least-cost" solution was **reproduced from the aforementioned President's Memorandum for the Supplemental Loan and was**

not OED's "conclusion" since OED made no independent attempt to determine the least-cost solution. See footnote 80 on page 52 of the final OED case study report.

9. In the section on OED (pp. 171-175), the Brazil reports are again featured, especially those on Carajas and POLONOROESTE. The approach paper for the Brazil Environment Study is also mentioned (end note 48). This document was sent to the Joint Audit Committee of the Board of Directors in June 1989. It should be emphasized that Rich's statement on pg. 172 that "The conclusions [of the OED study] vindicated many of the most strident criticisms of nongovernmental critics over the past decade" **reflects his interpretation of the study's findings based apparently only on the preliminary drafts of three of the four case study reports and excluding the overview report (even in draft form) which presents the cross-cutting conclusions and recommendations of the study as a whole.**
10. On pp. 172-73 (end note 49), Rich affirms that "the OED report on POLONOROESTE accuses Bank staff of never having properly appraised the project to begin with. Accurate soil surveys that would be requisite for land settlement do not exist to this day, nor does much other basic knowledge; a leading scientist in a Bank-financed assessment [Philip Fearnside of the Institute of Amazon Studies, INPA, in Manaus] described in 1989 the protected areas as "a farce"; and the main source of economic growth in the region has been the creation of a huge government bureaucracy fueled by international funding, and predatory logging and gold mining, as well as a bubble of land speculation linked to a highly inflationary economy. Most damning of all, the OED report accuses the proponents of the project both within the Bank and in Brazil, of actively -- and successfully -- hindering their more critical colleagues from completely appraising the project, and concludes that if the Bank had refused to fund POLONOROESTE it would have bought time for the rainforest and its people, and reduced the legitimacy of unsustainable frontier agricultural colonization schemes."

This interpretation is essentially correct although, **as in the Sao Francisco case, Rich oversimplifies and distorts what the final OED report actually says:**

- (a) The report, for example, does not argue that the **"main" source of economic growth in the region has been "the creation of a huge government bureaucracy fueled by international funding."** The Executive Summary of the final OED report (paras. 40-44), describes the main elements in -- and prospects for -- the regional economy in the following terms:

"One of the paradoxes of POLONOROESTE is that, despite its failure to achieve many of its declared objectives, recent occupation of the Northwest has generated considerably more economic activity and wealth in the short run than many inside or outside the Bank anticipated. This prosperity, however, has

come about in unexpected ways and at considerable expense to both the natural environment and traditional, particularly Amerindian populations....

As concerns **agriculture**, possibilities for future absorption of large numbers of additional small farmers in the region are slim. Given the peculiarities of local ecosystems, it is unlikely that broad, encompassing solutions will ever work. Rather, painstaking site-specific approaches suited to the particular ecological and socio-economic conditions of different subareas, necessarily including improved soil and forest management techniques, the recuperation of degraded pasture lands and the promotion of extractive reserves, should be implemented. Given the region's distant location in relation to major domestic consumer markets, furthermore, it is likely that most future demand for agricultural produce will come from local sources and that commercial tree crop (eg. coffee and cocoa) production, while environmentally less harmful than that of annual crops, will remain at a competitive disadvantage vis-a-vis production of these commodities elsewhere in Brazil.

The rapid growth of both small and larger-scale **cattle raising** in Rondonia over the past decade, in turn, makes this activity a persisting issue in regional development. Available evidence suggests that ranching is a comparatively undesirable way of utilizing tropical forest areas from an ecological standpoint. From a social and economic perspective, however, small-scale livestock raising seems to play a crucial role in small-farmer survival strategies, while increasing demand for meat and dairy products appears to have stimulated the formation of larger herds in some parts of the region....

The **extraction of timber** is also bringing considerable prosperity to the region, particularly Rondonia. As currently practiced in the Northwest, however, this is a temporary and largely predatory source of wealth that can be sustained only so long as the initial stock of commercial hardwoods is not depleted. **Mining and prospecting**, while not explicitly considered by POLONOROESTE, likewise represent a significant source of regional income at present. The backward and forward linkages of cassiterite and gold mining, as of logging, are extremely important for the regional economy, including its agricultural economy, but their future duration is hard to foresee. In any event, once these extractive activities move on as to yet unexploited areas elsewhere on the frontier, most of the processing industries and services associated with them will also leave, thus "pulling the rug" out from under much of the regional urban economy....

The **flow of public revenues** to the Northwest due to POLONOROESTE and other sources, finally, has been another important contributing factor to regional economic growth. The program helped to create, expand and/or support a number of federal and state, including environmental, agencies

in the area, in the process creating considerable direct and indirect local employment. Future possibilities of maintaining federal investments and revenue transfers at the levels observed over the past decade, however, are limited...."

- (b) Even though, with the benefit of hindsight, it sharply criticizes program preparation -- including the lack of a more thorough ex-ante environmental assessment -- the final OED report does not explicitly "accuse" **"Bank staff of never having properly appraised the project to begin with."** Again, to cite the Executive Summary (para. 46): "Inside the Bank, there was a sincere desire to improve the living and productive conditions of the rural population already residing in the Northwest and to help prepare the region for and protect its natural environment and tribal populations against the pressures of further migration and rural settlement that were considered certain to come whether the BR-364 highway was paved or not. There was also a desire to test an evolving approach to rural development and land settlement in a tropical environment and to increase lending to an important client country at a time when its foreign exchange requirements were rapidly increasing. The convergence of these diverse and legitimate interests, however, ultimately resulted in both an underestimation of the true social and environmental risks associated with the program and an equally serious overestimation of the Borrower's institutional capabilities and commitment to the goals of environmental and Amerindian protection. These interests, moreover, may have hindered a more adequate ex-ante assessment and understanding of the broader ecological, demographic, socio-economic, and political-institutional characteristics and dynamics of the emerging Northwest frontier."
- (c) And while it discusses the various debates within the Bank prior to loan approval regarding the soundness of and risks associated with the program, the final OED report does not "accuse" **"the proponents of the project, both within the Bank and in Brazil, of actively -- and successfully -- hindering their more critical colleagues from completely appraising the project."** What it does say (Executive Summary, para. 45) is that: "At least part of the discrepancy between POLONOROESTE's ambitious objectives and its more limited achievements stems from the distorting influence of powerful economic and political interests behind the program or which subsequently benefitted from it, together with the Bank's not having fully anticipated the potential impact of these influences. Despite dissenting views and cautionary advice in both the Bank and Brazil, POLONOROESTE was implemented because it generated considerable momentum in different sectors."
- (d) It is basically correct, however, that the OED report concludes that "if the Bank had refused to fund POLONOROESTE it would have bought time for the

rainforest and its people, and reduced the legitimacy of unsustainable frontier agricultural colonization schemes." The relevant actual text of the OED report is as follows (Executive Summary, paras. 47-48):

"Two questions are critical for any evaluation of the Bank's role in POLONOROESTE: should the Bank have become involved in Northwest development in the first place and, if so, what could it have done differently in order to have avoided or more effectively reduced the program's adverse social and ecological consequences? **The key point in relation to the first question would seem to be that, in the absence of the Bank's support which provided legitimacy as well as financial resources to the program, on account of the severe fiscal crisis in Brazil in the early 1980's, if for no other reason, it would probably have taken longer to transform the BR-364 highway into an all-weather thoroughfare and to expand the regional feeder road network. Thus, the migrants who arrived in Rondonia during the early and mid-1980's would probably not have materialized in such large numbers or as quickly as they did.**

This time element was essential for the subsequent chain of events since the dominant characteristics of the region's occupation over the past decade have been the rapidity and largely uncontrolled nature of both rural and urban settlement and the closely related expansion of extractive activities, including, as currently practiced, much small-farmer agriculture itself. **Had the program's road improvements been delayed and even though there is no guarantee that these actions would actually have taken place, valuable time might have been gained to undertake more detailed soil and other natural resource surveys, to perform more thorough assessments of regional agro-ecological, agronomic, and socio-economic potentials and constraints, to rationalize existing settlement strategies and further improve colonization design, to better absorb the migrants who had already arrived and, perhaps most importantly, to establish and/or strengthen environmental protection legislation, institutions and enforcement mechanisms....**

11. The references to the draft OED report on Carajas on pp. 173-174 (end notes 50-52) are also essentially correct, but yet again Rich's treatment includes some significant distortions.
 - (a) The citation in the first footnote on pg. 173 ("Despite [the] stated concern....preappraisal mission) coincides with part of the text of paras. 5.16-5.17 in the final OED report. The second citation in this note ("The terms of reference...the so-called Greater Carajas Program.") can be found in footnote 24 on page 61 of the OED report.

- (b) The quotation in the second footnote on pg. 173 ("One senior advisor express[ed]...on future regional development.") can be found in para. 5.28 and footnotes 37 and 38 of pg. 66 of the final OED report. The author of the June 10, 1982 memorandum was Ernest Stern although this is not mentioned in the OED report. It is misleading, however, to affirm, as Rich does, in his text that **"senior management suggested fudging the appraisal** with references to the project's indirect, "unquantified" regional economic multiplier effects."
- (c) However, it is **not correct** to state, as Rich does, in the same paragraph on pg. 173 that **"As it was, the appraisal subsequently -- and conveniently -- overestimated future prices for iron ore to come up with a projected financial rate of return of 11.7 percent."** While it is true that iron ore prices fell significantly while the project was under implementation, thus resulting in an reestimated FRR of 1.2 percent (not 1.7 percent as Rich indicates) at the time of completion, **there is no evidence -- nor does the OED report ever claim that there is any evidence -- that the initial estimates of iron ore prices were deliberately overestimated, as Rich's statement implies. Nor is it correct to claim, as Rich does -- or to associate the final OED report with the conclusion -- that the project was "an economic white elephant."** The relevant section of the OED report (para. 6.16) states the following:

"Thus, even though project capital costs were roughly 25% lower than originally expected and operating costs are also reported to be lower than anticipated, the net effect of these factors, together with significantly lower revenues, has been a substantial decrease in both the financial and economic rates of return of the project in relation to appraisal estimates. According to the PCR, the after tax FRR at the time of completion was 1.2%, as compared with 11.7% at the time of appraisal, while the corresponding ERR estimates were 3.7% and 13.9%, respectively. As a result, the Bank's PCR concludes that the project is 'submarginal' when re-evaluated at present price and cost levels, However, it also affirms that "since [Carajas] is a low-cost operation in relation to other iron ore mines around the world, it can survive even considerable market downswings with minimal financial damage and is expected to show large cash surpluses after 1994 when most of the project debt has been repaid. Longer-run financial perspectives, accordingly, are considerably brighter than the current situation. Despite the low rates of return presently estimated by the Bank, moreover, the Carajas operation has clearly been successful in terms of its principal objectives of extracting and exporting large quantities of high quality iron ore and generating substantial -- if fewer than originally expected -- foreign exchange earnings for the Brazilian economy." [Emphasis added to highlight differences with Rich's conclusion]

- (d) Nor is it entirely correct to affirm, as Rich does on pp. 173-174 that "While official Bank literature continually emphasized that the Bank-financed mine, railroad, and port should not be directly associated with or held responsible for the environmental and social problems in the greater Carajas area, **OED concluded that the raison d'être and justification for the Bank project was its role as infrastructure for broader regional economic transformation**, a context that was explicitly cited in the appraisal report and in the project files." [Emphasis mine] What the OED report does say (paras. 1.03, 3.01-3.02) is the following:

"The principal objective of the project was to extract and export iron ore from the huge, high quality deposits at Carajas...According to the press release announcing the Bank's decision to support the undertaking, **the project would also 'contribute, through the provision of basic infrastructure, to the future development of Brazil's largely unexploited Eastern Amazon Region**, including other mineral developments largely for export, as well as to agricultural development...."

"...While the SAR does include a short section on the project's 'regional impact' containing relevant, if very sketchy, observations on the likely contribution of the Carajas operation to the future development of Eastern Amazonia, it does not go into detail with respect to the ecological, demographic and socio-economic characteristics of the project's area of influence, nor does it consider the larger environmental implications of the proposed infrastructure and productive investments. Furthermore, even though the SAR touches upon some of the important previous and parallel large-scale investments and development programs affecting the Carajas area, it does not fully examine the broader regional policy context in which these initiatives were situated.

The SAR's discussion of 'regional impact,' nevertheless, does clearly highlight the role of the Carajas Project in the on-going efforts of the Brazilian Government to 'open up' Eastern Amazonia for productive exploitation of its rich natural resources...." [Emphasis mine]

- (e) Again Rich's statement on pg. 174 that "The Operations Evaluation Department further concluded that the Bank's project, besides catalyzing accelerated deforestation on a vast scale, played an important role in contributing to increased land concentration and poverty, extensive public health problems, increased rural violence, and -- incredibly, given the billions invested -- to increased malnutrition and reduced food security for large numbers of poor" **is not a true reflection of what the OED Carajas report actually says.** Pertinent conclusions of the OED report are summarized in the Executive Summary (paras. 55 and 59-62):

"While the Bank-supported Carajas Project can not be held directly responsible for much of the environmental degradation that has taken place in its larger area of influence over the past several decades, it has, nevertheless, indirectly contributed to this process, primarily by improving accessibility and drawing considerable numbers of new settlers to the region....

In summary, in addition to its own more limited environmental consequences, **the Carajas Project has indirectly reinforced and, in some subareas, accelerated the adverse physical environmental impacts of other public and private sector interventions** (eg. road building, fiscal incentives, prospecting, etc.) already or simultaneously acting on its area of influence....

Although it is difficult to measure the human environmental impacts of the Carajas Project with any degree of precision, as in the case of the physical environment, the iron ore operation and, more recently, associated industrial investments have had, and will continue to have, a major influence in determining the nature and intensity of social change both within the immediate railway corridor and in the larger Carajas region more generally. **Determination of project-related social impacts, moreover, is especially problematic due to the profusion of federal and other development initiatives mentioned earlier, as well as the operation of macroeconomic and other factors** (eg. the generalized economic recession occurring in Brazil during the early 1980's) that have influenced migration tendencies, settlement patterns, land pressures and the pace of urbanization on the Eastern Amazonian frontier....

There can be little doubt that benefits have accrued to the Carajas region and its population from development of CVRD's mining, rail and port complexes. As suggested earlier, these include the creation of both short and longer-term employment in construction, mining and metallurgical industries, as well as in related commercial and service activities. They also include the provision of passenger and freight rail and, in the area between Carajas and Maraba and across the Tocantins River, road services, as well as the introduction of urban infrastructure improvements, principally at Carajas, but to a lesser extent at Parauapebas and elsewhere along the corridor. However, **it is likewise evident that the Carajas Project has had several significant negative consequences from a human environmental standpoint.** Some of these are a direct result of the iron ore operation, while others are largely by-products of trends already underway in the area, but which have been exacerbated by the project.

In rural areas, for example, there has been a significant increase in land values and property concentration throughout the Carajas corridor since the mid-1970's, especially at or near designated 'development poles' such as

Maraba, Acailandia and Santa Ines where future industrial investments are expected to be concentrated. **Land conflicts and growing landlessness, with a shift to wage labor, as well as the increasing conversion of forest to pasture, are all part of this process....** [Emphasis mine]

- (f) The quotation in the footnote on pg. 174 ("In the municipalities bordering on the Carajas railway....in relatively reduced areas.") can be found in para. 9.21 of the final OED report. However, the last part of the actual OED text has not been cited: **"Independent smallholders tend to be concentrated in relatively reduced areas which have successfully resisted the monopolization of land by large estates such as the 'Brazilnut Polygon' in Para and areas near the Pindare and Curu Rivers in Maranhao or where official colonization schemes -- such as those on the southern periphery of the Carajas Project or situated along the Transamazon highway near Maraba -- have provided some (limited) security of tenure."** [Emphasis mine]
- (g) The long quotation on pg. 174 ("Possibly significant impacts on the health and nutritional status of the rural population in the area of influence of the Carajas Project may occur...due to parasitic infections.") can be found in paras. 9.27 and 9.30) of the final OED Carajas report. Note that the second part of the quotation which begins "....Health data at the municipal level," omits the immediately preceding sentence in the OED report which states: **"Other health problems have arisen or multiplied as the result of the rapid increase in population attracted to the Carajas area by installation of the iron ore mine and railway and the Tucuruí hydropower dam starting in the late 1970's."** [Emphasis mine]

12. The last direct reference to the OED study is on pg. 174 (end note 52) and is again from the draft POLONOROESTE report: **"Finally, beyond all considerations of project quality, the OED reports confirm that an overriding factor pushing Bank lending for huge projects such as POLONOROESTE and Carajas was 'the Bank's desire to step up its lending to Brazil at a time when it was facing increasing balance of payments difficulties and when the continued flow of Bank resources was considered essential to maintain the confidence of other international lenders in the country's medium and long-run development prospects.'"**

Again, however, the actual statement in the OED POLONOROESTE report, which can be found in para. 3.15, is framed in far less categorical terms: **"In all likelihood, one of the factors leading to this convergence of interests [between the key actors within the Brazilian Government and the Bank with respect to the decision to proceed with POLONOROESTE] was the Bank's desire to step up lending to Brazil at a time when the country was facing....development prospects."** There is a similar passage in para. 2.11, based on the President's Memorandum for the first of the POLONOROESTE loans, which describes the Bank's strategy for Brazil at that time:

"Finally, all Bank lending to Brazil in the early 1980's aimed at providing part of the large volume of medium and long-term capital inflows needed by the country in order to sustain satisfactory growth and achieve its employment creation and regional development objectives. Active Bank lending was seen as being essential to maintain the confidence of the international financial community in the future prospects of the Brazilian economy and to encourage other lenders to contribute to the country's development."

THE WORLD BANK
DIVISION NAME
DIRECT FAX TEL. NO. (202) 4XX-XXXX

FACSIMILE

2/23
ca: LS

DATE: February 23, 1994 **NO. OF PAGES:** 5 **DIV. LOG NO.:**
(including this page)

TO: Mr. Alexander Shakow, EXTDR
Organization: World Bank
City/Country:
Fax No: () 60574

FROM: Callisto Madavo
Dept./Div.: EA1DR 254.05
Room No.: E8087
Tel. No.: (202) 82856

SUBJECT/
REFERENCE: Thailand - Pak Mun

MESSAGE:

Alex,

I refer to your electronic message on Pak Mun. Attached is the information you requested. I would also like to remind you of the package on Pak Mun that was recently circulated to the Board (SecM94-138 - Thailand: Pak Mun - the Facts, The Background, Questions and Answers, dated February 10, 1994).



Callisto Madavo

*

TRANSMISSION AUTHORIZED BY: Callisto Madavo

If you experience any problem in receiving this transmission, inform the sender at the telephone or fax. no. listed above.

Response to allegations on Pak Mun

Background

The Bank agreed to lend \$23 million for the Pak Mun Hydropower Project, representing about a 10 percent stake, not only to assist Thailand's power development plans, but to ensure that the environmental and resettlement aspects of the project were fully addressed. Work began in March, 1991, and the project was reviewed at its mid-term between May 29 and June 13 last year. The Bank is satisfied that the project is being implemented properly, and that difficult issues regarding effects on local people and the environment have been handled in a manner consistent with the Bank's strict operational directives.

Overall

The picture of Pak Mun is entirely one-sided and misleading. It grossly misrepresents the history of consultation, the quality of the environmental assessment and the generosity of the resettlement plan. It treats unsubstantiated criticism as fact and conveniently ignores material which challenges this distorted view. It poses an entirely gratuitous insult to the Thai Government by suggesting that it is weak and unable to control its agencies. It also insults the intelligence of its audience by suggesting that Thailand could meet its annual 10 percent increase in demand for electricity by "conservation and end-use efficiency." If such simple and cheap alternatives were available, the Bank and the Thai Government (and every other government in the developing world) would be seizing them.

In reality, Pak Mun symbolizes the difficult trade-offs which are involved in development -- between those affected and those who will benefit, between the local environment and the wider community, between using hydropower or non-renewable energy. The fundamental flaw in Mr. Rich's simplistic commentary on Pak Mun is that he poses a false choice. Development without trade-offs is an illusion. He has the luxury of advocating ideologically pure, practically unworkable, solutions; the countries confronted with real problems do not.

Consultation

EGAT and the Thai Government have dealt directly with the people affected. The long record of consultations includes face-to-face meetings, group meetings and briefings, distribution of information booklets and wide dissemination of information through the local media. Between September 1988 and June 1990, EGAT convened or was involved in more than 20 consultation meetings and briefings. In addition, 20,000 copies of the publication "Pak Mun Project," detailing the resettlement plans and compensation rates in Thai, have been issued. Efforts to consult with NGOs, however, have been blocked by an NGO refusal to sit at the same table as the Government and EGAT.

Resettlement

Far from being "a public relations hoax," the Bank's resettlement policy was fully implemented in Pak Mun. The 989 families affected by the project can choose where to resettle and what to do with their resettlement money. Some have chosen to resettle near their former home sites, but on higher ground. Others have opted for the Sirindhorn resettlement area, where soils are as good as at Pak Mun, and a full range of basic services (from irrigation to electricity, paved roads and schools) will be provided. The price being paid in compensation was seven times the prevailing rate and even now it is 20-30 percent above the market value. In addition, everyone affected by the project will now have formal legal title to their land. Before, 80 percent held no title.

Environmental assessment

It is hardly surprising that academics and scientists should disagree on the effects of the dam, as indeed they do on almost every subject. In fact, the criticism came from few such people. The project has just been reviewed at its mid-term point by a highly specialized and respected team, including Dr. Jasper Ingersoll (Professor of Anthropology at Catholic University), Dr. Robert Dwyer (Ph.d. Oceanography, Aquatic Biology) and Dr. Santasiri Sornami (Professor, Faculty of Tropical Medicine, Mahidol University). They reviewed the project carefully and found nothing which would support Dr. Rainboth's claims. Dr. Sornami also appraised the project before it began.

There is no evidence to suggest that the dam -- made up, as it is, of gates which open fully to allow almost unimpeded passage of the river -- will cause any damage to fish stocks. Nor is there any evidence that the project would increase the spread of parasitic diseases, such as Schistosomiasis. Such diseases could become more prevalent if the project created a reservoir, but it does not.

The dam level will rise and fall, and at its peak it will submerge 60 square kilometers, almost all of which was flooded by seasonal rises in the river level. In order to insure that the project does not have harmful side-effects, the Government has established a special committee to review and monitor the dam -- particularly its resettlement and environmental aspects -- before and after completion.

Capacity Utilization of Irrigation Dams

There have been capacity shortfalls in the command areas for irrigation because water inflows into the dams have been lower than originally predicted twenty or so years ago. Unanticipated upstream demand (for agriculture, industry and household water supply) is one important reason. Another is that watershed destruction upstream has reduced their moisture holding capacity and increased the run-off and siltation. In addition, there were probably overestimates in the original assessment of the command areas covered by these dams. When the multi-purposed dams (for power and irrigation) were first constructed, only the primary and limited number of secondary canals were constructed with them. Thus, without the secondary and tertiary canals constructed as part of the project, the areas reached were originally quite restricted. This was the rationale for subsequent irrigation projects, which were focused on improving the command area use (cf. Northern Chao Phya and similar projects funded in the 1970s). Even as irrigation became more efficient, unanticipated municipal demand within the command area also used and also reduced the volume of water available for irrigation. Since irrigation is often the residual in any water allocation activity, the above results are therefore not surprising.

Capacity at Bhumipol and Sirindhorn

Bhumipol dam (together with the Sirikit dam) was built on tributaries of the Chao Phya River. The irrigation system in the Chao Phya was in place before these dams were built, but lack of water precluded dry-season cropping. Therefore, the economic benefit of an incremental 600,000 ha of irrigation, mostly high yielding rice, is enormous. Bhumipol accounts for about 60% of this benefit. These two dams have also helped to maintain the flow in the lower Chao Phya needed to meet Bangkok's water supply demands.

When they were built, Bhumipol and Sirikit were major sources of power for Thailand. Because of load growth, they now account for a small part of the system. Therefore, they are now operated with a bias towards irrigation. A hydropower plant produces power (kilowatts) and energy (kilowatt hours). If its reservoir is kept full, it has the capability to supply more power on demand. If it is drawn down to meet downstream needs, there can be some loss in what is known as "peaking capability", but energy production is not affected significantly. Any loss in peaking capability at Bhumipol because of irrigation-oriented operation is negligible in economic terms compared to the irrigation benefits.

Sirindhorn was built on a tributary of the Mae Klong, a major river running roughly parallel to the Chao Phya. In fact, the two Deltas are contiguous. The story is much the same as for Bhumipol and the Chao Phya. Sirindhorn is a valuable source of power and energy and allows a vast area to be irrigated in the Mae Klong Delta. It has also allowed water to be diverted from the Mae Klong to the Chao Phya Delta.

Alternatives

Conservation and end-use efficiency are not realistic alternatives to hydropower projects in meeting Thailand's growing demand for electricity. Though the Global Environment Facility is involved in a demand management project with EGAT, any gains from this are likely to be realized only in the late 1990s and will account for less than 2 percent of electricity demand. World Bank estimates suggest that Thailand's electricity demand will increase about 10 percent a year until 2000, demanding more than 1000 megawatts of new electricity production capacity each year. The Pak Mun Hydropower Project is a small component of this, providing a capacity of 136 megawatts. The real alternative to Pak Mun would have been turbines using light oil. These are costlier and less environmentally friendly.

Thai Government

The assertion that the Bank "undermined the already weak representative institutions" in Thailand is a slur on the Thai Government and a complete misrepresentation of the facts. This does not deserve to be dignified with a full reply. Suffice it to say that the debate in the Thai Government over Pak Mun, the effectiveness of local representatives in handling compensation, environmental and resettlement issues, and the responsiveness of EGAT and the Government to local concerns puts the lie to Mr. Rich's claim.

A L L - I N - 1 N O T E

DATE: 23-Feb-1994 04:04pm

TO: Alexander Shakow (ALEXANDER SHAKOW)

FROM: Michel Petit, AGRDR (MICHEL PETIT)

EXT.: 30340

SUBJECT: Response to Bruce Rich

Alex,

Leslie Simmons has already received the two attached comments by G. Feder (on the green revolution and T and V in India) and by David Steeds (on forestry). Both seem appropriate to use. Is this what you are seeking from us?

The World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

DATE: February 23, 1994 01:14pm

TO: Lesley Simmons (LESLEY SIMMONS)

FROM: Gershon Feder, AGRAP (GERSHON FEDER)

EXT.: 30378

SUBJECT: Comment on Rich's Discussion of Bank's Agr. Lending (pp.89-91)

Lesley: This note was written jointly with Roger Slade.

Mr. Rich alleges that Bank lending in the agricultural sector incre poverty, citing as a source studies of the impact of the "green revolution" The implication is that the Bank misguidedly supported the spread of the gr revolution. Unfortunately, Mr. Rich relies on dated evidence [Griffin (197 Hewitt de Alcantara (1976)], and hence ignores the rich body of evidence accumulated during the 1980's and early 1990's. Thus, Ahluwalia (1985) sho convincingly that rural poverty declined in India throughout the 1970's (th peek of the green revolution). In a study of the green revolution in the I Punjab, Blyn (1983) concluded that small farmers income increased relativel faster than that of large farmers, and that employment increased without depressing real wages, benefitting the landless. Subsequent work by Hazell Ramasamy (1991) for South India has shown that although large farmers adopt Green Revolution techynology earlier, smaller farmers had largely "caught u (partly in response to enhanced publicly provided research and extension) w a decade. The study shows real income gains for the small farmers as well for agricultural labor. Lastly, these income gains, arising from the green revolution, have been shown to have strong multiplier effects on the broader rural economy, [Bell, Hazell, and Slade (1982)].

The reliance on outdated information also afflicts Mr. Rich's discu of Bank promotion of T&V extension in India. Here, he cites a study by Moo (1984), which reflects impressions -- not quantified data -- from the early years of the T&V experience in India. Subsequent studies and analysis, bas empirical investigations,1 have documented increased presence of extension, improved agent-farmer interaction, and a significant ability and willingnes adapt the operational principles of the system to local circumstances. For example, the utilization of contact farmers as the key link between extensi agents and the farming community was modified to make greater use of group methods, and the frequency of meetings was adjusted to seasonal requirement Furthermore, the coverage of farming activities was expanded to include bot

1. Feder and Slade (1986), Feder, Lau, and Slade (1987), Macklin (1992), Bindlish and Evenson (1993).

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weaknesses in the agricultural extension system in India (Macklin 1992), th
are not such to warrant the blanket condemnation by Mr. Rich.

CC: Michel Petit
CC: Alexander Shakow
CC: Roger Slade

(MICHEL PETIT)
(ALEXANDER SHAKOW)
(ROGER SLADE)

To: Michel Petit, AGR
From: David Steeds, AGRNR

Mr Rich's observations in his chapter "Saving the Forests" are essentially correct. His commentary ceases in mid-1991, however, but much has happened since then.

With regard to the Tropical Forestry Action Plans (TFAP), the Bank was indeed closely involved in the design of the process but subsequently distanced itself, as Mr Rich observes in para 3 of page 164. The intentions of the TFAP process were impeccable but proved to be unattainable, as Robert Winterbottom of WRI eloquently explains in his June 1990 paper "Taking Stock: the TFAP after five years". What went wrong was that the process in participating countries was taken over by forestry departments and forestry professionals; beguiled by the prospects of greatly increased investment in public-sector managed activities, they concentrated on identifying such new investments to the detriment of analysis of the underlying causes of deforestation, and the policy and institutional changes that might be required prior to undertaking new investments.

The old adage "more haste less speed" also came into play. Forestry departments and professionals eagerly set about preparing TFAP but, in their haste, consultations with the many interested parties were cut short or did not take place at all. Recent examples of well-prepared TFAP - Ethiopia, with Bank participation, and Chile, with no Bank participation - show that a properly consultative process takes years rather than the 18 months posited in the initial proposal.

[Note also that whereas Mr Rich states that "by 1990, twenty-one nations had completed forestry sector reviews under the aegis of the TFAP, with the World Bank as the leader or a major participant in eight", by June 1993 eighty-three TFAP exercises had been completed or initiated, with the World Bank involved in only nine. The World Bank was not involved in the Cameroon TFAP which Mr Rich criticizes (para 2 on page 163) and was involved in only one (Ghana) of the nine that were included in the World Rainforest Movement critique (para 3 on page 163). In fact, some of the World Bank's partners in the design of the TFAP process criticized the Bank for not participating more actively in its implementation, but the cost in terms of limited staff resources was simply too great.]

Mr Rich cites two projects (in Guinea and Cote d'Ivoire) which purportedly illustrate the Bank's shortcomings in forest management. The Guinea project was indeed a close call: how to do "good" when the best is unattainable? Given the trends in the project area, the

"without project" scenario was disastrous but institutional shortcomings were so severe that the project had to be tailored to what was doable. The Cote d'Ivoire project was also a close call but was not "in flagrant contradiction of Bank policy" since the proposed resettlement was to be voluntary, not involuntary.

Mr Rich acknowledges that internal debate over these two contentious projects did give rise to the preparation of a new, ecologically more focused policy on forests. The new forest policy was adopted in July 1991 and published in the policy paper series in September 1991. It provides the framework within which analytic work and program design have since been undertaken. A key feature of such work is to focus on the forest - with all its users and products - rather than forestry, and thereby to consider all the policies and institutions that may have a bearing on forest management.

A report on the first three years of implementation of the forest policy is presently being prepared, for presentation to the Executive Board in September 1994. Preparation of this report is being undertaken by the Bank's multidisciplinary Central Forestry Team in consultation with many governmental and non-governmental organizations. These organizations are being invited to critique the Bank's work, as well as to make known their own successes and disappointments in forest management in order to enrich the empirical basis for learning lessons.

A L L - I N - 1 N O T E

DATE: 23-Feb-1994 04:34pm

TO: Alexander Shakow (ALEXANDER SHAKOW)

FROM: Ronald Johannes, IECDI (RONALD JOHANNES)

EXT.: 33802

SUBJECT: Comment on Bruce Rich book

Net Transfers, Debt and Forgiveness of World Bank Loans
-- a comment on Bruce Rich's book

Net flows and transfers. Each year developing countries receive external capital inflows in the form of loan disbursements. These loans help finance investment and imports in support of economic development. Developing countries make amortization payments on loans they received in previous years. The difference equals (debt-related) net flows. A normal pattern would be positive net flows to a country at an early stage of development (debt build-up), declining net flows as a country achieves a more advanced stage of development (debt stabilization), followed by capital exports at a high level of development.

Debt generates obligations. Interest payments represent compensation to creditors for the use of resources. If the resources have been invested productively, the return generated should more than cover the interest cost. Net transfers (on debt) are calculated by subtracting interest payments from net flows.

Net transfers for a group of countries can be misleading. Some countries in the group may be at a more mature development stage, in which net flows are small and net transfers are negative. Others may have acquired levels of debt that are inconsistent with their growth prospects. Still others may be at a stage of development in which positive net transfers would be normal. Hence, the aggregate net transfer to a group is a poor guide to the financing position of any individual country.

From an individual creditor's viewpoint also caution must be exercised in interpreting net transfers. If a financial institution maintains positive net transfers to all its borrowers, its asset base must grow rapidly -- roughly doubling every 10 years. Thus, the overall net transfer position of an institution will depend on, among other factors, its past lending and the rate of growth of its capital base.

Bruce Rich alleges that the World Bank has been pressured to lend under the specter of net negative transfers (p.78ff, p.183). In fact, the World Bank has generally maintained positive net transfers consistent with the growth of its capital base, and

has gone along with negative transfers in the case of some mature borrowers -- this is the normal practice of any sound financial institution.

*Need to be
explicit -
have not lent
to not sound
paying
Miles W.*

Additionally, Rich oversimplifies in drawing unwarranted conclusions on the need for debt forgiveness from aggregate net transfers (p.262-3). In fact, net transfers to all developing countries have been positive since 1989, and only Latin America amongst regions of the developing world has experienced negative transfers (in 1989 and 1990, but not since). But Latin America has been receiving debt reduction under the so-called Brady Plan, and the region with the severest debt problems is Africa, which receives the highest positive net transfers (amounting to several percent of GNP for most countries).

Debt and forgiveness of World Bank debt. Rich appears to view the existence of negative net transfers as grounds for debt forgiveness (p.262-3, p. 309). In fact, such encouragement of "moral hazard" is only likely to lead to a cutoff of new financing to developing countries by their external creditors. There are indeed valid grounds for debt forgiveness, such as when a debtor country has suffered severe adverse shocks to its terms of trade and hence its export earning capacity. The World Bank has supported such debt reduction with substantial amounts of its own funds, under the Brady Plan and with its own IDA debt reduction facility (cofinanced by bilateral donors).

Rich further proposes that the World Bank should forgive part of its own debt (p.309-10). He erroneously claims that debt service to the World Bank is eating up the earnings of, for example, Uganda. In fact, net transfers from the World Bank to Uganda and nearly all Sub-Saharan African countries is strongly positive. Additionally, he claims the World Bank's rating in the bond markets would not be adversely affected, because it rests on its member governments guarantees alone. In fact, the rating depends also on the World Bank's financial performance, as is evident from the reports of rating agencies and from the below-AAA rating that the Bank had in the early years of its existence. Thus, the main consequence of the World Bank writing off its debt would be a deterioration of its credit standing in the financial markets, and a consequent increase in the costs that it charges to its borrowers at large. In other words, those borrowers who are timely in their debt payments would pay for debt forgiveness to the few who are not.

CC: Lesley Simmons
CC: Masood Ahmed

(LESLEY SIMMONS)
(MASOOD AHMED)

The World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

DATE: February 23, 1994 01:14pm

TO: Lesley Simmons (LESLEY SIMMONS)

FROM: Gershon Feder, AGRAP (GERSHON FEDER)

EXT.: 30378

SUBJECT: Comment on Rich's Discussion of Bank's Agr. Lending (pp.89-91)

Lesley: This note was written jointly with Roger Slade.

Mr. Rich alleges that Bank lending in the agricultural sector increased poverty, citing as a source studies of the impact of the "green revolution". The implication is that the Bank misguidedly supported the spread of the green revolution. Unfortunately, Mr. Rich relies on dated evidence [Griffin (1974), Hewitt de Alcantara (1976)], and hence ignores the rich body of evidence accumulated during the 1980's and early 1990's. Thus, Ahluwalia (1985) showed convincingly that rural poverty declined in India throughout the 1970's (the peak of the green revolution). In a study of the green revolution in the India Punjab, Blyn (1983) concluded that small farmers income increased relatively faster than that of large farmers, and that employment increased without depressing real wages, benefitting the landless. Subsequent work by Hazell and Ramasamy (1991) for South India has shown that although large farmers adopted Green Revolution technology earlier, smaller farmers had largely "caught up" (partly in response to enhanced publicly provided research and extension) within a decade. The study shows real income gains for the small farmers as well as for agricultural labor. Lastly, these income gains, arising from the green revolution, have been shown to have strong multiplier effects on the broader rural economy, [Bell, Hazell, and Slade (1982)].

The reliance on outdated information also afflicts Mr. Rich's discussion of Bank promotion of T&V extension in India. Here, he cites a study by Moore (1984), which reflects impressions -- not quantified data -- from the early years of the T&V experience in India. Subsequent studies and analysis, based on empirical investigations, have documented increased presence of extension, improved agent-farmer interaction, and a significant ability and willingness to adapt the operational principles of the system to local circumstances. For example, the utilization of contact farmers as the key link between extension agents and the farming community was modified to make greater use of group methods, and the frequency of meetings was adjusted to seasonal requirements. Furthermore, the coverage of farming activities was expanded to include both major and minor crops, and, in some areas, animal husbandry. Comparisons with alternative extension systems have shown advantages to the T&V approach in terms of information diffusion and interaction with farmers. While there are several weaknesses in the agricultural extension system in India (Macklin 1992), they are not such to warrant the blanket condemnation by Mr. Rich.

1. Feder and Slade (1986), Feder, Lau, and Slade (1987), Macklin (1992), Bindlish and Evenson (1993).

CC: Michel Petit
CC: Alexander Shakow
CC: Roger Slade

(MICHEL PETIT)
(ALEXANDER SHAKOW)
(ROGER SLADE)

OFFICE MEMORANDUM

2/23
LS
send to
Kallodan, to

DATE: February 23, 1994

TO: Mr. Alexander Shakow, EXTDR

FROM: Lyn Squire, PRDDR *LS*

EXTENSION: 36099

SUBJECT: Mortgaging The Earth

Enclosed is a response to your request on Bruce Rich's book Mortgaging the Earth. Please feel free to contact Christine Jones or Bill Easterly if you have any questions.

cc: Michael Bruno

LSquire:emb

Comments on Mortgaging the Earth, by Bruce Rich

With a lawyer's eloquence, Mr. Rich movingly describes the economic hardships that many poor countries suffered in the 1980s. Unfortunately, Mr. Rich wastes his considerable energy in a search for scapegoats instead of a search for solutions to the complex crises of underdevelopment. In Mr. Rich's conspiratorial view of underdevelopment, anything wrong in a country receiving World Bank loans must be the World Bank's fault.

The problem with this approach can be illustrated by the story of the little boy riding with his father on Washington's Beltway after an ice storm. The little boy stared at a succession of minor automobile pileups caused by the ice storm, each pileup with an ambulance -- lights flashing -- standing by in case of need. "Daddy," he asked somberly, "why do ambulances cause so many accidents?"

Much of Mr. Rich's analysis is the equivalent of blaming accidents on ambulances. Countries only come to the World Bank for structural adjustment loans after a severe crisis has developed. Evaluation of the success of subsequent recovery efforts, as supported by World Bank and IMF lending, requires asking questions like: (1) what was the state of the country's economy when adjustment began? (2) what else was happening to the economy as the country adjusted? (3) what happened to countries in similar circumstances who did NOT adjust?

Unawares to Mr. Rich, a large body of work has been done by the World Bank as well as by independent scholars to try to find answers to these questions. The consensus of the work is that adjustment, as supported by World Bank and IMF lending, generally raises an economy's growth over what it would have been without such adjustment. Developing countries with intensive adjustment lending from the World Bank had an average *increase* in growth rates of 2.5 percentage points from 1981-85 to 1986-90. Those that interrupted adjustment programs or did not adjust at all had on average no change in growth from the dismal growth rates of the early 1980s.

Sub-Saharan Africa's experience with adjustment also confirms that countries that did the most to improve their macroeconomic policies experienced the biggest increase in growth between the first and the second half of the 1980s. Countries that undertook more limited adjustment programs and experienced a deterioration in policies suffered a decline in growth rates. While adjustment did not cure all economic problems -- for example, investment sometimes went down in adjusting countries -- it did

help countries to achieve higher rates of growth than would have been the case in the absence of adjustment.

Let us examine one specific example of Mr. Rich's blaming-the-ambulance mentality. He discusses the drop in real wages in Mexico in the 1980s as a consequence of what he labels "adjustment promoted by the Bank". In fact, the decline in the real minimum wage in Mexico began in the late 70s - well before World Bank adjustment lending - and was then accentuated by the disastrous episode of economic mismanagement that Mexicans call "la crisis" in the early 1980s. Since 1987, Mexican real wages have *increased* by 20 percent. Moreover, Mr. Rich might be interested to know that more severe drops in real wages than in Mexico occurred in the 1980s in Peru (-70%) and Nicaragua (-90%), countries that refrained from "adjustment promoted by the Bank."

Similar problems bedevil Mr. Rich's analysis of poverty and adjustment. Poverty was tragically widespread long before countries undertook adjustment programs. The key question is how much adjustment policies *changed* the lot of the poor. Income distribution changes slowly over time, so the biggest single factor in the welfare of the poor was how the economy as a whole was growing. And we have seen that countries following adjustment policies usually enjoyed an increase in growth. Conversely, in countries that failed to implement or sustain adjustment programs, such as Peru and Cote d'Ivoire, the economy declined and the incidence of poverty increased. In Peru, GDP per capita fell by 20 percent between 1985 and 1990. The average household in Lima experienced a decline in per capita consumption of 55 percent, and poverty increased from 0.5 percent of Lima's population in 1985-86 to 17.3 percent in 1990. Cote d'Ivoire's economy took a nose-dive after 1987; in 1987 and 1988, the incidence of poverty rose by over 50%, and the incidence of extreme poverty more than doubled.

Mr. Rich asserts that "too often [adjustment programs] resulted in reduced education, health, and environmental protection expenditures". The evidence does not support this simplistic assessment. Among Sub-Saharan African countries undertaking adjustment programs—sustained or not—median real health spending in absolute terms increased by about 5 percent between 1980-83 and 1987-89, while education spending decreased by a similar amount. Among the countries that made the largest reforms

in their macroeconomic policies, median health and education expenditures as a share of GDP remained virtually unchanged. By contrast, the countries that did *not* undertake comprehensive adjustment programs suffered a large *decrease* in social expenditures.

Mr. Rich claims that "adjustment did not succeed in launching export-led growth". Again, he seems to be mortgaging the facts. Countries in Sub-Saharan Africa that made positive changes in their macroeconomic policies had strong export performance. Of the 22 countries for which data were available, the four countries with largest improvements in macroeconomic policies between 1981-86 and 1987-91 experienced a median increase in export growth of almost 8 percentage points over the same period, while those countries whose macroeconomic policies showed only modest improvement increased the growth rate of their exports by 3 percentage points. In contrast, exports lost ground in the ¹⁰eleven countries with deteriorating macroeconomic policies, with a median fall in growth of 0.7 percentage points. Restoring macroeconomic stability and reducing exchange rate distortions paid off in higher export growth.

Moreover, the gains in export growth have *not* been eaten up by higher debt servicing requirements. Sub-Saharan Africa, the world's poorest region, continues to benefit from high net aggregate transfers (loan disbursements plus grants less debt service payments), amounting to over 3 percent of GNP in 1992. Total debt service as a share of exports and services has declined over the course of the 1980s, from a high of 28.2 percent in 1986 to 18.5 percent in 1992. Contrary to the impression that Mr. Rich gives, adjustment programs benefit countries, not just their creditors.

Conclusions. A vigorous intellectual exchange on the consequences of adjustment is always welcome. All who care about the welfare of developing countries should be willing to subject both received wisdom and new ideas to the rigors of debate. Participating in this debate requires a great deal of tedious examination of data and country experience. Mr. Rich's colorful rhetoric is very entertaining, but analysis of hard data probably does more to advance the cause of poverty alleviation and environmental protection. Ambulances do not cause accidents. But when accidents occur, it is better to have ambulances than not.

— William Easterly and Christine Jones

OFFICE MEMORANDUM

2/23

LS

DATE: February 18, 1994
TO: Alexander Shakow, EXTDR
FROM: Ian Johnson, ENVGE *Ian Johnson*
EXTENSION: 473-1053
SUBJECT: Mortgaging the Earth

Further to your memo of February 16, please find attached a short note in response to those sections of Bruce Rich's book dealing with the GEF.

Having read much of the book, one really has to wonder whether it serves any purpose to respond seriously to this National Enquirer-style diatribe.

Attachment

cc: Messrs. Bruno (DEVCP), Mc Hugh (EXC), Serageldin (ESDVP),
Steer (ENVDR), Ms. Simmons (EXTIP)

IJohnson:cp

Mortgaging the Earth:

In his short section on the GEF, Bruce Rich describes the Facility's creation and evolution as exemplifying the way the Bank does business (top-down, structurally incapable of integrating environmental concerns into its mainstream activities, and so on). He goes on to illustrate what he sees as the inevitably negative consequences of this modus operandi in two GEF biodiversity projects, in Congo and Kenya.

Rich sees the creation of the GEF as driven by the Bank's financial complex. Its primary goal was to "sweeten the financial terms of larger Bank loan packages". In fact the GEF was a donor initiative; one of several advanced in the late 1980s. At first it was viewed with considerable concern by the Bank which feared that it would draw resources away from the Bank's mainstream activities such as IDA. WR1 en

The proposal for the GEF was not drawn up in secret, as Rich suggests. On the contrary, there was an unprecedented level of interaction between the Bank (which was commissioned by the Development Committee in the Fall of 1989 with elaborating and operationalizing the original French proposal) and the 24 countries that met at regular intervals between September 1989 and November 1990, when the scheme for the Pilot Phase was adopted.

In a world that normally faults international bureaucracies for sloth, it is surprising for Rich to criticize the Bank in this instance for its speed in putting the GEF together. Rich further complains that Congress and other legislatures did not participate in the design of the GEF. This, of course, is not how inter-governmental negotiations work. States are represented by delegations who must seek validation of any commitments they make from national authorities.

It is also inaccurate to say, moreover, that government delegations were not well informed during the negotiations on the GEF. On the contrary, extensive documentation was provided as the concept of the GEF evolved.

Rich does, nonetheless, put his finger on one of the complications of international negotiations on the environment: because the environment cuts across so many areas, the larger governmental delegations typically consist of representatives from several ministries, and ensuring consistency and coordination within governments is often as challenging as forging consensus among them. This fact of life cannot, however, be laid at the door of the Bank that Rich accuses of having forced the pace of the GEF negotiations beyond governments' ability to keep up.

The November 1990 agreement on the GEF was not a definitive blueprint foisted upon unsuspecting and ill-informed governments. Rather, the explicit intention of governments was to establish an experimental Facility (initially for a limited duration) to see how

developing countries could most effectively be supported in their attempts to protect the global environment. From the beginning, the aim of governments and the implementing agencies (which include UNDP and UNEP in addition to the World Bank) was to evaluate the experience of the three-year Pilot Phase and to use the findings in restructuring the arrangement if it was considered useful in meeting its stated objectives. This evaluation was undertaken in 1993 and its findings have helped shape arrangements for GEF II.

The Bank did not subvert the creation of a new "green fund." The idea of the GEF was never to provide an alternative institutional focus for the increasing emphasis placed on sustainability by all development agencies. Rather, it was designed to provide "new and additional" grants to cover the extra cost involved in going beyond the protection of the local and national environment (which is considered a national priority to be factored into all development planning), and extending protection to the global environment.

In many instances, the best way to leverage these global benefits is by modifying the design of projects that would otherwise go ahead without taking account of the global environmental dimension. Hence the link between GEF projects and many regular World Bank (and, in future, other institutions') loans. This is not a "sweetener" or a negation of environmental responsibility, but a pragmatic way of helping developing countries that would not otherwise be willing to pay for the incremental costs of global environmental benefits. The aim of the GEF is not to fund more projects, but to add to their sustainability.

Rich has his story back-to-front when he asserts that the Bank tried to incorporate the Brazilian Rain Forest Fund - initiated by the Group of Seven - into the GEF. In reality, the donors wanted to create an account for this purpose in GEF. The Bank and the other GEF implementing agencies resisted this proposal because it would have run counter to the Facility's focus on problems rather than places. The fact that donors ended up contributing only a tiny fraction of the \$250 million originally envisaged for the rain forest fund is interpreted by many observers as the result of their failure to fuse the two initiatives.

The two GEF projects advanced by Rich as examples of the Bank's damaging stewardship of GEF resources are misrepresented.

He advances for the umpteenth time EDF's standard criticism of the GEF Congo Wildlands Protection Project. This project was examined in detail at a special consultation in Washington, D.C., in April 1992. EDF's critique - that the GEF grant was bound up in a Bank loan designed to hasten the destruction of Congo's remaining rain forest - was comprehensively rebuffed by the expatriate representative of the U.S. non-governmental organization responsible for implementing the project on the ground. His eleven year residency in the project area was in sharp contrast to the field experience of the EDF staffer who critiqued the project. She

had been to the Congo but, it emerged, had never visited the project site.

What emerged at the Washington meeting (and in the documentation made available to all participants at the meeting which included every shred of material ever produced about the project) is that the Bank project for natural resource management to which the GEF grant was originally linked (it was dropped because of Congo's non-accrual status) would not have supported logging activities in protected areas or encouraged any increase in logging or log exports from those areas, as Rich asserts. The fact that the GEF project went ahead without the Bank loan disproves Rich's suggestion that the GEF grant was bait to "jump start" the larger scheme.

The road to be built as part of the project - along which Rich envisions some massive migratory movement - is in fact a short, narrow track to allow project staff access to one corner of the project area.

Incidentally, it is ironic that Rich cites UNDP as the source of many of the criticisms of the GEF project in the Congo, only to go on - a few pages later (see P.271) - to impugn the integrity and competence of the agency.

Rich sees the Congo project as a "startling example of the Bank's negative environmental alchemy." Rather, the evidence suggests that it is an example of EDF's finesse at ignoring what is happening on the ground if this does not support its position.

In Kenya, there is no forcible resettlement of the local human population - as Rich suggests - in an area along the Tana River where a GEF project is planned to protect endangered primate species. The proposed project could provide funds for people now living inside the Tana River Primate National Reserve if they chose to resettle and requested assistance in doing so. Contrary to Rich's assertion, the Tana River project is not linked to a new Bank agriculture loan.

In his comments on these projects - and the GEF process generally - Rich criticises the Bank for the insufficiency of the information it provides. He also rejects the usefulness of the frequent consultations organized by the GEF as "one-sided affairs where groups [are] informed of decisions taken behind closed doors."

It would seem that Rich is unaware of - or chooses to ignore - many of the innovations in information-sharing and consultation (with affected groups and international NGOs) that have been introduced both by the Bank and the other GEF implementing agencies while he was cloistered away writing his book. Now that he has emerged, he may be interested to know that many of his colleagues in the NGO community - as well as government - have come to see the GEF as a model in both the role NGOs have been accorded in project-specific activities and their inclusion to an unprecedented degree in

consultations related to the GEF's overall policy and the operational practices of its implementing agencies.

In a paper presented to governments in November 1993, it is suggested that a more systematic approach to NGO involvement and consultation be one of the guiding principles in the next phase of the GEF. Their contribution will also be sought in monitoring the GEF portfolio as it matures.

Meanwhile, the entry into force of the new global environmental conventions signed at UNCED will provide the kind of guidance and local perspective that will help make GEF activities more effective in curbing damage to the global environment in the future.

NVanpraag:18february.

GLOBAL ENVIRONMENT FACILITY
ADMINISTRATOR'S OFFICE
THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

7/22
LS

DATE: February 18, 1994

TO: Alexander Shakow, EXTDR

FROM: Ian Johnson, ENVGE *Ian Johnson*

EXTENSION: 473-1053

SUBJECT: Mortgaging the Earth

Further to your memo of yesterday's date, please find attached a short note in response to those sections of Bruce Rich's book dealing with the GEF.

Having read much of the book, one really has to wonder whether it serves any purpose to respond seriously to this National Enquirer-style diatribe.

Attachment

cc: Messrs. Bruno (DEVCP), Mc Hugh (EXC), Serageldin (ESDVP),
Steer (ENVDR), Ms. Simmons (EXTIP)

IJohnson:cp

Mortgaging the Earth:

In his short section on the GEF, Bruce Rich purports to describe the origins of both the GEF itself and the scope and procedures for its interventions. He sees the evolution of the GEF as exemplifying the way the bank does business (top-down, structurally incapable of integrating environmental concerns into its mainstream activities, etc.), and goes on to illustrate what he sees as the inevitably negative consequences of all this in two GEF biodiversity projects, in Congo and Kenya.

Rich sees the creation of the GEF as driven by the bank's financial complex. Its primary goal was to "sweeten the financial terms of larger Bank loan packages". In fact the GEF was a donor initiative; one of several advanced in the late 1980s. At first it was viewed with considerable concern by the Bank which feared that it would draw resources away from the bank's mainstream activities such as IDA.

The proposal for the GEF was not drawn up in secret, as Rich suggests. On the contrary, there was an unprecedented level of interaction between the Bank (which was commissioned by the Development Committee in the Fall of 1989 with elaborating and operationalizing the original French proposal) and the 24 countries that met at regular intervals between September 1989 and November 1990, when the scheme for the Pilot Phase was adopted.

In a world that normally chastises international bureaucracies for sloth, it is surprising for Rich to criticize the Bank in this instance for its speed in putting the GEF together. Rich further laments that Congress and other legislatures did not participate in the design of the GEF. This, of course, is not how inter-governmental negotiations work. States are represented by their delegations who must seek validation of any commitments they make from their national authorities.

It is also inaccurate to say, moreover, that government delegations were not well informed during the negotiations on the GEF. On the contrary, extensive documentation was provided as the concept of the GEF evolved over the course of the negotiations.

Rich does, nonetheless, put his finger on one of the complications of international negotiations on the environment: because the environment cuts across so many areas, the larger governmental delegations typically consist of representatives from several ministries, and ensuring consistency and coordination within governments is often as challenging as forging consensus among them.

The November 1990 agreement on the GEF was not a definitive blueprint foisted upon unsuspecting and ill-informed governments. Rather, the explicit intention of governments was to establish an experimental Facility (initially for a limited duration) to see how developing countries could most effectively be supported in their

attempts to protect the global environment. From the beginning, the aim of governments and the implementing agencies (which include UNDP and UNEP in addition to the World bank) was to evaluate the experience of the three-year Pilot Phase and to use the findings in restructuring the arrangement if it was considered useful in meeting its stated objectives. This evaluation was undertaken in 1993 and its findings have helped shape arrangements for GEF II.

The Bank did not subvert the creation of a new "green fund." The idea of the GEF was never to provide an alternative institutional focus for the increasing emphasis placed on sustainability by all development agencies. Rather, it was designed to provide "new and additional" grants to cover the extra cost involved in going beyond the protection of the local and national environment (which is considered a national priority to be factored into all development planning), and extending protection to the global environment.

In many instances, the best way to leverage these global benefits is by modifying the design or technology in programs or projects that would otherwise go forward without taking the global environmental dimension into account. Hence the link between GEF projects and many regular World Bank (and, in future, other institutions') loans. This is not a "sweetener" or a negation of environmental responsibility, but a pragmatic way of helping developing countries that would not otherwise be willing to pay for the incremental costs of global environmental benefits. The aim of the GEF is not to fund more projects, but to add to their sustainability.

Rich has his story back-to-front when he asserts that the bank tried to incorporate the Brazilian Rain Forest Fund - initiated by the Group of Seven - into the GEF. In reality, the donors wanted to create an account for this purpose in GEF. The bank and the other GEF implementing agencies resisted this proposal because it would have run counter to the Facility's focus on problems rather than places. The fact that donors ended up contributing only a tiny fraction of the \$250 million originally envisaged for the rain forest fund is interpreted by many observers as the result of their failure to fuse the two initiatives.

The two GEF projects advanced by Rich as examples of the Bank's damaging stewardship of GEF resources are misrepresented.

He advances for the umpteenth time EDF's standard criticism of the GEF Congo Wildlands Protection Project. This project was examined in detail at a special consultation in Washington, D.C., in April 1992. EDF's critique was comprehensively rebuffed by the expatriate representative of the U.S. non-governmental organization responsible for implementing the project on the ground. His eleven year residency in the project area was in sharp contrast to the field experience of the EDF staffer who critiqued the project. She had been to the Congo but, it emerged, had never visited the project site. EDF's charges - that the GEF grant was bound up in a bank loan designed to hasten the destruction of Congo's remaining

rain forest - were publicly demolished at a meeting attended by more than 100 government representatives, NGOs, and agency staff.

What emerged at the Washington meeting (and in the documentation made available to all participants at the meeting which included every shred of material ever produced about the project) is that the bank project for natural resource management to which the GEF grant was originally linked (it was dropped because of Congo's non-accrual status) was not designed to facilitate the destruction of Congo's primary forest. On the contrary, it would have provided a more supportive national environmental framework for the GEF grant by promoting the sustainable use of a wide range of natural resources. It certainly would not have supported any logging activities in protected areas or encouraged any increase in logging or log exports from those areas, as Rich asserts.

Meanwhile the GEF project specifically prohibits logging in the six areas covered by the GEF project. And the fact that the GEF project went ahead without the bank loan (which was actually an IDA credit) disproves Rich's suggestion that the GEF grant was bait to "jump start" the larger scheme.

The road to be built as part of the project - along which Rich envisions some massive migratory movement in the future - is in fact a short, narrow track to allow project staff access to one corner of the project area.

Incidentally, it is ironic that Rich cites UNDP as the source of many of the criticisms of the GEF project in the Congo, only to go on - a few pages later (see P.271) - to impugn in the strongest terms the integrity and competence of the agency.

Rich sees the Congo project as a "startling example of the Bank's negative environmental alchemy." Rather, the evidence suggests that it is an example of EDF's finesse at ignoring what is happening on the ground if this does not support its position.

In Kenya, there is no forcible resettlement of the local human population - as Rich suggests - in an area along the Tana River where a GEF project is planned to protect endangered primate species. The proposed project could provide funds for people now living inside the Tana River Primate National Reserve if they chose to resettle and requested assistance in doing so. Contrary to Rich's assertion, the Tana River project is not linked to a new bank agriculture loan.

In his comments on these projects - and the GEF process generally - Rich criticises the bank for the insufficiency of the information it provides. He also rejects the usefulness of the frequent consultations organized by the GEF as "one-sided affairs where groups [are] informed of decisions taken behind closed doors."

It would seem that Rich is unaware of - or chooses to ignore - many of the innovations in information-sharing and consultation (with

affected groups and international NGOs) that have been introduced both by the bank and the other GEF implementing agencies while he was cloistered away writing his book. Now that he has emerged, he may be interested to know that many of his colleagues in the NGO community - as well as government - have come to see the GEF as a model in both the role NGOs have been accorded in project-specific activities and their inclusion to an unprecedented degree in consultations related to the GEF's overall policy and the operational practices of its implementing agencies.

In a paper presented to governments in November 1993, it is suggested that a more systematic approach to NGO involvement and consultation be one of the guiding principles in the next phase of the GEF. Their contribution will also be sought in monitoring the GEF portfolio as it matures.

Meanwhile, the entry into force of the new global environmental conventions signed at UNCED will provide the kind of guidance and local perspective that will help make GEF activities more effective in curbing damage to the global environment in the future.

NVanpraag:18february.

The World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

DATE: February 18, 1994 08:41am

TO: Alexander Shakow
TO: Andrew Steer

(ALEXANDER SHAKOW)
(ANDREW STEER)

FROM: Dennis Anderson, IENDR

(DENNIS ANDERSON)

EXT.: 31045

SUBJECT: Mr Rich

Alex/ Andrew,

A minor amendment to my memo of Feb 17 on the above. The middle sentence of the middle para should read:

Optimistically (from an efficiency perspective), perhaps one-third of that of the United States today, say 4000 kWh per capita.

The last parenthetical statement might better read:

(allowing for population growth within the working lifetimes of children in schools today)

Dennis

CC: Elkyn Chaparro
CC: Richard Stern
CC: Karl Jechoutek
CC: Hossein Razavi
CC: Trevor Byer
CC: Institutional ISC Files
CC: Central Files Ien

(ELKYN CHAPARRO)
(RICHARD STERN)
(KARL JECHOUTEK)
(HOSSEIN RAZAVI)
(TREVOR BYER)
(INSTITUTIONAL ISC FILES)
(IEN CENTRAL FILES)

*Do I have
This?*

John Pgs 2

Office Memorandum

DATE: February 17, 1994

TO: Alex Shakow (EXTDR), and Andrew Steer (ENVDR)

FROM: Dennis Anderson, IENDR

EXT.: 31045

SUBJECT: Mr. Rich and Energy Efficiency

2/18
cc LS
Paul file

A few reactions. Richard and I hope you do not pull any punches. As I am off on mission tomorrow, time is short, and I haven't had the opportunity to discuss this memo with Richard, Karl Jechoutek or Elkyn Chaparro. So the following are a few points to get us started. My secretary has the disk should you or they wish to work with it.

Mr Rich is not only attacking the World Bank, but most of its member countries. He comes from a country where the average electricity consumption is over 12,000 kWh per capita, and where all its homes, industries, farms, shops, schools, hospitals, clinics and offices are supplied with electricity. The country is rightly proud of its ability to provide universal and ample service, and the growth of its prosperity in the present century owes much to the growth of its electricity industry. But in developing countries the situation is very different:

- 2 billion people -- eight times the population of the United States -- still do not have access to electricity.
- 2 billion people also cook with fuelwood, crop residues and dung, a situation that is not only a source of hardship and (through smoke inhalation) of respiratory illnesses, heart disease, cancer and early death for millions of people, but is damaging to soils and forests and consumes four times the amount of energy needed for cooking when modern fuels and appliances are used.
- in thirty years, these numbers will rise to 5 billion if there is no attempt to expand supplies, and in forty years to 6 billion. So without further supplies, the number of people relying on dung and other such fuels (if there is enough dung left) would equal in number that of the entire population of the world today.
- average per capita consumption of electricity in India (whom Rich attacks for waste) is 360 kWh per year, barely 3 percent of that of the US, in Brazil (whom he also attacks for waste) 1500 kWh, 13 per cent of that of the US, in Thailand (also attacked) 900 kWh, or 8 percent of that of the US, and in Africa (on this occasion, spared from direct attack) it is one-hundredth of that of the US.

The World Bank therefore makes no apologies for investing in the *economically efficient provision of electricity supply* in developing countries and, notwithstanding the fanatical objections of lobbyists of the likes of him, will continue to do so. He is

perpetrating a cruel hoax -- that people in developing countries can make do without more commercial energy. What his policies imply (though he is careful not to state the implications) is that the rest of the world will have to make do with dung for cooking and feet and bicycle rickshaws for transport. (The IIEC, whom he glowingly cites, regards the bicycle rickshaw as an energy efficient means of transport. In one of their 1991 reports there is a picture of a proud and smiling, overweight, senior member of their staff being so transported by a thin, grim-faced and probably undernourished Asian, laboring under the strain, a graphic illustration of their appalling insensitivity to the economic plight of people in developing countries. The caption boasted that this was an energy-efficient mode of transport, and I believe we should let others know of their beliefs.) This is immoral and, ironically, a recipe for precisely the environmental doomsday that Rich claims to be concerned about.

As to some specifics and technicalities:

1. Every World Bank operation is concerned with efficiency in energy production and use, and has been since the Bank began operations 50 years ago. This is because we regard the achievement of good commercial pricing policies as being central for efficiency. In the 1950s and 1960s we concentrated on good financial rates of return; in the 1970s and 1980s, we extended this to include marginal cost and peak load pricing (a well-established principle for raising efficiency in energy production and use); and in the 1990s, thanks to a combination of technical changes and institutional reforms in the industry, we are looking toward commercialization and competition to lead the way to price, cost and energy efficiency.

Hence it is wrong to claim (on p170) that the Bank has "refused to ...[promote] end use efficiency". All our operations have been concerned with it -- and with supply side efficiency too -- amounting to over \$3 billion per year currently. We have already published our estimates of how much there would be to gain from adoption of commercial policies (e.g. in the 1992 WDR and working papers, and in refereed journals); we believe that long run demands would be decreased by about a third. Hence, instead of electricity demands quadrupling or more over the next 20-30 years, they would, if the policies we are supporting are successful, rise threefold, and the amount of capacity and energy saved would be equal in aggregate to the entire capacity and electricity produced in the United States today.

We have explained our position countless times to Mr. Rich and his fellow lobbyists, but have repeatedly encountered, in both written and verbal commentary, an unquenched hostility to the use of commercial principles in the industry and to its making profits. Their expressed aim, repeated in numerous publications, is to "delink profits from sales", and all the policies they espouse for improving energy efficiency rely on intensive lobbying of regulators, "contentious court room hearing battles" and, an inevitable outcome, intrusive government interventions and subsidies. The only conclusion we can draw from this is that Mr. Rich and his supporters are opposed to the current movement world wide to see market economies emerge and succeed (his cynical remarks on privatization and private finance have already appeared in his reports) and seek a return to state run industries, price controls, subsidies and intrusive interventionism. All their words and actions are in this direction.

If we are to be faulted, it is that it has taken so long for the commercial principles that people in the OECD take for granted to be accepted in the developing world. But this is not a problem that was peculiar to the Bank, as extreme forms of intervention in the price mechanisms, and state ("integrated resource") planning and state ownership became

deeply entrenched in many countries from the 1950s through to the 1980s. There is no need to recapitulate the events and experiences that have begun to shift countries towards more open and more market friendly policies, nor to refer to all the excellent research and the positive historical experiences that show how these policies can be successfully oriented to address social and environmental concerns. Mr. Rich is not the slightest bit interested. It is paradoxical indeed to see vehement hostility towards commercial policies, denunciations of profits, the espousal of heavy-handed state interventions, subsidies and command and control, and attacks on institutions assisting in the social and material progress of countries with 1/50 th of the per capita income of the US -- all coming from a Washington lobby group. He is anti-growth and anti-development, and, thus, he is himself a source of thinking that can only lead to environmental atrocity.

2. The estimates cited on p 170 that 50 percent of the growth of demand in "Brazil, India, China, Costa Rica and many other developing countries" can "be cut" through "state of the art industrial equipment, lighting systems, air conditioners..." lack credibility, as does the claim that "the cost of such end-use efficiency investments is often a third or a quarter of the cost of new power plants". It is all part of the cruel hoax they are perpetrating. They do not say that their programs, while allegedly being least cost, require extensive cross subsidies -- e.g. through give-away-\$25-lightbulb programs and rebates on the tariffs of "participating consumers". If they are cost effective, why do they require huge subsidies?

I am sure that most people in developing countries would indeed like to have "state-of-the art air conditioners" and refrigerators, but how many could afford them? I hope the day soon arrives when everyone can. But how large will their electricity consumption levels then be? Optimistically, perhaps one-quarter of that of the United States today, say 3000 kW per capita. If this turns out to be the case, then the total installed capacity and output in developing countries would be (allowing for population growth):

- 35 trillion kWh (000 TWh), as compared with 2.5 trillion kWh today and 3.6 trillion kWh in North America; and
- 9 million MW (9000 GW), as compared with roughly 0.6 million MW today and 0.9 million MW in North America.

This of course assumes big gains in energy-efficiency, which we believe are possible, given good policies to promote it. However, the gains will not come from heavy handed interventionism espoused by Rich et. al, but through good economic and commercial policies that they have explicitly rejected. The above calculations also assume good family planning policies and educational programs will be in place and that incomes will rise -- otherwise, populations will be much higher.

3. How can such growth of energy demands be reconciled with a better environment? Even if the rest of the world manages with one tenth of the amount of per capita consumption of that of the United States, we are still left with production and capacity requirements of over 15 trillion kWh and 4 million MW respectively, six times today's levels. Denying people electricity and modern fuels will leave them dependent on dung and wood for fuel and impoverished on an unthinkable scale. It would guarantee the destruction of the remaining forests and woodlands as people search for fuel and for land (the loss of crop residues dung would undermine productivity and yields in agriculture). The only sustainable route, as far as the energy industry is concerned, will be to turn to

It is in this last respect that the Bank's staff would welcome a constructive dialogue with those interested in sustainable development. We need efficiency, and we believe the Bank is espousing policies that will promote it. It is wholly counterproductive to misrepresent these policies. We will also need the low-polluting technologies and the environmental policies that promote their use. I believe there is some common ground here, if Mr. Rich and his colleagues wish to explore it.

cc and Attachment:

Messrs. Richard Stern, Trevor Byer (IENDR), Karl Jechoutek (IENPD),
Hossein Rozavi (IENOG), Elkyn Chaparro (FPDVP).

OFFICE MEMORANDUM

DATE: February 17, 1994

TO: Messrs Nkodo, Balcet, Chausse, Grut

FROM: Kevin Cleaver, Director, AFRTD 

EXTENSION: 34595

SUBJECT: Responding to Mortgaging the Earth (attached)

2/18
cc: h S
Rich file

Mr. Alex Shakow, Director of External Relations has asked us to respond to Bruce Rich's critique of the RCI Forestry and Guinea Forestry Projects, as well as mis-information concerning the Cameroon "Forestry Project". Mr. Shakow's memo is attached, as are the relevant pages in Mr. Rich's book regarding these projects. My suggestion is that Mr. Chausse do two paragraphs (1/2 page) on the content of the RCI Forestry Project, Mr. Balcet a one paragraph status report. Mr. Grut could write up the Guinea Natural Resource Management project rebuttal. Ted may have some other people now involved who could provide an update.

One advantage of responding now is to indicate what these projects have done 4 years after inception compared to the accusations of Mr. Rich. Has the RCI forestry project financed logging? Has it displaced 200,000 people? Has the Guinea project financed logging? Have we financed a Cameroon Forestry project to accelerate logging of the forests? The answer to all of these questions is no. We have financed no logging. We have displaced in these projects no one involuntarily. And we did not have a Cameroon Forestry project. All of Mr. Rich's accusations have been distortions. Since he made these in testimony to the US Congress, I would suggest to Mr. Shakow that our response suggesting the history of what has actually happened on the ground, be transmitted to the chairman of the congressional committee that heard Mr. Rich.

Finally, a bit of the story behind the story would be useful. The people in the countries and the expatriates who have designed and implemented these projects are the "good guys". They are the forestry service, the park service, and people essentially interested in conservation and sustainable management. The opponents in country are private logging companies, those officials who obtain substantial rents from the logging companies, the elite who profit from distribution of protected land to themselves, and a few officials who genuinely do not see the benefits of conservation and sustainable management. The Bruce Rich's of this world, and the more radical environmental NGOs have effectively allied themselves with the latter group by contesting every effort to improve management of forest and park land by Government and by donors. I recall in our conference in 1991 in Abidjan on the West African Forest that this situation was starkly apparent. The several African NGOs, the representatives of the forest service, the Western NGOs with projects on the ground, and we were all talking the same language. Friends of the Earth, Environmental Defense Fund, Greenpeace were isolated from us, and consistent in their denunciation of all

Messrs Nkodo,
Balcet, Chausse, Grut

-2-

February 17, 1994

the efforts presented for sustainable management. The other denunciation came from the few representatives of the logging companies who were worried that the types of suggestions that we were making would reduce their profitability. M. Grut in particular had a long dispute with them. The net effect was that the loggers and the radical environmentalists were on the same side. Neither really wanted any interventions at all.

cc Shakow, Wai, Steer

THE WORLD BANK
DIVISION NAME
DIRECT FAX TEL. NO. (202) 4XX-XXXX

FACSIMILE

DATE: February 23, 1994 NO. OF PAGES: 5 DIV. LOG NO.:
(including this page)

TO: Mr. Alexander Shakow, EXTDR
Organization: World Bank
City/Country:
Fax No: () 60574

FROM: Callisto Madavo
Dept./Div.: EA1DR 254.05
Room No.: E8087
Tel. No.: (202) 82856

SUBJECT/
REFERENCE: Thailand - Pak Mun

MESSAGE:

Alex,

I refer to your electronic message on Pak Mun. Attached is the information you requested. I would also like to remind you of the package on Pak Mun that was recently circulated to the Board (SecM94-138 - Thailand: Pak Mun - the Facts, The Background, Questions and Answers, dated February 10, 1994).



Callisto Madavo

*

TRANSMISSION AUTHORIZED BY: Callisto Madavo

If you experience any problem in receiving this transmission, inform the sender at the telephone or fax. no. listed above.

Response to allegations on Pak Mun

Background

The Bank agreed to lend \$23 million for the Pak Mun Hydropower Project, representing about a 10 percent stake, not only to assist Thailand's power development plans, but to ensure that the environmental and resettlement aspects of the project were fully addressed. Work began in March, 1991, and the project was reviewed at its mid-term between May 29 and June 13 last year. The Bank is satisfied that the project is being implemented properly, and that difficult issues regarding effects on local people and the environment have been handled in a manner consistent with the Bank's strict operational directives.

Overall

The picture of Pak Mun is entirely one-sided and misleading. It grossly misrepresents the history of consultation, the quality of the environmental assessment and the generosity of the resettlement plan. It treats unsubstantiated criticism as fact and conveniently ignores material which challenges this distorted view. It poses an entirely gratuitous insult to the Thai Government by suggesting that it is weak and unable to control its agencies. It also insults the intelligence of its audience by suggesting that Thailand could meet its annual 10 percent increase in demand for electricity by "conservation and end-use efficiency." If such simple and cheap alternatives were available, the Bank and the Thai Government (and every other government in the developing world) would be seizing them.

In reality, Pak Mun symbolizes the difficult trade-offs which are involved in development -- between those affected and those who will benefit, between the local environment and the wider community, between using hydropower or non-renewable energy. The fundamental flaw in Mr. Rich's simplistic commentary on Pak Mun is that he poses a false choice. Development without trade-offs is an illusion. He has the luxury of advocating ideologically pure, practically unworkable, solutions; the countries confronted with real problems do not.

Consultation

EGAT and the Thai Government have dealt directly with the people affected. The long record of consultations includes face-to-face meetings, group meetings and briefings, distribution of information booklets and wide dissemination of information through the local media. Between September 1988 and June 1990, EGAT convened or was involved in more than 20 consultation meetings and briefings. In addition, 20,000 copies of the publication "Pak Mun Project," detailing the resettlement plans and compensation rates in Thai, have been issued. Efforts to consult with NGOs, however, have been blocked by an NGO refusal to sit at the same table as the Government and EGAT.

Resettlement

Far from being "a public relations hoax," the Bank's resettlement policy was fully implemented in Pak Mun. The 989 families affected by the project can choose where to resettle and what to do with their resettlement money. Some have chosen to resettle near their former home sites, but on higher ground. Others have opted for the Sirindhorn resettlement area, where soils are as good as at Pak Mun, and a full range of basic services (from irrigation to electricity, paved roads and schools) will be provided. The price being paid in compensation was seven times the prevailing rate and even now it is 20-30 percent above the market value. In addition, everyone affected by the project will now have formal legal title to their land. Before, 80 percent held no title.

Environmental assessment

It is hardly surprising that academics and scientists should disagree on the effects of the dam, as indeed they do on almost every subject. In fact, the criticism came from few such people. The project has just been reviewed at its mid-term point by a highly specialized and respected team, including Dr. Jasper Ingersoll (Professor of Anthropology at Catholic University), Dr. Robert Dwyer (Ph.d. Oceanography, Aquatic Biology) and Dr. Santasiri Sornami (Professor, Faculty of Tropical Medicine, Mahidol University). They reviewed the project carefully and found nothing which would support Dr. Rainboth's claims. Dr. Sornami also appraised the project before it began.

There is no evidence to suggest that the dam -- made up, as it is, of gates which open fully to allow almost unimpeded passage of the river -- will cause any damage to fish stocks. Nor is there any evidence that the project would increase the spread of parasitic diseases, such as Schistosomiasis. Such diseases could become more prevalent if the project created a reservoir, but it does not.

The dam level will rise and fall, and at its peak it will submerge 60 square kilometers, almost all of which was flooded by seasonal rises in the river level. In order to insure that the project does not have harmful side-effects, the Government has established a special committee to review and monitor the dam -- particularly its resettlement and environmental aspects -- before and after completion.

Capacity Utilization of Irrigation Dams

There have been capacity shortfalls in the command areas for irrigation because water inflows into the dams have been lower than originally predicted twenty or so years ago. Unanticipated upstream demand (for agriculture, industry and household water supply) is one important reason. Another is that watershed destruction upstream has reduced their moisture holding capacity and increased the run-off and siltation. In addition, there were probably overestimates in the original assessment of the command areas covered by these dams. When the multi-purposed dams (for power and irrigation) were first constructed, only the primary and limited number of secondary canals were constructed with them. Thus, without the secondary and tertiary canals constructed as part of the project, the areas reached were originally quite restricted. This was the rationale for subsequent irrigation projects, which were focused on improving the command area use (cf. Northern Chao Phya and similar projects funded in the 1970s). Even as irrigation became more efficient, unanticipated municipal demand within the command area also used and also reduced the volume of water available for irrigation. Since irrigation is often the residual in any water allocation activity, the above results are therefore not surprising.

Capacity at Bhumipol and Sirindhorn

Bhumipol dam (together with the Sirikit dam) was built on tributaries of the Chao Phya River. The irrigation system in the Chao Phya was in place before these dams were built, but lack of water precluded dry-season cropping. Therefore, the economic benefit of an incremental 600,000 ha of irrigation, mostly high yielding rice, is enormous. Bhumipol accounts for about 60% of this benefit. These two dams have also helped to maintain the flow in the lower Chao Phya needed to meet Bangkok's water supply demands.

When they were built, Bhumipol and Sirikit were major sources of power for Thailand. Because of load growth, they now account for a small part of the system. Therefore, they are now operated with a bias towards irrigation. A hydropower plant produces power (kilowatts) and energy (kilowatt hours). If its reservoir is kept full, it has the capability to supply more power on demand. If it is drawn down to meet downstream needs, there can be some loss in what is known as "peaking capability", but energy production is not affected significantly. Any loss in peaking capability at Bhumipol because of irrigation-oriented operation is negligible in economic terms compared to the irrigation benefits.

Sirindhorn was built on a tributary of the Mae Klong, a major river running roughly parallel to the Chao Phya. In fact, the two Deltas are contiguous. The story is much the same as for Bhumipol and the Chao Phya. Sirindhorn is a valuable source of power and energy and allows a vast area to be irrigated in the Mae Klong Delta. It has also allowed water to be diverted from the Mae Klong to the Chao Phya Delta.

Alternatives

Conservation and end-use efficiency are not realistic alternatives to hydropower projects in meeting Thailand's growing demand for electricity. Though the Global Environment Facility is involved in a demand management project with EGAT, any gains from this are likely to be realized only in the late 1990s and will account for less than 2 percent of electricity demand. World Bank estimates suggest that Thailand's electricity demand will increase about 10 percent a year until 2000, demanding more than 1000 megawatts of new electricity production capacity each year. The Pak Mun Hydropower Project is a small component of this, providing a capacity of 136 megawatts. The real alternative to Pak Mun would have been turbines using light oil. These are costlier and less environmentally friendly.

Thai Government

The assertion that the Bank "undermined the already weak representative institutions" in Thailand is a slur on the Thai Government and a complete misrepresentation of the facts. This does not deserve to be dignified with a full reply. Suffice it to say that the debate in the Thai Government over Pak Mun, the effectiveness of local representatives in handling compensation, environmental and resettlement issues, and the responsiveness of EGAT and the Government to local concerns puts the lie to Mr. Rich's claim.

OFFICE MEMORANDUM

2/23
KS

DATE: February 23, 1994

TO: Mr. Alexander Shakow, EXTDR

FROM: Lyn Squire, PRDDR *LS*

EXTENSION: 36099

SUBJECT: Mortgaging The Earth

Enclosed is a response to you request on Bruce Rich's book Mortgaging the Earth.
Please feel free to contact Christine Jones or Bill Easterly if you have any questions.

cc: Michael Bruno

LSquire:mb

Comments on Mortgaging the Earth, by Bruce Rich

With a lawyer's eloquence, Mr. Rich movingly describes the economic hardships that many poor countries suffered in the 1980s. Unfortunately, Mr. Rich wastes his considerable energy in a search for scapegoats instead of a search for solutions to the complex crises of underdevelopment. In Mr. Rich's conspiratorial view of underdevelopment, anything wrong in a country receiving World Bank loans must be the World Bank's fault.

The problem with this approach can be illustrated by the story of the little boy riding with his father on Washington's Beltway after an ice storm. The little boy stared at a succession of minor automobile pileups caused by the ice storm, each pileup with an ambulance -- lights flashing -- standing by in case of need. "Daddy," he asked somberly, "why do ambulances cause so many accidents?"

Much of Mr. Rich's analysis is the equivalent of blaming accidents on ambulances. Countries only come to the World Bank for structural adjustment loans after a severe crisis has developed. Evaluation of the success of subsequent recovery efforts, as supported by World Bank and IMF lending, requires asking questions like: (1) what was the state of the country's economy when adjustment began? (2) what else was happening to the economy as the country adjusted? (3) what happened to countries in similar circumstances who did NOT adjust?

Unawares to Mr. Rich, a large body of work has been done by the World Bank as well as by independent scholars to try to find answers to these questions. The consensus of the work is that adjustment, as supported by World Bank and IMF lending, generally raises an economy's growth over what it would have been without such adjustment. Developing countries with intensive adjustment lending from the World Bank had an average *increase* in growth rates of 2.5 percentage points from 1981-85 to 1986-90. Those that interrupted adjustment programs or did not adjust at all had on average no change in growth from the dismal growth rates of the early 1980s.

Sub-Saharan Africa's experience with adjustment also confirms that countries that did the most to improve their macroeconomic policies experienced the biggest increase in growth between the first and the second half of the 1980s. Countries that undertook more limited adjustment programs and experienced a deterioration in policies suffered a decline in growth rates. While adjustment did not cure all economic problems -- for example, investment sometimes went down in adjusting countries -- it did

help countries to achieve higher rates of growth than would have been the case in the absence of adjustment.

Let us examine one specific example of Mr. Rich's blaming-the-ambulance mentality. He discusses the drop in real wages in Mexico in the 1980s as a consequence of what he labels "adjustment promoted by the Bank". In fact, the decline in the real minimum wage in Mexico began in the late 70s - well before World Bank adjustment lending -- and was then accentuated by the disastrous episode of economic mismanagement that Mexicans call "la crisis" in the early 1980s. Since 1987, Mexican real wages have *increased* by 20 percent. Moreover, Mr. Rich might be interested to know that more severe drops in real wages than in Mexico occurred in the 1980s in Peru (-70%) and Nicaragua (-90%), countries that refrained from "adjustment promoted by the Bank."

Similar problems bedevil Mr. Rich's analysis of poverty and adjustment. Poverty was tragically widespread long before countries undertook adjustment programs. The key question is how much adjustment policies *changed* the lot of the poor. Income distribution changes slowly over time, so the biggest single factor in the welfare of the poor was how the economy as a whole was growing. And we have seen that countries following adjustment policies usually enjoyed an increase in growth. Conversely, in countries that failed to implement or sustain adjustment programs, such as Peru and Cote d'Ivoire, the economy declined and the incidence of poverty increased. In Peru, GDP per capita fell by 20 percent between 1985 and 1990. The average household in Lima experienced a decline in per capita consumption of 55 percent, and poverty increased from 0.5 percent of Lima's population in 1985-86 to 17.3 percent in 1990. Cote d'Ivoire's economy took a nose-dive after 1987; in 1987 and 1988, the incidence of poverty rose by over 50%, and the incidence of extreme poverty more than doubled.

Mr. Rich asserts that "too often [adjustment programs] resulted in reduced education, health, and environmental protection expenditures". The evidence does not support this simplistic assessment. Among Sub-Saharan African countries undertaking adjustment programs--sustained or not--median real health spending in absolute terms increased by about 5 percent between 1980-83 and 1987-89, while education spending decreased by a similar amount. Among the countries that made the largest reforms

in their macroeconomic policies, median health and education expenditures as a share of GDP remained virtually unchanged. By contrast, the countries that did *not* undertake comprehensive adjustment programs suffered a large *decrease* in social expenditures.

Mr. Rich claims that "adjustment did not succeed in launching export-led growth". Again, he seems to be mortgaging the facts. Countries in Sub-Saharan Africa that made positive changes in their macroeconomic policies had strong export performance. Of the 22 countries for which data were available, the four countries with largest improvements in macroeconomic policies between 1981-86 and 1987-91 experienced a median increase in export growth of almost 8 percentage points over the same period, while those countries whose macroeconomic policies showed only modest improvement increased the growth rate of their exports by 3 percentage points. In contrast, exports lost ground in the eleven countries with deteriorating macroeconomic policies, with a median fall in growth of 0.7 percentage points. Restoring macroeconomic stability and reducing exchange rate distortions paid off in higher export growth.

Moreover, the gains in export growth have *not* been eaten up by higher debt servicing requirements. Sub-Saharan Africa, the world's poorest region, continues to benefit from high net aggregate transfers (loan disbursements plus grants less debt service payments), amounting to over 3 percent of GNP in 1992. Total debt service as a share of exports and services has declined over the course of the 1980s, from a high of 28.2 percent in 1986 to 18.5 percent in 1992. Contrary to the impression that Mr. Rich gives, adjustment programs benefit countries, not just their creditors.

Conclusions. A vigorous intellectual exchange on the consequences of adjustment is always welcome. All who care about the welfare of developing countries should be willing to subject both received wisdom and new ideas to the rigors of debate. Participating in this debate requires a great deal of tedious examination of data and country experience. Mr. Rich's colorful rhetoric is very entertaining, but analysis of hard data probably does more to advance the cause of poverty alleviation and environmental protection. Ambulances do not cause accidents. But when accidents occur, it is better to have ambulances than not.

— William Easterly and Christine Jones

OFFICE MEMORANDUM

2/18
ed h S

DATE: February 17, 1994

TO: Messrs Nkodo, Balcet, Chausse, Grut

FROM: Kevin Cleaver, Director, AFRTD 2

EXTENSION: 34595

SUBJECT: Responding to Mortgaging the Earth (attached)

Mr. Alex Shakow, Director of External Relations has asked us to respond to Bruce Rich's critique of the RCI Forestry and Guinea Forestry Projects, as well as mis-information concerning the Cameroon "Forestry Project". Mr. Shakow's memo is attached, as are the relevant pages in Mr. Rich's book regarding these projects. My suggestion is that Mr. Chausse do two paragraphs (1/2 page) on the content of the RCI Forestry Project, Mr. Balcet a one paragraph status report. Mr. Grut could write up the Guinea Natrual Resource Management project rebuttal. Ted may have some other people now involved who could provide an update.

One advantage of responding now is to indicate what these projects have done 4 years after inception compared to the accusations of Mr. Rich. Has the RCI forestry project financed logging? Has it displaced 200,000 people? Has the Guinea project financed logging? Have we financed a Cameroon Forestry project to accelerate logging of the forests? The answer to all of these questions is no. We have financed no logging. We have displaced in these projects no one involuntarily. And we did not have a Cameroon Forestry project. All of Mr. Rich's accusations have been distortions. Since he made these in testimony to the US Congress, I would suggest to Mr. Shakow that our response suggesting the history of what has actually happened on the ground, be transmitted to the chairman of the congressional committee that heard Mr. Rich.

Finally, a bit of the story behind the story would be useful. The people in the countries and the expatriates who have designed and implemented these projects are the "good guys". They are the forestry service, the park service, and people essentially interested in conservation and sustainable management. The opponents in country are private logging companies, those officials who obtain substantial rents from the logging companies, the elite who profit from distribution of protected land to themselves, and a few officials who genuinely do not see the benefits of conservation and sustainable management. The Bruce Rich's of this world, and the more radical environmental NGOs have effectively allied themselves with the latter group by contesting every effort to improve management of forest and park land by Government and by donors. I recall in our conference in 1991 in Abidjan on the West African Forest that this situation was sarkly apparent. The several African NGOs, the representatives of the forest service, the Western NGOs with projects on the ground, and we were all talking the same language. Friends of the Earth, Environmental Defense Fund, Greenpeace were isolated from us, and consistent in their denunciation of all

Messrs Nkodo,
Balcet, Chausse, Grut

-2-

February 17, 1994

the efforts presented for sustainable management. The other denunciation came from the few representatives of the logging companies who were worried that the types of suggestions that we were making would reduce their profitability. M. Grut in particular had a long dispute with them. The net effect was that the loggers and the radical environmentalists were on the same side. Neither really wanted any interventions at all.

cc **Shakow**, Wai, Steer

Office Memorandum

2/18
cc LS

DATE: February 17, 1994

TO: Alex Shakow (EXTDR), and Andrew Steer (ENVDR)

FROM: Dennis Anderson, IENDR

DA

EXT.: 31045

SUBJECT: Mr. Rich and Energy Efficiency

A few reactions. Richard and I hope you do not pull any punches. As I am off on mission tomorrow, time is short, and I haven't had the opportunity to discuss this memo with Richard, Karl Jechoutek or Elkyn Chaparro. So the following are a few points to get us started. My secretary has the disk should you or they wish to work with it.

Mr Rich is not only attacking the World Bank, but most of its member countries. He comes from a country where the average electricity consumption is over 12,000 kWh per capita, and where all its homes, industries, farms, shops, schools, hospitals, clinics and offices are supplied with electricity. The country is rightly proud of its ability to provide universal and ample service, and the growth of its prosperity in the present century owes much to the growth of its electricity industry. But in developing countries the situation is very different:

- 2 billion people -- eight times the population of the United States -- still do not have access to electricity.
- 2 billion people also cook with fuelwood, crop residues and dung, a situation that is not only a source of hardship and (through smoke inhalation) of respiratory illnesses, heart disease, cancer and early death for millions of people, but is damaging to soils and forests and consumes four times the amount of energy needed for cooking when modern fuels and appliances are used.
- in thirty years, these numbers will rise to 5 billion if there is no attempt to expand supplies, and in forty years to 6 billion. So without further supplies, the number of people relying on dung and other such fuels (if there is enough dung left) would equal in number that of the entire population of the world today.
- average per capita consumption of electricity in India (whom Rich attacks for waste) is 360 kWh per year, barely 3 percent of that of the US, in Brazil (whom he also attacks for waste) 1500 kWh, 13 per cent of that of the US, in Thailand (also attacked) 900 kWh, or 8 percent of that of the US, and in Africa (on this occasion, spared from direct attack) it is one-hundredth of that of the US.

The World Bank therefore makes no apologies for investing in the *economically efficient provision of electricity supply* in developing countries and, notwithstanding the fanatical objections of lobbyists of the likes of him, will continue to do so. He is

perpetrating a cruel hoax -- that people in developing countries can make do without more commercial energy. What his policies imply (though he is careful not to state the implications) is that the rest of the world will have to make do with dung for cooking and feet and bicycle rickshaws for transport. (The IIEC, whom he glowingly cites, regards the bicycle rickshaw as an energy efficient means of transport. In one of their 1991 reports there is a picture of a proud and smiling, overweight, senior member of their staff being so transported by a thin, grim-faced and probably undernourished Asian, laboring under the strain, a graphic illustration of their appalling insensitivity to the economic plight of people in developing countries. The caption boasted that this was an energy-efficient mode of transport, and I believe we should let others know of their beliefs.) This is immoral and, ironically, a recipe for precisely the environmental doomsday that Rich claims to be concerned about.

As to some specifics and technicalities:

1. Every World Bank operation is concerned with efficiency in energy production and use, and has been since the Bank began operations 50 years ago. This is because we regard the achievement of good commercial pricing policies as being central for efficiency. In the 1950s and 1960s we concentrated on good financial rates of return; in the 1970s and 1980s, we extended this to include marginal cost and peak load pricing (a well-established principle for raising efficiency in energy production and use); and in the 1990s, thanks to a combination of technical changes and institutional reforms in the industry, we are looking toward commercialization and competition to lead the way to price, cost and energy efficiency.

Hence it is wrong to claim (on p170) that the Bank has "refused to ...[promote] end use efficiency". All our operations have been concerned with it -- and with supply side efficiency too -- amounting to over \$3 billion per year currently. We have already published our estimates of how much there would be to gain from adoption of commercial policies (e.g. in the 1992 WDR and working papers, and in refereed journals); we believe that long run demands would be decreased by about a third. Hence, instead of electricity demands quadrupling or more over the next 20-30 years, they would, if the policies we are supporting are successful, rise threefold, and the amount of capacity and energy saved would be equal in aggregate to the entire capacity and electricity produced in the United States today.

We have explained our position countless times to Mr. Rich and his fellow lobbyists, but have repeatedly encountered, in both written and verbal commentary, an unquenched hostility to the use of commercial principles in the industry and to its making profits. Their expressed aim, repeated in numerous publications, is to "delink profits from sales", and all the policies they espouse for improving energy efficiency rely on intensive lobbying of regulators, "contentious court room hearing battles" and, an inevitable outcome, intrusive government interventions and subsidies. The only conclusion we can draw from this is that Mr. Rich and his supporters are opposed to the current movement world wide to see market economies emerge and succeed (his cynical remarks on privatization and private finance have already appeared in his reports) and seek a return to state run industries, price controls, subsidies and intrusive interventionism. All their words and actions are in this direction.

If we are to be faulted, it is that it has taken so long for the commercial principles that people in the OECD take for granted to be accepted in the developing world. But this is not a problem that was peculiar to the Bank, as extreme forms of intervention in the price mechanisms, and state ("integrated resource") planning and state ownership became

deeply entrenched in many countries from the 1950s through to the 1980s. There is no need to recapitulate the events and experiences that have begun to shift countries towards more open and more market friendly policies, nor to refer to all the excellent research and the positive historical experiences that show how these policies can be successfully oriented to address social and environmental concerns. Mr. Rich is not the slightest bit interested. It is paradoxical indeed to see vehement hostility towards commercial policies, denunciations of profits, the espousal of heavy-handed state interventions, subsidies and command and control, and attacks on institutions assisting in the social and material progress of countries with 1/50 th of the per capita income of the US -- all coming from a Washington lobby group. He is anti-growth and anti-development, and, thus, he is himself a source of thinking that can only lead to environmental atrocity.

2. The estimates cited on p 170 that 50 percent of the growth of demand in "Brazil, India, China, Costa Rica and many other developing countries" can "be cut" through "state of the art industrial equipment, lighting systems, air conditioners..." lack credibility, as does the claim that "the cost of such end-use efficiency investments is often a third or a quarter of the cost of new power plants". It is all part of the cruel hoax they are perpetrating. They do not say that their programs, while allegedly being least cost, require extensive cross subsidies -- e.g. through give-away-\$25-lightbulb programs and rebates on the tariffs of "participating consumers". If they are cost effective, why do they require huge subsidies?

I am sure that most people in developing countries would indeed like to have "state-of-the art air conditioners" and refrigerators, but how many could afford them? I hope the day soon arrives when everyone can. But how large will their electricity consumption levels then be? Optimistically, perhaps one-quarter of that of the United States today, say 3000 kW per capita. If this turns out to be the case, then the total installed capacity and output in developing countries would be (allowing for population growth):

- 35 trillion kWh (000 TWh), as compared with 2.5 trillion kWh today and 3.6 trillion kWh in North America; and
- 9 million MW (9000 GW), as compared with roughly 0.6 million MW today and 0.9 million MW in North America.

This of course assumes big gains in energy-efficiency, which we believe are possible, given good policies to promote it. However, the gains will not come from heavy handed interventionism espoused by Rich et. al, but through good economic and commercial policies that they have explicitly rejected. The above calculations also assume good family planning policies and educational programs will be in place and that incomes will rise -- otherwise, populations will be much higher.

3. How can such growth of energy demands be reconciled with a better environment? Even if the rest of the world manages with one tenth of the amount of per capita consumption of that of the United States, we are still left with production and capacity requirements of over 15 trillion kWh and 4 million MW respectively, six times today's levels. Denying people electricity and modern fuels will leave them dependent on dung and wood for fuel and impoverished on an unthinkable scale. It would guarantee the destruction of the remaining forests and woodlands as people search for fuel and for land (the loss of crop residues dung would undermine productivity and yields in agriculture). The only sustainable route, as far as the energy industry is concerned, will be to turn to

It is in this last respect that the Bank's staff would welcome a constructive dialogue with those interested in sustainable development. We need efficiency, and we believe the Bank is espousing policies that will promote it. It is wholly counterproductive to misrepresent these policies. We will also need the low-polluting technologies and the environmental policies that promote their use. I believe there is some common ground here, if Mr. Rich and his colleagues wish to explore it.

cc and Attachment:

Messrs. Richard Stern, Trevor Byer (IENDR), Karl Jechoutek (IENPD),
Hossein Rozavi (IENOG), Elkyn Chaparro (FPDVP).

GLOBAL ENVIRONMENT FACILITY
ADMINISTRATOR'S OFFICE
THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

2/22
LS

DATE: February 18, 1994

TO: Alexander Shakow, EXTDR

FROM: Ian Johnson, ENVGE 

EXTENSION: 473-1053

SUBJECT: Mortgaging the Earth

Further to your memo of yesterday's date, please find attached a short note in response to those sections of Bruce Rich's book dealing with the GEF.

Having read much of the book, one really has to wonder whether it serves any purpose to respond seriously to this National Enquirer-style diatribe.

Attachment

cc: Messrs. Bruno (DEVCP), Mc Hugh (EXC), Serageldin (ESDVP),
Steer (ENVDR), Ms. Simmons (EXTIP)

IJohnson:cp

Mortgaging the Earth:

In his short section on the GEF, Bruce Rich purports to describe the origins of both the GEF itself and the scope and procedures for its interventions. He sees the evolution of the GEF as exemplifying the way the bank does business (top-down, structurally incapable of integrating environmental concerns into its mainstream activities, etc.), and goes on to illustrate what he sees as the inevitably negative consequences of all this in two GEF biodiversity projects, in Congo and Kenya.

Rich sees the creation of the GEF as driven by the bank's financial complex. Its primary goal was to "sweeten the financial terms of larger Bank loan packages". In fact the GEF was a donor initiative; one of several advanced in the late 1980s. At first it was viewed with considerable concern by the Bank which feared that it would draw resources away from the bank's mainstream activities such as IDA.

The proposal for the GEF was not drawn up in secret, as Rich suggests. On the contrary, there was an unprecedented level of interaction between the Bank (which was commissioned by the Development Committee in the Fall of 1989 with elaborating and operationalizing the original French proposal) and the 24 countries that met at regular intervals between September 1989 and November 1990, when the scheme for the Pilot Phase was adopted.

In a world that normally chastises international bureaucracies for sloth, it is surprising for Rich to criticize the Bank in this instance for its speed in putting the GEF together. Rich further laments that Congress and other legislatures did not participate in the design of the GEF. This, of course, is not how inter-governmental negotiations work. States are represented by their delegations who must seek validation of any commitments they make from their national authorities.

It is also inaccurate to say, moreover, that government delegations were not well informed during the negotiations on the GEF. On the contrary, extensive documentation was provided as the concept of the GEF evolved over the course of the negotiations.

Rich does, nonetheless, put his finger on one of the complications of international negotiations on the environment: because the environment cuts across so many areas, the larger governmental delegations typically consist of representatives from several ministries, and ensuring consistency and coordination within governments is often as challenging as forging consensus among them.

The November 1990 agreement on the GEF was not a definitive blueprint foisted upon unsuspecting and ill-informed governments. Rather, the explicit intention of governments was to establish an experimental Facility (initially for a limited duration) to see how developing countries could most effectively be supported in their

attempts to protect the global environment. From the beginning, the aim of governments and the implementing agencies (which include UNDP and UNEP in addition to the World bank) was to evaluate the experience of the three-year Pilot Phase and to use the findings in restructuring the arrangement if it was considered useful in meeting its stated objectives. This evaluation was undertaken in 1993 and its findings have helped shape arrangements for GEF II.

The Bank did not subvert the creation of a new "green fund." The idea of the GEF was never to provide an alternative institutional focus for the increasing emphasis placed on sustainability by all development agencies. Rather, it was designed to provide "new and additional" grants to cover the extra cost involved in going beyond the protection of the local and national environment (which is considered a national priority to be factored into all development planning), and extending protection to the global environment.

In many instances, the best way to leverage these global benefits is by modifying the design or technology in programs or projects that would otherwise go forward without taking the global environmental dimension into account. Hence the link between GEF projects and many regular World Bank (and, in future, other institutions') loans. This is not a "sweetener" or a negation of environmental responsibility, but a pragmatic way of helping developing countries that would not otherwise be willing to pay for the incremental costs of global environmental benefits. The aim of the GEF is not to fund more projects, but to add to their sustainability.

Rich has his story back-to-front when he asserts that the bank tried to incorporate the Brazilian Rain Forest Fund - initiated by the Group of Seven - into the GEF. In reality, the donors wanted to create an account for this purpose in GEF. The bank and the other GEF implementing agencies resisted this proposal because it would have run counter to the Facility's focus on problems rather than places. The fact that donors ended up contributing only a tiny fraction of the \$250 million originally envisaged for the rain forest fund is interpreted by many observers as the result of their failure to fuse the two initiatives.

The two GEF projects advanced by Rich as examples of the Bank's damaging stewardship of GEF resources are misrepresented.

He advances for the umpteenth time EDF's standard criticism of the GEF Congo Wildlands Protection Project. This project was examined in detail at a special consultation in Washington, D.C., in April 1992. EDF's critique was comprehensively rebuffed by the expatriate representative of the U.S. non-governmental organization responsible for implementing the project on the ground. His eleven year residency in the project area was in sharp contrast to the field experience of the EDF staffer who critiqued the project. She had been to the Congo but, it emerged, had never visited the project site. EDF's charges - that the GEF grant was bound up in a bank loan designed to hasten the destruction of Congo's remaining

rain forest - were publicly demolished at a meeting attended by more than 100 government representatives, NGOs, and agency staff.

What emerged at the Washington meeting (and in the documentation made available to all participants at the meeting which included every shred of material ever produced about the project) is that the bank project for natural resource management to which the GEF grant was originally linked (it was dropped because of Congo's non-accrual status) was not designed to facilitate the destruction of Congo's primary forest. On the contrary, it would have provided a more supportive national environmental framework for the GEF grant by promoting the sustainable use of a wide range of natural resources. It certainly would not have supported any logging activities in protected areas or encouraged any increase in logging or log exports from those areas, as Rich asserts.

Meanwhile the GEF project specifically prohibits logging in the six areas covered by the GEF project. And the fact that the GEF project went ahead without the bank loan (which was actually an IDA credit) disproves Rich's suggestion that the GEF grant was bait to "jump start" the larger scheme.

The road to be built as part of the project - along which Rich envisions some massive migratory movement in the future - is in fact a short, narrow track to allow project staff access to one corner of the project area.

Incidentally, it is ironic that Rich cites UNDP as the source of many of the criticisms of the GEF project in the Congo, only, to go on - a few pages later (see P.271) - to impugn in the strongest terms the integrity and competence of the agency.

Rich sees the Congo project as a "startling example of the Bank's negative environmental alchemy." Rather, the evidence suggests that it is an example of EDF's finesse at ignoring what is happening on the ground if this does not support its position.

In Kenya, there is no forcible resettlement of the local human population - as Rich suggests - in an area along the Tana River where a GEF project is planned to protect endangered primate species. The proposed project could provide funds for people now living inside the Tana River Primate National Reserve if they chose to resettle and requested assistance in doing so. Contrary to Rich's assertion, the Tana River project is not linked to a new bank agriculture loan.

In his comments on these projects - and the GEF process generally - Rich criticises the bank for the insufficiency of the information it provides. He also rejects the usefulness of the frequent consultations organized by the GEF as "one-sided affairs where groups [are] informed of decisions taken behind closed doors."

It would seem that Rich is unaware of - or chooses to ignore - many of the innovations in information-sharing and consultation (with

FEB 10 1994 10:51 FROM WORLD BANK LEVEL 10 20100000 1.00

affected groups and international NGOs) that have been introduced both by the bank and the other GEF implementing agencies while he was cloistered away writing his book. Now that he has emerged, he may be interested to know that many of his colleagues in the NGO community - as well as government - have come to see the GEF as a model in both the role NGOs have been accorded in project-specific activities and their inclusion to an unprecedented degree in consultations related to the GEF's overall policy and the operational practices of its implementing agencies.

In a paper presented to governments in November 1993, it is suggested that a more systematic approach to NGO involvement and consultation be one of the guiding principles in the next phase of the GEF. Their contribution will also be sought in monitoring the GEF portfolio as it matures.

Meanwhile, the entry into force of the new global environmental conventions signed at UNCED will provide the kind of guidance and local perspective that will help make GEF activities more effective in curbing damage to the global environment in the future.

NVanpraag:18february.

OFFICE MEMORANDUM

2/23/
LS

AI

Seems to be a
change in text -
from yesterday's
version - para. 1 -
but is corrected today!
Same cover memo x 3

DATE: February 18, 1994
TO: Alexander Shakow, EXTDR
FROM: Ian Johnson, ENVGE *lan phm*
EXTENSION: 473-1053
SUBJECT: Mortgaging the Earth

Further to your memo of February 16, please find attached a short note in response to those sections of Bruce Rich's book dealing with the GEF.

Having read much of the book, one really has to wonder whether it serves any purpose to respond seriously to this National Enquirer-style diatribe.

Attachment

cc: Messrs. Bruno (DEVCP), Mc Hugh (EXC), Serageldin (ESDVP),
Steer (ENVDR), Ms. Simmons (EXTIP)

IJohnson:cp

Mortgaging the Earth:

In his short section on the GEF, Bruce Rich describes the Facility's creation and evolution as exemplifying the way the Bank does business (top-down, structurally incapable of integrating environmental concerns into its mainstream activities, and so on). He goes on to illustrate what he sees as the inevitably negative consequences of this modus operandi in two GEF biodiversity projects, in Congo and Kenya.

Rich sees the creation of the GEF as driven by the Bank's financial complex. Its primary goal was to "sweeten the financial terms of larger Bank loan packages". In fact the GEF was a donor initiative; one of several advanced in the late 1980s. At first it was viewed with considerable concern by the Bank which feared that it would draw resources away from the Bank's mainstream activities such as IDA.

The proposal for the GEF was not drawn up in secret, as Rich suggests. On the contrary, there was an unprecedented level of interaction between the Bank (which was commissioned by the Development Committee in the Fall of 1989 with elaborating and operationalizing the original French proposal) and the 24 countries that met at regular intervals between September 1989 and November 1990, when the scheme for the Pilot Phase was adopted.

In a world that normally faults international bureaucracies for sloth, it is surprising for Rich to criticize the Bank in this instance for its speed in putting the GEF together. Rich further complains that Congress and other legislatures did not participate in the design of the GEF. This, of course, is not how inter-governmental negotiations work. States are represented by delegations who must seek validation of any commitments they make from national authorities.

It is also inaccurate to say, moreover, that government delegations were not well informed during the negotiations on the GEF. On the contrary, extensive documentation was provided as the concept of the GEF evolved.

Rich does, nonetheless, put his finger on one of the complications of international negotiations on the environment: because the environment cuts across so many areas, the larger governmental delegations typically consist of representatives from several ministries, and ensuring consistency and coordination within governments is often as challenging as forging consensus among them. This fact of life cannot, however, be laid at the door of the Bank that Rich accuses of having forced the pace of the GEF negotiations beyond governments' ability to keep up.

The November 1990 agreement on the GEF was not a definitive blueprint foisted upon unsuspecting and ill-informed governments. Rather, the explicit intention of governments was to establish an experimental Facility (initially for a limited duration) to see how

developing countries could most effectively be supported in their attempts to protect the global environment. From the beginning, the aim of governments and the implementing agencies (which include UNDP and UNEP in addition to the World Bank) was to evaluate the experience of the three-year Pilot Phase and to use the findings in restructuring the arrangement if it was considered useful in meeting its stated objectives. This evaluation was undertaken in 1993 and its findings have helped shape arrangements for GEF II.

The Bank did not subvert the creation of a new "green fund." The idea of the GEF was never to provide an alternative institutional focus for the increasing emphasis placed on sustainability by all development agencies. Rather, it was designed to provide "new and additional" grants to cover the extra cost involved in going beyond the protection of the local and national environment (which is considered a national priority to be factored into all development planning), and extending protection to the global environment.

In many instances, the best way to leverage these global benefits is by modifying the design of projects that would otherwise go ahead without taking account of the global environmental dimension. Hence the link between GEF projects and many regular World Bank (and, in future, other institutions') loans. This is not a "sweetener" or a negation of environmental responsibility, but a pragmatic way of helping developing countries that would not otherwise be willing to pay for the incremental costs of global environmental benefits. The aim of the GEF is not to fund more projects, but to add to their sustainability.

Rich has his story back-to-front when he asserts that the Bank tried to incorporate the Brazilian Rain Forest Fund - initiated by the Group of Seven - into the GEF. In reality, the donors wanted to create an account for this purpose in GEF. The Bank and the other GEF implementing agencies resisted this proposal because it would have run counter to the Facility's focus on problems rather than places. The fact that donors ended up contributing only a tiny fraction of the \$250 million originally envisaged for the rain forest fund is interpreted by many observers as the result of their failure to fuse the two initiatives.

The two GEF projects advanced by Rich as examples of the Bank's damaging stewardship of GEF resources are misrepresented.

He advances for the umpteenth time EDF's standard criticism of the GEF Congo Wildlands Protection Project. This project was examined in detail at a special consultation in Washington, D.C., in April 1992. EDF's critique - that the GEF grant was bound up in a Bank loan designed to hasten the destruction of Congo's remaining rain forest - was comprehensively rebuffed by the expatriate representative of the U.S. non-governmental organization responsible for implementing the project on the ground. His eleven year residency in the project area was in sharp contrast to the field experience of the EDF staffer who critiqued the project. She

had been to the Congo but, it emerged, had never visited the project site.

What emerged at the Washington meeting (and in the documentation made available to all participants at the meeting which included every shred of material ever produced about the project) is that the Bank project for natural resource management to which the GEF grant was originally linked (it was dropped because of Congo's non-accrual status) would not have supported logging activities in protected areas or encouraged any increase in logging or log exports from those areas, as Rich asserts. The fact that the GEF project went ahead without the Bank loan disproves Rich's suggestion that the GEF grant was bait to "jump start" the larger scheme.

The road to be built as part of the project - along which Rich envisions some massive migratory movement - is in fact a short, narrow track to allow project staff access to one corner of the project area.

Incidentally, it is ironic that Rich cites UNDP as the source of many of the criticisms of the GEF project in the Congo, only to go on - a few pages later (see P.271) - to impugn the integrity and competence of the agency.

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In his comments on these projects - and the GEF process generally - Rich criticises the Bank for the insufficiency of the information it provides. He also rejects the usefulness of the frequent consultations organized by the GEF as "one-sided affairs where groups [are] informed of decisions taken behind closed doors."

It would seem that Rich is unaware of - or chooses to ignore - many of the innovations in information-sharing and consultation (with affected groups and international NGOs) that have been introduced both by the Bank and the other GEF implementing agencies while he was cloistered away writing his book. Now that he has emerged, he may be interested to know that many of his colleagues in the NGO community - as well as government - have come to see the GEF as a model in both the role NGOs have been accorded in project-specific activities and their inclusion to an unprecedented degree in

consultations related to the GEF's overall policy and the operational practices of its implementing agencies.

In a paper presented to governments in November 1993, it is suggested that a more systematic approach to NGO involvement and consultation be one of the guiding principles in the next phase of the GEF. Their contribution will also be sought in monitoring the GEF portfolio as it matures.

Meanwhile, the entry into force of the new global environmental conventions signed at UNCED will provide the kind of guidance and local perspective that will help make GEF activities more effective in curbing damage to the global environment in the future.

NVanpraag:18february.

file 65
Bruce Rich

InterOffice Memo

To: Matthew McHugh, Alex Shakow, Tim Cullen,
From: Peter Stephens
Date: June 8, 1994
Subject: Bruce Rich

Attached is a note I received from Bill McCleary after he spoke at an NGO function on the same panel as Bruce Rich. I helped brief him (the Steer tape and the prepared responses to the book were most useful), and encouraged him to take part. His encouraging report, following on from Andrew Steer's excellent performance, underscores my belief that there are probably 1000 people in the Bank whose knowledge and commitment makes them more than able to dispatch Mr. Rich's shabby rhetoric and ideological criticisms.

Regards,

Peter

OFFICE MEMORANDUM

DATE: June 7, 1994

TO: Callisto Madavo, EA1DR

FROM: William McCleary, EA1DR *WMC*

EXTENSION: 33014

SUBJECT: Bruce Rich and the Indochina NGOs

On June 3, I spoke at the all conference plenary of the Fifth National Conference of the US NGO Forum on Viet Nam, Cambodia and Laos. Attending were about 300 NGO members, government officials, academics, and others interested in the countries of Indochina (a list of principal speakers is attached as is the four day agenda). The title of our panel was "Macroeconomic Changes: The Positive and Negative Aspects of International Aid and Development Strategies." Also with me on the panel were government officials from the three countries:

Ms. Dinh Thi Minh Huyen, Vice Director of the Department of International Cooperation, Ministry of Foreign Affairs, Viet Nam

Mr. Cham Prasidh, Secretary of State, Ministry of Economy and Finance, Cambodia

Mr. Pheng Intharath, Deputy Director of the International Economic Cooperation Department, Committee for Planning and Cooperation, Laos

Bruce Rich was also on the panel.

Since I was to be the first speaker, I figured that the best defense is a good offense. My strategy was to set the development record straight, show that Viet Nam/Cambodia/Laos were following a development strategy that had a proven track record in East Asia, show the contribution that the World Bank was making across a wide spectrum, and get Bruce Rich to explain himself. Elaborating a bit more, the main points of my speech were as follows (a copy of my speech is attached; the charts were presented through an overhead projector and hard copies were handed out):

First, by following a "market oriented" approach East Asia had brought about three decades of rapid growth, substantial improvements across a range of social indicators, and significant reductions in poverty both absolutely and proportionately. This was true even in Thailand and Indonesia which had gotten some bad press for widening gaps between "the haves and have nots." What this all adds up to is the most massive improvement in human welfare in mankind's history.

Secondly, while East Asia's environmental record was the worst among regions and while the Bank had been slow to take up environmental concerns, the countries and Bank were developing a set of policy changes which would support environmentally sustainable development - e.g. population policies, more appropriate pricing, recognition of property rights, environmental assessments for public projects, etc.

Third, the three countries had made substantial progress in moving towards more liberal market economies but the remaining agenda was large. Fourth, the Bank was working with the countries across a number of key areas: macropolicy (with particular emphasis on expenditure

priorities), transition to market (finance and trade, privatization, legal reforms), infrastructure, poverty alleviations, and the environment. [I let the record speak for itself - obviously a speech could only lightly touch on it - but when you look at the spectrum of what the Bank does, its pretty amazing].

Lastly, among my closing points, I said that others appeared to espouse a different strategy in which all energy projects were suspect on environmental grounds, LDCs could meet their energy needs through conservation (even though their energy use per capita was 10 -20 percent that of OECD countries), and development consists of indigenous peoples living in harmony with nature. All of this adds up to a profoundly anti-development stance. Government officials - and citizens of the three countries at this meeting - had the right to ask Mr. Rich to explain what all this meant; what was his vision for their countries and what would this mean for the welfare of their people? Following my speech, the two officials sitting on either side of me (from Viet Nam and Cambodia) turned to me and said "that was wonderful, thanks for saying it."

Bruce Rich's speech did not respond directly and consisted of a litany of his usual complaints about aid and the Bank. First, that aid should come from more diverse sources - e.g. NGOs, other agencies, private sector - not just from multilateral and bilateral aid agencies. Second, that the World Bank was too top heavy and centralized, hence not very responsive to staff or to new outside initiatives. Third, that transparency was lacking, very little information was given out by the Bank (even the new PIDs were too little and too late). Fourth, that the Bank emphasized quantity over quality, with 37% of projects rated as failures and many conditionalities/loan covenants not met. Fifth, that Bank projects were too large and too capital-intensive and dedicated to increasing exports. In closing, he turned to the experience of Thailand. He did have to agree, he said, that Thailand was a "success story" in terms of growth and increasing the well-being of its people (try to get this interpretation out of Chapter 1 of his book, however, which is a litany of complaints about the insensitivity of Thai developers). Basically his complaints were against Thai projects going all the way back to 1956 - too big, too much resettlement, complicity between the World Bank and operating ministries with no consultation with the people, and projects that fall short of specifications in terms of power or irrigated water delivered.

The question and answer period was too short as time had nearly run out. Questions were raised about why aid had to involve exports of goods and consultants from developed countries¹ (why aid couldn't be used to buy local goods and local consultants), wouldn't it be better if project ideas and designs came from countries themselves, what did the countries feel about energy projects (they were unequivocally for them). Finally toward the end an NGO rep asked Rich why he hadn't answered my question, what was his vision for LDCs. Rich replied that he hadn't responded because my description was "an unfair caricature of his position" (I thought to myself "GOTCHA, two can play this game!"). He went on to say that he thought that more attention ought to be placed on conservation. In the coffee break following, a large number of government officials and NGO representatives came up to me and said that Rich had never answered my question.

In general, I think that Bruce Rich was rattled by this whole session. What lessons are to be learned from all this? There are a number. First, put the development record straight. There are a lot of successes. Second, put the projects record straight, the Bank does more than build massive projects (I made a start here but I should have done more). Thirdly, the Bank has friends

1/ Don't ever try to explain to 300 NGO representatives why aid must involve a real resource transfer; their eyes glaze over (who can blame them).

out there, get them to tell their story. Government officials and many NGOs support us (Rich would just say that we've coopted them). Rich is successful partly because he plays David against Goliath and partly because he claims to have the people on his side (and also, obviously, because he's willing to play fast and loose with the truth for effect). What about the beneficiaries of our projects, he doesn't speak for them nor does he even seem interested in them. Fourth, get Bruce Rich to answer our questions -- what is his vision, what energy projects are acceptable, what savings from conservation are feasible, are alternative energy sources cost efficient? I don't think he can provide sensible answers to these questions. Lastly, on further reflection, I'm not convinced that my statement of his position was a caricature. Despite his protests, I think he is very much against development. He didn't answer the question because that would have made it clear. It goes beyond than the environment, moreover, he is against everything that is modern and big - governments, corporations, aid agencies, consulting firms, etc. As much as we all welcome the rise of democratic movements and appreciate the work of those NGOs who can get closer to the people on a continuous basis then we can, many NGOs do not "represent the people" and trying to build a coherent development strategy around hundreds of NGOs, most with their own narrow agendas, would be a very difficult task for any country.

cc: Messrs/Mmes: Kaji, Thomas, Shilling, Hammer, Stephens (EAPVP); Messenger (ASTDR); Steer (ENVDR); Koch-Weser (ASTEN); EA1 DMG; Darlan, Dollar, Sundberg (EA1CO), Newfarmer (EA2IE)

Attachments

DEVELOPMENT STRATEGIES IN INDOCHINA AND THE BANK'S ROLE

I. What is the Nature of Development Strategy being followed in V-C-L

A. What follows are broad generalizations across 3 countries - clearly differences among them in progress in reform programs to date, culture, government capacity, population density, access to the sea, degree of devastation from war, extent of command and control. There are also evident similarities: very low incomes, emerging transition economies, environmental degradation, fairly even income distribution. What is the "paradigm" these countries are following.

B. Overall development strategy is what might be called "market friendly" or "market oriented" -- a movement away from command and controls and large gov't intervention toward greater reliance on markets, prices and enterprises.

C. What are the key elements of such a strategy? I call your attention to Chart I. There are four key elements.

- pursuit of macroeconomic stability: conservative monetary and fiscal policies to keep inflation rates low and external imbalances low (needs for foreign capital to levels which can be sustained over time).*
- ensuring the right climate for enterprise: by ensuring competitive markets, removing market rigidities (such as controls on prices or prohibitions on entry of new firms), clarifying the legal structure and provision of infrastructure (roads, power, irrigation to support the private sector).*
- fostering integration with the world economy through open trade and capital flows: helps to increase efficiency of domestic firms and increases access to foreign technology.*
- invest in people: ensure access to basic education and basic health services to increase human welfare, increase productivity, reduce population growth*

D. Does such a Paradigm work? We have very clear evidence that it does from 3 decades of East Asia experience.

- GNP growth at more than 7% p.a. and per capita more than 5%p.a. Export growth at 9% p.a. (double that for LDCs as group)*

- *Charts 2-4 show some remarkable results. Chart 2 shows remarkable improvement in school enrollments, improvements in infant mortality and reduction in total fertility rate. All leading to a sharp increase in life expectancy.*
- *This suggests that large numbers must have benefited from development. Charts 3 & 4 confirm that this is so.*
- *Chart 3 shows sharp drop in people in poverty in the region as a whole both proportionately and absolutely.*
- *Chart 4 shows the sharp drops for selected countries - even Thailand and Indonesia. These are particularly interesting because the expressions in the popular press of growing gaps between the rich and poor - the "Two Thailands" - strongly suggest that the poor haven't benefited from growth. The evidence here shows the opposite; the interesting question is whether this is continuing today.*

E. Three points are worth stressing:

- *Let me put the charts you have just seen in perspective for you; they represent the largest and most sustained improvement in human welfare in mankind's history. Despite assertions by some to the contrary, development is not a failure across substantial areas of the globe.*
- *the example can be extended to countries in other regions; that is there are numerous success stories elsewhere and the success stories in LAC, Africa and South Asia cluster around countries that come close to the paradigm. Economic management matters.*
- *Before moving to my next topic, I would end with a note of caution. I am not saying that there is a standard prescription for development. Countries clearly vary in capacity, in extent of government intervention and size of public sector, and extent of openness. What I am saying is that there is a broad pattern which characterises successful developing countries.*

II. Development and The Environment

A. East Asian Experience

East Asia has made good progress in such environmental areas as rural sanitation and access to drinking water, but its record in other areas is worst among developing regions e.g. in energy intensity, carbon dioxide emissions, waterlogging and rate of deforestation. Countries are realizing that much needs to be done. The Bank was slow to react at first but now accords to environment a very high priority. Together we are searching for a program for sustainable development.

B. Program for Environmental Sustainability

We think the key elements are:

- 1. Reducing population growth - increasing access to contraception and increasing access to education, especially for females (latter reduces TFR).*
- 2. Eliminating price distortions - many goods outright subsidized (not to mention the fact their pollution costs are ignored). Gov't subsidizes energy, water, fertilizers and pesticides which encourages overuse.*
- 3. Changing polluters' behavior - two types of action are possible.*
 - market-based policies: tax or charge polluters for the damage they cause. These are potentially most efficient because they can mimic a market solution and because they encourage enterprises with the lowest costs of control to take the most action thus imposing the least cost on the economy (the closer these taxes can be attached to the source of pollution, the better)*
 - "Command and control" - spell out acceptable levels of pollution and then which technology/what production method must be used to achieve. This may be faster and more certain (especially if there are a few large polluters), but they tend to be difficult to enforce, quite costly and quite rigid stifling new innovation.*
 - Mixture often desirable: for example taxes on fuel plus mandated change in fuel contents and engine characteristics.*

4. Clarify Property Rights and Responsibilities

- **Titling rights to land and forests have provided security and certainty and led to practices which reduce erosion, unnecessary cutting of timber.**
- **Communal Management Practices: actually traditional practices served quite well until population pressure, commercialization, new technologies cause systems to break down; reconstituting these communal systems has worked provided there are clear programs and responsibilities, adequate legal protection, and clear leadership. The provision of off-farm employment opportunities also help.**

5. Income Generating Opportunities: it is impossible to get people to care for the environment at the cost of income/welfare. Population pressures and poverty will tend to continue to cause environmental damage: what is needed are (a) off-farm employment (b) plus the introduction of farming or crop technologies which provide acceptable (less damaging) alternative income sources.

6. Environmental Impact Assessment for gov't projects - both that financed from the budget and that by SOEs (the latter is especially important as SOEs may not be so responsive to price signals)

III. Reforms to Date in the Countries of Indochina

The reforms achieved to date in Viet Nam, Cambodia and Laos have been quite impressive. A sample of the most important are listed in Chart 5.

Several points are worth stressing:

- 1. Financial management has been very conservative with budget deficits brought to level that could be financial and money supply growth constraints. Result is sharp drop in inflation and a more stable price regime which is favorable for investment. Thus you have growth of 6 - 8% and inflation under 10%.***
- 2. Secondly prices and exchange rates have been freed and are now determined by market forces. Substantial legal reforms and constraints on state enterprises have opened up economy to private sector.***
- 3. Economies open to foreign trade and to foreign investment although tariffs remain quite high.***

IV. The Remaining Agenda

At the risk of gross oversimplification, the Agenda of key objectives and policies that these three governments face contains 5 areas/categories. I'd like to outline the direction the gov't is taking plus the support the Bank is trying to give (as well as other multi-lateral/bilateral donors and NGOs)

A. Macroeconomic Stability

- *Macroeconomic progress is extremely impressive but also extremely fragile in that revenue sources are too dependent on state enterprises, import duties and (in some cases) mineral resources and in that expenditures have been badly compressed to reduce deficits (this is not sustainable).*
- *revenue sources are being strengthened usually through the introduction of broad-based domestic taxes such as the VAT and corporate and personal income taxes. IMF and external grants support this.*
- *Bank is concentrating more on expenditure, helping Gov't to achieve a clearer economic and functional classification of expenditures and to conduct PER/PIRs to get a clearer perspective on expenditure priorities. This will help to cut unnecessary expenditure and to shift allocations toward priorities in physical infrastructure and human resources*

B. Transition to the Market

This is very complex and its possible only to give you a very light overview of what is underway. As I said above, achievement in this area are already impressive, often obtained with some advice from foreign sources but in some cases very little financial assistance. Again with some oversimplification, four areas are worth emphasizing

- *State economic enterprises: not really the source of instability that they are in E. Eur/FSU in that they aren't large, aren't nearly so unprofitable and gov'ts have cut them off from the budget. The agenda here is for gov'ts to develop clearer pictures of what SOEs will remain in public sector and a program of privatization and liquidation for the remainder.*
- *Financial System: in most instances, communist style monobank has been split into a central bank and commercial banks, the entry of new private banks allowed, and interest rates freed up (or at least been*

made to yield positive real returns). The questions then are to strengthen the capacity of central bank to supervise banks, improve the quality of staff in commercial banks, and conduct audits to get a clear picture of the extent of bad debt (most of which was inherited from the communist system). The end objective here is to strengthen the confidence of the public in the banking system and to increase financial system's ability to mobilize domestic financial resources

- *Legal Reforms: large legal studies needed to support a more private-sector oriented economy - both laws and implementing regulations. Much of this preparation supported by funds from many countries, but Bank is contributing in some cases with UNDP support to provide an overall advisory role to assure consistency.*
- *Trade Reform: much has been done to reduce physical controls (QRs) on imports, to allow more private enterprises into import and export business, and to lower tariffs. Remaining agenda is to get rid of most remaining physical controls and restructure tariffs so that (1) overall protection is reasonable (allows domestic development and some incentive to export) and (2) there are not wildly different incentives to produce some goods and not others.*

C. Infrastructure

1. *Deteriorating and outright shortages of physical infrastructure are the single largest constraint to development. Situation comes from devastation of war, neglect under previous regimes and outright poverty.*
2. *Key areas - transport, power, irrigation and water and sanitation. These are crucial to overall growth and to raising welfare of great masses of people.*
3. *Several Principles important as guides*
 - *important to focus investment efforts on those projects which have the biggest payoffs in terms of income and poverty objectives. Public Expenditure Reviews, as above, can help in this regard*
 - *Rehabilitation/O&M need to be high priorities - payoffs are quicker and higher (and less costly than expansions of the system) and there is less disturbance to environment and people*

- *Cost recovery should be critical element*

gov't needs the resources

prices help to restrain the growth in demand

prices also help to assure that users are aware of and help to pay for the costs they are imposing on society by use - whether its wear and tear, congestion or pollution

D. Poverty

There are several dimensions to the poverty question the 3 countries face

- 1. Displacement of staff is taking place as the public sector (SOEs and civil service) shrinks relative to size of the economy. This seems to be less of a problem than in E. Europe and FSU because separation packages/severance pay are relatively generous and because rapid growth is generating employment opportunities. Training and relocation assistance is often all the additional help that is needed.*
- 2. Income distribution in these countries is relatively equal, disparities between rich and poor are comparatively smaller than in other countries. This is a real advantage: if creations of monopoly advantages can be avoided and if public expenditure patterns can be developed to assure that the poor have access to key public services - education, health, water and sanitation and agricultural advice, economic growth should be reasonably equitable. That is, "trickle down growth" works here because you've rigged the system so that the many benefit from growth.*
- 3. The Bank itself has projects, either underway or in the pipeline, that cover primary education; population planning and basic health services, nutrition aimed at mother and children health. All of these have poverty alleviation as their basic motive.*
- 4. Lastly, Living Standards Measurement Surveys have been carried out in both Viet Nam and Laos and the Government and Bank are now engaged in poverty studies which shall be completed in the next 6-9 months. These studies will enable us to determine extent and locale of poverty and the access of the poor to public services. Hence, they will provide strong basis for reallocating gov't expenditure so as to have a bigger poverty impact.*

E. Environment

1. *A partial list of the environmental problems the 3 countries face includes the following (w/o being very specific about which countries face which problems)*
 - *rapid degradation of forest resources due to logging, conversion of forest land to agriculture, and shifting cultivation*
 - *the so-called "barren hills" an area of some 13.4 million hectares in Viet Nam (twice the land under current cultivation) which have reduced to low productivity*
 - *watershed degradation through serious erosion and siltation problems.*
 - *the deterioration of wetlands largely resulting from "shifting aquaculture"*
 - *inadequate urban waste water treatment (as well as badly deteriorating water supply systems) which result in contaminated urban supplies*
 - *degradation of biodiversity resources through the loss of forest cover and the absence of conservation programs*

The Bank, other donors, and a large number of NGOs have been working to get a handle on some of these problems.

2. *In Laos, the Bank has completed a report on the Environment (dated December 1993). In Viet Nam, a similar report is underway and should be completed within the next six months. Reports in both countries are to be followed by preparation of a National Environmental Action Plan. In both cases, the reports and the recommendations cover the key areas noted above plus the strengthening of policies, the regulatory system and institutional capacity to carry out needed environmental reform*
 - *In Viet Nam, the Bank is involved in the "barren hills project", the development of 14 million hectares through the introduction of sustainable agricultural production techniques, reforestation and watershed management (project is expected in FY95 or 96). A FY96 project will attack the major urban pollution problem - the urban water supply.*

- *In Laos, the Bank's Board has just approved a Forest Management and Conservation Project which (a) strengthens Department of Forestry, providing tougher laws regulating logging and more effective enforcement (b) increases the domestic price of logs thus ending subsidization of an inefficient domestic sawmill/wood processing industry, reducing illegal logging, and reducing timber felled; (c) gives local people legal title over their land and trains them in forest protection and sustainable forest production (based on evidence that only if local people own and maintain the project will it succeed), (d) harvesting of logs is only allowed by communities which have developed approved forest management plans which consist of inventories, sustainable production, and sound conservation practices.*

[OTHER NOTES NOT INCLUDED IN SPEECH:

(e) no resettlement (f) locals have access to forest resources (g) there are protected areas after some areas zoned for local use (h) no plans for "ethnic minorities or indigeneous peoples" because there are local plans in each area (i.e. no national plans for minorities are needed or would be appropriate); (l) size is appropriate since Bank policy dictates that project must be large enough to have an impact at a national level; (j) project does not finance logging but assures that logging is regulated to assure sustainable production. (k) a full Environmental Analysis has been prepared and is available.]

In Cambodia, we have a biodiversity assessment under the Global Environment Facility and rehabilitation projects for both infrastructure and agriculture.

F. Other Lending

Note that in all 3 countries, we have planned structural adjustment credits in the next 2 years.

V. Concluding Thoughts:

I would like to stress 4 points

- A. *The record on economic development is really quite good -- much better than some would have you believe. In many countries, per capita incomes have risen strongly, social welfare indicators have improved, and the numbers in poverty have dropped sharply. Good economic management seems to be the key --- conservative financial policies, absence of severe market distortions, openness to the outside world and investments in human resources.***
- B. *Others appear to advocate a different philosophy of development. Its hard to see what it adds up to, however; it seems to consist of (1) rejecting virtually all energy projects on environmental grounds; (2) a belief that LDCs can meet their energy needs through conservation (even though their energy consumption is 1/10 - 1/20 that of developed countries; (3) and a belief in indigenous peoples developing in harmony with nature. While all this respect for the environment is admirable, this adds up to a profoundly anti-development stance. They don't want LDCs to develop; you - the assembled governments and NGOs here - should ask them to be very explicit about what their vision for your country is and what precisely will it mean for the welfare of your people.***
- C. *The Bank's past policy on the environment left something to be desired. The world is a different place that it was 10 or even 5 years ago and the World Bank is changing also. We are listening and our practices today are better than a few years ago.***
- D. *The World Bank works with many NGOs, some of which are present here today. We welcome it. Your constructive criticism is good for us and hopefully will make us better.***

CHART 1

ELEMENTS OF MARKET-ORIENTED DEVELOPMENT STRATEGY

Macroeconomic Stability

Improving Climate For Enterprise

Fostering Integration with World Economy

Investments in People

CHART 2

East Asia Region

Selected Social Indicators

	<u>1965</u>	<u>1990</u>	High Income Countries <u>1990</u>
Daily Calorie Supply (per cap)	1939	2617	
Enrollment rate in:			
primary school (%)	88	100	100
secondary school (%)	23	46 (a)	73 (a)
Adult illiteracy rate (%)	--	24	4
female	--	34	5 (b)
Infant mortality (per 1000)	95	34	8
Total Fertility Rate (per woman)	6.2	2.7	1.7
Life Expectancy at Birth (years)	51	68	77
male	52	67	73 (b)
female	55	70	80 (b)

a) data is for 1989

b) data is for European Community

CHART 3

EAST ASIA'S REDUCTION IN ABSOLUTE POVERTY

	Incidence (%)	Number (million)
1970	35	400
1980	23	300
1990	10	180

CHART 4
PROPORTION OF POPULATION BELOW POVERTY LINE
Selected Countries

	<u>1970</u>	<u>1990</u>
Indonesia	58 (a)	15
Malaysia	37 (b)	5
Korea		5
Thailand	59 (c)	16

(a) 1972

(b) 1973

(c) 1962

CHART 5 MAJOR REFORMS TO DATE

FISCAL REFORMS: Budget deficits brought to manageable levels through expenditure reductions and revenue increases

MONETARY POLICY: Money supply and inflation brought under control by reduced credit to budget, restraint in overall credit growth and positive real interest rates

PRICE LIBERALIZATION: Virtually all price controls removed

DEVALUATION: Exchange rate sharply devalued and now largely determined by market forces

RURAL REFORMS: Collective farming largely dismantled and agriculture returned to family farming. Land laws give land use rights to peasant households

LEGAL REFORMS: Enactments of company, contract, land and bankruptcy laws.

FINANCIAL SECTOR REFORMS: Commercial banks separated from central bank. Entry of private domestic and foreign banks allowed. Interest rates raised to positive real levels.

STATE ENTERPRISE SECTOR: end of subsidies from budget and positive real interest rates tightens resources available for state enterprises. Reductions in numbers of state enterprises through privatizations, mergers and closures.

PRIVATE SECTOR PROMOTION: private sector participation encouraged in most sectors of the economy.

DIRECT FOREIGN INVESTMENT: liberal foreign investment laws encourage increased volume of DFI

FOREIGN TRADE: Quantitative restrictions on imports and exports largely eliminated and greater participation in foreign trade by private firms encouraged. Some tariff reductions

Cambodian Participants

Nouv Kanon is Secretary of State in the Office of Council of Ministers for the Royal Government of Cambodia. He holds a degree in Technical Sciences from the University of Manchester, where he subsequently served as an Assistant Lecturer. Prior to his current appointment, Kanon served as the representative of the FUNCINPEC party in the United Kingdom, as Deputy Member of the SNC Secretariat in Phnom Penh, and as Vice Minister of the Council of Ministers.

Venerable Monychenda is the Director of Buddhism for Development. He holds a Bachelors Degree, as well as numerous training certificates. He previously served as Vice-president of the Khmer Buddhist Association at the Site II camp in Thailand, as well as the Secretary General of the Khmer Buddhist Ecclesiastical Board. He has written on Buddhist leadership and the "Life of Marriage," and attended numerous international conferences. *Watt Anlongvil, Khum Anlongvil, Srok Sanker, Battambang, Cambodia.*

Heang Neang is a teacher trainer in the Ministry of Education. She holds a Bachelors Degree in Mathematics from Kompong Cham. She has taught at the primary, lower secondary, and high school levels, and has worked in the Teacher Training Department of the Ministry of Education for eight years. In 1991, Neang conducted research for UNICEF in primary schools in three provinces. *Teacher Training Dept., Ministry of Education, Phnom Penh, Cambodia. Tel. 855-2-4779. Or Save the Children Australia, Villa 30, Street 9, Tonle Bassac Division, Chamcarmon District, Phnom Penh, Cambodia. Tel. 855-23-26204.*

Kien Serey Phal is President of the Cambodian Women's Development Association. She previously served as Vice-President of the Women's Association of Phnom Penh and as editor-in-chief of *Phnom Penh Women* magazine. Areas of work and training have included HIV/AIDS, income generation, vocational training, and administration. *Cambodian Women's Development Association, #19 Road 242, Sangkat Beung Profit, Khan 7 Makara, Phnom Penh, Cambodia. Tel./Fax 855-23-64050.*

Cham Prasidh is Secretary of State in the Ministry of Economy and Finance of the Royal Government of Cambodia. He serves as Cambodia's alternate Governor to the World Bank and to the Asian Development Bank. He received a Bachelors Degree in Commerce and in Economics from the University of Phnom Penh in 1973. He previously served as Vice-Minister of Finance in the Council of Ministers of the State of Cambodia. *Ministry of Economy and Finance, 92nd St., Sangkat Watt Phnom, Khand Darn Penh, Phnom Penh, Kingdom of Cambodia. Tel. 855- 23-27-800. Fax 855-23-27-798, 23-60-139.*

Im Run is Under-Secretary of State for Women's Affairs in the Royal Government of Cambodia. From 1987-1993 she served as a judge on the Supreme Court of Cambodia. She was previously Chief of Cabinet of the Women's Association of Cambodia, and from 1964-1973 she taught at the Lycée Preah Sihanouk in Kampong Cham City.

Yin Kim Sean is the General Director of the State Secretariat for the Environment for the Royal Government of Cambodia. He holds a Masters in Forestry and a Doctorate in agronomy. From 1983 to 1992 he worked in the Agricultural Institute of Bouake for the Ministry of Cooperation and Development of the Ivory Coast. Sean has also worked in the National Agronomic Research Institute in France, and has taught in both France and the Ivory Coast. He is a member of numerous agronomic and educational associations, and has conducted research on agro-forestry, "green" tourism and pesticide effectiveness.

Oum Sophal is the Director of the National Centre for Hygiene and Epidemiology in Phnom Penh. He received his MD from the Medical Faculty at the University of Phnom Penh, and a Masters in Tropical Health from Queensland University in Australia. In 1993 he was a fellow in epidemiology at the Liverpool School of Tropical Medicine in the United Kingdom. Sophal has also studied statistics and epidemiology at the Université Pierre et Marie Curie and the CIELF in Paris. He previously served as Deputy Director at the National Centre, and as a physician in the Ministry of Communication and Transport Hospital in Phnom Penh. *National Centre for Hygiene and Epidemiology, No. 226 Street Kampuchea Krom, Phnom Penh, Cambodia. Tel. 855-23-66205.*

Vietnamese Participants

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Nguyen Ngoc Giao is the Rector of the University of Ho Chi Minh City. His previous positions have included Associate Professor, Professor, and dean of the Physics Faculty at the University of Ho Chi Minh City. He is the Vice-President of the Vietnamese Physical Society, and has worked at Dubna, the center for nuclear physics near Moscow. Dr. Giao received his undergraduate degree from the University of Hanoi, and his Masters and Doctorate in Physics from Moscow National University. *University of Ho Chi Minh City, 227 Nguyen Van Cu St., Dist. 5, Ho Chi Minh City, Vietnam. Tel. 84-82-43328. Fax 84-8223360.*

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Vu Xuan Hong is the Deputy General Secretary of the Vietnam Union of Peace, Solidarity and Friendship Organizations and the Secretary-General of the Vietnam-U.S. Society. From 1977-1981, he was Vice President of the International Union of Students. Hong holds a degree from the Moscow Foreign Languages College. *Hoi Viet My, 105A Quan Thanh, Hanoi, Vietnam. Tel. 84-42-54007. Fax 84-42-252007.*

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Frances FitzGerald is an author and journalist who has worked in the United States, Vietnam, the Middle East, Europe, Central America and the South Pacific. Her work has been in the area of cultural history and politics. She has a B.A. from Radcliffe College. She is the author of three books: *Fire in the Lake: the Vietnamese and the Americans in Vietnam*; *America Revisited: History Schoolbooks in the Twentieth Century*; and *Cities on a Hill: A Journey through Contemporary American Cultures*. She has been a frequent contributor to the *New Yorker* magazine and has written for numerous other publications. She serves on the editorial boards of *The Nation* and *Foreign Policy*. FitzGerald's awards include the Pulitzer Prize, the National Book Award, the Bancroft Prize for History and others.

Virginia Foote is the Director of the U.S.-Vietnam Trade Council. She has worked on U.S. policy towards Vietnam almost exclusively since founding the Trade Council in 1989, making multiple trips to the region, speaking frequently at conferences and seminars, and working with corporations, Congress, and major veterans organizations. Foote has worked for twelve years at the International Center, a Washington, DC foreign policy think tank, on issues affecting U.S. policy towards Asia. She holds a B.A. in International Economics from Hampshire College.

Henry T. Gallagher is the President of the Vietnam Enterprise Group, a company established to provide a variety of professional services to businesses interested in opportunities for commerce between the United States and Vietnam. He lived and worked in Vietnam in the 1960's as an employee of USAID. Gallagher also sits on the Board of Directors of the Hmong Highlander Development Fund, and has served as a seminar speaker for the Vietnamese-American Entrepreneur Training Program of Georgetown University. A graduate of Georgetown University Law School, Gallagher is engaged in a private law practice with an emphasis on commercial law.

Joseph L. Galloway is a Senior Writer with U.S. News and World Report. He joined the United Press International as a reporter in 1961, where he served in the Kansas City, Topeka, Tokyo and Saigon bureaus, and as chief of bureaus in Jakarta, New Delhi, Singapore, Moscow and Los Angeles over the next 22 years. Galloway served a 16-month tour as a war correspondent in Vietnam from 1965-66, and returned to Vietnam in 1971, 1973, and 1975. He joined U.S. News & World Report as the magazine's West Coast editor in 1982. He received the 1991 National Magazine Award for an Oct. 29, 1990 USNews cover article marking the 25th anniversary of the first major battle of the Vietnam War, and the 1992 News Media Award of the Veterans of Foreign Wars of the U.S. for his coverage of Desert Shield/Desert Storm. Galloway is the co-author of two recent books, including *We Were Soldiers Once . . . And Young* with Lt. Gen. (Ret.) Harold Moore.

James. H. Hall was appointed Director of the Office of Vietnam, Laos and Cambodia at the State Department in June 1993. He has been a U.S. Foreign Service Officer since 1973. Hall is a graduate of Fordham University and holds a Masters Degree from Harvard University in East Asian Studies. His Foreign Service career has focused on Asia, with tours of duty in Vietnam, China and Burma, including as Consul General in Shenyang, China; and Counselor for Political and Economic Affairs at the American Embassy in Rangoon, Burma. He was awarded the State Department's Superior Honor Award. Hall spent a total of five years in U.S. Government service in Vietnam between 1965 and 1975. Hall has been named to head the U.S. Liaison Office in Hanoi.

Linda Hartke is the Country Director of Church World Service's Cambodia Program. She also serves as Chairperson of the NGO Forum in Cambodia, a coalition of agencies who advocate for and with the Cambodian people through the International NGO Forum on Cambodia. In 1992-93 she served as Vice Chairperson of the Cooperation Committee for Cambodia (CCC). She began her work in Cambodia in January 1992. Previously she served as Chief of Staff to Congressman Chet Atkins (D-MA) and as Executive Director of the Massachusetts Democratic Party.

**Agenda for Fifth National Conference
of the U.S. NGO Forum on Viet Nam, Cambodia and Laos**

**Changing Policies, Changing Roles
in Laos, Cambodia & Viet Nam**

Thursday, June 2

Gymnasium	2:00 p.m.	Registration, videos, etc.
BBR	4:00 p.m.	Video of <i>They Were Young and Brave</i> . ABC TV report on Lt. Gen. Harold Moore's return to Ia Drang Valley.
Snack Bar	5:00 p.m.	Reception
Dining Hall	6:00 p.m.	Dinner
Gymnasium	7:30 p.m.	Opening plenary: welcoming remarks and keynote address Chair: Joy Carol, Forum Convenor Lt. Gen. Harold Moore, U.S. Army, Ret., author of <i>We Were Soldiers Once... And Young</i> Lonnie Turnipseed, Church World Service Hiem Phommachanh, Ambassador of Laos to the U.S. Nouv Kanon, Secretary of State, Council of Ministers, Cambodia Nguyen Van Thanh, VUPSPD, Vietnam John McAuliffe, Forum Coordinator
Gymnasium	9:30 p.m.	Meeting of sectoral group chairs and reflection group facilitators
BBR		Video of <i>They Were Young and Brave</i>

Friday, June 3

Dining Hall	7:30 a.m.	Breakfast
Gymnasium	8:30 a.m.	All conference plenary: "Microeconomic Changes in the Economy of Laos, Cambodia and Vietnam" International Aid and Development Strategy Chair: Frederick Brown, Director, U.S. Agency for International Development Bill McGraw, U.S. Agency for International Development Bruce Hall, U.S. Agency for International Development Chair: Frederick Brown, Director, U.S. Agency for International Development Dinh Thi Thanh, Director, Ministry of Planning, Vietnam Pheng Inthavong, Director, Ministry of Planning, Laos
Snack Bar	10:30 a.m.	Coffee break
See List	11:00 a.m.	Reflection Group Meetings
Dining Hall	12:30 p.m.	Lunch
	2:00 p.m.	Separate country sessions: Laos, Cambodia, and Vietnam Laos: Chair: Roger Brown, U.S. Agency for International Development Jacques Chabon, U.S. Agency for International Development Hiem Phommachanh, Ambassador of Laos to the U.S. Cambodia: Chair: David Brown, U.S. Agency for International Development Linda Brown, U.S. Agency for International Development Sam Brown, U.S. Agency for International Development Mark Brown, U.S. Agency for International Development Vietnam: Chair: David Brown, U.S. Agency for International Development Linda Brown, U.S. Agency for International Development Sam Brown, U.S. Agency for International Development Mark Brown, U.S. Agency for International Development
Reinsch Auditorium		
Gymnasium		