

The 'Greening' of the Development Banks: Rhetoric and Reality

by
Bruce M. Rich

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Despite the beginnings of major institutional reform in the World Bank, progress in implementing environmental reform in the Multilateral Development Banks has been inadequate. Examples from Brazil and India show that the massive social and environmental disruption which results from the mega-projects which these banks are continuing to fund, does not go away after bureaucratic reshuffles or 'concerned' speeches by top-level bank staff.

The World Bank is the most important by far of the Multilateral Development Banks (MDBs) and has taken the lead among them in admitting that "if the World Bank has been part of the problem in the past, it can and will be a strong force in finding solutions in the future." In May 1987, the president of the Bank, Barber Conable, publicly announced a number of environmental reforms the Bank would undertake: the creation of a new Environmental Department with greatly increased staff, compared with the Bank's old environmental unit; the financing of a number of environmentally beneficial activities, including doubling the Bank's forestry lending; and greater involvement with non-governmental organisations (NGOs).

Environmental Review Units

More environmental staff were urgently required. Formerly, the Bank, with more than 6,000 employees, had an environmental unit with at most five or six employees, only three of whom were involved even part-time, attempting to review more than 300 new projects and hundreds of ongoing ones each year.

To address the problem of environmental review and assessment of projects, the Bank established environmental review units of approximately five professionals each for each of its four operations regions; Latin America, Africa, Asia, and Europe and the Middle East. These environmental assessment units have been given neither the sufficient funding nor the institutional authority to intervene early in projects unless requested to do so by project officers and Bank country directors. These operations staff have little institutional incentive to involve the environmental assessment units, since this involvement can only risk slowing down the processing of projects and loans, which is what advances the careers of the staff, not the environmental quality of the projects.

The new central environment department, with about 28 professional staff, is mainly involved in research and long-term planning and strategy. The work of the department — which includes revamping the Bank's cost/benefit analyses so that they can quantify and incorporate some environmental concerns — could have a longer term impact on the whole nature of the Bank's lending, but so far it appears to have had little tangible effect.

Bruce M. Rich is Senior Attorney with the Environmental Defense Fund (1616 P Street, NW, Washington, DC 20036, USA), and Director of EDF's International Project.

The Carajas Iron Ore Project

World Bank financed infrastructure in the Carajas Iron Ore Project area in eastern Amazonia is being used for charcoal-fired industrial schemes that will devastate a massive area of irreplaceable tropical forest and destroy the societies of its indigenous inhabitants — a flagrant violation of the Bank's loan agreement. The projects, mostly pig-iron smelters, are licensed by a special Interministerial Council and operated by private companies. The projects would not exist without massive tax incentives. Using native tropical forest, treated as having zero value, as the fuel and carbon source, the industry will exhaust the wood supply (and consequently its own economic basis) within twenty years.

The Carajas Iron Ore Project, an iron-mining, railroad and deepwater port development scheme, was approved by the Bank in 1982. Section 3.10 of the Loan Agreement states that "the Borrower shall take all action, as shall be required to ensure that the execution and operation of the Project are carried out with due regard to ecological and environmental factors".

Companhia Vale do Rio Doce

The borrower is Companhia Vale do Rio Doce (CVRD), a public company owned and managed by the Brazilian government. It has in fact carried out environmental research and reclamation of degraded lands in the immediate vicinity of the mine. But the Company has also collaborated in the implementation of the pig iron projects, over the objections of its own environmental superintendent.

In an internal company assessment of the situation, CVRD's environmental superintendent described concisely the environmental effects of the charcoal-fired pig iron projects: "The economic viability of a charcoal-based iron industry in the Carajas Railroad area is dependent on the devastation of the native forests." The first 11 projects alone will require 1.1 million tons of charcoal per year, and this will come from virgin tropical forest. There are now 22 industrial projects using charcoal as fuel approved, and two pig iron projects are now in operation. Many of the indigenous reserves in the project area have large reserves of standing forest and are already partially occupied by desperately poor peasants. The immediate effect of these smelters will be the destruction or radical degradation of the Indian lands, as

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President, World Bank.*

well as other remaining forest reserves, as an army of small scale charcoal producers, desperate for income, razes the forest.

The Bank required a Special Project to guarantee indigenous land rights, and to provide health and other assistance to the 10,000 Indians in 23 groups in the project area. While many of the areas have some form of legal protection, the full process of legally demarcating the areas is complete in only 12 of the Indian areas. This minimal legal step should have been a precondition to protect Indian land rights and the well-being of the communities. Delays of this type are purely a matter of political will; the Special Project allocated \$13.6 million for land demarcation, health assistance, and other actions. The Bank's own consultants point out that very little of this money has been spent on land demarcation (not more than 15 per cent), and that much of the expenditure has been on infrastructure of questionable need for the National Indian Foundation (FUNAI).

Flagrant Violation of Contract

Companhia Vale do Rio Doce has a monopoly on the iron ore in the region, and also owns the railroad that the pig iron projects will use. The company is in flagrant violation of its contract with the Bank in its co-operation with these projects. It is apparent in the environmental superintendent's report that CVRD can refuse to be involved with them since this is just the course of action he recommends.

In August 1987, the Environmental Defense Fund and 29 other environmental and indigenous rights organisations from around the world, including ten Brazilian organisations, sent a letter detailing these concerns to Barber Conable, president of the World Bank. The Bank's reply expressed concern for the problems, but suggested that the Bank had no responsibility or influence over the pig iron projects, since these are licensed through the Greater Carajas Program (see *The Ecologist*, Vol. 17, Nos. 2/3 and Nicholas Hildyard in this issue), which the Bank has not financed. This misrepresents the Bank's role in the regional development process. The Carajas Iron Ore Project constructed the basic infrastructure — the mine, the iron ore railroad, and the deep water port — for the process of devastation that has followed. While the Bank's direct contribution was only \$304.6 million (the total project cost more than \$4 billion), the Bank required as a loan condition, and helped to negotiate, co-financing from other international and national agencies and private banks for the remaining funds. The Greater Carajas Project, and the process of environmental destruction it has unleashed, rests squarely on the base built by the World Bank — the Carajas Iron Ore Project. The present disastrous situation would not exist without the World Bank's participation. Since the Bank has already disbursed its funds, it must use its influence through new loans and its ongoing policy dialogue to ensure that the unfulfilled conditions of the Carajas Iron Ore Project are met.

Polonoroeste: The Scandal of FUNAI

One point that emerges very clearly from the Bank's experience in the Carajas Project, and elsewhere, is that the attempts to strengthen the National Indian Foundation, the agency responsible for protecting the rights and welfare of Brazil's Indians, have not succeeded. It is therefore disturbing that proposed Bank loans which would have massive effects on indigenous populations, do not address this problem directly. Under present conditions there is not the slightest possibility of FUNAI effectively protecting the interests of indigenous populations affected by developing projects, or carrying out measures to mitigate the impacts of such projects.

The World Bank called for the institutional strengthening of FUNAI at the outset of the Polonoroeste programme in 1981, but has had very limited success in its efforts to ensure that the terms of its loan agreement relating to indigenous land protection were carried out. Eight of 45 recognized Indian areas in the Polonoroeste area have now been fully documented as legally protected Indian areas.¹ Such legal documentation is a minimal precondition to protection of Indian areas, and not in itself sufficient to defend these lands from predatory exploitation and resource destruction. A 1987 World Bank report on the indigenous people's situation in Polonoroeste, leaked to the press, summed up current conditions: "The security and health of the Indians in the area of influence of Polonoroeste are seriously threatened, since the agency responsible for defending their interests seems unequipped to deal with the indigenous reality."² The report noted the presence of illegal loggers on five indigenous reserves and an illegal gold mine on one. "The administrators of the indigenous areas, the agents responsible for FUNAI posts, and at times the Indians themselves, make agreements contrary to existing regulations, permitting the extraction of wood, gold, and the construction of roads and other activities damaging to the well-being of the Indians."³ The report goes on to criticize the administrative disorganisation of FUNAI, with particular emphasis on the "total lack of control or efficiency in the health services in the indigenous areas", citing "constant epidemics of tuberculosis, measles, and malaria, without due medical attention, which is the exclusive responsibility of FUNAI."

Corruption and Logging Contracts

This scandalous situation represents not a local irregularity, but the administrative character of the agency on the national level. On November 11, 1987, the Federal Accounting Tribunal, a Brazilian federal auditing agency, instituted a formal investigation of contracts for logging on Indian lands signed between logging firms and the president of FUNAI. A previous investigation of misappropriation of funds was already underway. The head of the Tribunal, Minister Adhemar Ghisi, stated that FUNAI's be-

haviour, "with respect to the budget and finance questions is uncontrollable and contrary to the simplest principles of self-control and respect for the law."⁴ In addition to the Tribunal's investigations, criminal investigation of charges of extortion were initiated by the Attorney General. The President of FUNAI publicly admits that he has signed contracts for logging on Indian lands, claiming that the agency is attempting to control a situation that already exists and to ensure that the Indians get a fair price for the timber. However, the contracts are signed without public bidding, often in exchange for the construction of roads, houses, airstrips and other works which it is the responsibility of the agency to provide,⁵ and signed without consulting the Forestry Institute (IBDF) in order that a resource management plan for logging be approved, as is required by law. In one case, FUNAI signed a contract with a logging firm that had been fined by IBDF for illegally operating in a joint Indian reserve and National Park, in effect giving back timber that IBDF had confiscated.⁶ The value of the wood being removed often vastly exceeds the cost of the works given in exchange.⁷ This may be explained by the charge in the extortion case now pending of under-the-table payments to FUNAI in exchange for the nominal legalisation of illegal logging operations.

Actions Contradicting Rhetoric

With the evidence above of the total incompetency of FUNAI and the agencies charged with implementing the environmental conditions of previous Bank loans, it would run directly counter to the Bank's stated intention to improve the environmental quality of its operations for it to continue to approve mega-loans

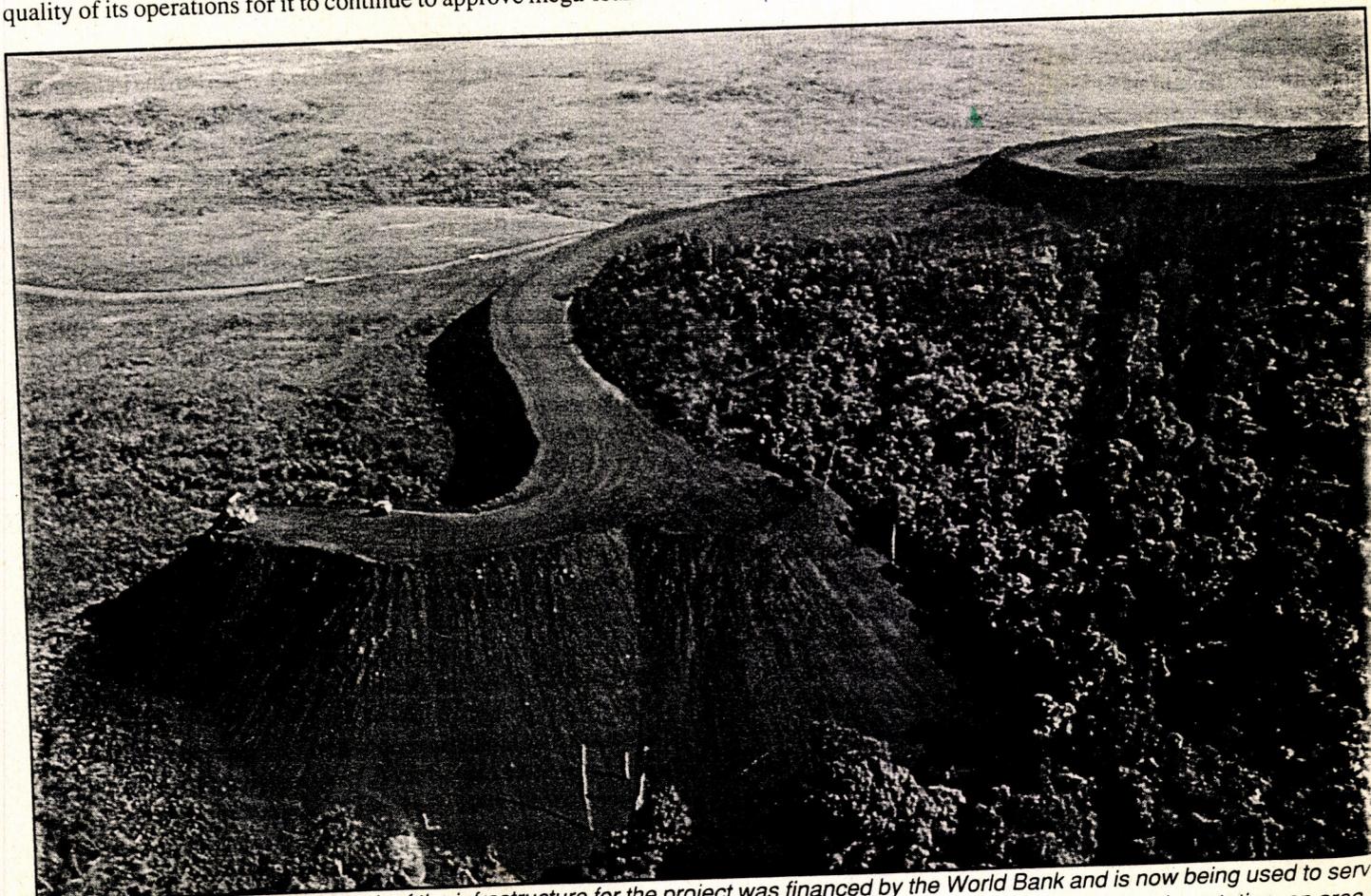
on the strength of good intentions and claims that problems will be resolved in the future. Yet it is continuing to do so.

WORLD BANK PROJECTS IN INDIA

Singrauli

The World Bank has so far lent \$850 million in four separate loans for construction of the Singrauli super-thermal coal-fired electric generating plant, for the adjacent Dudhichua coal mine, and for electricity transmission lines. The project area lies on the border of Madhya Pradesh and Uttar Pradesh, about 80 miles south of Varanasi (Benares). The Bank financed development power plant and coal mine are part of a much larger energy development programme in the region which is to become India's energy capital. Eleven open-pit coal mines and four super coal-fired electric generating plants have been developed besides the ones financed by the Bank. Numerous foreign donors have participated in financing development in Singrauli, but the Bank, as is not unusual in India, is the largest and lead donor.

Two to three hundred thousand rural poor have been subject to forced relocation up to five times in 25 years, each time with little or no compensation. Mostly tribals at the fringes of Indian society, their livelihood was the land, which has now been totally destroyed and resembles scenes out of the lower circles of Dante's inferno. Huge amounts of dust and air and water pollution have created tremendous public health problems. Tuberculosis is rampant, potable water supplies have been destroyed, and chloroquine-resistant malaria afflicts the area.



The Carajas iron ore project. Much of the infrastructure for the project was financed by the World Bank and is now being used to service charcoal-fired pig iron smelters in the area, in flagrant violation of the Bank's loan agreement. The smelters are devastating an area the size of Wisconsin of pristine and irreplaceable rainforest, and displacing several indigenous groups. (Photo: Manchete)

Their agricultural subsistence destroyed, over 70,000 of the people in the area are employed as contract labourers in the coal mines, construction sites and power plants. Many live in unspeakable hovels and shacks on the edges of the huge infrastructure projects, including hovels actually *inside* the open-pit coal mines.

The forced relocation caused by the World Bank financed power plant and coal mine, and the appalling environmental and public health conditions to which these and other oustees are subjected, have been completely ignored by the Bank in its planning and implementation of these projects. The Bank-financed projects which are being constructed by thousands of contract labourers working under the most appalling health and labour conditions, have forcibly displaced about 23,000 people. These are in effect 'development refugees'.

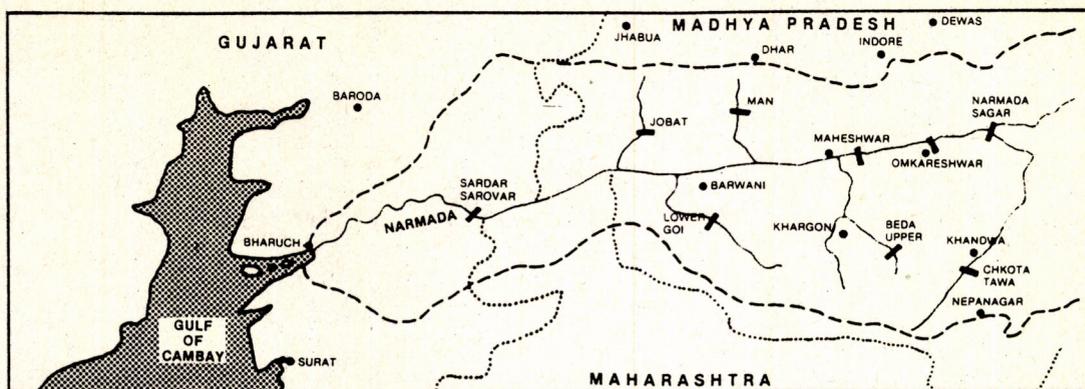
Last year the Environmental Defense Fund prepared extensive dossiers on this situation, and 48 groups from around the world, including 22 leading Indian environmental and social organisations, called upon the Bank to remedy a decade of negligence in its dealings with the people directly displaced by its Singrauli projects. Specifically, the groups pleaded with the Bank to undertake an emergency rehabilitation plan for the displaced people, as well as an emergency environmental protection plan to address coal, ash and dust pollution, deforestation and soil erosion caused by the Bank-financed power plant and coal mine. They underscored the urgent need of the Bank to initiate immediately contracts and discussions with local community and social action organisations in the area representing the displaced people.

Massive Protest

The Bank finally sent a mission to the area in February 1988 which somehow managed to avoid seeing any representatives of the Singrauli oustees, in spite of the fact that only several weeks before 15,000 of them had staged a massive protest in Singrauli, protesting against the conditions to which they had been reduced by the energy projects.

After a delay of four months in answering the environmental groups and individuals (including a former Indian minister of the environment and the chairman of India's National Committee for Environmental Appraisal of Thermal Power Plants), the Bank sent a response which can only be described as a cover up and an insult to the suffering of the Singrauli oustees. While admitting that at least 14,000 people had been forcibly displaced by the Singrauli power plant and Dudhichua coal mine, the Bank refused to consider any new measures to address the appalling problems in the area.

To quote from the Bank's letter to 48 groups from 11 countries around the world: "The idea of a longer term plan for the region to address social and environmental problems, and which external donors could perhaps support, is intriguing. Have you discussed this with the appropriate Government authorities?" In fact not only have representatives of the Indian groups that



Existing and planned dams in the lower Narmada basin.

signed the letter tried to discuss these matters with Government authorities, they also have staged protests involving thousands of people. One of the main obstacles to the redress of their grievances has been the complicity and negligence of the Bank's India operations staff in refusing to undertake the most elemental measures even to inform themselves of the facts in Singrauli.

Bad Faith or Total Incompetence ?

Rather than take any actions to remedy the situation, or contact any of the representatives of the local people who have suffered so intensely from its negligence, the Bank is going ahead with an environmental assessment — eleven years after it began its \$850 million investment in the area — the terms of reference of which are deficient, and which will be conducted by France's state electricity utility, Electricité de France. The dossiers and letter submitted by US and Indian citizens explicitly protested against the inadequacy of the terms of reference of this assessment, and protested as scandalous the lack of a major role for Indian community and environmental groups that have been working in the area and with the local population for years. The Bank's response was to change nothing in the terms of reference and, having failed to contact a single individual or organisation concerned with the fate of the 23,000 oustees and the environment in the area, to claim that a provision to include paid consultants from Indian firms could be interpreted as providing for community participation and involvement.

In short, the Bank's record in handling the problems at Singrauli is a shocking indictment of either bad faith or total incompetence in addressing the most basic environmental and human rights concerns.

To make the situation even more worrying the Bank is currently financing at least 11 other giant, coal-fired thermal generating plants in India and similar problems are occurring in most of these projects. The World Bank appears to be totally oblivious to what is happening, especially as regards the forced resettlement of the tens of thousands of rural poor these projects are displacing.

Narmada Valley Dams

The Sardar Sarovar and the Narmada Sagar Dams on the Narmada River (*see The Ecologist*, Vol. 17, Nos. 2/3) will together displace 150,000 people as part of a massive scheme involving the construction of 30 major dams, 135 medium size dams, and over 3,000 small dams over the next 40 to 50 years to provide