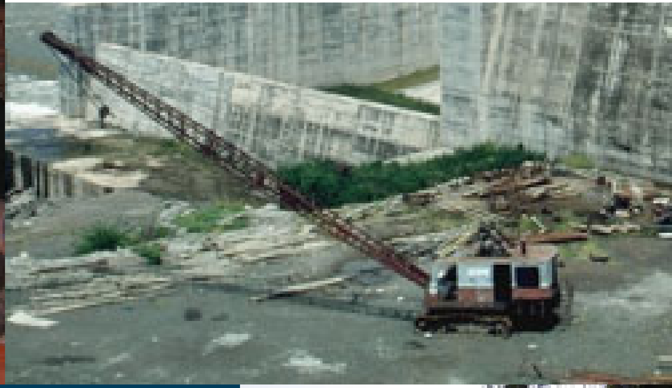

THE WORLD BANK AT 60: A CASE OF INSTITUTIONAL AMNESIA?

A CRITICAL LOOK AT THE IMPLEMENTATION OF THE BANK'S INFRASTRUCTURE ACTION PLAN

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EXECUTIVE SUMMARY

Improved access to infrastructure services such as water and electricity is an important means to overcome poverty. Yet infrastructure development has also produced spectacular failures in the past. Many power and water sector projects have had devastating social, environmental and economic impacts. New supply projects were often financed even when the improved management of existing infrastructure would have made more sense. And centralized, top-down approaches to infrastructure development were usually favoured over services that directly addressed the needs of the poor.

The World Bank decided to increase funding for infrastructure projects in an Infrastructure Action Plan (IAP) that was adopted by the Board of Directors in July 2003. The Plan reflects the new 'high risk/high reward' philosophy that Bank management formulated in late 2002. A Progress Update on the IAP will be discussed by the Development Committee at the World Bank's Spring Meeting on April 25, 2004, as part of the Global Monitoring Report.

Nine months after its adoption, it is time for civil society to examine how the new Action Plan is being implemented. This report looks at whether the World Bank incorporates the lessons of the past and current best practice guidelines as it implements the IAP.

INDIA – AN IMPORTANT TEST CASE

In spite of repeated requests, the World Bank has not shared information that would allow a comprehensive analysis of the implementation of the Infrastructure Action Plan. This paper thus focuses on the implementation of the IAP in India. India is the largest recipient of cumulative World Bank lending, and has been a trailblazer for new trends in Bank lending for many years. The country was a strong promoter of the IAP, and is an important test case of how the Plan is being implemented.

With dam projects such as Sardar Sarovar in the Narmada Valley, infrastructure lending has a contentious history in India. The Bank's management has consistently refused to accept its responsibility for the unresolved social and environmental legacy of its dam projects in India. Still, in December 2003 the Bank decided to double its infrastructure lending for India, and to re-engage in large dam projects. World Bank officials have scouted various dams under construction in India, and MIGA is currently considering support for the contentious Omkareshwar dam on the Narmada river. The Omkareshwar dam will displace an estimated 50,000 people. Construction has already started but so far, no environmental impact assessment or resettlement action plan have been prepared. A return by the Bank Group to the Narmada valley, the place of its most spectacular development disaster, would be highly symbolic.

NO LEARNING FROM PAST EXPERIENCE

The Bank's plans for the Indian water and power sectors ignore important lessons of the past. As a former World Bank India country director put it, the most important element of reform in the power sector is to combat the "widespread theft, graft and corruption" in the distribution of electricity. "There is no point investing in generation if the power does not reach the consumer", a former IFC country director said. The Bank's latest evaluation of the Indian power sector found that financing new generation projects only encouraged the "continuation of inappropriate and unsustainable sector policies". The evaluation recommended that the Bank should not support further power generation projects in an inefficient environment.

The Bank's new dam-building plans will pour more water into the leaking tubs of India's water and power sectors, rather than plugging the holes of the system.

The World Bank's most recent evaluation of the Indian water sector came to the same conclusion. In the past, the Bank's approach was to develop water resources rather than to manage them efficiently. The evaluation report proposed: "In the long run, the gap between growing demand and inelastic supplies must be closed by increasing managerial efficiency, rather than developing new supplies." This focus on improved management rather than new supply is the Bank's main lesson from past experience. In line with these findings, the current Country Assistance Strategy for India does not include any support for expanding power and water supply.

The World Bank's new dam-building plans represent a dramatic departure from this position. They will pour more water into the leaking tubs of India's water and power sectors, rather than plugging the holes of the system. The new dam-building plans not only defy the lessons of rational sector planning. They will quite likely also cause massive social and environmental impacts.

'WASHINGTON SPEAK' AND INDIA ACTION

The World Bank's new strategy violates the current best practice recommendations for water and power sector projects. Based on the strategic priorities of the World Commission on Dams, the Bank issued a sourcebook on the assessment of options in the water and energy sectors in July 2003. This sourcebook recommends to "involve all relevant stakeholders" in options assessments, and to "assess all options strategically and comprehensively". The IAP equally stresses the need of comprehensive options assessments as the first step towards increased lending for infrastructure.

The Bank's recent evaluation of India's water sector strategy found that planning in this sector was "top-down, bureaucratic and fragmentary, rather than participatory, client-oriented and integrated". The Bank's best practice recommendations for the assessment of options are thus highly relevant for India. Yet in a recent meeting with NGOs, the Bank's senior water advisor argued that these recommendations were "Washington speak". India was a sovereign country, he argued, and therefore there was no need for implementing the recommendations. The Bank is not assessing the available options in any comprehensive or participatory way in India, and is not carrying out the initial scoping study that is recommended by the IAP.

The Infrastructure Action Plan has been taken hostage by the vested interests and the ideology of dam-building bureaucracies. Such an approach will exacerbate conflicts, but will not help to reach the Millennium Development Goals.

The IAP strongly stresses the importance of country ownership. Bank management appears to equate this concept with government ownership, and government ownership with ownership by the hydropower bureaucracy and other infrastructure ministries. Decades of experience show that such a narrow perspective will favour vested interests rather than the interests of society at large, or the poor.

The Bank's management seems to view the binding operational policies as an obstacle to its ambitious lending plans in India. In a recent briefing paper, the management announced that it planned to change the safeguard procedures and shift the responsibility for implementing them to the Indian authorities. Doing so would increase the risk of massive social and environmental costs of Bank projects. As various evaluation reports found, compliance with existing environmental standards is seriously deficient in India.

RECOMMENDATIONS

The Infrastructure Action Plan, as it is currently being implemented in India, disregards the lessons of past experience and the current best practice recommendations. The Plan seems to have been taken hostage by the vested interests and the ideology of dam-building bureaucracies and the governments that back them. Such an approach will exacerbate conflicts, but will not help to reach the Millenium Development Goals.

In order to address the problems of the IAP, governments and Executive Directors should support the following measures:

- Infrastructure development should start with the needs and initiatives of the poor, and not the interests of powerful groups. All needs and options therefore need to be assessed in a participatory, transparent and balanced way before new projects are identified.
- Within the water and power sectors, the World Bank should follow the recommendations of the World Commission on Dams, and the principles of the Bank's recent options assessment sourcebook for the water and energy sectors.
- The Extractive Industries Review has proposed a series of measures that are relevant for all sectors of World Bank lending. The Bank should recognize the principle of free, prior informed consent for communities affected by Bank projects, adopt a comprehensive human rights policy, and shift its energy lending from fossil fuel technologies to the support of renewable energy sources.
- The World Bank has so far not learned the lessons of past experience, and has not strengthened its capacity to deal with social and environmental risk. The Bank should be less risk averse when supporting innovative, socially and environmentally friendly technologies. It should however not engage in new projects with high social and environmental risk as it implements the IAP.

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THE WORLD BANK'S HIGH-RISK STRATEGY

The World Bank has a bad track record of financing high-risk projects, and particularly large dams, forestry and mining projects. The Bank has financed at least 550 dams to the tune of at least $86 billion (in 2004 dollars) in its 60 year history. These dams displaced at least 10 million people.[1] The World Commission on Dams (WCD) found that "[d]ams have made an important and significant contribution to human development", but that "[i]n too many cases, an unacceptable and often unnecessary price has been paid to secure those benefits, especially in social and environmental terms, by people displaced, by communities downstream, by taxpayers and by the natural environment".[2] Countless eye-witness accounts and evaluation reports have documented that failed resettlement policies have led, as the WCD report put it, "to the impoverishment and suffering of millions".[3]

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As a consequence of the disastrous experience with the Sardar Sarovar dam in India's Narmada valley, the World Bank greatly reduced its funding for big dams in the mid-1990s. It created the Inspection Panel as a mechanism of increased accountability in 1994, and agreed to co-sponsor the WCD process in 1997. As a consequence of this growing caution and accountability, the number of new destructive dam projects has decreased significantly since the mid-1990s.

THE PENDULUM SWINGS BACK

In recent years, the pendulum has begun to swing back. Under pressure from conservative member governments – particularly India, China, and the United States – the World Bank management decided to return to what it called a 'high risk/high reward' strategy in early 2003. This strategy was first embodied in a new Water Resources Sector Strategy (WRSS) that the Board of Directors adopted in February 2003. The Strategy claims that the performance of dam projects has much improved in recent years, and that it is important for the Bank to be involved in such projects in order to get acquainted with best practice. The Strategy asserts that "low-cost, often community based solutions" and "'easy and cheap' options" have been "mostly exploited". As a consequence, the Bank needs to "re-engage with high risk/high reward hydraulic infrastructure" – i.e., with large dams.[4]

The high-risk strategy is part of a more comprehensive drive by the World Bank Group (and particularly the Bank proper) to de-emphasize environmental and social concerns. Bank management is presently pressuring staff to speed up the preparation of investment projects, and process them within twelve months.[5] (In 1998-2003, the average preparation time for investment loans was 21 months.[6])

WEAK CAPACITY TO DEAL WITH HIGH RISK

The World Bank intends to re-engage in high-risk projects. Yet since the early 1990s, it has not strengthened its capacity to deal with risk. The Bank accepted the general strategic priorities that the WCD proposed in November 2000. It did however not adopt any of the WCD's specific recommendations in the form of binding policies. The Bank weakened its safeguard policies in important aspects as part of the policy conversion process that it started in 1996. Several internal evaluations by the Operations Evaluation Department (OED) concluded that the Bank has failed to mainstream social and environmental concerns into its decision-making processes, and that the quality of environmental assessments has deteriorated in recent years.[7]

The World Bank has never produced any evidence that high risks in its projects effectively translate into high rewards. OED and the World Commission on Dams rather found that large dam projects on average had cost overruns that were considerably higher than those of other infrastructure projects and that overall, the performance of large dams did not keep up with the stated objectives in terms of power generation and irrigation.[8]

THE INFRASTRUCTURE ACTION PLAN

In July 2003, the Board of Directors adopted a new Infrastructure Action Plan. This Plan aims at significantly increasing infrastructure lending over two to three years. It includes the following elements (among others):

- the carrying out of standardized country-wide infrastructure assessments (the so-called Recent Economic Developments in Infrastructure, or REDIs);
- an increase in the budget for the development of infrastructure projects;
- the simplification of internal processes, including the application of safeguard policies;
- the preparation of new lending instruments (including "sustainable subsidies for private provision", for example through IDA credits);
- and the implementation of "high risk/high reward projects".[9]

The Bank's management expects that the volume of new infrastructure projects will increase from $5.4 billion in Financial Year 2003 to $6 billion in FY 2004 and about $6.5-7.0 billion in FY 2005. IFC expects total commitments in infrastructure to increase from $650 million in FY 2003 to about $1 billion in FY 2004.[10]

A FLAWED INTERPRETATION OF COUNTRY OWNERSHIP

The development of infrastructure services such as water, transport and electricity in poor countries is urgently needed. The IAP strongly stresses the importance of country ownership for infrastructure development. Yet Bank management appears to equate this concept with government ownership, and government ownership with ownership by the infrastructure ministries. Decades of experience show that such a narrow perspective is seriously flawed. Environmental ministries, academic institutions, non-governmental organizations and other civil society groups, and most importantly, the social sectors that are marginalized in the formal political process must also be able to bring in their expertise and interests .

Infrastructure projects are often developed in a biased way by governments and financial institutions. The interests of politicians, governments, aid bureaucracies and equipment suppliers favour the promotion of new investments over the improved management of existing infrastructure. The huge inefficiencies that usually exist in water and power supply are often not addressed even if such measures would be more cost-effective than building new infrastructure. Needs and options are not assessed in a balanced, participatory and accountable way. Planning processes are skewed in favour of centralized, capital-intensive, top-down investment projects. Foreign consultants that are subsidized through trust funds are favoured over domestic expertise, and in turn entrench a bias for imported equipment financed by foreign capital. Finally, the promotion of privatization and the control of planning processes by national elites discriminate against infrastructure services that are identified and developed by poor communities.

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In a meeting with NGOs, the World Bank's Vice President Nemat Shafik on November 13, 2003, agreed that there was a political economy of infrastructure development, and that the vested interests in this sector needed to be balanced by comprehensive, participatory and accountable processes of options assessment.

NEW GUIDELINES ON OPTIONS ASSESSMENT

On paper, the World Bank recently made some positive steps towards embracing the current best practice recommendations in dam building. In response to the WCD report, the Bank accepted the Commission's strategic priorities. 'Gaining Public Acceptance' and 'Comprehensive Options Assessment' are two of the seven priorities. Following this, the World Bank published a sourcebook on the assessment of options in the water and energy sectors in July 2003.[11] The sourcebook proposes the following "principles to guide public decisions": (1) create an enabling environment; (2) involve all relevant stakeholders; (3) assess all options strategically and comprehensively; and (4) reach a decision. According to the sourcebook,

> "stakeholder involvement and the assessment of options are important elements in the preparation of World Bank supported water resources and energy projects, and should be prominent topics in the dialogue between the Bank and developing countries". "The emphasis on a systematic upstream assessment of options means that stakeholders should be involved in sectoral and basin-level planning activities. (…) Sector plans (…) will no longer be just technical exercises undertaken solely by professionals."

THE IMPLEMENTATION OF THE INFRASTRUCTURE ACTION PLAN

Nine months after its adoption, it is time to take stock of how the Infrastructure Action Plan is being implemented. A Progress Report on the IAP will be discussed by the Development Committee at the World Bank's Spring Meeting on April 25 (as part of the Global Monitoring Report).

As an initial measure, the Bank's administrative budget for the development of infrastructure projects was increased by $8 million. The institution started hiring new infrastructure experts to make up for the attrition in this sector in the past few years. In September 2003, the Bank also hosted a meeting with twelve other international financial institutions to coordinate the development of infrastructure projects.

PUBLIC SUBSIDIES FOR PRIVATE INVESTORS

In February 2004, the Bank Group published a Guidance Note on the role of the state and the private sector in power projects as part of the IAP.[12] The Bank plans to prepare similar draft notes on the water supply and sanitation, transport, gas and telecom sectors by the end of April 2004. The Board of Director's Committee on Development Effectiveness (CODE) had requested the preparation of such notes to clarify the Bank's response to the dwindling interest of the private sector in developing infrastructure projects.

The Guidance Note on the power sector puts a lot of emphasis on attracting private investors through "well-designed subsidies", for example in the form of "output-based aid".[13] It does not discuss the fundamental problems of socializing private costs through public subsidies. The report does not discuss the consistent problems of fraud, deceit and corruption in private power projects and the urgent need for transparency and accountability in this sector either.

The Guidance Note gives short shrift to the social and environmental issues in the power sector. An internal evaluation of private sector development in the electric power sector (PSDE) had recommended in 2003: "In its future PSDE interventions, the WBG should give greater emphasis to the mainstreaming of the poverty reduction and environmental objectives (…) that are at the core of the WBG's overall energy strategy."[14] The new document disregards this recommendation.

The Guidance Note supports public subsidies and guarantees for private power projects. It discourages World Bank support for power generation projects that are controlled by the state. The only exception is support for state-owned hydropower projects. The report states:

> "New, large, and complex hydropower projects that have strong economic justification will usually require significant public investment. Compared to thermal generation, hydro projects have very different risk and benefit profiles and, accordingly, a much greater public financing role. These include the geological and hydrological risks, the long-lived nature of the assets, and the fact that many hydropower projects are multipurpose projects providing public goods such as flood control and drought protection. The Bank should support dams that are economically well justified, and should ensure that all such projects meet the good environmental and social practices which have been developed by the industry in recent decades."[15]

In conclusion, the only lesson the Bank seems to learn from the crisis of private power sector development is to call for public subsidies for private investors. In social and environmental terms, it seems to limit its role to ensuring that projects meet the "good practices which have been developed by the industry in recent decades" – a role that the private sector can play without the World Bank.

LACK OF TRANSPARENCY ON THE IAP

The World Bank plans to prepare REDI studies for ten countries by the end of FY 2004. REDIs are supposed to be public documents. Yet the Bank was not prepared to inform International Rivers Network for which countries such assessments are currently being carried out, and if any of them have already been completed.[16] In February and March 2004, the Bank also refused to say whether it had already completed the process of simplifying the application of the safeguard policies in infrastructure projects.

International Rivers Network is interested in monitoring the implementation of the IAP by the World Bank in different regions. Preparing for this report, IRN tried to take stock of infrastructure developments in the Africa and South Asia regions – the regions for which the Bank's senior water advisors bear direct responsibility. IRN met with staff of the South Asia region in February 2004 to discuss this issue (see below). In spite of repeated reminders, the Bank's Africa region has not responded to a series of basic questions on the IAP that IRN sent in December 2003.

In various meetings with NGOs, Bank staff have claimed that the IAP will be implemented in a transparent way. So far, the Bank has not lived up to this promise.

INDIA – AN IMPORTANT TEST CASE

India is a good test case for the implementation of the Bank's new water and infrastructure strategies. With a total of $59 billion, the country was the largest single recipient of cumulative World Bank lending in June 2003. Until 1992, India was also the Bank's biggest borrower for water sector projects. Developments in the India portfolio have often brought about important shifts in the Bank's infrastructure policies.

A FRONT STATE OF THE HIGH-RISK APPROACH

The Indian government is one of the strongest promoters of the Infrastructure Action Plan and the return to a high-risk strategy within the World Bank. Praful Patel, the main author of the Bank's 'high risk/high reward' strategy, is now the Vice President for South Asia, and John Briscoe, the main author of the WRSS, is the new senior water advisor for this region (in addition to sharing the job of senior water advisor for the whole Bank). According to a Bank manager, the Vice President for South Asia was "very much involved in the Water Resources Sector Strategy and advocating this approach would be pushing this new philosophy very hard and very quickly [sic]".[17]

India is one of the world's major dam building countries. In 1994, 4,300 large dams were in place or under construction in India. Numerous case studies have demonstrated that large dams have an abysmal social, environmental and economic track record in this country. According to estimates by the India country study of the WCD, large dams submerged a land area of about 37,500 square kilometres and have displaced at least 42 million people in India.

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After 1980, the World Bank funded ten hydropower projects in India, including controversial schemes such as Sardar Sarovar and Nathpa Jhakri. During this period, power was the Bank's most important sector in India, and accounted for 28% of total lending in 1986-90.

A HISTORY OF NON-COMPLIANCE

In response to strong public pressure, the World Bank withdrew from the Sardar Sarovar dam in the Narmada Valley in March 1993. The following year, it created the Inspection Panel in order to deal with future cases of policy non-compliance. After the Sardar Sarovar experience, the World Bank stopped funding large dams in India, and drastically reduced financing for dams worldwide.

The Bank's earlier high-risk projects in India (and in other countries) have a huge, unresolved social and environmental legacy. The World Bank is formally responsible for the compliance of projects with its operational policies until the loans and credits have been repaid. An OED report on India's energy sector stated the following in 1999: "Legally, loan/credit agreements are valid until the loan/credit has been repaid. In practice, the Bank has not exercised its remedies beyond the closing date of the loan/credit."[18] The report proposed:

> "Monitoring and supervision of environmental compliance agreements should be made a central issue in the Bank's ongoing dialogue with the national and local governments. (...) For environmentally sensitive energy projects, the Bank should continue to review the performance of the state environmental institutions until the loan is repaid."[19]

The World Bank refuses to accept this responsibility for existing high-risk projects such as Sardar Sarovar. It is ironic that at the same time, the Bank is planning to invest in a new generation of high-risk projects.

Starting with a power sector loan for the state of Orissa, the Bank in 1996 began lending for the corporatization and privatization of the power sector in India and in other countries, rather than financing individual power projects. In India, the main reason for this shift were the inefficiencies in generating, transmitting and distributing electricity. The experiences with the World Bank's power and water sector strategies in India were evaluated in 1999 and 2002. The findings of these evaluations are relevant for the assessment of the Bank's future strategies (see below, 'No learning from experience').

THE WORLD BANK'S INFRASTRUCTURE PLANS IN INDIA

The Indian government is committed to a huge acceleration in dam construction. In May 2003, it announced plans to increase the country's hydropower capacity by 50,000 megawatts over ten years at an estimated cost of $50 billion. As a first step, the government commissioned pre-feasibility studies for 162 new hydropower projects. Under instructions from the Supreme Court, the government at the end of 2002 also created a task force to prepare a gigantic river linking program. This program would include the linking of 37 major rivers in the country at a cost of more than $120 billion. It would displace an estimated 3 million people.

DOUBLING INFRASTRUCTURE LENDING AND A NEW CAS

According to an internal Bank document, "India has asked the Bank to scale up its lending assistance from around $1.5 bn a year (50% IBRD) to about $3.0 bn a year – with most of the increment coming from IBRD for infrastructure".[20] In December 2003, the World Bank announced that it would indeed double its lending for India within two years, and that most additional lending would go into infrastructure. As part of its new focus on energy, the Bank was considering support for transmission, rural electrification and hydropower projects. As the *Economic Times* quoted an unnamed Bank official on December 7, 2003, "the Indian government wants our help in constructing several dams in the Himalayan region from Himachal to Arunachal Pradesh, and we are finalising those".

Support for large dams is not included in the World Bank's Country Assistance Strategy for India. The CAS Progress Report of January 2003 confirmed that the Bank would support "reallocating expenditures from supply-driven asset creation to demand-driven investment and O&M", and did not announce any shift to financing new power plants.[21]

The World Bank will prepare a new India CAS after the national elections of May 2004. While the CAS process is supposed to be country driven, a power sector manager of the World Bank advised representatives of the dam industry and governments at a hydropower conference in November 2003: "Insist on [the development of hydropower] in the country assistance strategy talks, as this is where projects enter the pipeline."[22] The India CAS can thus be expected to reflect the Bank management's new focus on high-risk projects, including large dams.

In 2003, the Bank Netherlands Water Partnership Program (BNWPP) decided to develop a Country Water Resources Assistance Strategy (CRWAS) for India. The BNWPP is a joint program that was initiated in 2000. It builds on the strategic priorities of the WCD report, and aims at increasing water security through supporting new approaches in Integrated Water Resources Management. In India, the Program convened a "blue-ribbon panel of consultants" to develop the CWRAS – an effort that is supposed to provide "an integrated, coherent framework for Bank assistance on water" in the country.[23]

NHPC – A PARTNER FOR THE WORLD BANK?

In early 2004, senior water advisor John Briscoe and other Bank officials visited the Narmada Sagar project in the Narmada valley and dam projects in Himachal Pradesh. They also planned to visit dams in the Northeastern state of Arunachal Pradesh.

Narmada Sagar is massive dam being built by the National Hydro-Electric Power Corporation (NHPC) in cooperation with the state government of Madhya Pradesh. It has a record of brutal evictions without rehabilitation. According to country director Michael Carter, the Bank delegation was invited by NHPC to visit Narmada Sagar "to become familiar with NHPC's current activities and its techniques for managing large construction projects. That was of interest to us, because we are considering the possibility (although, again, at a very early stage) of IBRD/IDA support for some hydro power development by NHPC if it can meet our standards, although not in the Narmada basin".[24]

On February 15, 2004, an unnamed Bank official stated in the *Economic Times*: "We are in the process of identifying possible hydro projects and talks are on with power corporations. The bank will work only with agencies which hold track records of good technical, financial, environmental and social performance. The agencies have to adhere to the international standard." The Bank official commented on the performance of NHPC as follows: "The NHPC is moving towards global corporate performance standards and is improving its financial performance. This is recognised by the market. We have done due diligence on the corporation and are impressed by the progress."

The National Hydro-Electric Power Corporation is India's largest central government institution which develops and operates hydropower projects. It was set up in 1975 and develops projects that are located in sensitive areas (such as Jammu&Kashmir) or that are politically particularly well connected. NHPC's chief managing director Yogendra Prasad is known as an ardent opponent of the WCD recommendations, and a strong critic of the environmental clearance process and the role of NGOs in India. In January 2000, Prasad made the following comments about the role of non-governmental organizations:

> "The most tiring and trying ordeal awaiting NHPC will be to meet the challenges of anti-development anachronistic obscurantism obstructing the attempts to reap benefits from bounties of Nature and to keep the poor tribals always in loin cloths, fig leaves and bare tops."[25]

NARMADA SAGAR – A MODEL FOR THE BANK?

In a meeting with Himanshu Thakkar of SANDRP and Peter Bosshard of International Rivers Network (IRN) on February 3, 2004, John Briscoe was not prepared to comment on the Narmada Sagar project or other projects that he and fellow Bank officials had visited in recent weeks. In a conversation with Shalmali Guttal of Focus on the Global South on March 17, 2004, Briscoe said that Narmada Sagar was a remarkable project because it was completed ahead of time. He also argued that India's hydropower industry had much improved its standards regarding resettlement issues, and that Narmada Sagar was a good example for this.

MIGA is currently considering support for the Omkareshwar dam on the Narmada river, a contentious project that will displace an estimated 50,000 people. A return by the Bank Group to the Narmada valley, the place of its most spectacular development disaster, would be highly symbolic.

The following excerpts from articles in local Indian newspapers shed some light on the resettlement standards applied in the Narmada Sagar (or Indira Sagar) project, and the tactics that NHPC uses to speed up project construction:

> "The administration has disconnected the power supply and has uprooted the handpumps supplying drinking water in four villages that are to be affected by the submergence of the Indira Sagar project. All the villagers have been terrorised by these actions of the administration. (…) Terrorised villagers told *Bhaskar* that the administration is threatening the people at gun point and is bent up on emptying the villages through threats even though the issue of compensation is yet to be resolved. (...) The administration has earlier on removed the school, Panchayat, janpad, police station, bank etc. facilities and has either auctioned or demolished the buildings housing these in villages Ladwa, Saria, Navghat, Abhava, Badkeshwar etc."[26]

> "The adminstration has once again created havoc and come down heavily on several of the villages in Harsud tehsil including Baladi that are affected by the Indira Sagar Project. On one hand, several shops, houses have been smashed up and damaged, on the other hand about 100 men of the SAF [Special Armed Force] and the police staged a march past in the Baladi and nearby villages to create an atmosphere of fear and terror so that people get frightened and run away fast."[27]

The Bank official quoted in the *Economic Times* article also commented on India's gigantic river-linking program. He explained that "we can't get involved in any or every project, but surely, if we find good river linking project [sic], we may go for it". At a meeting with Indian NGOs on March 22, 2004, John Briscoe also argued that the river-linking program was a good project, and that the World Bank would consider it favourably if it received an application for support. (On February 3, 2004, Sumir Lal, a Bank advisor for external affairs, had told NGOs: "The position of the World Bank is that it has no position on the river-linking project.")

ADB, IFC AND MIGA JOIN THE SCENE

In January 2004, the Asian Development Bank announced the preparation of a technical assistance project to the tune of $400,000 for "Hydropower Development" in India. According to the project officer, the ADB is considering technical assistance "to undertake due diligence and various review work" for the Loharinag-Pala and the Tapoyan-Vishnugad hydropower projects in the state of Utaranchal.[28] Loharinag-Pala and Tapoyan-Vishnugad are two projects of 520 and 360 megawatts that are being developed by India's National Thermal Power Corporation (NTPC). The ADB has so far never financed dam projects in India directly. The ADB and the World Bank have a reputation of avoiding cooperation in India and other countries, and it is noteworthy that ADB plans to support NTPC dams, while the World Bank primarily appears to examine cooperation with NHPC.

In March 2004, the World Bank and ADB also announced major increases in their support for infrastructure projects in Pakistan, with a primary focus on the water and power sectors.

While the Bank's management expects to identify and approve new dam projects in India within one to two years, IFC and MIGA have already identified such projects. The International Finance Corporation is considering support for the Allain Duhangan hydroelectric power project, a run-of-river scheme that is being developed by an Indian company in Himachal Pradesh. Allain Duhangan would be IFC's first dam project in India.

According to Deutsche Bank, "an institution that is part of the World Bank Group is currently considering providing part of the financing [for the Omkareshwar dam] by means of a guarantee".[29] Omkareshwar is a dam project on the Narmada river. If built, it will displace an estimated 50,000 people. Construction has started but so far, no environmental impact assessment has been carried out, and no resettlement action plan has been prepared. On March 11, 2004, Michael Carter confirmed that MIGA had received an application in December 2003, and was currently reviewing support for the Omkareshwar project.[30]

SAFEGUARD POLICIES: AN OBSTACLE TO AMBITIOUS LENDING TARGETS?

The World Bank's lending targets for India are ambitious. A confidential Regional Briefing on the South Asia Region that the Board of Directors discussed on February 10, 2004, announced the following implication for the use of the Bank's safeguard policies:

> "Increased willingness to borrow IBRD (mainly by India and Pakistan) would require implementing changes to some of our processes (eg. safeguards, procurements, use of repeater projects). To achieve these ambitious targets we will (…) make increased use of (and actively supporting [sic] development and effective implementation of) national fiduciary and safeguard policies."[31]

In February 2004, Bank management informed the Board of Directors that it expected to bring a number of projects with simplified application of the safeguard and procurement policies to the Board within twelve months.

INDIA'S RECORD ON ENVIRONMENTAL COMPLIANCE

The intention to shift the responsibility for the implementation of the Bank's safeguard policies to the borrowing countries reflects the recommendations of a World Bank Discussion Note of October 2002. According to this document, "[a]n important medium-term objective for the Bank is to develop a safeguard system that is based on agreed principles and can be applied broadly in client countries, uses borrower systems that respect these principles".[32] A delegation of responsibilities for implementing the safeguard policies is also being discussed as part of a new World Bank middle-income country strategy.

"Monitoring and enforcement of environmental standards is lagging and undermines the whole regulatory effort. Indian environmental legislation is comprehensive, but its enforcement is weak."

(The World Bank, 2002 India Country Assistance Evaluation)

So far, such a delegation of responsibilities has not been formally decided by the Bank's Board. In the case of India, World Bank evaluations have consistently found that the implementation of environmental and social standards is weak. The 2002 Country Assistance Evaluation for example stated:

> "Monitoring and enforcement of environmental standards is lagging and undermines the whole regulatory effort. Indian environmental legislation is comprehensive, but its enforcement is weak."[33]

In its recommendations on energy sector operations, the report proposed that "[m]onitoring and supervision of environmental and social compliance agreements should be made a central issue in the Bank's ongoing dialogue with national and local governments".[34] In 2002, another OED report found that "the Bank still has good reasons to be wary of projects involving resettlement".[35]

The World Bank has so far not produced any evidence that would document the political will of the Indian authorities to strengthen their compliance with existing social and environmental standards.

NO LEARNING FROM PAST EXPERIENCE

The Operations Evaluation Department evaluated the World Bank's power sector strategy in India during the 1978-1998 period. The review criticized the strategy of supporting the rapid expansion of generating capacity that the Bank had pursued until the early 1990s. It found:

> "Until 1993, Bank energy lending largely followed the government's lead, supporting expansion of productive capacity through large-scale projects implemented by central or state monopolies. (…) That the lending program was *irrelevant* to the Bank's broader goals of making the power sector sustainable became increasingly evident in the early 1990s. (…) Institutional performance declined throughout the 1980s and 1990s. Many states had distribution losses of 40 percent and more."[36] [emphasis in the original]

'NO POINT INVESTING IN POWER GENERATION'

In October 2001, the World Bank's country director Edwin Lim gave a critical overview of the problems in India's power sector. "There must be some [$4-6 billion] flowing every year into the pockets of individuals and institutions through theft, graft and corruption in the power distribution sector", Lim said. "The most important, and most challenging element, of power sector reforms is to combat this widespread theft, graft and corruption. This will require nothing less than a new governance system in the power sector."[37] "There is no point investing in generation if the power does not reach the consumer", IFC's country director Bernard Pasquier commented in December 2000.[38] "Unless we fix distribution, no other problem in the power sector can be solved", India's Power Minister Suresh Prabhu agreed in September 2001.[39]

"There is no point investing in generation if the power does not reach the consumer."

(Bernard Pasquier, IFC country director for India, December 2000)

The need to shift away from physical investments in the power sector was also reflected in OED's latest Country Assistance Evaluation for India in 2002. This evaluation includes the following "major lessons":

> "Projects that focus on physical investments, with the primary objective of increasing energy production, facilitate the continuation of inappropriate and unsustainable sector policies. (…) Although physical investments in energy infrastructure projects may be efficient, in the narrow sense that they are supporting the least-cost energy development program, these investments are unlikely to effectively utilize the country's limited resources where prices are far below real costs."[40]

As a consequence, the recommendations of the evaluation report include the following:

> "The Bank should not support power generation projects (including private power projects) that supply power to inefficient, loss-making distribution entities, even if the generation company is itself efficient."[41]

SIMILAR PROBLEMS IN THE WATER SECTOR

As in the power sector, the World Bank's experience in India's water sector demonstrated that strengthening accountability and efficiency improvements were more important than financing capacity additions. In 2002, OED evaluated the Bank's water sector strategy in India as an input into the preparation of the new WRSS. OED found that "performance of completed water projects has been unsatisfactory because of over-optimistic appraisal and state's unwillingness to tackle institutional and financial reform", and that "much still remains to be done on developing sustainable mechanisms for water allocation and management".[42]

The findings of the 2002 evaluation deserve to be quoted in some detail. OED found:

> "Past approaches in India have been to develop water resources rather than to manage them efficiently. (…) Accountability is missing. The approaches have been top-down, bureaucratic and fragmentary, rather than participatory, client-oriented and integrated. Most users and beneficiaries have been excluded from decision-making and have no incentive to participate and improve service delivery. There are negligible incentives for government agencies to deliver adequate or quality services. This sets up a vicious circle of poor service, reluctance to pay, and insufficient income for operation and maintenance (O&M) that further reduces efficient service. (…) In the long run, the gap between growing demand and inelastic supplies must be closed by increasing managerial efficiency, rather than developing new supplies."[43]

The World Bank came to similar conclusions when it reviewed its water sector operations in India in 1991 and 1998:

> "Unfortunately, however, the findings of the [1998] sector review are almost identical to those of the 1991 review: the top-down, supply-oriented and fragmentary development framework still persists and present institutional arrangements do not enable comprehensive allocation, planning and management of water."[44]

The Bank's new Water Resources Sector Strategy called for a new emphasis on 'high risk/high reward' investments in new infrastructure. The OED evaluation of India's water sector in 2002, that was supposed to serve as an input into the new WRSS, did not support such a strategy. According to its conclusion, "[t]he Bank's current water sector operations have moved away from new construction and are focusing on making existing infrastructure work efficiently, and this is most appropriate given the poverty alleviation mission of the Bank".[45]

A CASE OF INSTITUTIONAL AMNESIA

On February 3, 2004, Himanshu Thakkar of SANDRP and Peter Bosshard of IRN met with John Briscoe, the World Bank's senior water advisor and water advisor for South Asia, and other officials of the Bank's Delhi office. The purpose of the meeting was to learn more about how the IAP and WRSS were being implemented in India, and how the Bank was learning from past experience in doing so.

Did the World Bank officials that were responsible for designing and implementing the new water sector strategy agree that the growing gap between supply and demand in India's water sector "must be closed by increasing managerial efficiency, rather than developing new supplies", as OED had found in 2002? At the meeting of February 3, John Briscoe said he had never heard about this evaluation. This is particularly surprising since the evaluation was an input into the new water sector strategy that the senior water advisor had prepared one year earlier. In his meeting with NGO representatives, John Briscoe first argued that multilateral development banks should only finance new investments, while maintenance should be left to the government. After further consideration, the senior water advisor was not prepared to take a position on whether the Bank's water sector strategy should shift its focus towards new investments or better management. "The World Bank will finance whatever makes sense, including large infrastructure", he said evasively.

The 2002 OED review deplored the Bank's lacking interest in learning from past experience. "It is surprising that the Bank has shown so little interest in, and has not been willing to commit resources to, systematic evaluation of project implementation and impact", the review quotes the Indian water sector expert A. Vaidyanathan as saying. "Institutionalized learning from experience is conspicuous by its absence."[46] "The lessons from past experience are well known, yet they are generally ignored in the design of new operations", the Bank's own Quality Assurance Group (QAG) had commented already in 1997. The approach of the Bank's management to infrastructure lending in India confirms this finding. The new high-risk strategy is the latest example of what the QAG termed the World Bank's "institutional amnesia".[47]

"Simply pouring billions more dollars into a cracked vessel will not lead to the achievement of the Millenium Development Goals but to more years of failure and frustration. Similarly, increasing the funds available for further largescale, delivery-oriented infrastructure will achieve very little without a re-think of how and for whom such funds are to be spent."

(Water Supply and Sanitation Collaborative Council, March 2004)

POURING MORE DOLLARS INTO A CRACKED VESSEL?

The critique of the World Bank's institutional amnesia is mirrored in a new report that the Water Supply and Sanitation Collaborative Council (WSSCC) published in March 2004. The WSSCC was created in 1990 through a mandate from the UN General Assembly. On March 18, 2004, WSSCC's chair Jan Pronk commented: "Today the key issue in water and sanitation is not, primarily, the availability of resources. It is the willingness on the part of those who allocate those resources to learn the lessons of both past failures and current successes." And the WSSCC argued in a press release on the same day:

> "From India to Bolivia, Kenya to Nepal can be found the ruins of now-defunct water and sanitation programmes that have never yielded more than a fraction of the benefits expected. (…) [S]imply pouring billions more dollars into a cracked vessel will not lead to the achievement of the Millenium Development Goals but to more years of failure and frustration. Similarly, increasing the funds available for further largescale, delivery-oriented infrastructure will achieve very little without a re-think of how and for whom such funds are to be spent."[48]

"WASHINGTON SPEAK" AND INDIA ACTION

The World Bank's infrastructure strategy for India is not based on lessons from the past. Does it at least incorporate the best practice recommendations of the Infrastructure Action Plan and other recent Bank documents on the water sector? According to the IAP, support for new infrastructure and water sector projects should begin through a systematic assessment of a country's infrastructure situation in the form of a so-called REDI. The representatives of the Bank's Delhi office were not aware of this process, and said that the India Department was not carrying out such an assessment. "This is Washington speak", John Briscoe argued.[49]

NO BALANCED ASSESSMENT OF OPTIONS

The Bank's new options assessment sourcebook recommends that lending operations in the water and energy sectors be based on a balanced, participatory assessment of all options, including policy and institutional changes. Again, the World Bank officials on February 3 said that they had not read this sourcebook, and John Briscoe claimed that its recommendations represented only the opinion of its author, and not the Bank's. India was a sovereign country, the senior water advisor argued. Options assessments were therefore carried out by the government before the World Bank got involved, and so "the recommendations of the sourcebook are not going to happen in India". This contrasts sharply with the Bank's earlier, detailed analyses of the irrationalities in India's water and power planning systems.

The management of the Bank's South Asia Region intends to increase its focus on the political economy of decision-making. In February 2004, the regional management claimed that "the Bank's increased concern for political economy issues implies a better awareness of how resources – including those arising from Bank support – are allocated, especially through informal systems in society".[50] The decision to simply delegate options assessment in the infrastructure sector to the Indian government contradicts this claim.

Alessandro Palmieri, the Bank's lead dams specialist and the main author of the new sourcebook on options assessment, agreed that this document "reflect[ed] only the opinions of the authors". (The sourcebook itself does not carry any such disclaimer.) Palmieri argued that since the sourcebook did not constitute formal Bank policy, he did not expect any follow-up activities, and discussing the implementation of its recommendations made "no sense".[51] This is disturbing. In public, the sourcebook is presented as "one of the cornerstones of the Bank's Dams Planning, Management and Action Plan".[52] More generally, the Bank management has for many years insisted on following best practices in its operations, rather than adopting new binding policies. The complete lack of commitment to implementing the recommendations of the options assessment sourcebook puts this approach into question.

THE BHAKRA DAM – ANOTHER MODEL IN CRISIS

In his meeting with the NGO representatives, John Briscoe argued that "there has been a seachange in the mindset of dam builders regarding resettlement for dam projects". Briscoe was not prepared to comment on the Narmada Sagar project or other projects that he had visited in recent weeks. When challenged to mention projects that expressed the improved social and environmental standards of dam building in India, the senior water advisor referred to the Bhakra dam as the only example.

The reference to the Bhakra dam as the prime example of how the standards of dam building in India have improved is telling. For one thing, Bhakra was built in the 1950s, and can certainly not serve as an example of improvements in recent decades. More importantly, the project is an example of the unsustainable policies that have led India's agriculture into a serious social, environmental and economic crisis. Bhakra is a multipurpose dam on the Sutlej river that is often credited for turning the states of Punjab and Haryana into India's bread basket and rice bowl, and for overcoming India's food crisis. Yet a forthcoming report by Shripad Dharmadhikary of the Manthan Research Center belies these claims. According to Dharmadhikary's research, the benefits attributed to Bhakra appear to be both exaggerated and fundamentally unsustainable. In addition, the serious social and environmental problems of the project are still unresolved 50 years after its completion. It is amazing that the World Bank still uses the outlived Bhakra project as the model for the social and environmental impacts of large dams.

The agriculture of the Punjab and Haryana is in deep crisis. In this system, Dharmadhikary concludes, "there will be a short-lived burst of prosperity, followed by permanent devastation. Somewhat like a supernova."[53] In comparison, a massive, decentralized program to harvest rainwater, manage watersheds, and conserve soil and water would protect India's environmental resources and increase the productivity of vast land areas. It would also employ large numbers of people and would put purchasing power into the hands of India's poor. This would create a market demand for the food surpluses which can currently not be sold.

CONCLUSION AND RECOMMENDATIONS

India is an important test case for the implementation of Infrastructure Action Plan, the Water Resources Sector Strategy, and the new high-risk strategy more generally. The current plans for increased infrastructure financing in this country suggest that the IAP has been taken hostage by the ideologies and vested interests of dam-building bureaucracies. The new dam-building plans ignore important lessons of the past. According to the Bank's own evaluations of the water and power sectors in India, improving the efficiency of the existing infrastructure would be more relevant for the Bank's broader development goals than financing new sources of supply within an unsustainable sector environment.

The new dam building plans also ignore the current best practice recommendations for a balanced and participatory assessment of all available options, as defined in the IAP, the strategic priorities of the World Commission on Dams, and the Bank's recent options assessment sourcebook. By limiting the concept of government ownership to ownership by the ministries responsible for infrastructure development, the Bank management defies decades of experience.

The Bank management seems prepared to tinker with the institution's binding safeguard policies in order to achieve its ambitious lending targets. Management proposes delegating responsibility for the implementation of the policies to the Indian authorities, although the Bank's evaluations have found that the enforcement of the existing environmental standards in India is seriously deficient.

'TO BE HYPOCRITICAL AND GET AWAY WITH IT'

Robert Hunter Wade, a professor at the London School of Economics, interprets the institutional changes of the Wolfensohn years as an attempt to delink the political agenda of the World Bank from its operational strategy. While the political agenda – including the safeguard policies – is targeted at the concerns of a critical global public, the operational units have been strengthened to serve the interests of Southern governments. The effect of the reforms was for the Bank to "decoupl[e] itself internally so as to allow its parts to say and do things with different parties that if spotlit all at once would seem inconsistent. The reform, in other words, was a way to institutionalize the capacity to be hypocritical and get away with it."[54] The Bank's new infrastructure plans for India are a stark example for this institutional hypocrisy.

The World Bank's current course of action will make it more difficult to achieve the Millenium Development Goals. It will fuel further conflict, and will prolong the deadlock in important sectors. It will block the promotion of alternative approaches to infrastructure that, like the impressive water harvesting programs of Rajasthan, are socially and environmentally sustainable and can provide a long-term basis for economic development.

RECOMMENDATIONS

The member governments are the guardians of the lessons from past experience. They have approved the Bank's safeguard policies, have supported best practice guidelines, and need to ensure that these policies and guidelines are effectively put into practice. The member governments and their Executive Directors need to call the World Bank to account for the glaring gap between rhetoric and reality in the implementation of the Infrastructure Action Plan. They need to ensure the following course of action:

- 'Country ownership' must mean more than 'government ownership'. Infrastructure development should start with the needs and initiatives of the poor, and not the interests of governments, aid bureaucracies, and corporations. All needs and options need to be assessed in a participatory, transparent and balanced way before new infrastructure projects are identified.
- Within the water and power sectors, the World Bank should follow the recommendations of the World Commission on Dams, and the principles of the Bank's recent options assessment sourcebook for the water and energy sectors.
- The Extractive Industries Review has proposed a series of measures that are relevant for all sectors of World Bank lending. As recommended by the EIR, the World Bank should recognize the principle of free, prior informed consent for indigenous peoples and local communities affected by Bank projects, adopt a comprehensive human rights policy, and shift its energy lending from fossil fuel technologies to the support of renewable energy sources.
- The World Bank should supervise projects throughout the project cycle, and should work together with all interested groups and parties to establish mechanisms to address the unresolved social and environmental legacy of existing Bank projects.
- The World Bank has so far not learned the lessons of past experience, and has not strengthened its capacity to deal with social and environmental risk. The Bank should be less risk averse when supporting innovative technologies that address the needs of the poor. It should however not engage in new social and environmental high risk projects as it implements the IAP.

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PHOTO CREDITS:

TOP LEFT: People affected by the Omkareshwar dam, Narmada Valley/India, 2003 (Heffa Schücking)

TOP RIGHT: The construction site of the Sardar Sarovar dam, Narmada Valley/India, 1993

BOTTOM RIGHT: The construction site of the Omkareshwar dam, Narmada Valley/India (Heffa Schücking)

The World Bank at 60:
A Case of Institutional Amnesia?
A Critical Look at the Implementation of the Bank's Infrastructure Action Plan

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