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Author(s): Pat Aufderheide and Bruce Rich

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ENVIRONMENTAL REFORM AND THE MULTILATERAL BANKS

Pat Aufderheide and Bruce Rich

"If the World Bank has been part of the problem in the past," World Bank President Barber Conable announced in May 1987, "it can and will be a strong force in finding solutions in the future."

The "problem" Conable was referring to is environmental degradation—specifically, the accelerating deforestation, desertification, salinization, and other assaults on the environment affecting large areas of the developing world. This destruction has often been a consequence of large-scale development projects funded by the World Bank and its sister multilateral development banks. For instance, the effect of the Polonoroeste project—a road-building and colonization program in northwestern Brazil financed with World Bank loans—has been to unleash deforestation at a rate unprecedented in Brazil's history. More than half a million colonists have been lured into this region—an area the size of California—with offers of free land since the project began in 1982. But crop failures after one or two years of working the poor tropical-forest soil have forced the hapless settlers to abandon their lands to cattle ranchers—a further step in the process of ecological degradation that ultimately leaves useless scrubland. Settlers have moved on to repeat the process in adjoining locations or to invade the homelands of Indian tribes.

The Polonoroeste disaster is far from exceptional. The drama has been repeated throughout Africa and Asia. To ease population pressures, the Indonesian government, again with World Bank support, has moved hundreds of thousands of people to rain-forest areas with poor soil, stripping the land of its utility to colonists while displacing indigenous peoples. This transmigration program is the largest resettlement project in history. In Singrauli, India's energy capital, the World Bank has helped to finance

Pat Aufderheide is a senior editor of In These Times and a visiting professor at the Center for International Studies, Duke University. Bruce Rich is a senior attorney at the Environmental Defense Fund and the director of its international program.

coal mines and power plants that belch coal dust and ash and contribute to soil erosion, meanwhile forcing out thousands of tribal people. In the Ivory Coast, the World Bank's Grand Bereby rubber project has resulted in large-scale destruction of irreplaceable tropical forestland. And in the Sudan, a World Bank-financed mechanized farming project for cotton production has completely exhausted the soil in the project area, leaving it useless for future agriculture.

These environmental and social disasters are economic debacles as well. Environmental degradation undermines the foundations of economic development, particularly in Third World countries, which depend heavily on the natural resource base for economic growth. Economic impoverishment, in turn, intensifies assaults on the environment by encouraging the exploitation of natural resources for short-term gain at the expense of more careful long-term management. But this cycle is no accident. It is the inevitable result of a tradition of development planning that ignores the interrelationship between economic activity and its biological and ecological underpinnings. It is therefore significant that the multilateral development banks have begun recently to show signs of greater sensitivity to this problem. In spring 1987, World Bank President Conable announced a number of reforms designed to put the environment "on the agenda," in his words. These reforms include greatly increased environmental staffing, a commitment by the Bank to finance a greater proportion of environmentally beneficial projects, and a promise to consult more closely with "environmental activists in every nation." Other multilateral development banks are beginning to follow suit.

This fundamental restructuring follows a series of acknowledgments by the banks that their environmental policies have been, at best, ineffectual. Even before Conable announced his reforms, the World Bank had suspended loans to the Polonoeste project until environmental requirements could be satisfied. And the Bank has designated future loans to Indonesia's transmigration program only for the rehabilitation and consolidation of existing sites, not for expansion of the program. Likewise, the Inter-American Development Bank halted disbursements on a road-building and colonization scheme in the Brazilian state of Acre pending resolution of environmental problems associated with the project.

These actions and Conable's reforms reflect the impact of intense, concerted pressures on the multilateral development banks by environmental organizations internationally. A World Bank draft report in December 1987 on relations between nongovernmental organizations (NGOs) and the Bank credited NGOs for major shifts in Bank policy toward the envi-

ronment. Among other things, it noted that "many of the Bank-financed projects which have been subject to criticism by NGOs on environmental grounds have been significantly reformed. The much discussed Polonoroeste project, for example, has been substantially restructured, and new transmigration in Indonesia has been slowed drastically." Environmentalists' pressure had even, in the Bank's words, "set the stage for a discussion of environment by the [World Bank–International Monetary Fund] Development Committee in 1987." That committee is the highest-level planning committee for both institutions, and the fact that the Bank prepared a background paper on the environment for it suggested a breakthrough in official development policy.

How have environmentalists come to have such impact on the lending policies of multilateral development banks? How does this current effort differ in approach from earlier efforts? And what are the chances for achieving the ultimate objective—a fundamental shift in bank policy and practice toward a model of development that more fully recognizes the link between economic productivity and the sound management of natural resources?

The Banks and the Environmentalists

No other international or bilateral institutions have more influence on development financing and policy in the Third World than the multilateral development banks—the World Bank (or International Bank for Reconstruction and Development, as it is formally called), the Inter-American Development Bank, the Asian Development Bank, and the African Development Bank. In 1987, these four banks made loan commitments of more than \$23 billion, mainly for projects and programs in the environmentally sensitive areas of agriculture, rural development, power and irrigation schemes, and road building. The impact of these banks is magnified by the fact that each dollar they lend typically raises two or three more from recipient country governments, aid agencies, and private banks. The multilateral development banks, especially the World Bank, also influence the development agenda worldwide by their funding of research, technology transfer, and other forms of institutional support. In addition, country-lending and sector-strategy reports drawn up by the development banks shape planning among commercial lenders, aid agencies, and borrowing nations. Finally, the macroeconomic conditions attached to World Bank loans require Third World countries to modify domestic policies and priorities, sometimes affecting entire sectors of their economies.

The multilateral development banks have long proclaimed a commitment to policies and procedures that are sensitive to environmental concerns. In practice, however, environmental protection has generally come to mean after-the-thought damage control. More often than not, environmental concerns have been ignored in project design and implementation. Or when they have been invoked, they frequently have been honored in the breach by government agencies eager to proceed with the most lucrative, politically useful parts of a project.

This trivializing of ecological damage, and the assumption that mitigating measures can “fix” problems, are predictable results of the narrow applications of neoclassical economic models used by development banks. As a result, there is a tendency to focus on those factors that can be expressed in dollar terms. For instance, to be approved, a development project must promise a favorable rate of return (typically 10 percent). In calculating the rate of return, economists rely on cost-benefit analyses that treat ecological destruction as an externality or a trade-off in exchange for other benefits. But this destruction has very real economic costs, even if they cannot be easily quantified. Another problem with this model is the narrow definition of social welfare it employs, one that assesses a country’s economic progress in terms of increased gross national product or export volume. This definition begs such vital questions as who controls and benefits from production for export, at what ecological and social cost, and to what degree export-led growth contributes to long-term development goals.

Moreover, the conventional neoclassical model has often led project planners to ignore crucial social and cultural elements that, in combination with ecological conditions, shape the dynamics of economic development. For example, the World Bank and Inter-American Development Bank have appraised road construction in the Brazilian Amazon mainly in terms of facilitating access to markets and lowering transportation costs. In doing so, the banks have given little consideration to the impact these penetration roads are likely to have on an inflationary economy such as Brazil’s: the unleashing of enormous land speculation booms, which actually take land out of production, and the huge social costs associated with uncontrolled migration to lands lacking adequate facilities to support new populations.

The flaws of the development banks’ economic approach have been apparent for years. Even neoclassical economic theorists acknowledge the limited usefulness of their models for making investment calculations when nonrenewable natural resources are involved. A more sophisticated use

of neoclassical economics would improve the banks' ability to assess the potential negative effects of development projects. For instance, an effort might be made to quantify the long-term economic costs of some environmental impacts and include these costs in bank-loan preparation and appraisal work. Since Barber's announcement of environmental reforms in May 1987, the World Bank staff has begun some research in this direction. It remains to be seen when and if the results of this research will be reflected in the Bank's operations. But even sincere efforts are likely to be frustrated by the fact that statistics and other economic indicators for developing countries are notoriously unreliable and often subject to political manipulation. And they are largely nonexistent for the critically important relationship between ecological destruction and declining economic productivity.

Nongovernmental organizations have long protested the effects of multilateral development bank policy, on environmental and other grounds, but protest alone has proved to be largely ineffective. Concerned about human rights violations in the Philippines under Ferdinand Marcos, for instance, some NGOs protested World Bank and Asian Development Bank support of that nation. These NGOs often worked in tandem with local Philippine organizations, developing valuable contacts and documenting abuses. But in the end, these protests were simply not accorded high priority by the banks. Similarly, NGOs have objected to the aggravation of social disparities resulting from bank-financed agricultural programs in which issues of equity have not been adequately considered.

Think tanks, on the other hand, including some environmental organizations, have sought to influence development bank policy in other ways. Staffed with experts who often have undergone very much the same intellectual and professional training as the banks' policymakers, they have put their energy behind research and the promotion of alternative policy proposals. While they often have earned the respect of the banks, think tanks, too, have largely been unable to effect fundamental policy changes. Speaking the same "language" as bank experts facilitates dialogue, but it sometimes means accepting certain basic assumptions, such as flawed development models, that severely constrain the possibilities for change. Moreover, large bureaucratic institutions like the multilateral development banks tend to resist change unless they are confronted with a crisis, whereas think tanks represent, at best, only a challenge. Nor does it help that some think tanks are linked by financial and contractual ties to the very banks they seek to influence.

What protest groups and think tanks alike have failed to appreciate

sufficiently is that international development issues are intrinsically political. Bad policies do not remain in effect simply because of an absence of good ideas but also because powerful forces block the adoption of those ideas. Merely informing or working with staffers within the banks or national agencies designated to deal with environmental issues will not achieve policy transformations. Even bureaucrats with the best intentions often have their hands tied. The policies they implement are frequently shaped by political pressures that these functionaries are generally powerless to confront or alter. Forestry specialists within the World Bank, for instance, may be able to propose less damaging forestry projects; what they cannot do is use the Bank's influence to change basic agricultural and development policies in recipient countries that contribute to deforestation, such as grossly skewed land-tenure systems or the promotion of large-scale resettlement schemes or the construction of economically inefficient hydroelectric dams. Moreover, well-intentioned forestry experts within the World Bank may be thwarted in their efforts by their counterparts in recipient countries, since national forestry agencies are often staffed by individuals who profit from deforestation. Indonesia is just one of several countries in which the forestry department derives revenue from forest concession contracts (both legal and illicit)—making that department a virtual engine of deforestation.

So while uncoordinated protest efforts may result in ad-hoc responses to an issue, and while think-tank advisories may offer useful policy suggestions within an existing framework, neither approach has had much effect on the basic policy orientation of the multilateral development banks. Mindful of the limitations of these approaches, environmental groups, since 1983, have taken a different tactic, one that follows from the principle of public accountability. Led by the Environmental Defense Fund, the National Wildlife Federation, the Environmental Policy Institute, the Sierra Club, the Natural Resources Defense Council, and the Rainforest Action Network, this strategy has involved the building of a coalition that includes not only U.S. environmental groups but European and Third World organizations as well. By winning the support of the political forces that influence the development banks, environmentalists have, in effect, let themselves in through the front door. And they have done so with little compromise: leading organizations in the coalition maintain financial and ideological independence from the banks. Consequently, they have not shied away from confrontational approaches at times.

Coalition members recognize the limitations of conventional economic analysis in development planning. They share an understanding that sound

resource management is a key element in economic progress, as the current rain-forest crisis indicates. They understand that social factors such as equity and human rights are also critical to sound economic planning. Land distribution schemes launched without consideration for equity often play into the hands of speculators rather than producers. And disregard for human rights considerations can be very costly and counterproductive. In the case of the Philippines' Chico Dam project, for instance, 100,000 Bontoc and Kalinga tribesmen rose up in revolt against a projected World Bank-funded series of four dams whose construction would have seriously disrupted their lives. The Bank was forced to withdraw from the project altogether.

At the core of the environmentalists' critique of bank policy is a very different conception of development. For the environmentalists, factors such as social cohesion, social equity, and the preservation of native cultures are vital to any program of sustainable development. Environmentalists also regard ecological concerns such as biological diversity as having a value that cannot be comprehended purely by economic analysis. They have been able to demonstrate convincingly that, over the long term, the neglect of these concerns can be disastrous.

But while environmentalists and bankers approach questions of development differently, they share the goal of sustainable development, making a dialogue possible. And so, issues such as political or human rights—traditionally treated as externalities by development professionals—may be reformulated in ways that address the concerns of both environmentalists and bank policy analysts. Forced resettlement, for instance, can also be discussed as a technical aspect of dam construction—as a quantifiable cost incorporated into the economic evaluation of the project—as well as a human rights issue that development professionals ought to be concerned about as public citizens. Similarly, environmental protection, sometimes viewed in development circles as a luxury, can be reformulated in terms of natural resource management—a legitimate technical issue for the development professional.

Since 1983, when environmentalists first publicized the link between bank-financed development and environmental destruction in hearings before the U.S. Congress, the multilateral development banks have responded with both damage-control measures and reforms. As the World Bank's December 1987 draft report shows, bank officials openly acknowledge the role of environmental organizations in triggering these changes.

The Strategy

Environmental organizations have been successful in their efforts to force institutional change by recognizing the political underpinnings of multilateral development aid and by bringing pressure to bear on these institutions at their most vulnerable points. U.S. environmental organizations understood early on that the multilateral development banks would never take their suggestions for environmental reform seriously unless continued ecological neglect could somehow be made to pose a threat to the growth and even survival of the banks. So they directed their attention to the major donor nations, on which the development banks depend for their funds. The United States alone contributes nearly one-fifth of the World Bank's funds each year and a substantial portion of other banks' funds. Taking advantage of the fact that the development banks have no natural political constituency within any of the donor nations—no group, in other words, that is directly affected by the work of the banks—environmentalists, working with groups in developing and developed countries, built a constituency for greater public accountability on the part of the banks.

Since the development banks' most vulnerable point is the funds provided to them by donor nations, the greatest leverage can be brought to bear through the funding mechanism, which, in the case of the United States, means the U.S. Treasury and the relevant congressional subcommittees. Therefore U.S. environmental organizations have sought to influence the banks by pressuring U.S. institutions. What has made allies in these institutions for the environmentalists has been, in part, their measured approach: they have called for reform of the banks, not their abolition.

Environmentalists acknowledge the value of the development banks and their even greater potential utility. They have simply asked that the banks be required to honor their mandate—to promote economic progress in a sustainable fashion. At critical moments, in fact, environmentalists have shown that they can be counted among the banks' friends. Many of them supported the administration's full request for World Bank appropriations last year against congressional attempts to reduce funding, citing with approval the Bank's announced environmental reforms. At the same time, they suggested that if Congress had to cut financing, it should target the Inter-American Development Bank because of that bank's relative unwillingness to commit resources for improved environmental protection measures. Congress approved nearly the full amount requested for the World Bank and slashed IDB support by 75 percent. While Congress

had a number of reasons to favor the World Bank over the IDB, environmental groups played a crucial role in swaying key votes.

U.S. legislators have taken up the idea of development bank reform with some enthusiasm. Since mid-1983, 21 hearings have been held by six subcommittees, at which the banks' environmental performance has been a major issue. Of particular importance have been the House and Senate appropriations subcommittees on foreign operations, which draft the annual appropriations bills for all U.S. foreign activities. In recent years Congress has been unable to pass foreign assistance legislation, leaving the appropriations bills as the only vehicles for such assistance likely to emerge from a congressional session. Members of those subcommittees have become conversant and activist with respect to development bank reform issues, and have sent letters of inquiry concerning specific bank projects to the U.S. treasury secretary over the past three years, requiring detailed responses from the banks. Furthermore, these subcommittees introduced and helped to pass legislation directing the treasury secretary, in his capacity as U.S. governor of the multilateral development banks, to promote environmental reforms in the banks and to report back to Congress on the banks' progress.

The concerted pressure of Congress and the environmentalists has been quite effective. The first "no" vote ever cast for a World Bank project by the United States on environmental grounds came in June 1986, when Treasury Secretary James Baker instructed the U.S. World Bank executive director to oppose a \$500-million loan to the Brazilian Electric Power Sector for power projects in Brazil, including several in the Amazon rain forest. Moreover, the environmental reforms announced by World Bank President Barber Conable last spring strongly reflected the main points of the congressional legislation that environmentalists helped to draft.

U.S. legislators have become involved in these issues for a variety of reasons. Conservatives have found in the environmentalists' criticisms ammunition for their own long-standing objections to multilateral lending. Many prefer bilateral aid, which the United States is able to exercise greater control over, or oppose loans to developing countries altogether, arguing that they are a form of international welfare assistance with counterproductive economic effects for both recipients and donors. (The latter criticism is far less persuasive since appropriations for the multilateral banks typically return, almost dollar for dollar, to developed-country contractors.) Liberals, on the other hand, have generally been strong supporters of multilateral aid and the banks' mandate. But they are sensitive to the criticism that the banks are betraying their mandate with unsound development

policy, and are receptive to the environmentalists' criticism because it respects the fundamental goals of the institutions. Most important, perhaps, both liberals and conservatives have found environmentalist support valuable in their efforts to get and stay elected. Environmental issues are a growing concern among the U.S. voting population and environmental groups have learned how to tap this concern for political purposes.

Environmentalists have found powerful allies in Senator Robert Kasten (R.-WI), who chaired the Senate Appropriations Subcommittee on Foreign Operations until the 1986 election (he is now the ranking minority member) and Representative David Obey (D.-WI), a liberal long supportive of multilateral aid and environmental concerns who chairs the parallel House committee. Obey, who has a strong record on environmental issues, has become an active proponent of environmentalists' recommendations for development bank reform. In 1986, he introduced legislation, strengthened by Kasten, which provided the elements of the environmental reform program later adopted by the World Bank. Kasten, on the other hand, has traditionally opposed multilateral funding requests. But environmentalists have shifted Kasten's opposition onto more constructive ground. His original anti-bank position has been modified considerably, as was evident in his refusal to support an amendment in 1987 promoted by Senator Jesse Helms to terminate supplemental funding for multilateral development banks that year. Because Kasten and Obey have at times cooperated across the partisan divide on these issues, they have helped generate bipartisan support generally for development bank reform.

As the pressure on multilateral development banks has intensified, other U.S. government agencies have become involved. As a result of recent legislation, the Agency for International Development (AID), with the help of U.S. embassies, is now required every six months to publish an alert list of bank projects under investigation because of environmental problems associated with them. This "early warning system," as it is called, constitutes the only systematic collection of such information outside the banks themselves. The list, it is hoped, will permit early identification and remedy of problem projects.

U.S. government pressure is not enough, however, to exert leverage on the development banks. Among donor nations, support from West European finance ministries and parliaments is also critical. The strategies of environmental groups vary from country to country since the issues will be affected by the prevailing political climate and because parliamentary practices differ. The West German Bundestag, for example, does not have either the budgetary powers of the U.S. Congress or the power to direct

the actions of the German executive directors of the multilateral banks. The work of local environmental organizations, in particular Regenwälder Information (Rainforest Information), was therefore pivotal in getting the government to adopt policy recommendations similar to those pioneered in U.S. legislation. Other countries, including the United Kingdom, the Netherlands, Australia, and the Scandinavian nations have adopted comparable measures.

Membership appeals by developed-country NGOs have demonstrated the value of a large, vocal constituency within donor countries for bank reform. These appeals are generally tailored to the concerns of the individual environmental organizations. Bird watchers' groups, for instance, have been mobilized to protest the destruction of migratory-bird habitats in Central and South America—the result of ill-conceived agricultural colonization schemes. The response to these appeals has been strong. The Environmental Defense Fund (EDF) delivered 21,000 individual protest petitions from EDF members to World Bank President Conable in October 1987. Other activist groups in the United States, such as the Rainforest Action Network and the International Dams Newsletter, have mobilized members to write the presidents of the development banks and their U.S. executive directors. Groups such as Probe International in Canada, Friends of the Earth and Survival International in the United Kingdom, and Rainforest Information in West Germany have launched similar mass letter-writing campaigns in close coordination with their colleagues in the United States. As a result, the development banks over the past two years have received more mail on environmental issues than on any other matter in their histories.

The significance of this outpouring has not been lost on the banks' executive directors. Criticism from the Green Party and other environmental activists in West Germany has reached such a pitch that, in a February 1988 meeting, the West German executive director of the World Bank told U.S. NGO representatives that he feared West German support for the Bank might be impaired. He asked U.S. groups to exert a moderating influence on German environmental critics—not to quell them but to better target their protests.

Without the participation of nongovernmental organizations in developing countries, however, environmentalists would likely not have achieved the results they have. A collaborative relationship between NGOs in donor and recipient countries has emerged that has been critical to efforts to reorient international development policy. The significance of this factor was noted in the World Bank's draft report of December 1987:

“NGOs have used their influence in the industrialized countries to insist on World Bank attention to the grassroots concerns of developing country NGOs. . . . [They] amplified the voices of Brazilian NGOs on several resettlement and other land conflict problems.”

The linking of developed- and developing-country NGOs is vitally important because the whole moral — and much of the political — legitimacy of the campaign rests on the claim that it represents the concerns of groups in the developing nations, for whose benefit the development banks’ projects are ostensibly designed. Without such links, there might be a flourishing of the traditional suspicion that many in developing countries harbor against environmentalists of the industrialized world — that they are self-indulgent conservationists encroaching on national sovereignty and callously ignorant of the need for economic development in impoverished countries. This would become powerful justification for bank officials to reject out of hand the recommendations of Washington-based NGOs, which have become the spearhead for the international campaign. Moreover, without such relationships, Washington-based NGOs would lack an understanding of the priorities and even basic data on the problems relating to bank-funded projects, while developing-country NGOs might have no effective vehicle to pressure the banks into paying greater attention to their plight.

This networking, concerned with immediate policy objectives and specific projects, differs from much traditional international networking, which tends to focus on conferences and seminars for the purposes of information-sharing in a more general sense. The network that has emerged out of the banks campaign is more like a working partnership. It has furthered the understanding among NGOs internationally of the unity of environmental and development planning — a link not always obvious to many in the developed-country constituency, the typical member of which tends to define his or her concerns in environmental rather than developmental terms. This is often a relatively new concept for many Third World groups, too — especially the more established ones — that may have had experience dealing with multinational corporations, national elites, and corrupt governments but usually have had little experience with multilateral development banks.

The establishment of this network follows a decade that has witnessed the appearance of numerous grass-roots organizations in the Third World concerned with economic growth and ecological balance. These are groups with a strong local presence, an activist and sometimes even direct-action bent, and, in some instances, the ability, experience, and will to pressure

local, state, and national governments. The will to take a stand on environmental issues flows directly from the fact that these groups often represent the populations most immediately affected by development projects.

These groups are united with developed-country environmentalists in the goal of altering the model of international development so that it is environmentally suited to local conditions, participatory, and grass-roots-oriented. They share the belief that many environmental and social disasters characteristic of bank development schemes derive, in part, from the fact that these projects are conceived and planned by bureaucracies in developing-country national capitals and in Washington with little input from the people most directly affected by them.

A few examples convey an impression of how these newer groups in developing countries operate. Chipko, an Indian movement, has its origins in the late 1970s, when women in the foothills of the Himalayas formed human chains around trees in a nonviolent campaign to bar logging contractors from destroying the forests surrounding their villages. ("Chipko" is from the Hindi verb "to hug," since the protesters are literally tree-huggers.) Deforestation in this region has been precipitated by the issuance of illegal timber concessions by the state forest agency. Gandhian in spirit, this grass-roots movement has spread all over India. Another example is the Penan tribe in the Malaysian state of Sarawak in Northern Borneo. This group's livelihood and culture are threatened by the destruction of the rain forest they inhabit. In 1987 they staged a sit-down blockade along logging roads into their lands. And in northwestern Brazil, rubber tappers have for a decade mounted a number of nonviolent direct actions to halt deforestation by cattle ranchers and land speculators.

Many other Third World groups are based in urban centers and are engaged in public advocacy and research. They gather information on project problems and alternatives. The Guatemalan *Defensores de la Naturaleza* and the Mexican *Federación Conservacionista*, both relatively new groups, have produced valuable information on and lobbied against a proposed dam on the Usamacinta River along the Guatemalan-Mexican border. The Brazilian Institute for Amazon Studies conducts rain-forest research and works closely with rubber tappers in northwestern Brazil, providing legal and scientific research. In Indonesia, research by WAHLI (the Indonesian Environmental Forum), SKEPHI (the Network for Forest Conservation in Indonesia), and YPMD (the Irian Jaya Rural Community Development Foundation) has been important in shaping recommendations for redesigning transmigration policy. And the Center for Science and Environment in New Delhi gathers information from villages and

grass-roots groups, publishing regular reports on the state of the environment in India.

The working partnership that exists between NGOs in developed and developing countries is especially apparent in the recent history of Singrauli, India's energy capital, where the World Bank and other foreign aid donors have helped to finance the construction of 11 open-pit coal mines and five giant coal-fired power plants. Some 300,000 people in the area have been uprooted several times. Twenty-five years ago the area, endowed with good soil, could support this population. Now coal dust and ash pollute the area, and deforestation and soil erosion are widespread. Malaria is rampant and tuberculosis is a leading cause of death. Indian groups, including Lokayan, a New Delhi-based organization concerned with the environmental and social impact of development, and several local Singrauli committees representing displaced people, asked the Washington-based Environmental Defense Fund (EDF) to pressure the World Bank to address their concerns, which two Indian government companies responsible for development in the region had been ignoring for years. In this case, as in many others, the World Bank became a target not only because it funds elements of the Singrauli project but because, as a multilateral agency with a mandate to promote environmentally sound development, it is more accountable and vulnerable to pressure than many national agencies.

After a 1987 on-site inspection tour, EDF attorney Bruce Rich testified before appropriations subcommittees of the House and Senate on the situation in Singrauli. The U.S. Treasury Department followed up with written inquiries through the Bank's U.S. executive director. At the same time, India's leading English-language newspaper, the *Indian Express*, carried a scathing editorial based on Rich's testimony, prompting representatives of the state-owned National Thermal Power Corporation to consult with Lokayan for the first time. Meanwhile, a letter from EDF to the World Bank won the endorsement of 22 leading environmental and human rights organizations in India, as well as those of a former minister of the environment, and the chairman of India's National Committee on the Environmental Assessment of Thermal Power Plants. Among other things, the letter called for a rehabilitation plan for displaced people and an emergency environmental protection plan. Although a formal response is still pending, the World Bank has stated that its planned environmental assessment will be modified to address the issues raised by the NGOs, and that local groups and organizations in Singrauli will participate in future planning.

The collaboration of developed-country and developing-country groups has strengthened the power of both within their respective spheres. In the case of Brazil's Polonoroeste project, for example, the protests of ecologists such as José Lutzenberger became a national issue in that country only after Lutzenberger testified before the U.S. Congress in a hearing arranged by U.S. environmental groups. Links with developed-country NGOs have also offered some protection against intimidation of local groups. Publicity in the United States about Indonesia's transmigration program emboldened Indonesian environmental groups to take a more aggressive stand on transmigration themselves—an act of political courage in a country ruled by a military regime not known to be shy about locking up its critics.

In Brazil, international attention may have protected Chico Mendes from future assassination attempts. Mendes, a rubber tapper and union leader, has narrowly avoided five attempts on his life by assassins apparently hired by local ranchers and land speculators in Acre. At the annual Inter-American Development Bank meeting in Miami in 1987, Mendes and EDF anthropologist Stephan Schwartzman lobbied IDB executive directors to support an alternative development strategy known as "extractive reserves." These reserves are large areas of the Amazon that rubber tappers are asking be used only for the extractive, sustainable harvest of rain-forest products such as natural rubber and Brazil nuts by local inhabitants. Mendes's visit received substantial publicity in Brazil and he was later given an environmental award by the United Nations Environment Programme. Besides greatly increasing the political cost of assassinating Mendes, the attention has contributed to a shifting of political winds in Acre. In fact, at a February 1988 seminar on development in Acre, Governor Flaviano Melo announced his support for the establishment of the first extractive reserve. The reserve will be situated in an area where rubber tapper NGOs are well-organized.

The rubber tappers' experience illustrates the interactive dynamic at play in the bank reform campaign. Brazilian officials were persuaded to support extractive reserves, in part because the World Bank and the Inter-American Development Bank both formally support the proposal. The banks' decision, in turn, was influenced by the lobbying efforts of Mendes and his environmentalist allies in Washington. Now Brazilian government officials who are interested in sustainable development, at the state as well as the federal level, find their hands strengthened in the planning process by bank support for extractive reserves.

As the international network has developed, NGOs in developing coun-

tries have also set up structures of communication among themselves. La Red Americana del Medio Ambiente (RAMA, or the American Network for the Environment), formed in 1987 after environmental groups from 15 developing countries attended a conference sponsored by the Inter-American Development Bank, promotes joint efforts aimed at influencing multilateral banks by NGOs in developing countries, and has a Washington link through the National Wildlife Federation. At the same time, NGOs from industrialized countries are increasingly working to improve coordination among themselves and strengthen their ties with developing-country NGOs. During the World Bank–International Monetary Fund annual meeting in September 1987, 28 environmental and indigenous peoples' groups from nine donor countries issued a booklet, *Financing Ecological Destruction: The World Bank and the International Monetary Fund*. The groups also published a joint statement, urging sweeping reform of the Bank and the Fund, which won the endorsement of 68 groups around the world.

Toward the Future

The first phase of the bank reform campaign has concentrated on containing damage in projects already under way. In the case of Polonoroeste, for instance, the road had been built by the time loan disbursements were suspended. So now the emphasis is on keeping deforestation from getting out of control. In the case of Indonesia's transmigration program, success, too, is now measured in terms of alleviating the damage already done. Damage control of this kind represents a significant accomplishment, as does the precedent of making the multilateral development banks accountable for the environmental destruction their loans have helped bring about. But while much has been achieved, much more needs to be done. Ultimately, unity of design—ecological and economic—must be made an integral part of development planning. Alternative development projects need to be promoted that are both ecologically and economically sound. And there must be greater grass-roots participation in planning.

The case of the World Bank-funded cattle-ranching project in Botswana illustrates the successes and limitations of the first phase. Cattle-ranching projects in dry areas have been notorious economic failures and ecological debacles throughout Africa. In 1987, the Natural Resources Defense Council (NRDC) documented the ecological and economic damage of the Botswana project and presented this information to the World Bank. NRDC's

efforts led to the U.S. Treasury's adoption of general criteria to guide U.S. bank executive directors in their voting on cattle projects.

The World Bank, however, has never formally recognized the validity of some of the fundamental arguments that underlie NRDC's criticism, such as the need for a unified approach to development. While the Bank suspended funding for the project, its stated reason for doing so was the chronic inability of the cattle ranchers to repay the agricultural credits that have been extended to them. This demonstrates the continuing need to pressure for a more fundamental reorientation of the banks' approach to development.

The endorsement by the World Bank and the Inter-American Development Bank of at least one alternative—the extractive reserves proposal—is a promising sign. The reserves are one way to exploit rain forests economically without destroying them. The promotion of such alternatives is likely to be bolstered by the four major reforms that Congress, since 1986, has instructed U.S. executive directors of multilateral development banks to pursue. These are: greatly increased environmental staffing; regular involvement of environment and public health ministers in project planning and implementation; local nongovernmental and community organization participation in project design; and a shift in lending priorities so that the banks finance a greater number of environmentally beneficial projects.

The immediate agenda of the banks campaign still lies with these four major reforms. To date, the campaign has scored gains with increased environmental staffing and more regular involvement of environmental and public health ministries in project planning, particularly at the World Bank. But the involvement of NGOs from borrowing countries remains a battle to be fought in every case, as does a shift of lending priorities to more environmentally sound alternatives. What has made the first two reforms less objectionable to bank officials is that they can be executed with considerably more central control than the second two and therefore are less likely to threaten the banks' development approach at its core.

There is still tremendous political resistance within the multilateral development banks—and even more on the part of certain borrowing countries—to a model of development that would fully incorporate ecological concerns as well as make allowances for greater participation by local populations in project planning. The environmental NGOs see the issues of sound ecological design and local participation as inextricably related, both because local peoples often have indispensable knowledge of environmental conditions at project sites and because they are the ones

most immediately affected by these projects. The NGOs also maintain that a model of development planning that fosters sound ecological and social planning requires a much freer and fuller flow of information about local conditions in the planning process.

But many developing-country governments are suspicious of NGOs and local community organizations, both internally as sources of opposition to existing policies, and externally—in relations with the banks, for example—as forces that can weaken the exclusive claims of central governments to represent local interests. The present structure of the multilateral development banks—centralized, hierarchical institutions that deal largely with only certain ministries in central governments—militates against wider access to information about the local ecological and social conditions. What the banks are in sore need of, from the environmentalists' perspective, is *glasnost*.

Thus, not only the weaknesses and lacunae of conventional economic theory but also deeply rooted institutional and political biases weigh against far-reaching reforms. Even in cases where current economic theory and studies—some commissioned by the World Bank itself—demonstrate the economic attractiveness of alternative, more environmentally sound investments, the lending pipeline of the banks hardly reflects the same common sense. A striking example is the energy sector, the second largest lending sector for the World Bank and the largest sector for the Inter-American Development Bank in recent years. A recent World Bank study revealed that in Brazil half of all the new energy-generating infrastructure projected to be needed by the year 2000 could be obviated by investments in industrial end-use efficiency and conservation—investments that could cost less than a quarter of the cost of the projected construction. Yet the World Bank's 1986 \$500-million loan to the Brazilian power sector allotted only \$1 million for conservation measures. Another example is the recent World Bank loan of \$80 million to the Sudan, which was approved despite U.S. opposition on environmental grounds. The basis of opposition was that \$50 million of the loan is for unspecified pesticides—widely recognized as a disproportionately large input to Sudanese cash-crop agriculture and a cause of pest resistance and secondary pest infestations.

But if they do not reflect common sense, such lending decisions do reflect bureaucratic priorities. The multilateral development banks have an enormous amount of money to lend every year and, relative to that amount, a small staff to administer it. Given their current structure, the banks claim, with some justification, that they could not handle the load of many small-scale projects, which are administration-intensive. For a variety of reasons,

including the banks' historical rejection of trial projects on a small scale, there has been little research into the economic consequences that are likely to result from the adoption of projects of this kind. Such research would help to justify alternative lending strategies. In short, while it may be clear that ecologically sound planning makes for better development, it has not yet been made clear to the banks that it also makes sound institutional sense. In a remarkable perversion of priorities, efficient use of bank staff often weighs heavier in the banks' lending decisions than the most efficient use of both the financial and the natural resources of developing countries.

As leaders in the banks campaign recognized from the outset, reform will not be truly far-reaching if the focus of the campaign is exclusively project-specific, although such efforts are the road to more fundamental objectives. This is especially true since the World Bank in recent years has greatly increased the proportion of its lending—26 percent last year—for *nonproject* structural adjustment and sector loans. These loans are for large amounts (often several hundred million dollars), are quick disbursing, and are accompanied by macroeconomic conditionality designed to spur market- and export-oriented change.

The reforms already adopted have clearly resulted in some shifts in bank priorities. Environmentalists have urged the World Bank to integrate incentives for conservation of resources and management of the environment into its structural adjustment lending conditions, and the Bank is promoting such research in its new environment department. As well, in its background paper for the April 1987 meeting of the World Bank–International Monetary Fund Development Committee, the Bank emphasized that macroeconomic considerations of adjustment, trade balances, poverty, and growth were integrally related to pressures and incentives to conserve or destroy the environment and natural resource base. The major actor, though, in macroeconomic conditionality is the IMF. In fact, many of the World Bank's recent initiatives in lending for macroeconomic, structural changes have been in conjunction with the IMF and have overlapped with what has traditionally been perceived as the IMF's mandate. At the same time, there is already profound dissonance between the public statements and papers on environmental issues prepared by the World Bank for last year's joint development committee meeting and the IMF's absolute silence on these same issues.

This dissonance makes it imperative for NGOs to approach the IMF, both in order to expand the effectiveness of the reform campaign and also not to lose ground already won. The IMF's avenues of political influence

and accountability bear many resemblances to the World Bank's. The IMF's focus on macroeconomic conditionality, and the development banks' creeping toward such policies, offers the potential to reshape the definition of that conditionality. Among the key issues that should be addressed are the impact of agricultural policies and unequal land tenure on deforestation, and the impact of national export and commodity pricing policies on sustainable management of natural resources in general.

The most urgent international macroeconomic issue of all—the catastrophic burden of foreign debt on developing nations—offers a good opportunity for further establishing the link between economic and environmental health. For more than two years the National Wildlife Federation has been advocating “debt-for-nature swaps,” in which part of a country's external debt is forgiven in exchange for a country's agreement to protect a portion of its natural resources, typically forestland. The pioneering success of Conservation International, a group outside the bank reform campaign, in executing a debt-for-nature swap in Bolivia last year made the notion concrete, and both private banks and national governments are now exploring this option with environmental groups.

Clearly, debt-for-nature swaps, no matter how successful, are not an answer to international debt. (Conservation International's deal reduced Bolivia's \$4.1-billion external debt by only \$650,000.) However, they offer one more opportunity for developing countries to shift priorities toward natural resource management. In 1987, environmental groups helped to draft and win passage of legislation that calls on the Treasury Department to promote kindred initiatives in the World Bank and the IMF.

Effective policy intervention will require steady political pressure. The fact that the World Bank has undertaken some bureaucratic reforms, for instance, does not mean that environmentalists can assume that their case is won, or even that their ideas will get a sympathetic hearing. New posts have been created in the past, only to have business conducted as usual. But what has been won is an unprecedented and undeniable place for citizen activism as a force for accountability on the part of the major agencies controlling the international development agenda. The strategy has wrongly been called “bank-bashing” by some bankers and other individuals with a vested interest in the status quo. Though at times adversarial and aggressive, the banks campaign is very much in the democratic tradition of citizen vigilance over public institutions. The campaign has striven to achieve power as well as influence. The financial and ideological independence of the environmental groups has been critical in this regard, as has been their clear recognition of the importance and value of the multilateral

development banks for the future of international development. In fact, as even World Bank President Barber Conable has acknowledged, the groups involved are friends of those bankers who take seriously their mandate to plan for a sound economic and ecological future.

The lessons learned in the struggle to gain citizen power in a process so long controlled by a small elite of financial and development bureaucrats merit careful consideration: the need to create an independent pressure base, to use existing channels of power, to acknowledge and to give full expression to the controlling organizations' mandates, to develop a soundly researched case that includes not only specific evidence of damage but concrete alternatives, to build coalitions that cut across long-standing antagonisms, and to increase public awareness. These are all basic to policy intervention in any arena, and, indeed, to constructive social organizing and political advocacy in general.