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The Greening of the World Bank
A Lesson in Bureaucratic Survival

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Executive Summary

The World Bank has a dismal environmental record that environmentalists have long condemned. Its lending policies have financed ecological destruction, human rights violations, and forced resettlement, and its projects have suffered from high failure rates, according to the bank's own criteria.

Past reform efforts were denounced by environmental groups because those efforts failed to improve the bank's performance. Since the mid-1990s, however, the bank has been appeasing its critics by including environmental nongovernmental organizations (NGOs) in World Bank operations. As advisers to the World Bank and conduits for its lending, NGOs have been participating increasingly in bank operations in recent years.

The bank appears to have created a new constituency of environmental NGOs. Although the bank has been unable to show that the quality of its environmental lending has fundamentally improved, environmental groups, by and large, are more cautious in their criticisms of the bank and no longer advocate a reduction or suspension of funding for the World Bank, as they did in the 1980s and early 1990s.

The bank has also begun to adopt aspects of the "sustainable development" agenda advocated by the environmental lobby. The bank has done so despite widespread concern that such an approach—based on the dubious presumption that vigorous economic growth will overwhelm the earth's environmental capacity—is inimical to economic development and threatens to leave the developing world environmentally worse off.

A system in which NGOs administer and receive bank funds is also problematic because the incentive structure ensures that there will be little accountability in the lending process. In addition, the bank's financing of NGOs can undermine the basic governance process in developing countries through its selective support of NGOs that endorse official initiatives or that have clear political agendas.

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Introduction

In response to harsh criticism by the environmental lobby in recent years, the World Bank has elected to paint itself "green," incorporating the concept of sustainable development into the institution's core operating principles. Because the strategy has enabled the bank bureaucracy to pacify a hostile constituency that once posed a threat to the bank's very existence, the history of the World Bank's relationship with environmental advocacy groups[1] is a lesson in bureaucratic survival. Instead of devoting its resources to counter environmentalists, it chose to co-opt them.

At one time, environmental pressure groups organized picket lines outside the World Bank's Washington, D.C., headquarters. They eagerly denounced bank lending policies as environmentally destructive. But over the past decade environmental lobbyists have adopted a new role. Now they are counselors to the World Bank and conduits for its lending. In essence, they have adopted the role of nongovernmental organizations (NGOs) in partnership with the entity they once excoriated.

NGOs have long been a part of World Bank activities. So-called development NGOs—private voluntary organizations like Red Cross societies and refugee relief organizations like Oxfam and Save the Children—have traditionally provided direct services with World Bank funds. They also play an increasingly participatory role in World Bank operations, taking part in nearly 50 percent of all bank projects in 1997, including 81 percent of the bank's agriculture projects, 60 percent of its health and population programs, and 69 percent of other social-sector projects.[2] Those organizations have a vested interest in the World Bank; without it, their own budgets would shrink significantly.

Since being stung by environmentalist criticism, the World Bank has actively courted environmental advocacy groups. That effort has been largely successful. Environmental lobbyists remain critical of several World Bank projects, but, as they have become distributors and beneficiaries of bank grants, they have grown more restrained in their criticism and more understanding of the bank's failures.

Although it has won the acceptance of environmental groups, the World Bank has neither fundamentally reformed its lending practices nor radically changed the kinds of projects that receive its funding. Bank projects around the world remain environmentally damaging, and most will continue to be funded despite the bank's rhetorical embrace of the NGOs' sustainable development creed. The bank's most noticeable improvement has been in its ability to weather criticism, exposure, and political opposition.

By boosting its environmental lending and grant making to NGOs, the bank has ensured that its repeated announcements of its intention to reform have not been scrutinized as harshly as in the past. In the process, it has become a major financier of NGO partisan lobbying activities around the world. While NGOs typically describe themselves as representatives of civil society at large, the World Bank's funding patterns demonstrate a definite preference for organizations that support statist approaches to environmental policy, as well as a leading role for the World Bank in planning economic development projects for the developing world.

The Bank's New Mantra: "Sustainable Development"

Nobody can accuse the World Bank of being insufficiently ambitious. In addition to being committed to eradicating world poverty, the institution has undertaken to "deal effectively and sustainably with the major challenges facing the earth."[3] This all-encompassing environmental focus is a direct result of years of sustained pressure by the environmental lobby. In 1997 the bank created an Environmentally and Socially Sustainable Development Network, one of the core functions of which is to receive input from a wide variety of NGOs.

"Sustainable development" is a vague term almost notorious for its lack of precise definition. Yet the bank has managed to characterize the concept as "an alternative to traditional development." The new alternative focuses on "social inclusion and participation, the natural resource base and the global commons, long-term versus short-term time horizons, economic equity as well as growth, differences in perception, and the complex dynamics which interlink the planet's social, ecological, information, and economic systems."[4]

The philosophy of sustainable development has disturbing implications for developing countries. It is premised on the notion that vigorous economic growth and the unfettered operation of markets are unsustainable because they could overwhelm the biosphere's capacity to absorb pollutants and increase other stresses caused by humans. Consequently, bureaucratic restrictions must be imposed in order to diminish as much as possible the environmental impacts of economic development. Poor countries are urged to not take the development path taken by industrialized countries, in which economic growth based on dangerous technologies results in excessive consumption, pollution, and resource depletion. Dramatically higher standards of living in places like China, for example, are declared to be simply not possible because the earth's finite resources are too limited.[5]

While poverty alleviation still remains a goal of the World Bank, it no longer appears to be the paramount concern. According to Ian Johnson, World Bank vice president for the Environmental and Socially Sustainable Development Network, the bank's new mission is to "ensure that today's actions that encourage economic development and reduce poverty do not undermine tomorrow's options for development."[6] The implicit assumption is that the developing world's immediate economic development ambitions are inherently unsustainable.

Economic expansion is seen, not as helping people lead better lives, but as the troubling cause of species loss and diminished biological diversity. Infrastructure development, agriculture, resource extraction, and urbanization are the culprits. The suggested remedy for an expanding human civilization is to restrict land use. In the World Bank's "Advancing Sustainable Development," a report on the bank's role in implementing the United Nations' Agenda 21 environmental convention, the bank proposes to enlarge the total world land area of ecological parks and protected areas from 7 percent to 10 percent. Presumably, restrictions on mankind's use and development of land are to be instituted in countries that borrow extensively from the World Bank.

Rising energy use in poor countries is also considered unsustainable inasmuch as some scientists speculate that it could cause increased atmospheric carbon dioxide and global warming. To combat possible global warming and related climatic disturbances over the next century, the World Bank proposes a global reduction in the percentage of electricity generated from fossil fuels from the present 80 percent to 25 percent by 2050. Its own estimate of the economic cost of this radical electricity restructuring plan is 1 to 2.5 percent of global gross domestic product.[7] A substantial portion of the economic burden of restricting generation from fossil fuels would be shouldered by developing countries, which are dependent on a growing world economy to facilitate exports, tourism, and private investment.

Developing countries are not oblivious to the repercussions of sustainable development policies. In the context of the Kyoto Protocol and other environmental treaty negotiations, poor nations have called for a dramatic increase of foreign aid in exchange for their participation. Given the economic losses that would result from sustainable development policies, former World Bank development economist and UCLA professor Deepak Lal estimates that "developed countries would have to be willing to commit

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themselves to official transfers about four times current aid flows to developing countries in perpetuity." In the end, that would not be adequate compensation for the Third World, even if such a substantial increase in development aid were feasible. Not only does official development aid enrich the elite political classes at the expense of the poor, it also tends to have a negative impact on economic growth over time. The upshot, according to Lal, is that "foreign aid cannot therefore be expected to make up for the poverty alleviation that would occur with rapid growth based on industrialization which uses fossil fuel."[8]

In contrast to sustainable development theorists at the World Bank, who are coming to view economic growth as fraught with danger, many experts believe that the true environmental challenges are not issues of long-run sustainability such as species loss or climate change. According to economist Wilfred Beckerman, the real environmental problems afflicting the majority of the world's population in developing countries are inadequate supplies of clean drinking water, lack of basic sanitation, and exposure to severe urban air pollution. "Economic growth is the only sure path along which [developing countries] can hope to overcome these environmental problems," says Beckerman, because only in the context of rising incomes can such societies afford to enact appropriate policies to correct those problems.[9] Thus, the policy of sustainable development being promoted by the World Bank threatens to leave the developing world economically poorer as well as environmentally worse off.

Typifying World Bank failures was the enormous Polonoroeste regional development and agricultural colonization project in Brazil.

The bank did not always evince such great concern for sustainability. As late as 1991 the bank's chief economist Lawrence H. Summers, who would later become secretary of the U.S. Treasury, dismissed the overhyped ecological fears that had been repeated since the 1970s. His comments, though soundly rooted in economics, stand in sharp contrast to the bank's sustainable development rhetoric of today:

> There are no . . . limits to the carrying capacity of the earth that are likely to bind any time in the foreseeable future. There isn't a risk of an apocalypse due to global warming or anything else. The idea that the world is headed over an abyss is profoundly wrong. The idea that we should put limits on growth, because of some natural limit, is a profound error and one that, were it ever to prove influential, would have staggering social costs.[10]

In less than a year, however, the bank succumbed to environmentalist pressure. With the 1992 Earth Summit held in Rio de Janeiro, "sustainable development" became an integral part of UN terminology. As threats to World Bank funding became more intense, the agency adjusted its doctrines to coincide with political realities. By adopting sustainable development, the bank was able to justify its continued existence as a mechanism for environmental improvement around the world. Though the environmental movement initially did not trust the World Bank in this role, it, too, would eventually accede to political reality—the agency would not easily be dislodged.

A Brief History of Failed Reform Efforts

Initially, environmentalist interest in the World Bank reflected genuine concern over the agency's destructive impact on the environment. In the early 1980s environmental groups began to scrutinize the bank's operations closely. They discovered that, instead of promoting economic development, the top-heavy world agency was actually perpetuating poverty as it financed environmental devastation around the world. The bank was lending money to governments for large, poorly conceived construction projects. Local people would be forcibly resettled, their homes destroyed, and their human rights violated. Environmental advocacy groups decided to expose the bank's role in exacerbating human misery on a wide scale.

Typifying World Bank failures was the enormous Polonoroeste regional development and agricultural colonization project in Brazil. The project envisioned opening a vast area of the Amazon rainforest to cultivation; an extensive road-building program was to connect the project to populated areas of the nation.[11] The result was a colossal blunder of central planning. Facilitated by $443 million in World Bank–subsidized loans, the project introduced slash-and-burn agricultural practices, rapid deforestation of the Amazon basin, and a national malaria epidemic.

Patricia Adams, director of the Canadian environmental group Probe International, produced in 1991 a comprehensive book, *Odious Debts*, that documented the World Bank's involvement in such disasters. In it she condemned Polonoroeste for its devastating effects in Brazil. "Indian lands are systematically seized, generally without compensation, and Indian economies destroyed," she wrote, "The livelihoods of non-Indian dwellers—mainly rubber tappers who for generations had collected rubber, Brazil nuts and rainforest products—are also threatened."[12]

Bruce Rich, director of the international program at the Environmental Defense Fund, later penned another scathing book, titled *Mortgaging the Earth*, about the World Bank. In it he called Polonoroeste "an unprecedented ecological and human calamity."[13] Rich uncovered similarly devastating details about a $770 million bank loan to Indonesia to promote the migration of 2.5 million impoverished people to remote islands around the country. That project also exacerbated poverty while causing deforestation.

The environmental lobby was determined to put a stop to those World Bank abuses. Groups like the EDF, the Natural Resources Defense Council, the Environmental Policy Institute, the National Wildlife Federation, and the Sierra Club petitioned Congress for relief. In 1983 environmental groups and Indian tribes testified against World Bank lending before a congressional committee. The bank answered with a 48-page memo attempting to refute the charges. In addition to assuring Congress that it would not repeat its mistakes, the bank pleaded that the environmentalists' testimony "may create the misleading impression that past trends continue."[14]

The Bank Works to Appease Its Critics

The World Bank worked hard to neutralize environmental critics. Bank president A. W. Clausen, a former head of Bank of America, met with environmental leaders and asked them not to lobby against bank funding. He said the bank was amending its operations manual and would no longer finance projects that degraded the environment or forced human resettlement. The critics acquiesced and lobbied Congress only to require the bank to increase its environmental staff; share information with NGOs; and support smaller, less destructive projects.

Other reforms followed. Environmentalists prevailed upon Congress to pass legislation in the mid-1980s requiring the U.S. executive director of the World Bank to submit internal World Bank documents to the Library of Congress. This meant that more financial and project information would be made public, giving investigators the ability to expose even more World Bank abuses. The legislation further required the U.S. executive director to vote against World Bank projects that failed to comply with specific environmental criteria. Those new oversight measures gave environmental groups significant leverage over project funding; for the first time, the bank had to reckon with environmental lobbying groups as a serious political force.[15]

Environmental concerns were preeminent in 1986 when Barber Conable, a veteran Republican congressman from New York, assumed the presidency of the World Bank

Steady NGO pressure yielded yet another round of World Bank reform efforts.

Many U.S.-based NGOs concluded that the World Bank was incapable of reforming itself.

amidst great turmoil at the institution. Many bank loan projects were failing, the agency was receiving significant bad press, and complaints from environmentalists were growing more shrill. Promising to reinvigorate the institution, Conable solicited the views of groups like the World Resources Institute on the future of the World Bank.[16]

Early results came in 1987, when Conable launched a major environmental reform program. The environmental staff was increased, a new environmental department was formed, and position papers and action plans were published. New environmental loans were devised, and all bank loans were screened for environmental impact. Environmentalists were promised that NGOs in borrower and donor countries would be involved formally in World Bank operations.[17]

Environmental lobbyists rejoiced. Gus Speth, then head of the World Resources Institute, called Conable's program "a charter for a new day at the World Bank."[18] The EDF even took credit for the changes. "At a recent World Bank Board meeting, nine of the Bank's 21 Directors supported aspects of the environmental reforms in international development bank lending policy called for by U.S. legislation proposed and drafted by EDF."[19]

Reform Efforts Fail

The Conable reforms did not markedly improve bank performance. A 1992 internal review determined that 37 percent of the bank's 1991 projects were unsatisfactory. According to the bank's own criteria, they were failing to produce benefits. The review, conducted by then–bank vice president Willi Wapenhans, attributed deterioration of the loan portfolio to the bank's deep-rooted financial problems, including a "systematic and growing bias towards excessive optimistic rate of return expectations at appraisal." Wapenhans described borrower nations' failure to comply with financial loan covenants as "gross and overwhelming."[20] The touted "reforms" were proving to be ineffectual in making real changes at the World Bank.

The year 1992 marked a time of mounting frustration on the part of NGOs and a rise in anti–World Bank activity. The Development Group for Alternative Policies (Development GAP) and Friends of the Earth teamed up to organize "Fifty Years Is Enough," a massive anti–World Bank campaign marking the 50th anniversary of the Bretton Woods conference that created the bank, the International Monetary Fund, and the General Agreement on Tariffs and Trade. "The Bank has done more damage than good," declared a spokesman for the campaign.[21]

In 1992 the EDF, Friends of the Earth, Greenpeace, and the Sierra Club attempted to derail U.S. funding of the World Bank's sizable "soft loan window" for poorer countries, the International Development Association (IDA). They called it a plan to spend billions of dollars degrading the environment and worsening poverty. "At this point in time we don't believe the World Bank can be trusted to use taxpayers' money in a responsible manner which helps the poor and the environment in developing countries. Along with our counterparts in borrower and donor countries, we are launching a worldwide campaign to reduce funding to the World Bank," said Lori Udall, attorney with the EDF.[22]

The NGO mobilization was made more urgent by the drama surrounding the Narmada Dam, a World Bank–financed project in India. Environmentalists, India-based human rights advocates, and development organizations joined forces to mount a staggering effort against this large water project. NGOs agitated against the dam through public protests, publicity campaigns, and letter-writing campaigns urging the bank to terminate the project. Those groups maintained that the flooding caused by the Narmada Dam would disrupt the environment as 200,000 people were forcibly resettled and reportedly subjected to human rights abuses.

In 1993 the anti–Narmada Dam forces generated so much unfavorable publicity that the government of India elected to cancel its World Bank loan. Environmentalists celebrated this as a major victory, one they hoped would start a chain reaction of World Bank loan cancellations. Environmentalists considered the protracted struggle against Narmada Dam a model for future campaigns and resolved to overwhelm the bank on other large projects. "Clearly the World Bank is not an institution that can be trusted to use American taxpayers' money wisely in developing countries," said the EDF after its Narmada win.[23]

Environmentalists capitalized on their momentum. More than 50 organizations around the world joined Fifty Years Is Enough. In 1994 the anti–World Bank campaign traveled to Madrid, Spain, for the 50th anniversary celebration of Bretton Woods. The environmentalists staged a sit-in at an official press conference and conducted other protest activities. According to one commentator, the Fifty Years Is Enough campaign caused the bank and the IMF to suffer "the worst loss of reputation in their history."[24]

Steady NGO pressure yielded yet another round of World Bank reform efforts. A key change was the introduction of Project Information Documents, a set of written materials on bank activities in every borrowing country. A Public Information Center opened at the bank's Washington, D.C., headquarters to make project information widely available to the public. Finally, the bank created a review procedure, the Independent Inspection Panel, which NGOs could use to challenge individual projects on the basis of the bank's failure to adhere to its own environmental rules and other guidelines. To forge closer relations with NGOs, the bank has begun to conduct personnel exchanges with them and has started to include NGO representatives on its country missions.[25]

By and large, environmentalists rejected the reforms set in motion by Conable and his successor, Lewis Preston. Many U.S.-based NGOs concluded—after lobbying unsuccessfully for many years—that the World Bank was incapable of reforming itself. Decisionmaking was driven by the desire to make new loans, and the billions of dollars entailed meant that business considerations were paramount to the lending agency. All the evidence indicated that pressure from green organizations failed to radically alter bank policies and practices.

"For more than a decade, citizens' groups in the United States, in collaboration with partner organizations in the Third World and Eastern Europe, have lobbied the IMF and the World Bank, as well as the U.S. government, for reforms in [their] operations and policies," said Lori Udall, director of the International Rivers Network, in congressional testimony in 1994. Udall lamented, "Despite these efforts and the growing chorus of criticism from the U.S. Congress, governments and UN agencies, the IMF and World Bank continue to resist fundamental and meaningful change."[26]

John Thibodeau, an activist with the Canadian NGO Probe International, pronounced the bank's reforms "resounding failures. Like all previous attempts at reform, they have failed to make the Bank more open and transparent, or more accountable to the citizens of either borrowing or lending countries."[27] Thibodeau's study, "The World Bank's Persisting Failure to Reform," excoriated the bank for failing to take action over a 10-year period to address serious management failings. Instead of making real changes, the bank seemed to be burying its critics in paper, "adding new policies and practices, producing new handbooks and guidelines for staff, and undertaking review after review, all intended to address the ill-effects of its lending."[28]

The Probe report suggested that many environmental NGOs were beginning to question whether the World Bank could be reformed at all. Probe itself urged donor governments to "halt future appropriations of their constituents' scarce tax dollars to this flawed institution."[29]

Wolfensohn's reforms are substantively little different from those of his predecessors.

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Wolfensohn Courts the Environmental Movement

The bank's reform process gained new momentum in 1995 when James Wolfensohn took the helm. Wolfensohn, a board member of both the World Business Council for Sustainable Development and the Population Council, is a prominent Wall Street investment banker who was recommended for the World Bank presidency by two powerful environmental figures, Maurice Strong and Vice President Al Gore.[30]

Wolfensohn quickly became an outspoken critic of bank projects thought to negatively affect wildlife and habitats. Early in his tenure at the bank, he was forced to deal with the controversial Arun Dam, a megaconstruction project in a remote part of Nepal. The project was to generate eight times the amount of electricity previously used in the country, but it came under heavy criticism just before Wolfensohn took over the bank, when Nepali citizens' groups filed a complaint with the bank's inspection panel. The 1994 complaint alleged that the Arun project violated published World Bank policies on information disclosure, economic analysis, environmental assessment, involuntary resettlement, and indigenous peoples.[31] On the advice of Maurice Strong, Wolfensohn elected to cancel the project.

In June 1995 Wolfensohn asked U.S. and international NGOs to advise him on the bank's structural adjustment programs, which make loans on condition that the borrower countries reform their macroeconomic policies. The NGOs argued that most structural adjustment loans imposed on developing countries tax incentive and subsidy policies that were harmful to the poor. Following an exchange of views, in December 1995 the bank launched a Structural Adjustment Participatory Review Initiative. It pledged to hold public meetings to review structural adjustment lending in 10 countries. Significantly, the bank designated Development GAP, the group that launched the Fifty Years Is Enough campaign, to serve as the NGO "secretariat" for this consultative process.[32]

Wolfensohn's aggressive courting of NGOs has been very effective at securing their political support for the bank. He has met frequently with local NGOs on his travels to World Bank borrower nations in Eastern Europe and the Third World. At the World Bank's 1995 annual meeting, Wolfensohn held a joint press conference with three development NGOs—Forum of African Voluntary Development Organizations, Oxfam International, and InterAction—at which he urged the United States to increase its bank funding.[33]

The bank also has signed a cooperation agreement with the International Union for the Conservation of Nature–World Conservation Union, a global NGO with members in 130 countries. Bank staff meet regularly with the IUCN to evaluate opportunities for NGOs to participate on environmental projects and initiatives. Bank staff serve as well on IUCN commissions and program advisory groups. One result of the bank-IUCN collaboration is a proposed Critical Ecosystems Partnership Fund, which aims to restrict economic activity around parks and protected areas in developing countries.[34]

In 1997 the bank began making the first in a series of loans to implement the anticipated Kyoto global warming treaty. Intended to promote development while protecting the environment, the loans are to be a model for future World Bank lending. The bank also is moving to make more loans to small-scale projects considered less harmful to habitats. "My reading is that the Bank is clearly moving in the right direction," says Robert Watson, director of the World Bank's Environment Department.[35] Watson is himself a sign of environmental concern; he is an atmospheric scientist who has worked for years in the federal government on ozone hole and global warming issues.

Despite the World Bank's concerted public relations efforts, Wolfensohn's reforms are substantively little different from those of his predecessors, Clausen, Conable, and Preston. His efforts consist mostly of renewing unkept promises, holding high-profile meetings with NGOs, and making dramatic press announcements. Stripped of the fanfare, the Wolfensohn round of reforms is a dud.

In April 1997 an internal bank review concluded that the highly touted reforms had made little difference in 150 projects surveyed. Not only had Wolfensohn failed to change the internal culture of rapid loan approval, he was unable to speed the cancellation of nonperforming loans. One in-house survey of the bank's reorganized Africa Division found that less than a third of its staff believed the Wolfensohn reforms had improved bank performance.[36]

In 1997 a number of NGOs collaborated with the Center for Strategic and International Studies to evaluate the performance of the multilateral development banks. A task force chaired by former senator Bill Bradley (D-N.J.) and House Budget Committee chairman John Kasich (R-Ohio) concluded that the World Bank had failed to reform its lending processes, overhaul its bureaucratic structure, and achieve transparency and accountability to outside review. Blasting the bank as "adept at keeping outsiders from differentiating between public relations pronouncements and real changes in bank activities," the task force warned that the bank risked the loss of U.S. funding.[37]

The Wolfensohn reforms pursue two incompatible goals. They try to cut red tape, which has plagued bank projects for years. They also try to make the bank's bureaucracy responsive to environmental pressure groups, which urge it to pursue "sustainable development" policies. The bank cannot trim its staff while initiating the far-reaching social and environmental reviews demanded by the NGOs. Caught in political cross currents, bank reform languishes.

Forced resettlement also continues to be a problem with World Bank lending. On June 23, 1998, the bank once again announced its intention to reform resettlement policy, following the completion of a study by its Operations Evaluation Department. A World Bank press release acknowledged the long duration of reform efforts in this area: "The Bank led the way in the 1980s in establishing policy to mitigate the adverse impacts of resettlement. In 1994, it undertook a major review of its resettlement experience, which led to strengthening of procedures and to enhancing of social science skills within the staff of the Bank."[38]

Tangible results of more than a decade of reform efforts appear to be sorely lacking. At five of eight dam project sites where the bank interviewed resettled persons, a majority were dissatisfied with their resettlement experience. In one instance, a borrower government had evicted residents from an area scheduled to be flooded by a bank-financed dam. According to the bank's own study, World Bank supervisors fail to prevent abuses because they typically end their supervision of projects once the construction phase is complete and all bank money has been disbursed. In other words, the bank extends loans to borrower governments before it has verified that acceptable resettlement plans have been implemented. The bank's reaction to this latest revelation: "The Bank intends to reinforce the vigor with which it addresses resettlement issues and to ensure compliance with its policies that set environmental, social, and international law safeguards."[39]

Issuing a press release announcing renewed commitment to old promises appears to be a ritualistic bank response to environmentalist criticism and pressure. There is no evidence that the bank's rhetoric has translated into real improvements in the field. In its latest *Annual Review of Development Effectiveness*, the bank judges that 25 percent of its projects in 1997–98 had an unsatisfactory outcome, even by its own rather subjective standards. It also concedes that only 54 percent of projects completed could be judged sustainable, meaning that their results were likely to last over time. Those figures do not take into account projects affected by the Asian financial crisis, which are estimated at 43 percent sustainable. While the bank blames the crisis for its poor performance, that explanation fails to acknowledge that bank projects were

The bank's record of green lending in the 1990s reflects a marked turnaround from previous years.

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intended to reduce the likelihood of economic collapse in this region.[40]

The World Bank's self-evaluations have not documented any improvement in general environmental performance. Neither have environmentalist groups identified dramatic successes in this area. An environmentalist report, released in early 1999, labeled the World Bank's environmental reform program a "failure," noting that it had not produced more environmentally sound projects or a greater degree of bank accountability to the public. According to the report, endorsed by the EDF, Friends of the Earth, Greenpeace, and the Sierra Club, "An evaluation of the World Bank Group's portfolio shows that it does not promote environmental protection in its operations and loans." The reasons for this include weak environmental supervision and a lack of incentives for bank staff to consider the environmental implications of their projects. The result has been that the bank has systematically failed to adopt its own oft-repeated recommendations for improving quality and environmental performance.[41]

"It's fair to say that the bank has launched some new environmental initiatives," commented Andrea Durbin, director of international programs at Friends of the Earth, in late 1997. However, "the implementation has been slow and sometimes doesn't happen, [and] the over-all portfolio hasn't shifted significantly."[42]

Bank Money Available to NGOs

Will the NGOs now follow through on their severe criticisms? Will they force reform by lobbying to de-fund multilateral lenders? A few groups like Canada's Probe International will go that far, but the NGO movement at large will not. Development NGOs in Europe and in poor countries are particularly reluctant to ask for cuts in U.S. funding. Their food aid and disaster relief programs depend on U.S. government subsidies. Many environmental lobbying groups also have a diminishing interest in fighting the World Bank. In 1996 World Bank direct grants to NGOs totaled $36.8 million and were disbursed through an assortment of bank vehicles including Social Funds, Special Grants, and Small Grants programs and the Global Environmental Facility.[43] Those grants have given the NGOs an enormous incentive to withhold or temper their criticisms whenever it is time for Congress to appropriate funds for the massive World Bank budget.

Adding to the attraction the World Bank holds for environmental advocacy groups is its increased lending in the environmental sector. Although environmental-sector loans are only 5 percent of all bank projects, the bank's record of green lending in the 1990s reflects a marked turnaround from previous years. The organization extended $11.6 billion in cumulative loans for environmental projects through 1997, up from $1.89 billion in 1990.[44] The NGO participation rate in environmental loans is over 80 percent, giving environmental NGOs a disproportional influence within the institution.[45]

The World Bank provides no public accounting of how much of its lending actually benefits NGOs. Yet one bank survey of 61 projects in seven countries documents some $900 million funneled through NGOs from 1985 to 1996.[46] Some grant money goes directly to NGOs for studies and consultations. Typically, however, a foreign government requests bank funding for a project, but the grant is usually administered by one or more NGOs acting on the government's behalf.[47] When NGOs are paid consultants or contractors to governments receiving loans, they are unlikely to bite the hand that feeds them.

There are many problems with bank financing of NGOs. Clearly, such organizations face great temptation to engage in self-dealing. When NGO representatives sit on World Bank social fund boards that decide how monies are distributed, when they serve on social fund committees that design, select, and evaluate projects, and when they help borrower governments administer social funds, there will be many opportunities to enhance the NGOs' role.[48] Furthermore, bank funds have been used to cover travel expenses for NGO representatives to attend such UN meetings as the 1994 Conference on Population and Development in Cairo, the 1995 World Summit on Social Development in Copenhagen, and the 1995 Women's Conference in Beijing.[49] By subsidizing NGO travel, the World Bank gives UN conferences the appearance of broad public support. However, the NGOs that receive travel benefits are generally selected because they endorse UN policies and objectives.

There can be little doubt that the publicly funded World Bank is financing a one-sided political agenda. In 1996 the bank provided $9,000 to Conservation Asia, an NGO in Nepal, to facilitate "networking on environmental issues," and the Lorma Community Development Foundation received $13,000 for NGO caucuses to lobby the Philippine government.[50] Another $15,000 went to a Brazilian NGO to participate in the June 1997 Rio+5 conference, a UN review of the 1992 Earth Summit.[51] Because those funds are made available only to groups that publicly favor "sustainable development" (especially the kind of planned development that the World Bank plays a key role in coordinating), bank funding of NGOs is rather unbalanced. The bank's established practice of subsidizing NGOs necessarily undermines the basic governance process in the countries where those groups operate. Indeed, some countries may consider such partisan funding just another U.S.-led interference with their political systems.

Many World Bank subsidies to NGOs are delivered through programs like the Global Environment Facility. The World Bank first established the GEF in 1990 to manage transborder environmental problems. Twenty-eight countries contributed $1.2 billion to a three-year pilot phase for four primary purposes: curbing greenhouse gas emissions, protecting the ozone layer, safeguarding international waters, and preserving biodiversity. The World Bank and the UN jointly run the facility. In 1994 the GEF became the permanent financial mechanism of the UN Climate Change and Biodiversity conventions.

Although environmentalists have identified numerous abuses at the GEF, the agency was working hard to curry favor with its critics. Through 1994 the GEF had disbursed a cumulative total of $10 million to NGOs to promote the UN's global warming and biodiversity treaties.[52] The U.S. Congress continues to fund the GEF and its efforts to promote its objectives, even though the U.S. Senate has not ratified either the biodiversity treaty or the Kyoto Protocol.

Despite criticism of the World Bank by environmentalist NGOs, World Bank grants underwrite NGO activities throughout the developing world. Such grants, which target a variety of NGO causes, safeguard the bank's strategy of institutional adaptation and survival. In her book *Masters of Illusion: The World Bank and the Poverty of Nations*, Catherine Caufield explains:

> [The World Bank] is now committed—at least on paper—to helping the private sector, women, and the poor; to working with non-governmental organizations and the people directly affected by its projects; to increasing its lending for education, health, nutrition, and micro-enterprises; to protecting or improving the environment, the rule of law, and equitable income distribution—and to doing it all "sustainably."[53]

The World Bank's response to almost every criticism is to set up a new grant program. But new grants cannot accomplish all of the various objectives the bank has laid out for them. The bank has yet to provide any tangible evidence that its grant programs for NGOs are doing any good in the countries where they are made. Neither the GEF nor the bank conducts any oversight of the NGOs receiving grants, meaning that the

By subsidizing NGO travel, the World Bank gives UN conferences the appearance of broad public support.

Through 1994 the GEF had disbursed a cumulative total of $10 million to NGOs to promote the UN's global warming and biodiversity treaties.

NGOs are not held accountable for the use of public funds. A 1998 internal report on the GEF concedes that the institution's project implementation reports "do not constitute independent evaluation because they are prepared by the implementing agencies."[54]

The lack of oversight has a detrimental effect on aid projects. Former aid worker Michael Maren describes a similar dynamic occurring in the context of UN projects: "The result is a closed circle of people and a closed circle of money in which nobody has any vested interest whatsoever in saying that the project stinks, isn't working, and should be shut down." Moreover, the grantees implicitly understand that they must spend all of their grant money and keep careful accounting records in order to ensure receipt of additional grants in the future. "When aid bureaucracies evaluate the work of NGOs," Maren reasons, "they have no incentive to criticize them." Of course, the NGOs themselves are not interested in reporting any information that would threaten the flow of official aid. Thus, there is little assurance that aid monies are being spent wisely.[55]

Bank Critics Become Allies

When environmental NGOs opposed World Bank lending, they helped stymie the financial and environmental mismanagement of borrower governments, the proximate cause of Third World stagnation. NGO lobbying also promised to reduce the foreign aid burden on American taxpayers.

But environmental NGOs now refuse to take the final step. They oppose attempts in Congress to reduce or end U.S. funding of the World Bank. In 1995 Rep. Tom DeLay (R-Tex.) offered legislation to eliminate Global Environment Facility funding. In part, he relied on the 1994 criticisms of the agency leveled by EDF director Bruce Rich in *Mortgaging the Earth*. "It is ironic that at the very moment when other forms of hyper-centralized planning and management have collapsed or are in crisis all around the world, the industrialized nations have endorsed just such an approach through the GEF," wrote Rich. "The GEF serves to propagate the profound fallacy that addressing global environmental problems is a matter of industrialized nations contributing an additional few billion dollars for more projects (in this case 'green' ones)."[56]

In 1993 environmentalists characterized the GEF as "an eviction program" for native peoples.[57] One project to create a nature reserve for endangered monkeys called for the displacement of 5,000 East Africans from their homes along the Tana River, an area those people had occupied for 600 years. But, according to the East African Wildlife Society, people were not a threat to the monkeys. A World Bank–funded dam and an irrigation project had caused the monkey populations to decline.

Environmentalists generally considered the GEF a multi-billion-dollar public relations tool for an environmentally destructive World Bank. Friends of the Earth described the GEF as "a blatant attempt to buy environmental respectability for the Bank while the Bank continues to [fund] environmentally and socially destructive projects."[58] GEF projects generally work at cross-purposes with other bank-financed projects. As Caufield notes, when a GEF project is attached to an environmentally destructive project, "the environmental cost is not only externalized, it is transferred from the private sector to the state."[59] That is, the World Bank–financed polluter avoids paying environmental costs by passing them on to the taxpayers.

In August 1993 an independent evaluation panel identified multiple problems at the agency and pronounced the GEF a failure. The panel described GEF claims of cooperation with NGOs as a "biased exaggeration, if not falsification." It warned that "the many instances of unsatisfactory practices by the GEF's implementing agencies point to the need to pause and rethink policies and practices."[60]

More recent evaluations have not shown

marked improvement in the GEF's performance. The most recent evaluation, for example, boasts that a majority of GEF projects are deemed satisfactory. Yet the review covers only 119 projects of a total of 267, or slightly fewer than half. Moreover, the evaluation report does not clearly define "satisfactory" by objective criteria. Instead, it notes that most individual project reports in 1998 lacked "satisfactory indicators of their intended outcomes and impacts."[61]

In general, the report criticized the GEF for having a project approval culture rather than one focused on achieving measurable results. The GEF still suffers from major shortcomings—not only is the general public in the developing world unaware of its activities or purpose; virtually none of the projects the GEF supports is expected to survive on its own without continued subsidization. As is typical of World Bank evaluations, this report urges "longer time horizons" for GEF projects.[62] In other words, the consultants who prepared this evaluation think the GEF should commit to longer-term projects for the consultants to evaluate.

Another 1998 World Bank internal report indicates that GEF climate change projects are financially unstable. Alternative energy projects in India and Zimbabwe, for example, are clearly not working. In India, private solar installation companies refused to borrow funds to pay for photovoltaic (solar power) equipment because they feared they would be unable to repay the loans without government guarantees. In Zimbabwe, customers were more willing to purchase solar equipment only because a government bank had agreed to cover the repayment risk, demonstrating the project's inability to compete on its own in the private market. The internal GEF report admits that approximately 75 percent of its Zimbabwe companies are expected to collapse without subsidies and other government support. Just about the only tangible result of funding has been conspicuous consumption by Western consultants, evidenced by their obtrusive four-wheel-drive vehicles, expensive imported food, and luxurious housing.[63]

The environmental movement itself has reversed its position on the virtues of the GEF. When Representative DeLay threatened the GEF's funding in 1995, EDF and other groups rallied to its defense. "Funding from the GEF is essential to solving critical environmental problems," claimed a coalition of groups including the EDF, the Center for International Environmental Law, Conservation International, Friends of the Earth, Greenpeace, the National Audubon Society, the National Wildlife Federation, the Natural Resources Defense Council, the Sierra Club, and the World Wildlife Fund.[64] A few months earlier, they had attacked the GEF as dysfunctional, undemocratic, and unaccountable. Now they rushed to endorse the World Bank's contention that the GEF had undergone "a major restructuring" to correct its problems.[65] Were the environmental groups pressured by development NGOs to maintain a united front? What explains the change of heart?

EDF's Bruce Rich, who literally "wrote the book" on the World Bank's environmental devastation, appears to have modified his earlier position on bank funding. "Cuts in funding will be the greatest spur to reform," he wrote in 1994. "It is the only external pressure that World Bank management appears to take really seriously."[66] One year later, Rich's tone had changed: "There is clearly a role for such an institution, but [the bank] must focus on quality rather than quantity in its lending." Rich deemed the bank's reform efforts credible and criticized as "irresponsible" proposals to cut federal appropriations.[67] Says Doug Hellinger, executive director of Development GAP, "Wolfensohn is still our last, best hope to bring about change." The group that organized the Fifty Years Is Enough campaign now acts as a bank consultant.[68]

The group that organized the Fifty Years Is Enough campaign now acts as a bank consultant.

What explains the turnaround? The World Bank, recognizing that environmentalist opposition threatened its own existence, made a concerted effort to meet the challenge head-on. An internal World Bank

The World Bank's latest reform effort is eerily reminiscent of earlier efforts that environmental groups denounced.

report points to "the continued need to build a public constituency for the Bank's policies and programs, and for development assistance in general."[69] Central to its strategy was a systematic effort to convert the environmental movement to its development philosophy and thereby blunt environmentalist criticism.

Beginning in the early 1990s, the bank contacted the most influential environmental critics of its lending programs and invited them to "participate" in the bank's work. According to the bank, that activity has caused "a reduction in NGO criticism" and a recognition on the part of NGOs that they and the bank share common interests and concerns. The bank claims that a chief benefit of appeasing the environmental movement is an "improve[ment in] the overall climate of opinion around the Bank's work."[70]

Wolfensohn asked NGOs to withhold their criticism of the bank. Many NGOs heeded his request because "they felt the eagerness of the Republican majority to cut IDA funding needed no extra encouragement."[71] Some NGOs "discovered that, when push came to shove, they did not think it right to destroy an agency, whatever its faults, that makes low-cost loans to the poorest countries."[72] No doubt the NGOs also thought it would be difficult to constitute an entirely new aid agency capable of subsidizing private lobbying groups.

The environmental movement is now committed to working with and improving the World Bank, rather than fighting against it. Implicitly, many activists also believe that World Bank planners, who once ignored environmental considerations with tragic consequences, can now be trusted to implement major development decisions in the Third World. Those activists suggest that the bank can oversee "sustainable development" by subsidizing small-scale, "earth-friendly" projects such as "ecologically sensitive agricultural techniques, solar-powered water pumping, or the rehabilitation of degraded lands."[73] In addition, the bank must integrate sustainable development concerns into all of its projects, avoiding or minimizing the use of resources to meet the energy and economic needs of local communities.

Conclusion

The World Bank has been highly successful in its efforts to blunt environmentalist criticism of its lending policies. It has adopted environmentalist rhetoric concerning "sustainable development," bolstered lending to the environmental sector, and provided generous funding to a growing NGO constituency. It has leveraged its considerable resources to appease its chief critics and win their grudging support. Though environmental groups broadly consider the bank's reform efforts unsatisfactory to date, those groups are now deeply entrenched at the institution. Strangely enough, their vision of Third World economic development has evolved to resemble the bank's.

Sadly, not enough has changed at the World Bank to fundamentally alter the environmental quality of its lending. Its latest reform effort is eerily reminiscent of earlier efforts that environmental groups denounced as inadequate and diversionary. But it may be effective enough to safeguard the World Bank's funding prospects on Capitol Hill.

Catherine Caufield's study of World Bank reform concludes: "There is much truth in the saying that development—at least in the monopolistic, formulaic, foreign-dominated, arrogant, and failed form that we have known—is largely a matter of poor people in rich countries giving money to rich people in poor countries."[74]

But environmental advocacy groups refuse to accept her finding. Despite their previous calls to reduce funding for the bank, those groups now seem determined to imagine the bank as the instrument of their own purposes. That may very well be due to the World Bank's use of its substantial financial resources to co-opt the environmental movement, at one time a considerably more serious threat to the bank's existence than Republican control of Congress.

Notes

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