

The World Bank and the environment: A legacy of negligence, reform, and dysfunction

By Bruce Rich

This essay explores the environmental legacy of the World Bank, tracing the emergence of its environmental standards and the inability of the Bank's governance structures to prevent catastrophic environmental damages occurring as the result of Bank-financed projects. The Bank's environmental legacy is one of cumulative, avoidable ecological and social harm, followed by policy and procedural reforms adapted mainly in response to outside pressure and protest, and generally poor implementation of these reforms. This dysfunction is rooted in a perverse institutional culture of loan approval and pressure to lend, which also undermines governance in the Bank's borrowers and the economic quality of its operations.

The World Bank's 75th anniversary is a good opportunity to examine its record concerning an overarching challenge of the 21st century: Ensuring that development promotes the sustainability of the ecosystems on which the fate of humanity depends. For its first quarter century through to the late 1960s, the Bank's role appeared simple: A lender for economically productive investment projects (which its charter states is its main function). Under the tenure of President Robert McNamara (1968-81), the Bank expanded its mission to include a focus on helping the poor, as well as establishing an Office of Environmental Affairs in 1970. At the 1972 United Nations Stockholm Conference on the Human Environment, McNamara claimed that the environmental office reviewed "each project processed by the Bank" and that "since initiating our environmental review, we have found that in every instance the recommended safeguards have been successfully negotiated and implemented."ⁱ A decade later, McNamara's successor A.W. Clausen publicly touted claims of the Bank's comprehensive environmental review and successful implementation of environmental safeguards.

These representations were falsehoods. In the 1980s an international research and advocacy campaign by civil society organisations in the US, Europe, and in major borrowing countries such as India, Brazil, and Indonesia uncovered negligence and cover-ups in a growing number of Bank-financed development and infrastructure schemes. Multiple loans totalling many hundreds of millions of dollars supported huge agricultural resettlement schemes in Northwestern Brazil (the Polonoroeste project) and Indonesia (the Transmigration program) that catalysed largescale deforestation in the world's two largest remaining tropical rainforest regions. In India, Bank-financed coal mines and coal power plants as well as huge dams forcibly displaced many hundreds of thousands from local communities without adequate resettlement provisions. Growing protests of locally affected people in borrowing

countries and hearings in the US Congress and in parliaments of several other donor countries led to a public *mea culpa* by Bank President Barber Conable in 1987, admitting that the Bank had been "part of the problem" and had "misread" the "human, physical, and institutional realities" of the environment.ⁱⁱ The Bank increased environmental review and policy staff over ten-fold and set up regional environmental review units to complement the central environmental policy office.

Some of these new initiatives, such as loans for environmental ministries and protected areas, were indeed positive, not least because of the Bank's leadership role in identifying new priorities and standards for other multilateral development banks as well as for private international banks engaged in project finance. But the implementation of environmental policies and assessments was often deficient, and new "development debacles" fueled new protests. The protests catalysed threats of funding cuts from the US Congress in the 1990s, prodding the Bank to set up its independent accountability mechanisms (the Inspection Panel for the International Bank of Reconstruction and Development [IBRD] and the International Development Association [IDA], and the Compliance Advisor/Ombudsman for the International Finance Corporation [IFC], the private sector lending arm of the World Bank Group). The accountability mechanisms have the mandate to review complaints by affected populations when the Bank does not follow its own environmental and social safeguard policies.

Yet the disconnect between rhetoric and operational reality continued. In the late 1990s, President James Wolfensohn commissioned an internal review of the Bank's operations that characterised the Bank's culture as "institutional optimism" based on pervasive "institutional amnesia." "The lessons from past experience are well known," the (now defunct) Quality Assurance Group concluded, "yet they are generally ignored in the design of new operations."ⁱⁱⁱ The institution's original sin of a "loan approval culture" or "pressure to lend" was as perverse as ever.

The Bank's contradictory roles as climate trustee and coal financier

Despite these failings, in the first decade of this century, donor nations entrusted billions of dollars in new climate change mitigation funding to the Bank. The Bank also administered most of the investment projects of the Global Environment Facility, which, since its establishment in 1991 through the early 2000s, disbursed an average of \$162 million annually for climate change mitigation. Under the Bank's *aegis* in this period (and in the face of protests by United Nations Environment Programme representatives), some GEF funds were used to top off carbon-intensive Bank projects, including a \$45 million GEF contribution to a project for the life extension and modernisation of several coal plants in India. Starting in 2000, donor countries also entrusted the Bank with additional

contributions for carbon funds, whose main purpose was to jump start international carbon offset trading under the Kyoto Protocol's Clean Development Mechanism, as well as carbon trading for forest offsets in developing countries not covered by Kyoto. By 2011, the Bank claimed it was managing over \$3 billion in 13 different carbon funds. In 2008 the US, UK, Japan and other industrialised countries asked the World Bank to administer the largest part of \$6.7 billion in several Climate Investment Funds (CIFs) to provide grants and low interest loans to developing nations for clean-energy investments and other programmes to address climate change; originally scheduled to be phased out by 2013 with the creation of the United Nations Green Climate Fund, the CIFs' sunset date has been continually postponed.^{iv}

As these new climate funds for the CIFs poured in, the World Bank Group simultaneously went on a coal lending binge, approving \$6.75 billion for coal plants and associated infrastructure between 2008 and 2010 alone in the Philippines, Chile, Botswana, India, and South Africa. By taking the lead role in such investments, the World Bank Group catalysed tens of billions of dollars in additional coal funding by other public and private financial institutions and banks.

A tale of two coal plants

Two of these Bank financed projects – the 4,150 Megawatt (MW) Tata Mundra coal plant in India^v and the 4,800 MW Medupi coal plant in South Africa^{vi} – are notorious examples of the disastrous environmental and economic legacy of its negligent lending culture. In 2008 the IFC approved a \$450 million loan to Tata Power Ltd. for the Tata Mundra coal plant, catalysing an additional \$5.73 billion of private bank loans, as well as \$900 million Korean government export credit finance. Earlier this year, Tata Mundra was the subject of a US Supreme Court case (*Jam vs. International Finance Corporation*), where public interest advocates representing affected local communities maintained that IFC negligence resulted in the contamination of drinking and irrigation water of local farm communities, causing severe harm to fisheries and fisherfolk, adversely affecting public health through air pollution and inducing involuntary economic and physical displacement. The IFC's Compliance Advisor Ombudsman (CAO) confirmed these allegations repeatedly over several years, but IFC management did not act to remedy the problems. The Court rejected the IFC's arguments claiming absolute immunity from US lawsuits and remanded the case back to lower courts for further consideration.^{vii}

The negligence of the World Bank Group in financing Tata Mundra greatly exceeds the needless harm inflicted on local poor people. Tata Mundra is one of the 50 biggest sources of greenhouse gas emissions on earth. The inexpensive electricity rates that Tata and the IFC touted to justify the project depended on the import of Indonesian coal at highly subsidised rates. The Indonesian government halted the subsidies, and in 2011 Tata Power asked the Indian government in vain to

allow it to double the electricity rate: The plant was losing \$250 million annually and was quickly becoming a non-performing asset. Rating agencies Standard and Poor's and Moody's downgraded the company's credit rating. In 2012 Tata Power's executive director announced that henceforth the company would only invest in wind and solar. "Why would anyone want to invest at this stage in a coal project?" he exclaimed.^{viii} In 2017, Tata offered to sell 51 per cent of its equity in the multi-billion-dollar plant to several Indian states for one rupee — equivalent to 1.4 US cents. There were no takers.

During the time the IFC was considering Tata Mundra, David Wheeler, formerly a lead environmental economist in the Bank for 17 years, denounced the IFC's support for the project in numerous articles as well as in US Congressional hearings. Besides attacking Tata Mundra for its disastrous climate implications, Wheeler noted that the Bank was squandering scarce public resources to subsidise a private power plant that did not need public international subsidies. As an economist, he warned – completely accurately – that "power from Mundra will never be sold at the rate advertised on the IFC's website...because this would guarantee bankruptcy in short order."^{ix} The other rationale for the project – that it would supply needed energy for low-income, non-electrified households – was equally bankrupt, as only one-tenth of 1 per cent of Tata Mundra's electricity was allocated to habitations without power.^x

Demonstrating it had failed to learn the lessons of Tata Mundra, in March 2010 the World Bank approved \$3.75 billion to the South African state utility Eskom – the largest energy loan in World Bank history – for the Medupi plant. Medupi will be the third largest coal power plant on Earth. Like Tata Mundra, it will emit more carbon annually than 115 nations.

Medupi turned out to be an even greater economic debacle than Tata Mundra. It has been plagued by huge cost overruns, delays, and massive corruption. Current estimates are that Medupi, if completed (latest estimated completion date: 2020), will be one of the most expensive coal plants ever constructed, costing over \$10 billion. According to the *Financial Times*, the debt of Eskom has grown over tenfold since 2007, and the utility is now threatened by bankruptcy.^{xi} On 19 January this year, the World Bank's Country Director for South Africa announced that Eskom "is a case of being too big to fail," and called for more debt restructuring and subsidies.^{xii} Weeks later the South African government announced the largest bailout in its history, some \$4.9 billion, to cover three years of Eskom's debt payments.

The local pollution impacts on impoverished populations is immense. The Bank allowed Medupi to proceed without Eskom installing dust monitors or complying with already weak South African standards. The *Financial Times* cited analyses by environmental groups estimating that annual premature deaths from this pollution could be in the thousands.^{xiii}

One of the biggest ironies of the World Bank's financing in these cases is that in both India and South Africa, renewable energy was already emerging as an alternative that promised rapidly falling costs and a climate friendly future. In South Africa, the *Financial Times* noted that "in the space of less than a decade the country has used an innovative auction system – which attracted over \$14 billion of private capital – to secure 6,400 MW of solar, onshore wind, and other independent projects."^{xiv}

Lessons learned?

Both Tata Mundra and Medupi will be among the largest sources of greenhouse gas emissions on Earth for decades to come. Since 2014, the World Bank has not directly financed new coal plants and has proclaimed its commitment to financing climate friendly alternatives. In 2017 the Bank announced that after 2019 it would not finance new "upstream" exploration and development of oil and gas, "unless under exceptional circumstances", but would continue to finance natural gas projects involving transport, distribution, and power generation.^{xv} But at the World Bank and IMF Spring Meetings this year, the German NGO Urgewald released an assessment of over 675 energy projects of the World Bank Group documenting how, in the Bank's fiscal years 2014-2018, it approved over \$12 billion for fossil fuel projects compared to a little over \$5 billion for renewable energy (excluding large hydropower).^{xvi} "The Bank also continues to require governments to adopt investment incentives for coal and upstream oil and gas. Such flagrant contradictions to climate pledges must end immediately," concluded Urgewald researcher Heike Mainhardt.

Earlier this year Ernst Lutz, a Swiss University of California-Berkeley educated economist who worked with the World Bank from 1977 to 2017, wrote that the pressure to lend at the Bank remains high and that "corruption has not been reduced", despite the Bank's claims it promotes good governance. Lutz concluded in his 2019 article, "When the World Bank Needs to Lie", that these misplaced priorities result in more poverty, and worse: "One example is Burundi, where...[IDA] continued to support the government... despite the government's massive crackdown on citizens since 2015, generating new poverty, killing more than 1,000 people and forcing over 400,000 to flee."^{xvii}

For decades the World Bank has often used disingenuous, false rationales to push through enormous loans for environmentally destructive projects, despite evidence that its official justifications at the time were bogus. Donor governments have been grotesquely irresponsible in approving additional billions for Bank trust funds to mitigate climate change without simultaneously ensuring that the Bank redirected large-scale lending that contradicted the stated goals of these funds. Smaller loan portfolios labelled "environmental" or "climate mitigation" are no guarantee that the overall environmental and climate impact of the Bank (and other development banks) will not be environmentally destructive. The lack of

environmental and climate due diligence, and worse, active misrepresentation of climate and environmental impacts, can be leading indicators of large-scale fiduciary negligence and deeply embedded corruption, with enormously negative financial consequences.

What is to be done?

The Bank's environmental legacy is one of cumulative, avoidable ecological and social harm, followed by policy and procedural reforms adapted mainly in response to outside pressure and protest, and generally poor implementation of these reforms. This dysfunction is rooted in a perverse institutional culture of loan approval and pressure to lend, which also undermines governance in the Bank's borrowers and the economic quality of its operations. In 2007, the Bank's Board commissioned former US Federal Reserve head Paul Volcker to lead an independent evaluation of its anti-corruption efforts. Volcker concluded in his final report, that the "Bank's Board itself has been ambivalent" about fighting corruption. "The Bank," he concluded, "does not lack for units reviewing and evaluating its varied operations...[but] a strong focus on managerial and institutional accountability is lacking."^{xviii}

Policy proposals for greater accountability, for mechanisms to learn from past experience, for greater participation and consultation of affected people in Bank projects, and for strengthening the Inspection Panel and CAO, often ignore the history of existing accountability, participation, learning and quality control mechanisms in the Bank. The Bank's environmental and social safeguard policies date back to the early 1980s. For decades it has been precisely the objections of some of the Bank's member countries and management that have led to a *de facto* culture of low priority for environmental policy implementation and to the creation of accountability mechanisms to serve in a merely advisory function, with little real institutional power.

Rather than improving monitoring and compliance, Bank management in recent years has diluted the safeguards to speed up lending.^{xix} The World Bank Group has also continued a trend of channelling more lending to non-project, financial intermediaries, and policy loans,^{xx} which do not trigger most of the safeguard policy requirements, nor the review of these requirements by the Inspection Panel and CAO.

Institutional policies, mechanisms and bureaucratic tools in the Bank to prevent future environmental, social, and economic development debacles have been in place for decades. But real change will only come through political will and pressure by major country members for the institution to assume responsibility through these policies and mechanisms for its negligence, to effectively strengthen accountability, and to finally make quality, rather than quantity, the priority in lending.

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A woman washes dishes at the Kutadi Bandar, a seasonal fishing community located next to the Tata Mundra Ultra Mega Power Project's intake channel. October, 2014.

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