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Commentary and Opinion

Monster of the Himalayas

The World Bank's Misconceived Mega-Project in the Heart of Nepal

By Korinna Horta

IN A PRISTINE valley of the Himalaya mountains in northern Nepal an environmental catastrophe is taking shape. The World Bank plans to finance large-scale dam and road construction that environmentalists fear will ruin the biologically rich and culturally diverse Arun Valley. A senior bank official has resigned in protest over the issue, saying the Arun Valley dam would put the entire economic future and well-being of the Nepalese people at risk. The bank's board of executive directors is expected to decide on the Arun Valley project next month.

This dispute in remote Nepal underscores that the World Bank, which last month held its 50th anniversary meeting in Madrid, has an environmental problem. With its yearly investments of more than $20 billion, the bank probably has more influence over the quality of the environment in developing countries than any single institution on the planet.

The Arun Valley project is a good illustration of how the bank goes wrong. At a cost of about $770 million, the first stage of the Arun Valley hydropower project dam will cost more than the entire annual budget of poverty-stricken Nepal. Martin Karcher, a South Asian development expert and a 29-year veteran of the bank who was finally given an opportunity to review the bank's economic analysis of the project, says the benefits had been vastly overstated.

World Bank economists, for example, asserted that consumers in Nepal, a country where per capita income is about $180 per year, would be willing to pay 53.7 cents for every kilowatt hour of electricity. This compares with about 6 to 8 cents per kilowatt hour that consumers in the Washington area pay and with about 4 cents that India is paying for its electricity imports from Nepal.

"Obviously, if you use these kinds of numbers," Karcher observes, "then any project becomes feasible and even justified."

Karcher, who is now retired, says his greatest concern was that the government's investment program in hydropower is too large in relation to its available resources and the investment in other sectors. Once a large hydropower project gets underway, he notes, there is no turning back. Construction in the Arun Valley will begin within months of bank approval.

"Should substantial cost overruns occur, as they often do," Karcher notes, "the government's budget would have to be cut and expenditures for basic health care, water supply, education and family planning as well as road rehabilitations and maintenance would be at great risk."

But according to the bank's own studies, the areas that would need to be cut are precisely the sectors in which investments do the most to alleviate poverty and generate economic growth. Karcher recommends that the World Bank begin with smaller projects that would create less financial risk for the government and have the advantage of encouraging local technology and expertise.

The Nepalese government has thus far supported the project, which will bring a huge infusion of money into its coffers. A spokesman for the Nepali government in Washington said, "Nepal has the second largest hydropower potential in the world and the Nepali government is determined to go ahead with the big project, as a lot of time and energy has already been invested in preparing it and putting together the financial package. The alternative of medium-scale projects would deprive Nepal of the financing that has already been prepared."

Why would an institution that emphasizes its commitment to helping poor people and protecting the environment expose Nepal's poor people to the risks of the Arun dam project and degrade, if not destroy, a fragile ecosystem in the process?

One underlying cause resides within the bank's internal incentive structure. Staff members who are able to justify large loans are rewarded with raises and promotions. Smaller-scale projects that emphasize community participation and local knowledge are less valued institutionally.

The bank is not unaware of these problems. In 1992 former vice president Willi Wapenhans documented an alarming decline in the quality of World Bank projects. In 1981, 15 percent of its projects were rated unsatisfactory. By 1991, the figure had risen to a startling 37.5 percent in 1991. His findings, known as the Wapenhans Report, identified the bank's preoccupation with the rapid approval of projects and lack of attention to the actual implementation of projects as the main culprits. Since then, World Bank management has often stated its commitment to implementing the reforms recommended by Wapenhans. However, Wapenhans has recently written that World Bank management has still not addressed the central problem of lack of accountability.

This is not to say that the bank has been unresponsive to pressure generated by social and environmental movements in both the South and North. The bank has expanded its environmental staff and implemented a number of environment- and people-friendly policies. But the bulk of evidence shows that real change in the bank's practical operations is still a long way off.

Consider the bank's policy on people who are forcibly displaced from their homes and land as a result of World Bank-financed projects. There are more than 2.5 million such people today, and another 2 million will be added over the next few years. The policy states that the World Bank must ensure that the displaced people, who are usually very poor to begin with, not be made worse off as a result of being forced to resettle elsewhere. Earlier this year an internal bank review found that in almost all cases the bank is ignoring its own displacement policies.

Another example: In early 1992 the World Bank issued a paper promising a new focus on energy efficiency and conservation. But environmental organizations studied the 46 power loans totaling $7 billion that are currently being prepared by the World Bank for 33 countries; only five significantly support improved end-use energy efficiency. Only two of the projects actually complied with the bank's own policy papers on energy efficiency.

An expert in the bank's industry and energy division replied, "The report is disgraceful and misrepresents the bank's position. Every loan the bank makes is in compliance with bank policy and concerned about economic efficiency."

What appears to have changed most of all are the bank's public relations efforts. The bank acknowledges that it has contributed to environmental problems in the past, particularly in the large-scale destruction of the Brazilian rain forest. Bank officials, however, insist those days of environmental and social recklessness are gone. Statements proclaiming environmentally sustainable development and poverty alleviation have now become the hallmark of all bank activities.

The bank's eternal afairs office has been strengthened and outside public relations consultants hired. While the bank refuses to release the exact dollar amounts it spends on PR, it is known that tens of thousands of its development dollars—provided by taxpayers around the world in order to help the world's poorest people—are now paying for the services of the Schmertz Co., a New York-based public relations firm whose founder, Herb Schmertz, made his reputation promoting the political agenda of the Mobil Oil Corp.

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