

# **A Critique of the World Bank's Country Assistance Strategy for India**

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In June 2004, the World Bank released the draft Country Assistance Strategy (CAS) for India. This strategy spells out the Bank's assistance to India for Fiscal Years 2005-2008. It is the most important country-wide lending document of the World Bank. All forthcoming World Bank projects and programs in India will have to conform with this strategy.

The World Bank invited comments on the document on their website between June 24<sup>th</sup> and July 19<sup>th</sup>. The document will be discussed by the World Bank Board of Directors at the end of August 2004.

This paper by International Rivers Network provides a short analysis and critique of the main proposals entailed in the CAS. It focuses on the main aspects of the new lending scenario and the Bank's new emphasis on infrastructure lending in India.

## **More funds for more projects at higher environmental and social costs?**

### *Background:*

The World Bank plans to double loans to India, with most of the additional money earmarked for infrastructure projects, including dams.

Amidst a slow pace of disbursement and project implementation in the last years, the World Bank plans to step up its assistance to India by increasing the flexibility of its financial support and a focus on investment lending. According to the World Bank, none of the ongoing projects in India can be completed within the proposed implementation period and only half of the committed financial resources were actually disbursed during the last CAS period.

The stated main objective of the new CAS is to step up the Bank's impact and lending to India. IDA only funding is earmarked for projects that address poverty and human development. IBRD and IDA will finance adjustment lending operations that will make up 15% of WB lending to India. The amount of new IDA lending for India is not spelled out in the strategy.

The Bank will step up IBRD funding to India, but contrary to previous CAS, this CAS does not include different lending scenarios or triggers. The Bank is willing to commit up to \$ 2.15 billion in IBRD funding to India annually. In contrast to the last years, the Bank will not focus its lending on states with a track record of complying with its adjustment

programs, but will be more flexible to offer assistance for investment projects all over India. The Bank will however place some focus on four poor states: Bihar, Orissa, Jharkhand and Uttar Pradesh.

The World Bank is hoping to achieve a faster disbursement of funds by disregarding its own binding operational policies and environmental and social safeguards. The World Bank seeks to bring its safeguard policies in line with the policies of the Government of India. “This will be reinforced by efforts to change the way that the Bank does business in India – seeking to harmonize Bank safeguard and fiduciary requirements, as well as those of other donors, as far as possible around the policies adopted by GoI and state governments.”<sup>1</sup>

*Critique:*

A harmonization of policies is likely to severely weaken existing measures to avoid and mitigate negative social and environmental impacts of World Bank projects. The safeguard policies of the Government of India are weaker than those of the World Bank. India does for example not have a national policy on resettlement. Aware of these deficits, the World Bank’s Operations Evaluation Department asked the Bank in 2001 to assist local government agencies to develop capabilities to implement social and environmental monitoring and reporting responsibilities.<sup>2</sup> This has not happened, and the new CAS does not earmark funds for related efforts. It proposes an expansion of investment lending notwithstanding the severe shortcomings of the environmental and social policies and compliance therewith of government authorities.

The Bank acknowledges that the new emphasis on infrastructure and the engagement in controversial areas such as hydropower will increase the risks for the Bank. It states that “considerable effort is already made to mitigate those risks”<sup>3</sup>, and that yet to be published “guidelines for engagement in investment lending” will help further mitigate risks and ensure that lessons learned will be translated into practice.

The disregard for recommendations by recent World Bank evaluations and the Bank’s plans to delegate responsibility for social and environmental safeguard policies to national authorities will increase the risks of World Bank projects for directly affected populations. These risks remain unmentioned by the Bank. The Bank shows itself concerned about its own risks associated with the new lending focus, yet is oblivious to risks faced by affected communities.

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<sup>1</sup> World Bank, Draft India Country Assistance Strategy., para 43.

<sup>2</sup> World Bank Operations Evaluation Department, Overview of Sectoral Assistance Evaluations, 2002, p.65.

<sup>3</sup> World Bank, Draft India Country Assistance Strategy, para.157.

*Recommendations:*

- A faster disbursement of larger sums of money will not help achieve of the Millennium Development Goals if existing environmental and social safeguards are jeopardized.
- The World Bank's environmental and social standards need to be strengthened rather than weakened and their implementation needs to be improved.
- National environmental and social safeguard systems need to be strengthened before the World Bank can harmonize Bank and national policies.

### **Financing dams in India again**

*Summary:*

For the first time since the Bank's withdrawal from financing power projects in India in 1993, the Bank in the new draft Country Assistant Strategy offers "investments in hydroelectric power generation capacity"<sup>4</sup>. The Strategy states that "large investments in additional generating capacity will still be essential if power availability is not to constrain India's capacity for rapid growth"<sup>5</sup>. While the World Bank offers investments in hydropower generation, it declares that the private sector should engage in the development and financing of thermal power generation.

The Bank states that "some major actors" in the hydropower business in India, notably the National Hydroelectric Power Corporation, have improved their environmental and social safeguard practices. "Given this, during Fiscal Years 2005-2008, the Bank will work with the Government of India and its public sector utilities to seek possible new avenues for support on a modest scale for hydropower development."<sup>6</sup> Regarding the transmission and distribution of power, the World Bank offers to support efforts to commercialize the national power grid and state electricity boards to make these institutions attractive for privatization.

*Critique:*

The new Country Assistance Strategy marks a considerable shift in Bank lending to India. In the early 1990's the Bank stopped financing new power plant projects in India. The disastrous environmental and social impacts of projects had damaged the reputation of the Bank. The Bank therefore stopped to take on projects with large-scale displacement impacts, such as large irrigation and power generation projects. While the majority of Bank lending to India in the last years went into structural adjustment, education and health, the Bank now reengages in the financing of core infrastructure projects. The power sector is the most telling example of this shift in emphasis: while all

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<sup>4</sup> Ibid. para. 109.

<sup>5</sup> World Bank, Draft Country Assistance Strategy for India, para. 104.

<sup>6</sup> Ibid., para. 109.

power sector loans since 1993 supported sector adjustments, the Bank now plans to finance new generation capacity.

This shift disregards the most recent evaluation of the World Bank's assistance to India. The Operations Evaluation Department (OED), in summing up the major lessons of their evaluation of Bank lending to India, declared in 2001: "Projects that focus on physical investments, with the primary objective of increasing energy production, facilitate the continuation of inappropriate and unsustainable sector policies." The most recent CAS progress report, published in January 2003, also emphasizes the need for the Bank to support the Indian government in improving the governance and financial management of power transmission and distribution companies and to implement measures to reduce theft, leakages and losses.<sup>7</sup> It does not mention the importance or need to increase energy generation capacity.

The new CAS for India clearly demonstrates the Bank's interest in funding large scale power generation projects instead of low-cost, decentralized and environmentally friendly projects that focus on increasing energy efficiency. It demonstrates the Bank's unwillingness to place social and environmental concerns at the forefront of strategic and lending decisions. According to a global survey commissioned by the Bank in 2003, the institution has never had a good track record of promoting environmental sustainability in South Asia. The majority of opinion leaders in South Asia judge the Bank's performance on environmental issues as poor or average, and almost half of the respondents feel that the Bank's support for countries' environmental responsibility is not improving.<sup>8</sup>

The funding of hydropower projects also contradicts the Bank's claims to integrate affected communities in the design and implementation of projects. The new CAS states that "poor people need to have a voice in the design and implementation of the programs that affect them. Centralized top-down approaches have generally failed and have left behind large bureaucracies, resistant to change and with little accountability to the clients they serve."<sup>9</sup> By funding hydropower projects in India, the World Bank will support institutions that are characterized by this centralized approach to energy problems, lack concern for affected communities, and have proven to be resistant to change. There is no evidence to suggest that the Indian power sector has improved its environmental and social record in recent years. The World Bank's assertion that it would "help the sector to consolidate recent improvements"<sup>10</sup> contradicts the experiences with projects on the ground. During the current monsoon season, tens of thousands of people in the Narmada valley again face displacement without resettlement by dam projects developed by institutions that the Bank credits with improved standards.

For the World Bank, big is still beautiful both in the energy and in the water sector. The Bank does not appear to share the international consensus in favor of small, low-cost, decentralized solutions to water crises such as crop diversification and water

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<sup>7</sup> World Bank, Country Assistance Strategy Progress Report, January 2003, p.8.

<sup>8</sup> World Bank Global Survey, The Global Poll, 2003, p.52.

<sup>9</sup> World Bank, Draft Country Assistance Strategy for India, 2004, para.69.

<sup>10</sup> Ibid, para.109.

conservation. Environmental concerns are still not mainstreamed in the World Bank's approach to irrigation. The CAS notes: "Where physically and economically feasible, investment in irrigation is an obvious solution to eliminate rainfall-related risks. But where irrigation is not feasible, other measures such as crop diversification and soil and water conservation, can help mitigate risks for those employed in agriculture."<sup>11</sup> Crop diversification, soil and water conservation should of course be standard measures also in irrigated agriculture.

By planning to support India's National Hydroelectric Power Corporation (NHPC), the Bank sides with an institution notorious for brutal displacement without resettlement, without guidelines for public hearings, and poor environmental and social assessments. The World Bank, neglecting abundant evidence to the contrary, writes: "While for many years the hydropower business in India had a poor reputation, some major actors (including NHPC) have started to improve their environmental and social safeguard practices. Given this, during fiscal year 2005-2008, the Bank will work with GoI and its PSUs to seek possible new avenues for support on a modest scale for hydropower projects."

NHPC's "environmental policy" consists of nothing more than a statement declaring the willingness to address environmental concerns and to comply with legal environmental requirements. NHPC lacks binding commitments and standards, and has rejected international best practice recommendations, such as the recommendations by the World Commission on Dams. NHPC's chief managing director, Yogendra Prasad, is known as a staunch opponent of the World Commission on Dams. Prasad has repeatedly criticized Indian institutions for being too cumbersome in clearing hydropower projects.

National and international NGO's and activists criticize NHPC over the lack of resettlement standards and the quality of environment impact assessments. To speed up construction for NHPC's Narmada Sagar project, the administration disconnected villagers from power and water supplies and destroyed houses and schools. Villagers were driven out of their houses before compensation for their lost livelihoods was decided.<sup>12</sup> Experts furthermore challenge NHPC regarding the poor quality of their Lower Subansiri Environment Impact Assessment report. The Indian Board for Wildlife noted in September 2002: "The EIA and project documents reveal several shortcomings in the analysis of the project's impacts on biodiversity and downstream impacts."

The World Bank utilizes the lack of access to electricity by large parts of the population to justify investments in hydroelectric power generation and a further commercialization and privatization of power transmission and distribution. The new focus on centralized hydropower generation is however unlikely to expand the access of the poor rural population to electricity. Only 30% of rural households have access to electricity, compared to 75% of urban households. The World Bank's new emphasis on supporting hydropower generation will most likely further increase the disparities between rural and

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<sup>11</sup> Ibid., para.74.

<sup>12</sup> Dianik Bhaskar, December 2003, quoted in: International Rivers Network, A Case of Institutional Amnesia?, April 2004.

urban areas as poor rural populations will be negatively affected by dams and the rising costs for public services such as water and electricity. Urban areas will most likely be the beneficiaries of additional power.

This World Bank Country Assistance Strategy furthermore demonstrates the unwillingness of the Bank to address the unresolved social and environmental legacy of earlier World Bank projects, as documented especially in the case of the Sardar Sarovar Dam.

#### *Recommendations:*

- All infrastructure decisions should be based upon comprehensive, participatory and balanced assessments of needs and options as stipulated by a strategic priority of the World Commission on Dams.
- All infrastructure decisions should be based on the principle of free, prior and informed consent of affected populations.
- The energy needs of the rural poor need to be at the center of World Bank support for energy projects. Projects should focus on decreasing the growing rural/urban divide in access to energy.
- The World Bank should support national authorities in adopting and implementing international best practice standards with regard to hydropower development, such as the recommendations by the World Commission on Dams.
- The World Bank should support the Indian government in developing alternative, low-cost, decentralized energy projects and support measures to increase energy efficiency and reduce theft and losses in the energy sector.
- The World Bank needs to address the environmental and social legacy of its projects in India. Reparations must be made through negotiations to those who have suffered because of dams.

#### **Mock consultation process**

Civil society groups in India challenge the World Bank's plans as spelled out in this strategy, as well as the Bank's mock consultation process.

The draft strategy (CAS) was published on the Bank's website in English between June 24<sup>th</sup> and July 19<sup>th</sup>. It appears that it was not drawn up in consultation or cooperation with Indian civil society or the Indian parliament, but only with relevant Ministries. Praful Patel, the World Bank's Vice President for South Asia, notes: "After an intense process which included discussion with the Department of Economic Affairs and line ministries, we have put up the first draft on our website this week for public review."<sup>13</sup>

Public comments (no longer than 500 words!) were invited after the publication of the text. However, no indication was made with regard to the duration of the comment period

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<sup>13</sup> Praful Patel, Remarks by South Asia Vice President in India, New Delhi, 25 June 2004.

and no process for the integration of comments into the final strategy was formalized. The CAS was only published in Indian languages towards the end of the consultation period. The annexes to the CAS were never published.

Even after repeated questions, the World Bank did not indicate when and where it would hold consultations on the draft CAS. It came as a surprise when the Bank invited a selected group of NGOs to consultations in India in early July. Groups received invitations only one working day prior to the consultations. No consultations that were open to the public were ever held in India. This lack of genuine consultation is another sign that the World Bank is not prepared to learn the lessons of experience as it sets out to re-engage in large dam projects in India.

The strategy will be discussed and decided upon by the Board of the World Bank in Washington D.C. on August 26<sup>th</sup> 2004.

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