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of the World Bank's Polonoroeste Road Project
in Brazil's Amazon**

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BOULEVARD OF BROKEN DREAMS: THE INSIDE STORY OF THE WORLD BANK'S POLONOROESTE ROAD PROJECT IN BRAZIL'S AMAZON

Robert H. Wade¹

Contents: Introduction; the first steps; project preparation; the internal vortex; loan approval, 1981; why the Bank became involved; performance on the ground; feedback and response; after 1985; the Transmigration project (Indonesia); conclusion.

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INTRODUCTION

One of the big questions about inter-state organizations (IOs) is where they get their ideas from and how their policy norms are formed. Policy norms are shared expectations for all relevant actors about what constitutes appropriate policy prescription for a particular sector. In any sector there are many potential norms about appropriate policies (think of forests, indigenous peoples, management of the capital account, tax structure, gender); but IOs have an inner imperative to crystallize out only one norm and advocate it as the (universal) policy. Once this is achieved the norm then begins to exert “structural power” on the behaviour of IOs and on international relations more generally. But most of the sub-set of literature in international relations which emphasises the structural power of norms takes their existence as the starting point, and says little about how they come to be norms.

The literature on IOs, particularly that written by economists, tends to imply a linear path of cumulative learning, a steady movement from ignorance to knowledge, and to ignore the often passionate confrontation of normative views. For example, the magisterial history of the World Bank by Edward Mason and Robert Asher says very little about the conflicts over policies.² Apparently it was all very rational.

This essay discusses normative ideas about environmental protection and indigenous peoples' protection in the World Bank. It is

¹ Robert H. Wade is professor of political economy at the London School of Economics. This article is based on field work inside the World Bank (not on the ground in Brazil) undertaken in 1995-96 for the World Bank History Project. It is an extended version (two and a half times longer) of my account of Polonoroeste in “Greening the Bank: the struggle over the environment, 1970-1995”, in Devesh Kapur, John Lewis and Richard Webb (eds), 1997, *The World Bank: Its First Half Century*, Brookings, vol.

² Mason, Edward and Robert Asher, 1973, *The World Bank Since Bretton Woods*. Washington DC: Brookings.

generally understood that the World Bank's adoption of a set of pre-existing normative ideas in the mid to late 1980s was a key step in bringing environmental sustainability and indigenous peoples' protection into the frame of "development" ideas, globally. Before this time the Bank treated "environment" as a source of "resources" to be used for "development", "nature" as something to be "conquered". "Environmental protection" was for the United Nations Environment Program or someone else to worry about. As for indigenous peoples' protection, that was to be taken care of the borrower government. Once the Bank was seen to be incorporating normative ideas of environmental sustainability and indigenous peoples protection into its own mandate, other development-oriented IOs followed.

The literature on how this particular change came about, written by political scientists rather than economists, does emphasise the conflicts of views. More specifically, it emphasises the role of *external* agents in forcing the Bank to change its mind, especially US NGOs. The latter took ideas already codified in and for the United States, and then used their access to Congress to get it to use its control of US financial contributions to the Bank as a lever of influence. As Susan Park says, "In terms of the World Bank's environmental actions, it is well documented that external pressure has overwhelmingly, although not exclusively, influenced the Bank.... The idea of protecting the natural environment emerged within the World Bank in the 1980s with the 'do no harm' principle *after [external] environmentalists* documented large-scale, high-profile, environmentally disastrous Bank projects".³

It is indeed true that from the mid 1980s onwards environmental NGOs launched campaigns against the World Bank and -- indirectly -- some of its borrower governments. They selected particular projects for scrutiny, aiming to reveal publicly that the projects were having seriously damaging effects not admitted by the Bank, and thereby to convince the Bank's shareholders that the organization needed institutional reform. The NGOs were mostly American, and they worked through the public media and through the US Congress to force the Bank to change its ideas and procedures.

However, this version of the history underplays the internal organizational structure ("institutions") of the Bank, the internal debates over appropriate environmental and social ideas, and the way that

³ Susan Park, "The World Bank's global safeguard policy norm?", in Susan Park and Antje Vetterlein, *Owning Development: Creating Policy Norms in the IMF and the World Bank*, Cambridge University Press, 2010, at 182, 183-4, emphasis added.

internal norm advocates frustrated by internal obstacles gave the external advocates information (oxygen). This is particularly true of Polonoroeste (“Northwest Pole”), in northwest Brazil, the first project to attract serious criticism of the Bank from the US government, US NGOs, and the US public – the first “bomb”. Polonoeste was a point of transition for the whole of the Bank, after which senior managers came to agree that the organization had to change some of its key normative ideas and their operational and organizational expression.

The Polonoroeste project aimed to pave an existing 1,500 kilometer dirt road from the densely populated south central region into the sparsely populated Amazon, in the states of Rondonia and next-door Mato Grasso; and to construct feeder and access roads at the frontier end of the highway, to consolidate existing (mostly failed) agricultural settlements, establish new settlements, provide healthcare, and create ecological and Amerindian reserves. The affected area was the size of Ecuador, California, or Great Britain. The Bank approved five loans in support of Polonoroeste between 1981 and 1983, totaling \$457 million. Well over half went for the highway and feeder roads. The Bank was the only non-Brazilian source of finance.⁴

The Northwest Region Integrated Development Program, to give its full English name, was conceived in the Bank not as a routine project, but rather as game-changer. The project team designed it as *a project that would give unprecedented attention to mitigating adverse effects on the environment and on indigenous peoples*. Whereas the Brazilian government was mainly interested in Bank help with the highway, the Bank wanted to use its money to induce the government to agree to a model of comprehensive, sustainable regional development in rainforest areas.

The irony is rich. Starting in 1983 and continuing till 1987 US NGOs used Polonoroeste as their trampoline for demanding changes in Bank policy. In a crescendo of articles, television documentaries and hearings before US congressional committees, the Bank's environmental critics held up Polonoroeste as "the Bank's biggest ... and most disastrous involvement in forest colonization in the tropics", the quintessential example of its wider pursuit of misguided development strategies.⁵ Polonoroeste offered powerful images of palls of smoke,

⁴ World Bank, "World Bank Approaches to the Environment in Brazil", vol. V, "The Polonoroeste Program", OED Report 10039, SecM92-64, April 30, 1992. This is a key document on Polonoroeste. It was written by John Redwood, a member of the 1979 reconnaissance mission and subsequently a Bank staff member.

⁵ Bruce Rich, "Multi-lateral development banks. Their role in destroying the

bulldozed trees, blackened stumps. It presented a saga of victims and villains, of immiserized peasants and state-of-nature Amerindians squashed by military governments, rapacious loggers, and multilateral banks. The Sierra Club's indictment of the World Bank and other multilateral development banks, called *Bankrolling Disasters*, featured on its cover a color photograph of a newly cleared forest in Polonoroeste, with the caption, "A typical scene of destruction as development advances in the Amazon".⁶ The British journal *The Ecologist*, whose brand of political ecology carried a strong critique of existing development models, published a special issue called *The World Bank: Global Financing of Impoverishment and Famine*, with articles on Polonoroeste.⁷ *Sixty Minutes*, the most widely watched US television newsweekly at the time, featured Polonoroeste in a 1987 documentary sharply critical of the World Bank for wasting US taxpayers' dollars. For periods after these and other denunciations appeared, dozens, sometimes hundreds of protest letters arrived at the Bank president's office every day. Chain-sawed tree trunks and displaced Amerindians became poster-children of the environmental movement. Many people who had never heard of the World Bank came to know it as "the bank that destroys rainforests".

Suddenly the Bank found itself defined as the doer of harm and the teller of lies, and required to react to outsiders' ideas about how it should do its business. For an organization that had always prided itself on its service to humanity and unrivalled technical expertise, this was a bewildering time.

When Barber Conable, the president of the Bank, announced a major expansion of the Bank's environmental capacity in 1987 he gave special attention to Polonoroeste. It was, he said,

"a sobering example of an environmentally sound effort which went wrong. The Bank misread the human, institutional and physical realities of the jungle and the frontier. In some cases, the dynamics of the frontier got out of control. Protective measures to shelter fragile land and tribal people were included; they were not, however, carefully timed or adequately monitored".⁸

"The Bank misread...the realities", said Conable. But *who* is

global environment", *The Ecologist*, vol. 15, no. 1/2 (1985), p. 59.

⁶ Sierra Club, *Bankrolling Disasters: International Development Banks and the Global Environment*, (Washington DC: Sierra Club, 1986).

⁷ *The Ecologist*, "The World Bank: Global Financing of Impoverishment and Famine", vol. 15, no. 1/2 (1985).

⁸ Barber Conable, speech to World Resources Institute, May, 1987. Conable's speech writer took the passage from a note by Maritta Koch-Weser.

the Bank? Long before environmental NGOs began to focus on it the project had become controversial inside the Bank--indeed, the NGOs took it as their spearhead partly because a few of the project's internal critics brought it to their attention and gave them information. From the beginning some staff argued that the Bank should stay away from the project because the risks were too high and better alternatives for agricultural development existed elsewhere in the northern part of Brazil. The internal disputes gave rise to what one participant called "a turbulent and traumatic evolution during its preparatory phases", referring to "the many controversies that marked its slow progress through the Bank" (long before NGOs paid attention).⁹

The Bank eventually suspended financial disbursements for the project in response to the NGO campaign and the evidence of environmental and social damage the campaign forced the Bank to recognize – the first time in the Bank’s history that it had suspended disbursements on such grounds. It resumed disbursements only after it was satisfied that the Brazilian government had made real progress on its commitments.

Hence the Polonoroeste project has a seminal role in the history of how the Bank moved from saying that development and environment are two different fields, to saying “Our mandate is economic growth, poverty reduction and environmentally and socially sustainable development”; and also in the interwoven political history of how it moved from saying “We are accountable only to our shareholders (member governments), and NGOs can convey their views to us only through the relevant Executive Director on the Board” to saying “We are concerned to reach out to civil society organizations and learn from what they have to say”.

This essay describes the project’s “turbulent and traumatic evolution”. It presents a “thick description”, a history of events, as to how the Bank was doing project work in the 1980s, with particular attention to the relationships between (a) the operational staff with direct project responsibility, located in the regional vice presidencies, (b) the technical experts located in the Central Projects Staff (the “curia” for the operational divisions), and (c) the senior management of the organization. Through these relationships one sees how the organization was addressing “green” issues and “social” issues *before* it had dedicated staff, organizational units, and operational procedures to address them.

⁹ James Lee (PASSEN) to Mr V. Rajagopalan, Director, PAS, August 4, 1983.

Long before the Bank established formal regional environmental divisions and a central environment department in 1987, technical experts in the center were pressing environmental and social issues. But as the following story shows, when the project leaders at the regional level, backed by senior management, were determined to get the project approved by the Board and dispersing funds, the technical advice could be largely ignored if it would slow down the project or raise the costs. The central technical experts saw themselves having to deal with the regional project staff sometimes as diplomats and sometimes as guerrilla fighters. The essay shows how these organizational dynamics played themselves out day by day, memo by memo, in a large multilateral development bureaucracy. It shows the early “emerging” stage of norm formation, before the relevant norms had stabilized and acquired formal validity in the form of policy papers and operational directives.¹⁰ Out of the events described here came an elaborate set of “safeguard policies” by the late 1990s, covering environment, indigenous peoples, resettlement and other domains, which had in common that the Bank was exposed to huge reputational risk in all of them.

At the end the essay draws a brief parallel between Polonoroeste and an earlier project in Indonesia, the Transmigration project. Transmigration had less of a role in the events leading up to the Bank’s change of mind about the environment; but the similarities in its evolution within the Bank suggest that what happened in Polonoroeste was not peculiar to Polonoroeste or Latin America.

THE FIRST STEPS

In 1900, over 80 percent of Brazilians lived near the sea—“crabs clinging to the coast”, as they were once described. The population and economy have been drifting towards the interior ever since, especially after the relocation of the capital to Brasilia in 1960. In the 1960s the military built a dirt-and-gravel road (Highway 364) across the northwest Amazon. The fast economic growth of the late 1960s and early 1970s--when Brazil was the great "economic miracle"--fuelled a nationalist mood that gave priority to integrating unoccupied areas and their purported natural wealth with the rest of the country, lest they be cannibalized by foreign enterprises or foreign governments. In 1970 the country's military rulers announced a "plan for national integration" that involved the planned settlement of Rondonia. A key part of the plan called for as many as five million peasants to be settled on tracts of

¹⁰ See Susan Park and Antje Vetterlein, *op. cit.*

virgin Amazon soil by 1989, making it potentially the most ambitious colonization effort undertaken in the Americas since the opening of the American West a century before. The World Bank was not asked to participate, because the military government regarded the plan as a matter of national security in which foreigners should not be involved.¹¹

Transport along the unpaved road remained difficult, and during the rainy season almost impossible. Promised support to the new settlers did not materialize. Most of the pilot colonization settlements failed. With a change of government in 1974 the organized settlement program was abandoned, while unorganized settlement continued. By 1979 newspaper reports on the plight of the stranded settlers from the 1970-74 scheme were describing Rondonia as "a land of absolute and total desperation". A *Washington Post* story in 1979 said, "elected officials, church leaders and technicians here charge that Brazil's Amazon's pioneers are victims not so much of the frontier's inevitable ruggedness as the Brazilian government's lack of planning and the constant zig-zags in its Amazon development policy".¹²

The new Brazilian government of the late 1970s wished to resuscitate the project. The government saw Polonoroeste as a way to achieve several national security and economic goals at once: to fill up the vast "demographic desert" of the Amazon with Brazilian citizens so as to consolidate its territorial jurisdiction and ward off cannibalization by neighboring states; to create a new source of foreign exchange earnings through the development of tree cropping; and to reduce unemployment and the pressure on land elsewhere in Brazil. Unemployment and land pressure were related to the fact that Brazil had about the most unequal income distribution in the world.¹³ The government, reflecting the interests of elites in the wealthy south of the country, promoted a shift from small-scale peasant agriculture to large-scale export production, subsidizing labor-replacing technologies in agriculture and in other ways discriminating against small farmers and agricultural laborers.¹⁴ The Amazon frontier was a conflict-reducing

¹¹ But the Bank was interested in it. When a senior Bank official met with the Brazilian Minister of Finance (Delfim Netto) in 1972, he "mentioned the Bank's interest in the ecological aspects of the Amazon settlement project which is under preparation. He said that Mr. Lee (the environmental advisor) proposed to visit Brazil in September to become familiar with the work the Brazilians are doing in this area. The Minister said that the Government would be happy to cooperate". From Robert Skillings to Files, July 27, 1972.

¹² Larry Rohter, "Hopes of Amazon pioneers dashed in nightmare of misery", *Washington Post*, January 28, 1979, p. A 24-25.

¹³ Roberto Korzeniewicz and Timothy Moran, "World-economic trends in income distribution, 1965-1992", *American Journal of Sociology* 102 (4), 1997, pp. 1000-1039.

¹⁴ Hans Binswanger, "Brazilian policies that encourage deforestation in the Amazon", *World*

escape vent for the resulting surplus population.

Unlike many Bank projects this one was initiated by the borrower: the government sought out the Bank. The Brazilians were already receiving large Bank loans for the maintenance and rehabilitation of existing highways, and they wanted Polonoroeste to be just another road rehabilitation project. The Bank responded positively, and the Latin America Highways Division sent out a project preparation mission in 1978.¹⁵ The mission found that migrants by the truckload were arriving every day—only to fall straight into a poverty trap, unable to market their outputs or buy inputs because of the poor state of the roads, said the Brazilians and the Bank.

Soon, though, the Bank staff began to see the need for more than roads. They argued that, (1) Brazil would pave the highway and build the feeder roads whether the Bank helped or not; (2) with the highway made into an all-weather road still more migrants would flood in; (3) the Brazilian government was engaged in planning settlements on the basis of geometrical grids that ignored soils, water, and slope, with results repeating the 1970-74 failure; so (4) Bank help in preparing a wider regional development scheme would ensure that more was done on the ground to make the settlements viable and to protect the environment and the Indians. From this perspective the Bank saw the highway project as simply the entry price for a complex regional integrated rural development program. The Bank was by then, around 1980, promoting integrated rural development (IRD) projects all over the world, including elsewhere in Brazil. IRD was the fashion. IRD principles could be applied in the Amazon, said the Bank.

Processing the highway loan was suspended for a year while the Bank sent out a further fact-finding mission in late 1979. The mission's report of 1980 concluded that the region did have big agricultural potential and that the rate of return to the project investment would be very high. It also concluded that careful steps had to be taken to mitigate environmental and social costs--including malaria, deforestation, extinction of species, and the impoverishment or death of the Amerindian inhabitants, whose numbers were estimated, at first, at around 5,000.

The steps for mitigating environmental damage included (1) land-use zoning, (2) the development of cropping patterns and practices

Development 19 (7), pp.821-29, 1991.

¹⁵ The project was called the Brazil Seventh Highway Project.

thought suitable to the fragile and variegated soils, and (3) the demarcation and gazetting of reserves, to steer the migrants away from areas of low agricultural potential. These same steps would help protect the Amerindian populations; but there was also a special program for Amerindian protection, including the creation of special Amerindian reserves, special health care and related measures, measures that were called for in Brazil's existing legislation on indigenous people but were not being enforced.¹⁶

One geographical feature guaranteed that the venture would be difficult. The markets for the bulk of the agricultural produce were in the south at the start of the highway, while the patches of good soils were mostly in the north at the far end of the highway. The long tract in between was thought to have mostly poor soils, unsuitable to sustained annual cropping but perhaps suitable for tree crops. Yet the migrants would probably not wait till they got to the good northern soils; they would head for land closer to the start, burn the forests and—few having enough savings to invest in tree crops—plant annual crops. If the soils could not support annual crops, the migrants would be forced to move on to another place, chop down more forest and start again. Without enforced zoning, massive deforestation and immiseration of the forest-dwelling Amerindians would result.

PROJECT PREPARATION

The project had a powerful champion in the Bank who saw Polonoroeste as a *model* for the development of "the world's last land frontier" and his own contribution to history. This was Robert Skillings, chief of the Brazil country programs division from 1971 to late 1982. He had joined the Bank in 1947, by the time of his retirement in the late 1980s being the longest-serving Bank staff member ever. By the time of Polonoroeste he was one of the highest profile division chiefs in the Bank, with a reputation as "a complex character, an extremely forceful personality, someone who struck fear into the hearts of subordinates", in the words of a colleague. By the late 1970s the Amazon was his passion. During a sabbatical year in 1978/79 at the nearby Johns Hopkins School of Advanced International Studies in Washington DC he spent much of the time researching and teaching about the Amazon, visiting the region several times and co-authoring a book about it.¹⁷ Market exploitation of

¹⁶ World Bank, "The Integrated Development of Brazil's Northwest Frontier", Report No. 3042a-BR, December 23, 1980. See also Dennis Mahar, *Government Policies and Deforestation in Brazil's Amazon Region*, World Bank in conjunction with World Wildlife Fund and the Conservation Foundation, 1989.

¹⁷ Robert Skillings and Nils Tcheyan, 1979, *Economic Development Prospects of*

the Amazon was inevitable, he said; the only question was whether it happened wisely or in the free-for-all anarchy of the American West. The Bank could help to ensure that this global asset was developed wisely.

From the start Skillings took the project as his own, notwithstanding that he was division chief in the *programs* hierarchy, not the projects hierarchy. It was unusual for a programs division chief to take this kind of role in a project. At the top, President McNamara signaled his keen support for Skillings and the project. He wanted the Bank to do more to reduce poverty in Northeast and Northwest Brazil. He also loved complex, integrated projects that promised heroic transformation.

The fact finding mission of late 1979 comprised nine people.¹⁸ The members disagreed about what the Bank should do. Robert Goodland, the tropical ecologist, argued that the risks of jungle settlement were simply too high. The Bank should rather focus on the development of the savannah (*cerrado*) of central Brazil, an area nearly as big as the Amazon, relatively empty of people, whose development would not involve chopping down tropical forests and exposing fragile soils, whose climate was more suitable to agriculture, and whose location

the Amazon Region of Brazil, (Washington DC: Center for Brazil Studies, School of Advanced International Studies, The Johns Hopkins University, 1979). See also Robert Skillings, "Economic development of the Brazilian Amazon: opportunities and constraints", *The Geographical Journal* vol. 150, no. 1, 1984, pp. 48-54. Sabbaticals were uncommon; Skillings received his as a consolation prize for being passed over for promotion to director of the programs department that included the Brazil division, courtesy of the new director.

¹⁸ The mission included: Dennis Mahar (mission leader, country economist in Skillings' division, generalist economist by training, just before joining Bank had coordinated major research project evaluating government projects in Amazon based in Ministry of Planning, government of Brazil, results published in Mahar, *Frontier Development Policy in Brazil*, Praeger, 1978); Maurice Asseo (deputy mission leader, senior agricultural economist in Brazil agricultural projects division, generalist economist by training, two years experience in Brazil working on integrated rural development projects in Northeast Brazil, none in Amazon); Simon Hocombe (from FAO, agronomist and expert in small farmer development, on his first visit to Brazil and second to Latin America); Renato Schulz (transport economist in Latin America Highways Division, prior Brazil experience); Robert Goodland (Office of Environmental Affairs, ecologist, much prior experience in Amazon and elsewhere in Brazil); John Redwood (consultant, urban planner then living in Recife, Brazil); John Landers (British consultant, long resident in Brazil, himself a farmer); James Coates (assistant, recently recruited Young Professional with degree in business administration, earlier experience of integrated rural development projects in Northeast Brazil); and Nils Tcheyan (assistant, Skillings' student and protege from the Johns Hopkins School of Advanced International Studies, author of MA thesis on settlements in the Amazon, a few months of prior field work in the Amazon). Skillings was not a member, but joined the mission for a debriefing in Manaus in the last couple of days. The anthropologist David Price did a parallel report on Amerindian issues at about the same time, but was not a member of the mission.

was nearer to major markets. He had done extensive field research in both the Amazon and the savannah before joining the Bank, so his judgment was based on expert knowledge.¹⁹ After the fact finding mission he was not invited near the project again.

Other members of the mission, especially the transport economist, urged the Bank to go slow on the highway project for a year or two while efforts were made to help the Brazilians do some of the foundations for the agriculture, environment, Amerindian and health components--to do proper soil and cadastral surveys, for a start.

On the reconnaissance mission they realized, as they had not before, that the road would go through the lands of vulnerable Amerindian tribes. The mission leader brought up the issue with Brazilian officials. The result was a shouting match. "There is no way the Bank will be involved in Amerindian protection", said the Brazilians. They regarded Amerindian protection as a national security issue, no more appropriate for the Bank than it would be for the Brazilian government to tell the US Federal Bureau of Investigation how to do its business (to use their own simile).

Skillings joined the mission for a debriefing session at the end. Around a hotel dinner table he asked each member to state their conclusions about the project. Most urged either that the Bank stay out or that the road component be delayed while the other things were started. Skillings did not conceal his anger. Yes, he said, the project was risky, but it would be done worse if the Bank were not involved. A decision not to get involved would anger the Brazilian government and his own senior management, both of which were expecting the project to be delivered. He declared that the project would proceed, end of story. The government was not interested in borrowing for an altered sequence, he said, and in any case agricultural improvement without the road--without good access to markets--was infeasible. The mission report misrepresented Skillings' own views as the mission's consensus.

The work of project preparation was divided into three components, one for roads, one for agriculture, one for health. The road and health components were carried out quite separately, little connected to each other or to the agriculture component.²⁰ Together

¹⁹ R. Goodland and M.G. Ferri, *Ecologia do Cerrado*, (University of San Paulo Press, 1979), and R. Goodland, *The Amazon Jungle: Green Hell to Red Desert*, (Elsevier Academic, 1975).

²⁰ Work during the design stage of the project (prior to Board approval) was coordinated by a loan officer, Florente Ague, based in Skillings' division. The project

the project staff spanned *five* divisions. There was no overall project leader in a substantive sense (only a loan officer who provided administrative coordination). Skillings came as near to playing the role of project leader as anyone, but he had the whole of the Bank's dealings with Brazil to manage.

The agriculture component included the agricultural settlements and the ecological and Amerindian reserves. Five people, one of them half time, worked on the agriculture component, spread across three divisions. They were mostly idealistic and young (late 20s and early 30s). *They regarded themselves as innovators, charged with taking the Bank into the unknown territory of environmental protection, indigenous people's protection, and appropriate agricultural methods in tropical rainforests.* They had lively debates among themselves.²¹

Much of the technical work on the agricultural side was done by people in the World Bank-FAO Cooperative Program, based at FAO headquarters in Rome. Between 1979 and mid-1981 the World Bank-FAO Cooperative Program sent out ten missions to help prepare the three agricultural sub-projects, each mission of three to four people lasting about three weeks. One even included a butterfly specialist. There was certainly no skimping on technical input into project design. The job

officers responsible for the constituent loans were administratively subordinate to him, though in separate divisions. Dennis Mahar and Nils Tcheyan, both in Skillings' division and both on the original reconnaissance mission, continued to have an overview role in the project, advising Skillings.

²¹ The project officer in charge of the main agriculture component was Maurice Asseo. He was then senior agricultural economist in the Brazil agricultural projects division. He had joined the Bank in 1977, coming straight into this same division; so before becoming project officer he had two years of operational experience on Brazilian agriculture inside the Bank (none before that), but no experience of the Amazon. His Bank experience had been with integrated rural development projects elsewhere in Brazil. Although classified as an agricultural economist for Bank purposes, he was really a general economist with no particular expertise in agriculture or agricultural economics.

The others in the agricultural component included a Bank operations specialist (James Coates, replaced in 1981), an agronomist (Emmott Los), and a half-time forester (William Beattie). An anthropologist, Maritta Koch-Weser, joined as a consultant on Amerindian issues at the time of the appraisal mission. All the earlier work of project preparation, prior to appraisal, had not included anyone for Amerindian issues, after the bitter experience with David Price (see below). Koch-Weser spoke Portuguese, had experience of field-work in Brazil (but not in the Amazon), was then teaching at a university in Washington DC, and was married to a Brazilian/German Bank staff member, one of McNamara's proteges. Once employed to write a report on Amerindian protection she was then asked to propose some arrangement for monitoring and evaluation of the project, on the basis of other M&E work she had done for the Bank elsewhere in Brazil. She was retained as a consultant to oversee the implementation of the Amerindian and M&E work, later becoming a regular staff member and then the overall project officer for Polonoroeste in 1985.

of these people was to show what could be done, technically, assuming a well-ordered world with *bona fide* government officials.

The Bank made little attempt to talk, even informally, with non-governmental groups knowledgeable about the Amazon, in Brazil or in the US. During the reconnaissance mission of 1979 one of the members was seen by a senior manager in the Brazil Projects Department talking to the president of the Brazilian Anthropological Society, whom he had known for years. The senior manager informed him that if he was again seen in contact with non-governmental personnel he, the manager, would personally ensure that the Bank never sent him to Brazil again. Near the beginning, however, Skillings himself did make an attempt to involve an outside expert in the Amerindian protection component. This was David Maybury-Lewis, professor of anthropology at Harvard and president of Survival International. Maybury-Lewis recommended the Bank employ the anthropologist David Price as consultant, who had worked extensively in the area. Price later broke confidentiality agreements and went public with savage criticisms of the Bank.²² This, together with the Brazilian government's attitude, confirmed Skillings in his conviction that the Bank should stay away from NGOs and other so-called experts, and away from Amerindian protection.

By and large, the Bank's knowledge about the situation came from a small number of people located in the Bank, in FAO, and in the Brazilian government. It had no staff member stationed anywhere near the region. It undertook no analysis of the politics of the region and virtually no analysis of the capabilities of the public agencies on the ground.

THE INTERNAL VORTEX

As project preparation proceeded Polonoeste was boosted as one of the Bank's flagship projects. But many Bank officials expressed worries. Robert Goodland, who rang the alarm bell on the first

²² David Price, *Before the Bulldozers: The Nambiquara Indians and the World Bank*, (Washington DC: Seven Locks Press, 1989). The director of the programs department covering Brazil, Enrique Lerdau, says that Price gave no indication that he saw the project as fatally flawed during his oral debriefing on return from his mission (interview, 4 April 1996). Suddenly, with no warning, he made a speech attacking the Bank at a meeting of the American Anthropological Association in Washington DC. Rather than say, "Here is what must be done to protect the Nambiquara", he said, "The Bank is going to destroy these people". He was in breach of his consultancy contract, that made all information gathered in pursuit of work for the Bank the property of the Bank. Lerdau investigated taking him to court, and still bristles at the mention of Price's name.

reconnaissance mission, was not invited back. The transport economist (Renato Schulz), responsible for the economic analysis of the highway, continued to urge that the Bank not go ahead with the highway until more of the other things were in place; and he said that rail and river transport should be examined too. To Skillings' argument that agricultural improvement without the highway was infeasible he replied that the delay would only be for a few years, that it would help restrain the flood of migrants, and that some agricultural crops (cocoa in particular) were already being marketed along the existing unpaved road. At project appraisal he made this argument forcibly and was kicked off the team, then dispatched to one of the Bank's dumping grounds, the Operations Evaluation Department.²³ Skillings had his legacy to protect, all the more so because he was approaching retirement.

Other critics in the central Office of Environmental Affairs and the central Agriculture and Rural Development Department continued to speak out. James Lee, the Bank's environmental advisor, reported in a January 1980 memo to his director, "Any Amazon basin development is likely to be closely scrutinized and we feel *the Bank would be open to severe criticism*, unless great care were exercised in project formulation and implementation to avoid serious environmental repercussions. We feel that the currently used agricultural production system in land settlement and development areas do not offer a sustainable livelihood for farmers and settlers on any but the best 'terra roxa' soils....[The other alternatives proposed are all unproven.] To use unproven technologies as a basis for agricultural settlement under *extremely adverse soil conditions* would be a highly risky undertaking and could prove disastrous for the settlers themselves."²⁴

Lee's memo emphasised the thinness of knowledge about soils in the area. Indeed, the only soil data came from the results of a brief and unsystematic FAO survey some years before. The project team did not plan to get more, partly because it would take too long.

Lee's memo was written by Robert Goodland. Though no longer on the project team Goodland continued to follow the project as closely as he could from his position in the Office of Environmental Affairs. He drew on the office's own small budget to send an

²³ On the other hand, the chief of Brazil Highways Division was promoted to assistant director of the Latin America Projects Department soon after Polonoroeste was approved.

²⁴ James Lee (OEA) to V. Rajagopalan (CPSVP), January 8, 1980, emphases added.

environmental consultant down to the area once a year as the project was being implemented, and handed the consultant's reports over to the project officer.

Senior people in the powerful Agriculture and Rural Development Department added their warnings. In early 1980 one said that the project's harmful effects would include "deforestation, particularly of lands unsuitable for sustained agriculture, use of unsustainable agricultural production systems, and the invasion of tribal reservations". Even if the Bank limited its financial support to the rehabilitation of *existing* settlements [this was one option being considered], it would be seen as supporting the total program. "In such a case we, along with the Brazilian Government, might be considered responsible for allowing indigenous people in the area to be deprived of their lands, exposed to fatal epidemics, and to be socially, morally and culturally degraded....I suspect that the Government's unwillingness to have the Bank involved in any 'Amerindian' programs or contacts is a portent of what may be in store!".²⁵

The assistant director of the Agriculture and Rural Development Department joined with the environmental advisor to write a tough critique of the draft project proposal. The proposal grossly exaggerates the agricultural potential of the northwest Amazon, they said. Such limited evidence as exists suggests that soils are highly variable, and "it would be unwise at the present time to assume that most of such lands would be suitable for development of agriculture". They observed that the project proposal wrongly states that the soils "tend to lose their fertility" *after* forest clearing. "Most of the soils are infertile in their present state", they say, "all the nutrients being locked in the growing forest and decaying litter. After clearing and burning, these nutrients are released but the soils do not have the physical and chemical capability to retain them, and they are lost by leaching." Indeed, the project proposal showed scant recognition of common knowledge about tropical soils. They concluded, "*Certainly there would seem to be better opportunities to increase agricultural productivity elsewhere, but there is no consideration of such alternatives in the report....*This seems to be a serious gap in the logic for development of agriculture in the northwest."²⁶

Yet a well-advanced (Green Cover) project report, July 1980,

²⁵ J.C. Collins (AGR/CPS) to R. Goodland (PAS), February 25, 1980, emphasis added.

²⁶ D.C. Pickering (Assistant Director, AGR/CPS) and J. Lee (OEA), to D.J. Mahar (Economist LC2), May 20, 1980, emphasis added.

retained the earlier optimism about agricultural potential. Reviewing the report, Bank agricultural experts in the Agriculture and Rural Development Department reiterated their earlier warnings. Said one, "Very little is known about the land capacity, ground surveys having been limited to areas of relatively easy access....The scarcity of information is well reflected in the fact that *discussion of the basic resource for any agricultural development--the soils and land capability--is limited to a half a page, together with [a table]*".

The reviewer of the Green Cover project report went on to observe that "the problem of enforcement is neglected. This seems to be a crucial issue. If the expected large influx of settlers occurs, can they all--or at least a very large proportion--be guided to settle lands which are capable of sustained productivity? How will settlement of other lands be avoided short of using a large armed policing force? If settlers on unsuitable sites and in forest reserves are to be evicted and *given priority for alternative holdings*, this could be an incentive to settle such areas as a means of getting on a priority list." He concluded, "The tone of overall optimism does not seem warranted....*it seems far from certain, at present, that the Northwest Region will either prove capable of sustaining any very significant volume of exports out of the region, or providing a sustained livelihood for the anticipated large number of poor settlers without requiring a large and continuing Government subsidy.*"²⁷

Meanwhile, one of the main protagonists for the project himself concluded from a mission to examine the capabilities of the Amerindian protection agency on which the Bank was relying to implement key safeguards, "FUNAI is presently a weak institution, demoralized by the ongoing dissension between administrators and technical staff. This conclusion is more or less universally accepted in Brazil, as is the feeling that a thorough restructuring of FUNAI is urgently needed. Such a restructuring... will be a long-term proposition and, thus, the Bank should be prepared to accept considerable risk in the interim if it decides to continue its association with FUNAI".²⁸

Half a year later, June 1981, the environmental advisor sent another memo to his vice president through his director, citing a just-produced consultant's report that "casts increasing doubt on the

²⁷ J.C. Collins (Advisor, Irrigated Field Crops, AGR/CPS) to D. Mahar (Economist, LC2), July 9, 1980, first emphasis added, second ("given priority...") emphasis in original, third added.

²⁸ Dennis Mahar (Economist, LC2DA) to Robert Skillings, Division Chief, LC2DA, July 7, 1980.

likelihood that the project will fulfill the expectations of both the Government and the Bank's advocates"; and called for the Bank to insist upon stronger loan conditions. He added that it had only just come to his attention that the budget for the whole Polonoroeste project allocated just 0.18 percent for environmental protection purposes, 0.21 percent for forestry, and 2.1 percent for tribal peoples! He concluded, repeating what he had said many times before, "*the Bank is at risk in agreeing to associate itself with this particular undertaking*".²⁹

Though sent to the vice president the memo was blocked by the director. The director returned it to Lee the same day with a hand written note saying "Mr. Baum [the vice president] does not want *these details* to be discussed at the Vice-President's level--he believes you should deal with these issues directly at the working level".³⁰

A soil and agricultural production specialist wrote a withering critique of the project report, especially for its near total neglect of soil quality and drainage. He concluded: "In my view, the investigation of lands is presently inadequate to justify the Program".³¹

In short, the internal critics said the decision to go ahead would reflect an inadequate knowledge of soils, an underestimation of the environmental and social risks, and an overestimation of the willingness and ability of government agencies to implement their commitments. They also said there were better opportunities for Bank involvement elsewhere in northern Brazil. Experts from the World Bank-FAO Cooperative Program tended to agree. Indeed they were the source of some of the information that the internal critics kept putting to Skillings.³²

²⁹ James Lee, to Warren Baum (through Mr Rajagopalan), dated June 9, 1981, emphasis added.

³⁰ Cited in Bruce Rich, *Mortgaging the Earth*, Boston: Beacon Press, 1994, p. 143-44, emphasis added.

³¹ W.B. Peters to J.C. Collins, AGR, dated July 21, 1981.

³² Simon Hocombe, from the World Bank-FAO Cooperative Program, a participant in several missions to Polonoroeste, wrote a memo to Dennis Mahar, the contact person in Skillings' division, that said, "On many occasions we have discussed the possible harmful effects...of the paving of BR364. This mission's position since our round-up session in Manaus has been to accept that improving the road will have some detrimental effects, but to advocate continuing Bank involvement in the highway project because it would provide leverage to minimize them....At the inter-divisional meeting on January 23...discussion covered most of the preventative measures..., but in a very fragmentary way. Their relationship as a package, and in particular their relevance to aspects beyond agriculture, seemed to have been lost sight of. The purpose of this memo is to re-state the package concept. We believe that in future negotiations with the federal and state governments we should stress the integrated nature of these requirements and present the package *as a requirement* for Bank financing of the highway.

LOAN APPROVAL, 1981

In the face of persistent criticisms of the project from the Central Projects Staff, Brazil Programs Division Chief Skillings remained unmoved. Privately he felt that the critics in the Central Projects Staff "were second guessing us from on high, without having an intimate knowledge of the area".³³

Publicly (inside the Bank) he reiterated what he had said all along. First, the development of the savannah, Goodland's preferred alternative, would require a forced migration program, since the savannah had few people. Second, at a meeting with a few of the (internal) critics in November 1980, "Mr Skillings was of the opinion that the Bank's presence in the proposed development scheme was important to obtaining consideration of the environmental and tribal peoples issues. He admitted that it was not likely that all the recommendations made with regard to both issues would be implemented, but felt that even partial consideration and implementation were sufficient to warrant the Bank's participation".³⁴

Much of what the Bank was doing, he said, was simply to get the Brazilian government to follow its own legislation on the protection of peoples and areas adversely affected by development projects, in a

"The first requirement, which has apparently already been done in Rondonia, is to zone the whole area potentially served by BR-364 and its future network of feeder and access roads according to land use capability. [RW: It later transpired that the mission had been misled--no such zoning had been done in Rondonia.].... An appropriate package of supporting activities should later be applied to meet the needs of each type of zone. Agricultural zones would be those areas already known or very likely to have technical potential for crop production....

"All land not included in agricultural zones...would automatically fall into reserved zones. In contrast to agricultural zones, where the aim would be to encourage appropriate land development, the reserved zones would be made unattractive to settlers. No land titling or agricultural support would be given and road access should be kept to the minimum....

"The package approach outlined above involves first and foremost securing cooperation between the institutions responsible for different parts of the northwest development program, in place of the present independent and sometimes conflicting actions.

"We feel that if it is fully implemented this minimum support package, applied to the whole zone of influence of BR-364, could do much to prevent the deleterious effects about which we are all concerned. *But if it is not seen as a coherent whole, its implementation insisted upon and carefully monitored during project supervision, there is no doubt that Bank support of BR-364 will indeed cause a major increase in human misery and ecological damage.* (S.D. Hocombe, FAO-WB CP, and J. Coates, LCPA3, to Dennis Mahar, LC2, "BRAZIL: Northwest Economic Security Mission--the 'Minimum Support Package' Concept", January 25, 1980, emphases added.)

³³ Robert Skillings, interview with author, 24 June 1996.

³⁴ James Lee, to Files, November 25, 1980.

political situation in which no powerful interests within Brazil wished the legislation to be enforced. He related how at a meeting with the head of the main coordinating body for Polonoroeste within the Brazilian government he had tried to bring up the need for Amerindian safeguards. As he spoke the head of the coordinating agency had reared back in his chair, clasped his hands over his ears, and said, "Please, *please*, don't bring up Indians". The Bank's involvement in the protection of Indians would just invite trouble from the array of Brazilian interests that had no wish to protect them, said the official.

Indeed, at a later meeting, after the unhappy experience with anthropologist David Price, Skillings himself distanced the Bank from Indian protection. "*The World Bank was above all else an economic development institution and should not align itself with or 'take up' a cause such as the [tribal peoples' issue].* He cited drugs, urban crime, etc., as causes which could also merit the Bank's attention."³⁵

In April 1981 the Loan Committee (of the operational vice presidents) met to discuss the decision to proceed to negotiations with the Brazilians (negotiations about phase I, the biggest component of the three phase program). This was the last point in the process where the project could, in practice, be turned back or modified; once approved for negotiations the project was very likely to be approved by the Board. The representatives from the Latin America region (not the central departments which had been the seat of opposition) "explained that existing information confirms that *adequate soils and appropriate cultivation techniques are available for agricultural development* of the Northwest Region".³⁶ They also said that the Bank could be reasonably confident that the new settlements would be confined to areas with soils that could support them, because "areas of unsuitable soils have in the past normally been shunned even by spontaneous migrants".

The minutes record that members of the Central Projects Staff "expressed concern" that, "in the absence of land use planning and *enforcement*", unsuitable soil areas would "increasingly be invaded for shifting cultivation of food crops leading to rapid environmental degradation". But the central Agriculture and Rural Development (AGR) Department had already signed off on the project, fundamental objections notwithstanding. By this time the project had too much momentum behind it for it to be redesigned, especially given

³⁵ James Lee, to Files, December 19, 1980, emphasis added.

³⁶ Loan Committee minutes of meeting to consider the Northwest Region Development Program and First Stage Project held on April 15, 1981, dated May 7, 1981, all emphases added, here and in the later quotes.

McNamara's interest in it and Skillings' commitment. And the project statement had indeed been modified to take partial account of AGR concerns. The text said more forcefully than before that the sites of new settlement would *only* be in areas of good soil--but left unanswered the AGR points that: (1) no one knew where the good soils were, and (2) no enforcement mechanism existed to channel people towards them.

On the issue of Indian protection Ernest Stern, the chairman of the meeting and the senior operational vice president (number two in the Bank after McNamara), "inquired whether any participant in the meeting felt that the Bank was not doing anything it should be doing. The general view", the minutes continue, "was that the proposed measures were satisfactory but that *close monitoring of their implementation* would be required, especially given the fact that the issue was controversial and that the Bank would undoubtedly continue to be subject to criticism."

The environmental advisor suggested that the Bank should meet with *outside* critics of the project "in order to fully share facts and views on the steps being taken...to protect the interests of the Amerindian population, in an effort to defuse what is a highly charged emotional issue". The Latin American region said no. "The Region observed that *some of the positive results obtained on this matter were made possible by the atmosphere of mutual confidence that prevailed in our discussions of the matter with the Government, and ... caution was required in making public the results of these discussions.*" In reply, "the Environmental Advisor said that the critics could be expected to take their case to the governments of several of the Bank's important donor countries". This was an early warning of what was to come.

Stern proposed that the region should respond to the critics by placing an article on the whole program, including the Indian issue, in *Finance and Development* (the Bank/Fund quarterly); and arrange "appropriate discussions on the topic with the *members of the Board* [not outside critics] in due course". A modest proposal.

The minutes end with, "The Chairman [Stern] concluded the meeting by noting that results achieved to date indicate that the Bank has had more influence with the proposed program and project than with many other projects it has financed in Brazil. A lot of progress has been made on the Amerindian issue and on devising a more balanced and integrated program. *Control would be difficult and bad publicity unavoidable. This would remain a high risk project, but one worth*

doing."

Though not recorded in the minutes, Stern several times raised the question of whether the Brazilian federal and state government had the capacity to carry out the plans. He had been warned by his office's project reviewer, Jane Pratt, that according to her own private soundings with several of the regional vice presidents they had serious doubts on this score, as on several others. At the meeting, however, they refused to respond to Stern's invitation to express them. Pratt therefore took it upon herself then to grill the project proponents on some of the vice-presidents' privately expressed worries (while those same vice presidents sat watching). "Shouldn't we wait till we have better data about soils?", she asked. Answer: "We have put in a provision for agro zoning to be done *before* the road reaches that point". "What happens if the road gets there first?". Answer: "That won't happen".

Late in the one and a half hour meeting a vice president asked for the floor, leaned back in his chair, folded his arms, and said, "What we are really saying is, 'The Government of Brazil is willing to sign its name to a legal contract that it will undertake certain obligations. Do we believe it, or do we not? If all the provisions are in the legal contract, then the only basis for not going ahead is that we don't believe that the government is credible when it signs an internationally-binding agreement.'" He implied that the Bank could not take such a position. He went on to say that "We have all the leverage of suspension. If Brazil does not meet the covenants, we can suspend." A guffaw greeted this remark. Someone said, "Since when have we suspended? The threat is not credible." Stern came in sharply. "I have agreed to suspensions every time they have been recommended by the regions, without exception." He went on. "That's the trouble with you guys. You are always trying to second guess me. You are not sending recommendations [for suspension] up. *I am not the block.*"³⁷

The project proceeded to the phase of negotiations with the Brazilian government. The negotiations, held at Bank headquarters,

³⁷ As recalled by Jane Pratt, interview, March 15, 1995. Pratt participated in the meeting as one of Stern's two project reviewers. Being one of the few people in the Bank trained in environmental assessments she took a particular interest in Polonoeste. She was "appalled" by the documents when they first reached Stern's front office, as much for what they did not say as for what they did say. She then spoke to a number of people connected to the project, and found that they shared her concerns. When she told Stern he was surprised. "But none of this is in the documents". After the Loan Committee meeting, back in her office, Pratt wept in exasperation. Stern saw her. "I'm sorry", he said comfortingly, "I tried", meaning that he had tried without success to bring the serious doubts out onto the table. In fact, he could have raised the doubts himself and insisted on some discussion; but did not.

were unusually long and difficult, taking 10 working days. The two main sticking points were the Bank's covenants on Amerindian protection, which the Brazilians regarded as an issue of national security that foreigners should not be involved in, and the Bank's requirement for an independent monitoring and evaluation capacity, which the Brazilians thought an infringement of government prerogatives.

With negotiations complete, the phase I project went for Board approval in December 1981. At the Board meeting the staff from the Latin America region gave a glowing account. As well as the many benefits that would flow from the removal of infrastructural bottlenecks, they said, the project included "specific environmental protection measures, including an ecological research component designed to help monitor the impact of developmental activities on the natural environment." In addition "the health project would support efforts to control malaria and to improve basic health infrastructure in Rondonia. In conjunction with these projects, the Government was carrying out a special project to safeguard the health and lands of the region's Amerindian population...." Then they gave a brief caution: "despite the mitigating efforts included in the projects, the effort to attempt to guide a spontaneous movement already under way carried many risks [left unspecified]. However, *the risks were considerably lower than those which would have existed in the absence of the program.*"

The Board resoundingly endorsed the project. Several Board representatives complemented the Bank and the Brazilian government for the excellence of the conception and design. They pointed to the "truly integrated nature and the comprehensive approach to development" demonstrated in the project; and "cited the balance among infrastructure, agriculture, health and even ecology and Amerindian welfare". Said one, "the strategy for harmonious development of the region and opening it to productive settlement was a bold attempt which deserved admiration and substantial external support." The subsequent discussion concerned such issues as the admirable structural adjustment efforts being made by the Brazilian government, the extent of local cost financing in the agricultural development part of the project, the need to coordinate the construction of the feeder roads with the farm access roads, whether there was an excessive number of prequalified construction firms preparing bids, co-financing issues, and so on.

Only one speaker raised worries about the core of the project. "[H]e stressed the risk that if the project were not successful, it

could harm *the image of the Bank*He stressed the necessity of the Bank monitoring the project closely, with periodic progress reports to the Board." Another speaker seconded his remarks. The staff assured them that monitoring and evaluation had been built in.³⁸

Unmentioned were the questions raised at the working levels about the basic economic viability of the project, about the potential for agriculture in the region, about alternative investment sequences, alternative transport modes, and alternative regions for agricultural development; and there was only glancing reference to the fundamental question of the *implementation capacity of the government agencies in the region*--indeed even at the working levels this question had not been raised in more than a piece-meal way. Polonoeste set sail on a raft of assumptions as brittle as they were expedient.

WHY THE BANK BECAME INVOLVED

The Bank might have said: "The risks are too high, the regional government is incompetent, it will not be able to control the destructive forces that the highway will unleash, we will put our reputation on the line, therefore we will not participate". The reasons why the decision went the other way are as follows.

(1) The Bank, being the *World Bank*, considered it had a responsibility to help in the great task of "conquering" the Amazon, widely described at the time as "The World's Last Land Frontier".³⁹ The "conquest" (the noun and its verb were the standard words at the time) would occur whether the Bank were involved or not. The Bank's help in one corner of the Amazon would make the results in that corner more effective than otherwise. More importantly, its help would make Polonoeste a model of comprehensive regional development planning in jungle colonization schemes around the world, and so would justify much more lending not only to Brazil but elsewhere as well. Previous jungle colonization schemes had a poor performance record, including both the earlier ones in this same area and Indonesia's Transmigration project. The Bank was already involved with the Transmigration project. Many people inside the Bank had criticised the Bank's plans for the Transmigration project, that looked to be founded on politically-motivated and wildly unrealistic assumptions about field crop yields. Polonoeste would be a fresh start in jungle settlement.

³⁸ Board minutes, dated December 15, 1981, "Loans to Brazil for integrated development of the northwest region", meeting of December 1, 1981, emphases added.

³⁹ See for example Devbrat Dutt, 1972, "Brazil's conquest of Amazonia", *Bank Notes*, vol. 1, no. 7, June 1972.

(2) The Bank assumed that the Brazilian government would pave the highway whether the Bank helped or not. Migration would inevitably increase; the region could not be walled off. The Bank's help with what the Brazilians wanted--the highway--would give it leverage to promote other components that the government was less interested in--agriculture, forest protection, Amerindian protection, and health. This would turn it into a model of integrated rural development.

(3) Brazil was a large, self-confident country, hailed as a miracle grower in the 1970s, with a competent bureaucracy at the top. As a big borrower it was one of the Bank's most valued customers. The Bank could not easily say, "We don't believe you can be relied on to carry out your commitments; therefore we will not support the project".

(4) The Bank wished to increase lending to this important borrower at a time when Brazil's foreign exchange requirements were rapidly increasing. Polonoroeste presented "*the possibility of making a large loan, or more precisely set of loans, to an important client country at a time when the latter was in increasing need of foreign exchange*", and "*when the continued flow of Bank resources was considered essential to maintain the confidence of other international lenders in the latter's medium and long-run development prospects*".⁴⁰ These are the words of a project evaluation, published by the Bank's Operations Evaluation Department in 1992 (henceforth referred to as "the OED study"). To increase lending the road component was especially attractive, because it promised to disburse about \$250 million dollars quickly at a time when other ways to disburse to Brazil were limited.⁴¹

(5) "The Bank money machine was looking for big projects in the late 1970s, there was a lot of pressure to lend, *any argument for not lending was very unpopular*, people's careers were being made or not made by the size of their lending", in the words of a project participant.⁴²

(6) The project had a powerful internal champion, Robert Skillings, who regarded it as the crowning achievement of a lifetime in

⁴⁰ World Bank, "World Bank Approaches to the Environment in Brazil", vol. V, "The Polonoroeste Program", p. 245 and p. 27, first emphasis in original, second added.

⁴¹ For example, the Bank would not lend to Brazil for agricultural credit--a favorite way to disburse large amounts quickly--because of Brazil's policies for *subsidized* agricultural credit.

⁴² John Malone, interview, 30 October, 1995.

the Bank, his big contribution to a better world. McNamara strongly supported it. On the ground in Rondonia the governor strongly supported it.

So the technical and political objections were pushed aside, and those initially working on the project who voiced doubts were sent elsewhere.

PERFORMANCE ON THE GROUND

The before-the-fact descriptions of the disorders that the project would help to *avoid* turned out to be reasonably accurate after-the-fact descriptions of what happened on the ground as the result of its partial implementation. The road works raced ahead, the paving being completed within three years. Everything else lagged far behind. With the bulk of the funds disbursed for the road the Bank then had relatively little leverage left for getting the other things done. (The Amerindian component had been financed entirely by Brazil, at the Brazilians' insistence.)

The highway and the Bank's endorsement of the whole project contributed to a flood of migrants. (Remarkably, the Bank did not make any estimates of the effects of the highway on migration, nor did it work out alternative scenarios based on different migration assumptions.) A "golden west" fever took hold. Population in the project-affected area surged from an estimated 620,000 in 1982 to 1.6 million in 1988.⁴³ The assumptions on which the Polonoroeste development strategy had been based turned out to be wildly inaccurate, and the performance indicators veered far from their expected path.

The concerned government agencies proved largely unable or unwilling to implement what the Brazilian government had agreed with the Bank they would do. The national land agency, INCRA (the most powerful agency in the area, the de facto government because of its jurisdiction of a land corridor 100 kilometers wide on either side of the highway) was ostentatiously corrupt. The other federal agencies operating in the region were so centralized that they could scarcely purchase a tankful of gasoline without authorization from Brasilia (in the days before fax machines and email). The territorial agencies hardly functioned at all.⁴⁴

⁴³ World Bank, "World Bank Approaches to the Environment in Brazil", vol. V, p. 59.

⁴⁴ Rondonia was a federal territory, not a state, when Polonoroeste began. The governor of Rondonia strongly supported Polonoroeste as part of his campaign to make

Consequently neither the territorial government nor the federal government did much to enforce the boundaries of the Amerindian reserves, or to limit the logging, or to provide the credit and the agricultural extension necessary to make the settlements viable. Deforestation and spontaneous settlements occurred outside the demarcated areas, helped by the feeder roads. "In Rondonia there is not even a parody of forest management", reported a forester consultant to the Bank in 1985.⁴⁵ The forestry agency was not even able to count the logs coming out, let alone check the logging. Logging trucks came to be known as "ants" in testimony to their numbers and incessant activity. The Amerindian protection agency proved not only ineffectual but even contemptuous of Amerindians at its top levels. In the sites of new agricultural colonization settlements the land agency got the sequence of soil surveys and settlement exactly wrong: first it settled the people, then it began to do (limited) soil surveys.

Brazil's fiscal crisis and over 100 percent inflation wrought havoc with implementation planning. The fiscal crisis meant that government agencies did not receive their operating budgets until half way through the year, which meant in the Amazon not until the start of the rainy season. But much of the project work had to be done in the dry season, and so was delayed until the rains had passed. By then the budget allocation had lost much of its purchasing power. In one case, a member of the project team, Maritta Koch-Weser, asked to see a health center shown in the project accounts to have been finished. She was taken to the spot and shown a rotting pile of timber. Project officials explained that by the time they received authorization to spend the budgeted funds the money had been substantially devalued by inflation, and then the rainy season began; by the next dry season the money would pay for no more than the wood. This is what Koch-Weser referred to as the "one legged cow" problem; the budgeted amounts, given these financial conditions, would suffice only for making the equivalent of one legged cows. The problem was especially serious in the health component: virtually nowhere in the whole vast project area did the three necessary ingredients all exist together: a health clinic; a trained person; and essential supplies. Political bosses used their control of one or other of the ingredients to win political support. Malaria raged like a monster out of control. Many thousands died.

Rondonia a state.

⁴⁵ Marc Dourojeanni, "An example of the complexity of the development in the humid tropics: The Northwest Region Development Program in Brazil", 1985, cited in Graham Searle, *Major World Bank Projects: Their Impact on People, Society and the Environment*, (Camelford, Cornwall: Wadebridge Ecological Centre, 1987), p. 99.

There were unanticipated legal problems too (the project missions had not included a legal expert). Several of the ecological and Amerindian reserves, once demarcated, had uncertain legal validity, because there were counterclaims to the same land and Brazilian law had no way to reconcile the competing claims.

The highway and feeder roads opened the area not only to the intended beneficiaries, small farmers, but also to loggers, miners, and cattle ranchers, who received large state subsidies, while the small farmers got none. These latter categories had been more or less ignored in the planning, for the program was seen as one for "small farmers", even though it was also billed as an integrated *regional* development program. The activities of these extractors formed a flourishing extractive economy.⁴⁶ The combination of poor soils, lack of farming skills, and lack of farm services induced many small farmer "project beneficiaries" to join the extractive (logging, mining, ranching) economy. Not till 1986 did FAO experts do the calculations that explained what had been happening on the ground: they showed that a settler who cleared a plot of jungle and worked it for the three years necessary to claim possession could get much higher returns by selling the property to a (subsidized) speculator and then moving on to clear another plot than by opting for sustained cultivation.

Underlying many of the implementation problems was the "carpet bagging" nature of frontier society (in the North American metaphor), with predatory elites able to suborn the local offices of government agencies.⁴⁷ Almost everyone who benefited from the extractive economy in the region was opposed to the ecological and Amerindian components; and by the implementation stage of Polonoeste, the extractive economy began to swamp the agricultural economy under the impact of new mining discoveries. Even had there been more political support, it would still have been difficult to strengthen implementing capacity on the ground given the fiscal crisis and high inflation, and given, most important of all, the flood of migrants that the upgrading of the highway itself helped to bring.

⁴⁶ Cattle ranching can be included as extractive because the conversion of tropical rainforest to pasture "rates the worst, environmentally, of all conceivable alternatives". Robert Goodland, "Environmental ranking of Amazonian development projects in Brazil", *Environmental Conservation*, vol. 7, no. 1, spring, 1980, p.18-19.

⁴⁷ Margaret Keck, "Planafloro in Rondonia, Brazil: the limits of leverage", in Jonathan Fox and David Brown (eds.), *The Struggle for Accountability: The World Bank, NGOs, and Grassroots Movements*, Boston: MIT Press, 1998.

FEEDBACK AND RESPONSE

Everyone in the Bank recognized that the project would have to be carefully supervised. During loan negotiations the Bank insisted that a non-governmental Brazilian agency be given the task of monitoring, a step the Brazilian side resisted. Eventually the Brazilians appointed a university-based consulting group with no environmental expertise; when the Bank pressed for environmental expertise the consulting group linked up with a marine and oceanographic institute; when the Bank pressed again a year went by before the consulting group found an organization with green expertise.

"In practice", said the OED report on Polonoroeste, "the Bank appears to have been slow to perceive the various distortions associated with the early execution of the program. Furthermore, at least until disbursements were suspended in early 1985, the Bank appears to have been largely ineffectual in dealing with or correcting these problems."⁴⁸ Another Bank report, examining the Bank's world-wide monitoring and evaluation efforts, comments about Polonoroeste, "project management [on the Brazilian side] at times tried all its tools--vetoing access to information, claiming that evaluations were not carried out to the letter of the contract or competently, or not releasing travel funds or salaries...to make sure the process was as difficult as possible".⁴⁹

The OED report goes on to say that the Bank's supervision inputs fell far short of what everyone said would be essential. "[T]he extensive participation of Bank staff..., in addition to FAO personnel, in the planning and design of POLONOROESTE...stands in sharp contrast to its more limited and, apparently, poorly coordinated role in the supervision of program execution between 1982 and 1984." In the whole of 1984, for example, there was only one supervision mission, involving 13 staff weeks.⁵⁰ No Bank staff were stationed near the region. It is

⁴⁸ World Bank, "World Bank Approaches to the Environment in Brazil", vol. V, p. 94, emphasis in original.

⁴⁹ World Bank, "An Overview of Monitoring and Evaluation in the World Bank", Operations Evaluation Department Report No. 13247, June 30, 1994, p. 31.

⁵⁰ World Bank, "World Bank Approaches to the Environment in Brazil", vol. V, p. 94. However, members of the core team say that they piggy-backed supervision work on top of project preparation work for later projects in the three phase package, so that actual supervision was more than the "supervision" figures show. The project completion report for the phase I agricultural component claims that, "Bank involvement measured in terms of staff inputs throughout the life of the project has exceeded by far the average for Bank agricultural projects". This is misleading. The statement refers to the average over the whole period up to 1989. After suspension in 1985, reported supervision inputs increased. The critical period for supervision,

hardly surprising that the Brazilians concluded that the Bank was not entirely committed to the non-road building objectives of the project.

Nevertheless, the growing imbalance between the road work and the rest of the project became well-known to the project staff. But the Brazilians' failure to meet core conditions notwithstanding, and in disregard of the terms of the loan agreement, the Board approved the phase III loan for Polonoroeste in October 1983 for the purpose of creating *new* agricultural settlements.⁵¹ In their presentation of the phase III project to the Board the Latin America region's staff made no reference to the difficulties being encountered on the ground. The staff said, "This project built upon and extended to new settlement areas the strategy of development used in the prior phases, *which were being implemented in line with forecasts*". They told the Board that the projects had been *designed* to provide services and credit to small farmers, but did not say what they already knew, that credit and services were not arriving and that farmers were indeed selling out and moving closer to the frontier or into the cities and towns. On the special project for the protection of Amerindian communities the staff said, "The Bank had monitored the progress of this special project closely and would continue to do so"--without saying what the results of its "close monitoring" had revealed, other than, "the Bank would not have gone ahead with any project in the region if it had not been convinced that the Government was implementing the Amerindian component *to its fullest capacity*". All this was mostly flannel, designed to mislead by enough to get Board approval for the final phase.

By this time, two years after they had approved phase I, some Board members were beginning to worry about Polonoroeste. To each of their concerns the staff gave reassuring replies that concealed much contrary information.⁵² The staff misled not only the Board but also the president. In a briefing paper on Polonoroeste to President Clausen in December 1983,⁵³ the staff wrote, "The Bank maintains the right to supervise the Special Project [for Amerindian protection] and no obstacles in this respect have been encountered. Bank staff contact with FUNAI is easy.... *Implementation of the Special Project is now satisfactory*.... We have, and will continue to monitor the Special Project

however, was at the beginning, when there appears to have been rather little.

⁵¹ Phase II had been for the extension of phase I into the next-door state of Mato Grosso.

⁵² Minutes of meeting of the Executive Directors, October 25, 1983, dated December 15, 1983.

⁵³ Briefing paper to A.W. Clausen from Suitbertus van der Meer (acting regional VP) through Ernest Stern, "Brazil- Northwest Region Integrated Development Program-- Briefing on Amerindians", dated Dec 28, 1983, emphasis added.

closely given its sensitivity and visibility in the international scene."

The internal files show that at this time the division chief was telling the Brazilian government that implementation was *very unsatisfactory*.⁵⁴ Few of the 37 Indian reserves had been demarcated and registered, and at least 15 had recently been invaded by squatters, loggers, and others.

SUSPENSION OF DISBURSEMENTS

At the working levels alarm bells continued to ring. The mid-term review mission, of nine members,⁵⁵ went out in November 1984 and presented its report in late February 1985. By now, with Skillings gone and several new members on the project team, and with lots of negative feedback information to hand, the normative climate had changed sufficiently for the mission's report to document at length the many failings.⁵⁶ It said that the whole program's "mitigating" measures had been "stunted by weak program coordination, institutional inefficiencies and an undisguised lack of political support for environmental and Amerindian protection". In addition, the program's agricultural strategy "remained largely unimplemented" because the government had failed to comply with its contractual obligation to provide credit to small farmers in the region (contradicting what the staff had told the Board in the approval meeting for the phase III loan a year or so earlier). The mid-term review continued, "...the Rondonia state government [took] a course in clear violation of the spirit of the Northwest loan agreements by allowing settlement in low potential areas." On the other hand, it also said that for all its failings, the Amerindian Special Project had raised "the quality of assistance provided to [the Indians] to levels unrivaled elsewhere in Brazil".

The whole Northwest program had arrived at a critical juncture, the mid-term review concluded. If the program were "to stem [the] adverse and growing trend towards transgressions into reserve lands and failures in small-farmer colonization" it needed to be strengthened with "far more effective coordination and implementation instruments". It laid out an action plan to which the Brazilians would have to commit themselves in order for disbursements to be resumed. It concluded, "The above proposals...are made with the firm belief that

⁵⁴ For example, telegram from Hendrick van der Heijden to Minister Mario Andreazza, Ministry of Interior, dated 17 March 1983. van der Heijden replaced Skillings as division chief for Brazil Programs.

⁵⁵ Including Dr. Oscar Echeverri, who reviewed the malaria/health component.

⁵⁶ Mid-term review, internal memorandum of February 25, 1985.

past Bank involvement in the Northwest program has, overall, helped to prevent even worse outcomes, and that, however unrewarding and thankless the defense of the small farmers, Indians and environment of the region may be, the Bank should do its utmost to help overcome the present difficulties and remain involved in the orderly development of the Amazon".⁵⁷

How did such a mid-term review come to be written, that contradicted much of what the earlier reports had been saying? The answer owes much to an accident of personnel. John Malone had been the deputy resident representative in the Bank's biggest overseas office, in Indonesia. In that capacity he had been a strong internal critic of the Bank's support of the Indonesian Transmigration project, that involved moving hundreds of thousands of people from the densely populated inner islands to agricultural settlements on the rainforested outer islands. He had later been a division chief in the Operations Evaluation Department for six years in charge of OED's Agriculture Division. In that capacity he had seen at close quarters the propensity of the Bank to proclaim victory in a project and sweep the contrary evidence under the carpet. His job, OED's job, was to lift the carpet. He acquired a reputation as an outspoken critic of poor quality projects. This reputation hindered his move out of OED and back into operational work. He had earlier worked closely with Donald Martinusen, who by then had replaced the division chief of Brazil Agricultural Projects under whose reign Polonoroeste had been started. Martinusen proposed that he recruit Malone as his *deputy* division chief, which would at least get him out of OED even at the cost of dropping a rank. Martinusen himself was critical of the agricultural assumptions of Polonoroeste but had no stomach for fighting. He put his newly arrived and feisty friend John Malone in charge of the mid-term review of Polonoroeste. Malone was not impressed by what he saw and was determined to say so, in the face of opposition from the chief of Brazil Programs Division but with the support of the newly promoted vice president for Latin America, David Knox.

Soon after the mid term review was presented, in March 1985, the decision was made to suspend disbursements until such time as a "Corrective Action Program" could be agreed upon and certain specific measures were taken for Amerindian protection. The decision to suspend owed much to the fact that by the start of 1985 a completely new line of command on Polonoroeste was in place, comprising people

⁵⁷ World Bank, "World Bank Approaches to the Environment in Brazil", vol. V, p. 75.

who had no special interest in the project because not involved in its initiation. It included a new project officer (Maritta Koch-Weser), who had been responsible for "social" aspects of the project since 1981 and who was now given responsibility for the whole thing. (Recall that until this time no one—with the partial exception of Skillings in the early years—had responsibility for substantive integration of all the components.) The new line of command also included the new deputy division chief for Brazil Projects (John Malone); a new division chief for Brazil Projects; a new division chief of Brazil Programs Division, who considered Polonoroeste an embarrassing nuisance that he did not wish to deal with; and a new vice president for Latin America.

With this change of personnel Maritta Koch-Weser, who had long concluded that only suspension might get the Brazilians to take their commitments seriously, was able to act. Several other things happened at about this time that smoothed the way. The mid-term review had just been finalized, setting out grounds for suspension. Ernest Stern, who had to see the mid-term review, could not be kept in the dark. And there was a specific pretext: the Bank learned in early 1985 that yet another of the Indian reserves had just been invaded by settlers.

Then came two changes in the larger context. The NGO campaign against what was billed as the Polonoroeste “debacle” began, as a few Bank staff championing norms environmental and indigenous people’s protection linked up with NGOs like the Environmental Defense Fund and supplied them with information. (They smuggled one of the NGO leaders into the Bank to trawl through documents, night after night.) The NGOs called for suspension of disbursements and powerful figures in the US Congress called for the US to cut its contributions to the Bank. Also, Brazil's first civilian government in twenty years had just taken office, and could accept a suspension as indicting its military predecessors rather than itself.

Five months later, in August 1985, when the Brazilian government presented to the Bank an action plan to deal with the problems and showed evidence that the settlers had been removed from the recently invaded Indian reserve, the Bank resumed disbursements.

AFTER 1985

Maritta Koch-Weser, project officer from early 1985, was moved off Polonoroeste after two years, in 1987, on the arrival of a new

director of the Brazil Department.⁵⁸ He was in the inner circle of neoliberal partisans then taking key positions in the Bank under the sponsorship of Anne Krueger, the aggressively ideological vice president and chief economist at this time. He couldn't understand all the fuss about Indians, he remarked. "They wear T shirts and sneakers just like everyone else". He openly disparaged her work on Amerindian protection. "It's all bullshit", they heard him say. He appointed a new project officer, one of whose first moves was to agree to the Brazilian government's request to terminate the contract with the university-based monitoring and evaluation unit.⁵⁹ The new project officer found it inconvenient to have such a unit connected to the project, now that it had finally begun to produce some critical reports. In any case, he was a general economist more interested in agricultural production than in social and environmental issues; and as son of a Uruguayan cattle rancher he did not hide his view that absorption of Indians into the national culture, and cattle ranching in place of rainforest, were signs of progress. John Malone, meanwhile, left the division in 1986, tired of working in Brazil. "It was tough sledding", he said later, "like pushing on a rubber diaphragm--it gives when you push, but as soon as you stop it snaps back to its original shape."⁶⁰

Suspension did have an effect. In the period from 1985 to the formal end of the Polonoroeste project in 1989, the Brazilian government somewhat strengthened the implementing capacities of the state agencies, demarcated most of the reserves, and provided some of the infrastructure of the settlement projects (the health centers, water supply systems, schools, storage facilities). Gradually the government on the ground began to make some progress in doing some of the things it had agreed to do years before.

Yet the OED study found that "despite the government's formal compliance with most of the recommendations made by the Bank at the time of the mid-term review [late 1984/early 1985], in general the situation in September-October 1989 was not very different from that encountered in late 1984. Polonoroeste appears to have been largely unable to implement and/or sustain many of its environmental protection measures or to avoid the continual invasion of reserve areas by loggers, prospectors, and spontaneous settlers".⁶¹ The project

⁵⁸ Armiene Choksi.

⁵⁹ Luis Coirolo.

⁶⁰ John Malone, interview, 30 October, 1995.

⁶¹ World Bank, "World Bank Approaches to the Environment in Brazil", vol. V, p. 108. For more on the wider political context of Amazonian destruction, see Andrew Hurrell, "Brazil and the international politics of Amazonian destruction", in *The*

headquarters could not even maintain the toilets -- "the filthiest toilets I'd ever seen in my life", said one much-traveled FAO agricultural expert who visited in 1986.

In retrospect the outcome could hardly have been different, for all the innovative plans that were made about where the forest and Amerindian reserves should go and about what sort of crop patterns the new settlers should practice. It was not just that the Bank and Brazil had little data on such fundamentals as soils, as the specialists in the Agriculture and Rural Development Department kept saying. It was, more basically, that the Bank hardly engaged with the question of the ability and willingness of the government agencies on the ground to do what the plans required them to do.

In the words of an FAO agricultural expert, "We failed to grasp the nettle of institutional problems, we failed to recognize that we were dealing with a lot of rascals. All segments of Polonoeste planning gave insufficient weight to the hidden agendas of almost everyone with whom we were dealing.... They were almost universally motivated by what they could make in the short term in a turbulent situation. Then we grossly over-estimated the capacity of Bank leverage to alter this." ⁶²

Skillings himself rested his decision to go ahead on the conviction that the governor of Rondonia "had his heart in the right place"--that he was genuinely concerned to alleviate the poverty of the settlers, as indicated by his commitment to upgrade slums during his tenure as mayor of a regional city.⁶³ This confidence in the commitment of the governor translated into confidence in the ability of the government apparatus to carry out its commitments. The division of labor between the Bank and FAO also did not help; the FAO experts thought it was the Bank's responsibility to worry about the institutional problems, while the Bank was happy to assume that FAO had taken care of the problem of securing the agreement of government agencies to provide the requisite package of agricultural support.

In short, the Bank's desire to lend to Brazil and at the same time show the world how to do rainforest settlement, coupled with its general avoidance of political or administrative analysis, led the relevant people to assumptions about Polonoeste that the new Latin American

International Politics of the Environment, A. Hurrell and B. Kingsbury (eds.), (Oxford: Clarendon Press, 1992).

⁶² Simon Hocombe, personal communication, 20 June 1997.

⁶³ Robert Skillings, interview with author, 24 June 1996.

vice president described, looking back, as "almost deliberately naive".⁶⁴ In particular, they simply assumed that the Brazilians would respond to leverage, and that agreements reached at the apex of national agencies in Brazilia could be carried out against the wishes of local elites in the periphery. They also assumed that the senior managers of the Bank had more than a passing interest in the substance of the project, as distinct from its use as a vehicle for moving money.

Throughout, the clinching legitimation for Bank involvement was that *without the Bank the project would have gone ahead anyway, with much worse results*. This in turn hinged on the assumption that the Brazilian government would have financed the road on its own and that the road would have been paved at about the same speed. The Bank never examined this assumption. The OED study is emphatic that the Brazilian government would not have been able to pave the road at anything like the same speed without the Bank. It cites the federal government's fiscal crisis in the late 1970s, and the sheer insistence with which the government pressed the Bank for financial help with the road.⁶⁵ Bank support not only speeded up road paving, it also gave the government legitimacy for the whole operation. This in turn boosted the coalition of people who supported the rapid opening of the Northwest, especially the loggers, miners and ranchers, while eclipsing the nebulous opposition to the project within Brazil. "To the eyes of the outside world...the financial and technical backing provided by the Bank was generally interpreted as full, institutional subscription to the objectives, basic approach and timing of the program....Once the Bank formally agreed to support the program, it unwittingly became party to a series of actions or inactions by the territorial, state and regional administrations that were to have serious adverse environmental consequences in subsequent years".⁶⁶

⁶⁴ David Knox, who became vice president for Latin America in time for the mid-term review of Polonoroeste, interview, 15 May 1995.

⁶⁵ World Bank, "World Bank Approaches to the Environment in Brazil", vol. V, p. 246. There is no doubt the Brazilian government would have *tried* to press ahead on its own. The then Minister of the Interior and former Transport Minister aspired to be a presidential candidate. For this purpose he wished to be seen sponsoring pharaonic-scale works. He also needed votes from the electoral college. The electoral college was made up of state representatives. Rondonia at the start of the Polonoroeste program was a territory, not a state. Its governor was his brother-in-law, and could assure him Rondonia's electoral college votes if it became a state. Also, the highway program would give the Rondonia government control over federal expenditures within the area, which might be diverted for purposes electoral. But the force of this political argument for paving the highway diminished as the Interior Minister's presidential campaign floundered.

⁶⁶ World Bank, "World Bank Approaches to the Environment in Brazil", vol. V, p. 247.

The Bank failed to act to counter the fundamental asymmetry of commitment. From the beginning, the Brazilian government was much more interested in getting the highway and feeder roads built than in doing the other things that the Bank called for at the same time. The Bank could have conditioned disbursements for the roadworks on progress with the other components. It did not.

To this day several members of the Polonoroeste project team believe that Polonoroeste was a successful project, in that the results were much better than they would have been without the Bank. They resent Barber Conable's statement from 1987 that the Bank had "stumbled" in Polonoroeste. One of them, a passionate and award-winning photographer, later reflected ruefully on his nearly twenty year career in the Bank, "I am a failure because I have not learned how to swim with sharks".

THE TRANSMIGRATION PROJECT (INDONESIA)

Polonoroeste was not the first time the Bank had been involved in opening up jungle areas for settlement, nor the first time it had justified its involvement on the grounds that the project would be even worse if it were not involved. In both respects Polonoroeste's predecessor was the Indonesian Transmigration project.

The Transmigration project is less important in the story of the mounting criticisms of the Bank, for it was not until 1986-87 that Indonesian and other NGOs launched a campaign to get the Bank to halt its support for new Transmigration sites, well after the campaign against Polonoroeste began. Polonoroeste rather than Transmigration became the spearhead because it was still a new project when the NGOs began their campaign and the controversy inside the Bank was still hot (whereas the Bank started to lend for Transmigration in the mid 1970s when no NGOs were paying attention). Also, by the time of Polonoroeste a sufficient number of *Bank staff* had become disillusioned to the point of wanting to enlist the help of outsiders in making the Bank change its ways, as there was not in the mid 1970s. But Transmigration is worth a word here, particularly because its evolution inside the Bank shows parallels with Polonoroeste in such matters as management's response to negative recommendations from technical experts.

The Transmigration project has moved millions of people from Indonesia's crowded inner islands to the thinly populated outer islands, perhaps the most ambitious resettlement scheme in the non-

communist world. Started on a small-scale in 1950, by the late 1960s it became the top priority project for the Indonesian government. In 1969 Indonesia annexed the western half of New Guinea against local resistance. The government wished to populate the territory with inhabitants from the inner islands so as to bring it reliably under the government's control; and it redoubled its efforts to do the same in the other outer islands, afraid of the centrifugal tendencies that might be inflamed by Chinese Communists encouraging local uprisings of overseas Chinese, in line with the fashionable domino theory of global communist expansion. At this time Indonesia, under new leader General Suharto, moved strongly into the western camp, and the US wished to support "our man". The US was desperately afraid that an unholy bridge might be forged in Indonesia between Chinese Communists in China and Chinese Communists at the other end of Asia, from where the Communists would ignite uprisings at points in between.

Bank involvement, championed by McNamara, started in 1975, several years before Polonoroeste. Between 1976 and 1986 the Bank lent about \$1 billion. The Bank's money attracted more millions of dollars from other bilateral and multilateral financial agencies; and helped to produce an exponential rise in the rate of settlement. In the 15 years after 1976 3.5 million people were officially resettled, and roughly the same number migrated on their own.

The overall results have been dismal. A French survey in the late 1980s found that 80 percent of Transmigration sites had failed to improve the living standard of their inhabitants over what it had been before the migration.⁶⁷ A study in 1985 by ministries of the Indonesian government in collaboration with the London-based International Institute for Environment and Development found that the collapse of existing resettlement sites was so common as to pose a problem for national security, as the cities and towns filled with rootless refugees.⁶⁸

From the beginning almost all of the Bank's technical staff—those in the relevant operating division as well as those in the Central Projects Staff and in the World Bank-FAO Cooperative Program--had serious misgivings. They worried especially about the capacity of the

⁶⁷ Carolyn Marr, "Uprooting people, destroying cultures: Indonesia's Transmigration program", *Multinational Monitor*, October, 1990, p.12-15.

⁶⁸ Government of Indonesia, Department of Forestry, State Ministry of Population, Environment and Development, Department of the Interior, and International Institute for Environment and Development, "A review of policies affecting sustainable development of forest lands in Indonesia", vol. 2, November, 1985, p. 117; and Rich, *Mortgaging the Earth*, p. 34-38.

soils of the outer islands to support intensive settlement. Why had fertile Java's population reached such high density if not that the soils of the outer islands were too poor to provide them with alternatives? Many of the technical staff, though, thought that the FELDA (Malaysia) model of jungle settlement might work. The FELDA model was based on new planting of rubber as a cash crop, together with small plots of mixed fruit and field crops that were intended for subsistence pending maturity of the rubber. It was, however, very expensive.

Then the project managers in the Bank learned that McNamara himself had agreed with President Suharto on massive support for a *low cost per family* program, a cost much lower than the FELDA model, so low as to rule out the planned investment in rubber and leave annual field crops as the only alternative. The technical staff were aghast, saying that this was impossible; field crops would not generate anywhere near enough income. But the Bank's (technically unqualified) line management seized on the results of a small-scale study of field crops in an *experimental station*, and insisted that these results provide the average yield levels to be assumed in the farm model underlying the appraisal report.

The technical personnel protested at this illegitimate extrapolation from carefully controlled experimental station conditions to new farms in felled rainforest, to no avail.

One of them later recalled, "All of us who had a good practical knowledge of humid tropical agriculture had no confidence that the high yields obtained under carefully controlled, well managed, experimental station conditions could be replicated under transmigration conditions. Because of my opposition I was thenceforth excluded from the appraisal report preparation/negotiation/Board presentation exercise. Obviously I was aggrieved that my counsel was being rejected, but given the way things were going I was happy to be cleared of any responsibility for a project in which I had little faith. So much for solidly based technical judgments when pressure to lend becomes so important! I firmly believe that the responsibility for sticking so tenaciously with the low cost model could be traced right up to the office of the President [McNamara]. All lower levels of management were unwilling to stand up and be counted. I felt especially sorry for the members of the appraisal team who eventually had to carry this project to the Board. I think it is more than coincidence that...the mission leader went down with a heart attack, which I believe was stress related, due to his own reservations about the project and the difficult position in which

he found himself....A few years after the project went to the Board I happened to meet up with the agronomist who had carried out the field cropping experiments, and when I told him of how his data had been interpreted by the Bank he expressed surprise and incredulity. As for myself, my disgust at the turn of events was such that I decided I wanted out, and I applied for a position at the regional mission in Thailand".⁶⁹

An FAO expert who joined a Transmigration mission for the World Bank-FAO Cooperative Program described the experience as perhaps the most disagreeable in his life, before or since (including his later time with Polonoeste), because of the ridicule with which the Bank's line management dismissed his concerns about the basic viability of the agricultural settlements.⁷⁰

The Transmigration project shows the overwhelming importance of both moving money and reaching geopolitical goals in some Bank projects. Once McNamara had made his commitment known (based largely on his belief in the domino theory of communist expansion all the way from China down to Indonesia, and quite unrelated to technical and economic assessment) the whole line management—the division chiefs and departmental directors in both the project and program hierarchies--worked to justify the project on technical and economic grounds over the strong objections of technical experts. Not that the line management brushed technical/economic considerations aside. On the contrary, they needed to give McNamara a rational, economic justification, and hence embraced a farm model based on what *all* the technical experts considered a wholly illegitimate extrapolation from yields on experimental station plots to newly cleared jungle farms. What they would not countenance was a challenge to their claim that the project was validated by scientific appraisal.

The management also developed the argument that, "The Indonesians are doing it anyway, they are doing it badly, therefore it behoves the Bank to get involved".⁷¹ Such an argument had not previously

⁶⁹ Bill Panton, personal communication, 4 March 1996.

⁷⁰ Simon Hocombe, personal communication, 20 June 1997.

⁷¹ The director of the Indonesia programs department, Shahid Husain, championed this argument. He was rapidly promoted, and spent twenty years moving around the senior-most management positions in the Bank. He was an expert in the art of patronage. His clients, known as "Husain's people", were scattered throughout the organization, many but by no means all from the Indian subcontinent. In one case, he approached a woman high-flyer who was seeking to rejoin operations after having been an advisor to the president, and told her that he would ensure she became a vice president if she came and worked for him as a departmental director. "If you don't come", he informed her with polished menace, "you are my enemy". Husain's people were ranged against "Ernie's people", Ernie being Ernest Stern, the other great patron.

been used to justify a Bank project. Its use in the Transmigration case marked a turning point in the Bank's history. Once accepted for Transmigration it entered the standard repertoire of justifications, as seen in Polonoroeste; especially because it could be used to weaken any technical justification for *not* lending to a project that Bank management wanted in the portfolio for reasons of geopolitics or moving money. With technical discipline weakened in practice (though not in appearance), the Bank plunged into a number of projects that the NGOs could later present as debacles.

Did the Polonoroeste project team study the experience of Transmigration? "We had only a vague knowledge of Transmigration", said one of the key people. "No-one ever said, 'We should look at Transmigration'".⁷² Learning from other parts of the world was not normal practice in the Bank at this time, despite the existence of the big central pool of project experts.

CONCLUSION

The Polonoroeste story shows the "street-level" politics behind Susan Park and Antje Vetterlein's generalization: "Change is slow in international bureaucracies such as the IMF and the World Bank because they have organizational cultures or identities through which new norms must penetrate. Change is ... costly since habits and traditions must be adapted or reinvented....Different levels of resistance can be expected according to the organizations' mandate and professional background of staff in relation to different policy fields".⁷³

In the Polonoroeste case the main impetus for new norms came from the project leaders themselves, based in the regional programs hierarchy and the regional projects hierarchy, who conceived of the project as the test bed for a new way to do development in rainforests in line with norms of ecological sustainability and indigenous people's protection. The cross-country experts in the central hierarchy bought into the same norms, but argued that the project on the ground, given the Brazilian government's lack of capacity, would be unable to deliver the normative objectives. In the Polonoroeste case as in Transmigration and many others, the balance of power lay with the regional operational staff; they could avoid the checks and balances built into the structure without too much difficulty when they had a mind to

The majority of staff, however, were closely integrated with neither network.

⁷² Denis Mahar, interview, 8 May 1998.

⁷³ Park and Vetterlein, *op.cit.*, 233.

and when the senior management supported them; and since both operational staff and senior managers operated in an incentive structure whereby their task performance and promotion were judged by their ability to bring projects to the Board which the Board would not find fault with, both staff and senior managers often did have a mind to avoid the checks and balances. Judging from Polonoroeste and Transmigration, the Board was sometimes only too keen to have the wool pulled over its eyes. Only at the third stage of the Polonoroeste project, by which time evidence lay all around that the first two stages were not working, did some members of the Board express worries, only to be reassured by dissembling staff. And only later, at the mid-term review, after new people had moved into key controlling positions, did the Bank take the very unusual step of suspending disbursements until the Brazilian government had made good on (some of) its commitments about ecological and Amerindian protection.

We do not know how many projects were modified, delayed, or cancelled because of internal opposition, and how many sailed through with internal opposition overridden by target-seeking project officers. But we can be sure that the behavior of project managers and the Board in Polonoroeste and Transmigration was not exceptional. This underlines the important role of *external* monitors—the environmental advocacy NGOs which began to pay attention to the Bank in the mid 1980s, forcing it and its project managers to become more transparent and accountable. They were too late to affect Polonoroeste and Transmigration, but they used these two projects to justify their campaign to make the Bank change its ways across the board.

On the other hand, this story also shows that a distinction between insiders and outside monitors is too simple; the effectiveness of the external monitoring, at least in the first years of the normative shift, depended heavily on covert help from insiders prepared to risk their careers in order to bring pressure on senior management and on their colleagues to behave differently.

Partly in response to the Polonoroeste campaign President Barber Conable included the creation of a large environmental complex in the Bank as part of a root-and-branch reorganization in 1986-87. With this change the environmental norm – which had been “emerging” slowly through the internal and external processes described here -- gained much greater Bank-wide “formal validity” by being translated into operational procedures (for example, procedures requiring certain types of environmental

assessments, certain types of consultations with affected peoples).

END