

# Creating poverty: the flawed economic logic of the World Bank's revised involuntary resettlement policy

by Theodore E Downing

In 1990 the World Bank set out a landmark involuntary resettlement policy that has subsequently been emulated and cross-referenced. Since 1998 the Bank has asked NGOs, government agencies and other interested parties to provide feedback on a series of draft revisions. Despite objections that the final revision weakened the existing Operational Directive, the new policy (OP/BP 4.12) was adopted by the Bank Board in October 2001.<sup>1</sup>

The Bank has played a lead role in recognising the intrinsic risks in

forced displacements. Its in-house Impoverishment Risks and Reconstruction model developed by Michael Cernea has been extensively tested and elaborated. OP/BP 4.12 acknowledges impoverishment risks in its first paragraph but fails to propose measures to address them. Instead, it falls back on the same flawed economic analysis and methodologies that have been responsible for decades of unacceptable performance. By narrowly focusing the Bank's client's responsibility on compensation for loss of land, the revisions sidestep the need for viable rehabilita-

tion of the innocent victims of development-induced displacement. If its intention is to implicitly address risks, then why did the new policy fail to proscribe the analytical tools and commensurate financing to avoid them?

OP/BP 4.12 confuses restoration with development. While one section calls for the displaced to be project beneficiaries, another allows borrowers the option of merely restoring pre-displacement livelihoods and standards of living. The original policy set a higher standard, as it stipulated that

*“all involuntary resettlement should be conceived and executed as development programs with resettlers provided sufficient investment resources and opportunities to should share in project benefits.”* Why has this been excluded? Might this be a move to narrowly define or transfer liability?

OP/BP4.12 arbitrarily limits the cost of resettlement to “direct economic and social impacts” resulting from the project’s taking of land, relocation of shelter and loss of assets and income sources. The revised policy permits the borrower to define their liability and responsibilities by drawing an arbitrary “direct/indirect” distinction. This leads to an understatement of total project costs. The policy ignores Bank and academic research that finds externalised costs, such as reintegration, repositioning of communities, loss of food security and ill health, are real and calculable. The correct, economic litmus test should be: if the costs would not have accrued without the project, then they are project costs and must be factored in.

OP/BP 4.12 requires neither an assessment of impoverishment risks nor a socio-economic analysis of potential impacts. In its 1994 Bankwide Review, the Board discovered that dismal performance of a decade of its projects was due to their failure to deal with these risks. OP/BP4.12 merely directs Bank staff to review the risk that the borrower’s resettlement plans will not be inadequately implemented. By focusing on risk as a measure of poor project performance, it avoids the multifaceted, impoverishment risks facing the displaced.

OP/BP4.12 excludes the critical costs of reintegrating and restarting disrupted economies, social institutions and educational systems. It prioritises compensation over mechanisms to jump-start damaged socio-economic systems. The earlier recognition of the “stress of being uprooted” has been narrowed to “psychological stress”, thus excluding other documented social, environmental and economic stresses that often accompany displacement. The revision adopts an antiquated variant of cost benefit analysis that lacks a distributional analysis of gains/losses and does not use the local region as a unit of analysis. Why has the Bank retained a

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**INDR is a virtual, global communications network of scholars, practitioners and policy makers attempting to mitigate development-induced impoverishment.**



**The INDR website is at: [www.displacement.net](http://www.displacement.net).**

**Other sites relating to development-induced displacement include:**

**Friends of River Narmada: [www.narmada.org](http://www.narmada.org)**

**International Rivers Network: [www.irn.org/index.html](http://www.irn.org/index.html)**

**Dams and Development Project, United Nations Environment**

**Programme (UNEP): [www.unep-dams.org](http://www.unep-dams.org)**

**World Commission on Dams: [www.dams.org](http://www.dams.org)**

methodology that its own studies have found to be flawed?

The new policy institutionalises a negotiating system that potentially violates human rights. Lack of information and legal representation has consistently undermined the capacity of project-affected people to understand and negotiate for their economic reconstruction. OP/BP4.12 hierarchically ‘consults on’, rather than ‘consults with’, people affected by development projects. In a memorandum to the Board, World Bank President James D Wolfensohn has explicitly denied indigenous peoples the right of prior, informed consent.<sup>2</sup> Why does OP/BP4.12 permit the Bank to underwrite the borrower’s costs of negotiating with the displaced but not *vice versa*?

In preparation for the Bank’s promised future review of its revised policy, I suggest they adhere to the precautionary principle and avoid actions that might cause harm. They should a) finance risk assessments, b) opportunely inform people of the risks and possible mitigations, c) provide independent, competent legal representation and d) arrange for

independent and transparent monitoring of all development-induced displacement projects. They should also e) protect those at risk by introducing ‘induced-displacement insurance’ as a safety net – in case their policies do not work. This innovation would lead underwriters and the market to nudge borrowers to mitigate and avoid known risks. With so many actions possible, why are Bank management and staff idly standing by as the displaced are being submerged into development-induced poverty, contradicting the Bank’s primary goal of poverty reduction?

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1. For an overview of the consultation process, see [www.ciel.org/lfi/wbinvolresettle.html](http://www.ciel.org/lfi/wbinvolresettle.html).

2. See [www.displacement.net/OP412\\_901.pdf](http://www.displacement.net/OP412_901.pdf)