

Banking on the Environment: Multilateral Development Banks and  
Environmental Policymaking in Central and Eastern Europe

by

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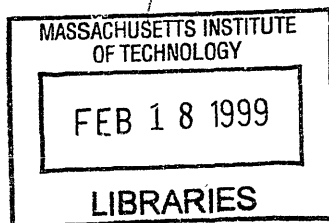
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ABSTRACT

The dissertation is a comparative study of three multilateral development banks (MDBs)—the World Bank, European Bank for Reconstruction and Development (EBRD), and European Investment Bank (EIB)—and their struggles to operationalize and implement relatively new environmental mandates. MDBs are increasingly being relied upon to address environmental issues in their activities, while at the same time facing criticism for allegedly promoting serious environmental degradation in borrowing countries. The dissertation focuses on the activities of these banks in Central and Eastern Europe, where the fall of the Iron Curtain revealed the most polluted countries in Europe, and where these MDBs are among the top donors. There is significant variation in the degree to which these MDBs have incorporated environmental goals into their work. The World Bank has played an important role in providing policy support for environmental reform in the region, while financing the largest scope of "green" projects of the three banks. The EIB has responded to its environmental goals in minimal ways, and the EBRD has an intermediate position between the other two. I argue that external pressure from major shareholder countries, usually supported or pushed by NGOs, is a key factor determining the depth of an MDB's commitment to new mandates, such as the environment. However, shareholder commitment is a necessary but not sufficient condition in explaining the banks' environmental behavior. Governance structures for all three banks are diffuse, and, as a result, institutional design and incentive systems play critical roles in how environmental objectives are translated into activities. In all three cases, the banks' internal incentive systems are poorly aligned with their environmental goals, and even where institutional variables are structured to promote greater awareness of environmental issues within the banks, they do not always work as envisioned. Theoretically, the dissertation argues that different causal variables matter at different stages of the policy process. Neorealist approaches have the most explanatory power in accounting for how environmental ideas are brought to the MDBs, but are insufficient in explaining outcomes. Approaches drawn from institutionalist and organizational theories, in turn, provide guidance in analyzing the mechanisms by which environmental objectives are translated into practice. The argument calls for a better integration of international relations theories emphasizing the importance of shareholder politics with theories that focus on how institutional arrangements shape behavior.

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## Chapter One

### Introduction and Overview

In the post Cold-War era, the absence of a dominant state willing to lead the new international order has resulted in a re-examination of international organizations (IOs) and their role in promoting collective solutions to global and regional problems. The expansion of NATO as a tool for addressing European security issues, the heightened power of the World Trade Organization to settle trade disputes among member states, and the increased use of United Nations peacekeeping forces in the last decade are all examples of this phenomenon. One result of the attention placed on IOs is that these organizations have been asked to take on additional issues, many of which did not exist when the institutions were created. The promotion of environmental protection goals, or "environmentally sustainable development" is one of these issues.<sup>1</sup> As concern for environmental protection has grown among advanced industrial countries, many IOs have been called upon by member states to address environmental issues in their activities, both as a way of promoting transnational cooperation to help solve transboundary problems, and as a way for richer countries to provide financial resources to poorer countries to encourage environmental improvement.

This dissertation investigates the adoption of new environmental policies by an important set of IOs— multilateral development banks (MDBs)— and the extent to which these policies make a difference to project formation, implementation, and environmental

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<sup>1</sup>Definitions of "sustainable development" tend to suffer from vagueness. The most commonly cited definition comes from the 1987 World Commission on Environment and Development Report, *Our Common Future*, also known as the Brundtland Commission report. It defines sustainable development as development that meets "the needs of the present without compromising the ability of future generations to meet their own needs." World Commission on Environment and Development, *Our Common Future* (New York: Oxford University Press, 1987), p. 43.

improvement in recipient countries. The central questions of the research project are: *what factors account for the ability of MDBs to incorporate and successfully apply new environmental mandates? To what extent have the new mandates altered the banks' operational procedures and consequently shaped lending portfolios and other activities? What factors constrain or enhance their ability to engage in effective assistance strategies?* Put more generally: *what happens when an institution is told to do something new, and that new task may conflict with its traditional role?* This dissertation is a comparative study of three MDBs—the World Bank, the European Bank for Reconstruction and Development (EBRD), and the European Investment Bank (EIB)—that examines common sources of inertia and varying attempts at innovation in their efforts to "green" their portfolios. I examine the activities of these three MDBs in a common geographical region—Central and Eastern Europe (CEE)—over the same time period (1990-1996). The political and institutional mechanisms that shape the ways in which MDBs address environmental issues in their work in CEE countries are also generalizable, and help to explain more broadly how (mostly) old international institutions may take on and implement new mandates.

The ability of MDBs to incorporate environmental goals into their work is important for four reasons. First, MDBs continue to have a substantial impact on recipient countries, through their policy dialogues with recipient governments, their lending in key economic sectors, and their role as a catalyst for encouraging private sector investment. The degree to which MDBs can address local, regional and global environmental problems through their work thus has important implications on promoting solutions to these problems. This is particularly important in CEE, where the fall of the Iron Curtain revealed the most polluted countries in Europe, and where the three MDBs are among the largest donors in the region, together providing \$24.9 billion, mainly in loans, between 1990-96.

Second, given the many trade-offs between economic growth and environmental protection, the ways in which MDBs attempt to connect diverse mandates offer insights on how ideas of "sustainable development" can be turned into practice. Third, the dramatic

increase of private capital flows to developing countries in the past six years has forced MDBs to begin rethinking their comparative advantages in a world where private banks are increasingly able to compete with international financial institutions in financing economic development.<sup>2</sup> One result has been a trend by MDBs to focus more closely on linking lending to policy reform, while devising innovative financial mechanisms to undertake their work. The ability of MDBs to cope with environmental issues sheds light on the extent to which they have been able to adapt to new issues more generally amidst a changing global context for their work. The issue of the environment is particularly important as well, because it is the only new policy issue that all MDBs have been seeking to address in recent years, and it has received the most publicity and the most scrutiny from outside actors evaluating MDB performance.<sup>3</sup>

Finally, and perhaps most importantly, there is widespread concern that MDBs have not done an adequate job in addressing environmental and other new tasks they have taken on over time, and as a result, must be reformed or restructured. Indeed, the recent fiftieth anniversary of the Bretton Woods conference, which gave birth to the World Bank and its sister institution, the IMF, has prompted extensive debates within the policy community on whether and how to reform these institutions.<sup>4</sup> In terms of environmental issues in

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<sup>2</sup>Only five years ago, official capital flows to developing countries exceeded private flows. Now, private flows are more than five times larger than public flows. They now stand at around \$240 billion, or six times their 1990 levels. The vast majority of these flows to developing countries is accounted for by a dozen countries, which means that MDBs remain significant actors in most parts of the world. Nonetheless, the surge in private flows has prompted MDBs to develop new strategies for working with the private sector. For data on private flows versus public flows, see World Bank, *Private Capital Flows to Developing Countries: The Road to Financial Integration* (New York: Oxford University Press, 1997).

<sup>3</sup>Some MDBs, such as the World Bank, have taken on a variety of other issues over the years, ranging from judicial reform to the promotion of gender equality. Others, such as the EIB, have not. Yet, even for the World Bank, the environmental mandate has received the most attention, and the most emphasis in the Bank's budget.

<sup>4</sup>For an example of work praising the Bretton Woods institutions, see Henry Owen, "The World Bank: Is 50 Years Enough?" *Foreign Affairs* 73, no. 5 (September/October 1994): 97-108. For an example of work arguing for a vastly more limited World Bank, or even the closure of the Bank, see Kevin Danaher, ed., *Fifty Years is Enough* (Boston: South End Press, 1994). In the center are other attempts to propose reforms, such as the Bretton Woods Commission Report, which recommends ways in which the IMF and WB can refocus their energies; see Bretton Woods Commission, *Bretton Woods: Looking to the Future* (Washington DC: July 1994). Slightly more critical, and focusing solely on the Bank, is World Wildlife Fund, *Lending Credibility: New Mandates and Partnerships for the World Bank* (Washington DC: 1996).

particular, at the same time MDBs have been given increasing responsibility for dealing with global and regional environmental issues, they have faced constant criticism from environmental non-governmental organizations (NGOs) for causing serious environmental degradation and generally doing a poor job in implementing their environmental policies and procedures.

For example, one conclusion of the June 1992 UN Conference on the Environment and Development (UNCED, also known as the Earth Summit, held in Rio de Janeiro) was that billions of dollars of increased funding were necessary to help developing countries pursue environmentally sustainable economic growth, and the MDBs should be an important source of this funding.<sup>5</sup> Three years before Rio, the World Bank was asked to design and become the main implementing agency for the new Global Environmental Facility (GEF), to help poor countries address global environmental problems. At the Earth Summit, the GEF was selected to be the interim funding mechanism for the Framework Convention on Climate Change and the Convention on Biological Diversity, the two conventions signed there. The Bank also manages the Montreal Protocol's Multilateral Fund, which finances the incremental costs developing countries face in phasing out ozone depleting substances under the Montreal Protocol. The Bank has been praised by Maurice Strong, who was UNCED's Secretary General, as being at "the center of the movement towards a more sustainable way of life on our planet for which the agreements reached at the Earth Summit provide the basic blueprint,"<sup>6</sup> and by political scientists Ernst Haas and Peter Haas as one of two IOs that have "fully learned to integrate environmental considerations into their traditional responsibilities."<sup>7</sup>

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<sup>5</sup> The UNCED secretariat estimated the cost of implementing Agenda 21, the guiding document produced at UNCED, to be around \$125 billion a year. See Michael Grubb et al., *The 'Earth Summit' Agreements: A Guide and Assessment* (London: Earthscan Publications Ltd., 1993).

<sup>6</sup> At the time Strong made this declaration, he was a senior advisor to World Bank president James Wolfensohn. "Environment Matters: Annual Review," (Washington DC: World Bank, 1996), p. 1.

<sup>7</sup> Peter M. Haas and Ernst B. Haas, "Learning to Learn: Improving International Governance," *Global Governance* 1 (1995), p. 266. The other institution is UNEP. Haas and Haas examined a set of 13 IOs, of which the World Bank was the only MDB.



Yet, during this same period of time the World Bank has faced extensive criticism by environmentalists, who argued that it promoted extensive environmental degradation in developing countries, that it has done a poor job in following its own policies, and that it is "intellectually corrupt and institutionally debased."<sup>8</sup> "If it is true as Maurice Strong says, that the Bank is 'clearly at the center of the movement toward a more sustainable way of life on our planet'...we are in deep trouble as a planet and a species," wrote Lisa Jordan, director of the Washington DC-based NGO, the Bank Information Center. "The Bank has failed to introduce policies which will implement sustainable development, principally because the development paradigm within which it operates has not changed."<sup>9</sup> Which view is correct? Are MDBs like the World Bank part of the problem or part of the solution? Are they making great strides in integrating environmental considerations into their work, or are they engaging in "green" window dressing? The answers are important in helping guide member states toward more productive governance.

I find significant variation in the extent to which the three MDBs have attached environmental considerations onto pre-existing structures and general operating procedures ("add-on"), versus showing signs of innovation in the ways they address these issues by more fully integrating them into project identification and development ("build-in"). While the three banks share the same basic stated environmental objectives of seeking to fund projects with major environmental components or goals, as well as to address and mitigate potentially adverse environmental impacts in their broader project portfolios, they have adopted distinctly different strategies in the ways in which they have chosen to operationalize and implement their environmental policy goals, even within the same geographical region of CEE. The examination and explanation of these differences are central goals of the dissertation.

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<sup>8</sup> Bruce Rich, *Mortgaging the Earth: The World Bank, Environmental Impoverishment, and the Crisis of Development* (Boston: Beacon Press, 1994), p. 281.

<sup>9</sup> Lisa Jordan, "Sustainable Rhetoric vs. Sustainable Development: The Retreat from Sustainability in World Bank Development Policy," (Washington DC: Bank Information Center, 1997), p. 16.

The dissertation will show how the World Bank is undertaking the largest number of projects with primary environmental goals or significant environmental components, and is involved in or leads the most agenda-setting, policy-oriented activities of the three, which have helped CEE governments develop new environmental policies and institutions. The EIB, by contrast, has responded to its environmental goals in relatively minimal ways, mainly by following European environmental regulations in the infrastructure-type of projects it normally funds. The EBRD has an intermediate position between the other two, lacking the breadth of environmentally-related work undertaken by the World Bank, but also moving beyond the narrow range of environmental activities undertaken by the EIB.

Overall, the World Bank has played an important role in providing intellectual and policy support for environmental reform in the region, and its policy activities have been complemented by the largest set of "green" projects of the three banks. The EBRD is less involved in policy work, and has defined its environmental projects mainly as those undertaken by its municipal development and energy efficiency units. The EIB has undertaken virtually no policy work and has financed the fewest environmental projects. These projects mainly reflect recipient demand or the EIB's role as co-financier in projects one of the other two MDBs designed. Projects with primary environmental components or significant environmental objectives in the period 1990-96 total \$1.2 billion for the World Bank, \$809 million for the EBRD, and around \$406 for the EIB.<sup>10</sup> These figures, however, do not include financing for technical assistance, agenda-setting exercises and other non-loan activities, which further reflect the greater depth and scope of the World Bank's activities, followed by the EBRD.

These findings are somewhat counterintuitive, since environmental non-governmental organizations (NGOs) have been most critical of the World Bank's environmental behavior in developing countries, and have not even scrutinized—until very recently—the portfolio of the

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<sup>10</sup>The World Bank has also been responsible for carrying out an additional \$67 million in projects through the Global Environmental Facility, which involves the Bank, UNDP and UNEP. It operates with grant financing, and is not directly comparable to work undertaken by the other two MDBs.

EIB. In addition, it is somewhat puzzling that the two European-based banks are relatively less active in financing environmentally-related activities in CEE, because some of the region's environmental problems are transboundary in nature, and thus affect Western Europe. The two European MDBs are also becoming increasingly involved in helping many of the CEE countries prepare for accession into the European Union, which will involve these countries adopting EU environmental standards.

In seeking to explain these differences, it is important to realize there is a considerable body of (mostly critical) articles and a few books on the World Bank's environmental behavior, but virtually nothing written on the other two banks. This is less surprising in the case of the EBRD, because it is a relatively new institution, established in 1991. However, the dearth of literature on the EIB is curious, because it is hardly a new institution (set up in 1958), and because it now lends more each year than the World Bank.<sup>11</sup> To date, there are only two published NGO reports on the EIB's environmental activity, and no political analysis of its overall behavior in any major political science or public policy journal. The NGOs have historically paid least attention to the EIB, although it has the least developed environmental policies of the three MDBs. In Central and Eastern Europe, the EIB will one day be the most important MDB of the three; it will become a more central player for countries acceding to the European Union, and as the transition process matures and the other MDBs pull out of the region, the EIB will remain as Europe's multilateral bank.

This dissertation has three main arguments. The first argument concerns the explanation of this variation. I argue that variation in the banks' environmental behavior reflects two important factors. The first is the degree of shareholder commitment to environmental issues. The dissertation shows that external pressure from major shareholder countries, usually supported or pushed by environmental NGOs, has been a key factor determining the depth of an MDB's commitment to addressing environmental issues, as seen

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<sup>11</sup> EIB lending surpassed World Bank lending in 1992, 1994, 1995 and 1996. In 1996, for example, the EIB lent \$26.8 billion, compared with \$21.5 billion for the World Bank.

in its stated policy goals and strategies. I find that there is relatively stronger shareholder commitment to environmental issues in the cases of the World Bank and EBRD, and a weak commitment on the part of the EIB, and that this offers a partial explanation for the composition of their "environmental" activities in CEE.

However, I also argue that shareholder commitment is a necessary but not sufficient condition to explain the three banks' environmental behavior. MDB shareholders set the basic rules and design of the institution and play an important role on a strategic level, but their control is limited by diffuse governance structures, and the fact that new mandates do not always fit well with existing institutional design and incentive systems. As a result, even in cases where shareholders have expressed a desire for the bank to address environmental issues, institutional design and incentive systems nonetheless play critical roles in determining how each bank's environmental objectives are translated into their activities. In all three cases, the banks' internal incentive systems are not well aligned with their environmental goals, and even where institutional variables are structured to promote greater awareness of environmental issues within the banks, they do not always work as envisioned.

Given the banks' weak governance structures, I argue that the most important variable in determining how an MDB respond to new policy goals is how demand-driven, or "bank-like" it has been designed to be. All MDBs are designed to behave in some ways like financial institutions and in some ways like development agencies that seek to promote a variety of mandates that shape policy reform in recipient countries. They resemble private banks in the sense that their primary function is to make loans to creditworthy governments or private sector actors for projects that, at minimum, fulfill the banks' criteria on economic, technical and legal viability. At the same time, MDBs have something grafted onto them that is not found among commercial banks: that is, government functions. As development institutions, MDBs are asked to elaborate, incorporate into their lending, and implement a variety of mandates given to them by their shareholders, to help shape policy reform in recipient countries. Development institutions, such as bilateral aid agencies, are almost

entirely grant-based, and tend to emphasize policy reform in areas that include promoting democratization, supporting social groups, improving the quality of life, legislative development, and so on.

MDBs differ in the degree to which they emphasize their banking goals or their non-banking goals. An MDB that seeks to behave more like a financial institution than a development agency will be relatively more driven by client demands ("demand-driven") for specific types of projects, and will contain fewer incentives for staff to situate projects within broader policy contexts and goals, such as the environment. By contrast, a less "bank-like" MDB will be more conscious of its role to promote the interests of its major shareholder countries, and thus behave more like a development agency. In such an institution, there will be more incentives for staff to seek to influence recipient governments to accept particular investments linked to various policy goals, including environmental management and reform. While a less "bank-like" MDB is still shaped by its character as a financial institution and will still seek out creditworthy, bankable projects to invest in, it will also pay more attention to how its projects complement broader policy goals and analyses.

At the same time, a less "bank-like" MDB faces greater challenges in juggling and trying to harmonize potentially conflicting goals and incentives. Environmental policy objectives and activities do not always fit well with other economic development or banking goals that are an MDB's main activities, although there is a sub-set of projects where the two goals clearly overlap, i.e., projects that are financially viable, promote economic development or reform, and also have positive environmental benefits. These include energy modernization projects that reduce the emission of harmful pollutants, or municipal waste water and water supply projects that clean up water pollution or provide clean drinking water. An MDB can always point toward these projects in arguing that it is paying attention to its environmental mandate, which may be true, but it may not entail any innovations on the part of the bank as a result of the explicit adoption of a new "environmental" mandate. A less "bank-like" MDB may also face a greater challenge in selling its projects to recipient countries

that may have access to alternative sources of financing with fewer non-financial policy conditionality strings attached.

I argue that the World Bank's relatively "greener" portfolio in CEE reflects both strong shareholder commitment to a full range of environmental activities, as well as the Bank's position as the least "bank-like" of the three MDBs. At the same time, the Bank now has the least leverage in the CEE countries furthest along the transition process, because these countries can now more easily find financing without conditionality attached. The EIB's activities, in turn, reflect weak shareholder commitment further heightened by an institutional design that is the most demand-driven of the three MDBs. The EBRD occupies an intermediate position. Like the World Bank, it has a strong set of stated environmental objectives; however, its private-sector emphasis reduces its scope to pursue this commitment through specific investment projects.

Theoretically, the study argues for the importance of analyzing the ways in which shareholder commitment, organizational dynamics and recipient demand come together, in order to better determine the sources of inertia and innovation in an institution's response to new policies. The second main argument, then, is that analysis of how an IO takes on a new policy issue requires an analytical framework that addresses three stages of policymaking: policy objectives, policy process, and policy outcomes, each of which may be a source of institutional inertia or innovation. *Policy objectives* are the MDB's stated environmental goals; *policy process* is defined as the ways in which these goals are institutionalized into decisionmaking processes and institutional design; and *policy outcomes* refer to the composition of the MDB's portfolio and whether its activities are carried out as planned. Put differently, an institution's environmental behavior depends on the interaction between the ways it seeks to supply environment outputs and the demand by recipient countries for those outputs. The "supply" of environmental outputs depends on the strength of the institution's environmental objectives and the ways in which those objectives are institutionalized. The "demand" for those outputs, in turn, reflects the political negotiations between the banks and

recipient countries that determine which types of projects and programs are undertaken, and how deeply environmental considerations can be built into them.

An institution can essentially get stuck at any one of these stages of the policy process. For example, in cases where donor commitment to the environment is weak, we would not expect to see any strong attempts to institutionalize environmental objectives, or much change in the institution's outputs. But even a strong policy objective can run into obstacles if it is not well integrated into institutional design and incentive systems. Finally, even in cases where institutions have made consistent attempts to institutionalize new objectives, they can still face difficulty at the third stage, if recipient governments or private sector actors do not have incentives to agree to specific projects. What happens during project implementation is also very important in assessing MDB behavior, since a well-designed project is of little use if it is not carried out properly.

The final argument, which stems from this analytical framework, is that *different causal variables matter at different stages of this process*. I will show how neo-realist approaches emphasizing shareholder politics and preferences work best in explaining how environmental policy goals are brought inside the MDBs, and in understanding the depth and scope of an MDB's environmental commitment. However, approaches drawn from institutional and organizational theory provide some guidance in analyzing the ways in which features of institutional design and incentive-systems play a crucial role in *how* the environmental objectives of each bank are translated into practice, and why there is sometimes a mis-match between an MDB's environmental commitment and the institution's capacity to carry this out in practice. Finally, as noted above, the degree to which an MDB is designed to be demand-driven is particularly important in shaping its ability to sell a set of activities to recipient governments, and therefore the leverage it has to influence the borrower's choice of projects and programs.

The arguments here highlight some weaknesses in current ways of theorizing about the behavior of international institutions. Most of the scholarly literatures on institutional

behavior focus on one of these three stages, while much of the policy literature on MDB environmental behavior meanders across all three stages with no precise accounting of causality. For example, neo-realist approaches emphasizing shareholder politics and preferences as driving institutional behavior have the most to say about why new IOs are set up and what their mandates are. Yet, these theories tend to be static, and are not well equipped to address situations when institutions are given conflicting demands by their shareholders, or where there is a mis-match between donor desires and organizational capacity and incentives systems.<sup>12</sup>

The ways in which an MDB's character as more or less demand-driven drives its project and program work supports the findings of a variety of "institutionalist" theories that examine the ways in which different organizational designs and incentive systems shape policy outcomes.<sup>13</sup> Yet the arguments made here also serve as a critique for some constructivist approaches that posit the way new mandates "infect" an organization reflects the actions of epistemic communities.<sup>14</sup> If this were the case, we would expect the actions of epistemic communities promoting greater environmental accountability at MDBs to influence the actions at all three banks, and therefore we would see less variation in the banks' attempts to address environmental actions in their work. These approaches also do not address the ways in which institutional mechanisms can help or hinder the ways in which new knowledge gets translated into actions. I argue for the need to strengthen our understanding of the *linkages* between the three stages of the policy process, in order to find better ways of connecting political and institutional factors as a means of more precisely explaining institutional behavior and change. My approach therefore calls for a better integration of

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<sup>12</sup>For a recent explication of the neo-realist approach, see John Mearsheimer, "The False Promise of International Institutions," *International Security*, Winter (1994/95): 5-49.

<sup>13</sup>For a rational choice institutionalist argument, see for example, Mark A. Pollack, "Delegation, Agency, and agenda setting in the European Community," *International Organization* 51, no. 1 (1997): 99-134. For a historical institutionalist argument that looks more at gaps in member state control without going into great depth into institutional design and incentive systems, see Paul Pierson, "The Path to European Integration," *Comparative Political Studies* 29, no. 2 (April 1996): 123-163. Both authors happen to focus on the European Commission. Virtually no work in this area has been done on MDBs.

<sup>14</sup>For example, Peter M. Haas, "Introduction: Epistemic Communities and International Policy Coordination," *International Organization* 46, no. 1 (1992): 1-36.



organizational and institutional theories with international relations theories. This theoretical argument is situated in a more comprehensive review of the literature in Chapter 2.

Ultimately, all three MDBs struggle to implement their environmental mandates because the new policies are filtered through boards of directors with diffuse preferences that are not uniformly able to direct the implementation of new ideas; because the new mandates do not fit well with existing patterns of institutional design and incentives; and because it is difficult to sell environmental projects or environmental conditionality to recipient countries. The MDBs' environmental behavior, and their ability to change this behavior, is shaped by the interaction between external political factors, internal policy and institutional design. My goal is to explain the causal mechanisms at work that reveal how and when each set of factors matters in shaping the banks' environmental performance, and what implications the differences among the banks have on environmental policy development and reform in recipient countries. While it is not particularly puzzling to comparativists that different institutions perform differently, what matters is what these differences are and what impact they have on the recipient country's environmental conditions and policy development.

Indeed, there are real policy trade-offs to both the MDB and the loan recipient in terms of whether an MDB behaves relatively more like a financial institution or a development agency. An MDB conforming more to the "Bank-as-bank" model has a narrow range of activities and less conflicting incentives, but it also more hindered in its ability to effectively address issues such as the environment in more than minimal ways. A less demand-driven MDB, in turn, can more effectively use lending to encourage various policy reforms in recipient countries, but only in countries where it has leverage and does not compete with easier sources of financing. This type of institution, layered with multiple mandates, also faces criticisms of too much bureaucracy and too many rules. Ironically, many policy prescriptions call for the World Bank to simplify its goals, essentially becoming more like the

EIB, while others call for the EIB to better address development issues, which would require it to act more like the World Bank.

The remainder of this introductory chapter presents an overview of the main issues and themes underlying the dissertation, the research design and methodology, concepts that frame the work, and the organization of subsequent chapters.

### **Major Themes**

The arguments made in this dissertation are neatly encapsulated by the story of a loan proposed by the EBRD in 1995. While the controversy generated by this particular loan may not be typical, the issues it raises do reflect my main arguments and themes. These include: 1) the inherent tension MDBs face in general in balancing their roles as financial institutions and development agencies; 2) the particular struggle by MDBs to reconcile the promotion of economic growth with the additional goal of promoting environmental protection and development; and 3) the complex politics and dynamics of how a mandate given to an international institution by its state shareholders is actually institutionalized into a set of policies and procedures.

In the spring of 1995, the European Bank for Reconstruction and Development (EBRD), a multilateral development bank (MDB) whose major shareholders are the U.S., European Union (EU) countries, and other G-7 countries, prepared to make a decision on the biggest loan in its four-year history. The proposed 412.5 million Deutsche Mark loan would fund the completion of units 1 and 2 of the Mochovce nuclear plant in Slovakia, which was 90% built by the Soviets. The Bank's contemplation of this loan stirred enormous controversy. Opponents of the loan, including environmental groups, the Austrian government, the U.S. Executive Director of the EBRD, and some officials within the European Commission and even the EBRD, argued that it is impossible to guarantee the safety of a largely Soviet-built model with basic design flaws, even if the loan would be used to bring in sophisticated Western technology. They also feared that passage of this loan would open the door to similar bank financing of other unsafe nuclear reactors in Central and

Eastern Europe and the former Soviet Union.<sup>15</sup> Indeed, Austria threatened to withdraw its membership from the Bank if the loan were approved.

Opponents of the loan also argued that the Bank's own economic justification of the loan as a "least cost option" was highly ambiguous, and thus the loan should be dropped as not meeting the Bank's own environmental and lending conditions. The Bank's "least cost study," showing that the completion of Mochovce was cheaper than building a combined-cycle gas turbine plant, was criticized as basing its conclusion on unrealistically high gas price forecasts and discounting rates for decommissioning.<sup>16</sup> Curiously, one critic of this study was a sister development bank of the EBRD's, the EIB, which not only shares most of the same major donors as the EBRD, but is itself a shareholder of the EBRD.<sup>17</sup>

Proponents of the loan included France, home to a pro-nuclear lobby led by Electricité de France, which would be the primary beneficiary of the loan. They also included the EBRD's senior management, who argued that the project would promote nuclear safety, and added that one of the conditions of the loan would be that Slovakia close down a dangerous, older nuclear reactor in Bohunice. Finally, the Slovaks threw a wrench in the debate in a way that strengthened the EBRD's arguments, by deciding to bypass the Bank and seek funding on their own from Russia and a Czech firm to complete the plant for one-third of the cost proposed by the EBRD. Thus, not only did the EBRD fail to get the Slovaks to agree to its proposed loan, but the absence of the EBRD loan is expected to result in an potentially more dangerous completed Mochovce and the continuing functioning of the Bohunice reactor. In June, 1998, Slovakia activated a reactor at Mochovce.

The proposed Mochovce loan illustrates how contentious the choices can be when an MDB confronts potentially conflicting objectives. Following is an explication of the three themes mentioned above, and the ways in which they are reflected in the Mochovce example.

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<sup>15</sup> Jane Martinson, "EBRD criticized on N-plant loan," *Financial Times*, February 15 1995, 2.

<sup>16</sup> Öko-Institute, "Statement Concerning the Least Cost Study for the Public Participation Programme Related to the Project 'Completion of the Mochovce NPP (Slovak Republic)'" (Freiburg, Germany: Institute für Angewandte Ökologie, 1995).

<sup>17</sup> Emma Tucker, "Bank prepares to bite nuclear bullet," *Financial Times*, April 12 1995, 2.

### *MDBs as "banks" vs. development agencies*

MDBs are unique among international organizations created to promote the interests of major industrialized countries (the major donors or shareholders) in developing or former socialist (recipient) countries because they are given billions of dollars of resources to undertake their actions, and these activities have an enormous impact on the economies and policies of the borrowers. They are banks in the sense that their primary function is to make loans to governments or private sector actors; projects must be "bankable," in the sense of fulfilling the banks' criteria on economic, financial, technical and legal viability.

Yet MDBs also differ from commercial banks in a number of important ways.<sup>18</sup> First, their charters explicitly prohibit them from providing resources that can be made available elsewhere on favorable terms. This is meant to encourage them to complement rather than subsume private sector lending, although in practice it is often difficult to determine whether or not a project would have been undertaken without the MDB's involvement.<sup>19</sup> This is particularly ambiguous when MDBs are able to make private sector loans, and it is unlikely they would be willing to take on significantly more risk than a private sector bank. Second, most MDB loans are granted to government bodies and require sovereign guarantees. This affects a recipient's incentives on whether or not to agree to an MDB loan. Since recipients' budgets can limit the amount of such guarantees that can be authorized each year, these guarantees are likely to be used for priority investments. On the other hand, MDB loans offer longer maturities and grace periods, as well as lower interest rates than commercial

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<sup>18</sup>In the summer of 1944, when the World Bank was conceived, the Commission II (International Bank for Reconstruction and Development) wrote to the Executive Plenary Session (United Nations Monetary and Financial Conference): "The creation of the Bank was an entirely new venture....So novel was it, that no name could be found for it. Insofar as we can talk of capital subscriptions, loans, guarantees, issue of bonds, the new financial institutions may have some apparent claim to the name of Bank. But the type of shareholders, the exclusion of all deposits and short-term loans, the non-profit basis, are quite foreign to the accepted nature of a Bank. However, it was accidentally born with the name Bank, and Bank it remains, mainly because no satisfactory name could be found in the dictionary for this unprecedented institution." In World Bank, *Annual Report*, (Washington DC: 1994), p. 12.

<sup>19</sup>In practice, there are many instances where the banks find themselves competing with private sector lenders. In December 1995, for example, the World Bank's private lending arm, the International Finance Corporation (IFC), set up new guidelines to prevent it from competing with private sector banks in privatization and securities underwriting. See George Graham, "IFC to leave privatization to banks," *Financial Times*, December 8 1995, p. 4.

loans, which can enhance their attractiveness. Third, MDBs will finance projects that may be seen as too risky to private sector banks, but at the same time, the MDBs tend to be more risk-averse than private sector banks. This seeming contradiction is explained by the sovereign guarantees public sector MDB loans take on—what the MDB chooses to finance is backed by the government.<sup>20</sup>

Fourth, and perhaps most important, as noted above, MDBs have something grafted onto them not found among commercial banks: government functions. To varying degrees, MDBs are asked to elaborate, incorporate into their lending, and implement a variety of mandates given to them by their major shareholders. Some of these mandates move far afield from the banks' principal function of promoting economic development and growth. For example, the oldest and largest MDB, the World Bank, began its life in 1944 to make loans to help reconstruct post-war Europe. Over time, its mandate shifted to focus on developing countries, and it has been widened to include such diverse areas as rural development, policy-based lending, human resources (health and education), women, poverty reduction, population, and the environment.

These mandates of all MDBs are linked to policy advice to the government, and loans regularly incorporate a variety of policy changes (such as macroeconomic, legal and environmental stipulations) that borrowers must agree to in order to receive the loan. This "conditionality" is used by MDBs to promote policy change in a recipient country. Thus, when making public sector loans, the MDBs are often making governmental policy. The policy changes can be very simple, such as requiring specific municipalities to raise their tariffs, or they can involve more far-reaching changes in national policy, such as the removal of coal subsidies. If the "cost" of conditionality outweighs the benefits of longer maturities, grace periods and lower interest rates, countries creditworthy enough to have access to international capital markets have less incentive to take out loans from the MDBs. However,

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<sup>20</sup>The EIB, in many ways the most "bank-like" of the three MDBs studied here, also happens to be the most risk-averse. In its work in many parts of the world, it uses "double guarantees," which means its loans can be backed by a government as well as the European Commission.

at the same time, the MDB's country analysis also provides it with a role as a "rating agency" for private banks, which may influence their own willingness to lend.<sup>21</sup>

Some of the tensions inherent in the MDBs' often-conflicting roles as banks and government agencies are reflected in their struggle to implement their relatively new environmental mandates. As discussed in detail in Chapter 3, these mandates require the banks to incorporate environmental considerations and due diligence procedures into all of their loans, as well as to make specific "environmental" loans. They thus push MDBs to look beyond traditional areas of lending, to rethink the types of projects they have historically lent to, as well as how projects are developed and implemented. As noted above, there is significant variation in the extent to which and MDB emphasizes its role as a lending institution versus its role as a development institution. What should an MDB do when a loan attractive on economic grounds is more ambiguous on environmental grounds?

In the case of the proposed Mochovce loan, there was great disagreement over the environmental merits of the loan, although it was financially attractive to the Bank. The EBRD argued the loan made economic sense, and stressed the fact that the conditions of the loan required the Slovak government to close another, more dangerous, nuclear reactor. Yet some critics believed completing a Soviet nuclear plant risked the possibility of another Chernobyl, and clashed with Article 2 (1) (vii) of the Bank's founding articles, which commits it "to promote in the full range of its activities environmentally sound and sustainable development."<sup>22</sup> Because the Slovaks did not accept the EBRD's conditionality, they circumvented the Bank altogether and pushed ahead with the project on their own, thus removing any leverage the Bank may have had on influencing the country's policies towards its aging nuclear reactors. While environmentalists considered the fact that the EBRD did not pursue this loan as a successful outcome, in fact it is likely that the loan would have had a

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<sup>21</sup> Gustav Ranis, "Defining the Mission of the World Bank Group," in *Bretton Woods: Looking to the Future* (Washington DC: Bretton Woods Commission, July 1994): C-73-82.

<sup>22</sup>EBRD, "Articles Establishing the European Bank for Reconstruction and Development," (EBRD: London, 1990).

more beneficial environmental impact than the resulting outcome, of Slovakia going ahead on its own to complete Mochovce with no conditionality.

*Promoting environmentally sustainable development: translating policies into action*

The second issue illustrated by the Mochovce example, is the particular challenge MDBs face in reconciling their goals of promoting economic growth and development with newer objectives of improving environmental protection and management. The struggle faced by the EBRD in deciding whether it should have proceeded with the Mochovce loan, and how it would have justified this strategic choice, reflects the struggle by MDBs in general to harmonize their dual personalities and often conflicting mandates. Clearly, there are some areas where the two mandates overlap; that is, projects that happily meet the dual objectives of environmental improvement and economic development. This may include projects that seek to modernize or build more efficient energy facilities, or sectoral restructuring and structural adjustment work that calls for a reduction in energy subsidies, and hence results in reduced demand for energy.

Yet it is easy to find examples where the promotion of economic growth and development and the promotion of environmental protection and management clash. The promotion of the former, the principal objective of the MDBs, obviously puts pressure on the environment, since it involves some amount of land clearing, oil drilling, river damming, increasing use of energy resources, and so on. Indeed, the World Bank has noted that "significant environmental implications" are the rule and not the exception in most of its sectors of lending: in agriculture, transportation, energy, industry and urban development. The only sectors where projects have relatively minor environmental effects are areas such as education and telecommunications.<sup>23</sup> Even structural adjustment lending (SAL), a tool used by the World Bank that differs from project lending in its linkage to macroeconomic policy reform, is a double-edged sword. Structural adjustment lending can contain conditionality that liberalizes energy, water or raw materials subsidies, which reduces pollution by lowering

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<sup>23</sup>Ibrahim Shihata, *The World Bank Inspections Panel* (New York: Oxford University Press, 1994), p. 139.

demand for the commodity. Yet SAL also results in trade liberalization that can have negative impacts on the environment by increasing exports and thus natural resource depletion. SAL also often results in budget cutting exercises, which can reduce environmental spending.<sup>24</sup>

Indeed, despite their efforts to develop new environmental policies, projects and procedures, the MDBs have been widely accused of funding environmentally destructive projects and inadequately addressing environmental issues in their work. MDBs are criticized, for example, for investing in new, massive power projects that sometimes force resettlement of local populations, destroy nearby forests, and usually focus on expensive supply side investments rather than end-use efficiency investments that are often a fraction of the cost.

### *Translating Ideas into Policy*

New mandates tend to be given to the MDBs through the powerful countries that are their main shareholders. But the process of institutionalizing a new set of policy directives can run up against a wide array of political pressures and organizational constraints. For example, donors themselves may not agree on the importance of individual mandates, which creates a great deal of ambiguity in terms of how much incentive management has to try and carry out the new policy. Likewise, bank management, with its vast expertise in banking and/or development, may play a decisive role in influencing how the institution's enormous financial resources are deployed. Finally, the recipient countries can stymie the output of new policy directives from the MDBs by refusing to accept or being lax in implementing the conditionality.

The Mochovce example highlights how diffuse the relationship among principals and between principals and agents can be. In this example, we see that the shareholder countries were split over whether or not the Bank should make the loan, in part due to environmental implications, while the Bank's senior management strongly supported it. In fact, even

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<sup>24</sup>World Bank, "The World Bank and the Environment in Central and Eastern Europe: 1990-95," (Washington DC: The World Bank, 1995), p. 5.



government agencies and actors within specific shareholder countries did not always present a unified position. The U.S. government, for example, was at one point officially undecided on which way it would vote, while its Executive Director at the EBRD, former U.S. congressman Jim Scheuer, made clear his own opposition to the proposed loan.<sup>25</sup> Senior Bank management, in turn, lined up behind the proposed loan, and went on a "road show" to shareholder capitals to plead their case and lobby member states to support it. In the end, the Bank did support the loan, but was not able to influence the recipient country to agree to the Bank's conditionality.

The translation of mandates into policy is also shaped by the organization's capacity to implement new ideas. The evidence from the dissertation shows there is a mismatch between the environmental mandates given to MDBs and their institutional capacity to translate them and implement them. In many respects, the MDBs' existing institutional missions, repertoires of behavior and financial mechanisms constrain their ability to respond to new environmental concerns. In other words, new mandates are often attached to pre-existing bank objectives or must be addressed by pre-existing sets of financial lending mechanisms. The result is a certain degree of institutional inertia vis-a-vis environmental issues.<sup>26</sup> Yet at the same time, the banks have developed environmental assessment procedures and other policy exercises focusing on environmental issues that may help them address these issues more directly. One important goal of the dissertation is to determine whether new environmental mandates have resulted in what critics call "green window dressing" or "green-washing," or whether they have resulted in real and significant changes in MDB lending portfolios and operational procedures.

Controversy over the Mochovce loan illustrates some of these issues. Critics argue that the loan is an example of how the EBRD jettisons its environmental procedures when they

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<sup>25</sup> S Treasury officials and EBRD officials, interviews with the author, March 1995.

<sup>26</sup> Barbara Connolly, Tamar Gutner, and Hildegard Bedarff, "Organizational Inertia and Environmental Assistance to Eastern Europe," in *Institutions for Environmental Aid: Pitfalls and Promise*, ed. Robert O. Keohane and Marc A. Levy (Cambridge: The MIT Press, 1996), 281-323.

conflict with the Bank's desire to pursue attractive lending opportunities.<sup>27</sup> In essence, one can argue that the EBRD behaved more like a merchant bank than a development institution in this case, and thus had more incentives to follow its financial and economic goals than its environmental goals. Yet, the Bank did produce a loan proposal that would have had positive environmental benefits as well, since it presumably would have resulted in a safer Mochovce, the closing of Bohunice, and a significant increase in Slovakia's electricity prices, which would reduce demand for energy.

### **Research Design and Methodology**

This dissertation examines the ways in which three MDBs—the World Bank, EBRD, and EIB—have operationalized their relatively new environmental mandates and implemented them in the same geographical region: Central and Eastern Europe. I analyze the banks' activities in this region over the same time period (1990-96).<sup>28</sup> Environmental mandate is defined here as the authority given to the banks by their shareholding countries to perform specific, new tasks whose goals are to make the banks more environmentally accountable. These banks have been chosen as cases for three reasons. First, they have a similar set of dominant shareholders, as Table 1.1 shows. The European Union (EU) countries are the majority bloc of shareholders in the EBRD, the only shareholders of the EIB, and comprise a healthy 26.3% of the World Bank's voting power. In fact, Germany, the UK, France and Italy, which have the greatest share of voting power vis-a-vis other EU countries in the EBRD and EIB, are the third to sixth largest shareholders in the World Bank, behind the US and Japan. The US, meanwhile, is the single largest shareholder in both the World Bank and the EBRD.

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<sup>27</sup>Donald M. Goldberg et. al., "The European Bank for Reconstruction and Development: An Environmental Progress Report," (Washington, DC: CIEL, 1995).

<sup>28</sup>The World Bank usually refers to the International Bank for Reconstruction and Development (IBRD), and the International Development Association (IDA). IDA is an affiliate that provides low-interest loans to the poorest countries; in CEE, Albania is the only eligible country. In addition, the bank has two other affiliates: the Multilateral Investment Guarantee Agency (MIGA), and the International Finance Corporation (IFC), which is the World Bank's private sector lending arm. The IBRD, IDA, MIGA and IFC are often referred to as the World Bank Group.

**Table 1.1: Voting power of G-7 and EU countries within the banks**

G-7: % votes	WB <sup>29</sup>	EBRD <sup>30</sup>	EIB <sup>31</sup>
US	17.20	10.1	Capital subscription is not directly linked to voting power, as with the other two banks; for the EIB there are 25 directors, each of which has 1 vote. Germany, UK, Italy, France each have 3 directors. Spain has 2; all other EU states have one; the EU Commission also has one.
Japan	6.10	8.62	
Canada	2.92	3.44	
UK	4.52	8.62	
Germany	4.71	8.62	
Italy	2.92	8.62	
France	4.52	8.62	
Austria	0.73	2.31	
Belgium	1.90	2.31	
Denmark	0.68	1.21	
Finland	0.57	1.26	
Greece	0.08	0.66	
Ireland	0.36	0.30	
Luxembourg	0.12	0.20	
Netherlands	2.32	2.51	
Portugal	0.37	0.42	
Spain	1.55	3.43	
Sweden	0.99	2.31	
		E.Com.: 3.0	
		EIB: 3.0	
World Bank:		EBRD:	
G-7:	42.89%	G-7:	56.64%
EU component of G-7:	16.67		
EU:	26.34	EU:	51.40
G-7 + non-G-7 EU:	52.56		
		EU/EU institutions:	57.4
EU + US:	41.89	EU/EU inst./US:	67.4

<sup>29</sup>Data for IBRD only. World Bank, *Annual Report* (Washington DC: World Bank, 1996).

<sup>30</sup>EBRD, *Annual Report* (London: EBRD, 1996). Actual voting power is sometimes less than shares. For example, there have been times when the US could not exercise all of its voting rights because its payments to the EBRD were in arrears.

<sup>31</sup>EIB, *Annual Report* (Luxembourg: EIB, 1996).

Second, the MDBs have broadly similar environmental mandates, which are compared in depth in Chapter 3. On the project level, all three banks are supposed to fund projects with explicit "environmental" goals, such as cleaning up a major river, or a municipality's water supply, or modernizing a power plant to sharply reduce emissions of sulfur dioxide. On the policy level, the banks have developed environmental due diligence procedures to use when appraising all projects, as a means of avoiding or mitigating potentially adverse environmental impacts. Finally, as noted above, the three MDBs are the major international financial institutions operating in CEE countries.<sup>32</sup> While net private capital flows to the region now exceed net flows from MDBs, the MDBs remain significant actors, since they are involved in helping countries liberalize their economies as a means to attract the private flows, while they also leverage investor risk through co-financing.<sup>33</sup>

The focus on the banks' activities in CEE countries was chosen for three important reasons. First, following the collapse of communism in the region, the banks had to devise strategies for economic and environmental assistance to this region. Thus, the dissertation compares the activities of the banks in one region, during one time period. Second, the countries in this region are undertaking broadly comparable economic and environmental reforms, and face broadly similar problems in doing so. They also face a broadly similar set of environmental problems, namely airborne dust and sulfur dioxide, and lead found in air and soil.<sup>34</sup> The largest sources of particulate air pollution, one of the worst health threats in

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<sup>32</sup>This is an indicative figure, since it consists of commitments and not disbursements. As noted in Chapter 5, the largest single donor to the region is Germany, which committed \$19.2 billion to CEE and NIS countries, in mostly grants, between 1990-1996. Following Germany is the U.S. SEED (Support for East European Democracy) program, which provided a total of \$2.7 billion to CEE in 1990-96, and the EU's PHARE program, which provided around 5.4 billion ECU to Central and Eastern Europe as well as the former Soviet Union. "SEED Act Implementation Report" Fiscal Year 1997, U.S. Department of State, February 1998, Table 1.

<sup>33</sup>Net private capital flows to Central and Eastern Europe stood at \$17 billion in the period 1990-95 and \$45 billion in the period 1990-1996, according to Institute for International Finance data. Countries included in this data are Poland, Hungary, the Czech Republic, Slovakia, Romania and Bulgaria. See Institute for International Finance, "Capital Flows to Emerging Market Economies: Update" (Washington DC, September 11, 1997). For the same set of countries, this compares with net MDB lending of \$7.3 billion during 1990-95. See individual country data in World Bank, "Global Development Finance: Volume II," (Washington DC: World Bank, 1997).

<sup>34</sup>For the most thorough description and analysis of the region's environmental problems, see the World Bank-led report: "Environmental Action Programme for Central and Eastern Europe," Document submitted to

the region, are low stack emissions from domestic heating and small- and medium-sized enterprises, which rely on low quality lignite, characterized by high sulfur and ash content. Water pollution is another serious problem, reflecting inadequate drinking water processing systems and sewage treatment, and unmonitored municipal and industrial discharges, among other factors. Third, CEE is an area where both economic restructuring and environmental clean-up and reform needs are most acute. As noted above, the collapse of the communist regimes in CEE revealed the most polluted countries in Europe. It is therefore a region that most challenges an MDB's ability to harmonize economic and environmental strategies. Case selection thus (at least partly) controls for major institutional and national differences

The dissertation adopts a commonly used definition of CEE countries as Central European countries and the three Baltic states. Thus, in this dissertation, the term "Central and Eastern European countries" generally refers to: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, FYR Macedonia, Poland, Romania, Slovakia and Slovenia.<sup>35</sup> Lending to most of these countries began earlier than lending to other countries in the region, such as the largest former Soviet republics, and there is thus a greater body of MDB activities to compare in the former group. However, it must be noted that recipient countries all three MDBs have in common constitute a smaller set of countries. While the EBRD and World Bank also lend to the former Soviet Union (and include those countries in their definition of CEE), the EIB's lending to former Soviet countries is limited to the Baltic states. The EIB has also not extended lending to Bosnia and Herzegovina, Croatia or Macedonia/FYR to date.

### *Defining Environmental Behavior*

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the Ministerial Conference in Lucerne, Switzerland, (28-30 April, 1993). This document, which was endorsed by IO officials and environmental ministers from East and West, contains an agreed-upon list that prioritizes the region's short-, medium-, and long-term environmental problems, and lists the regional "hot spots" where these problems are most acute.

<sup>35</sup>Curiously, while the EBRD was set up specifically to promote economic reconstruction in former Communist countries, the EIB is the only one of the three banks that can lend money to eastern Germany. Germany's GDP is much too high for it to qualify for World Bank loans, and the EBRD doesn't allow for part of a country's territory to qualify for recipient status.

How does one define an MDB's "environmental behavior?" In fact, this is an extremely difficult conceptual exercise for several reasons. The issue is discussed in Chapter 5, but will also be touched upon here. One can emphasize specific activities with primary environmental goals. However, specific environmental financing obviously presents only a part of the picture of the banks' environmental behavior. For example, a bank may have relatively more stand-alone environmental projects, but it is important to know whether they are simultaneously undertaking a number of potentially environmentally harmful projects. Likewise, a bank may have few "environmental" projects, but the bulk of its portfolio may *not* be environmentally damaging, e.g., educational or telecommunications projects. Or, a bank may have few "environmental" projects, but it may make many adjustments in its wider portfolio of projects to avoid or alleviate environmental damage. It is also important to know if the bank's "environmental" projects bear any relationship to the region or country's most pressing environmental problems. Moreover, to what extent is the size of a project important? There is no way to know how the loan amount correlates with environmental benefits of a project. There is evidence that some of the smaller projects the MDBs fund are the most effective in terms of their environmental benefit. It is also difficult to quantify how much of a project loan is being used for environmentally-related components. Equally important, data on a bank's portfolio does not tell us anything about how these projects have been implemented. A bank may say it is adopting high environmental standards, but how do we know if they are carried out in practice?

The point is that there is no obvious or simple way to define and measure an MDB's environmental behavior. Indeed, the MDBs do not share similar definitions of what their "environmental" work is, and sometimes even within one MDB there are different definitions of what should or should not be included. The different definitions are discussed in Chapter 3. Any definition also implicitly brings in normative values about what environmental behavior "should be."

Table 1.2 shows a continuum of MDB environmental objectives, and this can be used to analyze both the MDB's level of commitment, and with one important modification, also its specific activities. On the left end of the continuum is a minimal degree of commitment or activity, where the MDB seeks to guarantee that its projects are not environmentally harmful, in the sense that it seeks to avoid or alleviate the potential to promote degradation of a country's natural resource base, or biodiversity loss. Obviously, exactly where the line is crossed between environmentally harmful and acceptable is often a grey area viewed differently among different actors. The point is that the MDBs may largely do the same types of activities they have always done, but they show signs of positive environmental behavior if they make sure that these projects are properly appraised to ensure that environmental problems are averted. This mitigation exercise is usually carried out through the MDB's environmental assessment procedures and its rules about what types of environmental standards to follow in its work.

Moving toward the right end of the continuum, policy objectives start to include actively seeking projects with significant environmental objectives or components. In starting to be more active in explicitly addressing environmental issues, the MDB may also more broadly consider natural resource management issues in its work, and engage in measures that shape environmental policy development. This involves explicit attempts by the MDB to influence the recipient government's environmental policy. As Nelson and Eglinton note, techniques of IO influence of recipient policies can include persuasion, technical and financial support to build domestic capacity to design and implement reforms, and pressure through more explicit conditionality, where financial assistance is linked to specific policy conditions.<sup>36</sup> On the right end of the spectrum we see the "darkest green" behavior, where the MDB finances projects with primary environmental goals and attempts to integrate environmental thinking into the broader set of strategic goals it develops for each

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<sup>36</sup>Joan M. Nelson and Stephanie J. Eglinton, *Global Goals, Contentious Means: Issues of Multiple Aid Conditionality* (Washington DC: Overseas Development Council, 1993).

**Table 1.2: Continuum: Range of MDB Environmental Objectives**

Minimal Activity "Light Green"	Environmental Additionality	Deeper Activity "Dark Green"
<ul style="list-style-type: none"> <li>• Project design seeks to mitigate environmental harm</li> </ul>	<ul style="list-style-type: none"> <li>• Projects have significant environmental objectives</li> </ul>	<ul style="list-style-type: none"> <li>• Projects have primary environmental goals; other technical assistance or agenda-setting activities in environmental development</li> </ul>



recipient. In other words, rightward movement reflects attempts by the institutions to innovate in ways that transcend their traditional actions. The movement along this continuum is additive. As this dissertation will show, the EIB clearly is situated toward the "minimal," "light green" end of the spectrum, the World Bank toward the "darker green" end, and the EBRD somewhere in the middle. Yet, if we take a longer, historical view, we would see that the World Bank began its life on the left end of the spectrum, and has moved rightward over time. The EBRD has also moved rightward over time, but not to the same degree as the World Bank. Chapters 3 and 4 discuss in greater depth the ways in which the three banks' environmental behavior has (or has not) evolved over time.

As Chapter 5 will discuss, in assessing how an MDB's actual projects might be placed along the continuum, it is important to distinguish between the project's intentions and its implementation. As a result, the continuum should contain an additional point when assessing implementation; that point would be where projects cause environmental harm.

#### *Conceptualizing the Dependent Variable*

I propose a framework for conceptualizing and comparing MDB environmental policymaking. As noted in the introduction, I argue that MDB environmental policymaking must be analyzed along three stages:

a) Policy Objectives: This is simply the bank's stated environmental policy goals. In other words, does the bank have a set of clear environmental objectives, or a vaguer commitment to lofty aims, such as promoting sustainable development? If an MDB has vague policy goals to begin with, or its policies are based on purely symbolic politics among shareholders, it is no surprise if the process and outcome factors turn out to be very weak. If, however, the bank has clear, pragmatic goals, and the commitment of its shareholders, and it fails to carry out these goals, one must look within the other two stages to find the source of blockage. As Wilson has noted:

There is a tendency among us all to complain about how far the performance of an agency differs from its goals and to speculate about the bureaucratic pathologies that may account for this inadequate performance. But that only makes sense if the goals

are sufficiently clear that reasonable people can agree on what they mean, and whether the agency has the freedom of action...to achieve them."<sup>37</sup>

Analysis of the policy objectives also tells us whether the MDB is taking a "business as usual" approach—that is re-classifying relevant, traditional infrastructure projects as "environmental" projects, or whether it is attempting to push the definition forward to better address other types of issues as well. Analysis of the politics of how the banks were given environmental mandates reveals how strong the stated commitment is, from the perspective of both shareholder countries and bank management, as well as the degree to which state, institutional, or non-governmental actors were important in bringing a new set of policy goals inside the institution.

b) Policy Process: This refers to the ways in which environmental considerations are institutionalized and inserted into bank decisionmaking, or put differently, what the banks actually *do* with their designated powers. This entails examining both the policies and procedures developed by the bank in its attempts to institutionalize its overall environmental objectives, as well as analyzing whether the institutional design provides the right incentives for staff to follow these policies and procedures. For example, the existence of an environmental office that is supposed to ensure that environmental safeguards are taken into account in each bank project is of little use if that office only receives project material at the final stage of project preparation, after the most important project decisions have been made. This was the case with the World Bank's first environmental office, the Office of Environmental and Scientific Affairs.<sup>38</sup> We must determine whether the banks have produced appropriate institutional responses to their environmental mandates.

c) Policy Outcomes: This refers to two different levels of analysis: the composition of the banks' portfolio of activities, and how well this portfolio is implemented:

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<sup>37</sup>James Q. Wilson, *Bureaucracy: What Government Agencies Do and Why They Do It* (New York: Basic Books, Inc., 1989), p. 34.

<sup>38</sup>Rich, *Mortgaging the Earth*, p. 112.

i) In terms of project decisions, this category compares the banks' overall portfolios of activities, to analyze how environmental issues are addressed in lending and non-lending activities, and where projects can be situated along the continuum.

ii) Policy outcome must also address the issue of implementation, to the extent possible--that is, to what extent are banks' activities carried out as planned? An MDB may have a beautifully crafted project proposal that addresses all the relevant environmental issues and proposes ways of mitigating them, but that does not tell us whether or not these actions are undertaken in the field. Indeed, many environmentalists criticize the MDBs for doing a poor job of translating process into action.

The three banks show considerable variation along each of these dimensions. The description, analysis and explanation of this variation is the topic of the empirical chapters of this book. Evidence supporting my central arguments is therefore drawn from a focused comparison of the three banks at the three stages of policymaking. In effect, I trace the process by which new environmental mandates appear in the banks, are institutionalized, and are translated into specific sets of activities in CEE. While an in-depth analysis of the implementation of all 500 plus MDB projects in CEE is beyond the scope of this dissertation, I will examine available evidence which shows some of the difficulties the banks have in translating project ideas into practice, and in measuring precisely the "environmental impact" of a project.<sup>39</sup> In analyzing the observable implications of different theories and arguments seeking to explain MDB behavior at each stage of the policy process, the research design increases the number of observation points for investigation in comparing the three banks' environmental behavior.

## **Dissertation Outline**

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<sup>39</sup>Available evidence includes primary MDB documents, as well as material from government agencies and watchdog groups. I also conducted extensive research on MDB implementation issues in Estonia, Latvia, Lithuania, Poland and Hungary, where I visited MDB projects in the water and energy sectors and interviewed relevant actors, including: task managers, project leaders, environmentalists, ministry officials, municipal officials, and consultants.

The dissertation is structured along the three stages of analysis outlined above—policy objectives, process, and outcomes. Chapter 2 situates the overall arguments within the existing social scientific and policy literatures that offer different approaches to explaining MDB environmental behavior. I argue that most of the relevant academic debates tend to focus on discrete stages of the policy process, emphasizing either external political variables or institutional design-related variables, without adequately linking the two. The more specific policy literature on MDB environmental behavior, in turn, is World Bank-centered, and tends to offer a range of explanatory variables that run the gamut of political and design factors. These are difficult to rank in terms of their importance and are largely untested vis-a-vis the other two banks.

Chapters 3 and 4 are devoted to policy objectives and process. Chapter 3 analyzes the three banks' environmental policy objectives in the context of the bargaining and negotiation surrounding their adoption, and compares the degree of donor commitment among the three banks. How is it that each bank was asked to, or decided to, address environmental issues in its activities? What exactly are the bank's environmental policy goals? How committed are the bank's major shareholders to this process? The chapter describes the main characteristics, interests, and goals of the three banks, and within that context, the politics that resulted in their decision to address environmental issues. It then lays out and compares the evolution of the banks' environmental policy objectives, as well as how these are translated in the context of their activities in CEE. Finally, it also examines and compares each bank's definition of what its "environmental" activities are.

Chapter 4 addresses the policy process, to analyze the ways in which the MDBs' environmental objectives are "hard-wired" into their institutional design and incentive systems. It shows the ways in which the MDBs' governance structures are diffuse, characterized by weak sets of collective principals. Given that constant, it then argues that the most important institutional variable influencing variation in the ways MDBs respond to new environmental goals is how demand-driven or "bank-like" the MDBs are designed to be.

It supports this argument by analyzing a number of indicators of this variable, and also addresses the policy trade-offs resulting from each bank's position. The chapter highlights some of the limits of neorealist explanations for institutional behavior, by showing how important the organizational environment can be in shaping incentives and actions. The chapter ends with a set of hypotheses on what types of outcomes we might expect to see in the banks' portfolios in CEE.

Chapter 5 is devoted to policy outcomes, analyzing how environmental issues are addressed in the banks' lending and non-lending activities in CEE. Analysis of the three banks' portfolios provides evidence confirming the hypotheses set forth in Chapter 4. The chapter shows the ways in which the World Bank is undertaking the widest scope of projects with primary or significant environmental components, followed by the EBRD, with the EIB trailing behind. It also highlights the ways in which the environmental character of the banks' portfolios explicitly reflects the activities and outputs of "green bankers," or MDB staff whose job is to identify or appraise environmental projects. The least bank-like the MDB, the more "green bankers" exist. Chapter 5 also examines the role that recipient demand plays in influencing what the MDBs are able to finance, as well as some of the issues facing the three banks in project implementation. Chapter 6 is a brief conclusion that summarizes the findings of the dissertation, as well as its theoretical and policy implications.

## **Chapter Two**

### **Intellectual Context**

This chapter situates the arguments made in Chapter 1 within the broader literature that addresses the question of what factors drive the behavior of international institutions. The analysis of sources of behavior within international institutions has been an important area of scholarship within the field of international relations in recent years, while the study of domestic political institutions has also been emphasized within the field of comparative politics. Sociologists and economists, among others, have also taken a fresh look at the role and impact of institutions in order to understand their origins, evolution and impact on political and economic policy strategies and outcomes. The chapter surveys the arguments made in both the broader academic literature on institutional behavior and the narrower, more policy-oriented literature that specifically addresses MDB environmental behavior. It argues that, in the scholarly realm, there is often a gap between arguments emphasizing the importance of external political or ideational factors and those emphasizing internal institutional factors in explaining IO behavior. At the same time, the specific literature on MDB environmental behavior offers a variety of explanations that, while compelling, are generally unsupported by rigorous analysis and are not methodologically sophisticated. Subsequent chapters will attempt to fill this theoretical gap by showing the ways in which variables derived from "competing" neorealist and institutionalist literatures help explain institutional behavior at different stages of the policy process.

To some degree, the arguments and conclusions of this bank-centric literature parallel the broader scholarly literature on factors that account for variation in international institutional behavior. Yet the fit is not perfect; the policy literature presents some

explanations not well addressed in broader theoretical debates about institutional behavior, while the latter also points out important variables not addressed by the former. This literature review will begin by addressing how the first group—the policy literature—characterizes MDB environmental behavior. I then turn to the explanations raised in this literature, and compare them with the broader theoretical debates on institutional behavior. Finally, I will analyze and synthesize the ideas generated by these different debates, in order to identify causal variables that may be generalizable among the three banks, as well as determining ways in which commonly-shared variables may help explain behavior among banks.

In general, writers analyzing MDBs and the environment are highly critical of the banks' ability to effectively tackle environmental issues in their policy and project work. Most of these articles lay out an argument or series of arguments that are backed by selective illustrations. While generally methodologically weak, this literature does address the issues at the heart of the dissertation, and it proposes candidate explanations that find parallels in the broader institutional literature.

This work is generally produced by policy analysts and environmentalists, as well as a few political scientists. What is interesting about this work is that it is overwhelmingly preoccupied with the World Bank, where there are over a dozen recent articles and a few books analyzing the Bank's environmental behavior. By contrast, there are a handful of articles and reports analyzing the EBRD, and even fewer on the EIB and its environmental behavior.<sup>1</sup>

It is not surprising that so much more critical attention is focused on the World Bank. The Bank is the oldest MDB, with the broadest (global) membership and scope of activities.

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<sup>1</sup>On the EBRD, see Don Goldberg, et. al, "The European Bank for Reconstruction and Development: an Environmental Progress Report;" Chris A. Wold and Durwood Zaelke, "Promoting Sustainable Development and Democracy in Central and Eastern Europe: The Role of the European Bank for Reconstruction and Development," *American University Journal of International Law and Policy* (1992). On the EIB, see Marianne Wenning, "Greening the European Investment Bank," (Switzerland: WWF International, December 1992); Sheila Lewenhak, *The Role of the European Investment Bank* (London: Croom Helm, 1982); and Carl Lankowski, "Environmental Impact Review in the European Investment Bank," (Washington, DC: School of International Service, American University, May 1984).

It is a leading actor in global thinking and research about development issues. There is a vast literature on the Bank and its role, activities, and ideas in promoting development in the Third World. From an environmental perspective, the Bank also has had a series of spectacularly disastrous projects, which sparked a major campaign by NGOs in the 1980s to force the Bank to reform its environmental practices.<sup>2</sup>

Finally, the 50th anniversary of the founding of the Bretton Woods institutions—the World Bank and the IMF—inspired a flurry of assessments on the roles of the two institutions and the steps that should be taken to help them better adapt to the challenges of the 21st century.<sup>3</sup> The institutions themselves contributed their own assessment of how they should face the challenges of a changing world.<sup>4</sup> The G-7 major industrialized countries also called for a reassessment of MDBs, in ways that encourage them to invest more in people, public participation, and the environment.<sup>5</sup> A group of environmental, development, human-rights and other NGOs, in turn, launched a "Fifty Years is Enough" campaign, calling for far-reaching changes in both institutions in the areas of public accountability, the emphasis of lending programs, and the way environmental problems are addressed.

One could hardly expect the same amount of debate to surround the EBRD, which was only established in 1991, and with its focus on former Communist countries does not tap into many of the broader, often prickly North-South issues that touch the World Bank. Yet, as noted above, it is curious to discover the dearth of literature on the EIB and its environmental behavior, given the bank's age (created in 1957) and its large lending volume. While 90% of the EIB's lending is in Western Europe, the Bank is still active on a global scale, and even its projects within Europe obviously have an impact on the environment.

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<sup>2</sup>The Polonoeste and Sardar Sarovar projects are described below. For details of a number of these failed projects, see Rich, *Mortgaging the Earth*.

<sup>3</sup>See footnote 4 in Chapter 1.

<sup>4</sup>Development Committee Task Force on Multilateral Development Banks, "Serving a Changing World," (Washington DC: March 15, 1996).

<sup>5</sup>Graham Bowley, "MDBs under investigation," *Financial Times*, September 27, 1996, XXI.



The next section will survey perspectives of the World Bank's environmental behavior and also note the few documents that have something to say about the EBRD and EIB. I then examine the arguments behind these views and link each argument to debates in the broader literature on institutions. I focus primarily on the arguments themselves, saving broader discussion of the history and details of the banks' environmental behavior and policies for Chapter 3. The arguments presented in this work focus on what is wrong (or in a few rare instance, what is right) with an individual MDB's environmental behavior.

### *The MDBs' environmental behavior*

In a sea of criticism of the World Bank's environmental behavior, a few brave souls (outside the Bank) stand out for praising the Bank. This work, however, tends to describe changes in the Bank's policies and procedures, rather than looking at outcomes, or what *happens* with these new policies and procedures in project design and implementation. Political scientists Haas and Haas, for example, in analyzing the response of 13 IOs to the "environmental problematique," found the World Bank and UNEP to be the only ones that exhibited traits of "learning" in the ways in which they integrate environmental issues into their work.<sup>6</sup> Learning is defined as a cognitive evolution, where consensual knowledge is used to define and solve problems. They argue that it is rare for learning to take place in IOs; instead, most organizations merely "adapt," by changing procedures or routines without a deeper examination of underlying values.

As evidence of the World Bank's learning, they describe the growth in the Bank's environmental procedures, activities and staff that has taken place since 1989. In particular, they stress the importance of the growth in the number of environmental specialists within the Bank, who have been placed inside the operational (lending) divisions. Epistemic communities seem to be a driving force in prompting institutional learning, and the authors list various institutional characteristics that explain why these communities are better able to

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<sup>6</sup>They define "problematique" as "a given set of interdependent problems, places, acts, and policies--such as those associated with sustainable development." Haas and Haas, "Learning to Learn: Improving International Governance," p. 257. The EBRD and EIB were not among the institutions included in this study.

penetrate some IOs rather than others. Characteristics of "learning institutions" include an open flow of information from scientific communities or non-government organizations (NGOs), relatively autonomous secretariats, and influential shareholders from countries possessing democratic cultures.

While I agree with the broad conclusions of this work—that is, that the World Bank has indeed exhibited evidence of learning, what is missing from the Haas' argument is an examination of what impact the learning has had on the Bank's actual behavior—that is, what it *does* in the field, in terms of how it implements its projects and procedures. Changes in the World Bank's procedures, policies, and personnel may have an important impact on portfolio composition and project design, but one must determine *how* that impact is manifested. Indeed, critics of the Bank's environmental behavior tend to discount the evolution of policies and procedures, arguing that they have made little difference in terms of what the Bank actually does. These writers criticize the Bank for funding projects that have caused enormous environmental degradation, for having weak environmental policies, and for failing to follow the policies it has developed. The Bank itself is aware of its poor record in implementation and has sought to strengthen its monitoring mechanisms. In addition, this type of epistemic argument does not well account for the mechanisms by which the new ideas "infect" an institution, and as a result, the types of institutional factors that may in fact thwart the impact of new ideas.

Perhaps the most strident critic of the Bank's environmental behavior is Bruce Rich, an attorney at the Washington, DC-based Environmental Defense Fund. In his 1994 book, *Mortgaging the Earth: The World Bank, Environmental Impoverishment, and the Crisis of Development*, Rich highlighted case after case of World Bank projects he argued were environmental debacles, which destroyed coastal ecosystems, promoted (directly or indirectly) enormous deforestation, exhausted soils, and displaced thousands of people.<sup>7</sup> Among the more publicized failures was the huge Polonoroeste project in Brazil, in which the

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<sup>7</sup>Rich, *Mortgaging the Earth*.

Bank provided over \$450 million in loans in the early 1980s to promote agricultural colonization and road-building in the state of Rondônia. According to Rich and others, the project encouraged a massive migration of colonists that overwhelmed support efforts, resulted in slash and burn agriculture, and ultimately was responsible for enormous deforestation, among myriad other problems.<sup>8</sup>

Despite the Bank's adoption of a wide range of new environmental policies, guidelines and procedures beginning in the late 1980s, it continued to fund environmentally destructive projects, and critics pointed out numerous cases of where they argued the Bank was not following its own internal policies. One of the most contentious projects of the 1990s, for example, was the Sardar Sarovar dam projects in India, which provoked enormous outcry from environmentalists.<sup>9</sup> After criticism of the projects spread to include US congressmen, senators, as well as legislators from Japan, Finland and Sweden, World Bank President Barber Conable asked former US congressman and former director of UNDP Bradford Morse to undertake an independent study.<sup>10</sup> The 1992 report confirmed earlier criticisms. It found that the projects were poorly appraised, and that the Bank was not enforcing its own policies on resettlement or environment. The involuntary resettlement resulting from the projects, said the report, "offends recognized norms of human rights."<sup>11</sup>

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<sup>8</sup>Rich writes, "Polonoroeste transformed Rondonia—an area approximately the size of Oregon or Great Britain—into a region with one of the highest rates of forest destruction in the Brazilian Amazon, increasing its deforested area from 1.7 percent in 1978 to 16.1 percent in 1991. By the mid-1980s, the burning of Rondonia's forests became a major focus of NASA research as the single largest, most rapid human-caused change on earth readily visible from space." Rich, *Mortgaging the Earth*, p. 28. Also see Robert Wade, "Greening the Bank: The Struggle over the Environment, 1970-95," in *The World Bank: Its First Half Century*, ed. Devesh Kapur, John P. Lewis, and Richard Webb (Washington DC: The Brookings Institution, 1997), 611-736.

<sup>9</sup>The Sardar Sarovar projects, one the largest water resources projects ever planned, involved the construction of a dam, major canal, and irrigation network along India's Narmada River. The projects' goals were to provide more irrigable land, to bring more drinking water to a drought-prone region, and to create a major source of power. At least 100,000 people lived in the villages that would be submerged. Environmentalists argued that the affected populations were not properly consulted and would not be properly resettled, that the Bank supported the project even when it became clear that the borrower was not meeting the loan conditions, and that the environmental impacts of the project were not properly addressed. *Sardar Sarovar: Report of the Independent Review*, Bradford Morse, chairman; Thomas Berger, Deputy Chairman. (Ottawa, Canada: Resources Future International Inc. 1992), p. 4. (This was also known as the Morse Commission Report).

<sup>10</sup>Rich, *Mortgaging the Earth*, p. 250.

<sup>11</sup>*Sardar Sarovar*, p. xx.

With respect to the environment, the report was highly critical. "The history of the environmental aspects of Sardar Sarovar is a history of non-compliance," it said.<sup>12</sup> "There appears to have been an institutional numbness at the Bank and in India to environmental matters," it continued. "The tendency seems to have been to justify rather than to analyze; to react rather than anticipate."<sup>13</sup> Despite the report's recommendation that the Bank withdraw from the project, and despite the fact that the U.S., Germany, Japan, Canada, Australia and the Nordic countries (with 42% of the vote) were in favor of suspension, the board of directors voted to continue.<sup>14</sup> A year later, when it looked like a majority of the board favored canceling the loan, the government of India decided not to ask for additional Bank funding of the project, which Rich explains was a face-saving effort for both the Indian government and the Bank.<sup>15</sup>

While this project generated a great deal of negative publicity and criticism of the Bank's environmental behavior, it was not the only one. A number of other projects have been criticized by environmental groups for ignoring the bank's environmental policies. These include the criticism of the controversial Arun III hydroelectric dam project in Nepal, which was ultimately canceled by World Bank president James Wolfensohn in 1994.<sup>16</sup> The Bank's forestry projects and energy projects have also been attacked for failing to follow the Bank's own policies.<sup>17</sup>

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<sup>12</sup>Ibid., p. xxi.

<sup>13</sup>Ibid., p. 226.

<sup>14</sup>Wade, "Greening the Bank: The Struggle over the Environment, 1970-95," p. 704.

<sup>15</sup>Rich, *Mortgaging the Earth*, p. 302.

<sup>16</sup>The Arun III dam project was criticized by NGOs as being too costly, thus using funding that might be better allocated elsewhere; for being too big, when a smaller, cheaper dams might be more appropriate; for producing much more electricity than the country needed, meaning that much of it would be exported to India; for not contributing to poverty alleviation in the country. Thus, while environmental groups again lead criticism of the project, their complaints were not directly tied to environmental issues. For one view on the Arun case, see Bruce Rich, 1997, "Epilogue: The Gorbachav of the World Bank?" Environmental Defense Fund. Photocopy.

<sup>17</sup>For analysis of the mixed outcomes of the World Bank's forestry policies, see Michael Ross, "Conditionality and Logging Reform in the Tropics," in *Institutions for Environmental Aid*, 167-197. On energy policy, see "Power Failure: A Review of the World Bank's Implementation of its New Energy Policy," (Washington DC: Environmental Defense Fund, Natural Resources Defense Council, March 1994). The EDF/NRDC report, for example, reviewed all of the Bank's power loans that were being prepared during the first half of 1993, and compared them to the Bank's new energy policies. In general, the majority of the Bank's power loans were found to be weak in their compliance to the Bank's policies.

Going beyond purely environmental debates, but certainly affecting them, was the 1992 in-house report commissioned by former World Bank President Lewis Preston to review the quality of the Bank's portfolio. The Bank's review team, lead by Willi Wapenhans, Preston's special advisor and a Bank vice president, found that the Bank's portfolio had steadily deteriorated over the years. Projects with "major problems" increased from 11% to 20% between fiscal 1981 to fiscal 1991. Citing the Bank's Operations and Evaluations Department, the report said the number of "unsatisfactory" completed projects increased from 15% of the sample reviewed in fiscal 1981 to 37.5% in fiscal 1991.<sup>18</sup> Project completion on average was almost two years over predictions. Borrowers' compliance with the legal covenants written into the loan agreements was "startlingly low." "Loan agreements," said the report, "do not induce the behavior expected and their credibility as binding documents has suffered."<sup>19</sup>

Other critics focus not on individual projects of the Bank, but rather on the Bank's overall emphasis on free-market policies, particularly through its structural adjustment lending (SAL), which calls for the promotion of conservative fiscal and monetary policies to help developing countries correct often deeply rooted domestic economic distortions. Critics of the Bank's environmental behavior argue that these loans, by liberalizing trade, promote exploitation of natural resources for export. They also argue that SALs do not address their environmental impact.<sup>20</sup>

To summarize, criticism of the World Bank's environmental behavior has tended to focus on a set of disastrous or potentially disastrous projects, other examples where the Bank does not follow its own policies, the negative side-effects of SALs, and evidence of poor project implementation, generally. It should be noted that none of these criticisms are watertight. Indeed, there is no analytical work outside the Bank that looks at a larger sample

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<sup>18</sup>*Effective Implementation: Key to Development Impact*. Portfolio Management Task Force. Confidential Report of the World Bank (Washington DC, September 22, 1991) p. ii.

<sup>19</sup>*Ibid.*

<sup>20</sup> David Reed, ed., *Structural Adjustment and the Environment* (Boulder: Westview Press, 1992).

of projects, to determine what percentage of the overall portfolio is environmentally problematic. Are the problem projects the exception or the rule? Nor is there much work, outside the Bank, that seeks to determine the extent to which change has taken place in the Bank's environmental behavior since it adopted a series of new environmental policies beginning in the late 1980s.<sup>21</sup> Finally, it is not clear that SALs are unilaterally negative with respect to the environment, since research on this topic has produced mixed results.<sup>22</sup>

The Bank's own evaluative work, in turn, does critically analyze environmental impact, but there are still no aggregate data to identify the percentage of projects that are "successful" or "unsuccessful," using specified environmental criteria. The Bank's Operations Evaluations Department, for example, takes a sample of completed projects each year, and analyzes them with respect to broad performance criteria.<sup>23</sup> A subset of projects that has environmental goals are analyzed as well. The OED reports provide examples of projects that have resulted in dramatic environmental improvement, but identify others where weak project design and preparation resulted in negative environmental impacts.<sup>24</sup>

The environmental behavior of the EBRD and EIB has also been criticized by environmental groups, but on a far smaller scale. In general, both banks have been attacked for doing a poor job of adhering to environmental procedures that the NGOs argue are already weak. In its 1992 report on the EIB's environmental behavior, the only published

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<sup>21</sup> One important exception is Wade, "Greening the Bank: The Struggle over the Environment, 1970-95." The Bank, meanwhile, has generated quite a library of publications to inform the public on its growing interest in and attention to environmental issues. It now has annual reports on its environmental activities, as well as an annual conference on environmentally sustainable development.

<sup>22</sup> Berg and Sherk, for example, point out examples where export crops result in less soil erosion than food crops. See Elliot Berg, Don Sherk, "The World Bank and its Environmentalist Critics," in *Bretton Woods: Looking to the Future* (Washington DC: Bretton Woods Commission, 1994), p. C-316. The World Bank's own work on SALs and the environment has concluded that SALs produce positive environmental benefits where environmental policies are already in place. Otherwise, the results were mixed. Currency devaluations, for example, generally raise farmgate prices, but the impact on the environment depended on which crops were encouraged as a result. See David W. Pearce and Jeremy J. Warford, *World Without End: Economics, Environment, and Sustainable Development* (New York: Oxford University Press, 1993), p. 316.

<sup>23</sup> Operations Evaluation Department, "1992 Evaluation Results," (Washington DC: The World Bank 1994), p. 4. Projects are evaluated by comparing outcomes with objectives, while factoring in any major changes that occurred during implementation. Evaluation re-estimates the project's economic rate of return, and analyzes the relevance of the project to the country and sector priorities, economic, environmental and institutional justification, and expected costs, among other criteria.

<sup>24</sup> Ibid.

report to date on that topic, WWF International argued that the bank's environmental procedures are informal and subjective, with no well-defined framework for outlining conditions for lending.<sup>25</sup> The Center for International Environmental Law, in turn, has criticized the EBRD for lacking an "overarching policy or criteria to guide its project lending," and for not adequately following its own procedures in some of its projects, such as the proposed Mochovce loan.<sup>26</sup> Environmentalists were particularly disappointed with the EBRD since it was the first MDB with the goal of promoting sustainable development built into its founding articles. To date, however, neither the EBRD nor the EIB has been accused of being involved in Polonoroeste-type debacles.<sup>27</sup>

#### *Explaining MDB environmental behavior*

The policy literature on MDB environmental behavior offers a vast number of explanations of why such behavior has occurred. In terms of the World Bank, some writers focus on a single factor, such as corporate culture, or the role of the Bank's president, or the Bank's emphasis on structural adjustment lending. Yet more often, existing explanations blame the Bank's struggle to implement its environmental policies on a host of factors, and it is difficult to untangle one potential cause from another, or to determine the importance of one factor versus another. The bulk of these explanations tend to fall into three categories: governance, incentives, and what Naim calls "goal congestion."<sup>28</sup> In fact, often these three main categories overlap, with arrows leading from any one of the categories to each of the other two, although causality is rarely specified. Many, but not all, of the debates raised in the policy literature are reflected in the broader theoretical debates on institutional behavior, which add depth and offer additional arguments to the former.

#### *Governance:*

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<sup>25</sup> Marianne Wenning, "Greening the European Investment Bank," WWF International Discussion Paper, December 1992.

<sup>26</sup> Goldberg, *The European Bank for Reconstruction and Development: An Environmental Progress Report.*

<sup>27</sup> See, for example, Reed, *Structural Adjustment and the Environment.*

<sup>28</sup> Moises Naim, "The World Bank: Its Role, Governance and Organizational Culture," in *Bretton Woods: Looking to the Future* (Washington DC: Bretton Woods Commission, July 1994), C-276.

While some earlier work on the World Bank argues that it is essentially the creature of the developed capitalist countries (particularly the U.S.) to promote their own political and economic interests,<sup>29</sup> much of the more recent work makes the argument that governance is in fact quite weak. The general argument is that the Bank's 24 Executive Directors represent over 170 countries, and do not have real control over the Bank's projects and policies. Board weakness is thought to be a result, in part, of structural and design-related variables: that is, there is high turnover, with directors appointed for renewable two-year periods, staying, on average, for three years; and most directors represent a number of countries (up to 25), which dilutes their ability to act on country preferences. The fact that the board brings together countries who are capital providers, and those who are capital users also creates a situation where country preferences often differ, which provides disincentives to cooperation on divisive issues. In an example of "bloc loyalty," borrower countries tend not to vote against loans for each other. Some critics, such as Rich, argue that the Board is weak by choice, that is as the political outcome of a tacit agreement between countries of the North, who seek to use the Bank as a way to address North-South relations, and a way to avoid dealing seriously with debt relief; and countries of the South, who are "addicted" to the Bank's loans.<sup>30</sup>

No matter what the cause is of board weakness, this view continues on to argue that the result is a relatively autonomous bank management and staff that lack incentive to be accountable to the board. As Naim, a former executive director of the WB, argues:

A divided board of overwhelmed directors, many of whom cannot afford to irritate the Bank's management, and usually leave by the time they begin to be more effective, is no match for a usually brilliant group of professionals with decades of experience at the Bank.<sup>31</sup>

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<sup>29</sup>Payer argues that the U.S. has "always been able to control the direction" of World Bank lending, and cites numerous examples of the U.S. imposing its wishes on Bank lending. See Cheryl Payer, *The World Bank: A Critical Analysis* (New York: Monthly Review Press, 1982).

<sup>30</sup>Rich, *Mortgaging the Earth*, p. 305.

<sup>31</sup>Naim, "The World Bank: Its Role, Governance and Organizational Culture," p. C-281.



A more extreme view of this argument is that the Bank has become a bureaucracy gone wild, a sort of "World Bankenstein" lacking accountability to shareholder countries.<sup>32</sup> George and Sabelli, in turn, call the World Bank a "total social phenomenon, a Thing," comparable to the medieval Church with "a doctrine, a rigidly structured hierarchy of preaching and imposing this doctrine and a quasi-religious mode of self-justification."<sup>33</sup> Other executive directors of the World Bank have been quoted as saying (in frustration over the Sardar Sarovar dam projects) that the Bank has shown "a profound lack of accountability to its shareholders" and has suppressed "information on controversial projects."<sup>34</sup> Therefore, even if major shareholders push for the Bank to better address environmental issues in its work, according to this argument, Bank management and staff can easily ignore the pressure.

The degree to which MDB management and staff are accountable or not to the bank's shareholders reflects broader academic debates about the sources of behavior within IOs. IOs can easily be expressed as a classic principal-agent relationship; they are created by states as a means of overcoming collective action problems, promoting cooperation, and creating advantages by delegating agents with the responsibility of carrying out their interests.<sup>35</sup> Yet in any principal-agent relationship there are opportunities for agency opportunism, since the fact that both the principals and the agents seek opportunities to maximize their interests creates an inherent tension between the two. This tension is likely to be intensified in organizations like MDBs, where principals have multiple and often ambiguous preferences, while the institution itself is responsible for distributing billions of dollars of resources.

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<sup>32</sup>Inspired by Greenpeace, "World Bankenstein: a monstrous institution." *Greenpeace*: October-December 1994, vol. 3, n. 4, p. 2 (1).

<sup>33</sup> George and Sabelli, *Faith and Credit: The World Bank's Secular Empire*.

<sup>34</sup>This is cited in U.S. Congress, Senate, Subcommittee on International Economic Policy, Trade, Oceans and Environment, Committee on Foreign Relations, *Statement of Bruce M. Rich on Behalf of Environmental Defense Fund, Friends of the Earth, National Audubon Society, National Wildlife Federation, Sierra Club Concerning Public International Financial Institutions: Environmental Performance and Management*, March 3, 1994. Rich attributes the quote to minutes from oral statements of the World Bank's Executive Directors, held 23 October 1992.

<sup>35</sup> D. Roderick Kiewiet and Mathew D. McCubbins, *The Logic of Delegation: Congressional Parties and the Appropriations Process* (Chicago: University of Chicago Press, 1991), Chapter 2.

The debates over who drives institutional behavior—principals or agents—are often presented as debates over how much autonomy agents exhibit when they carry out the activities delegated to them by their principals. The above view that bank management and staff are largely autonomous would be readily accepted by many neo-liberal international relations scholars or comparativists writing under the rubric of "Historical Institutionalism," who argue that IOs, once established, can "take on a life of their own and develop their own internal dynamics," or emphasize unintended consequences or path dependence in analyzing institutional development.<sup>36</sup> They will also argue that IOs transform state preferences.<sup>37</sup> Some scholars using principal-agent frameworks to analyze regulatory politics also subscribe to the "runaway bureaucracy thesis," or situations where lax principals allow regulatory bureaucracies to pursue their own goals.<sup>38</sup> Yet, scholars analyzing institutional autonomy are also aware that shareholding countries have the legal ability to reduce agency slack, or "rein" in the agents, if they choose to.

Structural realist international relations theorists, on the other hand, would strongly disagree with the weak governance argument above. Agents may have meaningful "slack," but this is a reflection of them doing their job; using their expertise to carry out what they believe the principals want them to do. Common opportunities for agent opportunism, such as hidden information and hidden action are dealt with through contract design, monitoring mechanisms and institutional checks.<sup>39</sup> This is one way to depict the views of structural realists, who argue that IOs are essentially the passive instruments of states, and that IOs have power and agency only to the extent that this is tolerated by their owners.<sup>40</sup>

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<sup>36</sup> Robert W. Cox and Harold K. Jacobson, *The Anatomy of Influence: Decision Making in International Organization* (New Haven: Yale University Press, 1973), p. 7. On historical institutionalism and other institutionalisms, see Peter A. Hall and Rosemary C. R. Taylor, "Political Science and the Three Institutionalisms," *Political Studies* 44 (1996): 952-973.

<sup>37</sup> Alexander Wendt, "Anarchy is What States Make of it: the Social Construction of Power Politics," *International Organization* 46, no. 2 (1992): 391-425.

<sup>38</sup> Mark A. Pollack, "Delegation, Agency, and agenda setting in the European Community," *International Organization* 51, no. 1 (1997), p. 109.

<sup>39</sup> Kiewiet and McCubbins, *The Logic of Delegation*, Chapter 2.

<sup>40</sup> Susan Strange, "Cave! hic dragones: a critique of regime analysis," in *International Regimes*, ed. Stephen Krasner (Ithaca: Cornell University Press, 1983): 337-354; also, Joseph Grieco, "Anarchy and the Limits of

Modified structural realists and neoliberal institutionalists argue that international institutions do more than simply reflect powerful state interests; they also provide important functions that transcend the simple Prisoner's Dilemma problem and encourage international cooperation. In Keohane's classic statement of this functionalist view, institutions establish patterns of legal liability, provide more symmetrical information and reduce transaction costs—the costs of bargaining, side payments, and reaching agreement on common issues. They do so by providing fora where states can repeatedly meet, which facilitates negotiations and thus promotes cooperation.<sup>41</sup> Nonetheless, while modified realists admit that institutions may be more than passive actors, they do not believe institutions have the ability to make authoritative decisions to bind states.

More recently, scholars have begun to look more closely at different organizational structures and forms, as a way of determining how a chosen form helped member states achieve their interests. Less attention is paid, however, to the impact different organizational forms themselves ultimately have on policy outcomes, or how existing institutions adapt to new policy mandates.<sup>42</sup>

I argue that both the weak governance argument and the structural/neo-realist arguments fall short in explaining MDB environmental behavior. A state-centered perspective appears to have some explanatory power, since there is a strong correlation between the presence of the pro-environment U.S. on the bank's board and the degree to which the bank attempts to tackle environmental issues. Such an explanation may also account for why the EIB, where the capital providers *are* the capital users for 90% of the Bank's lending, does not face pressure to pursue environmental conditionality in its work. Stated differently, why would

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Cooperation: A Realist Critique of the Newest Liberal Institutionalism," *International Organization* 42 (1988): 485-507.

<sup>41</sup> Robert O. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton: Princeton University Press, 1984).

<sup>42</sup> Also, on the importance of institutional form, see John Gerard Ruggie, "Multilateralism: The Anatomy of an Institution," in *Multilateralism Matters*, ed. John Gerard Ruggie (New York: Columbia University Press, 1993), 3-47. Also in this category are transaction cost theories of organizational structure. See Oliver Williamson, "The Economics of Organization: The Transaction Cost Approach," *American Journal of Sociology* 87, no. 3 (1981): 548-577.

its shareholders want their bank to tell them what to do?<sup>43</sup> In addition, there are clearly examples when shareholder countries have "reined" in the banks, when agency slack became uncomfortable. For example, in response to controversy over the Sardar Sarovar projects, major donors like the U.S. pushed the World Bank to set up an independent Inspection Panel to increase accountability by investigating complaints from people affected by the Bank's projects. The EBRD board, in turn, fired the Bank's first president, Jacques Attali, due to disappointment over his performance.

However, these explanations do not account for many important differences among the banks. In general, realist and neo-realist debates revolve around analysis of when and how states cooperate, in this case through multilateral fora. As a result, these scholars have the most to say about factors in the inter-state bargaining and negotiations process that lead to regime or IO formation and changes, but pay less attention to what happens *after* the IO agents have received their delegated responsibility, how their actual policy actions reflect or do not reflect these responsibilities, and what other factors may have an impact on how these are carried out. Realists would not see these aspects of the policy process as important as long as outcomes reflect the general tasks the agents are supposed to do. Yet, as we will see in Chapters 4-5, agents must often struggle with conflicting mandates, while institutional design and incentive systems greatly impact on the depth and scope of an MDB's response. There are also examples where the creation of policy activities undertaken by the World Bank that have changed the ways its major donors shape their own bilateral assistance to CEE.<sup>44</sup>

In addition, Chapter 4 will show how the governance structures of the MDBs makes it difficult for any state shareholder to translate its power into influence, i.e., that weak governance *is* a characteristic of the World Bank, as well as the other two banks, and that it does have an impact on institutional incentives. Thus, it is important to show *when* and *how*

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<sup>43</sup>By contrast, at the other two banks the richer shareholder countries, which provide the bulk of the banks' capital, have more say on the conditionality of loans going to poorer recipients, which are also shareholders.

<sup>44</sup>I refer here to the Environmental Action Programme for Central and Eastern Europe, mainly designed by the World Bank. It is discussed in Chapter 5.

shareholders exert influence on the bank's environmental behavior, and when and how they do not. This approach echoes some current work by historical institutionalists and other scholars examining the ways in which preferences shape institutions and vice-versa.<sup>45</sup> This focus has been evident in current scholarship on European integration, particularly among scholars exploring the relationship between European institutions and domestic policy and the conditions under which institutions pursue their own preferences versus following the wishes of their shareholding countries.<sup>46</sup>

In one incisive attempt to show how when and how each actor matters, Pierson argues that realist perspectives can explain political bargains at *specific points in time*, while an analysis of evolving processes reveals that institutions can function in ways not anticipated by their designers.<sup>47</sup> While member states are still the central decisionmakers in the process of European integration, their control is limited by a number of factors that create gaps in member state control, which gives other actors the ability to influence the integration process. These gaps are caused by factors such as: member states must allow EC organizations to have a degree of autonomy to complete their increasingly complex tasks; decisionmakers have short time horizons, which means that they often do not anticipate the long-term consequences of institutional design and reform, which also is one cause of unintended consequences of institutional behavior; and finally, member state policy preferences do shift over time, which can result in the institutional arrangements diverging from member states' original intentions. Pollack, in turn, argues that EC institutions are characterized by varying patterns of autonomy, since the efficacy and credibility of member state control mechanisms vary across institution, issue area, and over time.<sup>48</sup>

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<sup>45</sup>For a succinct discussion of preference-driven models versus institutional-driven models in explaining public policy formation, see Peter Alexis Gourevitch, "Squaring the Circle: the Domestic Sources of International Cooperation," *International Organization* 50, no. 2 (Spring 1996): 349-373.

<sup>46</sup>See, for example, Walter Mattli and Anne-Marie Slaughter, "Revisiting the European Court of Justice," *International Organization* 52, no. 1 (Winter 1998): 177-209.

<sup>47</sup>Paul Pierson, "The Path to European Integration," *Comparative Political Studies* 29, no. 2 (April 1996): 123-163.

<sup>48</sup>Mark A. Pollack, "Delegation, Agency, and agenda setting in the European Community," *International Organization* 51, no. 1 (1997): 99-134.

While many of these observations resonate with the case of MDBs, they are not sufficient in explaining the evolution of and variation in the banks' environmental behavior. This is because all three banks have relatively weak boards, and all three banks have a significant amount of autonomy to shape the way they carry out their environmental policy goals. Thus, we find that board weakness is a constant among the three banks. In order to determine why it is they carry out their environmental goals quite differently, we have to look beyond board politics and more deeply inside the institutions themselves.

*Other Institutional Incentives:*

The second set of explanations arising in the policy literature focuses on how institutional interests are shaped by institutional design, rules and rule-making procedures, through their impact on incentives facing bank staff. This view is usually presented as parallel to, and not dependent on, the weak board argument. Rich, for example, emphasizes lending pressure as the primary incentive faced by Bank staff, which discourages close attention to environmental issues. The pressure to make loans is attributed to specific lending targets that were initiated under Robert McNamara's stewardship of the World Bank (1968-1981), demand for loans from developing countries, and the always-present pressure for staff to find financially attractive, "bankable" projects. This has been a particularly important issue for the World Bank since the late 1980s when it began receiving more payments from LDCs than it was making in new loans to them.<sup>49</sup> The pressure to get loans out, writes Rich, is far stronger than any pressure for staff to be accountable for how those loans are implemented. Indeed, he argues that loan repayment has no connection to the quality of project implementation, since countries must repay the Bank whether or not the project is well implemented.

The Wapenhans Report, in explaining why the Bank's portfolio was performing so poorly, concurred, pointing its finger at "the Bank's pervasive preoccupation with new

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<sup>49</sup>This is called the "negative transfer" problem. See Rich, *Mortgaging the Earth*, p. 183.

lending" which it noted some have dubbed an "approval culture."<sup>50</sup> Quantity, it is argued, has become more important than project quality in the Bank's history. As Horberry has noted, Bank staff will resist new policy demands, such as environmental mandates, if they conflict with internal institutional interests, such as the need to move money.<sup>51</sup>

Other analysts turn attention to the issue raised earlier in this chapter of the tension MDBs face in pursuing their banking objectives versus their development objectives. Korten, for example, studying the negative impact of an Asian Development Bank loan for Philippines forestry projects, argued that the banking prerogatives can by themselves be environmentally destructive. Loans made by MDBs must be repaid in foreign exchange, which can create pressure for recipient countries to export natural resources.<sup>52</sup>

The arguments focusing on the impact of institutional incentives can be situated in a number of literatures that argue that what happens *inside* an institution, particularly rules and rule-making processes, and general institutional repertoires of behavior, are important in explaining institutional behavior. This focus can be found in branches of public choice institutionalism, such as the work of Shepsle, which shows how frameworks of rules, procedures and arrangements constrain and mediate individual preferences to shape outcomes.<sup>53</sup> Scholars applying principal-agent frameworks to understanding institutional behavior often base arguments about autonomy on analysis of how control mechanisms (administrative and oversight procedures) affect the degree of agency independence.<sup>54</sup> This focus is not unique to rational choice theory. Sociological organization theories and theories

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<sup>50</sup>Wapenhans Report, p. iii.

<sup>51</sup>John Horberry, "The Accountability of Development Assistance Agencies: The Case of Environmental Policy," *Ecology Law Quarterly* 12 (1985): p. 824.

<sup>52</sup>Frances F. Korten, "The High Costs of Environmental Loans," *Asia Pacific Issues: Analysis from the East-West Center*, no. 9 (1993): pp. 1-8.

<sup>53</sup> Kenneth A. Shepsle, "Studying Institutions: Some Lessons from the Rational Choice Approach," *Journal of Theoretical Politics* 1, no. 2 (1989): pp. 131-147. The public choice movement overall places much emphasis on how institutional arrangements explain collective choice. See James Buchanan and Gordon Tullock, *The Calculus of Consent* (Ann Arbor: University of Michigan Press, 1962).

<sup>54</sup>Kiewiet and McCubbins, *The Logic of Delegation*; also see Pollack, "Obedient Servant or Runaway Eurocracy?"

of bureaucratic politics also look inside the black box of the organization to explain behavior.<sup>55</sup>

Rational choice arguments tend to differ from the latter group in their underlying assumptions that institutions reflect aggregations of individual choice, versus the sociologists' view that institutions are embedded in cognitive, cultural, or political foundations. They also differ in their views on whether preferences are fixed and exogenous, or as March and Simon have argued, rationality is "bounded" by a lack of information, a great deal of uncertainty, and in general, people's limited ability to process information and solve problems.<sup>56</sup>

The debates relevant to the central questions of this dissertation would suggest that the ways in which environmental mandates are "hard-wired" into the MDBs, through rules, decisionmaking procedures, and other control mechanisms, should be explored to determine what role they play in explaining the banks' environmental behavior. Certainly, it provides a way of analyzing what the MDBs *do* with their delegated responsibility. While the vast majority of work by organizational theorists apply to the behavior of *all* organizations, or focus specifically on domestic government organizations or firms, recently there has been attention by international relations scholars on how some lessons or causal variables offered by organizational theory might apply to the study of international institutional behavior. Interestingly, much of this work has been prompted by growing analytical attention to the way international institutions have responded to global environmental issues.

In his analysis of global environmental governance, for example, Oran Young has argued that it is important to look at decision procedures, compliance mechanisms and

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<sup>55</sup>The most relevant sociological organization theory works include James G. March and Herbert A. Simon, *Organizations* (New York: John Wiley & Sons, Inc., 1958); James G. March and Johan P. Olsen, *Rediscovering institutions: the organizational basis of politics* (New York: The Free Press, 1989); and Walter W. Powell, Paul J. DiMaggio eds., *The New Institutionalism in Organizational Analysis* (Chicago: University of Chicago Press, 1991). On bureaucratic politics, see Anthony Downs, *An Economic Theory of Democracy* (New York: Harper & Row, 1957). On the importance of decisionmaking procedures, see Graham Allison, *Essence of Decision: Explaining the Cuban Missile Crisis* (Boston: Little, Brown, 1971).

<sup>56</sup>James G. March, "Bounded Rationality, Ambiguity, and the Engineering of Choice," *Bell Journal of Economics* 9, no. Autumn (1978): 587-608.



sources of revenue in determining the effectiveness of international institutions.<sup>57</sup> He contrasts these endogenous variables with exogenous variables that include the broad array of "physical, biological and social" conditions that make up the environment in which IOs operate. Some of the case studies highlighted in an edited volume by Keohane and Levy focus on the ways institutional design variables govern the extent to which financial mechanisms for environmental aid have either been effective or --more often--*in* effective in promoting environmental changes in poorer countries. Within this project, Connolly, Gutner and Bedarff, for example, have shown how environmental aid by the largest western donors to Central and Eastern Europe followed Cohen, March and Olsen's "garbage can" model, where new environmental protection goals were tacked onto pre-existing institutional objectives. Solutions have not necessarily fit the problems, and the result has been the neglect of certain priority problems in the region, duplication of assistance efforts, and failures in aid coordination.<sup>58</sup>

Ultimately, this area of research requires more empirical work to test and compare which design- and rule-related variables have the greatest impact on institutional behavior, and to determine how they do so. I find that design and rule-related variables are extremely important in shaping institutional incentives and explaining variation among the three banks in their efforts to carry out environmental objectives in their work. In particular, as Chapters 4-5 will show, variation in how "bank-like" or demand-driven an MDB is designed to be has an important impact on staff incentives, capacity and resources. For example, a less "bank-like" MDB will have more "green" bankers, people whose job is to actively search out and design environmentally-oriented projects. Where environmental staff are responsible for identifying environmental loans and designing projects at the early stages—that is, where they essentially act as environmentally-oriented bankers—, the MDB will produce more

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<sup>57</sup>Oran Young, *International Governance: Protecting the Environment in a Stateless Society* (Ithaca: Cornell University Press, 1994), p. 154.

<sup>58</sup> Connolly, Gutner, Bedarff, "Organizational Inertia and Environmental Assistance to Eastern Europe," p. 282. On the garbage can model, see Michael D. Cohen, James G. March et al., "A Garbage Can Model of Organizational Choice," *Administrative Science Quarterly* 17 (1972): 1-25.

stand-alone environmental projects. Where there is a separate environmental appraisal unit with power to change the shape of a loan as it is being designed, the MDB will be more proactive in its environmental work. Environmental research done by the MDBs in turn, is less closely linked to project outcomes.

*Recipient country incentives*

Curiously, analyses of MDB environmental behavior do not pay much attention to incentives from the perspective of the recipient country; that is loan recipients may have little or no interest in caring about the environmental components of loans, or stand-alone environmental projects, and may thus block the bank's ability to implement its environmental policies. The fact that recipient country political support may affect what is perceived as the bank's environmental behavior is occasionally touched upon. For example, Rich and Aufderheide noted in a 1988 article:

Even (World Bank) bureaucrats with the best intentions often have their hands tied. The policies they implement are frequently shaped by political pressures that these functionaries are generally powerless to confront or alter....even well-intentioned forestry experts within the World Bank may be thwarted in their efforts by their counterparts in recipient countries, since national forestry agencies are often staffed by individuals who profit from deforestation.<sup>59</sup>

George and Sabelli have also noted that the World Bank often has a difficult time in convincing recipient countries to accept environmental conditionality. "Borrower governments," they wrote, "read environmental protection clauses in loan agreements as code for 'this project is going to cost us a lot more and will include completely superfluous but mandatory components we'll have to pay for.'"<sup>60</sup> Indeed, ministers of 41 developing countries declared their opposition to environmental conditionality in a June 1991 preparatory meeting ahead of the 1992 UNCED conference.<sup>61</sup>

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<sup>59</sup>Pat Aufderheide and Bruce Rich, "Environmental Reform and the Multilateral Development Banks," *World Policy Journal* 5 (Spring 1988), p. 306.

<sup>60</sup>George, Sabelli, *Faith and Credit*, p. 169.

<sup>61</sup>Cited in Nelson and Eglinton, *Global Goals, Contentious Means*, p. 24.

These issues are not well explored in the policy literature on MDBs and the environment, most likely because many of the author-advocates are more intent on producing changes at the bank level, with a focus on institutional design, governance, and performance issues. In other words, many of the policy advocates focus on the *supply* of environmental projects and policies by MDBs rather than the *demand* for such projects and policies. However, the interests of recipient countries and their impact on the ability of IOs to carry out their work is addressed in the broader policy literature on MDB conditionality, and aid effectiveness, which provides some hypotheses that are examined in this study.

Studies focusing on the implementation of donor policies and projects in recipient countries highlight three key variables that appear to explain how incentives at the recipient's level influence the effectiveness of project implementation. First, and not surprisingly, is the argument that donor policy goals are unlikely to be met unless they intersect with the recipient's own priorities.<sup>62</sup> This can either occur through the existence of a set of mutually agreeable policy goals, or more likely as a result of bargaining between the two sides. Mosley, Harrigan and Toye, analyzing the efficacy of World Bank policy-based lending (or structural adjustment loans), show how conditionality is a bargaining game, where the donors are interested in seeing their policy choices carried out, while the recipients resist any conditions that differ from their own policy preferences.<sup>63</sup> The outcome of bargaining between the two cannot be pre-determined; it depends on the actors' strategies, as well as the external environment. Recipients or donors may have stronger bargaining positions in some cases versus others. Studies of project effectiveness also conclude that aid conditionality is most likely to make inroads in cases where it strengthens domestic interest groups, or the political authority of officials committed to the same goals.<sup>64</sup>

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<sup>62</sup>Barbara Connolly, "Increments for the Earth: The Politics of Environmental Aid," in *Institutions for Environmental Aid*, p. 328. For an excellent analysis of the ways in which lessons from the economic development literature are salient to environmental aid, see David Fairman and Michael Ross, "Old Fads, New Lessons: Learning from Economic Development Assistance," in *Institutions for Environmental Aid*, pp. 29-51.

<sup>63</sup>Paul Mosley, Jane Harrigan, and John Toye, *Aid and Power: The World Bank and Policy-based Lending*, 2 vols., vol. 1 (New York: Routledge, 1991), p. 69.

<sup>64</sup>Ross, "Conditionality and Logging Reform in the Tropics," p. 189.

Since economic restructuring is a primary goal of Central and Eastern European governments, we would expect to see donors making more inroads on environmental issues in their public sector lending where the policy changes desired also contribute to economic restructuring, which is clearly the priority of governments in the region. In other words, recipients will be more accepting of projects or policies with environmental components where these projects also have important economic benefits. A key example of this is the call by most MDBs for governments to reduce price subsidies on energy. The removal of subsidies is an important step toward economic liberalization and away from price distortion. On the environmental side, it would reduce air pollution by reducing demand for energy, and also would encourage more efficient use of energy. Reducing subsidies on coal, the primary source of energy for many countries in CEE, also increases the attractiveness of alternative, cleaner sources of energy, such as gas.

In the case of MDB activity in CEE, what is interesting is that the set of MDB projects that benefit the economy and the environment also happen to be the same set of projects that do not necessarily require new behavior from the banks. In other words, these are activities where it is the banks' economic and environmental mandates may already overlap. The lessons from these observations focus attention on the need to analyze the MDBs' portfolios to determine: 1) if they have evolved in the ways loans are designed in areas where traditional economic criteria overlap with new environmental criteria in order to better address relevant environmental issues; and 2) if they attempt to push *beyond* the joint set of activities most preferred by recipients on economic grounds, as a way to better tackle local, regional or global environmental problems.

The second variable of key importance in determining project success is the administrative capacity of the recipient at the national, sub-national, or even firm level (in the case of private sector loans), to help carry out implementation.<sup>65</sup> The best-designed projects

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<sup>65</sup>For an excellent explication on different forms of capacity, see Connolly, "Increments for the Earth: The Politics of Environmental Aid," p. 345.

will fail if the recipient does not have the ability to help implement them and maintain them, once funding ceases.<sup>66</sup> On one hand, this variable is not likely to point to significant variation among the banks. Projects from all three banks are likely to suffer more in countries with weak administrative capacity, and have a greater chance of success in countries with stronger domestic capacity. On the other hand, we can still compare portfolios to determine how capacity issues are dealt with in project design. MDBs paying greater attention to building domestic capacity in cases where it is weak may have better luck in implementing the environmental components of their work.

The third variable important in determining effective project implementation is the way donors manage potential principal/agent problems to insure that implementing agents carry out projects as planned. This refers to the accountability system set up by the MDBs, which, in addition to rules embodied in loan covenants, includes systems of reporting, monitoring, and evaluating projects. MDB projects can be compared at this level to see the extent to which the banks follow through with their work once the loan agreements have been signed and money has been disbursed. Such comparison is important in revealing the degree of "slippage" that occurs in the implementation of bank projects.

*Goal Congestion:*

Some analysts argue that the key factor inhibiting the World Bank from being more effective in fulfilling its policy goals is the fact that the sheer number of goals has mushroomed to a level that makes it virtually impossible for the institution to meet them all, which results in what Naim calls "goal congestion" and "mission ambiguity."<sup>67</sup> This proliferation is the result of a diverseness of views among donor countries, recipient countries and bank staff and management about what the primary priorities of the institution should be, along with the Bank's inability to shed old goals as it moved to adopt new ones. As Naim notes:

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<sup>66</sup>Ibid., p. 328.

<sup>67</sup>Naim, "The World Bank: Its Role, Governance and Organizational Culture," p. C-276.

In the case of the World Bank, the lack of consensus about its basic mission, limitations in its governance system, and other conditions have led to a proliferation of goals--which in turn has had important organizational repercussions....Organizations like the Bank--large, complex, relatively autonomous, and with a significant capacity to influence its environment--can postpone, or even avoid, the difficult decisions required to minimize incongruities between strategy and internal organization.<sup>68</sup>

From a slightly different angle, other analysts argue that it is not necessarily the number of competing ideas and proliferating goals that matters, but rather the existence of too many parties to which the Bank must be accountable. Horberry's argument is essentially that too many cooks spoil the broth. International agencies, he argued, are accountable to donor governments, recipient governments, funding sources, and other actors involved in the process of planning and implementing development aid. As a result, the agencies are "unable to achieve every objective or satisfy all of the interested parties."<sup>69</sup> In the face of conflicting demands, the agencies "tend to pay lip service to the general objectives of new policies without dramatically changing the actual management of their programs."<sup>70</sup>

In some ways, this argument offers a challenge to the "weak governance explanation." In this case, the argument implies that the institution is struggling to be accountable to a plethora of policies and sources, while the former argument implies that the institution chooses not to be accountable to its owners. Yet, the outcome of both arguments are the same; the result of either source of ambiguity increases the autonomy of the Bank's staff and its ability to shape the Bank's strategies and policies.<sup>71</sup>

Curiously, this vein of argument has no direct parallels in the broader institutional literatures, although it clearly bolsters arguments by neo-liberal and comparativist scholars

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<sup>68</sup> Ibid., p. C-273.

<sup>69</sup> Horberry, "The Accountability of Development Assistance Agencies: the Case of Environmental Policy," p. 818. For another statement of this view, see the article by a former Vice President and Treasurer of the World Bank. Eugene H. Rotberg, "Financial Operations of the World Bank," in *Bretton Woods: Looking to the Future* (Washington DC: Bretton Woods Commission, July 1994): C-185-214.

<sup>70</sup> Horberry, "The Accountability of Development Assistance Agencies: the Case of Environmental Policy," p. 833. Also see Judith Tendler, *Inside Foreign Aid* (Baltimore: Johns Hopkins University Press, 1975). Rich also offers a similar argument; Rich, *Mortgaging the Earth*, p. 191.

<sup>71</sup> William Ascher, "New Development Approaches and the Adaptability of International Agencies: the Case of the World Bank," *International Organization* 37, no. 3 (Summer 1983), p. 437.

who stress the importance of path dependency and unintended consequences. It is an argument that requires greater exploration through empirical research. On one hand, it appears to have little explanatory power vis-a-vis the Bank's environmental behavior, in terms of portfolio development. This is because the World Bank clearly has more goals and mandates to juggle than the other two MDBs, yet I will argue that this has not appeared to hurt the World Bank relative to the others in its planned environmental activities in Central and Eastern Europe. Indeed, the World Bank appears to be significantly more active than the other two in marrying environmental and economic project and policy goals, despite its higher degree of "goal congestion." On the other hand, the plethora of policy goals facing the Bank appears to be a factor that makes well-designed projects difficult to actually implement. In other words, while goal congestion has not stopped the World Bank from developing a respectable project portfolio, and engaging in a number of other environmental policy activities in CEE, it may contribute to a gap between the environmental considerations built into project designs and the extent to which they are carried out in practice, as well as the speed at which projects can be implemented. The findings of this dissertation show that it is not the "congestion" that matters per se, as the existence of *conflicting* objectives. A small number of conflicting objectives, such as those that faced the EBRD in the proposed Mochovce loan, are sufficient to create difficulties in an MDB's ability to implement its policies.

## **Conclusion**

This chapter has shown the ways in which the MDB-centric literature and the broader scholarly literature intersect and also diverge in their emphases and arguments. More importantly, in examining the explanations offered by each, I argue for the importance of linking explanations that seek to explain how donor preferences and institutional variables interact in explaining institutional behavior. Single variable explanations may explain a piece of the picture, but are not sufficient to address the complexity of how donor politics and

institutional design and incentives shape MDB behavior. This argument is expanded in subsequent chapters.



## Chapter Three

### Bargaining and Delegation: The Birth of Environmental Mandates

Multilateral development banks, traditionally most comfortable with making loans to creditworthy counterparts for projects that combine the expertise of economists and engineers to promote economic development, are now bending over backwards to show how "green" they have become. In recent years, attention to environmental issues has become an important goal for the World Bank, EBRD and EIB—at least in rhetoric. The changes are most evident at the World Bank, where there has been an explosion of environmental policy activity and lending over the past decade. The EBRD, the youngest of the three, has an environmental mandate built into its charter, which requires it to promote "environmentally sound and sustainable development" in its activities. The EIB, in turn, points out that financing environmental projects is "a major activity of the Bank," and that "the environmental issues of project financing" are "a major concern."<sup>1</sup> At a broad level of analysis, the three banks share the same two *basic* environmental objectives: they seek to address and mitigate potentially adverse environmental impacts in their projects, and they seek to fund projects with major environmental components or goals. Yet, as is shown throughout the dissertation, the ways the banks define these two goals and seek to carry them out differ considerably. Moreover, there is variation in the degree to which they move beyond these broad objectives to develop more comprehensive strategies for addressing environmental issues.

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<sup>1</sup>EIB, *Environmental Policy Statement*, 1996, p. 4.

In analyzing the sources and impacts of these differences, the first step is to determine how and why it was that these banks came to take on new environmental policy goals. This chapter examines the political and ideational forces that resulted in the banks' adoption of explicit environmental policy goals, and then lays out what those goals now are. What does such an exercise tell us? The determination of how new policy issues find their way onto the MDB policy agendas reveals the strength of each bank's apparent commitment to environmental issues; it also says something about the clarity of the commitment. We see what types of forces drive the MDBs to take on a new set of issues, and what the banks *say* they hope to do in addressing these issues in their work.

Recalling the continuum presented in Table 1.2, with respect to MDB commitment to environmental issues, if an MDB starts out with a minimal commitment, we should expect it to label as "environmental" the types of MDB projects it has always done that may also have a positive impact on the environment. These are projects that benefit both economic development and environmental management. For an MDB with a minimal commitment, it would not be surprising to see little change in its standard operating procedures and portfolio of activities. Alternatively, if an MDB has a strong commitment to addressing environmental issues in its work, then we should expect to see its activities move beyond its traditional set of projects, as well as to see some accommodating shift in its procedures, design, and incentives systems so that it can fulfill this commitment. In other words, by determining the source and depth of the Bank's commitment, we can see whether the bank's *intention* is simply to attach new environmental goals onto pre-existing economic development objectives or to actually change the way it goes about its business. Chapter 4 examines this translation process, and highlights the sources of gaps that occur between commitment and policy actions.

This chapter argues that pressure from major shareholder countries, usually supported or pushed by environmental NGOs, is a key factor in determining how seriously an MDB will decide to address environmental issues in its work. The preferences of powerful

principals are central variables in determining the depth and scope of an MDB's environmental commitment. While environmental policy goals can initially be generated by bank actors, these tend to languish and atrophy when not backed by external support or pressure. A strong show of environmental commitment was therefore not initially, spontaneously generated by bank staff, although once a bank's internal environmental actors are in place they can play a critical role in the evolution of these goals.

Where there is evidence of major shareholder pressure for change, it has been prompted by pressing problems, or what Kingdon calls "focusing events" that capture the attention of major shareholders. The chapter shows that for the World Bank, the existence of several projects publicized by NGOs as environmental disasters gave these organizations ammunition to successfully heighten Congressional awareness of the Bank's weak environmental accountability, and unleash U.S. pressure on the Bank to revise its environmental goals. In the case of the EBRD, donor awareness of the enormous environmental problems facing former Communist countries seeking to embark upon economic reform put environmental issues high on the agenda of those negotiating the new Bank's articles of agreement. Again, U.S. influence, backed by NGO support, was quite visible. For the EIB, the absence of such a "focusing event" is one important reason why there has never been strong shareholder pressure on the Bank to be more ambitious in its environmental objectives. The absence of the environmentally-activist U.S. on the EIB's board is also part of the explanation for that Bank's relatively quiet environmental stance.

My argument thus partially draws on John Kingdon's model of policy formation. In analyzing agenda-setting processes in the U.S. federal government, Kingdon sets out a revised version of the Cohen, March and Olsen "garbage can" model of organizational decisionmaking. He argues that important policy changes occur when independent process streams of problems, policy options and politics join together at a "critical juncture," most often when a "policy window" opens due to a compelling problem or changes in political

factors such as interest group pressure.<sup>2</sup> For the World Bank and EBRD, the problems are the above-mentioned environmental "focusing events," while the politics includes U.S. pressure, bolstered in the case of the EBRD by support from other "pro-environmental" shareholders, and in neither case hindered by any major opposition from others. The basic policy options considered at these junctures include a commitment to conduct environmental due diligence for all projects, and to seek out stand-alone "environmental" projects, although how these actually work has evolved over time.

This chapter shows the role shareholder politics and preferences have played in shaping each MDB's environmental objectives. It argues that the EIB is the "lightest green" of the three MDBs, with the most minimal set of environmental objectives, while the World Bank has moved along the continuum throughout its lifetime from a "light green" position to a more comprehensive, integrative set of policy goals. The EBRD lies between the two. Unlike the other two MDBs, the EIB does not make special efforts to identify projects that go beyond its traditional lending areas. It also follows EU public participation rules, but as we will see in the next chapter, these rules are not easily translatable in Central and Eastern Europe.

The remainder of this chapter examines the politics of how and why each bank decided to address environmental issues in its work, and describes and compares each bank's basic environmental policy goals. It discusses each bank separately, beginning with a brief, introductory section of the institution that sets out its primary characteristics and mission. Next, it analyzes the politics of how each bank decided to develop its environmental policies. Finally, the chapter describes each bank's environmental policies, and shows how differently they each define what they consider to be "environmental."

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<sup>2</sup>John W. Kingdon, *Agendas, Alternatives, and Public Policies* (Boston: Little, Brown and Company, 1984), particularly Chapter 8. The Cohen-March-Olsen model has four streams (problems, solutions, participants, and choice opportunities), compared to Kingdon's three streams. Kingdon's model also emphasizes patterns and structure in the linking of these processes, where as the earlier model takes a more anarchical view. On the garbage can model, see Michael D. Cohen, James G. March, and Johan P. Olsen, "A Garbage Can Model of Organizational Choice," *Administrative Science Quarterly* 17 (1972): 1-25.

## The MDBs and their Environmental Mandates

### The World Bank:

#### *Basic Mission and Lending Policy*

The World Bank is the biggest single creditor for developing countries and countries in transition, now lending over \$20 billion annually. It is the oldest MDB, and the only one with a truly global scope.<sup>3</sup> With an expert staff of over 10,000, it is a major source of policy advice and technical assistance for borrowers. The Bank, along with its sister institution, the IMF, was born in 1944 at Bretton Woods, New Hampshire, before World War II had ended, when representatives of 44 countries met to lay the foundation for the post-war economic order.<sup>4</sup>

The Bretton Woods institutions, which opened their doors in 1946, were created to promote economic cooperation, growth and stability, thus avoiding any return to the beggar-thy-neighbor trade practices from the pre-war years. While both multilateral institutions would be owned and run by national governments, their governance was clearly dominated by the U.S. The U.S. both proposed the initial concept of the Bank, and played a leading role in its design. Indeed, as Gwin notes, there has been a "strong and enduring American imprint on all aspects of the Bank, including its structure, general policy direction, and forms of lending."<sup>5</sup> With the U.S. providing most of the money to start the Bank, its delegation

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<sup>3</sup>In addition to the EBRD and EIB, the World Bank's sister regional MDBs include the Inter American Development Bank, established in 1959; the African Development Bank, established in 1964; and the Asian Development Bank, established in 1966. The EIB, does not tend to think of itself as an MDB. However, as a multilateral institution owned by state shareholders with a goal of promoting regional development in Western Europe, which also operates globally, for the purposes of this dissertation, the EIB clearly can be defined as an MDB.

<sup>4</sup>For histories of the World Bank, see: Devesh Kapur, John P. Lewis, and Richard Webb, eds., *The World Bank: Its First Half Century*, 2 vols. (Washington DC: The Brookings Institution, 1997); Edward S. Mason and Robert E. Asher, *The World Bank Since Bretton Woods* (Washington DC: The Brookings Institution, 1973); Catherine Gwin, *U.S. Relations with the World Bank*, (Washington DC: The Brookings Institution, 1994); Jochen Kraske, William H. Becker, William Diamond et al., *Bankers with a Mission: The Presidents of the World Bank, 1946-91* (Washington DC: Oxford University Press, 1996); Susan George and Fabrizio Sabelli, *Faith and Credit: The World Bank's Secular Empire* (Boulder: Westview Press, 1994); Bruce Rich, *Mortgaging the Earth: The World Bank, Environmental Impoverishment, and the Crisis of Development* (Boston: Beacon Press, 1994).

<sup>5</sup>Catherine Gwin, *U.S. Relations with the World Bank*, p. 3.

was also able to ensure that the Bank would be located in Washington DC. From the beginning the president of the WB has been American, while the head of the IMF is European.

According to the Bank's Articles of Agreement, it would operate by guaranteeing or making loans for projects for reconstruction or development. In practice, the Bank focused on direct government lending, backed by sovereign guarantees, since governments preferred to borrow directly from the Bank, rather than guarantee private sector lending by the Bank. The Bank would be owned by its shareholder governments, and voting power was determined by the size of each country's capital subscription to the Bank.<sup>6</sup> The U.S. began with a 34.9% stake in the Bank.<sup>7</sup> Although that stake has declined over the years, (reaching 17.2% by fiscal 1996), the U.S. has remained the Bank's single largest shareholder and most influential board member. Beginning with authorized capital of \$10 billion, out of which members subscribed \$7.5 billion, the Bank committed itself to conducting its activities "with due attention to considerations of economy and efficiency and without regard to political or other non-economic influences or considerations."<sup>8</sup> Loans and guarantees would be funded by the shareholders' capital subscriptions, plus principal and interest payments on loans, and later (and most importantly), funds raised from international capital markets.

Over the years, the ways in which the World Bank has chosen to promote development in its lending assistance have evolved considerably. The Bank is no stranger to shifts in its institutional goals and missions. Its formal name, the International Bank for Reconstruction and Development (IBRD), reflected the dual-emphasis desired by its founders. In the Bank's first year or so, the financing of post-war reconstruction was its primary function, but any possible tensions between the two different priorities were soon displaced by the Marshall

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<sup>6</sup>Ibrahim F.I. Shihata, *The World Bank in a Changing World: Selected Essays and Lectures*, vol. II (Boston: Martinus Nijhoff Publishers, 1995), p. 7.

<sup>7</sup>World Bank Articles of Agreement, in Mason and Asher, *The World Bank Since Bretton Woods*, p. 779.

<sup>8</sup>Article III, Section 5 (b).

Plan.<sup>9</sup> The Bank's early emphasis was on promoting big, public sector, capital infrastructure projects, such as railways, roads, ports, power plants, and communications equipment, as a way to create a foundation for private sector investment, and hence economic growth. As Mason and Asher note in their seminal history, the early years were characterized by a narrow conception of development, and an overall "lack of attention to development analysis."<sup>10</sup>

In the 1950s and 60s, as the Bank's focus shifted toward addressing the challenges facing developing countries, its view of development widened and the methods it used to achieve its goal of promoting economic development also evolved.<sup>11</sup> Over the next decade two of its three affiliates were created. The International Finance Corporation (IFC), established in 1956, as the Bank's private sector lending arm, with the ability to lend without government guarantees; and the International Development Association (IDA), was established four years later to provide highly concessional financial resources to the poor countries unable to qualify for regular Bank loans.<sup>12</sup> The Bank began to extend its activities in agriculture, industry and even in education lending. During Robert McNamara's 13-year tenure (1968-81), the Bank's central mission shifted from "closing the gap between industrial and developing countries to alleviating world poverty," and its staff and lending volume increased sharply.<sup>13</sup>

The emphasis on poverty alleviation and the advancement of basic human needs resulted in expanded programs for rural and urban development, later criticized as in fact

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<sup>9</sup>Nonetheless, the Bank's first four loans were to France, the Netherlands, Denmark and Luxembourg, to help with reconstruction purposes.

<sup>10</sup>Mason and Asher, *The World Bank Since Bretton Woods*, p. 467.

<sup>11</sup>For an excellent and critical account of the Bank's interactions with and contributions to the field of development economics, see Nicholas Stern and Francisco Ferreira, "The World Bank as "Intellectual Actor", in *The World Bank: Its First Half Century*, ed. Devesh Kapur, John P. Lewis, and Richard Webb (Washington DC: The Brookings Institution, 1997), 523-610.

<sup>12</sup>The Bank's third affiliate, the Multilateral Investment Guarantee Agency, was set up in 1988 to insure private sector investors against non-commercial (political) risks in LDCs. Together these institutions comprise The World Bank Group. "The World Bank," in fact, tends to refer to the IBRD and IDA.

<sup>13</sup>During McNamara's tenure, the Bank's staff size more than tripled, from 1,600 to 5,700, and its lending shot up to over \$13 billion from around \$1 billion. Kraske et al., *Bankers with a Mission*, pp. 179, 213.

resulting in few benefits for the poor. In the early 1980s, among other changes, the Bank embarked upon the controversial non-project, structural adjustment lending (SALs), or lending to support macroeconomic policy changes. The list of policy objectives continues, and includes a much greater emphasis on private sector development, work on the promotion of opportunities for women, energy conservation, governance reform, trade liberalization, and, of course, the environment. During the 1990s, poverty alleviation remained one of the Bank's central development objectives, while "sustainable development" moved up as the second major plank.

Of the three MDBs studied here, the World Bank is the least "bank-like," as Chapter 4 will show in greater depth. It undertakes the most in-depth profile and assessment of each borrower's economic situation, prospects and salient issues, as the basis on which it communicates with recipient countries. It also develops country assistance strategies, where it sets out the critical issues it will address in the country, with varying degrees of input from the borrower, and until recently, little if any input from the Bank's own board of directors. The IBRD's lending is aimed at government agencies and requires sovereign guarantees. Structural adjustment lending, in particular, is conditioned on macroeconomic policy reforms. The Bank also invests in sectors not addressed by the other two MDBs, such as education, primary health care, and even family planning. The Bank is also a major source of policy advice and technical assistance to borrowing countries. More than the other two MDBs (indeed, any other MDB), the World Bank has an intellectual life, and a vast research arm, with a research budget that is now around \$25 million a year.<sup>14</sup> At times, the Bank has been on the cutting edge of research in areas such as country analysis, and the functioning of rural markets. Indeed, some of the data it collects, such as the World Development Report

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<sup>14</sup>Nicholas Stern, Francisco Ferreira, "The World Bank as 'Intellectual Actor,'" p. 523.



data tables, have been seen by development economists as "profoundly influential" in the their field.<sup>15</sup>

### *Birth and Evolution of the Environmental Initiative*

There are two distinct periods in the history of the Bank's environmental thinking. The first period, 1970-87, marks the birth of an explicit environmental initiative. This period established the Bank as a pioneer among multilateral institutions in thinking about how to address environmental issues in its work. However, the rhetoric was poorly translated into action, and the weak way in which this initiative was institutionalized offered very limited results. The second period, 1987 to the present, has been a period of significant change in the ways in which the Bank has acted upon environmental issues in its work and policy advice, and a notable evolution in the Bank's environmental policies and procedures.

What is most striking about the World Bank is the extent to which its environmental activities and thinking have evolved in just the past decade. Environmental policy behavior at the Bank is hardly static, and the biggest challenge facing the Bank is in how to successfully institutionalize the evolving ideas it produces. It has evolved from an institution with a tiny environmental office seeking to analyze the environmental implications of Bank projects at a late stage of the project cycle when changes to project design were hard to implement, to an institution that was by 1996 financing \$11.5 billion dollars of projects with primary environmental objectives, including pollution reduction, natural resource management, and institutional capacity building for national and local institutions. It is also the leading implementing agency of the Global Environmental Facility, and the Montreal Protocol's Multilateral Fund, through which it funds projects promoting biodiversity,

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<sup>15</sup>Ibid. Stern, who later became the chief economist at the EBRD, has interacted with the Bank for over 20 years. He pointed out the Bank's leading role in analyzing China's economy in the 1980s, and said the Bank's work in agriculture has been important over the years in producing new ideas. In other areas, where the Bank may not be on the cutting edge of research, it does play a role in bringing together ideas, and research results. The Bank publishes two journals--the *World Bank Economic Review* and *World Bank Research Observer*. It also holds numerous conferences. In addition, its Economic Development Institute, set up in 1956, trains senior government officials.

renewable energy projects, and investments to help the phaseout of ozone-depleting substances, among other areas. The story of the evolution of the Bank's environmental policy goals owes much to the entry of significant U.S. pressure in the late 1980s—from Congress and from the Treasury, which was strongly aided, supported, and pushed by a group of environmental NGOs.

### 1970-87<sup>16</sup>

The Bank's first explicit foray into addressing environmental issues originated with Robert McNamara in 1970. That year, McNamara announced that development institutions faced the challenge of helping LDCs "avoid or mitigate some of the damage economic development can do to the environment, without at the same time slowing down the pace of economic progress."<sup>17</sup> He set up a new unit in the Bank to address this issue: the Office of Environmental and Health Affairs, which soon became the Office of Environmental Affairs (OEA).<sup>18</sup>

A few important factors account for the timing of this decision. First, the 1960s gave birth to active environmental movements in the West, reflecting a sharp increase in popular concern about environment issues.<sup>19</sup> Rachel Carson's best-selling 1962 book, *Silent Spring*, on the impact of pesticides on human health, is often referred to as catalyzing the

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<sup>16</sup>This section draws on two detailed histories of the Bank's environmental policies. See Robert Wade, "Greening the Bank: The Struggle over the Environment, 1970-95," in *The World Bank: Its First Half Century*, ed. Devesh Kapur, John P. Lewis, and Richard Webb, pp. 611-736; Philippe G. Le Prestre, *The World Bank and the Environmental Challenge* (Cranbury, NJ: Associated University Presses, 1989).

<sup>17</sup>In defining the Bank's goals for the decade, McNamara called for continued attention to be given to issues such as population planning, education, and agriculture, and argued for a more active Bank role in addressing the interrelated problems of unemployment, urbanization, and industrialization. See Robert McNamara, "To the Board of Governors, Washington, DC, 29 September 1969." In *The McNamara Years at the World Bank: Major Policy Address of Robert S. McNamara 1968-1971* (Baltimore: Johns Hopkins University Press, 1981), pp. 69-74. His comments on the environment were made during a speech at a session of the United Nations Economic and Social Council. Cited in Le Prestre, *The World Bank and the Environmental Challenge*, p. 19.

<sup>18</sup>By the early 1980s, the name had changed once more, to the Office of Environmental and Scientific Affairs.

<sup>19</sup>For most LDCs at the time, economic growth was the overwhelming priority and environmental worries were thought to be a rich country problem. For more in-depth analyses of the rise of environmentalism and global environmental concerns, see Lynton Keith Caldwell, *International Environmental Policy: Emergence and Dimensions*, 2nd rev. ed. (Durham, North Carolina: Duke University Press, 1990), and Tony Brenton, *The Greening of Machiavelli* (London: The Royal Institute of International Affairs, 1994).

new environmental consciousness. In the early 70s, countries around the world were preparing for the first United Nations theme conference, the 1972 United Nations Conference on the Human Environment (UNCHE, or the Stockholm Conference), which publicized global environmental issues, and gave birth to the United Nations Environment Programme (UNEP).<sup>20</sup> The conference's main organizer, Maurice Strong, called on the World Bank to help define the issues that would be discussed at the conference. Robert Wade pointed out that the "Declaration, Principles and Recommendations" produced by the conference was based on an early document (the Founex Report), which was "largely drafted" by a small group of World Bank officials.<sup>21</sup> Furthermore, McNamara himself gave the conference's keynote speech.

Other intellectual and political factors also shaped McNamara's decision. Le Prestre and others have pointed out the "direct influence" of McNamara's close friend, Barbara Ward, who pushed for the World Bank to be active in addressing environmental issues.<sup>22</sup> Ward, who later established the International Institute for Environment and Development, also co-wrote a "conceptual framework" commissioned for the Stockholm conference.<sup>23</sup>

Finally, the U.S. was interested in a greater examination of environmental issues, and supported movement by the Bank on this front. In 1969, the U.S. Congress passed the National Environmental Policy Act, which obligated federal agencies to prepare Environmental Impact Statements on proposed programs that might have a significant impact on the environment.<sup>24</sup> As Le Prestre notes, the Bank closely watches the actions of its

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<sup>20</sup>The Soviets and Eastern Europeans dropped out of the preparatory process and UNCHE (also known as the Stockholm Conference), with a view that pollution was a problem of capitalist countries. On the role of the United Nations in advancing global environmental issues, see Peter S. Thatcher, "The Role of the United Nations," in *The International Politics of the Environment*, ed. Andrew Hurrell and Benedict Kingsbury (New York: Oxford University Press, 1992), 183-211.

<sup>21</sup>Wade, "Greening the Bank," p. 623.

<sup>22</sup>Le Prestre, *The World Bank and the Environmental Challenge*, p. 23.

<sup>23</sup>Brenton, *The Greening of Machiavelli*, p. 36. See Barbara Ward and Rene Dubos, *Only One Earth* (Harmondsworth: Penguin, 1972).

<sup>24</sup>See Serge Taylor, *Making Bureaucracies Think: the Environmental Impact Statement Strategy of Administrative Reform* (Stanford: University of California Press, 1984).

largest shareholder. At the same time, there was no great show of environmental support from the other major Executive Directors.<sup>25</sup>

While OEA's creation was an important move at the time, its performance was uninspiring. Indeed, the initial momentum behind its creation appeared to fizzle out in subsequent years. Politically, the momentum had few long-term supporters. The U.S., for example, turned its attention to other issues during the 1970s, notably the oil crisis, while its relations with the World Bank soured over a number of disputes.<sup>26</sup> Recipient countries, in turn, did not include environmental improvement among their list of priorities, and indeed, generally viewed environmental protection as a luxury for developed countries to address. NGOs, before the mid-1980s, were not paying close attention to the Bank's environmental behavior. Bank staff, meanwhile, viewed the OEA skeptically, and were resistant to the OEA's scrutiny of Bank projects.

Ultimately, McNamara's policy decision to strengthen the Bank's environmental scrutiny was undermined by the fact that the OEA ultimately had insufficient power or resources to do much. The job of the environment office was to screen Bank projects with an eye toward reducing potentially harmful environmental affects. The environmental team, in turn, mainly saw projects in the latest stages of the project preparation cycle, which reduced its ability to introduce significant modifications. The OEA had a tiny staff—only three specialists by 1983, and five by 1987—at a time when Bank lending had grown to over 200 projects a year. It also had no veto power to block projects from moving forward for Board approval. The Bank did issue a set of environmental guidelines in 1984, but these were easily ignored, since they left compliance to the discretion of the task managers.<sup>27</sup>

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<sup>25</sup>Le Prestre writes that West Germany and Japan were "reticent," while France was "largely indifferent." Le Prestre, *The World Bank and the Environmental Challenge*, p. 21.

<sup>26</sup>The Treasury, in particular, was opposed to the sharp growth in World Bank lending during the 70s, while McNamara believed that the decline in economic growth resulting from higher oil prices necessitated greater lending. See Gwin, *U.S. Relations with the World Bank*, pp. 20-25.

<sup>27</sup>Wade, "Greening the Bank," p. 635.

During this period of time, the Bank's understanding of what constituted environmental issues was never explicitly defined. Indeed the environmental office was envisioned to be a trouble-shooter, a group that would try to fix potentially troublesome project components. Its emphasis, in practice, tended to be on public health issues, and more specifically disease prevention, such as water-borne disease resulting from irrigation and hydroelectric projects. This was the area of expertise of the Bank's Environmental Advisor, James Lee.<sup>28</sup> There was also attention to "brown" issues, such as industrial pollution, as well as the use of pesticides.<sup>29</sup> As Wade concluded:

...what the Bank did under the label "the environment" included residual things like the relocating of a power line so as not to spoil the view from a game lodge, matters that no one else wanted to deal with. Otherwise, the Bank's environmental activities at that time focused more on public health than on the biophysical system, in part because health groups had been the most critical of the Bank and because Lee's own expertise was in public health and occupational health and safety.<sup>30</sup>

Le Prestre has added that early in Alden Clausen's tenure as World Bank president (1981-86), "central" environmental issues included energy conservation and family planning; however these and health issues were superseded by 1986 by "pollution, management of natural resources, and protection of mankind's aesthetic and cultural heritage."<sup>31</sup> Ultimately, the lack of strong political initiative from shareholders, plus weak institutional incentives inside the Bank, thwarted the possibility of serious attention to or definition of environmental issues throughout the Bank during this period.

### **1987-96**

In 1987, the Bank launched a period of significant change in the ways it would address environmental issues when World Bank President Barber Conable admitted the Bank had in fact been "part of the (environmental) problem" and announced an important set of organizational changes. In a speech to the World Resources Institute in May 1997, Conable

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<sup>28</sup>Lee headed the environmental office from its creation until 1987. Wade, "Greening the Bank," p. 620.

<sup>29</sup>Le Prestre, *The World Bank and the Environmental Challenge*, p. 31.

<sup>30</sup>Wade, "Greening the Bank," p. 621.

<sup>31</sup>Le Prestre, *The World Bank and the Environmental Challenge*, p. 26.

admitted that, "in measuring the influence of the World Bank against the environmental challenge, I see how long a road there is to travel from awakened environmental consciousness to effective environmental action."<sup>32</sup>

He announced the creation of a central Environmental Department, which would develop environmental policies, planning and research, and "take the lead in developing strategies to integrate environmental considerations into our overall lending and policy activities." In addition, he announced that new environmental offices would be established in the Bank's four regional technical departments (called regional Environmental Divisions, or REDs), which would work as "environmental watchdogs" over the Bank's projects.<sup>33</sup> The REDs would have the ability to review and sign-off on projects, which allowed them to influence lending, and created what Wade calls "in-house environmental champions."<sup>34</sup> By the end of the year, around 50 new environmental jobs had been created in the Bank.

The institutional and policy changes relating to the environment that have taken place within the World Bank since 1987 have been extensive. In the decade since Conable's 1987 announcement the Bank has: expanded its work in developing environmental policies and procedures for all projects as a means of reducing potential environmental harm; sharply increased its research work on environmental issues and practices; created a new Vice-Presidency for Environmentally Sustainable Development (ESD), which is the umbrella over the Environment Department, the Transport, Urban and Water Department, and the Agriculture and Natural Resources Department; developed sectoral strategies and assisted recipient countries in the development of national strategies (known as National Environmental Action Plans, or NEAPs); and become a global and regional leader in a number of multinational environmental initiatives, including its role as an implementing

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<sup>32</sup>Barber B. Conable, "To the World Resources Institute, Washington, D.C., May 5, 1987," in *The Conable Years at the World Bank: Major Policy Addresses of Barber B. Conable, 1986-91* (Washington, DC: The World Bank, 1991), p. 22.

<sup>33</sup>*Ibid.*, p. 23.

<sup>34</sup>Wade, "Greening the Bank," pp. 674-75

agency for the GEF and the Montreal Protocol Multilateral Fund, and lead organizer and author of the Environmental Action Programme for Central and Eastern Europe (EAP). As noted above, by mid-1996, the Bank was lending more than \$11 billion for projects aimed specifically at strengthening environmental management in the areas of pollution management, natural resources management and national institution building.<sup>35</sup> According to the Bank, around 300 Bank staff and long-term consultants work on environmental issues, but this number is more of a rough guideline, rather than a precise figure.<sup>36</sup>

On the surface, at least, the Bank now looks quite different than it did a decade ago. How these changes play themselves out in the Bank's activities in Central and Eastern Europe will be examined in each of the subsequent chapters. Analysis of how each of these changes has impacted the Bank's global environmental behavior is beyond the scope of this dissertation, but there is a growing body of analysis on a number of these initiatives.<sup>37</sup>

The numerous changes initiated in 1987 were triggered by external criticism of the Bank by environmental NGOs coupled with strong U.S. pressure for change from Congress and the U.S. Treasury. An NGO campaign to force the Bank to change its environmental ways took its ammunition from the existence of a handful of Bank projects that were causing enormous environmental degradation (particularly the Polonoroeste project and also the Indonesian Transmigration Program).<sup>38</sup> The campaign effectively built support within

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<sup>35</sup>This figure excludes Bank projects financed through GEF.

<sup>36</sup>The staff of the Bank's Environmental Department includes, for example, people who work on financial, procurement, and business analysis. It is also difficult to know when to classify a sociologist or dam engineer, or fisheries economist as "environmental" or not. I am grateful for Alex Mukendi of the Bank's Environmental Department for this insight.

<sup>37</sup>On the GEF, see David Fairman and Michael Ross, "Old Fads, New Lessons: Learning from Economic Development Assistance," in *Institutions for Environmental Aid: Pitfalls and Promise*, ed. Robert O. Keohane and Marc A. Levy (Cambridge: The MIT Press, 1996): 29-51; on the Montreal Protocol's Multilateral Fund, see Elizabeth R. DeSombre and Joanne Kaufmann, "The Montreal Protocol Multilateral Fund: Partial Success Story," also in Keohane and Levy, eds. *Institutions for Environmental Aid*: 89-126; on the EAP, see Barbara Connolly and Tamar Gutner, "Organizational Inertia and Innovation: Environmental Aid to Central and Eastern Europe," (Washington, DC: Paper delivered at the 1997 Annual Meeting of the American Political Science Association).

<sup>38</sup>See description of the Polonoroeste project in Chapter 2. The Indonesian Transmigration project was criticized as a disaster from environmental and social grounds, as was Polonoroeste. The goal of the project was to relocate millions of people from Indonesia's inner islands to its less populated outer islands. The project was criticized as being politically motivated; resulting in the clearing of enormous tracts of tropical

Congress at a time when the U.S. was negotiating over how much its contribution to IDA should be.

Capital replenishments have become a key way for shareholders to lobby for policy changes within MDBs. In the case of the World Bank, the fact that IDA requires regular replenishments has given its more active shareholders, primarily the U.S. Congress, the ability to use the power of the purse strings to become active in influencing Bank policy.<sup>40</sup> Since a number of congressional committees are involved in U.S. policy toward the World Bank, NGOs and other interest groups have a number of ways to focus their lobbying efforts.<sup>41</sup>

The NGO campaign for environmental reform at the World Bank was launched by the Natural Resources Defense Fund (NRDC), the Environmental Policy Institute (which later merged with Friends of the Earth), and the National Wildlife Federation (NWF), while many other groups quickly joined in. These NGOs began investigating the Bank's environmental behavior in 1983, and were deeply unimpressed with their findings. Bruce Rich, then at the NRDC, was one of campaign's leaders. He was highly critical of the ability of the bank environmental office's small staff to effectively evaluate projects, and believed that the Bank's procedures and guidelines were essentially worthless:

The Bank vaunted its publicly available environmental guidelines, checklists, and procedures, bound in two thick blue volumes. Indeed scores of dust-covered sets sat in piles inside the offices of the environmental staff, available to anyone from the outside for the asking. In an institution that zealously kept its most trivial working documents secret, this was no anomaly: not only were the Bank's other 6,000 employees not required to use the guidelines in preparing projects, most of them were not aware of their existence. Indeed, it would have been senseless to require most Bank staff to use them, since the guidelines focused on industrial and processing

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project was criticized as being politically motivated; resulting in the clearing of enormous tracts of tropical forest, which resulted in rapid deforestation; and with little sign of alleviating poverty. See Rich, *Mortgaging the Earth*, pp. 34-38.

<sup>40</sup>IDA was established in 1960 as a soft-loan window for the world's poorest countries. IDA's funds are replenished on a three-year cycle. IBRD capital increases occur less often.

<sup>41</sup>Gwin, *U.S. Relations with the World Bank*, pp. 18-19.



activities, a small part of Bank lending in comparison to agriculture, irrigation, dams, and roads--for which there were no guidelines whatsoever.<sup>42</sup>

The environmentalists chose the World Bank as the focus of their campaign not necessarily because its environmental record was worse than other MDBs, but because it was the best known, it was based in their own city of Washington DC, and because they felt they could influence the Bank's policies through Congress, hoping that Congress would attach environmental conditions to pledges of increased funding.<sup>43</sup> The campaign operated by focusing attention on a few of the Bank's projects that were environmentally and socially disastrous, particularly the Polonoroeste project and the Indonesian Transmigration Program.

In 1983, the NGOs convinced the House Banking, Finance and Urban Affairs Subcommittee on International Development Institutions and Finance to hold oversight hearings on MDBs. These were the first of over 20 hearings on MDB performance held before six Congressional subcommittees between 1983-1987.<sup>44</sup> The NGOs brought in their own advocates, consultants who had worked on disastrous projects, and representatives of indigenous people's rights organizations, who detailed the degree of social and environmental harm caused by some of the Bank's projects. Congress reacted by developing, with the assistance of the NGOs, a number of recommendations for environmental reform of the MDBs. These recommendations directed the U.S. to urge MDBs to increase their environmental staffs, to consult with NGOs and environmental and health ministries in project preparation, and to fund more small, environmentally-beneficial projects.

The Bank's limp response to 1984 hearings triggered the intervention of Senator Robert Kasten, a conservative Republican from Wisconsin, who chaired the powerful Senate Appropriations Subcommittee on Foreign Operations, which could influence U.S.

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<sup>42</sup>Rich, *Mortgaging the Earth*, p. 112.

<sup>43</sup>Wade, "Greening the Bank," p. 658.

<sup>44</sup>Rich, *Mortgaging the Earth*, p. 138. Incidentally, one of these House subcommittees was chaired by Democrat James Scheuer, who would later become the U.S. Executive Director at the EBRD, where he was a leading actor pushing the Bank to promote energy efficiency.

participation in the Bank. Kasten was annoyed by the Bank's "cavalier" response to the NGOs, who made his displeasure known to Conable as well as U.S. Treasury Secretary Donald Regan.<sup>45</sup> One result of the intervention of Kasten and the environmentalists was the Bank's decision to suspend disbursements for the Polonoereste project in March 1985.

By 1986, the campaign had grown, with a number of European and developing country NGOs involved, as well as support from other major shareholders, including Germany, Sweden, the Netherlands and Austria.<sup>46</sup> As important, the U.S. Treasury, the Bank's official U.S. shareholder, began increasing pressure on the Bank to reform its environmental practices. In 1987, Congress would decide on its participation in IDA's eight replenishment, as well as a more rare IBRD capital replenishment.<sup>47</sup> Given the degree of Congress's frustration with the Bank's environmental behavior, Treasury realized that an increase in the U.S. contribution to IBRD or IDA would be difficult in the absence of environmental reform. "There was no doubt," wrote Rich, "that the environment had become the Bank's most prickly public relations problem."<sup>48</sup>

Barber Conable, who became president of the Bank in July 1986, had been a Republican congressman for more than 20 years. He was sympathetic to the environmentalists' concerns, and well understood the obstacles faced in Congress to increased U.S. funding. The result was his May 1987 speech, announcing a set of environmental reforms for the Bank.

Since 1987, the Bank's environmental approach has continued to evolve, with changes reflecting policy development by staff, but also several initiatives that can be traced to external pressure and shareholder initiative. During the IDA-9 replenishment negotiations in 1988, Congress pushed the Bank, through Treasury, to propose environmental impact assessment procedures. In this venture, they had support from some Bank officials, which

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<sup>45</sup>See Wade, "Greening the Bank," p. 664; Rich, *Mortgaging the Earth*, pp. 123-24.

<sup>46</sup>Rich, *Mortgaging the Earth*, p. 137.

<sup>47</sup>Wade, "Greening the Bank," discusses this in greater depth on p. 668.

<sup>48</sup>Rich, *Mortgaging the Earth*, p. 145.

included two experts on environmental impacts assessments within the Bank's REDs. These men had developed EA procedures for their respective regions, and enlisted the help of a third colleague to work on a Bank-wide policy. In 1989, some 26 drafts later, an operational directive on environmental assessment was completed, despite clear opposition from a number of Bank officials. Conable, the U.S. Executive Director, and some EDs from other main shareholders supported the changes.

Three other important initiatives worth noting are the Global Environmental Facility (GEF), the Montreal Protocol's Multilateral Fund and the Bank's Inspections Panel. In 1989, developed country governments asked the Bank to design what would become the GEF, which would provide grants to help poor countries address four global environmental problems: global warming, biodiversity, ozone layer depletion, and the pollution of international waters. The Bank is the main implementing agency of the GEF (its partners are UNDP and UNEP), which was restructured in 1994 and replenished with more than \$2 billion. It has become the interim funding mechanism of the Framework Convention on Climate Change, and the Convention on Biological Diversity. Donor countries have also asked the Bank, along with UNDP and UNEP, to manage the Montreal Protocol's Multilateral Fund, which finances the incremental costs developing countries face in phasing out ozone depleting substances under the Montreal Protocol.<sup>49</sup>

Finally, in 1993, the World Bank established an Inspections Panel, a three-member commission charged with investigating complaints against Bank activities by private entities and groups who feel that Bank has not followed its own policies and procedures. While this evolution in Bank policy is not directly linked to environmental issues per se, criticisms of the Bank's lack of accountability did stem, in part, from environmental issues and groups. The Bank's own sponsored Wapenhans Report, which argued for more attention to project

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<sup>49</sup>The Fund was established with \$160 in capital but quickly rose to \$240 million when India and China joined, during the 91-93 period. In 1993, the interim fund was converted to a permanent fund, and its capital was increased to \$510 million for the three year period through 1996. For details, see Shihata, *The World Bank in a Changing World*, pp. 229-30; and DeSombre and Kaufmann, "The Montreal Protocol Multilateral Fund: Partial Success Story."

performance, as well as the controversy over the Narmada dam projects, had sparked debate over how to make the Bank more accountable and resulted in several different proposals for an independent Inspections Panel.<sup>50</sup> Once again, the U.S. was a leading shareholder pushing for change, although it was supported by several other shareholders; in addition, U.S. NGOs lobbied strongly for change. Again, negotiations about IDA replenishments helped donors supporting the creation of an independent panel to win their case. In this case, U.S. NGOs urged Congress to withhold a portion of U.S. funding for IDA-10, unless the Bank created some type of commission to hear complaints against the Bank's work. A modified version of the NGO proposal entered U.S. appropriations legislation.<sup>51</sup> The accountability issue was clearly of importance to the U.S., which was also pushing the Bank to adopt a new information disclosure policy, which the Bank instituted in 1994.<sup>52</sup>

#### *General Environmental Policy Objectives and Definitions*

Currently, the Bank's main environmental goals are:

- Building capacity for environmental management, by helping countries strengthen environmental management capacity. This involves assistance with policy development in natural resource management.

- "Mainstreaming" environmental issues into its programs and projects. The Bank emphasizes its goal to finance projects with primary or significant environmental goals, as well as to use environmental assessment (EA) processes to ensure all projects address environmental issues.

- Building partnerships with NGOs, other MDBs, UN agencies and bilateral donors to bring together coalitions of relevant actors to address environmental issues, both globally, and in individual countries.

Most broadly, the Bank's main approaches to the environment are to develop procedures and policies to ensure that its projects are not environmentally harmful, and to look for opportunities to fund projects with primary or significant environmental

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<sup>50</sup>See Chapter 2, footnote 9, for description of these issues.

<sup>51</sup>Bruce Rich, for example, made a statement on behalf of the Environmental Defense Fund, National Wildlife Federation and Natural Resources Defense Council before the Subcommittee on International Development, Finance, Trade and Monetary Policy of the Banking, Finance and Urban Affairs Committee, U.S. House of Representatives on 5 May 1993. For a description of this campaign, see Ibrahim F.I. Shihata, *The World Bank Inspections Panel* (New York: Oxford University Press, 1994), pp. 22-124.

<sup>52</sup>The new policy made more Bank documents available to the public and created a new Public Information Center.

components. Of the three MDBs, the World Bank has the most comprehensive set of policy goals, and these have evolved considerably over time. Whereas the other two MDBs have specific "environmental policy" documents one can turn to for a summary of the Bank's policy goals, the World Bank has produced a plethora of documents, including an annual report on the environment, initiated in the early 1990s, and later merged with its quarterly "Environment Matters" bulletin, as well as the influential 1992 World Development Report on environment and development.

On the policy side, the Bank's work on minimizing potentially negative environmental impacts of its work has expanded beyond its environmental impact assessment procedures to include the development of policies for sectoral lending in forestry, agriculture, water resources, energy and transport, pest management, and natural habitats, among other areas. It often takes the lead in initiating national and regional programs (NEAPs or REAPs) that seek to prioritize environmental problems, discuss policy options for solving them, and increasingly, link these studies to specific investments. The Bank has also sought to incorporate environmental issues into its country policy work and country assistance strategies that guide lending, as a means of helping recipient countries develop programs and institutions for more sound environmental management. In addition, the World Bank undertakes a significant amount of research on a broad scope of environmental issues, from specific natural resource issues, to the complex interaction between environment, economic growth and poverty, to the development of methodologies to estimate environmental or health benefits of different policy options.

Whereas the other two MDBs tend to define environment in an *ex post facto* manner, so that "environment" largely describes some of the infrastructure projects they undertake, the World Bank has made a much more explicit effort to define what it means by environment, and to produce research that examines the relationship between growth, poverty reduction and environment. Environment is now used to describe projects focusing on three categories: pollution and urban environmental management, which includes direct investment

in pollution prevention or abatement, and support for improved environmental management policies; natural resources and rural environmental management, which includes biodiversity conservation, forest management, land and water resource projects; and environmental institution building projects, which focus on developing national and local environmental management capacity.

While many of these issue areas push the boundaries away from traditional types of infrastructure projects that may have environmental benefits, the Bank has at the same time made sure that its definition of environment does emphasize things that MDBs are able easily to address. For example, the 1992 World Development Report, an important Bank statement on the relationship between environment and development, stressed the importance of "brown" projects, or projects that emphasize clean-up or abatement, over "green" projects, or issues that include conservation or ecosystem preservation. The rationale is the report's emphasis on environmental priorities defined as those that "directly affect the welfare of large numbers of people," which are issues such as sanitation, clean water, urban air pollution, and land degradation.<sup>53</sup> Biodiversity is even defined as important because of its impact on human health, since a loss of biodiversity can result in a loss of potential new drugs.<sup>54</sup> The report also emphasized the Bank's definition of "win-win" policies, as policies that benefit the environment and development while resulting in poverty reduction.

More specifically, in seeking to define what an "environmental project" is, in the early 1990s the Bank began distinguishing projects with "primary environmental objectives" from projects with "major environmental components." The former are projects where the cost of environmental protection or environmental benefits exceeds 50% of total project costs or benefits. The latter, in turn, defines projects where environmental costs or benefits are more than 10% of total project costs or benefits, but less than 50%. While this is an attempt to

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<sup>53</sup> World Bank, *World Development Report* (Washington DC: World Bank, 1992). Development and the Environment, p. 4.

<sup>54</sup>Ibid.

better clarify categories, it is also clear that the exact calculation of these costs or benefits is not a straightforward science.

Yet despite the Bank's concerted attempts to define what it means by environmental assistance, it is still difficult for the Bank, as well as other MDBs, to provide a concise breakdown of what is or is not "environmental assistance," which makes comparison among the MDBs indicative rather than precise, an issue discussed in greater depth in Chapter 5. In many ways, "environment" or "sustainable development" appears to be a new, transectoral term for "development." As Ismail Serageldin, the Bank's Vice President for Environmentally Sustainable Development, noted, "What is sustainable development other than sound economic management, rationality, respect for the rights of others, and concern for future generations?"<sup>55</sup>

To illustrate, with respect to the case of Central and Eastern Europe, several different Bank documents put different figures on what the Bank's environmental assistance total to the region. Just focusing on the year of 1994, the Bank's annual report that year listed only one loan (\$18 million) in the environmental sector for the region for the period 1990-94.<sup>56</sup> Another publication it produced added two other projects to the category of projects with "primary environmental objectives," totaling \$184 million.<sup>57</sup> Still other Bank documents include certain structural adjustment loans that contain energy or environmental components, which push the total up by another \$1 billion.<sup>58</sup> More recently, a 1995 document listed a total of six stand-alone environmental projects for the period 1990-94, totaling \$1 billion. Projects with environmental components or objectives in the same period add an additional \$517 million to the total, and do not include the environmental components of SALs.

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<sup>55</sup>World Bank, *Environment Matters*, Fall 1996, p. 5.

<sup>56</sup>World Bank. *Annual Report* (Washington DC: World Bank, 1994) p. 102.

<sup>57</sup>World Bank. *Making Development Sustainable* (Washington DC: World Bank, 1994), pp. 217-18. One project was a \$38.4 million district heating rehabilitation project in Estonia, which was listed as an oil and gas project in the annual report; and the other was a \$146 million forest development project in Poland, which was not clearly categorized in the annual report.

<sup>58</sup>World Bank, "Central Europe Department Projects Related to Energy/Environment." Department Document. August/September 1992.

It is important to note that the difficulty of defining "environment" is not a problem that afflicts MDBs alone. As Skolnikoff and Kay noted with foresight in 1972, before the "attach-on" strategy of addressing environmental issues in many multilateral and bilateral government agencies began evolving toward a more "build-in" approach:

"Environment" as an issue area has no simple bounds. To be concerned with assessing the impact of scientific and technological developments on the environment requires being concerned with the full array of issues affecting civilization, from disposal of waste to population growth, from the methods and amount of food production to the wise use of resources, from the transfer and control of technology to the calculation of the real costs of economic growth. This is thus not a concern with a new problem for societies but with the oldest and most central of all problems—the allocation of values within and between polities. Inevitably, as international institutions develop their concern and capacity of analyzing environmental impact issues, they will find themselves involved in many questions touching on major political, economic, and social problems. <sup>59</sup>

Of the three banks, the World Bank has faced the strongest external pressure to address environmental issues in its work, and as a result, has made the greatest strides in how it does so. The evolution of the Bank's thinking was spurred by political pressure from its major shareholding countries, supported by an NGO campaign. The existence of a number of controversial projects provided ammunition for the pressure to translate into action by the Bank. External political pressure therefore has given the World Bank a strong commitment to address environmental issues in its work, but as we will see in subsequent chapters, this commitment does not easily transform itself into deep changes in the incentive systems facing bank staff and management.

## **EBRD**

### *Basic Mission and lending policy*

The London-based EBRD is the first post-cold war international institution, established in May 1990 with 10 billion ECU (around \$13 billion) in capital. It was a European initiative created to help post-communist countries in Central and Eastern Europe build market

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<sup>59</sup>David A. Kay and Eugene B. Skolnikoff, "International Institutions and the Environmental Crisis: A Look Ahead," in *World Eco-Crisis: International Organizations in Response*, ed. David A. Kay and Eugene B. Skolnikoff (Madison: University of Wisconsin Press, 1972), p. 308.



economies and pluralist democracies.<sup>60</sup> The actual proposal was put forward by French President Francois Mitterand at the European Parliament in October 1989, and was discussed by EC leaders in Paris and Strasbourg meetings over the next two months.<sup>61</sup> As communist regimes began collapsing across the East, there was a growing sense among major Western nations that aid and capital flows to CEE needed to be dramatically increased to assist the nascent democracies with their unprecedented process of economic and political transition. The French proposal was fleshed out by Mitterand's advisor, Jacques Attali, who envisioned an institution with a limited role for non-European countries. European leaders meeting in Strasbourg modified the French proposal to include a larger role for the U.S., Japan, Canada, and other non-European countries.

A number of countries, including the U.S., West Germany, Italy and the Netherlands were skeptical of the need to create a new institution.<sup>62</sup> From the U.S. perspective, the World Bank and the IFC already financed the types of activities envisioned for the new bank. U.S. officials were also unenthusiastic about possible Soviet participation in a new international institution, with a number of conservative Republicans arguing that the Soviet Union was not yet a democracy working toward creating a market economy.<sup>63</sup> Some European as well as U.S. officials, in turn, observed that the EIB could also perform the activities envisioned for the EBRD. The counterarguments included French pressure for a specifically European institution, and one that was more politically aggressive than the EIB. A European-led institution would not only signal Western Europe's support for its Eastern neighbors, but would also play a role in diluting the prospects of German economic

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<sup>60</sup>For an excellent analysis of the politics surrounding the creation of the EBRD, see Steven Weber, "Origins of the European Bank for Reconstruction and Development," *International Organization* 48, no. 1 (Winter 1994): 1-38. For an examination of the EBRD's Articles of Agreement, and comparing them to those of other MDBs, see Ibrahim F. I. Shihata, *The European Bank for Reconstruction and Development: A Comparative Analysis of the Constituent Agreement* (London: Graham & Trotman/Martin Nijhoff, 1990).

<sup>61</sup>George Graham, "France to Press Proposals for European Development Bank," *Financial Times*, Friday, December 1 1989, 4.

<sup>62</sup>*Ibid.*

<sup>63</sup>Tamar Gutner, "Bankrolling Eastern Europe," *Prodigy News Service* December 1990.

dominance in the former East Bloc.<sup>64</sup> Those backing the creation of a new institution also argued that Central Eastern European and former Soviet countries could not sit on the board of the EIB, since the latter was exclusively an EC institution.<sup>65</sup> The EIB, in turn, was not particularly excited about accepting responsibility to lead a Western aid initiative in CEEC and FSU.<sup>66</sup>

After several more negotiating meetings over subsequent months, a deal was finally hammered out, and on 29 May 1990, the negotiating governments, along with the EC and the EIB, signed agreements establishing the EBRD. It was remarkable that a new international institution with billions of dollars in capital could be proposed and created in less than a year. It took a greater period of time—an additional 11 months—for the Articles to come into force, and the new Bank opened its doors in April 1991.

The aim of the EBRD was to "foster the transition towards open market-economies and to promote private and entrepreneurial initiative in the Central and Eastern European countries committed to and applying the principles of multiparty democracy, pluralism, and market economics"<sup>67</sup> The EBRD has sought to fulfill its mission by emphasizing projects in privatization and economic restructuring, by promoting foreign investment (in part by investing in joint ventures with foreign companies); by co-financing with the other MDBs; and increasingly, by focusing on the promotion of small and medium-sized enterprises.

The Bank was distinctive in having an explicit political mandate, which emphasized its commitment to the principles of multiparty democracy, market economies, human rights, and the rule of law. This was in sharp contrast to charters of other MDBs, which prohibit them

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<sup>64</sup>Stephan Haggard and Andrew Moravcsik, "The Political Economy of Financial Assistance to Eastern Europe, 1989-1991," in *After the Cold War: International Institutions and State Strategies in Europe, 1989-1991*, ed. Robert O. Keohane, Joseph S. Nye, and Stanley Hoffmann (Cambridge: Harvard University Press, 1993), pp. 246-85.

<sup>65</sup>According to journalist George Graham, the view of French officials was that "there can be no question of the Soviet Union...sitting on (the EIB) board and deciding on whether to fund projects in, say, Portugal." Graham, "France to Press Proposals for European Development Bank," p. 4.

<sup>66</sup>Ernst-Günther Bröder, interview with the author, March 26, 1997. Bröder was EIB president at the time of the EBRD's birth. He added that the EIB was very active in helping set up the EBRD, including assisting with the organization of its Treasury Department.

<sup>67</sup>EBRD. "Agreement Establishing the European Bank for Reconstruction and Development," Art. 1.

from being influenced by political decisions. It was also distinctive among MDBs in its focus on the private sector. The Bank was directed to target at least 60% of its loans, guarantees and equity investments to the private sector, with the remaining 40% going to public sector projects. This gave the Bank the character of being part-merchant bank and part-development bank. With its emphasis on the birth and growth of the region's private sectors, it saw itself having a more decentralized, "bottom-up," approach, versus the World Bank's "top-down," public lending approach. Finally, the EBRD was the first MDB to have an environmental mandate built into its Articles of Agreement; Article 2 (1) (vii) commits the bank "to promote in the full range of its activities environmentally sound and sustainable development."

Membership in the EBRD was structured similarly to that of the World Bank in the sense that a country's shareholding stake translated to its percentage of votes. A distinct difference between the two is that in addition to member *countries*, the EBRD's board also included two other *institutions*: the European Commission, and the EIB. (Likewise, the Commission is on the board of the EIB). The U.S. was given the single largest stake, of 10%, while the 12 EC nations, as well as the Commission and EIB held a majority of 51% of the votes. The Soviet Union was allowed to join under the proviso that did not borrow more than its contribution to the Bank's capital—a small \$125 million, but this restriction was gradually eased once the Soviet Union collapsed soon after the Bank's inauguration. The Bank's "countries of operation" held around 12% of the shares. By 1996, the Bank's members included 58 countries (of which 26 were recipient countries in CEE and FSU), as well as the two EC institutions. Germany, Britain, France, the UK, Japan and Italy are the next largest shareholders after the U.S., with 8.5% each. Jacques Attali, one of the key intellectual forces arguing for the creation of the Bank, was appointed its first president.

In the Bank's short life span, its central mission has not changed as dramatically as the World Bank's did during its 50 years of existence. Indeed, the EBRD's main struggle during the first few years was to jumpstart its operations, no easy task when its staff sought

to find private sector projects to fund in countries where no private sector existed. The slowness of disbursement, together with criticism of Attali's management style and lavish spending resulted in Attali's resignation in 1993.<sup>68</sup> His replacement was Jacques de Larosière, former managing director of the IMF and chairman of the Bank of France. Under de Larosière, the Bank's basic mission remained the same, with shifts taking place in terms of the countries of emphasis, strategies for promoting private sector development, and the types of financial tools used to do so.<sup>69</sup> For example, the Bank shifted its focus eastward, to pay more attention to the less reform-minded, more difficult states in the region. It has turned more toward the use of financial intermediaries as a way to promote private sector development. Its tool-kit of financial instruments has expanded to place more emphasis on equity products versus loan finance, and it increased its own activities in buying stakes in financial institutions in the region.

#### *Birth of Environmental Initiative*

The EBRD is the first MDB to be born with an environmental mandate, which was seen by NGOs as a strongly positive move, even if the mandate itself was broad. The goal of promoting "environmentally sound and sustainable development" found its way into the Bank's founding articles as a result of a consensus among major donor countries on the importance of the issue. An NGO campaign was also launched to encourage the new Bank's charter to include an environmental mandate, and its efforts fell on receptive ears.

The U.S. was particularly forceful in pushing for the inclusion of the sustainable development language in the charter. "With respect to the environment, there is no controversy," wrote U.S. Treasury Secretary Nick Brady during the negotiations on the EBRD, "All of the participants in the negotiations recognize the need to improve the

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<sup>68</sup>Of the 2.1 billion ECU in financing approved in 1993, for example, only 409 million ECU was disbursed. News that in 1992 the Bank spent twice as much on outfitting its offices as it disbursed in loans did not help the its reputation, and increased pressure for Attali's resignation. See Robert Preston and Jimmy Burns, "EBRD spends more on itself than it hands out in loans," *Financial Times*, April 13 1993, 1.

<sup>69</sup>See, for example, Richard Lambert and David Marsh, "Credit where it is due: The new president of the EBRD has brought prudence rather than vision to the bank," *Financial Times*, December 29 1994, 9.

environment in Eastern Europe; and there appears to be a broad consensus among them for strong and effective action. The U.S. negotiators have strongly supported the inclusion (of the language in Article 2(vii))...and will insist that it be included in the final version of (the Bank's) charter."<sup>70</sup> Yet the U.S. was also aware that the language of the environmental mandate was ambiguous, and argued for the rapid introduction of specific regulations and guidelines as a way to translate the mandate into "strong, effective operational practices."<sup>71</sup>

This environmental policy initiative was aided by the fact that environmental issues were high on the policy agendas of donor agencies as well as recipient countries in the region. The fall of the Iron Curtain revealed the most polluted countries in Europe, and environmental groups in the East Bloc were among the actors pushing to dismantle the communist regimes.<sup>72</sup> Indeed, the U.S. aid and assistance initiative for Eastern Europe, the Support for East European Democracy (SEED) Act of 1989, identified environment as one of the key sectors in need of immediate assistance and long-term strategies in the region due to the extent of environmental degradation throughout CEE and its impact on human health. Also that year, President George Bush announced an East European Environmental Initiative, which included the establishment of the Budapest-based Regional Environmental Center (REC), a non-profit organization set up to increase environmental awareness in the region, whose charter members included other major Western donors as well as the EC.<sup>73</sup>

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<sup>70</sup> Nicholas Brady to William K. Reilly, 22 February 1990. Among other major donor countries, Japan was passive toward the initiative, but not critical of it. See, for example, Dennis T. Yasutomo, *The New Multilateralism in Japan's Foreign Policy* (New York: St. Martin's Press, 1995), pp. 173-74.

<sup>71</sup> Statement by the Honorable David C. Mulford, Under Secretary of Treasury for International Affairs before the Senate Foreign Relations Committee, Subcommittee on International Economic Policy, Trade, Oceans and the Environment, 22 March 1990.

<sup>72</sup> CEE's environmental plight is discussed in detail in Chapter 5. It is important to note that the strong CEE constituencies pushing for environmental reform before the regime changes disappeared quite rapidly when the overwhelming challenges related to economic restructuring made environmental improvement a lower priority.

<sup>73</sup> The REC's work was aimed at supporting NGOs. Austria, Canada, Denmark, Finland, Japan, the Netherlands, Norway and the EC joined the U.S. as charter countries, along with the recipient countries in the region: Bulgaria, Czechoslovakia, Hungary, Poland, Romania and Yugoslavia. Eastern European membership now includes all the countries in the region. The donor countries donated around \$15 million in start-up funds.

In Western Europe, meanwhile, the EC set up its PHARE program of assistance to Eastern Europe in 1989 to coordinate assistance by the G-24 countries (the OECD nations) to East Central European governments in the "high priority" sectors of agriculture, industry, energy, privatization, environmental protection, and financial services.<sup>74</sup> Environment was chosen as an issue due to the EC's concern about the extent of environmental degradation in CEE, the lack of resources available to the region's governments, the EC's desire to create a "level playing field" for trade between the EC and CEE, and the transboundary nature of much of the pollution in CEE.<sup>75</sup> Because coordination proved to be too difficult given differing assistance agendas among G-24 states, and U.S. discomfort with the EC Commission as coordinator, PHARE quickly became the EC's own vehicle for assistance to the region. Bilateral European donors also included environmental components in their aid agendas.

Lobbying by NGOs certainly helped promote the environmental issue in the EBRD negotiations, although unlike the case of the World Bank, they did not necessarily play a seminal role in putting the issue on the table. The U.S. offices of NGOs such as World Wildlife Fund (WWF), Friends of the Earth (FOE), and the Center for International Environmental Law (CIEL) already had allies in the U.S. Treasury, the EPA, and the State Department, who agreed with their aims. Indeed, it was a Treasury official who approached his NGO friends with the idea of promoting the concept of sustainable development in the EBRD's founding articles.<sup>76</sup> NGOs from West and East were also able to meet with Attali in November 1990 to discuss their policy goals. Attali, said one NGO activist, was receptive to the idea of environmental considerations being an integral part of Bank policy, but at the same time he was most interested in creating a Bank that was fast-acting and non-

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<sup>74</sup>The name is the French acronym for "Poland and Hungary Assistance for Restructuring Economies," but the program was quickly extended to include Czechoslovakia and other countries in the region.

<sup>75</sup>"Environment Sector Strategy for Central and Eastern Europe," PHARE internal strategy paper, 1991.

<sup>76</sup> Durwood Zaelke, CIEL, interview with the author, August 1995.

bureaucratic. As a result, some of the NGO demands—such as time for public comment on projects, would not be attractive to Attali, since they would slow down the project cycle.<sup>77</sup>

Several other countries on the EBRD's board have also been strongly supportive of making sure the Bank sought to prioritize the environment in its work; these included Germany, Austria, the Netherlands, and the Scandinavian countries—all countries with relatively strong domestic environmental movements. Another set of countries was more neutral; while they were not indifferent to the Bank's environmental policies and goals, other priorities ranked higher. These included Canada, the U.K., France, and Italy. The countries of operation, in turn, were most cautious and were also generally neutral about addressing these issues, since environmental issues receded as a political priority shortly after the regime changes.

#### *General Environmental Policy Objectives and Definitions*

During its first year, the EBRD developed a set of environmental "policy priorities," which were published in early 1992. In *Environmental Management: The Bank's Policy Approach*, the EBRD outlined its intent to place "environmental issues at the forefront of its efforts to promote sustainable economic growth," and listed six priorities to allow it to play a "leadership role in environmental recovery of the region."<sup>78</sup> They were to:

- help countries develop environmental policy, including assisting development of legislation, appropriate emissions standards, and institutional capacity to monitor and enforce policies;
- promote market-based and other economic techniques to address causes of environmental degradation;
- encourage development of environmental goods and service industries, investments in environmental technologies, and fund environmental infrastructure projects;
- initiate or support studies and programs that address regional and national environmental problems;
- adopt "adequate environmental assessment, management planning, audit and monitoring procedures" in all of its activities
- promote adoption of procedures for "provision of information to, and consultation with, all levels of government and the general public—especially potentially affected parties—concerning environmental matters."

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<sup>77</sup>Alex Hittle, Friends of the Earth, interview with the author, November 1992.

<sup>78</sup>EBRD, "Environmental Management: the Bank's Policy Approach," (EBRD: London, 1992), p. 1.

Among the three MDBs, these are the most clearly stated set of policy goals. The basic components, of emphasizing environmental procedures, funding for specific environmental projects, and some environmental policy work, are broadly similar to the basic components of the World Bank's environmental policy. Unfortunately, as we will see in Chapter 5, the EBRD's ability to fulfill most of those goals was quite modest, particularly the first, third and fourth. Donor enthusiasm over the rhetoric of environment was not unanimously translated into interest in action. As important, the Bank's private sector, demand-driven emphasis, did not provide many incentives for its bankers to produce environmental projects, with the exception of its municipal environmental unit and its relatively new energy efficiency unit. At the same time, the Bank has made a number of advances in its environmental activities over the past two years, as it has learned how to improve the fit between its policies and mission, and as it has taken steps to revise its policies and procedures. This is discussed in detail in the following chapter.

In late 1996, the Bank announced a revised environmental policy, fashioned as a result of debate and discussion among the board directors, the Bank's environmental appraisal unit, and other senior Bank officials, as well as several NGOs. Some shareholders, such as the U.S. and the Netherlands, were strongly in favor of strengthening the Bank's use of specific environmental standards in its work, such as national standards, or EU standards. In the past, the use of standards was more "ad hoc," with the appraisal unit deciding whether local standards or some other set of standards would be most appropriate in a project. Some Bank staff argued that using EU standards, for example, was "silly" as well as potentially highly costly for countries in the region that were not prospective members of the EU. The argument was that high standards in some cases might be too difficult or too costly to implement, while lower standards could still result in an outcome that was a vast improvement to the pre-project scenario.

For example, in the case of emissions of air pollutants, there is often a space between existing emissions and future emissions under EU standards. Thus, a power plant



rehabilitation that could vastly improve energy efficiency and lower emissions at a similar level of energy production, might be too expensive to undertake if higher standards meant the purchase of very expensive equipment, such as flue gas desulphurization (FGD) technology. The pro- higher-standard coalition on the board, in turn, argued that an ad hoc approach to standards was not acceptable. The resulting compromise, five drafts later, is that the new policy stated the Bank would make sure its loans follow national or EU environmental standards, or where there are no EU standards, it would follow World Bank standards. The idea was to use EU standards as a common reference point, but keep the flexibility to use other standards where EU standards are nonexistent or did not make sense for the country.

The new policy continued to emphasize the importance of the environmental appraisal process, as well as the EBRD's intention to "realize additional environmental benefits through its operations, particularly if they also provide economic benefits."<sup>79</sup> In particular, it would seek to play a role in financing projects that alleviated "severe environmental problems."<sup>80</sup>

The Bank's environmental strategy had a number of components. It aimed to describe the environmental implications of its work in the strategies it developed for individual recipient countries and sector work. In this area, the EBRD would draw on work done other institutions, such as the World Bank's National Environmental Action Programs. It also emphasized its appraisal procedures as a way of determining whether a project should be financed or not, and if it is, how environmental issues should be incorporated into its design.

In its strategy of promoting environmental projects, the EBRD did not explicitly define what it meant by "environment," but provided examples of the types of "environmentally-oriented operations" it sought to fund. These included water supply systems, waste water management, solid and hazardous waste management, district heating, energy efficiency projects, renewable energy, and urban transport. The Bank also noted that it would

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<sup>79</sup>EBRD, "Revised Environmental Procedures," BDS96-23, March 1996.

<sup>80</sup>Ibid.

participate in the development of legal, economic, and policy frameworks that underlie environmentally sound investments, through its technical assistance work, often undertaken with other donor institutions. It contributed to international and regional environmental initiatives, from the global climate change convention to the Baltic Sea program. The Bank also reported on its environmental work through its Transition Report, through its quarterly "Environments in Transition" periodical, and through publicly available Project Summary documents.

Like the World Bank, the EBRD focused on environmental concerns as a result of pressure from major shareholder countries along with major NGOs. The main difference between the two is that the EBRD was "born" with a stated commitment to addressing sustainable development issues, and did not gain its policies as a result of past mistakes. How this commitment has been institutionalized by the Bank is discussed in Chapter 4.

## **EIB**

### *Basic Mission and Lending Policy*

The EIB was created to be the EC's long-term lending institution by the 1957 Treaty of Rome establishing the European Community. The six founding EC states were keen on providing financial assistance to the poorer regions, which at the time was focused on Italy's *mezzogiorno* region.<sup>81</sup> The Marshall Plan had ended in 1951, and European governments were still interested in stimulating capital investment. The EIB's job was to "contribute to the balanced and steady development of the Common Market in the interest of the Community."<sup>82</sup> With an initial capital of a modest \$1 billion, the Bank would raise money on international capital markets to finance projects in less developed regions of the Community, with the broad goal of undertaking projects "called for by the progressive establishment of the common market," or projects of "common interest" to several member

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<sup>81</sup>This included the regions of Abruzzi and Molise, Campania, Apulia, Basilicata and Calabria, and Sicily. Indeed, in its first 5 years, 70% of the EIB's 67 projects were in Italy. See various EIB Annual Reports.

<sup>82</sup>Treaty of Rome, Article 130, which has become Article 198 E under the Maastricht Treaty. Historians might be interested to note that during the EIB's first few years, one member of its Board of Directors was a World Bank official. Also, the EIB and EBRD co-financed a few projects together in Italy.

states, which could not entirely be financed by means available to individual countries.<sup>83</sup>

The Bank would lend money to public sector bodies or large industrial companies to finance projects, although beginning in the late 1960s, it also began to make loans to financial intermediaries for on-lending to small-scale projects.

Article 18 of the Bank's statute, in turn, gave the Bank the possibility of lending outside of the EC, in situations where directed to do so by its shareholders.<sup>84</sup> The Bank began its operations in 1958 in Brussels, but subsequently moved to Luxembourg, where it is across the street from its more famous colleague, the European Court of Justice.

The EIB is owned by its EC members states, which since the EC's enlargement in 1994 includes 15 countries. Like the other two MDBs, members subscribe to the EIB's capital, and most of the Bank's financial resources are raised on international capital markets, where the EIB is the world's biggest borrower and lender in ECU. Of the three MDBs, the EIB is the only bank that lends most of its money to the countries that are its major shareholders. This means that the distinction between "donor" and "borrower" so visible at the other two MDBs is much less distinct here. Indeed, for at least the past decade, on average around 90% of the Bank's loans were made to Western Europe, although, as we will see, the Bank is now a global player.

The Bank's Board of Governors is composed of member state Finance Ministers, and its Board of Directors represent member states as well as the European Commission. While capital subscription accounts for voting share at the other two MDBs, the link is slightly less direct at the EIB. In this case, the level of country subscription accounts for how *many* directors a country has, and decisions are taken by a simple majority. Thus the most powerful countries on the EIB's board are Germany, France, Italy and the U.K., which each subscribe 17.7% of the Bank's capital, and each have three directors. Spain has two

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<sup>83</sup>Ibid.

<sup>84</sup>Specifically, when authorized by the Board of Governors, acting unanimously on a Board proposal. EIB Statute, Article 18.

directors, and the rest of the member states have one each. The European Commission also has a director on the EIB's board, although it does not subscribe to the Bank's capital.<sup>85</sup>

While governance issues are discussed in depth in Chapter 4, it is worth noting here that the EIB is the most autonomous of the three MDBs. The EIB has the odd distinction of being both a legal entity independent of other Community institutions, but it is also an instrument of the Community. It is thus responsible for carrying out Community policy, although we will see in the subsequent chapter that how the institution actually does this is often open to interpretation.<sup>86</sup> Where capital replenishment times have been a way for donors to exert influence at the World Bank, as well as the EBRD, the EIB has only had six capital increases in its lifetime.<sup>87</sup> The Bank's unusual character—having its major lending and borrowing countries be the same countries, being legally independent, but also being an instrument of the Community, has shaped its behavior in some important ways.

It has preferred throughout most of its history to act as much like a non-political lending institution as possible, while at the same time it must take on new policy mandates given to it by the Commission or the Council, as well as to ensure that it is following Community law. The EIB has not had a policy voice like the other two MDBs. This makes sense when one considers that its shareholders would have little incentive to create an institution that tells them what to do. As a result, the EIB has no separate policy research arm or country lending strategies, and it does not directly promote a particular set of its own policy ideas, or innovative types of loan conditionality.<sup>88</sup> "Brainwork," said one senior EIB official, "is done elsewhere."<sup>89</sup>

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<sup>85</sup>The board of directors' alternates can also take part in board meetings, although they cannot vote unless they are replacing a director. Germany, France, Italy, and the U.K. each have two alternates; Denmark, Greece and Ireland share one alternate; the Benelux countries share one alternate; Spain and Portugal share one alternate; and the Commission has its own alternate.

<sup>86</sup>The 1992 Maastricht Treaty reaffirmed the Bank's autonomy and important role in promoting the European Union and implementing the Community's policies toward outsider countries. It also enhanced cooperation between the Bank and the Commission on different development funds.

<sup>87</sup>Capital was also boosted by the accession of new member countries in 1973 and 1981, 1986.

<sup>88</sup>The EIB does Directorate for Economics and Information, with a small "Economic and Financial Studies" office under the Bank's Chief Economist. However, the research undertaken by this office is more related to

Lacking a policy voice, and preferring to be "demand-driven," the EIB has the lowest profile among the three MDBs, and has for most of its life astutely avoided a political role or personality of its own. It prefers not to think of itself as a "development" institution.<sup>90</sup> The Bank has historically been quiet and lean, although it has begun to assert itself more under its current president, Sir Brian Unwin. Certainly, its political profile does not match its lending prowess. While the EIB has an EBRD-sized staff of under 900, less than 1/10th the World Bank's staff, the EIB now lends more each year than the World Bank—over \$26 billion in fiscal 1996, compared with \$21.5 billion for the World bank.<sup>91</sup> The Bank's capital has increased significantly over the years, doubling from 29 billion to almost 58 billion ECU in 1991. Its capital was increased again, to 62 billion ECU, when new EU member states Austria, Sweden and Finland contributed their subscribed capital to the EIB in 1995.

While the EIB has not evolved as dramatically as the World Bank has during its lifetime, it has seen a considerable expansion in its geographical scope, lending program, and lending volume. While the bulk of its loans are made to Western European countries, the EIB is a global actor, operating in 70 African and the Caribbean and Pacific states (ACP), 12 Mediterranean countries, and other countries that have signed cooperation or association agreements with the Community.<sup>92</sup> (In the Mediterranean, the EIB has one of its few

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the overall strategic positioning of the Bank, rather than more proactive policy work that might impact project design. Alfred Steinherr, Chief Economist, interview with the author, 27 June 1996.

<sup>89</sup>Senior EIB official, interview with the author, 19 June 1996.

<sup>90</sup>In interviews with EIB staff, I was repeatedly reminded that the word "development" is not in the Bank's name.

<sup>91</sup>Books on European Community institutions surveyed for this dissertation never contain a chapter, or analytical section on the EIB. In some books, such as Sbragia's edited volume on European institutions and policymaking, the EIB is not mentioned at all, and not included in a section describing principal EC institutions. Some books contain brief, descriptive sections on the EIB, based largely on information found in EIB documents. Alberta M. Sbragia, ed., *Euro-Politics: Institutions and Policymaking in the "New" European Community* (Washington, DC: The Brookings Institution, 1992).

<sup>92</sup>The Bank's involvement in ACP countries, which began in 1963, grew out initial provision in the Treaty of Rome for member state colonies and territories, which were mainly in Africa. The EIB's activities in the Mediterranean also dates back to the early 1960, and stems from cooperation and association agreements aimed at developing closer relations between the EC and those neighboring countries. In addition to offering loans or subsidized loans from its own resources, the EIB also manages "risk capital" under the Lomé Convention and

"environmental" activities—the Environmental Programme for the Mediterranean, drawn up jointly with the World Bank).<sup>93</sup>

Since 1993, the EIB has been authorized to fund projects in Asian and Latin American countries that have signed agreements with the Community, and it now also works in South Africa as well as the Middle East. The Bank entered the Central and Eastern Europe arena when its Board of Governors authorized it in 1989 and 1991 to loan 1.7 billion ECU for projects in Bulgaria, Hungary, Poland, Romania, and what is now the Czech Republic and Slovakia. An additional 3 billion ECU in lending was authorized for the 1994-96 period, and the countries covered expanded to include the three Baltics states, and Albania. Lending for the 1997-2000 period totaled 3.5 billion ECU, and is supplemented by an additional 3.5 billion ECU pre-accession lending facility for CEE countries and Cyprus to help to help these countries prepare for integration into the EU.

Curiously, the EIB's first loans to Eastern Europe were made before the EBRD even existed. The geographical scope of the EIB's lending reflects its position as a player in the Community's development policy, and the Community's interest in providing assistance to countries that are considered to be of "more direct economic significance" to the Community.<sup>94</sup>

The lending program of the Bank has also grown over the years, with the addition of new member states, but the scope of projects it funds looks remarkably similar over the years. From its early days onward, within the Community the Bank has focused on infrastructure development, particularly in the areas of transport, energy supply, telecommunications, and drinking water and waste water treatment. Like the EBRD, the EIB

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Mediterranean Financial Protocols. These are funds from member state budgets that the EIB uses to fund conditional loans or equity participation.

<sup>93</sup> Under the Programme is the Mediterranean Environmental Technical Assistance Program (METAP), jointly funded by the two banks along with the UNDP and the Commission. METAP provides technical assistance to prepare projects, that are funded by the World Bank and EIB.

<sup>94</sup> Commission of the European Communities, "Report on EIB Operations Outside the Community," (Brussels: 1991), p. 6.

does not fund social infrastructure projects, such as health or education. Since 1992, at the behest of European heads of state, the EIB was given a more public mandate and (with additional lending facilities attached) to accelerate its lending activities in trans-European networks (TENs), or infrastructure projects in railways, roads, ports, airports, telecommunications and energy transmission and distribution, which would establish better and more efficient links between member states. More than half of the Bank's loans go to Greece, Spain, Ireland Portugal, southern Italy and eastern Germany.

The EIB's lending policies are broadly more flexible than those of its two counterparts, in the sense that it can lend money to either the public or private sector, with no explicit rule on what share either sector should receive. Like the other two MDBs its statutes stipulate that it is not supposed to compete with the private sector, but EIB staff acknowledge that is difficult to avoid in practice. It can contribute up to 50% of a project's cost, and can lend to smaller projects (under 25 million ECU) through financial intermediaries.

#### *Birth and Evolution of Environmental Initiative*

In contrast with the other two MDBs, the EIB has never faced strong pressure to change the ways it takes environmental issues into account. No single shareholder launched a major campaign to push the Bank in new directions. Nor has there been any noisy negative publicity about EIB projects that would spark such a campaign. The EIB first produced a very modest internal environmental "policy" document in 1984, which broadly echoed the basic policies of the other two MDBs by stressing the importance of considering environmental impacts of projects, and financing activities to protect the environment, in areas defined under Treaty article 130. Some observers, and even Bank officials, would not refer to the document as a "policy" since it reflected the Bank's commitment to follow European Community policies, rather than developing its own, or showing more explicitly *how* it would translate Community goals into its own internal rules.

Nonetheless, the EIB did produce a document on its environmental goals, and it did so in the absence of any NGO campaign, or evidence of public pressure to do so. It did so in

the absence of any concerted effort by the Bank's shareholders to push it in a greener direction. Indeed, given the absence of direct pressure on the Bank to change or reshape its actions, it is unsurprising that the result was a policy document with basic goals that were neither a departure from existing Bank practice, nor accompanied by any major changes in the institution's structure, procedures, or the way it carried out its basic activities.

According to Bank officials, the new policy was an initiative of Hellmuth Bergmann, the head of the Bank's Technical Advisory Service, home of the Bank's engineers, who appraise the technical aspects of the Bank's projects.<sup>95</sup> Bergmann, a German agricultural engineer, was responsible for general environmental issues at the Bank, and felt the EIB should be more active in addressing these issues.<sup>96</sup> Bergmann was supported in his efforts particularly by the German and Dutch directors, while other member countries were more or less neutral toward the issue.<sup>97</sup> The Board of Directors took up the issue and developed the ideas proposed by the Bank's staff. The Board recommended that the Bank "continue to

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<sup>95</sup>Jean-Jacques Schul, interview with the author, 7 March 1995; Ernst-Günther Bröder, interview with the author, 25 March 1997.

<sup>96</sup>He was, for example, behind an effort for the Bank to join CIDIE, the Committee of International Development Institutions on the Environment. CIDIE was created in 1980 to supervise MDB implementation of the February 1980 Declaration of Environmental Policies and Procedures Relating to Economic Development. The Declaration was a product of cooperation between the World Bank and UNEP, with the aim of encouraging MDBs to adopt sound environmental lending guidelines. Le Prestre notes that the World Bank wanted to create a level playing field, first, so that its own work on the environment could not be easily undercut by other MDB activities; and second, so that the additional expenditures the Bank made for environmental purposes would not make Bank loans less attractive or competitive vis-a-vis those of other MDBs. CIDIE was never an important actor, however, and it was disbanded in 1995. See Le Prestre, *The World Bank and the Environmental Challenge*, pp. 134-35.

<sup>97</sup>Various EIB officials, interviews with the author. Johnson and Corcelle informally categorize EC countries as falling into three categories with respect to interest in environmental protection, when the EC first adopted environmental policies in the mid-70s. These categories are often repeated by member states, and seem to hold true even now, even if "environmental" is not formally defined or measured. Johnson and Corcelle note that Germany, the Netherlands and Denmark have been the most "advanced" with respect to environmental policy development and awareness, and they often favor stricter environmental measures within the Community. I would add that they have been joined by Sweden. "Neutral" countries include France, Luxembourg, Italy and Belgium, which have tended to accept Commission proposals without great enthusiasm, but are not openly critical. Johnson and Corcelle have characterized Britain and Ireland as showing a "certain reticence" to "over-restrictive and over-harmonized Community solutions to environmental matters." The remaining countries--Greece, Spain and Portugal, have often had a difficult time implementing Community policy and seek EC funding to help them meet the cost of doing so. The four EFTA countries which joined the EC in 1995 are generally "pro" environment, with many of their national rules already providing a higher level of environmental protection than Community rules. Stanley P. Johnson and Guy Corcelle, *The Environmental Policy of the European Communities*, Second ed. (Boston: Kluwer Law International, 1995), pp. 8-9.



adopt a cautious and pragmatic approach," with respect to its environmental activities, "by, on the one hand, financing economically viable projects furthering the struggle against pollution and, on the other, exercising close vigilance over the projects that it does finance, to monitor their potential effects on the environment."<sup>98</sup>

The policy largely emphasized what was already implicit in the Bank's work; that it would enforce European Community and national regulations on the environment, as it was supposed to do in all of its work. Where there were no binding regulations, the Bank would consider the "overall impact on the environment when assessing the economic viability of a project," and make "a concerted effort to raise awareness of environmental problems among promoters with the aim of getting them to adopt the least polluting design they can afford without compromising the economic return on the project." This also reflected previous actions, since the Technical Advisory Unit had been assessing the environmental impact of projects since 1972.

The policy also called for the Bank to finance activities that would protect the environment, in areas defined under Treaty article 130, which we have seen is quite broad. In addition, the Bank would be able to provide additional financing of up to 10% of a project's cost if the project installed anti-pollution equipment offering greater protection than required under existing standards. For projects outside the Community, the policy said the Bank "should refrain" from financing projects that "seriously transgress internationally accepted standards."<sup>99</sup>

In its basic outline, the EIB's environmental policy document had the same fundamental goals as those of the other two banks: to minimize the environmental impact of all projects, and to fund some projects specifically aimed at protecting the environment. However, the EIB's policy goals were the least aggressive of the three, lying on the left of Table 1.2's

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<sup>98</sup>EIB, Document 84/4, "Board of Governors: Bank Activity," Report by the Board of Directors, 4 June, 1984, p. 8.

<sup>99</sup>Ibid., pp. 9-10.

continuum. Its emphasis is similar to that of the early World Bank goals—to focus on mitigating potential environmental harm, in this case by following national or EC standards. The EIB also often becomes involved in projects in the later stages of their development, which can make it difficult and costly for its technical team to introduce modifications.<sup>100</sup>

While the policy called for the EIB to fund "environmental projects," this again reflected what the Bank was already doing. Indeed, the EIB has been actively involved in funding the types of infrastructure projects that MDBs have historically undertaken for economic development purposes, which also have environmental benefits, such as water supply, waste water treatment, energy projects that use air pollution control equipment (such as FGD equipment for coal or lignite-fired plants), waste management and urban transport (such as metro or tram expansion, and suburban rail service improvement). Between 1991-95, for example, the Bank lent around 22 billion ECU for these types of projects.<sup>101</sup> Ultimately, the EIB's environmental policy document was not a forward looking statement aimed at moving beyond standard operating procedures and habits common among MDBs.

The strengthening of European environmental policies in the 1980s and 1990s has impacted the Bank mainly in giving it more regulations and directives to follow, but to date it has not appeared to have a significant impact in *how* it goes about its business, which is discussed in Chapter 4.<sup>102</sup> Environmental concerns achieved a big boost in Europe in 1986, when the Single European Act (SEA) incorporated environmental policy into its amendment

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<sup>100</sup>The head of the EIB's Project Directorate admitted the difficulty of making significant changes late in the project cycle, although he emphasized that the technical staff could still refuse to finance the project if they thought environmental issues had not been dealt with properly. See Herbert Christie, "The European Investment Bank: Finance for Environmental Protection in Europe," Speech presented at the Earth Summit/United Nations Conference on Environment and Development, Rio de Janeiro, 3-14 June 1992, p. 3.

<sup>101</sup> EIB, *Information*. No. 88, Second Quarter 1996, p. 9.

<sup>102</sup>European environmental policy is based on over 200 directives as well as regulations and five "Environmental Action Programmes." The directives, which allow national authorities to determine the forms and methods of application, have been the most common tool of European environmental policy to date, but are criticized as weak policy instruments, because member nations often 'side-step' their obligations by, for example, contesting the scientific basis for decisions. For an analysis, see Juliet Lodge, ed., *The European Community and the Challenge of the Future* (New York: St. Martin's Press, 1993). Regulations are directly applicable to national law, and are rarely used for environmental purposes. The action programmes present proposals for legislation that the Commission may pursue, and also provides a forum to discuss future directions. Member states have no legal obligation to adopt the action programmes.

of the Treaty of Rome, thus making environmental policy a formal competence of the Community.<sup>102</sup> The 1992 Maastricht Treaty, in turn, made explicit the task of promoting sustainable growth respecting the environment in its Article 2, and called for environmental protection requirements to be integrated into other Community policies.<sup>103</sup>

### *General Environmental Policy Objectives and Definitions*

The EIB produced a revised environmental policy document in 1996, which is again a minimalist policy. It reiterates that funding projects "where the main objective of the investment is environmental" is "a major activity of the Bank."<sup>104</sup> It also notes the importance of considering environmental issues in its appraisal of all projects, with a goal of conforming to European Community and/or national legislation. It emphasized, like the old policy document, that projects must rely, at minimum on EU environmental standards, while in its work outside the EU, it may take a more flexible approach, with a goal of ensuring "good environmental practice at affordable costs." For countries aiming to join the EU, EU standards guide the Bank's work. Most of the remainder of the policy document describes the Bank's project and appraisal procedures, which I analyze in the subsequent chapter. Compared with the other two MDBs' policy goals, this Bank has no ambitions to be involved in policy development issues or to broadly assess a country's environmental situation in analyzing its lending portfolio.

Environmental projects are defined as those that produce benefits including:

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<sup>102</sup>1987 was also declared European Year of the Environment, by the Council, and was also the year when the Commission's Fourth Environmental Action Programme was adopted. The SEA contains an entire section on environmental policy, establishing basic objectives, principles and conditions of EC environmental action, without explicitly defining "environment." The objectives include a commitment "to preserve, protect and improve the quality of the environment," "to contribute toward protecting human health," and "to ensure a productive and rational utilization of national resources." The principles focus on preventive action, such as the polluter pays principle, and also stress that environmental protection should be integrated into other Community policies. Johnson and Corcelle, *The Environmental Policy of the European Communities*, p. 489.

<sup>103</sup>For an analysis on the effectiveness of EC environmental policy see Rüdiger Wurzel, "Environmental Policy," in *The European Community and the Challenge of the Future*, ed. Juliet Lodge (New York: St. Martin's Press, 1993), 178-199.

<sup>104</sup>EIB, *Environmental Policy Statement*, 1996.

...improvement in drinking water supplies and waste water treatment; the introduction of environmentally sound techniques to process solid, in some cases toxic, waste; a reduction of atmospheric pollution, especially from power stations and industrial plant (sic); the promotion of environmentally sound industrial processes and products; and the protection of the environment and the improvement of the quality of life in urban areas.<sup>106</sup>

Curiously the policy document does not mention some types of projects that the Bank has funded in the past, such as reforestation work it has undertaken in Italy, Spain, the U.K. and Portugal. There is no distinction between projects that may have significant environmental goals, versus projects with some environmental components. These are simply traditional MDB projects that happen to have a positive impact on reducing emissions, or using resources more efficiently. The Bank did note in the early 1980s that it does not make broader political choices, such as whether a country should invest in roads or rail, or nuclear power versus other sources of power, a policy that seems to remain constant.<sup>107</sup> The overwhelming majority of projects labeled as "environmental" are projects the Bank has always undertaken, projects that utilize the Bank's comparative advantage in having a corps of skilled engineers who undertake "bankable" projects to existing, creditworthy counterparts.

## **Conclusion**

This chapter highlights the ways in which pressure from major shareholders is a determining factor in the depth of an MDB's initial commitment to addressing environmental issues in its work. U.S. pressure was particularly important in explaining the stronger environmental commitments of the World Bank and the EBRD, relative to the EIB. The existence of a set of environmental problems that attracted the attention of NGOs and policymakers provided the window of opportunity for pressure to be translated into bank goals. These findings have important policy implications for actors such as NGOs who are seeking to influence MDB environmental behavior. The main lesson is that pressure is best

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<sup>106</sup>Ibid.

<sup>107</sup>EIB, *Information*. No. 30, May 1982, p. 2.

focused on actors outside the banks, and particularly where there is a set of environmental problems or issues can capture policy attention. NGOs may build up contacts and share ideas with bank officials, but this is not what will drive fundamental changes in bank policy.

Alternatively, the EIB's weak environmental policy goals can be explained by the absence of any environmental champions on its board, and the lack of any environmental disaster or particular issues that might be publicized by NGOs. As a result of its weak environmental mandate, one should not have high expectations regarding the institutionalization of this mandate in ways that provide bank staff incentives to pursue it. We would expect, then, to find few incentives for staff to address environmental issues beyond a "light green" criteria, and a project portfolio that reflects traditional MDB emphasis on infrastructure projects. In other words, in the three-stage analytical framework discussed in Chapter 1, the EIB effectively gets "stuck" at the policy objective stage. "Environment" projects at the EIB will largely be old wine poured into new bottles.

The findings of this chapter also disprove hypotheses that might focus on the age or size of an MDB as determining factors that shape its environmental behavior. The youngest of the three MDBs has a weaker environmental commitment than the oldest, but a stronger one than its other older colleague. The EIB and World Bank lend similar amounts each year, while the EIB and EBRD have a similar number of employees. These factors clearly do not correlate with the strength of an MDB's environmental commitment.

Turning now to the next stage of the policy process, we will see how institutional variables play a causal role in determining how these broader policy goals are translated into institutional behavior.

## Chapter Four

### Policy Process: Institutionalizing Environmental Objectives

This chapter examines why external pressure for change is a necessary but not sufficient factor in explaining how the MDBs respond to their delegated authority. The chapter turns to an analysis of the policy process to determine the ways in which environmental mandates are institutionalized, or "hard-wired" into institutional design and procedures at each of the three banks. I find that all three MDBs have diffuse governance structures, characterized by weak sets of collective principals; as a result, I argue that institutional variables play an important role in determining the capacity of an MDB to pursue its environmental goals. Shareholders set the basic rules and design of the institutions, play an important role on the strategic level (such as agreeing to new mandates), and ultimately must approve all loans, but their control is nonetheless limited by the banks' relative autonomy and the fact that new mandates do not always fit well with existing institutional design and incentives. Donor preferences on new mandates, as a result, are not sufficient in determining which activities and projects the bank is able to offer recipient countries. In the language of principal-agent theory, there is considerable "agency slack" in all three MDBs.

I hypothesize that given the weak governance structures of the banks, the most important variable determining how the MDBs respond to their policy goals is how demand-driven or "bank-like" they are designed to be. As noted in Chapter 1, all MDBs are designed to behave in some ways like financial institutions and in some ways like development agencies that seek to promote a variety of mandates that shape policy reform in recipient countries. However, they differ in the degree to which they emphasize their banking goals or their non-banking goals. An MDB designed to operate more like a financial institution than a

development agency will be more driven by client demands than broader policy interests. In what Naim calls the "Bank-as-bank" model, the dominant goal of an MDB would be to focus most on its long-term financial integrity and fiduciary responsibility to its shareholders.<sup>1</sup> This is, however, hypothetical since no MDB is without some "development" goals. Further, as Chapter 1 noted, MDBs tend to finance projects that private sector banks might find too risky, while at the same time they impose more conditionality in their loans than a typical private sector bank. The issue is which goals the MDB emphasizes and how it juggles activities where goals conflict or do not complement each other. The more an MDB conforms to the "Bank-as-bank," model, the less important is the objective of promoting far-reaching policy changes in the recipient country. As a result, from this perspective, there are also likely to be fewer incentives for such an MDB's staff to proactively identify and design projects with primary environmental goals or even significant environmental components unless these are actively sought out by the recipient.

By contrast, a less "bank-like" MDB will likely contain more incentives for staff to link loans to broader policy goals, such as environmental protection and reform. However, this chapter also argues that the less bank-like and demand-driven an MDB is, the more it must struggle to harmonize conflicting goals and incentives. Environmental policy objectives and activities do not always fit well with other economic development or banking goals, as noted in Chapter 1. For example, project managers seeking to bring creditworthy, bankable projects to their boards of directors in a timely fashion may balk at the requirements of various environmental assessment procedures, which can add delays to projects, or require costly changes in their design. Therefore, even where the right institutional variables exist to promote greater awareness of environmental issues, they do not always work as envisioned. While shareholders may shape the way an institution is designed, there are often gaps between how they have designed the institution and what they ask it to do. As a result, "hardwiring" must not just be described and behavior then inferred; it must be analyzed as

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<sup>1</sup> Moises Naim, "The World Bank: Its Role, Governance and Organizational Culture," in *Bretton Woods: Looking to the Future* (Washington DC: Bretton Woods Commission, July 1994), p. C-274.

well to point out *how* it shapes behavior.<sup>2</sup> While it is commonly accepted in the environmental policy community that MDB (particularly World Bank) environmental action cannot be understood by examining the institution's stated rules, it is less clear how exactly institutional factors actually shape environmental behavior.

In addition, the effect of such mismatched incentives is that each MDB contains staff who do try to pursue environmental goals in their work, and staff who do not. "Green bankers" in each MDB, or bank staff whose job it is to identify or appraise environmental projects, will make more of a point to pursue environmental goals in their lending or policy work than their colleagues. These are the people who have particular incentives or training to give environmental issues more prominence in their work, and for whom concern about environmental issues is embedded in their thinking. The composition and location of these "green bankers" ultimately play an important role in determining how an MDB's portfolio of project and other activities will reflect its environmental goals.

Variation in the types of activities the World Bank, EBRD and EIB are likely to pursue can also best be explained by examining how each MDB responds to its dual personality as financial institution and development agency. This chapter shows the extent to which the World Bank most emphasizes its role as a development agency, but has more points of struggle in its attempts to harmonize multiple mandates. The EIB is most bank-like and demand-driven, thereby sticking to a narrower range of more traditional MDB lending activities, and facing fewer conflicting incentives in its work. The EBRD is between the two, since it was set up to focus mainly on private sector development, but its design and incentive systems have also included components that encourage its staff to address particular policy issues in greater depth than a private bank would do. In the case of the EIB, because of a weak donor commitment to environmental issues, we would not expect the institution's

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<sup>2</sup>This is a lesson of recent work by "new institutionalists" who have shown how the "old institutionalist" configurative studies of legal and administrative structures were often static affairs that did not attempt to explain or compare actual policy outcomes. For an example of the old legal-formalist approach, see G.D.H. Cole and Margaret Cole, *A Guide to Modern Politics*, vol. Book III (New York: Knopf, 1934). On new institutionalist ideas, see Peter A. Hall and Rosemary C.R. Taylor, "Political Science and the Three Institutionalisms," *Political Studies*: 44 (1996): 952-973.



design, rules or procedures to be shaped in such a way as to particularly encourage any identification and design of projects with primary environmental goals. We would expect to see more institutional incentives to do so in the World Bank and EBRD.

This chapter begins with a comparison of the governance structures of the three banks, in order to highlight the ways in which the banks are relatively autonomous from the governments that own them. This section shows that agency slack is a constant variable among the three banks. In the subsequent three sections on each MDB, I examine the empirical evidence for how "bank-like" each MDB is—that is the extent to which it emphasizes its character as a financial institution or development agency—and how this influences staff incentives on environmental issues. There are a number of indicators that provide evidence about the degree to which an MDB emphasizes its dual character. These indicators ultimately shape the incentives of bank staff to seek to finance environmental projects or to consider environmental issues in their work. The four most important indicators are: institutional mission, structure, financial tools, and procedures. *Mission* clearly refers to the institution's overall aims. This not only determines the major issues an MDB seeks to address, but also the types of actors (state or private sector) with whom it is supplying financial resources and advice. The more demand-driven an MDB is, the more it is responding to client interests, and the less it seeks to impose its own policy prescriptions or reforms in its loans or other activities. By *structure*, I refer to operational design factors, as well as staff composition and placement.<sup>3</sup> The less demand-driven an MDB is, the more likely it will contain units or staff whose job is specifically to address non-banking policy issues in their work, e.g., pockets of "green bankers." The *financial tools* determine what types of projects the bank can fund and also who the recipients are, and is a variable not well explored in the literature on international assistance.<sup>4</sup> *Procedures* specify how the bank

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<sup>3</sup>Constitutional design factors are also a part of an MDB's structure, but in this chapter I address governance structures separately. This is due to the fact that I hold them constant, in arguing that the governance structures of all three MDBs are limited in their ability to influence the banks.

<sup>4</sup>One important exception is Robert O. Keohane and Marc A. Levy, *Institutions for Environmental Aid: Pitfalls and Promise* (Cambridge: The MIT Press, 1996).

intends to pursue its various goals. Procedures most relevant to the bank's environmental behavior include overall project cycle processes and environmental procedures.<sup>5</sup> Another important variable under this category is what can be termed the *porousness* of the MDB to outside scrutiny and pressure. This refers to the ways in which the bank seeks to open itself to relationships with outside actors who seek to influence its policies and projects, which is an indicator of the MDB's transparency to the outside world and can affect the ways in which it considers environmental issues.<sup>6</sup> MDBs that seek to behave most like private sector banks will be more attached to rules of confidentiality and less open to involvement by non-recipient actors.

It is important to note that while it helps to separate these different variables analytically, in practice they are clearly entangled and interact in complex ways. For example, an MDB's mission shapes its policies and procedures, as well as the way it is structured and the types of financial tools it uses. Staff composition shapes procedures (e.g., environmental appraisal procedures are likely to be more developed where there are environmental staff to design and implement them). However, the fact that these variables are to some degree entwined does not detract from the importance of analytical attention to the ways they affect how demand-driven the institution is, and how they impact on the incentives facing bank staff. The chapter concludes by hypothesizing how variation in the ways the MDBs juggle with their dual personalities may affect their activities in Central and Eastern Europe.

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<sup>5</sup>Other significant procedures that also have an impact on the incentives facing Bank staff include monitoring and evaluation procedures and procurement procedures. I do not examine monitoring and evaluation procedures in depth here, because I am focusing more on the incentives facing staff in project design and development rather than implementation, although one can argue that staff expectations of weak monitoring might move them to include lofty environmental aims no one expects to be achieved. Procurement, in turn, is an under-researched area of study, for which there is little available data. While analysis of the relationship between procurement and staff incentives to address environmental issues is beyond the scope of this dissertation, it is an important area for future investigation and analysis.

<sup>6</sup>For more on the ways in which a policymaking institution's openness to outside advice affects its ability to implement new ideas and programs, see Margaret Weir and Theda Skocpol, "State Structures and the Possibilities for 'Keynesian' Responses to the Great Depression in Sweden, Britain and the United States," in Peter Evans, Dietrich Rueschemeyer, and Theda Skocpol, eds., *Bringing the State Back In* (Cambridge: Cambridge University Press, 1985), pp. 107-63.

## Diffuse Governance

All three MDBs have similar basic governance structures—a three-tiered structure comprised of a Board of Governors, a Board of Directors, and some type of management operations committee. The Boards of Governors is generally are composed of finance ministers or other ministerial level officials from all of the bank's member states, and meet once a year.<sup>7</sup> The governors of countries belonging to all three MDBs tend to be the same officials. Their job is to lay down the overall directives for the MDBs, including decisions on capital increases, approving the annual report and other financial statements, new membership, and so on. The presidents of the banks, in turn, are the banks' chiefs of staff, and they participate in the meetings of the Boards of Governors and chair the Board of Directors meetings.

Shareholder countries are represented at the banks through their Boards of Directors, to which the Governors delegate much of their power. The Board of Directors is the body responsible for an MDB's general operations, and is solely responsible for approving all loans as well as major bank policies. It is the primary channel through which the shareholder nation state principals are involved in the MDBs activities. In effect, the "principals," who run the MDBs— that is their boards of governors and directors— are themselves a diffuse set of "agents" representing their home governments. Finally, each bank has some type of management committee that, in turn, is responsible for its day-to-day business. These committees are the main gatekeepers that decide which loans and programs go to the board for approval.<sup>8</sup> The following section describes important characteristics of the Board of Directors' composition, representation, and activities and shows how these attributes result in a weak set of collective principals with diffuse preferences for all three MDBs.

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<sup>7</sup> The finance ministers on the boards of governors may also meet outside of these annual meetings. For example, G-7 finance ministers meet more often. EIB governors meet at ECOFIN meetings. A sub-set of World Bank governors are also members of the IMF-World Bank Development Committee, which meets each spring. The Development Committee, set up in 1974, has 24 members, who are usually ministers of finance or development, and they advise the Boards of Governors of both the Bank and Fund on broad policy issues.

<sup>8</sup>"Board" refers to the Board of Directors.

### *Composition and Representation*<sup>9</sup>

The World Bank's Board of Directors contains 24 Executive Directors (EDs) representing 180 countries and the EBRD's contains 23, representing 58 countries and two international institutions.<sup>10</sup> In each bank, only a handful of the directors represents one country. At the World Bank, the U.S., France, Germany, Japan, and the U.K. have their own directors, as do Saudi Arabia, China and Russia. In the case of the EBRD, the U.S., France, Germany, Japan, the U.K., Italy, and the Netherlands have their own EDs, as do the EIB and European Commission. Beyond this group, all the other countries are grouped into constituencies. At both banks, recipients are often grouped together, such as the EBRD's ED office for Hungary/Czech Republic/Slovak Republic/Croatia. However, the ED constituency offices representing Central and Eastern European countries at the World Bank are a mix, with a donor country providing the director.<sup>11</sup> Some constituencies at the World Bank consist of over 25 countries. Sometimes members of the constituency have opposing interests and it is up to the ED to determine how to vote. In both banks, voting power is related to the share of a country's contribution to the MDB's capital.

Given these characteristics, it is clear that most of the countries belonging to these two MDBs do not have a direct voice or vote. Many are not really represented at all at times, since the staff of a multi-constituency ED office is not large enough to accommodate a representative from each country of its constituency.<sup>12</sup> Major donors therefore have a louder

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<sup>9</sup>This section draws from secondary sources as well as author interviews with the following officials: executive director officials at the EBRD included the U.S., France, Switzerland, Britain, the European Commission, the EIB, Japan, and Germany, interviewed in April 1995 and June 1996. At the World Bank, I interviewed officials who represented the ED offices of the U.S., Britain, Germany, and the multi-constituency office headed by the Netherlands, in May 1996 and April 1997. Interviews at the EIB included two members of the management committee, the EIB's former president, and members of the European Commissions DGII, interviewed in June-July 1996, and April 1997. I also interviewed treasury ministry officials in the U.S. and Britain, in February 1995, July 1995 and July 1996.

<sup>10</sup>World Bank membership data is as of March 1997. IDA's membership is slightly smaller, at 159.

<sup>11</sup>For example, there is a Swiss ED for the group containing Switzerland, Azerbaijan, Kyrgyz Republic, Poland, Tajikistan, Turkmenistan and Uzbekistan.

<sup>12</sup>The typical EBRD ED office now has an ED, an alternate and a secretary. A multi-constituency ED office at the World Bank may have a few assistants, but not enough to represent each country in its group.

voice at the World Bank and EBRD not just because they have a greater voting share, but also because they have single-constituency offices.<sup>13</sup>

The case of the EIB is different in the sense that it has no multi-constituency offices. The larger European Union (EU) countries have more directors than other EU countries, and each director has one vote. Germany, France, Italy, and the U.K. each have three directors, while Spain has two, and the remaining countries have one each. The European Commission also appoints its own director to the EIB. The size of the EIB's board currently stands at 22, with 12 alternates. This however, does not necessarily give member states more control over running the Bank; the EIB's relative autonomy is augmented by the fact that its board is non-resident. While the resident boards of the other two banks meet twice a week (World Bank) or twice a month (EBRD), the EIB's board travels to Luxembourg to meet around 10 times a year.<sup>14</sup>

Who is actually represented by the board? In the case of the World Bank and EBRD, the diffusion of shareholder preferences is enhanced by the fact that the EDs themselves are agents, representing a variety of home government ministries. Even for ED offices representing only one country there are varying degrees of contact with home ministries, with many countries giving the ED office a great deal of discretion in the ways that it votes.

In the case of the G-7, for example, the U.S. is widely acknowledged to have the most proactive home ministry (Treasury), which gives U.S. EDs relatively more precise instructions in what to push for and how to vote on the boards of MDBs where the U.S. is a member.<sup>15</sup> While the EDs at the World Bank and EBRD are presidential appointees, their

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<sup>13</sup> Some of the single constituency offices of major World Bank donors (namely France and the U.K.) also cover the IMF. They are joint offices that sit on the boards of both institutions.

<sup>14</sup> Members of the boards of the World Bank and EBRD often meet informally in smaller groups. For example, at the EBRD assistants to the EU countries' executive directors meet a week before board meetings to discuss projects. There are also occasional board workshops on particular topics, such as the Mochovce loan, or the creation of an Energy Efficiency Unit at the EBRD.

<sup>15</sup> Treasury has been the dominant agency responsible for instructing U.S. EDs at the Bank since the late 1960s, when it eclipsed the National Advisory Council on International Monetary and Financial policies (NAC), which then became an advisory group. NAC is chaired by the treasury secretary, and also includes leading officials from the Federal Reserve System, the Export-Import Bank, State, and Commerce. For a history and analysis of U.S. participation at the World Bank, see Lars Schoultz, "Politics, Economics, and

alternate directors are from the Treasury, and the ED offices receive guidance from the Treasury, through its MDB office with a staff of around 20. The U.S. Governor of both MDBs is the Treasury Secretary.

The U.S. ED offices have instructions on issues they should push in the board, as well as mandatory voting positions on a number of issues. Instructions are for issues such as promoting energy conservation and end use efficiency, or for opposing loans that would support the export of surplus commodities that would hurt U.S. producers.<sup>16</sup> Legislatively mandated voting includes issues such as human rights (the U.S. must vote "no" or abstain from voting on loans to countries that violate human rights unless the assistance is for basic human needs); or terrorism (the U.S. must vote "no" on loans to countries that the Secretary of State determines support international terrorism).<sup>17</sup> For environmental issues alone, there is an environmental review unit within the Treasury's MDB office whose job is to assess environmental implications of proposed projects. Much of the advice from Treasury is in the form of instructions on individual projects. Treasury and ED office officials note, however, that the process is often consultative, and that ED offices have input on the decisions. Other U.S. government agencies may also provide their input on specific projects or policies, although where there is disagreement, Treasury has the final say.<sup>18</sup>

EDs of other G-7 countries report to their finance or treasury ministries or to their development ministries. Germany's ED at the World Bank, for example, represents its Ministry of Development Cooperation (BMZ), while its alternate comes from the Ministry of Finance. At the EBRD, the German ED is from the Ministry of Finance, while his alternates

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U.S. Participation in Multilateral Development Banks," *International Organization* 36, no. 3 (1982): 537-574.

<sup>16</sup>U.S. Board members admit, off the record, that the latter is clearly a protectionist policy.

<sup>17</sup>In Richard Gerster, "Accountability of Executive Directors in the Bretton Woods Institutions," *Journal of World Trade* 27, no. 6 (1993), p. 115.

<sup>18</sup>For analysis on how Congress influences the Treasury's MDB policies, see Jonathan Earl Sanford, "U.S. Policy Toward the Multilateral Development Banks: The Role of Congress," *The George Washington Journal of International Law and Economics* 22, no. 1 (1988): 1-115. Sanford also shows that Congress has generally been a more active participant with respect to MDB policy, relative to countries with parliamentary or executive-dominated political systems.

have been from both the Ministry of Foreign Affairs and the Ministry of Economic Affairs. The British ED at the World Bank is from the Treasury, while the alternate represents Britain's aid agency, the Department for International Development (DfID).<sup>19</sup> At the EBRD, the converse is true; Britain's ED is from DfID, and the alternate comes from Treasury. Occasionally other ministries are also represented. The current Canadian ED at the World Bank, for example, is from Canada's environment ministry.

Members of G-7 ED offices report that it is not uncommon for different agencies representing one shareholder country in the ED offices to have disagreements among themselves over policy directions. This is unsurprising, given the different portfolios of finance and development ministries, but it further illustrates how diffuse shareholder instruction or preferences can be.

Consultation with home ministries varies among countries, and also with respect to the types of decisions being made. As Gerster noted, for some countries, such as Italy and France, specific voting instructions are rare at the World Bank and generally arise with respect to controversial projects. German and Canadian ED offices, in turn, receive more guidance from home ministries.<sup>20</sup> Interviews with members of G-7 ED offices at the MDBs and officials in their home ministries highlight the fact that the relationship between the two is often flexible and consultative. Often, the ED offices make their own decisions. British ED office officials, for example, note that guidance on project votes is less common than guidance on policy discussions. For projects, the World Bank ED office, for example, will often make decisions on its own, unless they oppose some aspect of a project. In that case, they will try to clear their opposition in advance with the DfID. In the case of policy decisions, the ED office will receive instructions from London, although it still may take the lead in developing the UK position, with clearance from London.<sup>21</sup> UK and other ED office

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<sup>19</sup>Formerly the Overseas Development Agency, under the Foreign Office, in May 1997, the DfID was upgraded to become a government department, with its own Cabinet Minister.

<sup>20</sup>Gerster, "Accountability of Executive Directors in the Bretton Woods Institutions," p. 89.

<sup>21</sup>Assistant to the UK Executive Director, World Bank and IMF, interview with the author, May 12, 1997. UK Director's Assistant, EBRD, interview with the author, February 1995.

officials note that a two-week turnaround time from when they receive project documents to the day of a board vote is often insufficient for their home ministries to produce thorough briefings.

An official in the German ED office at the EBRD, in turn, stressed that while strict instructions come from the Ministry of Finance, the ED office has a great deal of flexibility in its actions. There are no mandated votes for Germany and most other countries, as is the case with the U.S. All officials interviewed stressed the importance of personal contacts within ministries.

The Executive Director to the EBRD from the European Commission and EIB have even greater discretion in how they vote. While they are representatives of the Commission's Directorate General (DG) II, the EDs do not ask for instruction on many issues. In cases where instruction is sought, it comes from relevant DGs in the Commission. In some instances, different DGs disagree on what instruction should be offered.

The fact that different EDs seek different levels of guidance from home ministries is not necessarily indicative of agency slack. The EDs may be doing their job as agents, interpreting the wishes of the home ministries without needing direct advice. It is also true that as an ED office gains expertise over time, its director and alternate director know how they are supposed to vote without seeking confirmation. Yet the relative flexibility that many of these offices have does highlight a situation of diffuse oversight by member states, where it is unclear how responsive ED offices are to their home governments, or vice-versa. "Politics on the board," said an official in an EBRD ED office, "seems more based on personalities than nationalities." Indeed, ED staff commonly note that the "power of personality" is one reason why a country's power to influence the board is not always equal to its official voting share.

The case of the EIB differs from the other two banks in ways that increase its relative autonomy. On one hand, some members of the board *are* high ranking treasury or central bank officials in their own country, versus the more "middleman" position of EDs at the



other two banks, who are lower ranking officials representing their home ministries. In the past several years, for example, the EIB's Irish directors have been the Governor of the Central Bank and the Second Secretary of the Ministry of Finance's Finance Division. Two of Germany's three directors are high ranking officials in the Ministry of Economics and Ministry of Finance. In many cases, the EIB board directors are literally the bosses of the board directors from the same countries at the other two banks. Interestingly, for countries with more than one director on the EIB board, representatives may also come from outside government ministries, and include private sector actors. The 1995 board, for example, included an economics professor from a Greek university, the head of the board of Germany's public sector bank, Kreditanstalt für Wiederaufbau, and an official from a London-based merchant bank, Barclays de Zoete Wedd.<sup>22</sup> A non-resident board, for whom EIB board membership is clearly not their only responsibility, would be expected to take a relatively more hands-off approach, as it does.

Another aspect of board composition that is a potential source of board weakness is the relatively short tenure of board directors. At the World Bank, directors have two-year, renewable appointments. While some directors stay for many years, Naim has estimated that approximately 65% of board members leave after serving less than three years.<sup>23</sup> There is a similar degree of turnover at the other two banks. Board appointments are for five years at the EIB, and three years at the EBRD. While board tenures are also renewable at these two banks, high turnover is still evident. Turnover at both the EIB and the EBRD, for example, has averaged around one-third of the board each year between 1994-96.<sup>24</sup>

One result of this situation of diffuse governance is that the MDB presidents are often powerful actors in their own right, playing a significant role in directing the activities of the banks. Robert McNamara, for example, was clearly the driving force in the 1970s in

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<sup>22</sup>EIB, *Annual Report* (Luxembourg: EIB, 1995).

<sup>23</sup>Naim, "The World Bank: Its Role, Governance and Organizational Culture", p. C-280. Naim was an Executive Director at the Bank from 1990-1992.

<sup>24</sup>EBRD and EIB annual reports 1994-96.

expanding the World Bank's lending and defining its mission to put poverty alleviation as its highest priority, despite opposition from senior U.S. treasury officials that the Bank was growing too quickly and not responding to donor criticism.<sup>25</sup> More recently, while James Wolfensohn has been pushed by donors to make the World Bank leaner and more competitive, it is his vision of the Bank's evolving role in the international economy that has determined much of the content of the reorganization.<sup>26</sup> The same power can be attributed to some of the presidents of the other two banks, although there is also evidence that if a president strays too far from donor interests, he is not indispensable. This was the case with the EBRD's founding president, Jacques Attali, who was a major intellectual force behind the creation of the bank but was forced to resign amid donor displeasure over his management style.

#### *Activity*

In addition to issues of composition and representation, other factors contribute to generally diffuse governance structures among the three MDBs. One particularly important factor is the way in which the boards conduct their activities. This creates space for greater autonomy of the MDBs' management and staff, particularly with respect to the boards' ability to influence project development. In terms of loan approval, one of the most important activities of an MDB's board, most board members learn about most loans at the end of the project cycle, when loans are presented to boards for approval. In the case of the EBRD and World Bank, this is usually less true for directors representing recipient countries, since they have greater links to and more communication with bank staff involved in developing projects in their countries.<sup>27</sup>

Nevertheless, many board members will not have in-depth knowledge of a loan until they receive the board documents two weeks before the board meeting. At this stage, after a

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<sup>25</sup>Catherine Gwin, "U.S. Relations with the World Bank," p. 25.

<sup>26</sup>For analysis of the contributions of World Bank presidents, see Jochen Kraske, William H. Becker, William Diamond et al., *Bankers with a Mission: The Presidents of the World Bank, 1946-91*.

<sup>27</sup>Directors from donor countries may also become involved with projects if their countries have bilateral funds that may aid in project development, e.g., in the hiring of consultants to do appraisal work.

project may have been developing for well over a year, it is typically difficult for any changes to be made. It is also not always clear how "in-depth" the board's information is. The boards receive shortened, summary versions of the project documents. NGOs often argue that it is easy for bank management to leave controversial issues out of the reports. Bruce Rich, for instance, has criticized what he calls an "official culture of secretness" at the World Bank, arguing that the board of directors had no access to management's files, and was not allowed to scrutinize draft project documents.<sup>28</sup> At the World Bank until recently, the board did not even get some crucial information. For example, the Country Assistance Report (CAS), the main strategy document between the Bank and a borrower where the Bank's assistance levels and goals are laid out, was not even available to the board until the mid-1990s.<sup>29</sup> While new information disclosure policies at the Bank have improved this situation since 1994, EDs and their staff sometimes still bridle at their sense that management can call the shots when it wants to. At the same time, board members at all three MDBs sometimes do hear about problem projects—or even good projects—in advance. The more active board members will also be in touch with project managers, who will try, to varying degrees, to accommodate board questions and concerns.

Board voting procedures at all three MDBs encourage an atmosphere of consensus. At all three banks directors rarely have formal votes. The only time a director will "vote" is if he or she wants to go on the record as saying "no." It is rare for board meetings to have "no" votes, and even rarer for sufficient board opposition to prevent a project from being approved. Management can also reduce the odds of disagreement and conflict at board meetings by withdrawing controversial loans before they get to the board. The norm within the MDB boards is consensus. In addition, no one country has sufficient voting power to block a project without support from other shareholders.

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<sup>28</sup>Rich, *Mortgaging the Earth*, p. 70.

<sup>29</sup>According to the author's interview with Treasury officials in October 1994, the fact that donors can now see CAS reports was a result of a lobbying effort by major donor countries in the context of the IDA-9 negotiations.

At the World Bank, procedures have been streamlined so that some projects no longer even come up for a formal vote. Projects worth a discussion include those occurring in a new World Bank member country, or projects with innovative or problematic components. Where no ED has any matters to discuss, projects are automatically approved. Given the heavy volume of projects going through the World Bank, ED officials say that there is no way they can carefully go through the details of each project. The World Bank, for example, approved an average of 270 projects a year between its fiscal 1994-96. This compared with around 120 at the EBRD and 357 at the EIB.<sup>30</sup>

Ultimately, MDB executive directors have more power in setting policies and changing institutional design, but less control over the types of projects ultimately identified by bank staff, and the ways in which these projects are designed and implemented. Board members are influential on an ad hoc basis, and generally have the most influence on MDB policy at times of capital replenishment, which has occurred rarely at the EIB and once to date at the EBRD. Leading shareholder countries have had the most opportunities to influence policy changes at the World Bank, where its IDA arm must be replenished every three years. The U.S. has been the most active among major shareholders in pushing environmental ideas and other policy changes into the World Bank and EBRD<sup>31</sup>, and it is often supported in these efforts by countries such as Austria, Germany, the Netherlands and Sweden. Several other major countries—including Japan, France, and Italy—are often more passive or neutral on environmental issues. However, the alliances of board members supportive, critical, or neutral to new policy overtures depends on the particular issue at hand.

Every large organization, both public sector and private sector, faces the challenge of balancing the power of its management versus its board. This is the essence of the scholarship on principal-agent relationships. The challenge is to avoid the extreme situations where either the president and management are completely autonomous from the shareholder-

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<sup>30</sup>Data from 1994-96 annual reports. EIB data includes lending for global loans.

<sup>31</sup> Some of the major non-environmental policy changes pushed by the U.S. include new information policies at the World Bank and EBRD, and the World Bank's Inspections Panel.

owners, or where the shareholder-owners micromanage every decision and action of the institution without utilizing the inherent advantages of agency delegation. These situations do not exist at any of the MDBs, while their governance structures do allow for a great deal of institutional autonomy. The next sections of this chapter show how environmental policy goals emanating from the banks' boards of directors are institutionalized, or "hard-wired" into the three banks, and where the translation process can strengthen or weaken the bank's ability to address environmental issues. These sections examine indicators of how demand-driven an MDB is, and this evidence shows more clearly what incentives there are for MDB staff to identify and design projects with significant environmental goals or components, and the challenges and obstacles that arise in cases where they try to do so.

### **Institutionalizing Environmental Policy Goals**

#### **World Bank**

Of the three MDBs, the World Bank has the broadest mission, the largest number of environmental staff—of which many are directly involved in operations—the most comprehensive set of policies and guidelines, the greatest emphasis on evaluating project implementation, and the most openness to building relations with outside interest groups, such as NGOs. As an institution, it is the least bank-like of the three MDBs and as a result its staff has had the most incentives to identify environmental projects, to offer them to recipient countries, to address environmental issues in all of their projects, and to help recipients reform their own environmental policies. However, the plethora of rules and procedures set up to promote the environment do not always work that well at the World Bank, revealing gaps where policy ideas are not well translated into action by Bank staff. Ultimately, the Bank's character as a development agency clashes with important incentives arising from its character as a financial institution, which has historically encouraged project quantity over quality. The emphasis has traditionally been on staff bringing creditworthy

projects to the board in a timely fashion, and the project cycle has emphasized the pre-implementation stages.<sup>32</sup>

### *Mission*

As noted in Chapter 3, the primary mission of the World Bank has evolved considerably over the years, moving it increasingly away from the "Bank-as-bank" model. Of the three MDBs, the World Bank is most like a development agency, seeking to fund projects that meet various programmatic criteria with social, developmental, environmental, or other goals that move beyond the traditional types of bankable MDB projects. It is the only one of the three MDBs that funds projects focusing on education, health, or nutrition, for example. It also tends to have the most sophisticated types of conditionality attached to its loans, with more examples of less-traditional forms of (non-economic) conditionality and other types of policy influence than tends to be the product of the other two MDBs.<sup>33</sup> Throughout its life, the Bank has carried out its goals primarily through its dialogue with borrower country governments, from whom agreement and cooperation is necessary for any loan signed (all of which must have a sovereign guarantee, except for IFC projects) or any program signed.

In some important ways, then, the World Bank's broader mission, carried out primarily through Bank-government dialogue, sets the scene for the institution to have more leeway to promote projects and policies that go beyond traditional infrastructure activities. In providing expertise and advice, the Bank is hardly driven simply by recipient country demands. An environmental mandate in an institution with such a mission would appear to have more of a

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<sup>32</sup>See, for example, William J. Nagle and Sanjoy Ghose, "Beneficiary Participation in some World Bank Supported Projects," Prepared for the International Economic Relations Division of the Strategic Planning and Review Department, World Bank, 1989, cited in Paul J. Nelson, *The World Bank and Non-Governmental Organizations* (New York: St. Martin's Press, 1995), p. 91.

<sup>33</sup>For an interesting example of how the Bank promotes judicial reform through its loans and studies, see Chapter 3 in Ibrahim F.I. Shihata, *The World Bank in a Changing World: Selected Essays and Lectures*, vol. II (Boston: Martinus Nijhoff Publishers, 1995). He discusses loan components that include funding for the publication of legal information, for the drafting of various legislation, and even for the financing of judicial reform.

chance to take root than in an institution that is more driven by a more traditional set of development banking goals.

The Bank's broad landscape of goals has both positive and negative impacts on the incentives of its staff to carry out environmental objectives. On one hand the Bank's goal of promoting environmentally sustainable development has resulted in a considerable increase in the resources devoted to pursuing it, including the number of staff working on environmental issues, as well as the number of procedures and policies devised to ensure environmental issues are taken into account in project identification and development. On the other hand, as mentioned in Chapter 2, there is concern among analysts of the World Bank that the sheer number of institutional goals creates a situation where the institution faces an ambiguity of mission, giving staff the ability to avoid decisiveness on the issues where strategy conflicts with organizational incentives, or where the multiple strategies themselves come into conflict with each other.<sup>34</sup>

An important recent example of this is World Bank President James Wolfensohn's goals of making the Bank more demand-driven, by increasing client-orientation and strengthening the role played by the IFC, and the Multilateral Investment Guarantee Agency (MIGA), which insures private sector investors against political risks in developing countries. The goal of client orientation is to better customize country assistance strategies and to build more local ownership of World Bank projects and programs. The goal of strengthening the private sector components of the Bank is to use more Bank capital to guarantee private sector investment, versus direct projects or programs.

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<sup>34</sup>Naim, "The World Bank: Its Role, Governance and Organizational Culture," p. C-273. Wapenhans added the argument that there is also ambiguity in the way new missions are defined, which makes their operational purposes imprecise. "The need for long-term, sensitive, natural resources management has added the concern for sustainable development," argued Wapenhans. However, "the content of this phrase remains operationally undefined, rendering it vulnerable to the same fate of oblivion that befell such grand schemes as integrated rural development." The result, he posited, is that interpretation can be so wide as to "defy institutional accountability." Willi A. Wapenhans, "Efficiency and Effectiveness: Is the World Bank Group Well Prepared for the Task Ahead," in *Bretton Woods: Looking to the Future* (Washington DC: Bretton Woods Commission, 1994), p. C-292.

These goals have the potential to clash with the Bank's environmental goals. First, the growing emphasis on client responsiveness may greatly reduce the Bank's ability to push for environmental projects, or to build environmental considerations into other projects. Environmental pressure from the Bank is likely to be reduced in countries where environmental issues are not a policy priority. Second, the IFC and MIGA are widely perceived as doing a poorer job than the IBRD in building environmental features into their work. The prospect of the Bank emphasizing guarantees may turn it into more of a demand-driven institution like the other two MDBs, with less ability to take the initiative on project identification.

On balance, however, the World Bank's mission has more positive than negative impacts on the incentives of lending and policy staff to be aware of environmental issues and to pursue environmental considerations in their work. The more demand-driven EBRD and EIB depend to a greater extent than the World Bank on prospective borrowers coming to them with loan ideas, which gives them somewhat less flexibility to push for certain types of projects.

### *Structure*

The World Bank is by far the largest MDB, with a staff of more 10,000.<sup>35</sup> The most important thing to note about the Bank's structure is that it is far from static, and has undergone numerous reorganizations over the years. For example, the period covered by this dissertation was affected by three major reorganizations, as well as other smaller changes. The first occurred in 1987, when Barber Conable split staff between those who undertook operational (lending) activities, and those who undertook policy research and planning activities. New "Country Departments" were set up within each operational region, combining the separate projects and program departments that existed previously. Operations was put under its own senior vice presidency, and covered five regions, which were

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<sup>35</sup>As Frances Seymour points out, the World Bank is the third largest employer in Washington DC, behind the federal and district governments. Francis Seymour, "Overview," *Lending Credibility: New Mandates and Partnerships for the World Bank* (1996), p. 23.



increased to six when Europe and Central Asia (ECA) was added in 1991.<sup>36</sup> In 1993-94, under the presidency of Louis Preston, three central, thematic vice presidencies were created to strengthen the Bank's expertise in Human Resources and Operational Policy, Environmentally Sustainable Development, and Finance and Private Sector Development. Facing pressure from major shareholders to reduce staff and budget, Preston also merged a number of divisions and reduced the number of division chiefs.

James Wolfensohn, who took over the presidency of the World Bank in 1995, launched in mid-1997 another extensive restructuring of the Bank, dubbed the "Strategic Compact," in an effort to make the Bank leaner and more efficient, as well as to help it be able to better compete with private sector actors, given the large increase in private sector investment to developing countries. Wolfensohn's goal was to make the Bank more flexible and client-oriented, and less bureaucratic. The two important structural changes resulting from this restructuring were the reorganization of the Bank's operational divisions, and a move to decentralize the Bank's Washington-heavy presence by placing more country staff into the field.

In the old Bank, whose basic form was in place since Conable's 1987 restructuring, country departments could contain over 100 people. These departments were broken down into different sectoral divisions, where task managers focused on developing projects in areas such as agriculture, environment, trade, infrastructure, and human resources. Sectoral experts could also be found in the four regional technical departments, whose job was to work on specific technical issues associated with projects. These technical departments also contained sectoral divisions, staffed by experts in each area. Under Conable's 1987 restructuring, environmental offices (regional environmental divisions, or REDs) were placed in these technical departments to help operations staff design environmental components of projects, as well as to review projects' adherence to the Bank's environmental policies. In

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<sup>36</sup> Shihata, *The World Bank in a Changing World: Selected Essays and Lectures*, pp. 16-17.

having a review role, the RED division chiefs had the power to stop projects from moving forward in the project cycle if they had any concerns.

The major effect of the changes under Wolfensohn was to create vastly streamlined country departments who staff individual projects by choosing consultants from the broader pool of Bank staff, or from the outside. Under the new Bank, the country directors have a tiny staff—a handful of people—and these directors control their own budgets. These country teams do not undertake projects themselves, but rather advise the country director on broader strategies for the country. The rest of the people from the old country and technical departments are grouped into sector groups for each region. For each project undertaken in a country, the country director will dip into his or her regional sector group or look elsewhere in the Bank, or even outside the Bank, to hire the expertise sought. The reorganization cut the layer of bureaucracy previously staffed by division chiefs, and left many managers without jobs. It also resulted in the departure of bank staff who found they were not being hired by country directors for projects.

To use the case of Central and Eastern Europe as an illustration, before the 1997 restructuring, the Bank's work in CEE was undertaken in the ECA office. Within ECA, there were four country departments (ECA I-IV), each covering 6-8 countries in CEE and the former Soviet Union, as well as Turkey. As a result of the 1997 reorganization, there are more than 10 country departments in ECA, each containing a country director responsible for one to four countries. The directors and their small country teams develop projects with four new sector management units, which contain departments that work on issues such as the environment, private and finance sector development, agriculture and energy.<sup>37</sup>

Within the World Bank, the task manager has been the central operational actor—essentially, the Bank's banker. As a result of Wolfensohn's restructuring, task managers were renamed team leaders, and were located in the regional, sectoral divisions, although in practice it does not appear that the content of the job has changed significantly, since these

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<sup>37</sup> "The World Bank Streamlines its Strategy for Transition Economies," *Transition* (Washington DC: The World Bank, February 1997), p. 3.

people will still be responsible for shepherding projects through the project cycle. It is the task manager's job to identify projects for the Bank, based on his or her understanding of a country's development plan or ideas, as well as the Bank's economic and sector work, its CAS, and other relevant documents. The task manager develops the project idea and takes the project through the project cycle, preferably past board approval and into implementation. In the process, he or she is responsible to make sure the Bank's various policy criteria are incorporated. Before the 1997 restructuring, task managers were generally located in specific divisions within the country departments, although sometimes staff in the technical or central departments also initiated projects.

#### *Location of Environmental Staff*

Of the three MDBs, the World Bank has the greatest number of staff whose job is specifically to address environmental issues. For much of the period examined by this dissertation, there were three primary locations for these "green bankers" in the Bank: within the central environmental department, where work emphasized research, policy development and operations support; within the regional technical departments; and within the country departments themselves, where there were individual task managers responsible for identifying projects with primary or significant environmental components. The existence of these "environmental" task managers integrated into country teams is unique to the World Bank, and is evidence that environmental staff have penetrated its structure more deeply than at the other two MDBs.

Under the most recent organizational changes, the environmental sectoral divisions combined the task managers formerly in the country departments, as well as staff from the regional technical units. For ECA, at least through mid-1997, there were around 30 people who work on environment in some way or another, plus an additional handful in the central environmental department.<sup>38</sup> In addition, the Bank's Central Environment Department was reduced in size, and turned its attention more toward global issues.

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<sup>38</sup>Estimate by Helmut Schreiber, World Bank, interview with the author, July 1997.

## *Analysis*

The structure of the Bank has characteristics that have both encouraged and inhibited its ability to address environmental issues in its work. The most important factor encouraging the Bank to be proactive in identifying environmental projects includes the fact that team leaders looking for such projects are well integrated into operations work at the Bank. Environmental specialists in other areas of the Bank also develop projects and programs.

Generally, task managers at the World Bank have strong incentives to get projects to the board in a timely fashion, which has led many critics of the Bank to argue that project quality can be pushed aside. This is what Wapenhans noted has been labeled as the "approval culture" at the Bank, reflecting the fact that task managers have tended to be judged more on project preparation and appraisal versus implementation.<sup>39</sup> In addition, given the fact that a project can take years from start to finish, quite often a project's task manager will have changed jobs, or moved within the Bank before a project is complete. The incentives that create pressure to lend are often not explicit, and management in recent years has emphasized the importance of project quality over lending targets. Still, in practice, task managers will be more attracted to relatively large projects that are relatively easier to undertake, with as few complex issues as possible to slow them down. The lower a project's transaction costs the better, which means that task managers are generally not in favor of large, expensive, in-depth environmental assessments that may require significant changes in project design. Yet, task managers who have the specific goal to seek out projects that address a country's priority environmental problems clearly have more incentive than others to do so. This has resulted in an overall World Bank portfolio that contains many projects not traditional even to other development banks, such as environmental management capacity building, natural resources management programs, coastal pollution control, and community forestry, to name some.

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<sup>39</sup> Wapenhans, "Efficiency and Effectiveness: Is the World Bank Group Well Prepared for the Task Ahead," pp. C-289-304. Willi A. Wapenhans, *Effective Implementation: Key to Development Impact*. Portfolio Management Task Force. Confidential Report of the World Bank (Washington DC, September 22, 1991) p. iii.

Task managers also design projects under the auspices of the Global Environmental Facility (GEF), which provides grants to developing countries to address four global environmental problems: ozone depletion, biological diversity, climate change, and the protection of international waters. The GEF portfolio at the Bank thus contains projects that go well beyond typical MDB infrastructure projects, and covers topics such as wetlands management, biodiversity conservation, and the phaseout of ozone-depleting substances.

Another major structural characteristic shaping the Bank's environmental activities is the existence of the central environmental department, which along with the regional environmental departments, has been responsible for an enormous amount of research on a wide variety of topics related to sustainable development, and has contributed to the Bank's emerging global role as intellectual leader on environmental issues. As noted in Chapter 3, this research includes sectoral policies as well as "best practice" guides for Bank work on the management of different types of natural resources and sources of pollution. It also includes the Bank's work on national and regional environmental programs for recipient countries, the development of least-cost, "green" accounting, and environmental impact assessment methodologies, as well as research on global issues such as climate change and ozone depletion. Central environmental department staff also make contributions to individual projects, and help to appraise them at the invitation of the RED, or on their own initiative. Both the technical and central environmental departments have increasingly been transformed into quasi-internal consulting firms within the Bank, with their staff "hired" to provide project support on anything from project identification to appraisal.

The existence of "environmental" task managers and specific departments to address environmental issues in all projects as well as to focus on environmental research and policy development has given the World Bank a stronger ability to emphasize environmental issues than the other two MDBs. Environmental specialists have now deeply penetrated the Bank, and their work is no longer considered marginal. Yet at the same time, this structure still has negative aspects that can make it more difficult for the Bank to meet its goals.

First, in many of the Bank's structural iterations, the links between the role of operations and research have been murky, and not well integrated. Several critics of the Bank have argued that the research and policy arms of the Bank are poorly connected to operations. Bruce Rich, for example, argued that the 1987 reorganization created a central department that "inhabited a world of paper...while the lending juggernaut lumbered ahead on a separate planet called Operations," and the regional environmental staff were "all but powerless to stop ambitious country directors from riding roughshod over Bank policies."<sup>40</sup> In fact, this assessment is overly pessimistic, since central environmental staff end up spending more than half of their time supporting country departments, and regional environmental staff have been able to stop projects from moving forward, on environmental grounds.<sup>41</sup> Yet, there is much evidence that the policy work and research undertaken by the Bank are often poorly translated into actions by operations. We see this below, in the sections on environmental procedures and monitoring. Some people inside and outside the Bank are highly critical of the Bank's policy research, calling it "vanity publishing" that can exist in a vacuum from project work.<sup>42</sup> At the same time, government officials in recipient countries have also praised this research as very useful in their own conceptualization of relevant policies issues and priorities, even if the research is not connected to specific lending activities.<sup>43</sup>

Second, the new decentralized structure of the Bank, with its emphasis on client responsiveness, may make it more difficult for the Bank to build conditionality (political, economic, or environment) into its loans. In the past, environmental staff in the Bank could visit countries and look around for potential environmental projects. If they saw something that matched a country's environmental priorities, they could "raise interest" within the

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<sup>40</sup>Rich, *Mortgaging the Earth*, p. 183.

<sup>41</sup> Robert Wade, "Greening the Bank: The Struggle over the Environment, 1970-95," in *The World Bank: Its First Half Century*, ed. Devesh Kapur, John P. Lewis, and Richard Webb (Washington DC: The Brookings Institution, 1997), p. 717.

<sup>42</sup>Quote from author interview with G-7 ED official at World Bank, 25 March 1997.

<sup>43</sup>Environment ministry officials in Hungary, Poland, interviews with the author, October 1997.

government.<sup>44</sup> In cases where a country's project ideas were seen by the Bank as low priority issues, the Bank would refuse to finance them. Under the new system, country directors working with recipient governments on formulating their lending priorities are likely to find environmental issues are relatively lower priorities for the latter than they are for the Bank's major shareholders. As a result, country directors may find themselves calling less often on the environmental task managers to design "green" projects. This can eventually result in an increased gap between issues major Bank shareholders think are important for the Bank to pursue, and issues preferred by recipient countries.

### *Financial Tools*

The financial tools available to an MDB are also an indicator of how "bank-like" it is and what types of projects MDB staff can identify as suitable for bank funding. The financial tools determine who the client may be, and what types of activities may be financed. The fact that the IBRD is limited in its lending to government bodies has reinforced the Bank's interaction with policymakers, and its emphasis on developing loans that have an impact on a country's broader policy priorities.<sup>45</sup> Sovereign-guaranteed loans are not only for individual investment projects, but for the more policy-oriented structural adjustment lending or sector lending as well. In the Bank's portfolio for individual countries, discrete investment projects, such as those that build infrastructure, will appear hand-in-hand with projects aimed at restructuring an entire sector, or developing new legal or regulatory frameworks.

While there is no set minimum loan amount at the World Bank, its projects tend to be larger than the EBRD or EIB's. In Central and Eastern Europe, for example, there is a large number of World Bank projects between \$100-\$150 million, and the average project size is just under \$100 million. This compares with an average size project of just under 20 million ECU at the EBRD and about 50 million ECU at the EIB. Given the Bank's "top-down"

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<sup>44</sup> World Bank environmental Task Manager, ECA department, interview with the author, July 15, 1997.

<sup>45</sup>The World Bank Group's IFC is a private sector lending institution that has a different set of clientele, and is largely demand driven, more like the EBRD. However, since it is somewhat separate from the IBRD, and since it is a relatively small player in Central and Eastern Europe, I do not count it among my MDB cases.

approach, and its ability to undertake broad sectoral restructuring, the Bank has greater possibilities than more "bottom-up," demand-driven MDBs to shape policy dialogues with recipient countries, and to bring in environmental objectives if it believes they are important. Its tools are thus amenable to pursuing environmental activities, at least from the "supply side" of what the Bank can offer to a country.

In addition, World Bank staff have access to in-house sources of grant funds that can be used to finance background research, feasibility studies, technical assistance, training and project preparation. This can give task managers the possibility of exploring more innovative types of projects or looking at particular issues in greater depth than they would be able to do otherwise.<sup>46</sup>

The next chapter will show in greater depth how the shape of an MDB's financial tools affects the demand for its projects by recipient country actors. In the case of Central and Eastern Europe, the World Bank now faces more competition with private sector banks, and its fellow MDBs. Therefore, there is a risk that the Bank's emphasis on policy conditionalities and reforms in relatively more wealthy countries can backfire, if recipients turn more readily to alternative sources of finance that have fewer strings attached. In sum, the World Bank is well positioned to sell environmental projects and policy ideas to recipient government, but faces an increasingly competitive environment for doing so in more highly developed clients.

### *Procedures*

Much of the literature on organizational theory begins with the assumption that organizational behavior is strongly shaped by the rules and standard operating procedures organizations must follow. Yet organizations also struggle with the fact that these rules and

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<sup>46</sup>The amounts are not insignificant. In fiscal 1997, for example, trust fund disbursements totaled \$1.3 billion. Trust funds consist of contributions from developed country donors, and vary in terms of the extent to which they are a form of tied-aid. In fiscal 1997, the largest contributors were Japan (\$210 million), the Netherlands, (\$207 million), Denmark (\$72 million), Norway (\$66 million), and Sweden (\$60 million). The Bank itself contributed an additional \$653 million to trust funds out of the IBRD's income. World Bank, *Annual Report*, (Washington DC: World Bank, 1997). The EBRD also has "technical cooperation funds" used for project preparation and implementation, but the amounts are smaller. Commitments totaled around 400 million ECU for 1991-1996, for example. EBRD, *Annual Report* (London: EBRD, 1996), p. 46.



procedures are not implemented as envisioned by the organization's designers. Rules may be revised and refined, as the institution seeks to adapt to these challenges or learn new ways of addressing them. Or, the gap between what they are supposed to do and what they are able to do may remain, without adjustment. An analysis of the relevant procedures and rules of each MDB provides evidence on the extent to which the MDB is designed to encourage greater attention to environmental issues. However, a description of various rules and procedures is irrelevant without analysis of how they shape or what challenges they pose to institutional incentives. In the case of the World Bank, the existence of numbers of rules and procedures for addressing environmental issues provide further evidence of its development agency character vis-a-vis the other two MDBs. However, there is also evidence that the World Bank faces a greater challenge in harmonizing these rules and procedures with its other development and banking goals.

The World Bank is famous for having an inordinate number of rules and procedures, so that many of its more recent presidents have sought ways of cutting back on the paperwork and layers of bureaucracy. Indeed, the Bank itself recognizes that its "overly bureaucratic process" has reduced its ability to respond quickly in a changing external environment.<sup>47</sup> By the early 1990s there were over 200 different tasks that managers had to carry out in their work. These tasks, then called "Operational Directives," or "ODs" covered everything from environmental impact assessment procedures to the Bank's policy on resettlement.<sup>48</sup> Task managers, noted Wade, complained of being "ODed (overdosed) on ODs."<sup>49</sup> Interviews with Bank staff revealed that they rarely pay attention to some of these ODs, because it is simply impossible to follow them all. Several ODs have been seen as weak or as failures, and have been revised over time.<sup>50</sup> By 1993, the Bank began to move to

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<sup>47</sup>World Bank, "The Strategic Compact: A Summary Note," [www.worldbank.org](http://www.worldbank.org), 7/12/97.

<sup>48</sup>ODs, in turn, evolved from Operational Manual Statements (OMS) and Operational Policy Notes (OPN), both written instructions from management for staff to follow. These OMS and OPN were revised into the ODs beginning in 1989, and supplemented a few years later by Operational Policy Statements, Bank Procedures, and Good Practice statements. Shihata, *The World Bank in a Changing World*, pp. 546-47.

<sup>49</sup>Wade, "Greening the Bank: The Struggle over the Environment, 1970-95," p. 729.

<sup>50</sup>One example is the Bank's Resettlement Policy, which was issued in 1980 and revised a few times. NGOs are highly critical of it. See Rich, *Mortgaging the Earth*, p. 156.

reissue some of the major ODs as simpler, non-binding "operational policies," prompting debates on whether these would encourage greater laxness among project designers, or in fact would allow them to make projects less complicated and more easily implementable. Clearly the answer depends on which of the policies are being watered down and what impact a looser interpretation has in a specific project context.

It is beyond the scope of this dissertation to describe and analyze all of any MDB's rules and procedures. Instead, my analysis of each bank will focus on the major rules and procedures that impact the incentives of MDB staff to address environmental issues in their work. These consist of: its overall strategies toward individual countries; its environmental impact assessment procedures; and rules governing its transparency and accountability. In each case, I describe how these rules are supposed to work, and how they tend to affect the incentives of bank staff to address environmental issues in practice.

#### *Overall country strategies*

The project cycle is the overall framework that determines how an MDB is supposed to design projects and make loans, and each of its components contains its own rules and procedures. All MDBs have similar project cycle processes. These basically consist of: *project identification*; *project preparation*, where the Bank and the borrower flesh out the details and specific conditions necessary to achieve the project's goals; *project appraisal*, where the banks' undertake a technical, economic, financial and sometimes environmental review of the project to ensure it is soundly designed; *negotiations* between the Bank and borrower agreeing to the specific loan conditions, including the economic, political, environmental, and other covenants built into the loan agreements; and *implementation and supervision*, where the borrower is responsible for implementing the project, while the bank makes sure it does so as agreed.<sup>51</sup>

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<sup>51</sup>For more details on each stage of the project cycle, see: Warren C. Baum, *The Project Cycle* (Washington DC: The World Bank, 1982); and Philippe G. Le Prestre, *The World Bank and the Environmental Challenge* pp. 47-59.

The World Bank's project cycle differs from those of the other two MDBs in the extent to which it situates individual projects within in-depth analyses it periodically undertakes of a country's economy. This provides the basis for developing the Country Assistance Strategy (CAS), a key document between Bank and borrower that defines the Bank's framework of lending for the latter. The CAS is an important indicator of the Bank's non-banking goals—that is, its desire to build a portfolio of projects out of an overall analysis of a country's economic and also political context. Bank staff discuss CAS with recipient countries, but are not obligated to change its conclusions in areas where there is disagreement.<sup>52</sup> The CAS document analyzes the country's economic and political position, lays out its development and economic objectives and prospects, and sets out the Bank's own strategy for the country along with the specific details of past and proposed assistance programs. For many years these documents were secretive, and not seen even by the Bank's board. Critics of the Bank argued that this allowed management to avoid scrutiny of its country strategies, while the Bank pointed out that many of its borrowers resisted more public knowledge of their economies and policies. Since the mid 1990s, however, as a result of the board pressure on the Bank and the Bank's overall movement toward greater openness, CAS preparation has become more open, with more active consultation with borrower countries, and board consideration of CAS reports. In August 1998, the Bank's board amended Bank policy on CAS to allow the reports to be made publicly available, but only if the country agrees.

In theory, the CAS reports present an important opportunity for a country's environmental context to be discussed. The Bank's decision to integrate environmental considerations into its CAS reports is therefore a significant change in its overall policy. If the Bank concludes that some natural resource or pollution issues should be among its priorities, it can then begin a dialogue with the country on the topic and seek to identify these issues in the CAS as something deserving attention. This gives Bank staff the ability to flag environmental issues at the beginning of the basic policy negotiation process with recipient

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<sup>52</sup>Author interviews with Bank staff, 25 July 1995.

countries. Indeed, the National Environmental Action Plans (NEAPs) that the Bank has required for IDA borrower and suggested for IBRD borrowers are supposed to inform and be integrated into the CAS reports.<sup>53</sup> These NEAPs describe and analyze a country's major environmental problems and offer policy solutions and other actions for addressing them.

Nonetheless, in practice, the CAS reports have not consistently integrated environmental issues into their conclusions. According to a 1996 internal World Bank review of 25 CAS reports, the links between a country's macro economic situation and its environmental issues were "not articulated."<sup>54</sup> The report criticized CAS reports for not addressing the impact of different development strategies on issues such as sound environmental and natural resource management. One possible reason for this is that the CAS reports must focus on a handful of development priorities, and environmental priorities may not be as competitive with respect to other macroeconomic issues in many countries. The 1996 report recommended "some improvement in the Bank's organizational and incentive structure...to encourage wider and more effective consultation among experts, to reward team spirit, and to ensure collective accountability, so that a CAS can concisely state, for a country with multiple development goals, what are the key environmental challenges and how to design appropriate strategies, policies and action plans."<sup>55</sup> More recently, the Bank has asked environmental consultants and other outside groups to make recommendations on CAS methodology, and to be involved in CAS discussions in particular countries, although it is too early to analyze the results of this strategy.<sup>56</sup>

### *EA procedures and NEAPs*

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<sup>53</sup>While NEAPs have been required for IDA borrowers since the late 1980s, many countries have yet to undertake them. The Bank encourages IBRD members also to complete NEAPs, but this is not a requirement. Operations Evaluation Department, "Effectiveness of Environmental Assessments and National Environmental Action Plans: A Process Study," Operations Evaluation Department Report 15835, June 28, 1996, p. 3.

<sup>54</sup>Office of the Senior Vice President, Development Economics, "Integrating Environmental Issues into Country Assistance Strategy," February 1, 1996, pp. v, 14, cited in Wade, "Greening the Bank: The Struggle over the Environment, 1970-95," p. 721.

<sup>55</sup>Ibid., p. 722.

<sup>56</sup>Bank Information Center, "Tuesday Group Report," (Washington DC: Bank Information Center, February 1998).

"There is no question that the Bank's (environmental) procedures are exemplary," wrote the World Wildlife Fund's Katrina Brandon, "What is controversial is how well it follows them."<sup>57</sup> Indeed, the World Bank has a comprehensive set of rules for the ways in which individual projects must address environmental issues. These rules were the model on which the EBRD's own environmental assessment (EA) procedures were developed (in fact, by some of the same people), as well as those for some of the other regional development banks. They clearly distinguish the World Bank from private sector banks, and theoretically can greatly shape project design. Compared with other MDBs, the World Bank's EA procedures have received the most scrutiny and have undergone the most revisions. They are also the most transparent, and encourage the highest degree of public participation. Yet, integration of these rules into projects still remains patchy, and the Bank continues to search for more ways to increase the effectiveness of EAs.

EA procedures, brought into the Bank with the help of pressure from major shareholders as well as Conable, were codified in 1989 as an annex to Operational Directive 4.0, and later revised in 1991 as OD 4.01. The EA directive requires that all loans be screened for their potential environmental impacts.<sup>58</sup> The purpose of the EA is to assess ways of preventing, mitigating, or minimizing possible adverse environmental impacts. EAs can be produced at the individual project level, as well as the regional and sectoral level. EAs are formally the responsibility of the borrowing country, but Bank staff from both the central and regional environmental departments usually assist in their preparation as well as monitor them.

There are four main steps in the EA process. The first step is called *screening*, and occurs in the project identification stage. At this stage, the task manager (with assistance from the central and regional environmental departments) identifies the magnitude of the project's environmental impact, and assigns the project one of three categories. Those in

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<sup>57</sup>Katrina Brandon, "Environment and Development at the Bretton Woods Institutions," in *Bretton Woods: Looking to the Future* (Washington DC: Bretton Woods Commission, 1994), p. C-137.

<sup>58</sup>This is for the IBRD and IDA; the IFC has its own set of environmental procedures.

Category A may have a significant impact on the environment and require a full EA.

Examples of Category A projects include dams, power plants, large industrial plants, land clearance, and rural roads. Those in Category B have less significant impacts and require a partial EA. Examples include small-scale irrigation and drainage, renewable energy, and tourism. Projects in Category C have no apparent environmental impact and do not require any EA, and can include projects in education, nutrition, and telecommunications.

In the *scoping* period, which occurs during the project preparation stage, the project's likely environmental impacts are further defined, and the task manager develops terms of reference for undertaking the EA. This is a point in the project cycle when local communities and NGOs are supposed to receive information about the project, and become involved in consultations on it. In the third stage, an EA report is prepared and is reviewed during the Bank's appraisal. This report: lays out the basic facts on the project; identifies its positive and negative environmental impacts; provides an analysis of alternative actions that can be taken to reduce the environmental impacts; and presents a plan that specifies measures to address the environmental issues. Finally, during the *project implementation* stage, the borrower is responsible for carrying out the recommendations of the EA report, and the Bank is responsible for supervising this implementation.

The Bank's EA procedures have evolved in several ways since they were first introduced, in part as a result of critical evaluations produced by the Bank's own reviews of EAs. For example, among the important changes distinguishing the 1991 version from the 1989 version are greater specification on requirements for public consultation, such as making draft EAs available to relevant groups; and a definition of environmental mitigation plans, which became part of the criteria for Category A and B EAs.

In theory, these procedures seek to ensure that the World Bank fills a basic condition of its environmental mandate—to try to avoid or mitigate environmental harm by controlling the environmentally destructive effects of its activities. However, EAs can have more far-reaching effects as well. They force all task managers to think more carefully about the

environmental implications of current (and future) projects; they can have a fundamental impact on the design of the Bank's projects; they encourage thinking and research on the risk assessment methodologies; they can contribute to scientific knowledge on the flora, fauna and general environmental conditions of a country; and they can build environmental management capacity in recipient countries, as well as encourage public participation in parts of the world unaccustomed to such trappings of civil society. EA procedures can thus be an important source of institutional change within the organization, while also having an impact on broader development issues.

Nonetheless, the Bank's EA procedures have been criticized, even by analysts within the Bank itself, for not quite reaching their goals. An internal 1996 World Bank report assessing the Bank's EA procedures concluded that while staff generally comply with the procedures themselves, "very few EAs actually influence project design."<sup>59</sup> With regard to Category A project in particular, the report was stinging:

The approach to environmental assessments used in the Category A projects reviewed by this study often generated massive documents that are of little use in project design and during implementation. Data collection efforts for EAs have not been adequately focused, which has added to the borrowers' costs without significantly improving the documents' usefulness. Bank terms of reference for EAs often required prediction and evaluation of too many impacts, obscuring the focus on relevant, key impacts.<sup>60</sup>

One of the main factors contributing to this problem is that the timing of EA preparation often does not fit well with the overall project cycle. An EA can often take more than a year to complete, which often means that by the time its conclusions are finalized, the project design itself is often also finalized, "thus precluding meaningful consideration of alternatives," according to the report. This is even more likely to occur in cases where task managers see the EA as a "pro-forma ritual."<sup>61</sup> The report also criticized Category A EAs for only superficially considering alternative designs and technologies, as required in the OD.

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<sup>59</sup> Operations Evaluation Department, "Effectiveness of Environmental Assessments and National Environmental Action Plans," p. 24. This study is based on research conducted in 8 countries, of which one (Poland) was in the CEE region.

<sup>60</sup> Ibid., p. 6.

<sup>61</sup> Ibid., p. 26.

Even EAs that did consider alternatives "often explore weak, superficial or easily dismissed options," it said. Another serious problem is the fact that often EAs were not properly implemented, often because project implementation staff did not understand the EAs, and in a number of cases, because the EA itself was not even available to the project office.<sup>62</sup>

Some of these problems are more easily correctable than others. Making EAs available to project offices is relatively easy, for example, while harmonizing the EA process with the broader project cycle process might be more difficult. EAs that seriously consider alternative issues may be more thorough, and more expensive, but may push options that are not a priority for the recipient country. As noted above, there are few incentives for Bank staff to promote time-consuming, expensive additions or changes to project design.

The ways in which the Bank's various environmental ODs are translated into projects, as well as the extent to which NEAPs have a real impact on domestic policy priorities, echo the Bank's experience with its EA procedures. For example, like EAs, NEAPs can strengthen the ways in which the Bank and individual recipients prioritize and address environmental issues, while also serving as an instrument to strengthen the capacity of domestic environmental ministries, and a forum for facilitating networking among domestic environmental actors and between these actors and the Bank. Yet evaluations of NEAPs by the Bank show that their quality and efficacy are quite mixed. Some NEAPs are more focused on specific priorities and projects than others, and even some of the more well-written NEAPs may be ignored by recipient country policymakers.<sup>63</sup>

The Bank's experience with its environmental procedures and policies shows how innovative intentions often run into obstacles in practice. Conflicting or mismatched incentives are clearly a culprit, but weak recipient government capacity or interest can be as well. The Bank's efforts to evaluate and revise its procedures reflect its constant efforts at error-correction, but the results seem to unfold quite slowly.

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<sup>62</sup>Ibid., p. 6.

<sup>63</sup>Ibid., pp. 45-62.



### *Porousness*

The degree to which MDBs are open to the input and feedback of the public is also an indicator of how "bank-like" and demand-driven the MDB is. Client confidentiality is sacred to private sector banks, who feel little need to ask the public's advice on whether to make a loan, and how to carry it out, or to provide information on how a loan is being designed. Public accountability and transparency, instead, are goals expected more of public institutions. After decades of secrecy, the World Bank has recently transformed itself into the most transparent of the three MDBs. It was the first of the three to adopt a new information disclosure policy, in 1994, which made more Bank documents available to the public and created a Public Information Center (PIC). The PIC makes available a variety of documents, many of which were previously confidential, such as Staff Appraisal Reports (produced from 1994 onwards), which describe projects and their implementation plans. Other available information includes economic and sector reports, environmental impact assessments, and project information documents, which may be updated.

Of the three MDBs, the World Bank has also put the greatest effort into building relations with NGOs. As mentioned in Chapter 3, these changes were largely externally-driven, as a result of U.S. pressure (backed by the threat of funding cuts) supported by NGOs. These efforts have included an NGO-Bank Committee set up to expand relations and increase cooperation between NGOs and the Bank; a 1989 Operational Directive on "involving Nongovernmental Organizations in Bank Supported Activities," and more recently, NGO sector studies in a variety of countries. By 1997, the Bank had placed NGO liaison staff in 72 of its resident missions, and had launched a program to work with a global network of NGOs to review the impact of structural adjustment lending in a set of countries.<sup>64</sup> NGOs are also increasingly involved in helping to implement Bank projects, and have occasionally been involved in project design. The Bank's efforts to publicize its engagement with NGOs include sections on its NGO activities in various annual reports since

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<sup>64</sup> World Bank, *Annual Report*, (Washington DC: World Bank, 1997), pp. 14-15.

the late 1980s, separate World Bank publications, and speeches by a number of Bank executives.<sup>65</sup>

Another important indication of the Bank's "porousness" to outside stakeholders is its creation in 1995 of an independent Inspections Panel to investigate complaints from non-state actors who feel the Bank has not conformed to its policies and procedures. The panel is the first mechanism that enables non-state actors to hold IOs directly accountable for their actions, and it has been forum for non-state actors who have challenged Bank actions in countries as diverse as Nepal, Brazil, Argentina, Bangladesh, India, Tanzania, and Ethiopia.

In theory, the more open approach by the World Bank to interaction and dialogue with NGOs and its movement to make more information publicly available might be expected to lead to greater accountability and transparency. More openness to NGOs might also be expected to influence the Bank's portfolio into greater activities in environmental impact, public participation, and structural adjustment. In practice, however, the jury is still out, given the mixed response by NGOs and scholars to the Bank's activities in this area. To date, there are no analytical studies that seek to measure the impact of the Bank's policies on information and NGO relations on its activities; this is perhaps no surprise, given the size and complexity of the Bank's portfolio. However, a number of more narrow studies of the Bank's portfolio and decision-making procedures provide some evidence that implementation of these policies of porousness remains uneven.

Some NGOs have conceded that the Bank's public information policies and relations with NGOs are much more developed than those found in other international institutions. Yet they also argue that many of the changes are not as far-reaching as they might appear to be. Bank critic Bruce Rich called the new information policy a "significant step forward" that has made the Bank more transparent than European bilateral development agencies, not to

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<sup>65</sup> David Hunter, "The Role of the World Bank in Strengthening Governance, Civil Society, and Human Rights," in *Lending Credibility: New Mandates and Partnerships for the World Bank*, ed. Peter Brossard, et al. (Washington: World Wildlife Fund, 1996), pp. 65-80. Nelson, in *The World Bank and Non-Governmental Organizations*, provides a particularly comprehensive analysis on the evolving relationship between the World and NGOs.

mention EU institutions such as the EIB.<sup>66</sup> However, he and other NGOs have still found the new policy to be flawed since it does not apply to pre-1994 projects, and many NGOs in development countries have complained that documents that are supposed to be publicly available are nonetheless difficult to procure. In addition, many of the project documents developed before project approval remain confidential, and NGOs argue that project identification and design are the most important areas for public participation.

The Bank's relations with NGOs in turn, suffer from that fact that policies and intentions of engagement often clash with more pressing incentives in the Bank to move money while avoiding delays where possible. Bank staff have noted that public participation can be very expensive and time consuming, and they admit that many really have "no clue about how to do it."<sup>67</sup> Other staff, however, have gone out their way to involve the public in project design.<sup>68</sup>

Paul Nelson, in his book on Bank-NGO relations, argued that the Bank's engagement with NGOs has "broken some new ground for international agencies," particularly since it has been willing to "allow experiments and minor innovations to facilitate operational engagement."<sup>69</sup> However, at the same time, he argued that the Bank's approach is *ad hoc*, and ultimately does not influence the Bank's deeply-rooted organizational characteristics, such as its imperative to "move money." Collaboration with NGOs, like other goals of the Bank, does not fit well with incentives and pressures for Bank staff to bring projects to the board in a timely fashion. Hunter notes that Bank staff often see public participation as a necessary evil to placate the Bank's board, and therefore the quality of public participation in Bank projects can be low.<sup>70</sup> The picture that evolves from outside analysis of the Bank's policies on public information disclosure and NGO relations is that the policies are more far-

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<sup>66</sup> Bruce Rich, "Epilogue: The Gorbachev of the World Bank?," unpublished manuscript, 1996.

<sup>67</sup> Member of EMTEN staff, World Bank, interview with the author, 9 January 1996.

<sup>68</sup> Stephen Lintner, interview with the author, World Bank, 29 March 1998.

<sup>69</sup> Nelson, *The World Bank and Non-Governmental Organizations*, p. 2.

<sup>70</sup> Hunter, "The Role of the World Bank in Strengthening Governance, Civil Society, and Human Rights," p. 67.

reaching than those found at other IOs and MDBs, but that implementation has been uneven due to other pressures and incentives facing Bank staff.

The Inspections Panel has also had a mixed record in its activities and effectiveness. NGOs have credited it for being "one of the most important opportunities for improving the Bank's performance and accountability," and as a model for similar mechanisms created or proposed for other development banks.<sup>71</sup> The Panel's inspection of the alleged violations at the controversial Arun III project (mentioned in Chapter 2) was cited by Wolfensohn as a reason why he pulled the Bank out of that project. At the same time, observers argue that the Panel has received little support from the Bank's Board of Directors, who do not want to embarrass major client countries, even if they are violating loan agreements. The Bank's process of streamlining many of its operational directives into less enforceable guidelines also may narrow the Panel's ability to rule on alleged violations. Finally, the Inspections Panel continues to lack much autonomy in practice, because it can only investigate a complaint if it receives approval from the Bank's board and its recommendations are non-binding.<sup>72</sup>

## **EBRD**

The EBRD can be situated between the World Bank and the EIB in terms of the ways in which it has sought to institutionalize its environmental mandate. It is more "bank-like" than the World Bank, with a narrower mission, fewer broad policy dictates, and less bureaucracy, and it prefers to pay more attention to funding specific projects than in addressing big policy reform issues. At the same time, it has gone further than the EIB in seeking to explicitly address environmental issues in its work by attention to both "add-on" and "build-in" techniques. In the first category, it has set up a specific unit to focus on energy efficiency projects, and its municipal department also emphasizes environmental issues and stand-alone projects in its largely public sector work. In the second category, the Bank's independent environmental appraisal unit has been able to exert influence on project design.

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<sup>71</sup>Ibid., p. 74.

<sup>72</sup>World Bank, "Resolution No. 93-10, Resolution No. IDA 93-6, September 22, 1993: "The World Bank Inspections Panel," in Shihata, *The World Bank Inspections Panel* (New York: Oxford University Press, 1994), Annex I, pp. 127-33.

### *Mission*

The EBRD's mission to promote economic transition in former communist countries, with an emphasis on private sector development, immediately made it somewhat difficult for Bank staff to pursue its early, ambitious goal of playing a "leadership role in the environmental recovery of the region."<sup>73</sup> The EBRD was never intended to be a "development" bank in the traditional sense, like other regional development banks that focus on Third World countries. Since it was not in the business of selling broad policy changes to recipient governments, it could be expected to have the most success in pursuing the environmental recovery of Central and Eastern Europe in areas that complemented its strengths as a private sector-oriented development bank, which largely meant infrastructure projects, including transport, energy, and municipal infrastructure. The EBRD's main activities are in areas such as strengthening the development of domestic financial institutions, supporting the privatization of state-owned industries, and mobilizing foreign investment in areas such as telecommunications and other areas of infrastructural restructuring. Many of these areas in fact entail lending to central governments, with sovereign-guarantees, but are seen as important in helping governments to develop the private sector.

The EBRD sees itself as driven by client demand—whether private or public sector—and is aware that its resources are limited compared with the scope of the economic problems facing the transition countries. As a result, stand-alone environmental projects are not a priority of the Bank except where such projects fit a country's own priorities, or overlap with other economic restructuring goals. The EBRD, then, cannot be expected to be a "darker green" MDB, toward the right end of the continuum presented in Table 1.2. The Bank's mission does still give it the ability to undertake environmental due-diligence procedures, as a means of avoiding environmental harm in its work.

### *Structure, Location of Environmental Staff*

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<sup>73</sup>EBRD, "Environmental Management: The Bank's Policy Approach," (London: EBRD, 1992).

With a staff of around 750, the EBRD is much smaller than the World Bank, and has a much less complex organizational structure. The design of the Bank has evolved over its short life, in ways that have continued to put staff focusing on environmental issues in discrete units. The Bank underwent a significant reorganization when Jacques de Larosière became its second president in 1994. The reorganization merged separate divisions for merchant banking and development banking, and created one banking unit organized into northern and southern regions, made up of country teams, as well as a separate set of sector teams. These regions were in turn merged in early 1995. Under the current structure of the Bank, there are ten country teams, which consist of 1-6 countries each, and 12 sector teams. The sector teams cover issues such as agribusiness, financial institutions and telecommunications, as well as municipal and environmental infrastructure, energy efficiency, and natural resources. Projects are signed off by both country and sector staff. Operations support units include the Bank's appraisal unit, and the Bank's research is largely undertaken by the Chief Economist's office.

Bankers at the EBRD face the same basic incentives as those in the World Bank and other MDBs to identify "bankable" projects and to get them out as quickly as possible. An ideal bankable project is one that generates a revenue stream (preferably in foreign exchange); has a significant local contribution; a sound institutional framework, and sufficient guarantee that the loan will be repaid. Many environmental projects are relatively less "bankable" because they do not generate short-term financial returns and rarely earn foreign currency needed to repay MDB loans denominated in hard currency. In addition, environmental projects are often more time consuming to develop than projects in other sectors because of the need for intensive institution-building to make the project viable; in the environmental sector, the banks are often dealing with weak ministries, institutional structures, and problems not addressed in the past.

EBRD bankers also have incentives to finance bigger projects over small projects, because loan volume is a factor in a banker's yearly performance rating.<sup>74</sup> As a result, EBRD staff who do focus on environmental issues tend to be found in three particular areas of the Bank where they face extra incentives to do so: in its municipal and environmental infrastructure team; its energy efficiency unit; and its environmental appraisal unit. Under the broader context of the Bank's demand-driven mission, these particular units house the EBRD's "green bankers," whose job is to provide the substance behind the Bank's environmental mandate, and most of the Bank's environmental activities stem from these three groups. The first two units are operational units, and their staff seek to identify and design loans. The third has the opportunity to more deeply penetrate the Bank's operations, as its internal watchdog on environmental issues. In addition, the Bank has an Environmental Advisory Council, an independent body of environmental specialists who meet twice a year and advise the Bank on environmental issues. It is also the secretariat for a Nuclear Safety Account (NSA), a program initiated by the G-7 countries to offer Central and Eastern Europe and former Soviet countries financing for nuclear safety improvements.

The municipal and environmental infrastructure team finances projects in areas including water supply, sewerage and waste water treatment, district heating, and municipal and industrial waste management. The team, which is situated within the Bank's Banking Department, expanded significantly since it was set up—from around four bankers before 1994 (who were attached to the Bank's transport team), to a separate unit in 1995 that grew to around 20 bankers by the late 1990s. The team's job is to support the decentralization of municipal services and infrastructure activity through a set of bankable projects that also have some positive environmental impact.

In some ways, the unit has behaved less like a merchant bank than other divisions in the EBRD, because it was funding mainly public sector projects that required sovereign-guarantees—projects that would have been seen as too risky by private banks. As

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<sup>74</sup>Interviews with EBRD staff, April 1995, August 1996.

municipalities became more financially healthy, the unit has turned increasingly toward limited recourse or non-sovereign lending. The EBRD's municipal team also tended to use more technical funds and bilateral grant money than other Bank units.<sup>75</sup> Before the 1994 Bank reorganization, the team was also more involved in policy-oriented work, such as research on environmental standards and public participation policies, but since then it has narrowed its focus to investments.

Indeed, some members of the Bank's senior management were averse to creating a separate municipal infrastructure team, on the grounds that "the merchant bankers didn't see environment and municipalities as important."<sup>76</sup> The board supported the idea of a separate municipal team, particularly the U.S., the Nordic countries and Austria.<sup>77</sup> The view was that the municipal sector was important in Central and Eastern Europe, since it had enormous needs and municipalities play an important role in people's every day lives. Basic municipal services such as public transport, district heating as well as water supply were seen as vitally important in the promotion of economic development. The needs of this sector were also tremendous; the EBRD estimated that more than 150 billion ECU would be necessary in the municipal and environmental infrastructure sectors of its countries of operation to achieve basic service levels.<sup>78</sup> In many countries in the region, the system to finance municipalities collapsed with the end of the central government control, leaving crumbling infrastructures that were not able to supply basic human needs like clean drinking water.

It was also possible for the EBRD to find bankable projects at the municipal level, particularly since municipalities have some existing utilities (in water supply and waste water treatment, for example) that can generate a cash flow if consumers pay for utilities. While most municipalities were not strong enough to borrow money themselves (without a

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<sup>75</sup>For example, the municipal and environment team has worked closely with the Project Preparation Committee (PPC), a network of bilateral donors and the MDBs that act as matchmakers to bring together bilateral and multilateral assistance for projects that support the Regional Environmental Action Programme. The EBRD contains the PPC's small secretariat. The PPC's handful of officers are split between the World Bank and EBRD. The PPC is described in greater depth in Chapter 5.

<sup>76</sup>Senior EBRD banker, interview with the author, 9 July 1996.

<sup>77</sup>Author interviews with EBRD board members, June 1996.

<sup>78</sup>EBRD, *Annual Report*, (London: EBRD, 1996), p. 30.



sovereign guarantee), the Bank financed projects that were expected to be able to pay for their own debt service. Municipal entities generally did not need to be built from scratch, but rather they required restructuring and strategies and management that would allow them to perform efficiently while earning a profit. "There is enormous demand in the region," said one EBRD banker, "Every town in Central and Eastern Europe needs investment in waste water, solid waste, district heating, etc."<sup>79</sup> Moreover, the team quickly developed a niche for its activities, working most actively of the three MDBs to develop innovative financing mechanisms and demonstration projects that included the use of municipal credit facilities, municipal guarantees and an emphasis in helping municipal entities corporatize themselves in order to improve their performance and capacity to finance themselves.

The Energy Efficiency Unit (EEU) at the EBRD was set up in 1995 to focus solely on financing small energy efficiency projects. The promotion of energy efficiency projects in CEE is important since former Communist countries have energy intensity levels between two and seven times average OECD levels. The EBRD's energy efficiency unit estimates that countries could save 30-40% of their energy consumption through demand-side and energy efficiency measures, which would equal almost the entire energy consumption of the United Kingdom and France together.<sup>80</sup>

The unit grew to around 9 professionals by the end of 1996, and its work emphasized the development of energy service companies and credit facilities for projects that promote energy efficiency. It has focused on financing ESCOs, or Energy Services Companies. These tend to be small projects, where the Bank finances companies that in turn finance individual ESCO projects, mainly through multi-project facilities. In a typical project, the ESCO identifies energy savings opportunities in industrial, commercial or municipal facilities. The ESCO makes changes in these facilities, and is paid by its clients out of the

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<sup>79</sup>Member of the EBRD's municipal team, interview with the author, 15 Feb. 1995.

<sup>80</sup>"EBRD and energy efficiency," (London: EBRD, 1998). Again, shareholder pressure was key in the unit's creation; in this case, the major mover behind its birth was the U.S. Executive Director at the time, Jim Scheuer, a retired U.S. congressman (Democrat) who was keen on the promotion of energy efficiency. Scheuer, incidentally was also involved in efforts to reform the World Bank's environmental behavior in the 1980s. See Rich, *Mortgaging the Earth*, pp. 121-122.

energy savings achieved. The EEU also works on setting up energy efficiency credit lines, whereby local financial intermediaries finance small and medium-sized energy savings projects.<sup>81</sup>

The Bank's Environmental Appraisal Unit (EAU) works as an internal watchdog to ensure that EBRD projects comply with the Bank's environmental policies and goals. This unit identifies all projects to assess potential environmental concerns and opportunities before projects are initially reviewed by the Bank's management committee—OpsCom (Operations Committee). If an EA or environmental audit is required, the EAU helps the project leader draft terms of reference. It again reviews projects before they return to OpsCom for a final review ahead of board consideration. The EAU also undertakes a variety of technical assistance projects in areas that include legislation and standards development, and has been involved in the development and revision of the Bank's environmental procedures.

Finally, the Nuclear Safety Account (NSA) is a distinctly "un-bank-like" activity, since it is financed by grant contributions from donor countries. The Bank administrates the NSA, and prepares projects using those funds for approval to its Assembly of Contributors. The NSA's purpose was to undertake short-term improvements of Soviet RBMK and VVER 440/230 reactors, as a prelude to their closure.<sup>82</sup>

### *Analysis*

The structure of the EBRD has evolved over its short life to include two specific operational units that address environmental issues in their project work, and an appraisal unit whose job is to ensure that the Bank's environmental policies and procedures are being followed. The staff in the first two units have special incentives to identify and finance projects with important environmental benefits, which means one would expect the EBRD's portfolio to include projects with significant environmental components or objectives. However, the "green bankers" in the municipal and energy efficiency units remain in discrete

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<sup>81</sup>EBRD, "Environments in Transition: the Environmental Bulletin of the EBRD," (London: EBRD, 1997), pp. 2-6.

<sup>82</sup>Donor pledges to the NSA totaled 257.4 million ECU by the end of 1996. EBRD, *Annual Report* (London: EBRD, 1996), p. 44.

units, and some of the Bank's other units dwarf these "green" units in their output. By the end of 1996, for example, the EBRD had financed more than 400 million ECU worth of energy supply projects, compared with commitments of under 150 million ECU by the energy efficiency unit. While it is true that energy supply projects can also have significant environmental impacts, such as in cases where existing power plants are rehabilitated and made more energy efficient, the point is that the output of EEU—set up to directly address energy efficiency issues—remains relatively small.

The EAU fills the gap to some extent, by addressing environmental issues for all projects, with the opportunity to insert environmental components into the design of projects, and to build environmental components directly into loan covenants. The EAU, however, has no veto power when it comes to project approval. Like other support units, it can either sign-off on a project or send a memo with reservations before the project is reviewed by OpsCom ahead of board consideration. The EAU is also part of the Bank's Banking division, and to date it has not been known as a leading figure in pushing the Bank to find better ways of addressing environmental activities. The pressure for revised environmental policies and procedures, for example, was externally driven, mainly by the U.S. In addition, NGOs and some ED members have also long complained that the EAU has been weak in how it screens projects, placing projects that should require a full EA under the Bank's rules, into a category that does not.<sup>83</sup> As a result, while the EAU is an important innovation in the Bank that pushes it to be more conscious of the environmental impact and design of its activities, there is some debate about how effectively its work is translated into action.

The existence of an Environmental Advisory Council appears to be an innovative part of the Bank's structure, but in practice the EBRD has not yet treated the Council as an important resource. For example, the council's input was not sought when the Bank

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<sup>83</sup>Two examples of this are the Maritza East Power Project and the Transit Roads Project in Bulgaria. According to Goldberg, Bulgarian national law would also have required these projects to receive a full EIA. The Bank's own screening categories call for thermal power plants with a heat output of 300 megawatts or more, as well as the construction of highways and roads to receive a full EIA. Donald M. Goldberg and et. al., "The European Bank for Reconstruction and Development: An Environmental Progress Report," (Washington, DC: CIEL, 1995), p. 24.

developed its first operational policies on energy and transport. Members have also noted that crowded agendas for brief meetings (1-2 days) make it difficult for them to make more than cursory contributions. Council members also have had little impact on the Bank's actual operations.<sup>84</sup>

Finally, the Nuclear Safety Account is somewhat outside of the Bank's normal activities, and had funded four projects by the end of 1996. Chapter 5 discusses these in greater depth, highlighting criticism that by late 1998 no high risk nuclear reactors had been closed in the region as a result of this account.

### *Financial Tools*

The EBRD's financial tools enhance its private sector orientation in ways that emphasize its character as a demand-driven financial institution versus development agency, and do not provide any special incentives for environmental lending that does not meet more important economic restructuring or financial goals. The Bank's emphasis on private sector lending gives it the flexibility of working without government guarantees in the majority of its lending, and going directly to the private sector borrower. This means that government ministries and other actors are often not even aware of the details of specific EBRD loans, and these loans may or may not have an impact on broader government policy reform.<sup>85</sup>

The tools themselves are more "bank-like" than the IBRD's. In addition to making loans to clients, the EBRD can take minority equity stakes in projects, guarantee bond issues, develop credit lines, and provide venture capital through equity funds, among other activities. By the end of 1996, 50% of EBRD financing was in the form of private sector loans, 26% in state loans, 20% in equity financing, and 4% in guarantees and other off-balance sheet items.<sup>86</sup>

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<sup>84</sup>Ibid., pp. xxvii-iii.

<sup>85</sup>Interviews with EBRD representatives in Hungary; finance and environmental ministry officials in Hungary and Poland, and a central bank official in Hungary, October-November 1997.

<sup>86</sup>EBRD, *Annual Report*, (London: EBRD, 1996), p. 20.

The Bank also limits its financing for private sector projects to 35% of the total project costs, and its minimum loan to 5 million ECU.<sup>87</sup> This provides great incentive for the Bank to co-finance big private sector projects with large Western companies, which then tend to reflect the demand for specific projects from foreign investors. Joint ventures in areas such as manufacturing, hotel development and so on, do not generally reflect areas traditional to development banks or areas with an emphasis on environmental objectives. At the same time, the Bank can argue that its activities are encouraging the economic development of Central and Eastern Europe by developing its private sector, and encouraging Western investors to enter markets where they might otherwise feel the risks are too high. This way of promoting economic development, however, generally does not hold any particular incentives for pursuing projects with specific environmental goals other than where they coincide with other reasons for financing a project.

### *Procedures*

The EBRD can be situated between the World Bank and the EIB in terms of the number of rules and procedures that must be followed in the project cycle. The overall project cycle at the EBRD is similar to those of the other two MDBs. While there are far fewer directives for EBRD bankers to follow than found at the World Bank, the EBRD does have its own sectoral policies (in areas such as transport and energy, for example), which do not exist at the EIB. In the course of its existence, the EBRD has also strengthened its policies on the environment and developed new public information policies. The following sections discuss the rules and procedures that are particularly important in shaping the Bank's environmental behavior; its country strategies, EA procedures, and rules governing the Bank's transparency and accountability.

### *Country Strategies/Environmental Procedures*

The EBRD does have country strategies, but these do not carry the same weight as the World Bank's Country Assistance Strategies, because the EBRD is more demand-driven and

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<sup>87</sup>The 5 million ECU rule appears to be flexible, however, since there are a number of projects under this amount, particular in areas involving an EBRD equity stake.

less interested in policy-based lending. As a result, the Bank does not engage in the type of policy dialogues with recipient countries that the World Bank undertakes. EBRD country strategy objectives tend to reflect the Bank's activities rather than lead it into new territory. They might include issues such as promoting private sector projects, strengthening a country's financial sector and infrastructure, and so on. Nonetheless, as a result of board pressure, the Bank's revised environmental policy also calls for country strategies to contain a section on the environmental implications of the Bank's work, which will draw on the World Bank's National Environmental Action Plans for specific countries. This policy forces greater attention to environmental issues, but given that these country strategy documents do not drive lending, in itself it is not a strong incentive to shape how Bank staff identify and design individual projects.

The EBRD's environmental procedures are more similar to the World Bank's than the EIB's, and were strengthened in a 1996 revision. Indeed, one of the key environmental experts who helped design the World Bank's EA procedures also helped to develop those for the EBRD.<sup>88</sup> The procedures are an important counterbalance to the Bank's demand-driven character, as a sort of "quality control" mechanism to incorporate environmental mitigation or enhancement into the Bank's operations.

Like the World Bank, the EBRD's appraisal process has a screening component, whereby a project's potential environmental issues are identified, and a project may be placed in categories A, B, or C, which are similar to those of the World Bank.<sup>89</sup> Unlike the World Bank, the EBRD may also undertake an environmental audit for manufacturing facilities or sites, to determine past or present concerns, risks, liabilities, and responsibilities for specific sites.

Under the Bank's first set of environmental policies, standards were chosen in a largely ad hoc manner, to fit a particular project. This does not mean that the chosen standards were

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<sup>88</sup>This was Stephen Lintner, whose role as a World Bank "green banker" is discussed in Chapter 5.

<sup>89</sup> Category A projects require a full EA; B projects, a partial EA, and C project no EA.

low, but rather that there was no clear policy for determining which standards to use. Bankers preferred the flexibility to determine, on a case-by-case basis, which standards to follow, while environmentalists and some of the more powerful executive directors offices (such as the U.S. and Germany, for example), felt a stronger policy was necessary to ensure that appropriate, and high standards were being met.<sup>90</sup> "We thought they should have standards that you can quote," said an official in the U.S. Executive Directors' office.<sup>91</sup> The new environmental policy was tightened up in 1996, so that projects will use EU standards for pre-accession countries, and meet national or World Bank standards where EU standards do not exist. For non-accession countries, EU standards provide a common term of reference, and the Bank will follow national or World Bank standards.

### *Porousness*

The EBRD has not emphasized the development of relationships with NGOs and the public to degree that the World Bank has, but it has made significantly more efforts to improve its transparency compared with the EIB. The Bank approved a new policy on information disclosure in 1996, in response to pressure by some powerful board members, and despite opposition from some members of senior management.<sup>92</sup> The U.S., in particular, made it clear that it would not participate in the Bank's first capital increase without this policy.<sup>93</sup> The underlying principle of the new policy is that information on the Bank's activities should be made available to the public "in the absence of a compelling reason for confidentiality."<sup>94</sup> This has included the creation of new Project Summary Documents, which provide information on both public and private sector projects before they have been approved by the board.

### *Analysis*

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<sup>90</sup>Interviews with officials in U.S. Treasury MDB office, Washington DC, 28 March 1996; German ED official, London, 16 June 1996.

<sup>91</sup>Official in U.S. ED office, London, interview with the author, 15 January 1997.

<sup>92</sup>Some board members, including the Swiss and French, were also not in favor of greater information disclosure. Author interviews with various ED offices, June 1996.

<sup>93</sup>Official from U.S. Treasury MDB office, Washington DC, interview with the author, 28 March 1996.

<sup>94</sup>"EBRD Increases Public Access to Information," Press Release, 1 July 1996.

The description of the above policies shows some of the important ways in which the EBRD has sought to improve its environmental performance. Like the World Bank, the EBRD has a well developed set of EA procedures, and a new public information policy. It does not have an independent inspections panel that seeks to ensure full compliance with its rules, and its country strategies do not carry the same weight as the World Bank's CAS reports.

As is the case of the World Bank, the EBRD's environmental procedures and public information procedures in theory provide incentives for the Bank to think more carefully about the environmental implications of its work, and to avoid financing projects that might be environmentally destructive. Interviews with Bank staff and environmentalists provide a number of examples where project design has been enhanced by environmental consideration.<sup>95</sup> While the EBRD's policies have not yet faced the type of scrutiny the World Bank has seen, they still appear to face similar challenges and criticism; that is, the question of how well the Bank follows its own procedures. NGOs and major board members such as the U.S. believe the Bank's performance has been mixed.

Before the revision in environmental and public information policies, NGOs argued that the Bank often "cut corners" in implementing its procedures, or failed to implement them at all.<sup>96</sup> The case of the proposed Mochovce loan, discussed in Chapter 1, is one example where NGOs and other actors criticized the Bank for ignoring its own environmental procedures. Another case that stirred prompted NGO criticism was a 1993 loan the EBRD made for investments in a new aluminum smelter in ziar nad Hronom, Slovakia. The EBRD's \$110 million loan and \$15 million equity contribution was designed to build a new smelter to replace the state-run ZSNP (Zavod Slovenskeho Narodneho Povstania) smelter that was built in the 1950s. The old smelter was one of the largest polluters in its region,

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<sup>95</sup>Some examples include the addition of a nature preserve as part of Bulgarian highway loan; the addition of a PHARE-funded bicycle path as part of project in Kaunas, Lithuania, and so on. Interviews with EBRD staff, June 1996, and NGOs in the Baltic States, May 1998.

<sup>96</sup>Goldberg, "The European Bank for Reconstruction and Development: An Environmental Progress Report," p. ix.



with emissions of dust, SO<sub>2</sub>, NO<sub>x</sub> and carbon monoxide well above EU standards. It also contained what environmentalists called a "mountain" of bauxite waste, that was 45 meters high, and covered 40 hectares. This waste leached arsenic, mercury, and cadmium into the soil and groundwater.<sup>97</sup> The project had already been rejected by the World Bank on economic grounds, given the fact that Slovakia has to import all of the bauxite it made into aluminum, and the weak state of the world aluminum market.

Environmentalists were concerned about the plant, and favored either its closure, or its use as for secondary aluminum production. What sparked their criticism was their perception that the Bank did not follow its public participation procedures properly. As the Center for International Environmental Law (CIEL) noted, "There was no formal notification of the public; the public was not included in scoping the EA: meetings with a handful of environmentalists were conducted on extremely short notice and with no advance information provided."<sup>98</sup> CIEL has also been critical of the Bank's EAs, arguing that they regularly lack some of the elements of a full environmental impact assessment, including an assessment of alternatives and indirect impacts.<sup>99</sup>

Even after the development of the new public information and environmental policies, NGOs continued to argue that implementation is uneven. They argued that the Bank did not follow its public participation procedures in several projects, including a Bulgarian Railway project and a proposed project to finance the completion of two partially-built, Soviet designed nuclear reactors at Khmelnytsky 2 and Rovno 4 (K2/R4) in the Ukraine.<sup>100</sup> On the other hand, NGOs were also increasingly involved in the development of new policies at the Bank, with opportunities to comment and offer feedback on policy drafts. NGOs are also in contact with EBRD resident offices in various recipient countries, although these offices do not have specific "NGO liaison" staff or environmental staff, as do some of the World

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<sup>97</sup>Ibid., p. 11.

<sup>98</sup>Ibid., p. 12.

<sup>99</sup>Ibid., p. xii.

<sup>100</sup>"K2/R4 Completion Projects," <http://www.ecn.cz/k2r4/BOARD.STM#2.2>.

Bank's offices in Central and Eastern Europe. By contrast, the EIB has no resident offices in Central and Eastern Europe. Some environmentalists have felt the meetings they have had with the EBRD Team Directors for their country as well as staff in the London headquarters have been positive, and believe that access to Bank staff and documents has improved.<sup>101</sup> Generally, the EBRD appears to face the same struggles confronting the World Bank in this area. While its procedures and rules call for more openness and public consultation, in practice it has been difficult to change a culture of bankers looking to avoid processes that slow down project development and further complicate the project cycle.

### **EIB**

The case of the EIB is more clear cut than the other two banks. The combination of less shareholder pressure to address environmental issues, along with the Bank's relatively more "bank-like" mission would lead one to expect to find less evidence of strong incentives for Bank staff to actively promote environmental issues. This expectation is borne out by the empirical evidence. Without the impetus provided by shareholder pressure seen in the other two MDBs, the Bank has attempted to meet its environmental goals primarily by emphasizing project adherence to European environmental standards inside the EU, and to relevant standards (EU, national, or international) outside of the EU. While the other two banks also incorporate national, EU, international or World Bank standards into their projects, to a greater degree they also seek to fund projects with environmental objectives or major components. The World Bank in particular seeks to nest its activities in more specific policy analyses that may preclude some of the types of loans undertaken by the EIB.<sup>102</sup> In

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<sup>101</sup>Personal E-mail communication from Bulgarian NGO, Centre for Environmental Information and Education, 16 February 1998. Personal E-mail communication from Jozsef Feiler, Policy Coordinator, CEE Bankwatch Network, 22 July 1998.

<sup>102</sup>For example, the World Bank generally avoids lending for expensive end-of-the-pipe technology in Central and Eastern Europe, such as flue-gas-desulphurization, preferring to look at other policy and project alternatives. The EIB, in turn, will lend money for such technology. There are examples where the EIB has been ready to fund projects the other MDBs have turned down for broader policy reasons, such as a proposed new metro line in Budapest. The World Bank and Hungarian NGOs did not see the high costs of the metro project as justifying the benefits, and felt other potential projects, such as maintenance of existing roads, are greater priorities in Hungary's transport sector. Author interviews with World Bank official in Poland and Hungarian NGOs, October 1997. There are also examples of projects offered by the World Bank or EBRD

comparison with the other two banks, then, the EIB has not had to struggle as much to institutionalize its environmental mandate, because to date shareholders have not had high expectations for the Bank's activities in this area.

### *Mission*

In terms of the Bank's mission, the EIB's dominant goal of promoting regional development inside its own shareholder EU countries explains the Bank's historical focus on traditional MDB infrastructure projects. Like the EBRD, the EIB can lend to both public and private sector projects. The emphasis on infrastructure lending was further encouraged in the 1990s when the Bank was asked by the European Council to focus more attention on the financing of trans-European networks (TENs), which consist of priority investments in transport, energy and telecommunications projects that would encourage greater infrastructural links among member states (as well as pre-accession countries). The Bank's other stated lending priorities include loans to small and medium-sized enterprises, and loans to promote the international competitiveness of European industry.

EIB projects are not accompanied by the type of policy analysis and advice found at the World Bank, and to a lesser degree, the EBRD. The EIB has been called the EU's "house bank," or a "wholesale bank," despite its growing geographical scope, and it spends the vast majority of its resources and efforts in countries that are much more developed than the typical recipient of World Bank or EBRD loans. As a result, from a policy perspective, the EIB's primary mission has not evolved in line with the geographical scope of its lending.

In Central and Eastern Europe, it is somewhat ironic that while the EIB has been the least policy-oriented of the three MDBs, it is poised to eventually become the most important MDB in CEE, particularly for pre-accession countries. As CEE countries build more healthy, developed market economies, they gain increasing access to private sector sources of finance, including international capital markets, so their appetite will decrease for relatively

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that a recipient country had funded by the EIB instead, because there is relatively less conditionality tied to EIB loans.

more expensive MDB loans that come with conditionality. By the mid-1990s, the World Bank and EBRD began to move away from the more developed countries in the region and focus greater attention on the less developed countries. Both banks also have graduation policies, whereby they use certain criteria to "graduate" countries as loan recipients. By contrast, EIB lending to CEE has increased, and will continue to do so for pre-accession countries. The Bank's 1997-2000 lending mandate to the region of 3.5 billion ECU has been augmented by an additional 3.5 billion ECU pre-accession facility for CEE countries and Cyprus. As a result, by 1997, the EIB began the process of taking on a more prominent role in the region.<sup>103</sup>

#### *Structure, Location of Environmental Staff*

The EIB's organizational structure offers limited incentives for Bank staff to pursue environmentally-oriented projects beyond the more typical infrastructure projects that have positive environmental affects. One important reason is that the Bank is a lean operation, with its staff of around 900 now lending more each year than the World Bank does with a staff of 10,000. EIB staff are now organized into seven Directorates, out of which two handle lending within the EU, and a third handles lending outside the EU. Within the latter Directorate, there is a department that works on Central and Eastern Europe. This department contains approximately 20 bankers who cover 11 countries. The fact that there are only around two bankers working on each country in the region encourages these bankers to rely on potential loan recipients coming to them with ideas, as well as encourages the EIB to piggy-back onto projects developed by one of the other two MDBs, as a co-financier.

Given that the Bank is largely demand-driven, potential loan recipients (called "project promoters") tend to bring their ideas to the Bank, often to one of these three lending directorates. If the Bank chooses to pursue a project idea, appraisal is undertaken by a team consisting of a loan officer from one of the lending directorates, and an economist and

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<sup>103</sup>There are also other signs that the Bank's mission is expanding. As a result of the Amsterdam Summit in 1997, the EIB drew up a program to invest in new areas of health and education, as well as to do more in the areas of urban renewal and environmental protection.

engineer from the Bank's Project Directorate. Appraisal teams can also include a lawyer from the Bank's legal departments. The Projects Directorate is a product of the 1995 merger of two separate directorates (one containing economists and the other, engineers), which is divided into departments by sector (e.g., industry, energy and mining, infrastructure) rather than by country. The Projects Directorate produces the appraisal report, which is used by the Bank's Management Committee to decide whether to recommend loan approval by the Bank's board.

The EIB has no separate environmental appraisal unit, and no specialized bankers or division whose work emphasizes finding projects with primary environmental goals or significant environmental objectives. There is also no real research arm in the Bank, although a small Chief Economist's office was created in the mid-1990s to think specifically about broader strategic issues affecting the Bank. There is an "Environmental Policy Coordinator," a position in the Projects Directorate created by the Bank in 1996 to help develop and ensure implementation of the Bank's broad environmental policy, and to represent the Bank in various environmental fora.

As a result of this organizational structure, there is no particular community of environmentally-oriented staff at the EIB, in the sense that there is at the other two banks. There are individuals who end up addressing environmental issues as part of their work, but these issues are not driving their work, or encouraging specific staff to identify particular types of projects or policy issues. The engineers in the Bank's Project Directorate end up being the closest thing the EIB has to "green bankers," since they address environmental standards in their technical appraisal of a project, which is discussed in greater depth below. A few of the Bank's economists are environmental economists and do get involved in the Bank's work on environmental issues. Staff in the Bank's Legal Affairs Directorate also work on ensuring the Bank is complying with EU law on environmental and other issues. However, the EIB does not have the types of in-house environmental networks that one finds at the World Bank, and to a lesser extent the EBRD.

### *Financial tools*

The EIB's financial tools enhance staff incentives to rely on projects being brought to the Bank by potential borrowers, as well as opportunities to co-finance projects with other MDBs. The Bank does not generally fund more than 50% of a loan project's total cost, so it relies on projects where there are partners. Given its small staff size, the EIB has been attracted to co-financing projects in Central and Eastern Europe with the other two MDBs, and in such cases, the EIB does not take the lead in project development. Instead, it funds a discrete part of a project, and tends to rely on the other two banks for the bulk of the necessary work in project development and missions. The EIB also does not have the in-house sources of grant funding available to the same extent available to the other two banks to finance feasibility studies and background research for project development.

Although it is generally more "bank-like" than the other two MDBs, as is discussed throughout the dissertation, the EIB is ironically also the most risk-averse, and seeks double guarantees (both sovereign and EU guarantees) for loans outside of the EU.<sup>104</sup> This also creates incentives for staff to look for more traditional infrastructure projects that the EIB has historically funded, and provides a disincentive for innovation in the scope of work the Bank has traditionally undertaken, where that work may entail new or different risks. It would be harder, for example, for the EIB to find novel ways of undertaking municipal financing in CEE where sovereign guarantees are no longer forthcoming.

In Central and Eastern Europe, the EIB offers the cheapest loans of the three MDBs, with the least attached conditionality. Because it does not undertake the type of policy work and feasibility studies undertaken by the other two banks, it tends to have lower administrative costs. EIB loan rates are generally closer to LIBOR rates than those charged by the other two banks, and EIB also does not charge a commitment fee on its loans which the other two banks charge. This fee, which can be around 1-1.5% of a loan, is the MDB's

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<sup>104</sup>EIB loans in CEE are backed by a full guarantee under the General Budget of the European Communities. EIB, *Annual Report*, (Luxembourg: EIB, 1989), p. 13. The new 3.5 billion ECU accession facility, however, is not backed by this guarantee.

commitment to reserve capital once a project is signed. In addition to its direct project loans, the EIB has been active in the use of "global loans," which are similar to credit lines that are set up for financial intermediaries to on-lend for smaller projects. This is typically a good way for the MDBs to be able to reach small and medium-sized enterprises. The use of global loans also enhances the Bank's demand-driven character, since it does not know in advance how the resulting loans will be spent. Financial intermediaries have no particular incentive to seek out environmental loans or projects.

#### *General Procedures /Environmental Procedures*

Of the three MDBs, the EIB has the smallest set of bureaucratic rules and procedures governing project development. It does not have country strategies, and given its demand-driven nature, often does not even design or develop the projects it lends money to. Project promoters present projects ideas to the Bank, and the Bank will evaluate projects of interest through an appraisal procedure. Because the Bank often enters into projects that are already developed, it can be more difficult for it to insist on changes to project design.

Environmental issues are addressed as a part of the broader routine of investment appraisals, undertaken by the project's small appraisal team. The purpose of the appraisal process is to evaluate whether a proposed project complies with relevant European and/or national laws and other rules, and to evaluate the project's economic, technical, and financial characteristics. Generally, it is the engineers who address environmental issues in the appraisal report. Their emphasis is on ensuring that projects within the EU comply with various EU legislation or national legislation—whichever is higher—and that non-EU projects comply with relevant environmental legislation. Outside the EU, the Bank has more flexibility on which standards to follow. Often it is up the EIB's engineers to decide which standards to follow, and there are no specific guidelines at the Bank on appraisal. "Relevant" legislation and standards can be defined as EU (in the case of accession countries), national, or also in terms of norms of "best existing practice." This often means making sure that the technology used in projects is likely to fulfill certain standards.

Within the EU, whether a project is subjected to a formal environmental impact assessment (EIA) or not is determined by the Commission's directive on EIA (85/337), which in 1997 was amended by directive (91/11). This directive serves as a reference for the project directorate's appraisal. Increasingly, this directive has become the norm for guidance in pre-accession CEE countries. The EIA directive identifies types of public and private sector investments that require an EIA. EIAs are undertaken by developers and must be provided to public authorities, who take the information into account in deciding whether to authorize the investments. The directive is mandatory for large projects such as building highways, railway lines, oil refineries, and large power plants, which are called Annex 1 projects, and require public consultation.<sup>105</sup> And an additional set of projects (Annex 2) requires impact studies if the member state believes it is necessary.<sup>106</sup> The information required under the EIA directive includes basic information on the project and the ways in which it might affect the environment; alternative solutions to reducing this impact; and particular measures to avoid or reduce potential negative impacts.

The ways in which environmental procedures have been institutionalized at the EIB create incentives for staff to rely heavily on pursuing relevant environmental standards in project design, versus other ways of evaluating environmental options, including broader macroeconomic and sectoral analyses that might impact the strategic directions that lending might take.<sup>107</sup> Such a reliance on standards could lead to situations where the EIB is using acceptable technology or standards in projects that might not make environmental or economic sense in a broader analysis.

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<sup>105</sup>Annex 1 projects include: crude oil refineries; power stations and combustion plants generating more than 300MW; installations for the storage and disposal of radioactive waste; foundries; installations for asbestos extraction; integrated chemical installations; motorways, express roads, long distance railway lines, and airports of a certain size; port vessels larger than 1,350 tons; and installations to dispose of waste produced by incineration, chemical treatment, or land fill of toxic, dangerous wastes.

<sup>106</sup>Annex 2 projects include a broader range of investments in sectors including agriculture, energy, rubber, metals, chemicals, food and infrastructure. Examples in the energy sector include surface storage of natural gas, power installations not included in Annex 1, underground combustible gas storage, installations that produce and enrich nuclear fuels, or reprocess irradiated nuclear fuels.

<sup>107</sup>Senior EIB officials, interviews with the author, June 1996.



The Bank's emphasis on standards works best when the appraisal team is working on EU-based projects in areas where there are strong, clear environmental standards, whether EU or national, or when engineers emphasize the use of technology that encourages energy or natural resource conservation (at a reasonable price) that might not have been addressed otherwise. Yet it can be problematic to apply EU standards outside the EU, where they may not always be appropriate. Reliance on national environmental standards in non-EU countries where compliance and enforcement may be weak can also water down the EIB's standard-based approach.

EU environmental policy itself is weak in several respects. Many areas covered under national environmental policies are not yet addressed at the European level, particular in the area of industry-specific standards. In addition, EU environmental policy uses directives as the primary legislative instrument, but these are not directly translated into domestic law. Member states determine the forms and methods of application. Since member states' record on implementing many environmental objectives remains poor, these environmental directives are often criticized as weak.<sup>108</sup> The EIA directive itself has been criticized by a number of different sources for its mixed record in terms of implementation. The European Commission itself, for example, has argued that many member states abuse the discretionary power given to them under the Annex 2 types of projects.<sup>109</sup>

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<sup>108</sup> See, for example, Tamara Raye Crockett and Cynthia B. Schultz, "The Integration of Environmental Policy and the European Community: Recent Problems of Implementation and Enforcement," *Columbia Journal of Transnational Law* 19, no. 169 (1991), pp. 181-182; Angela Liberatore, "Problems of Transnational Policymaking: Environmental Policy in the European Community," *European Journal of Political Research* 19 (1991): 281-305; Alberta Sbragia, "EC Environmental Policy: Atypical Ambitions and Typical Problems?," in *The State of the European Community: The Maastricht Debates and Beyond*, ed. Alan W. Cafruny and Glenda G. Rosenthal (Boulder: Lynne Rienner Publishers, 1993), pp. 337-352. In terms of weak enforcements, in 1996, the Commission registered over 600 environmental complaints and infringement cases against member states. See "Implementing Community Environmental Law," Communication to the Council of the European Union and the European Parliament, (Brussels: European Commission, 1996). Beginning in 1997, the European Commission began fining member states for non-compliance with European Court of Justice judgments on environmental law infringements.

<sup>109</sup> One goal of the 1997 amendment of the EIA directive was to reduce member state wiggle-room on addressing Annex II projects by clarifying the circumstances under which these projects are required to have an EIA undertaken.

In addition, and more importantly, the EIA directive is a *procedural* directive. This can have a positive impact on areas where developers and planning authorities are compelled to address environmental issues that might not have been considered otherwise, but it may be much weaker in countries where the administrative capacity may not exist for this procedure to be properly undertaken. While a number of CEE countries have adopted new EIA policies in the 1990s, in many of these countries these policies are unevenly implemented or ignored.<sup>110</sup> Norms for EIA and public participation are still evolving in a region where governments are still learning how to address openness and transparency in decisionmaking processes. Since the EIA process is the responsibility of the government, there is little the EIB can do if a CEE government does not have the ability (or interest) to pursue EIA work.<sup>111</sup>

The way the EIA process has been institutionalized at the EIB has been criticized as too relaxed by some Commission officials, even for EU projects. Under Article 21 of the Bank's statute, for proposed loans in EU member states the Commission and relevant member state provide their opinions on the project before it is submitted to the Bank's board. The Commission's vote on the EIB's board has particular strength; if the Commission votes against a project, the rest of the board must be unanimously in favor of the project for it to be approved.

DGXI, the Commission's environmental directorate, has felt that information circulated by the EIB related to EIAs has often been insufficient. For Annex 1 projects, for example, the Commission requires the EIB to "satisfy itself that the procedures...are made."<sup>112</sup> The Commission may ask for a non-technical summary of the EIA before the EIB board approves the loan. For Annex 2 projects, and projects not falling under the EIA directive, the Commission still requires the Bank to assure it that the project is "acceptable" in

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<sup>110</sup>Barbara Connolly and Tamar Gutner, "Organizational Inertia and Innovation: Environmental Aid to Central and Eastern Europe."

<sup>111</sup>As EIB official Peter Carter pointed out in an April 1998 correspondence to the author, it can either walk away from the project or request certain corrective actions.

<sup>112</sup>European Commission, "Working Procedures between the EIB and the Commission Services (DGXI and XXII) in the Consultation of the Commission under Article 21 of the EIB Statute," 10/30/92.

environmental terms, in order for the Commission to formulate a positive opinion. DGXI officials have said that these procedures still allow for the EIB to provide the Commission with very little information, which sometimes makes it difficult for the DGXI to approve a project.<sup>113</sup> The EIB, in turn, believes DGXI should have more faith in the EIB's technical expertise.<sup>114</sup>

### *Monitoring and Porousness*

For much of its existence, the EIB has not faced strong pressure to be more transparent. In the late 1990s, NGOs in Europe and CEE were first beginning to organize campaigns to push more strongly for greater transparency. Of the three MDBs, the EIB is the least transparent, and most resistant to opening up channels of communication with NGOs and other outside actors. The Bank has organized several meetings with NGOs, to initiate an exchange of views. However, the Friends of the Earth NGO noted in 1997 that these exchanges "have yet to yield any substantial results in terms of changed policies and procedures."<sup>115</sup>

The Bank first adopted rules on information disclosure in 1997, a year after the EBRD adopted its new policy and three years after the World Bank did the same. The EIB's rules are by far the least open. They do not specify any particular project documents automatically be available to the public (such as, for example, the project summary documents and EIAs available to the public from the EBRD, and a multitude of project documents and information available from the World Bank's Public Information Center). While the information policies of the other two banks stress circumstances under which information *will* be made available the EIB's policy stresses all the reasons why it will *not* provide information. These include when, "in the judgment of the Bank...(a situation) is of such a nature that its disclosure could harm the Bank's legitimate interests," and examples of when this might occur are not

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<sup>113</sup> Author interviews with EIB officials, and DGXI officials, June-July 1996. For the general procedure for the Commission's opinions on EIB operations, see the most recent version of the "Vademecum: Procedures for the Commission's Opinion on EIB operations," European Commission, DGII.

<sup>114</sup> Author interviews with EIB officials, June 1996.

<sup>115</sup> James N. Barnes and Sandrine Bretonni, "An Overview of the European Investment Bank: Accountability and Transparency," (Paris: Friends of the Earth, 1997).

defined. The Bank, says the EIB's rules on information disclosure, "has to respect, in its relationships with other institutions, bodies and persons both within and outside the Community framework, the confidentiality of communications and agreements between itself and the latter."<sup>116</sup>

The ways in which the EIB has institutionalized its environmental goals reflect a lack of real pressure from its board on environmental policy issues. Given its emphasis on following environmental standards versus a broader array of analytical tools, its small staff size, and the absence of a stand-alone environmental appraisal unit or any other environmentally-oriented home for "green" staff, one would predict that any environmentally-oriented work in Central and Eastern Europe would stem from the Bank's traditional activities in infrastructure lending, or arise from co-financing opportunities with one of the other two MDBs. Chapter 5 shows this to be the case.

## **Conclusion**

The chapter shows how diffuse governance structures of the three banks sometimes make it difficult for donor policy goals to be translated into incentives facing MDB staff. As a result, even in cases where donors have given an MDB a strong environmental mandate, its ability to institutionalize environmental policy goals is strongly shaped by the degree to which it is designed to emphasize its character as a financial institution versus a development agency. In particular, the incentives facing staff to design environmentally-oriented projects, or to incorporate environmental components into projects often do not complement other incentives to get bankable projects approved by the board of directors without what some bankers may see as undue delay. In other words, the incentives for staff to address issues of sustainable development often do not match other incentives to move money.

Where an MDB has limited environmental policy goals to begin with, such as the EIB, we would not expect institutional design to provide many incentives for Bank staff to pursue environmentally-oriented work. This chapter has shown this to be the case. However, in

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<sup>116</sup>European Investment Bank. "Rules on Public Access to Documents." Adopted by the Bank's Management Committee on 26 March 1997. 97/C 243/06.

cases where the MDB has strong environmental policy goals, such as the World Bank and EBRD, the incentives facing staff to translate these goals into projects and programs depend on how "bank-like" the MDB is. The chapter has also shown areas in which it is a struggle for the MDBs to harmonize conflicting incentives. The arguments in this chapter highlight some of the limits of neo-realist explanations for institutional behavior and show how important the organizational environment is in shaping institutional behavior.

Given the way the banks' environmental policies are institutionalized, what types of outcomes might we expect to see in their portfolios of activities in Central and Eastern Europe? First, this chapter shows that "green bankers"—MDB staff whose job specifically requires them to focus on environmental issues—are located in specific departments in the World Bank and EBRD, and consists of one official at the EIB. One might predict that World Bank and EBRD projects with environmental goals or significant environmental components could be traced to these people. A parallel prediction would be that such projects are unlikely to be found in the EIB's portfolio, unless such environmental goals coincided with other economic or financial goals, and/or were demanded by project promoters.

Second, in general, it is likely that the relatively more demand-driven MDBs will emphasize as "environmental" those projects that fit their financial and economic criteria that are demanded by governments or private investors that have some environmental benefit. These might include energy rehabilitation projects, or water and waste water treatment projects, as well as waste management, among others. The "green bankers" in the MDBs would likely be the source for projects that go beyond these categories, to include projects that are not demand-driven, and the incorporation of environmental components into projects that do not emphasize environmental issues.

Third, and following from the previous two points, we would expect to see a greater emphasis on projects with major environmental goals or significant environmental components in the World Bank's activities in Central and Eastern Europe, followed by the EBRD. The World Bank is designed to have the "darkest green" portfolio, whereas the

EBRD has a "medium green" approach of an MDB seeking to address environmental issues without moving too far beyond its emphasis on private sector development, despite the ambitious environmental mandate it received from its shareholders. We would expect the EIB's portfolio to have the fewest of these types of projects, reflecting the absence of a strong mandate from its shareholders, and reinforced by its institutional design. The following chapter examines these hypotheses with evidence of the three banks' activities in Central and Eastern Europe.

## **Chapter Five**

### **MDB Environmental Policies and Practice in CEE**

This chapter turns to the three MDBs' work in Central and Eastern Europe (CEE) and analyzes how environmental issues are addressed in their lending and non-lending activities. In other words, given the banks' different missions and mandates, and given the factors that shape the ways in which their environmental behavior is institutionalized, this chapter examines what the banks' actually set out to do in a common region. How have the banks' environmental mandates affected their behavior and their contribution to environmental policy development in recipient countries? An examination and analysis of the three MDBs' activities in CEE provides evidence to support the hypotheses suggested at the end of Chapter 4. Generally, the banks' overall portfolios reflect how "bank-like" they are, in terms of the scope of their mission, and the extent to which it is driven by recipient or investor demand. As expected, the World Bank is undertaking the widest scope activities and projects with significant environmental goals and components, followed by the EBRD, and with the EIB trailing in third place.<sup>1</sup> Further, the environmental character of the banks' portfolios does reflect the activities and output of "green bankers." The chapter also shows more explicitly the ways in which recipient demand influences the scope of MDB activities. Even for the World Bank, which is the least demand-driven of the three, recipient demand can reduce or constrain the scope of its possible activities, particularly in countries that have gained access to alternative sources of funding without conditionality attached. These institutional factors,

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<sup>1</sup>It is worth pointing out that commercial banks have not played a significant role in providing environmental financing to CEE or the former Soviet states. This is attributed to a low demand for such financing, few attractive lending opportunities available to commercial banks, and the absence of knowledge within the banks on how to design such financing. OECD, "Report on Environmental Financing in CEEC/NIS," Task Force for the Implementation of the Environmental Action Programme in Central and Eastern Europe, document CCNM/ENV/EAP (98)24/REV2, 18 May 1998, p. 11.

and the incentives they influence, highlight some of the gaps between mandate and actions, particularly for MDB like the World Bank and EBRD that have strong environmental policy goals.

The chapter is divided into three sections. It begins with a brief conceptual discussion on the challenge of measuring an MDB's environmental outputs. It then situates the banks' activities in CEE, by describing the environmental issues facing the region since the fall of the Iron Curtain, and the ways in which major donor agencies have responded through environmental assistance strategies.<sup>2</sup> The three banks are the major international financial institutions operating in CEE, together committing just under \$25 billion to the region in 1990-96.<sup>3</sup> In addition, the World Bank also played a particularly important intellectual leadership role through its work on the Regional Environmental Action Programme (EAP), a document endorsed by environmental ministers from East and West that sought to identify priority environmental problems in the region, offered policy strategies for solving them, and influenced a broader policy discussion among donors and recipients. Finally, the third section more closely examines each bank's general strategies in the region, the composition of its activities, and its approach to addressing environmental issues in its work. The empirical evidence illustrates the dynamics of each bank's environmental behavior, and how, in practice, their approaches differ. This section also addresses some of the issues facing the banks in implementing their projects. While an in-depth analysis of implementation issues is beyond the scope of this dissertation, available evidence does highlight some of the

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<sup>2</sup>The term "donors" here refers to bilateral *and* multilateral donors. For some aid officials, "donors" is synonymous with bilateral agencies, and does not include the MDBs.

<sup>3</sup> This figure includes loans, World Bank IDA no-interest loans, and EBRD equity financing and guarantees. Dollar amounts for EBRD and EIB totals in ECU are calculated at the 31 December 1996 exchange rate of 1 ECU=\$1.25. See Table 5.2 for details. In comparison, the largest single donor to the region is Germany, which committed \$19.2 billion to CEE and NIS countries, in mostly grants, between 1990-1996. Following Germany is the U.S. SEED (Support for East European Democracy) program, which provided a total of \$2.7 billion to CEE in 1990-96, and the EU's PHARE program, which provided around 5.4 billion ECU to Central and Eastern Europe as well as the former Soviet Union. The bulk of U.S. and PHARE money has been in the form of grants. "SEED Act Implementation Report" Fiscal Year 1997, U.S. Department of State, February 1998, Table 1.



challenges facing the banks, and makes the point that in practice, it is extremely difficult to be precise about measuring the "environmental impact" of a specific project.

### **Defining Environmental Behavior**

As noted in Chapters 1 and 3, there is no clear way to measure a bank's "environmental behavior." One can neither precisely quantify the environmentally "good" or "bad" components of individual projects, nor evaluate the overall environmental benefits, costs and impact associated with an MDB's entire portfolio of activities. Instead, one must rely on imprecise indicators, but these will still shed light on how environmental mandates affect MDB behavior. The simple continuum laid out in Chapter 1 (Table 1.2) identified MDB environmental *commitments* as falling between "lighter green," or more minimal "business-as-usual" activities, and "darker green" more pro-active activities. This chapter repeats the continuum in Table 5.1, but instead uses it as a way to identify the ways in which a bank's *activities* will reflect its environmental actions. In other words, each bank's projects can theoretically be placed onto the continuum. This continuum, however, has an additional point; that is, where MDB projects essentially flunk their own environmental objectives, by ignoring environmental consequences. Therefore, projects falling in or around the left end of the continuum—"Not Green"—are projects that have highly negative environmental consequences, such as the Polonoereste and Indonesia Transmigration projects discussed in Chapter 2 that NGOs used as primary examples of the World Bank's weakness in addressing environmental issues in the 1980s. In CEE to date, the MDBs have not funded any environmentally disastrous projects like those that have received so much publicity in other parts of the world.<sup>4</sup>

"Light Green" projects, in turn, are those where the bank relies on a strategy of trying to address possible environmental harm through its due diligence procedures, particularly the use of environmental impact assessments. It may also depend on pursuing what it considers to be relevant environmental standards at this level. Projects in this category emphasize

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<sup>4</sup>Environmentalists, however, are critical of many of the MDB projects in CEE, and these criticisms are discussed in the analytical sections on each bank.

**Table 5.1: Continuum: Range of MDB Environmental Activity**

Not Green	Minimal Activity: Light Green"	Environmental Additionality	Deeper Activity: "Dark Green"
<ul style="list-style-type: none"> <li>• Projects ignore environmental consequences and are environmentally destructive</li> </ul>	<ul style="list-style-type: none"> <li>• Project design seeks to mitigate environmental harm</li> </ul>	<ul style="list-style-type: none"> <li>• Projects have significant environmental objectives</li> </ul>	<ul style="list-style-type: none"> <li>• Projects have primary environmental goals; other technical assistance or agenda-setting activities in environmental development</li> </ul>

minimizing environmental harm in activities designed for other purposes, and the extent to which they reflect a "business-as-usual" approach depends on factors such as how deeply the environmental impact assessment procedures change the project's design, or what types of environmental standards are followed. Most of the investment projects in an MDB's portfolio fall this category.

Moving rightward along the spectrum, the penultimate point is where projects have significant environmental objectives, and the final point adds to that projects with primary environmental goals, as well as a bank's involvement in policy debates, research, information dissemination, and other process-oriented and knowledge-based contributions that are difficult to quantify. To reiterate, in practice there is often no clear boundary between projects that have significant environmental objectives or primary goals. For example, an energy project aimed at using coal more efficiently could be considered to be a project with a primary environmental goal, since it might reduce air pollution more than any alternative a recipient might consider. At the same time, even efficient coal burning is still coal burning, and therefore a coal efficiency project might be considered as one with a significant environmental component rather than a primary goal.

Most MDB projects have multiple objectives, and it is often difficult to assess the "weight" of one objective versus another. Even quantifying objectives, in terms of the share of "environmental" costs or benefits in a specific project is not a precise science and is based on numerous assumptions that may or may not be correct. In addition, an environmental component may be a small component of a project, in monetary terms, but have a greater impact on the environment. As noted in Chapter 3, the banks themselves do not have clear definitions of what is or is not an "environmental" project, and as expected, tend to draw the lines of definition in ways that add as many projects as possible.

The nature of the environmental components or goals of a project depends, in part, on the sector. In the transport sector, for example, environmental components or goals may involve the development of mass transit, traffic management strategies to reduce congestion,

or policies that encourage higher occupancy vehicles or increased vehicle fuel efficiency. Environmental components or goals of water projects may include water quality management; pollution abatement, and the treatment and disposal of wastewater and sewage. Water sanitation projects tend to be automatically considered as "environmental" projects by all three banks, but whether or not a water treatment plant relies on mechanical treatment, versus biological or chemical treatment can have a great impact on its environmental impact. Water supply projects, however, can be more difficult to categorize, since they can be environmentally harmful if they involve diverting rivers or draining aquifers in an unsustainable manner.<sup>5</sup> Indeed, water projects are often in the "B" categories at the World Bank and EBRD, as projects requiring partial environmental assessments (EAs) since they have important environmental impacts.

In the energy sector, an MDB's environmental mandate is reflected in the degree to which its projects address supply side efficiency gains, demand-side management and conservation,<sup>6</sup> the promotion of renewable or relatively cleaner energy sources, as well as the reduction of emissions through end-of-pipe technology (such as flue gas desulfurization--or FGD--at power plants). In forestry, a "green" project would clearly include forest protection and conservation management components. Ultimately, because projects often have multiple objectives and goals, any exercise in categorizing them vis-a-vis their environmental nature is more of an art than a science.

Examining where each bank's projects fall on the continuum tells us something about how it seeks to translate its environmental goals into tangible project or program strategies, and reveals important variation among the banks. Since, as noted above, there are no "disaster" projects on the scale of MDB projects most criticized by NGOs, and since many projects in an MDB's portfolio follow due diligence procedures, the best indicator of the extent to which an MDB has moved beyond a "business-as-usual" approach is reflected in the

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<sup>5</sup>Kerstin Canby, World Bank Environmental Department, interview with the author, March 1998.

<sup>6</sup>"Integrated resource planning" is the approach by which decisions about utility investments take both supply and demand-side energy conservation options into account. Michael Philips, "The Least-Cost Energy Path for Developing Countries," (Washington DC: International Institute for Energy Conservation, 1991).

types of projects it finances with significant or primary environmental goals. Examining this information can also tell us something about implementation, where data is available. Project implementation by MDBs and other donor agencies is an important, but under-researched, area. There is little data on implementation on MDB projects, outside from some self-critical analysis done by the banks themselves and investigative work by NGOs critiquing specific projects. This means that it is difficult to know if projects designed with an environmental emphasis are carried out as planned, or whether projects have unanticipated, negative environmental effects. There have been many cases, for example, where MDBs have been accused of funding forestry projects that produced more trees for sawmills, or agricultural projects that have depleted soils.

There is also insufficient data to be able to determine how a project's EA procedures affect project design and implementation. In addition, the EIB does not make EA information publicly available.<sup>7</sup> While this dissertation cannot determine how each project in each bank's portfolio has been implemented, this chapter will highlight some areas where there have been visible implementation difficulties, by surveying what evidence is available on implementation, and adding evidence from my own primary research on project implementation in Central and Eastern Europe.

### **The Environmental Context in Central and Eastern Europe**

The collapse of communism in Central and Eastern Europe revealed enormous environmental degradation. At the time, the dramatic state of degradation of the region's environment was widely publicized by descriptive magazine articles, newsletters and weekly reports on the region. These drew public attention to issues such as the death of vast stretches of rivers, whose waters were unfit for human drinking or industrial use; irreversibly damaged forests; and the high degree of birth defects and retarded development in a few seriously polluted areas.<sup>8</sup>

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<sup>7</sup>It is up to the borrower to decide whether or not to disseminate the information.

<sup>8</sup>For early accounts of the region's environmental context, see Richard Ackermann, "Environment in East Central Europe: Despair or Hope," *Transition* 4 (1991): 9-11; Duncan Fisher, "Paradise Deferred: Environmental Policymaking in Central and East Central Europe," (London: Royal Institute of International

The compilation of data soon showed that much of the environmental damage in the region was concentrated in specific areas. In Poland, for example, while some parts of the country are relatively unspoiled, around 1/3 of the population lives in 11% of the country's territory that is considered an "ecological hazard," primarily in the southern and western parts of the country, where there is a concentration of heavy industry and mining.<sup>9</sup> One of the cities in this area is Katowice, where according to a 1991 World Bank report, 24-hour ambient concentrations of black smoke were more than six times higher than European standards.<sup>10</sup> Katowice is part of a broader, regional "hot spot" called the "Black Triangle," which is home to many highly polluted areas in southwestern Poland, northern Bohemia in the Czech Republic, and southeastern Germany. In northern Bohemia, for example, large coal-burning power plants contributed to SO<sub>2</sub> emissions that measured 20 times the national average in the early 1990s.<sup>11</sup>

Elsewhere in the region, there were a number of small, old industrial areas that have exposed their nearby populations to harmful emissions. These included places like Copsa Mica, Romania, where two lead smelters and other badly maintained industrial facilities were thought to be the source of respiratory problems and high exposure to lead;<sup>12</sup> and

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Affairs and Ecological Studies Institute, 1992); Bedrich Moldan and Jerald L. Schnoor, "Czechoslovakia: Examining a Critically Ill Environment," *Environment Science and Technology* 26, no. 1 (1992); Joan DeBardeleben, ed., *To Breathe Free: East Central Europe's Environmental Crisis* (Baltimore: Johns Hopkins Press, 1991); Hilary F. French, "Eastern Europe's Clean Break with the Past," (Washington DC: Worldwatch, March/April 1992); Joseph Alcamo, ed., *Coping with Crisis in Eastern Europe's Environment* (New York: Parthenon Publishing Group, 1992); and Helmut Schreiber, "The Threat From Environmental Destruction in Eastern Europe," *Journal of International Affairs* 44, Winter (1990): 359-391.

<sup>9</sup>Tomasz Zylicz, "In Poland, It's Time for Economics," *Environmental Impact Assessment Review* 14, no. 2,3 (1994): 79-94. These areas were actually first designated as ecological hazards by the Polish Council of Ministers in 1983. Clyde Hertzman, "Environment and Health in Central and Eastern Europe: A Report for the Environmental Action Programme for Central and Eastern Europe," (Washington DC: The World Bank, 1995), p. 6.

<sup>10</sup>"Environmental Policy in Central and Eastern Europe," World Bank document, EMTEN, November 19, 1991.

<sup>11</sup>World Bank, "Environmental Action Programme for Central and Eastern Europe," document submitted to the Ministerial Conference in Lucerne Switzerland (April 28-30, 1993) (Washington: World Bank, June 30, 1994), p. 9 (hereafter cited as "EAP"). Among the health problems that may be associated with environmental degradation in northern Bohemia are: reduced life expectancy compared with the rest of the country; and comparatively high mortality rates for lung cancer, infant mortality, respiratory and cardiovascular diseases. Wertzman, "Environment and Health in Central and Eastern Europe: A Report for the Environmental Action Programme for Central and Eastern Europe," p. 19.

<sup>12</sup>Exposure to lead can be source of learning problems and "subtle brain damage" in children. Wertzman, "Environment and Health in Central and Eastern Europe," p. 20.

Dimitrovgrad, Bulgaria, where high hydrogen fluoride and hydrogen sulfide emissions from one poorly located fertilizer plant were thought to be a major source of below-normal height, weight and lung function in half of Dimitrovgrad's children.<sup>13</sup>

Massive air pollution, which produces particulates and SO<sub>2</sub>, is widely seen as the worst pollution problem in many parts of CEE in terms of its impact on human health. It is caused largely by the burning of domestic hard and soft brown coal as a major fuel. Soft brown coal, or lignite, is more prevalent than hard coal in the region, and is characterized by its relatively high sulfur and ash content, as well as its low heating efficiency.<sup>14</sup> Major sources of air pollution in the region included power plants, as well as small industry, households and district heating plants that rely on coal. When CEE countries began the process of political and economic transition to market economies, they had the distinction of producing over 66% of Europe's sulfur dioxide emissions, but only 33% of its GDP.<sup>15</sup> The health effects resulting from coal burning in the region include high rates of chronic bronchitis and asthma, as well as other acute and chronic respiratory diseases.<sup>16</sup>

Water pollution has been another serious problem in the region, although to date there is no thorough comparative data that measure the extent of the problem throughout the region. Data have shown an unusually high proportion of surface water is not fit for human consumption. In Poland, this figure was put as high as 96% in the early 1990s.<sup>17</sup> Czechoslovak government statistics for 1992 showed that around 50% of the country's drinking water was below government purity standards, while 30% of the country's river water was not even capable of sustaining fish.<sup>18</sup> In addition, in many countries in the

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<sup>13</sup>EAP, p. 9. Descriptions of the health problems associated with these areas are in Wertzman, "Environment and Health in Central and Eastern Europe," pp. 19-20.

<sup>14</sup>"Cleaning up After Communism," *Economist*, February 17, 1990, p. 54.

<sup>15</sup>Penn Kemple, "East Europe: Greening of the Reds," *Washington Post*, December 24 1989, C3.

<sup>16</sup>Hertzman, "Environment and Health in Central and Eastern Europe: A Report for the Environmental Action Programme for Central and Eastern Europe," p. x.

<sup>17</sup>Schreiber, "The Threat From Environmental Destruction in Eastern Europe," p. 361.

<sup>18</sup>"Environmental Policy in Central and Eastern Europe," World Bank, p. 20.

region, only a small percentage of the population was served by waste water treatment facilities that treat waste water to secondary levels.<sup>19</sup>

Water quality can threaten human health through the presence of nitrates (particularly in rural areas, due to agricultural run-off), and the discharge of heavy metals and toxic chemicals. The main causes of water pollution in the region have included: 1) inadequate drinking water processing systems and sewerage treatment; 2) unmonitored municipal and industrial discharges; 3) contamination from agricultural runoff; 4) contamination from industrial air emissions; and 5) in coal producing regions, such as Poland, discharges from coal mining operations. Finally, for both water and air pollution in the region, at the time of the regime changes monitoring was mostly inadequate or nonexistent and technology was out of date. Additional environmental problems that have threatened health in the region stem from lead contamination in soil and air due to smelting and transport, and the inadequate disposal of toxic waste.<sup>20</sup>

#### *Views on the Causes*

Strategies of economic development adopted by the former, centrally planned regimes are widely blamed for the degree of Central and Eastern Europe's environmental degradation. The Stalinist path of economic development focused on state ownership of the means of production, and rapid industrialization with an emphasis on heavy, resource-intensive industry (chemicals, steel, etc.). Growth was the governing priority, with little awareness of the significance of environmental protection. Prices were determined by the state, not the market, and the prices of energy and other natural resources were often set at extremely low

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<sup>19</sup> Definitions for levels of treatment are not precise. Primary treatment usually refers mainly to physical processes, such as gravity settling, to take out large particles. Secondary treatment generally adds biological processes to reduce organic materials. Tertiary treatment adds another level of chemical, physical or biological processes to further reduce inorganic and organic materials. I am grateful to the Association of Metropolitan Sewerage Agencies for these definitions. As of the mid-1980s, the percentage of Eastern European countries served by secondary treatment included around 15% for Bulgaria and Hungary, and around 20% for Romania and Poland. These figures may be higher now, due to increased investment in this sector since the regime changes. OECD data cited in Axel Hörhager, "An Environmental Perspective for Eastern Europe," *EIB Papers* 18, no. November (1992), p. 39.

<sup>20</sup>For a more recent account of the environmental issues and policy responses facing the region, see Jürg Klarer, Bedrich Moldan, eds., *The Environmental Challenge for Central European Countries in Transition* (New York: John Wiley & Sons, 1997).



levels, which encouraged industry's excessive and wasteful use of energy. Central plans in the region did not include any mention of environmental protection until the 1970s, and even then attempts to face growing pollution problems were viewed as weak.<sup>21</sup>

Another factor contributing to the level of environmental degradation in the region was the absence of open public debate or opposition to government policy before the 1970s. In most countries in the region, individuals had no means to oppose state action, and were not allowed access to environmental information, the main weapon of NGOs in any political system.<sup>22</sup> Often, environmental data were considered state secrets and were suppressed.<sup>23</sup> Curiously, many countries in the region did have strict environmental standards, but the environmental ministries had little power to enforce them.

#### *Environmental Reform Process*

Environmental issues began to be discussed in depth throughout the region during the 1970s, as environmental degradation became more visible at the same time governments sought legitimacy by attempting to improve living standards and allowing some areas of public opposition to government policies. By the late 1980s, the environment had become a rallying point for people who were seeking broad political and economic change. In Hungary, for example, the proposed Gabčíkovo-Nagymaros hydroelectric dam on the Danube triggered the creation of the country's first environmental movement, and one that became a powerful voice calling for the end of the Communist regime.<sup>24</sup> Public criticism of

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<sup>21</sup>Zbigniew Bochniarz, Representative of Polish Ecological Club and Senior Fellow, Hubert H. Humphrey Institute of Public Affairs, University of Minnesota, hearing before Subcommittee on Transport and Hazardous Materials of the Committee on Energy and Commerce (U.S. Environmental Initiatives in Eastern Europe), U.S. House of Representatives 101st Congress, April 23, 1990, Serial No. 101-140.

<sup>22</sup>Stanley J. Kabala, "Environment and Development in the New East Central Europe: Addressing the Environmental Legacy of Central Planning," (Middlebury, VT: Geonomics Institute, 1991).

<sup>23</sup>Richard N.L. Andrews, "Environmental Policy in the Czech and Slovak Republic," in *Environment and Democratic Transition: Policy and Politics in Central and Eastern Europe*, ed. Anna Yari, Pal Tamas, (Boston: Kluwer Academic Publishers, 1993), 5-48.

<sup>24</sup>This was a joint project between Czechoslovakia and Hungary that entailed the construction of three new dams on the Danube (two on the Czechoslovak side and one on the Hungarian side) and two hydroelectric power plants. The project also entailed creating a new reservoir and rerouting the Danube for 25 kilometers via a new canal that would sharply slow the flow of the river. Hungarian environmentalists were concerned that the project would have negative impacts on agriculture and drinking water, among other things, and with growing vocal protest, the movement resulted in the Hungarian government agreeing to halt work on the dam temporarily in 1981, and finally permanently, in 1989. However, Slovakia continued constructing a dam on

the dam project was synonymous with public criticism of the government and calls for greater political participation.

In the wake the collapse of the Communist regimes beginning in 1989, environmental clean-up and protection emerged as one of the top policy priorities throughout the region. There were great hopes both inside and outside government that the region's environmental legacy would now be openly addressed, and that this was a historic opportunity to incorporate environmental protection into the new economic order. The environmental lobby organized around the Gabčíkovo-Nagymaros dam dispute, for example, immediately achieved its goals when the newly elected Hungarian government suspended construction on the Hungarian side.

New environmental ministries were set up, or old ones restructured, and they were given the mandate of establishing basic environmental priorities. Most countries in the region have now enacted framework legislation on the environment, which contain principles such as polluter pays, prevention and precautionary action, and public participation. Countries are also in the process of establishing or revising environmental standards, often with the goal of bringing them in line with European standards. A number of CEE countries have established environmental funds, which collect environmental fees and fines that are used to finance grants or low-interest loans for environmental purposes. Yet, as economic restructuring goals assumed prominence, the initial enthusiasm toward environmental restructuring and reform faded.

Currently, progress on environmental policy reform and clean-up is mixed. While governments have initiated numerous new policies and set up stronger legal frameworks, environmental management institutions in many countries in the region remain weak. This reflects the lack of sufficient financial resources available to most of these ministries,

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its side of the border. See Judit Galambos, "Political Aspects of an Environmental Conflict: The Case of the Gabčíkovo-Nagymaros Dam System," in *Perspectives on Environmental Conflict and International Relations*, ed. Jyrki Kakonen (London: Printer Publishers, 1992), 72-95.

relatively weak administrative capacity, and the fact that environmental ministries tend to be less politically powerful compared with other ministries.

At the same time, in many parts of the region some important pollution problems have declined. For example, air quality has improved substantially in many areas, reflecting a downturn in industrial production, higher energy prices, and the restructuring, modernization, or closure of some old industrial polluters. Some countries, such as Slovakia, the Czech Republic, Hungary and Poland, have made significant progress in reducing the use of leaded gasoline.<sup>25</sup> In countries such as Poland and Hungary, there are even signs that a return to economic growth has not resulted in increased sulphur dioxide and carbon dioxide emissions.<sup>26</sup> The quality of the region's rivers and lakes has also slowly improved in some areas where industrial discharges have fallen, although residue from previous emissions can remain a source of pollution.<sup>27</sup> The drive by ten countries in the region to join the European Union (EU) has become an increasingly powerful force influencing further government action in meeting European environmental standards.

#### *Role of Donor Institutions: Regional Overview*

The activities of MDBs are an important component of the broader picture of donor environmental assistance to the region. As environmental concerns became a relatively less important policy priority in CEE, donor institutions acted as a powerful countervailing force to catalyze environmental reform and clean-up in the region. Bilateral and multilateral donors have influenced policy development by altering the costs of options available to domestic policymakers through the provision of policy and project ideas backed by technical expertise and financial resources in domestic contexts characterized by weak institutional capacity and insufficient financial resources.<sup>28</sup> Donors have influenced the policy development process

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<sup>25</sup> Gordon Hughes, "Is the Environment Getting Cleaner in Central and Eastern Europe?" Selected Evidence for Air Pollution and Drinking Water Contamination," (Washington DC: The World Bank, 1995), p. 5.

<sup>26</sup> OECD, "Environmental Indicators: A Review of Selected Central and Eastern European Countries," (Paris: OECD, 1996).

<sup>27</sup> Hughes, "Is the Environment Getting Cleaner in Central and Eastern Europe?" p. 11. He uses as an example discharges of arsenic in Bulgaria's Maritza River basin. Discharges of arsenic from copper smelters have declined, but this is not reflected in the levels of arsenic in parts of the river near these smelters.

<sup>28</sup> Schreiber, "The Threat From Environmental Destruction in Eastern Europe."

directly, by providing resources and ideas for specific environmental projects that governments would be unlikely to fund on their own. Indirectly, these actors have helped to shape the parameters of policy debates, assisted with legislation development, and supported environmental interest groups.

Donors and recipients concur that the costs of cleaning up various environmental problems in the region and meeting European environmental standards are enormous, and that donor aid will contribute only a small portion of the total cost. Indeed, one estimate of the cost to 300 municipalities in Poland, the Czech Republic, Slovakia and Hungary to meet European waste water treatment standards is more than \$50 billion.<sup>29</sup> The European Commission, in turn, estimated that it will ultimately cost \$130 billion for the ten CEE accession countries to bring their environmental standards up to European norms.<sup>30</sup>

Totals for donor aid are dramatically smaller than cost estimates. There is no source of precise data that provides aggregate amounts of environmental aid. The only current source is compiled by the OECD, but it does not show its methodology for deriving its figures, which seem to be on the low end.<sup>31</sup> It calculates that between 1991-97, major bilateral donors and the three MDBs committed around 2.5 billion ECU (or approximately \$2.7 billion) for investment in projects with primary or significant environmental components, as well as policy development and technical assistance.<sup>32</sup> My own data, analyzed in this chapter, shows that the three MDBs alone provided around \$2.4 billion in financing for projects with significant or primary environmental goals, and this figure does not include money spent on technical assistance. The point is that there is an enormous gap between financing needs and assistance levels. Given this gap, donors have realized that they must be careful to leverage their assistance in order to it to be effective, and since 1991 they have made conscious attempts to work more closely together and with recipient country actors to

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<sup>29</sup>EAP, p. 2.

<sup>30</sup>Gillian Handyside, "EU Hopefuls Face \$130 Billion Environmental Bill," *Reuters Ltd.*, September 10, 1997.

<sup>31</sup>It appears it left it up to donors to classify their commitments. OECD. "Environmental Financing in CEEC/NIS," <http://www.mem.dk/aarhus-conference/issues/Finance/ececep50.htm>, June 1998.

<sup>32</sup>Ibid.

address the region's environmental problems. Donors have also sought to use aid to catalyze more effective environmental management in the region and to encourage a long-term process of environmental reform.

In 1991, what is now referred to as the "Environment for Europe" process was launched in response to early failures in aid coordination and prioritization.<sup>33</sup> These early failures were characterized by numerous feasibility studies that did not lead to investments, low absorption rates for assistance, and duplication and overlap in donor activities. Donor environmental assistance has been driven by factors that include concern for transboundary pollution, a desire to provide humanitarian aid, and an interest in promoting exports. Yet in many cases, attempts at cooperation have conflicted with individual donor agendas. For example, as Connolly and I have noted, bilateral aid:

...features some of the most blatant examples of 'solutions chasing problems,' where donors... seek out collections of problems that allow them to export goods, employ their own consultants, mitigate transboundary environmental problems affecting their own borders, or focus on particular sectors in which they have substantial experience at home. Recipients, in turn, have their own set of interests that may not fit well with donor interests. This can be seen in recipient preferences for environmental assistance in grant form, since they generally are not deeply interested in taking out sovereign loans for environmental purposes unless such loans also meet economic goals. However, pressure to harmonize to European environmental standards may increase the attractiveness of loans.<sup>34</sup>

The Environment for Europe process is a loose set of institutional initiatives and regional meetings of environmental ministers, donor officials, and other interested actors from East and West that has become a broad political framework for cooperation on environmental protection in Europe.<sup>35</sup> Its strength and contribution lie in its role in creating

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<sup>33</sup>Ibid. For a comprehensive account and analysis of the Environment for Europe process, see Barbara Connolly and Tamar Gutner, "Organizational Inertia and Innovation: Environmental Aid to Central and Eastern Europe."

<sup>34</sup> Ibid.

<sup>35</sup>Ibid., p. 1. The Environment for Europe process grew out of a campaign in the early 1990s by Josef Vavrousek, then the Czechoslovak federal environment minister, to set up a permanent Council of European Environmental Ministers who would hold regular conferences, set action plans and targets, and formulate strategies and targets to implement them. Vavrousek found that his counterparts in Western Europe were not eager to create new institutions, but they were willing to meet occasionally to discuss East-West environmental issues, with an emphasis on managing environmental aid and developing environmental policy.

an international policy community of government officials, donors and NGOs that have increased the linkages and interactions among donors and recipients, while diffusing a set of ideas about how environmental priorities for the region should be set, and encouraging convergence around a specific policy processes, such as the use of environmental action plans, environmental impact assessments, and national environmental funds.<sup>36</sup> At the same time, the ideas and processes espoused by this policy community are unevenly implemented within donor and recipient institutions, given the existence of divergent interests and weak institutional capacity, particularly within some recipient institutions. Donor institutions may work more closely together, and increase their opportunities for cooperation, but the Environment for Europe process has not led them to dramatically change their aid strategies.

The World Bank and the EBRD have been involved with the Environment for Europe process directly in important ways, while the EIB has only been a marginal player. First, the World Bank was the lead actor in organizing and writing the Environmental Action Programme for Central and Eastern Europe (EAP), which was one of the most important and visible outcomes of the Environment for Europe process.<sup>37</sup> It contains a set of guidelines, principles, and priority areas for environmental management in the region, and its goal was to be considered as a process and guide for policy development among Eastern and Western countries and multilateral institutions. The document was endorsed by the second meeting of Eastern and Western environment ministers and officials from international organizations at the 1993 Environment for Europe conference in Lucerne, Switzerland. Its main ideas are discussed below in the section on the World Bank.

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<sup>36</sup> "Policy community," sometimes called "policy network" or "policy subsystem," has been defined by a number of political scientists as clusters of public and private actors who organize around particular topics to pursue their policy goals. See, for example, Paul A. Sabatier, "An Advocacy Coalition Framework of Policy Change and the Role of Policy-Oriented Learning Therein," *Policy Sciences* 21 (1988), p. 131. For a deeper analysis of the argument on how these have worked in the area of environmental issues in CEE, see Connolly and Gutner, "Organizational Inertia and Innovation: Environmental Aid to Central and Eastern Europe."

<sup>37</sup> Following the first "Environment for Europe" meeting in 1991, European environmental ministers asked the World Bank and OECD to draft a broad framework that identifies priorities for environmental reform and expenditures in CEE. The OECD assisted the Bank in producing the document, which included input from a variety of donor and recipient governments, as well as a number of supporting studies undertaken by consultants.

In addition, the World Bank and the EBRD are involved in one of the two micro-institutions created by the Environment for Europe process to facilitate the implementation of the EAP: the Project Preparation Committee (PPC).<sup>38</sup> The PPC is a network of bilateral donors and the MDBs that acts as a matchmaker to bring together bilateral and multilateral assistance for projects that support the goals of the EAP. Its staff consists of a handful of officers at the World Bank and EBRD, and a small secretariat at the latter.<sup>39</sup>

The PPC has helped to catalyze environmental assistance to CEE by promoting projects that blend (MDB) loan and (bilateral) grant aid in ways that are attractive to both these institutions and recipients. Recipients are more likely to agree to an MDB loan if its sweetened by a grant component. Likewise, MDBs find they can more easily sell loan-based projects that include grant money. Bilateral donors, in turn, are pleased to link their activities with larger investment projects, and can more easily counter criticism that they have funded studies that have lead nowhere. At the same time, however, the PPC has only changed donor priorities on the margin. Most of the PPC projects consist of bilateral funding being added to MDB projects that were already in the banks' project pipeline. As a result, the PPC tends to fund projects that would have existed without it, although it does speed up the identification, evaluation, and implementation of specific projects. The following section turns to the specific activities of each MDB in the region.

### **MDB Activities in CEE**

Table 5.2 summarizes the three banks' lending commitments to CEE during 1990-96, and reveals the basic details of their activities. Commitments reflect loans that have been approved by an MDB's board, and are signed by both the bank and the loan recipient. As

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<sup>38</sup>The Task Force, based at the OECD, is a small secretariat whose goal is to help CEE states implement policy and institutional aspects of the EAP. Its members include representatives from both donor and recipient countries, as well as international organizations and several NGOs. The Task Force's job is to help recipient countries adapt EAP recommendations to local conditions through the development of national environmental action programs (NEAPs). It also coordinates efforts with the PPC in assisting countries to better mobilize financial resources to address important environmental problems. The Task Force also hosts meetings for recipients, workshops on specific topics of environmental management and other activities that bring donors and recipients together.

<sup>39</sup>"PPC Report to the Third Ministerial Conference 'Environment for Europe' in Sofia," (London: Project Preparation Committee Secretariat, 1995), p. 5.

such, they are mainly useful as a reflection of a bank's *intentions*. At the same time, this measure is weak in the sense that it does not reflect *disbursements*, a key indicator of the flow of funding, nor does it reflect loans that were canceled before or after board approval.<sup>40</sup> Lending commitment data are therefore most useful as an indicator of the strategies and interests of each bank.

The table shows that World Bank had the highest overall level of commitments, standing at \$11.6 billion in IBRD and IDA funding, compared with \$7.3 billion for the EBRD and \$6 billion for the EIB. Poland and Hungary were the top two recipients for World Bank and EBRD funding, and ranked first and third, respectively, for the EIB. Romania was also a major recipient of MDB lending, ranking second for the World Bank, third for the EBRD and fourth for the EIB. The data also show that the World Bank was the leading lender in three countries—Bulgaria, Poland and Romania. However, the EBRD had the highest lending volume in Slovenia, and the EIB had the highest lending volume in the Czech Republic. Indeed, although the EIB has the smallest staff of the three banks, it still also managed to rank second in commitments among the three banks in Bulgaria, Poland, Slovakia and Slovenia. At the same time, unlike the other two banks, it was not authorized to lend money to Bosnia and Herzegovina, Croatia and FYR Macedonia.

While it is difficult to be precise about the number of projects each bank has committed to undertaking, the EBRD is undertaking the largest number of projects in most countries in the region.<sup>41</sup> In countries like Poland, for example, although the EBRD ranks third out of the three banks in total loan commitments, it is undertaking twice as many projects as the World Bank and three times as many projects as the EIB.

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<sup>40</sup> Of the three banks, only the World Bank makes loan cancellation data publicly available.

<sup>41</sup> See footnote 1 of Table 5.2.



Table 5.2: World Bank, EBRD, EIB Commitments to CEE Countries 1990-96<sup>1</sup>

	World Bank (IBRD, IDA, Trust Fund)		EBRD (loans, shares)		EIB		
	Total Commitment m\$	# of projects <sup>2</sup>	Total Commitments mECU <sup>3</sup>	Total Commitments mUS\$	Total Commitments mECU <sup>4</sup>	Total Commitments mUS\$	# of projects
Albania	272.5 IDA only	22	60.4	75.5	46	57.5	3
Bosnia and Herzegovina	327.6 Trust Fund and IDA	15	27.3	34.1	0	0	0
Bulgaria	893.3	12	211.3	264.1	286	357.5	7
Croatia	423.5	8	341.2	425.5	0	0	0
Czech Republic	626	3	431.9	539.8	992	1240	10
Estonia	125.7	7	160.4	200.5	68	85	6
Hungary	1703	15	1114.3	1392.9	872	1090	14
Latvia	210.3	7	141.7	177.1	31	38.75	4
Lithuania	269.5	10	177.15	221.4	101	126.25	8
FYR Macedonia	239.8 (76m IBRD, 163.8m IDA)	8	147.5	184.4	0	0	0
Poland	4120	24	874.2	1092.8	1406	1757.5	18
Romania	1950	14	871.9	1089.9	475	593.8	11
Slovakia	285	3	426.8	533.5	353	441.3	10
Slovenia	153.2	3	330.5	413.1	150	187.5	5
Regional Projects			556.3	695.4	0	0	0
TOTAL:	11.6 billion IBRD and IDA 10.5 billion IBRD only		5.9 billion	7.3 bln	4.8 billion	6.0 bln	

Sources: World Bank, EBRD, EIB Annual Reports, 1990-96.

<sup>1</sup>It is impossible to be precise with this data. Often there are discrepancies between the banks' annual reports and other project documents. In the case of the EBRD, for example, a number of projects listed on the EBRD's internet site were not found in the Bank's annual reports. Some projects are counted as one project when they may consist of a framework loan that provides smaller loans to different parties. As noted in the text, commitments alone are an imprecise source of data, because many projects are canceled or reduced in size, which this is not reflected in the data on commitments. The conversion of ECU rates for EBRD and EIB projects is also problematic. Individual loans in specific currencies are translated into an ECU rate either at loan approval, or at the end of the quarter or year in which the loan was approved. Thus the actual ECU rates of each project may fluctuate daily. To make some comparison possible with World Bank loans, I have chosen a single ECU/dollar rate for EBRD and EIB loans.

<sup>2</sup>These figures for all three banks are not precise. In some cases one bank document will list as one project what another document shows to be a group of sub-projects.

<sup>3</sup>Conversion rate used is the 31 December 1996 rate of 1 ECU=\$1.25.

<sup>4</sup>Conversion rate used is the 31 December 1996 rate of 1 ECU=\$1.25.

<sup>5</sup>This figure includes a 35m ECU grant from the donor-funded Nuclear Safety Account for the Ignalina Nuclear Plant to finance safety upgrades.

<sup>6</sup>Many of the regional projects are multi-project facilities, set up to invest in individual projects in different countries over time.

## **The World Bank**

### *General Approach*

The Bank's approach to CEE since 1990 reflects its broader mission of nesting lending and other policy activities into broad policy dialogues with recipient governments. Its lending program reflects a substantial amount of economic and sector work, which includes country economic memoranda, trade analyses, financial sector assessments, social sector analysis, as well as energy and environmental studies for various countries in the region. As such, it is seen as a largely "top-down" strategy, with lending going to governments in the former of project lending or policy-based lending that is conditioned on macroeconomic policy reform.<sup>42</sup>

Many of the Bank's earliest loans to most countries in the region consisted of balance-of-payments support through structural adjustment loans (SALs), which helped countries deal with hyperinflation or balance-of payments deficits, and sought to address some of the basic issues involved in transforming centrally-planned economies to market-based economies. Other early loans focused on sectoral reform for the financial, agricultural and energy sectors. Yet beneath this broad strategy, the Bank has sought to tailor its assistance to the particular circumstances of individual countries, since the process of economic reform has varied greatly from country to country.

For countries in the earlier stages of economic restructuring, the Bank has supported liberalization, privatization, and public enterprise restructuring, in addition to supporting the reform process in a variety of sectors. In these countries, the Bank continues to support major fiscal adjustments through structural adjustment lending, and loans that help to develop basic social services and safety nets. For countries further along in the transition process that have begun to attract significant private capital flows, the Bank has adjusted its strategy to

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<sup>42</sup>The relationship between the Bank and many of the countries in the region pre-dates the regime changes of the early 1990s. Poland, Czechoslovakia and Yugoslavia were among the founding members of the Bank, although Poland and Czechoslovakia pulled out a few years later. Romania has been a member of the World Bank and IMF since 1972, although its Communist leadership stopped borrowing in 1982. Hungary joined the Bank in 1982, and Poland rejoined the Bank in 1986. Other countries in the region are more recent members.

focus on support for eventual EU membership, which includes helping countries adapt to EU standards in a number of areas, including agriculture, industry, the environment and social sectors.<sup>43</sup> For this group of recipients, as demand for World Bank loans declines, the Bank emphasizes its policy advice and guarantees.

#### *The World Bank's Portfolio of Activities*

Table 5.3 shows the sectoral breakdown of the World Bank's commitments to CEE in the period 1990-96.<sup>44</sup> It is important to note that this table, as well as comparable tables for the other two banks, incorporate projects with environmental objectives into broader sectoral categories where possible, (i.e., putting wastewater treatment projects in the "water sector," or energy conservation projects into "energy sector") since the banks do not have a consistent, comparable way of defining what is or is not an "environmental" project. Therefore, the Miscellaneous Environment category for Table 5.3 only includes those World Bank projects that cannot easily be encompassed in a broader category, such as the Bank's forestry management and environmental capacity building projects. I will separate "environmental projects" in sections of this chapter that focus specifically on these projects.

The table highlights the ways in which the World Bank's portfolio reflects its broader strategies and mission, that is an emphasis on lending to government with a strong component of broad sectoral reforms and policy-based lending conditioned on macroeconomic reform. Almost one-quarter of the Bank's loan commitments are for multi-sectoral and related lending, of which the vast majority are SALs and loans for basic economic restructuring and reform.<sup>45</sup> Loans supporting financial and industrial reform account for an additional 20% of the Bank's portfolio. These include a series of "enterprise

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<sup>43</sup>Various annual reports; "The World Bank Streamlines its Strategy for Transition Economies," *Transition* (Washington DC: The World Bank, February 1997).

<sup>44</sup>Appendix 1 contains a complete listing of the Bank's projects in CEE from 1991-96.

<sup>45</sup>Loans that fall under "miscellaneous" include those that provide foreign exchange for imports, landmine clearance and soldier demobilization in Bosnia and Herzegovina. The categorization of MDB projects by sector is an imperfect art, which allows for a great deal of discretion. A number of financial sector loans, for example, reflect financing for agricultural reform, but are not included in the agriculture category, while some urban development loans support transport or water supply and sanitation, but are not included in separate categories.

**Table 5.3: World Bank CEE Commitments by Sector, 1990-96**  
**millions \$<sup>1</sup>**

Sector	Sector Total	%of portfolio
Multisector and Misc.	2900	24.6
Finance and Industry	2360	20
Energy:	1717	14.6
Power Generation	1440	
Oil and Gas	176	
Heat Restruturing/Conservation (District Heating)	101	
Transport:	1163	9.9
Roads/Highways	431	
Railroads	215	
General Transport Sector	412	
Other (includes port rehabilitation, urban transport)	105	
Agriculture	999	8.5
Public Sector Management	623	5.3
Health/Population	499	4.2
Telecommunications	435	3.7
Education	270	2.3
Urban Development	261	2.2
Misc. Env. (env. management/forests)	220	1.9
Water	195	1.7
Social Sector	52	.4
<b>TOTAL</b>	<b>11.7 billion<sup>2</sup></b>	<b>99.3<sup>3</sup></b>

Sources: World Bank Annual Reports, 1990-1996.

<sup>1</sup>Includes IBRD, IDA resources, as well as Trust Fund financing for Bosnia and Herzegovina.

<sup>2</sup>Discrepancy with Table 5.2 due to rounding.

<sup>3</sup>Discrepancy due to rounding.

and financial sector adjustment" loans for almost all countries in the region to support government programs on enterprise and banking reform. Energy and transport are major areas of lending, which is also the case with the other two MDBs. In the energy sector, the bulk of the Bank's activity is focused on power generation. The Bank's character as the least "bank-like" MDB is also reflected in loans it makes for social sector, health care and population issues, and education, which are not undertaken by either of the other two MDBs.

#### *Approach to Addressing Environmental Issues*

The Bank's strategy for addressing environmental issues in the region has two main components—its work in policy advice and reform, and its work in project lending. Policy work focusing directly on environmental issues undertaken before the Bank's mid-1997 reorganization tended to reflect the activities of staff in the central environmental department and the regional technical department. Project work emphasizing environmental goals, in turn, has also reflected the involvement of these staff, in addition to individual task managers (re-named in mid-1997 to "task team leaders") who specialized in the development of projects with significant environmental goals.

In terms of its policy work, some of the Bank's more traditional economic restructuring policy advice has addressed environmental issues where it coincided with economic policy changes. An example would be the Bank's efforts to persuade countries in the region to remove energy subsidies through its SALs, which would encourage a more sustainable use of resources.

More directly related to environmental policy reform are the Bank's efforts to help countries formulate environmental policy reform strategies. This has been accomplished through the Bank's assistance in the development of national environmental action plans (NEAPs), and through its leadership in the development of the Regional Environmental Action Programme (EAP).

The EAP argued that a mismatch between the high costs of environmental restructuring and the limits of Western aid requires donors and recipients to identify the highest priority

environmental problems and to look for cost-effective ways of solving them. In other words, the needs of environmental aid and reform must be balanced against the costs of different reform options. Arguing that the level of damage to human health should be the main criterion driving the prioritization of environmental problems, it listed the region's major environmental priorities as: airborne dust caused by coal-burning; lead found in air and soil, caused by transport and smelting; and sulfur dioxide and other gases, emitted primarily by the burning of high-sulfur coal or fuel oil. The EAP emphasized that air pollution is probably the greatest short-to-medium term environmental problem in terms of its impact on human health, but also recommended addressing nitrates found in water, and drinking water contaminated by poor disposal of hazardous and nuclear waste. The problems identified as highest priority issues were thus primarily local, and not transboundary problems.

The EAP argued that policy prioritization should be based on four criteria: (1) policymakers should support "win-win" economic reform policies that also have environmental benefits, such as liberalizing energy prices; (2) environmental policies should be targeted and should establish a framework of institutions and incentives to discourage emissions of pollutants and biodiversity loss in a cost-effective manner; (3) environmental spending should go to projects with the highest benefit-cost ratios; and (4) "modest" expenditures should be set aside for programs that have a long lead time from start to finish but still have high benefit-cost ratios.<sup>46</sup> The underlying message of the document was that problem prioritization, policy reform, institutional strengthening, capacity building, and investment are the areas recipient governments as well as donors should emphasize. The key to environmental improvement in the region is thus not donor financing, but recipient policy reform.

The EAP report disappointed governments in the region, who had hoped the effort would bring about additional donor funding targeted toward specific projects. It is also unclear to what extent the EAP was ever "implemented," given the patchy diffusion in the

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<sup>46</sup>EAP, p. II-26.

region of processes that donors and recipients have agreed upon. Still, the EAP was important as a systematic attempt to set regional environmental priorities, and offer policy options to address them.

In addition to its policy work on the EAP and on NEAPs, the Bank has been actively involved—sometimes playing a leading role—in a number of other multi-country or multi-actor regional initiatives involving transboundary water issues. These include action programs for the Danube River, the Baltic Sea, the Mediterranean, as well as the Aral Sea, the Black Sea, and the Caspian Sea. These often involve the development of action plans, in which the Bank tends to be centrally involved, and these plans lead to the financing of discrete projects by the donor community as well as recipient countries.

In terms of project lending, Table 5.4 lists loans made by the Bank for projects with primary environmental goals or significant environmental objectives, which correspond to the "Dark Green" point on Table 5.1. In addition, the Bank has been responsible for carrying out an additional \$67.2m GEF grant projects, which are also listed separately in Table 5.5.<sup>47</sup> The 19 projects in Table 5.4 total \$1.2 billion, or 12% of the Bank's total commitments to the region. Out of this amount, the lion's share—eight projects totaling \$1.1 billion and comprising almost 80% of these loans—was devoted to energy-related projects, which emphasized energy efficiency and the reduction of air pollution. Four loans, totaling \$19.2 million, consist of projects in the water sector in the three Baltic states, which focus on reducing water pollution in the Baltic Sea by rehabilitating water and waste-water systems, and also contain components for the environmentally sustainable management of coastal zone areas. The Bank is also involved in sustainable forestry loans in Albania, Croatia and Poland. In addition, it has funded an environmental management project in Poland—the Bank's first project in CEE following the regime changes—to strengthen domestic environmental institutions.

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<sup>47</sup>The dissertation does not analyze GEF projects in depth, since the GEF is not a purely World Bank activity, but rather a separate facility involving the World Bank, UNDP and UNEP that operates with grant funding. While worth mentioning as an important component of the World Bank's environmental activity, it is not directly comparable with work undertaken by the other two MDBs.



Table 5.4: World Bank (IBRD and IDA) Projects with Primary Environmental Goals or Significant Environmental in CEE: 1990-96

Year	Country	Project Title	Sector	Loan/ Credit \$m	Co- Fin- anced with other MDBs	Environmental Objectives
1996	Lithuania	Klaipeda Geothermal Demonstration	Energy	6		Demonstrates the feasibility of using low-temperature geothermal water as a renewable indigenous energy resource for district heating.
1996	Slovenia	Environment Project	Energy	23.9		Mitigation of air pollution and institutional strengthening of mill expand existing and build new district gas-heating networks.
1996	Croatia	Coastal Forest Reconstruction and Protection	Forest	42		Restore, protect coastal forests destroyed by war.
1996	Albania	IDA Forestry Project	Forest	8		Restore and promote sustainable use of degraded state-owned forest and pasture areas.
1995	Lithuania	Siauliai Environment	Water	6.2		Reduce pollution from upper Lielupe river basin, a major source of water pollution into the Gulf of Riga portion of the Baltic Sea.
1995	Estonia	Env. I-Haapsalu and Matsalu Bays	Water	2		Environmental management for coastal zone areas in western Estonia, which include rehabilitating wastewater and water systems, institutional strengthening.
1995	Latvia	Liepaja Env. Project	Water	4		Environmentally sustainable management of coastal zone, reduce wastewater discharge, and enhance water quality.
1995	Lithuania	Klaipeda Env. Project	Water	7		Environmentally sustainable management of coastal zone, reduce wastewater discharge, and enhance water quality.
1995	Poland	Katowice Heat Supply	Energy	45		Improve energy efficiency of district heating systems.
1994	Estonia	District Heating Rehab. Project	Energy	38.4	EIB	Improve energy efficiency of district heating systems.
1994	Poland	Forest Development	Forest	146	EIB	Promote sustainable forest management practices, soil erosion prevention, increase vitality of forest stands, modernize management operations, equipment.
1992	Czech Republic	Power and Environmental Improvement	Energy	246		Reduce air pollution at Prunerov power plant through desulphurization equipment installation.
1991	Poland	Heat Supply Restructuring and Conservation	Energy	340	EBRD	Restructure energy sector, privatize and commercialize, promote energy conservation, reduction of air pollution, technical assistance and training.

1990	Poland	Energy Resource Development	Energy	250	EIB	Increase gas production and energy conservation, reduce air pollution, strengthen regulatory, institutional framework
1990	Poland	Environmental Management Project	Misc. (capacity building)	18		Strengthen national, local environmental management institutions. Develop air quality management strategy for Katowice-Krakow region, integrated framework for river basin management in upper Vistula River, build local capacity for better donor coordination.
TOTAL				1,183		

Sources: Annual Reports; World Bank, "The World Bank and the Environment in Central and Eastern Europe: 1990-95," (Washington DC: World Bank, 1995); World Bank, "Environment Matters: Annual Review," (Washington DC: World Bank, Fall 1997).

Table 5.5: World Bank GEF Projects in CEE: 1990-96

Year	Country	Project Title	Sector	Amount \$m	Project Description
1996	Bulgaria	Ozone Depleting Substances Phase Out	Ozone	11	Phase out 65% of country's 1993 annual, weighted ODS consumption through projects in refrigeration, foam blowing and solvents sectors
1996	Hungary	Ozone Depleting Substances Phase Out	Ozone	7	Phase out 50% of country's 1993 annual, ODS consumption through subprojects in solvents, foam, aerosol, halon and refrigeration sectors, and through recovery/recycling efforts
1996	Slovenia	Ozone Depleting Substances Phase Out	Ozone	6	Phase out around 36% of country's 1993, annual weighted ODS potential through subprojects in refrigeration, foams, aerosol, solvents sectors
1996	Lithuania	Klaipeda Geothermal Demonstration	Global Warming	6.9	Help finance construction of demonstration geothermal plant to provide hot water for district heating system
1995	Poland	Coal-to-Gas Project	Global Warming	25	Extend coal-to-gas conversions to medium-size boilers, to demonstrate interfuel substitution, technological innovation to reduce CO2 emissions
1995	Romania	Danube Delta Biodiversity	Biodiversity	5	Protect ecosystem and contribute to biodiversity conservation
1994	Czech Republic	Biodiversity Protection	Biodiversity	2	Protects biodiversity in three ecosystems, supports activity of three transnational biodiversity protection networks
1994	Czech Republic (?)	Ozone Depleting Substances Phase Out	Ozone	2.3	Eliminate production of CFCs, establish national refrigerant recovery/reclamation/recycling program
1994	Slovakia	Biodiversity Protection	Biodiversity	2	Develop management techniques, conservation program for biodiversity protection in Morava floodplain, Tatras forests and Eastern Carpathians
<b>TOTAL</b>				<b>67.2</b>	

Sources: World Bank, "The World Bank and the Environment in Central and Eastern Europe: 1990-95," (Washington DC: World Bank, 1995); World Bank, "Environment Matters: Annual Review," (Washington DC: World Bank, Fall 1997).

Given the fact that nearly all MDB projects have multiple objectives, what distinguishes the projects in Table 5.4 from others the Bank undertakes? Investments to improve infrastructure are important to all countries in the region, and MDB "environmental" projects tend to revolve around water and energy infrastructure rehabilitation. In this sense, virtually all of the MDB "environmental" projects might be considered to be "business-as-usual" investments. Yet, a closer look at the projects in Table 5.4, (as well as the comparable table for the other two MDBs), reveals qualitative difference in project objectives between these and other projects in the banks' broader portfolio of projects. In terms of the energy projects on this list, as noted above, some important indicators of an emphasis on environmental objectives in energy lending include the extent to which a project address supply-side efficiency or demand side management and conservation issues. This moves projects beyond more traditional MDB power lending for building or rehabilitating power plants, or expanding transmission and distribution systems.

The Bank's more "green" energy lending in CEE consists of both sector loans and project loans. The sector loans, such as the Poland Energy Resource Development, tend to involve broader sectoral restructuring and policy reform. The main goals of the Polish loan, for example, were to: increase the country's output of natural gas through investments to improve gas recovery from existing gas fields, as well as to evaluate other potential gas fields; to encourage greater domestic use of gas versus hard coal, which provides the vast majority of Poland's energy supply; and to encourage energy conservation through the support of energy price reform. The project's designers expected that gas produced under the project would have an impact on reducing the amount of hard coal used for household heating, which in turn would reduce emissions of ash, sulfur dioxide, carbon dioxide and nitrogen oxide.<sup>48</sup>

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<sup>48</sup>The project predicted it would reduce air pollution in the country, on an annual basis from 1995-2010 by 240,000 tons of ash, 50,000 tons of SO<sub>2</sub>, 8,000 tons of carbon monoxide, 20,000 tons of nitrogen oxide, and 3.1 million tons of carbon dioxide. World Bank, "Staff Appraisal Report: Poland Energy Resource Development Project," (Washington DC: The World Bank, 1990).

The other energy projects on this list also include specific environmental goals or components. The Czech "Power and Environmental Improvement" project, produced out of the Bank's "Energy and Environment" division in the country department addressing the Czech and Slovak republics<sup>49</sup> was designed to improve the efficiency of power plants in northern Bohemia in order to reduce energy costs as well as significantly reduce air pollution in that area.<sup>50</sup> This \$246 million loan, to the state-owned Czech Power Enterprise (Ceske Energeticke Zavody, or CEZ) was one of the largest project loans undertaken by the Bank in the region (in contrast with SAL or sector loans).<sup>51</sup> The largest investment components of the project (almost 70%) were related to pollution control, including the installation of FGD equipment, dust control equipment, as well as other operational improvements to reduce lignite consumption.<sup>52</sup>

Several of the Bank's "green" energy projects involved improving the energy conservation and efficiency of district heating systems, which are major sources of local air pollution in the winter heating season, since they typically rely on often inefficient boilers that burn fuels such as heavy fuel oil, coal, natural gas, shale oil and other fuels such as wood or peat.<sup>53</sup> These projects tend to be part of broader Bank involvement in energy sector reform, and also support the recommendations of the EAP. The Estonia project, for example, was set up to improve the efficiency of district heating in several cities to help the country reduce fuel costs and to improve the environmental conditions in affected areas. More specifically, it involved: a small boiler conversion and replacement program in a number of municipalities

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<sup>49</sup>The project was designed before Czechoslovakia split up, and subsequently belonged to the Czech Republic.

<sup>50</sup>The staff appraisal report estimated that the project would save \$20-\$40 million a year in energy costs, while reducing SO<sub>2</sub> emissions in northern Bohemia by 20%, or about 10% for the Czech Republic. World Bank, "Staff Appraisal Report: Czech and Slovak Republic Power and Environmental Improvement Project," (Washington DC: World Bank, 1992).

<sup>51</sup>CEZ is the largest company in the Czech Republic, with 12,000 employees, and it generates around 80% of the country's electricity. European Investment Bank, "CEZ Power Plant Improvement," (Luxembourg: European Investment Bank, 1995).

<sup>52</sup>The wet limestone FGD equipment was installed at the Prunerov II power plant, which was the single largest source of SO<sub>2</sub> in the country. Ibid., pp. 32, 35.

<sup>53</sup>District heating systems consist of boilerhouses that heat water, which is piped out to recipients, such as households.

across the country, to help them switch to local fuels in order to reduce heat production costs; efficiency improvements in Tallinn, Tartu and Pärnu that included equipment and boiler rehabilitation, as well as the installation of other equipment to improve efficiency (such as meters, variable speed pumps, new substations, etc.); and institutional support for relevant Estonian agencies, including training, equipment, and software for project management.<sup>54</sup>

The Slovenia Environment Project also focused in part on making heating systems more efficient, but with an even "greener" slant. One of the project's two main goals was to reduce air pollution by providing loans to around 6,500 households and 65 boilerhouse operators to cover 80% of the cost of converting their fuel or heating systems from polluting fuels (such as coal, wood, other solid fuels, etc.) to cleaner fuels (natural gas, solar energy). The Bank lent money to Slovenia's EcoFund for on-lending to residents of six cities, following a pilot phase in Maribor, Slovenia's second largest city, which decided in 1992 to begin converting all of its heating systems to cleaner fuels. The project's second objective was to assist the government in developing a national Geographical Information Center within the environment ministry, which, in turn, would manage a Geographical Information System (GIS).<sup>55</sup> The task manager for this project was one of the "green task managers" working on energy and environmental projects in the region.<sup>56</sup>

Other "green" energy projects include district heating projects in Poland and Latvia, as well as one in Lithuania that focuses on using low-temperature geothermal water as a renewable energy source. The geothermal project was seen as a "demonstration" project to determine the feasibility of providing renewable energy to help reduce Klaipeda's district

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<sup>54</sup>World Bank, "Staff Appraisal Report: Estonia District Heating Rehabilitation Project," (Washington DC: World Bank, 1994).

<sup>55</sup> The GIS is the source of databases with geographic, geologic, economic and other information to help in land-use planning and environmental protection issues.

<sup>56</sup>Helmut Schreier was the environmental coordinator for EC2, the country department working on Albania, Bosnia and Herzegovina, Croatia, Czech Republic, Hungary, Poland, Slovakia and Slovenia. After the mid-1997 reorganization, he was a team leader for Slovenia, Hungary, the Czech Republic and Slovakia for environmental projects.

heating utility's use of oil to heat its water.<sup>57</sup> These projects ultimately emphasized environmental issues more than the broader portfolio of World Bank energy projects in Central and Eastern Europe. The broader energy portfolio includes a project in Poland to modernize high voltage electricity transmission lines and substations; a Bulgarian project to reduce the operating costs and improve the efficiency of the national electricity company; and a project in Lithuania to rehabilitate two thermal power plants to improve safety and flexibility of the transmission system.

Turning to the water projects on the list, the four Baltic projects can be distinguished from more typical MDB projects in water sanitation or supply by the fact they are all designed to address environmental management of "hot spots" that were identified by the 1992 Joint Comprehensive Environmental Action Programme (JCP) for the Baltic Sea as priorities for environmental clean-up.<sup>58</sup> All four projects contain water sanitation and supply components, largely funded by Bank loans, as well as specific "environmental management components" (EMC), funded mostly by bilateral grant money. These EMCs focus on issues specifically related to the environment, such as coastal zone management. The goals of all four projects are to reduce the discharge of waste water into the Baltic Sea through the improvement of waste water and water supply services, while also supporting the development of management plans for the sustainable development of nearby coastal areas and wetlands. The task manager for three of the four Baltic projects was a senior environmental specialist at the Bank, and the World Bank's coordinator for the regional Baltic Sea Environmental Programme. He led a small Bank team that works on Baltic water projects.<sup>59</sup>

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<sup>57</sup>The heat from the geothermal water is used to preheat the district heating water, which reduces the heating plant's need to use oil. Official of UAB Geoterma, Klaipeda, Lithuania, interview with the author, May 25, 1998.

<sup>58</sup>The three Baltic states are signatories of the 1974 "Convention on the Protection of the Marine Environment of the Baltic Sea Area" (the Helsinki Convention), which requires them to address marine pollution and to implement a number of other recommendations developed by the HELCOM, the Helsinki Commission. The JCP grew out of this Convention. The World Bank played an important role in the development of the JCP, which was signed by environmental ministers of the Baltic Sea region.

<sup>59</sup>Stephen Lintner was also a key actor in devising the EIA policies of the World Bank and the EBRD. In addition, he also helped to draft the JCP for the Baltic Sea.

In comparison to these projects, other World Bank water projects in Central and Eastern Europe do not have the same emphasis on environmental components, although they may also have environmental benefits. As an example, the \$98 million Water Companies Restructuring and Modernization project in Bulgaria was designed primarily to help a set of municipal water companies gain autonomy from the central government, in the process becoming more accountable to local authorities, more commercially oriented, and more financially sound. The project supported the Bank's goal of strengthening Bulgaria's infrastructure. It also had environmental benefits, since, if implemented properly, it would encourage a more efficient use of water, and a reduction of pollution from waste water. However, these components were not major factors driving the project forward. Unlike the Baltic projects, this project was developed within the Bank's infrastructure division within the country department that addressed Bulgaria.

In addition to the individual energy and water-related projects, the Bank also funded an innovative environmental management project in Poland, designed to strengthen the capacity of Poland's environmental institutions in the analysis and design of policy, regulations, and investment actions to improve environmental quality, as well as fund specific investments in air quality management and river basin management in priority areas. This project, the Bank's first in CEE, sought to help the country's environmental ministry implement a management information system and improved administrative procedure for budgeting and work programs. Other project sub-components focused on improving government policy and information on a variety of environmental issues, including issues such as environmental health, municipal solid and hazardous waste, air quality and water resource management. The project created a Project Implementation Unit within the environment ministry, to coordinate the project as well as environmental assistance from other donor institutions. This project was also developed by staff from the Bank's central and regional environmental departments.<sup>60</sup>

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<sup>60</sup>A key official for this project was Richard Ackermann, who was also a leading player in drafting the EAP.



To summarize, the Bank's "environmental" portfolio in Central and Eastern Europe emphasized—at least on paper— environmental goals or issues more strongly than other projects the Bank undertakes in the energy and water sectors. These particular projects are usually developed by the Bank's "green bankers," or people whose job focuses on identifying environmental investments or policy exercises, as discussed in Chapter 4.

#### *Role of Recipient Demand*

The analysis of how the Bank's "environmental" projects in the region have been identified shows how the World Bank is the least demand-driven of the three MDBs, but also how recipient demand still affects the Bank's ability to sell investment projects in the region. The further along the transition process a recipient country is, the more alternatives the government will have in its quest for development financing, and the less pressure it has to accept funding with policy conditionality attached to it. As a result, in Central and Eastern Europe, the World Bank has been more successful in selling environmental conditionality to countries earlier on in the transition process, or project where recipients are specifically interested in World Bank expertise. The Czech Republic, for example, has only three World Bank projects, and has not borrowed from the Bank since 1993 because its government was not interested in increasing public sector debt with sovereign-guaranteed loans. The World Bank's attempt to do an environmental capacity building loan there, similar to the Polish loan, did not succeed.

In the more developed countries such as Poland and Hungary, there are also examples of environmental projects developed by the Bank that the countries chose to finance through other institutions, or projects the Bank turned down on environmental grounds that other MDBs have snapped up. One result of this is that the Bank has had to adjust its strategies for working in these countries, and by the mid-1990s began to emphasize policy advice for the wealthier countries seeking to join the European Union. The World Bank's darker green environmental objectives can become a disadvantage in markets that have become more competitive.

At the same time, where recipients are receptive to the Bank's work, the Bank often has much power to influence the specific shape that projects take. Slovenia, for example, wanted to buy FGD equipment to reduce air pollution from its power plants. Bank officials argued that this was not cost effective vis-a-vis other options, and proposed a coal-to-gas conversion project that the Slovenians agreed to, which evolved into the Slovenia Environment project discussed above. "Countries often come in with ill-conceived ideas," noted one senior World Bank environmental economist, who added that the Bank "gently persuades" them to adopt more "sensible" policies or projects.<sup>61</sup> The Bank also turns down projects of interest to recipients that do not meet the Bank's own interests or standards (whether economic, environmental or other), such as dam projects in Slovenia and Croatia, an aluminum smelter in Slovakia, and a proposed metro expansion in Budapest. The EBRD, in turn, took on the Slovakian project rejected by the World Bank, and the EIB funded the Budapest metro project.

The four Baltic water projects provide an instructive illustration in how the Bank can influence what recipients agree to do.<sup>62</sup> In these cases, the Baltic municipalities were mainly interested in local issues, such as improving very poor waste water treatment and/or drinking water supply, as well as improving tourism by cleaning up nearby coasts. The broader issue of cleaning up the Baltic Sea as a whole was not as much a priority to the municipalities as it was to the Bank and other (particularly Scandinavian) donors. The environmental management components of the projects were generally not a priority to these local governments, and as a result, the Bank "sold" them to recipients not as loans that would have to be repaid, but as grant components supplied by bilateral donors. There was therefore no cost to recipients for agreeing to projects that included EMCs. These EMCs were also very

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<sup>61</sup>Senior World Bank environmental economist, interview with the author, February 1995.

<sup>62</sup>This section is based on personal interviews with municipal water company officials, Bank project implementation units, and municipal officials in Haapsalu, Estonia; Liepaja, Latvia; and Siauliai and Klaipeda, Lithuania; as well as environmentalists and environmental ministry officials in all three Baltic states, June 1998.

small. For example, for the \$23 million Siauliai project, the EMC totaled \$1.4 million, and for the \$21 million Liepaja project, it totaled \$1.5 million.

At the same time, the water projects designed by the Bank almost always went beyond what the municipalities initially had in mind, as the World Bank tacked on additional components to pursue a broader watershed approach. The Bank had particular leverage to do so with these projects, because most could not find alternative sources of financing at the time they were designed, often even from other MDBs. The World Bank also brought bilateral donors into financing parts of the waste water and drinking water components of the loans as well.

To illustrate the Bank's leverage and influence, in Haapsalu, Estonia, for example, the municipality hoped to complete construction on a biological waste water treatment plant to replace the existing mechanical treatment plant. Construction on the plant began before Estonia achieved independence in 1991, and after that, the Estonians did not want to complete construction on the Soviet-designed plant with Russian technology. Estonia was unable to secure financing for the project from the Swedish aid agency or the EBRD. The World Bank, however, expressed an interest in financing the project if it included an EMC that focused on nearby Matsalu Bay, which itself was on the HELCOM list of priority "hot-spots" as an important wetland and nature reserve<sup>63</sup>

The municipality of Siauliai, Lithuania, in turn, was keen on finishing its partially constructed waste water treatment plan, and addressing the problem it faced by its inadequate capacity to handle sludge.<sup>64</sup> Siauliai is the fourth largest city in Lithuania, one of its main industrial centers, and home—before Lithuania's independence—to the largest Soviet military airport in Eastern Europe. Like the other cities, it had a partly constructed Soviet-

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<sup>63</sup>Official of Haapsalu Water Works, Haapsalu, Estonia, interview with the author, 15 May 1998. "Staff Appraisal Report: Republic of Estonia: Haapsalu and Matsalu Bays Environment Project," World Bank, March 15, 1995.

<sup>64</sup>The city's sludge is pumped directly into lagoons, which were largely filled by 1996, and sludge was not distributed according to levels of toxicity. World Bank, "Staff Appraisal Report: Republic of Lithuania Siauliai Environment Project," World Bank, 1995, p. 10.

style plant to replace an older plant that no longer met the city's needs.<sup>65</sup> However, the design of the unfinished plant was too big for the city.

The World Bank project, however, instead of confining itself to the completion of the municipality's waste water treatment plant, added onto the project a number of additional environmental components. These included the EMC that would organize bilateral funding for, training, technical assistance and other support for a Lielupe River Commission set up by Lithuania and Latvia in 1993 to cooperate on issues concerning management and clean-up of the river.<sup>66</sup> This component would also provide technical support, equipment and training for two Lithuanian regional environmental protection offices; assistance in the development of procedures to monitor discharge; a plan for sludge management; and a large study complemented by demonstration activities aimed at improving the practices of large local pig farms in managing agricultural run-off.<sup>67</sup> The Bank argued that better practices by local pig farmers would greatly enhance the project's benefits in terms of reducing pollution to the Baltic Sea.<sup>68</sup>

In sum, while recipient demand determines the countries or sectors in which the Bank can work, the Bank remains proactive and influential in pursuing particular project goals and designs, particularly in cases where alternative financing sources—with less conditionality attached—are available.

### *On Implementation*

Project implementation for any MDB rarely occurs as it is supposed to on paper. Delays can arise at any level, estimates and projections that underlie the project may prove to

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<sup>65</sup>The old sewage treatment plant could only process 60% of daily collected water, which meant a daily discharge of around 10 tons of polluted water directly into the Kulpe River, which flows directly into the Baltic Sea. The sewage is highly contaminated with heavy metals, which also means that the sludge removed from the plant cannot be used for agriculture. "Ecological Problems of Siauliai," Siauliai Municipality Environmental Affairs Department, 1994, pp. 12, 15.

<sup>66</sup>In fact, Siauliai is the source of most of the pollutant load discharged into the Lielupe. Pollution sources on Latvia's portion of the river tend to be small.

<sup>67</sup>Ibid.

<sup>68</sup>According to the project's task manager, two of the big pig farms, with 20,000 pigs each, contribute more waste than the entire city of Siauliai. World Bank project manager, interview with the author, April 30, 1998.

be overly optimistic or pessimistic, and unanticipated technical and political problems are not uncommon. Projects can stall or even fail at any MDB for myriad reasons, including changes in governments, weaker-than-expected domestic institutions, over-optimistic implementation schedules, poor project management, changing external economic conditions, or the absence of clearly specified requirements. The World Bank's Quality Assurance Group, for example, lists 12 different criteria for "projects at risk," that include: slow disbursements, country risks, poor economic management, risky subsector, poor environmental/resettlement performance, poor compliance with legal covenants, project management problems, procurements problems, and poor financial performance, among other factors.<sup>69</sup>

Project performance is also shaped by how strict the performance objectives are. Loosely defined projects can appear to be complying better than projects with more complex goals and conditionality, even though they might have less development impact. As Albert Hirschman noted 30 years ago, in studying a set of World Bank investments, "It quickly became apparent to me that all projects are problem-ridden; the only valid distinction appears to be between those that are more or less successful in overcoming their troubles and those that are not."<sup>70</sup> As noted above, the data necessary to evaluate each MDB project is not readily available, often even within the banks themselves.<sup>71</sup> This section draws on data that is available on World Bank projects in CEE, as well as interviews with NGOs, World Bank officials, and recipient country officials, to sketch out at least part of the implementation picture.

Of the three MDBs, the World Bank provides the most information on implementation, as discussed in Chapter 4. It provides cancellation data, although the data does not state the

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<sup>69</sup>World Bank Quality Assurance Group, Draft synthesis document, April 24, 1997, p. 5, (hereafter cited as "QAG Report").

<sup>70</sup>Albert O. Hirschmann, *Development Projects Observed* (Washington: The Brookings Institution, 1967), pp. 1-3.

<sup>71</sup>In July 1998, for example, the World Bank hired outside auditors to investigate what it called "alarming information" about possible fraud in the form of embezzlement and kickbacks. Lorraine Adams, "World Bank Hires Auditors to Probe its Own Spending," *The Washington Post*, July 16 1998, A1, 21.

reasons for cancellation. None of the projects in Table 5.4 have been completely canceled, while some have faced problems or partial cancellation, and others have been praised inside and outside the Bank for doing a good job in achieving their goals. In terms of cancellation, among the projects discussed in the previous section, three have had portions canceled. These include: the \$98 million Bulgarian water companies restructuring project was reduced by \$41 million; the Polish forestry project, reduced by \$42 million; and the Polish Heat Supply Restructuring project, reduced by \$75 million.

A 1997 in-house review of 14 World Bank sectors by the Bank's Quality Assurance Group highlighted a handful of problematic projects in CEE. These included seven projects in "extended problem status," and projects scheduled to close by mid-1997. None of these were projects whose main objectives were environmental, or were problem projects because of environmental issues.<sup>72</sup>

Sometimes World Bank evaluations highlight projects that are doing particularly well. The Hungary Energy Development project was praised with respect to a broader set of oil and gas projects for thorough project preparation, solid sector studies, well defined objectives, and clear government commitment.<sup>73</sup> The small \$18 million Polish environmental capacity building project also received a "highly satisfactory" review in its implementation report. According to the report, the project "achieved its major objectives, exceeded its physical objectives and is likely to achieve sustainable development results without major shortcomings."<sup>74</sup>

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<sup>72</sup> Projects in extended problem status included: in Bulgaria, a 1993 technical assistance project, a 1994 agricultural development project; and the 1994 water company restructuring project (which, as noted above, had positive environmental impacts); in Hungary, a 1992 project for highway rehabilitation, a 1993 project in health service intervention and training, and a 1993 project to reform social insurance; and in Poland, a 1992 housing and urban development project. Prem Garg, Office Memorandum, May 13, 1997, "Portfolio Monitoring Report."

<sup>73</sup> QAG Report, section on Oil and Gas, p. i.

<sup>74</sup> The physical objectives referred to project-supported equipment, almost all of which was installed and operating by the time the report was written. These objectives were exceeded due to cost savings and additional funding from other domestic actors and bilateral donors. World Bank, "Implementation Completion Report: Poland Environment Management Project," (Washington DC: World Bank, May 30, 1997).

A more coherent picture of the Bank's performance in one country emerges from an in-depth analysis by the Bank's Operations Evaluation Department 1997 review of the Bank's activities in Poland. According to the review, the Bank's strategy in Poland between 1986-96 was "highly relevant," while its efficacy was "satisfactory" and its efficiency only "marginally satisfactory."<sup>75</sup> The report argued that in the early years of the Bank's activities in post-Communist Poland, its advice, intellectual assistance and technical inputs were pivotal in assisting the government in the design of economic reform, while its project loans were often relatively less valuable. For example, much of the Bank's initial lending to Poland was made through financial intermediaries, which were supposed to on-lend the funds to the final beneficiaries. However, these Polish intermediaries were generally weak, and did not have the institutional capacity to adequately perform their on-lending tasks.<sup>76</sup> In addition, the report argued that the Bank's Polish team faced pressure to lend during the first two years of lending, which meant that projects were not always well prepared.

Implementation was often slow in these years, which also reflected the country's changing political and economic context. As the report noted for the 1992-93 period:

It became apparent that some projects were too large and complicated, involving several ministries or agencies that did not always share the same objectives. The turnover of government personnel also revealed some gaps in the Bank's institution-building efforts. New officials had difficulty learning the Bank's language and procedures. Communications between Polish officials and Bank staff were not always smooth. Lack of continuity in Bank staff sent from headquarters also contributed to implementation delays.<sup>77</sup>

The result was that the Bank ultimately restructured its portfolio in Poland, dropping some unsuccessful activities. The Bank's strengths were in areas of institution building such as foreign debt management and the improvement of public sector management practices. It was less effective in its attempts to push the government to sustain the pace of privatization, or bring down inflation. The report tended to praise projects that were designed in a

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<sup>75</sup>Luis Landau and Julius Gwyer, "Poland Country Assistance Review: Partnership in a Transition Economy," (Washington DC: World Bank, 1997), p. 11. This is the only such comprehensive report undertaken to date in the region.

<sup>76</sup>Ibid., p. 2.

<sup>77</sup>Ibid., p. 4.

participatory framework where Polish officials interacted with Bank officials in project design. It also praised the Bank's activities in working with other donors to put together a debt and debt-service reduction package on Poland's large private sector debt, which helped Poland improve its creditworthiness in international markets. Finally, it noted that since Poland's impending accession to the European Union would reduce the Bank's leverage in the country, the Bank's strategy in Poland had shifted to focus more on policy advice and institution building than resource transfers.

Turning to the Bank's activities in specific sectors, the report's findings were mixed. In the energy sector, for example, the report argued that both the government and Bank were "overoptimistic about reforming the sector."<sup>78</sup> Tariff increases were slower than agreed upon, the passage of new energy legislation was also slower than expected, while the government was hesitant to open up areas of the energy sector (such as power generation) to private sector involvement.<sup>79</sup> In addition many reform issues associated with this sector—such as demonopolization and commercialization—were politically sensitive and subject to widespread debate as resistance to change from those who would be hurt by the reforms (such as the coal sector's unionized labor force).

In terms of the Bank's environmental activities, the OED report praised the Bank's Polish team's work on institution building, which strengthened the Ministry of Environment's ability to coordinate and manage foreign aid. It also noted the Bank's unwillingness to fund investments in energy, mining and other sectors unless they complied with environmental guidelines. However, the report also pointed out that the government's commitment to environmental management was the "driving force behind the establishment of funding mechanisms that led to a high level of investment in pollution abatement."<sup>80</sup> The Bank's role was clearly supportive, although its direct contribution to a decline in various measures of pollution is more difficult to assess.

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<sup>78</sup>Ibid., p. 95.

<sup>79</sup>Ibid.

<sup>80</sup>Ibid., p. 98.



Interviews with environmental groups and government officials in the region generally support the main themes of the Polish report, with respect to the Bank's work in the region as a whole—that is, the Bank's main contribution in providing intellectual and policy support in the area of government policy reform.<sup>81</sup> Portfolio performance tended to be more mixed in countries struggling to a greater degree with the transition process, such as Bulgaria and Albania, and individual projects in each country are also the source of criticism or praise. There are no environmentally disastrous World Bank projects in CEE, in the same way that projects in Asia or Latin American have galvanized NGOs.

Interviews with ministry officials and NGOs in CEE revealed, however, that MDB projects in the implementation stage are often not closely monitored by government actors and NGOs. Government ministries in the countries do not have the staff or technical capacity to carefully monitor MDB projects. Central banks involved in disbursements of funding, for example, will often rely on reports done by the projects, and look more closely at a project if there appears to be problems. The major environmental groups, in turn, tend to focus on projects in the preparation stage, or early implementation stage, to try to influence project design and act as watchdogs against environmentally unsustainable projects. They also do not have the capacity to follow projects through implementation.

In terms of the projects in Table 5.4, responses were mostly positive, but some project problems were also pointed out. Among the positive responses, Polish environmental officials credited the Environmental Management project with exposing the Polish environmental policy community to the World Bank's ways of thinking and working, and setting up a Project Implementation Unit at the ministry that helped to implement donor

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<sup>81</sup>In the fall of 1997 and spring of 1998, I interviewed: In Poland, officials from the finance ministry, environmental ministry, National Fund, World Bank and EBRD resident missions, Institute of Sustainable Development, and CEE Bankwatch; in Hungary, I interviewed officials from the central bank, environmental ministry, finance ministry, World Bank and EBRD environmental missions, a former environmental policy official from Slovenia who is director of the Budapest-based Regional Environmental Center (REC); other officials from REC; World Bank and EBRD environmental officials; environmentalists from the Clean Air Action Group, Energy Club, and CEE Bankwatch; in the three Baltic states, I also interviewed officials from finance and environmental ministries; resident MDB mission officials, CEE Bankwatch and local NGOs, as well as municipal officials, project managers and other project officials for the three MDBs' water projects and many of their energy projects.

projects more broadly, while training a group of policymakers. In terms of project problems, World Bank officials noted in interviews that the 1990 Polish Energy Resource Development project did not fully meet its goals, since it resulted in increased gas imports, rather than increased gas production. Conditionality related to the privatization of the Polish Oil and Gas Company was also not met, according to officials involved in project implementation.<sup>82</sup> The Bank's Klaipeda Geothermal Demonstration project, in turn, fell behind by more than a year due to the fact that once well-drilling began, the geothermal company financed by the Bank learned that the water temperature was not as hot as expected, which would require it to drill an extra well.<sup>83</sup> Environmentalists also criticized the project for not including a component to reduce the high levels of energy wasted in Klaipeda's district inefficient heating system, to which the project was providing energy.<sup>84</sup>

Also in the Baltic states, the Bank's water projects faced some problems common to other MDB water projects in the region, but also some particular implementation problems as well. MDB water projects throughout the region have faced the difficulty of increasing tariffs to rates called for in the project document. Tariffs are the major source of revenue for the water utilities, and therefore also the source of financial resources used to repay the MDB loans. In the Baltic states, all of the MDB-financed water utilities faced sharper-than-expected declines in water demand, which in turn, reduced expected revenues that can be collected from tariffs. It was also politically difficult for some municipal governments to agree to increase water tariffs as required under the loans. As a result, many of the MDB water projects are not performing as well as expected.

In terms of the World Bank's Baltic water projects in particular, one weakness has been that the projects' small environmental management components, funded by bilateral donors, have had mostly small, if any, tangible results. They produced some studies that may or may not be useful in future policy development, such as an integrated coastal zone management

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<sup>82</sup>Official of World Bank's Warsaw office, interview with the author, 15 October 1997.

<sup>83</sup>Official of UAB Geoterma, Klaipeda, Lithuania, interview with the author, 25 May 1998.

<sup>84</sup>Linas Vainius, Lithuania Green Movement, Vilnius, Lithuania, interview with the author, 20 May 1998.

plans in Lithuania and Latvia. Some EMC studies funded by PHARE, in turn, were criticized by government officials and Bank officials as being slow, or delayed by bureaucratic snafus, such as lost paperwork.<sup>85</sup> The Bank canceled the EMC for Siauliai concerning the Lielupe River Commission, due to lack of local interest, plus the fact that PHARE was interested in funding this on its own. At the same time, a few components of the EMCs have been viewed as successful. One is the pig farm study in Siauliai, which produced recommendations on practices that were adopted by Lithuania's pig breeders' association. Another is the EMC for the Liepaja project, which included the purchase of a reed harvester for Latvia's Lake Pape, a large coastal wetland that is part of the coastal wildlife habitat. The harvester allowed the local municipality to harvest reed that clog up the lake, and sell them in Denmark and Lithuania, where they are used for roof material.

While the Bank's projects in Latvia and Estonia performed largely as expected, the projects in Lithuania faced relatively more challenges. Some of the problems were outside of the Bank's control, such as a rapidly changing group of Lithuanian policymakers (including three different environmental ministers in the space of six years). The Klaipeda project was delayed due to slow procurement tendering after the Ministry of Environment insisted on a re-tendering in order to involve more Lithuanian firms. Shifting government requirements on waste effluents delayed the project for another 12 months. Disagreements between the Bank and the Lithuanian environment ministry has also delayed the water projects. One particular debate was over whether or not the waste water plants needed spare pieces of certain equipment (such as pumps, or piping,) which was required under the old regime (and by old Soviet standards) to be used as back-ups, since equipment often broke down. Such additional equipment adds to project costs, and is generally not required in Western-style plants.

In some cases, disagreements between the Bank and municipalities were about issues where the Bank's stance would reduce the possible environmental benefits of the project.

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<sup>85</sup> Interviews with World Bank officials in Washington and Vilnius, Ministry of environment official in Riga, PHARE official in Vilnius, May, June 1998.

For example, both Klaipeda and Siauliai municipalities were interested in waste water plants that included processes for removing nitrogen and phosphorus, which the World Bank argued was too expensive for them to undertake as part of the projects. The Bank determines what it thinks the capacity of the municipality is to take on debt, which Bank officials said results in projects that do not contain "all the bells and whistles" the municipality might expect.<sup>86</sup>

In Siauliai, in particular, there were many disagreements between the Bank and the municipality, and the project eventually stalled. Some municipal officials were angry that the Bank designed the project with what they perceived to be non-priority components, while it lacked some major municipal priorities, such as sludge management or nitrogen and phosphorus removal. The Bank's view was that such components were not least-cost, and were more expensive than the municipality could afford at the time. The Bank also argued that after the project was signed, the municipality decided it wanted duplicate equipment that would raise project costs. The Bank believed this equipment was unnecessary, and reflected old Soviet standards, and it refused to increase the project loan size. Finally, both sides realized that the Bank project overlooked the inclusion of a very expensive (\$1 million), important piece of equipment—the transformer to connect the water utility to the power grid.<sup>87</sup>

These anecdotes illustrate the fact that even projects that look right on paper may encounter many different kinds of political, economic and technical problems in practice. The World Bank has had to push harder than the other two to sell particular environmental projects to recipients, but even after these projects are agreed, it is difficult to know exactly what impact they have on environmental improvement. Many potentially important contributions, such as advice, technical assistance, and research, are the most difficult to measure.

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<sup>86</sup>World Bank official, Vilnius, Lithuania, interview with the author, 29 May 1998.

<sup>87</sup>The World Bank agreed to help the Lithuanians find funding to pay for a transformer. World Bank official, Vilnius, Lithuania, interview with the author, 29 May 1998.

## **EBRD**

### *General Approach*

The Bank's portfolio clearly reflects its mission of promoting private sector development in CEE, primarily by emphasizing privatization, financial sector restructuring, infrastructure development, and the promotion of foreign investment. (See Appendix 2 for a complete listing of projects). As Table 5.6 shows, a quarter of the Bank's commitments of loans and equity investments in CEE is targeted to financial institutions, largely for developing the institutions themselves and for providing funding to be on-lent for the development of private sector investments, mainly for small and medium-sized enterprises (SMEs). Many of these loans actually benefit other categories in the table, such as credit lines for agribusiness, manufacturing and energy efficiency. An additional 500 million ECU, in turn, is used to finance regional funds, multi-project facilities, and equity lines. While the World Bank emphasizes capacity building through government agencies, the EBRD focuses more on strengthening the activities of financial institutions.

An additional 20% of the EBRD's portfolio supports joint ventures and domestically-owned businesses, and includes projects such as the construction of a Coca-Cola bottling facility in Albania, the establishment of a wholesale market system in Bulgaria, the construction of a brewery in Croatia, and the modernization of a paper and pulp facility in Poland. Transport is the third largest area of Bank commitments, where the majority of the EBRD's projects have emphasized highway construction or rehabilitation, often designed as toll roads.

As the private sector evolves in CEE, an increasing percentage of the EBRD's portfolio is directed to private sector actors and activities. In Hungary and Poland, for example, around 90% of the Bank's commitments are made to private enterprises or state-owned enterprises in the process of being privatized. The Bank's 1996 medium-term strategy for Poland, for example, was to continue helping to develop the ability of Polish financial intermediaries to finance private sector investments, to help mobilize investment capital more

**Table 5.6: EBRD CEE Commitments by Sector, 1990-96**  
**millions ECU**

Sector		Sector Total	%of portfolio
Banks/Credit Lines for SMEs/Capital Funds		1340.9	24.8
Manufacturing/Joint Ventures/Industry		1089.7	20.2
Transport:		1800	19.8
Roads/Highways	633.2		
Railroads	231.4		
Airports/Aircraft	82.7		
Other (includes combination projects)	124.4		
Telecommunications		714	13.2
Energy:		685.5	12.7
Power Generation	443.3		
ESCO/energy efficiency	55.6		
Oil and Gas	186.6		
Water		161.5	3.0
Agriculture/Food		149	2.8
Real Estate/Construction		91.6	1.7
Hotels		76.4	1.4
Misc.		12.7	.24
Insurance		3.4	.06
<b>TOTAL CEE</b>		<b>5.4 billion ECU</b>	<b>99.9</b>
<b>Regional Multi-Project Facilities (MPF), Funds, Equity Lines, etc. (These may be used in the former Soviet Union as well, and often include shares only, or a combination of shares and loans).</b>			
Regional ESCO/energy efficiency MPFs		126.7m ECU	
Regional Municipal MPFs		82.7	
Regional Funds/Equity Lines		224.6	
Regional Misc.		122.3	
<b>TOTAL REGIONAL:</b>		<b>556.3</b>	
<b>TOTAL REGIONAL PLUS CEE:</b>		<b>5.96 billion ECU<sup>1</sup></b>	

Sources: EBRD information sheets, Annual Reports (1990-1996), EBRD web site ([www.ebrd.com/oper/country/](http://www.ebrd.com/oper/country/)).

<sup>1</sup>Discrepancy with Table 5.2 due to rounding.

generally, and to participate in structural reform of the country's steel, chemicals, oil and gas, shipbuilding, and agribusiness sectors.<sup>88</sup> In Hungary, the focus is similar, with financial sector development, private sector infrastructure financing, capital market capacity strengthening, seen as the most important areas to pursue.<sup>89</sup> In countries that have made less progress in the transition process, such as Bulgaria, Romania, and Albania, the Bank's strategy focuses more on sovereign-guaranteed investments in infrastructure, financial sector restructuring, and support for privatization efforts.

As noted in the World Bank section, project commitments do not reflect cancellations or delays, so actual disbursements vary from the picture painted by commitments. Unlike the World Bank, the EBRD does not provide data on cancellations and disbursement for individual projects, and in documents where it lists its "signed projects," it somewhat misleadingly *excludes* projects approved by the board and signed that were subsequently canceled.<sup>90</sup> In terms of projects that have some type of environmental focus, discussed in greater depth in the following section, Bank staff have reported that only 13m ECU has been disbursed of the 40m ECU Bulgarian Maritza East Power Project, which was approved in 1992. No disbursements had been made by mid-1997 on Albania's Drin River Rehabilitation project, which was approved in 1994. Small amounts of the Latvian energy sector emergency loan were also canceled.

#### *Approach to Addressing Environmental Issues*

The EBRD's approach to addressing environmental issues is less comprehensive than the World Bank's, but "greener" than the EIB's. This reflects the argument made in Chapter 4, that is, the EBRD is more demand-driven and private-sector oriented than the World Bank,

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<sup>88</sup>"EBRD activities in Poland," <http://www.ebrd.com/english/opera/country/polafact.htm>.

<sup>89</sup>"EBRD activities in Hungary," <http://www.ebrd.com/english/opera/country/hungact.htm>.

<sup>90</sup>This is the case in the description of individual country portfolios at the EBRD's web site. Annual reports do list disbursements for the overall portfolio. In 1996, net disbursements totaled 1.2 billion ECU, compared with 2.2 billion ECU commitments. For 1995, the totals are 988 million ECU in net disbursements, compared with 2.0 billion ECU committed; for 1994, 591 million ECU net disbursements, against 2.4 billion ECU in committed; for 1993, 435 million ECU net disbursements, against 2.3 billion ECU committed; and 1992, 126 million ECU net disbursements out of 1.2 billion ECU committed. EBRD, *Annual Report*, (London: EBRD, 1996), p. 3.

while it still contains environmentally-oriented staff that do not exist at the EIB, namely in its environmental assessment, municipal infrastructure, and energy efficiency units.

The Bank has been involved in a handful of policy-related exercises, but over time has focused most of its attention on project lending. For example, it sponsored a research project on implications of the harmonization of CEE environmental standards with the EU's, as well as institutional changes needed to improve environmental monitoring and enforcement, in part to assist local and foreign investors in making investment decisions. In addition, the Bank initiated a research project to help CEE countries adopt better public participation policies, responding to long-standing NGO pressure for the MDBs to better involve the affected public in their project decisions.<sup>91</sup> The EBRD's role as secretariat of the Environment for Europe process' Project Preparation Committee (PPC) has also involved it in some research activities, such as a report on enhancing environmental project financing in the region, and other work on green equity financing.

Turning to project lending, Table 5.7 highlights EBRD projects with primary environmental goals or significant environmental objectives. It includes both investment projects in the region, as well as a number of regional multi-project credit facilities that in turn finance smaller projects both in CEE as well as the other former Soviet countries. The total of CEE projects and regional MPFs in Table 5.7 is 648 million ECU, or just under 11% of the Bank's total portfolio of projects and regional credit lines in CEE.<sup>92</sup> The two biggest categories of projects in this list are credit facilities for energy efficiency projects, which comprise 32.6% of the total, and water projects, which account for 31%. These are followed by other energy supply projects (21%), transport (9.5%), and non-ESCO-related credit lines and funds (6.4%). Generally, the projects on this list come out of the Bank's municipal and environmental infrastructure unit, which finance district heating projects and water and

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<sup>91</sup>EBRD, "Environments in Transition: the environmental bulletin of the EBRD," (London: EBRD, 1993).

<sup>92</sup>This figure excludes credit lines and other multi-project facilities that focus solely on the non-Baltic former Soviet states.



**Table 5.7: EBRD Projects with Primary Environmental Goals or Significant Environmental Objectives in CEE: 1990-96**

Year	Country	Project Title	Sector	Loan (I)/ Shares (sh) mECU	Co-Financed with other MDBs	Environmental Objectives
1996	Regional	CGC ESCO Multi-Project Facility	Energy	36.7 (I) and (sh)		Multi project facility to finance ESCOs Through 96: Financed CGC-Thermotech in Slovakia for 3.5m; and and CGC-Promeltheus ESCO in Hungary for 3.9m.
1996	Regional	FGG Municipal Services Multi-Project Facility	Energy	41m (I) and (sh)		Encourage private provision and financing of muni and env. services Through 96: Financed Heatco District Heating Project in Slovakia for 3.2m.
1996	Regional	Municipal Services Multi-Project Facility	Water	33.7m (I) and (sh)		RWE Entsorgung Framework Agreement Finance investments in private provision of muni and environmental services
1996	Regional	Landis & Gyr Multi-Project Facility	Energy	60 (I) and (sh)		Multi-project facility to support expansion of ESCOs
1996	Regional	Environmental Investment Fund	Municipal	8 (sh)		To finance manufacturing, services, development in infrastructure sector
1996	Regional	Honeywell Multi-Project Facility	Energy	20 (sh)		Establish energy service companies to implement energy efficiency projects.
1996	Slovakia	PBK General Purpose and Energy Efficiency Credit Facility	Energy	14.9		Provide Slovak bank (PBK) customers a facility for low-cost financing for energy efficiency investments.
1996	Romania	Regional Water and Environment Project	Water	20.1		Provide Jiu Valley with constant supply of drinking water
1996	Romania	Energy Conservation and SME Credit Line	Energy	8.1		Invest in general and energy conservation projects
1996	Latvia	Riga Water and Environment Project	Water	18.1	EIB	To reduce levels of raw sewage in the Daugava River and improve water supplies

1996	Hungary	General Purpose Credit Line for EBRD-PHARE Env. and Energy Efficiency Co-funding Scheme	Energy	30	Finance viable private sector projects with environmental and energy benefits
1996	Croatia	Municipal Environmental Infrastructure Invest. Proj. (Env.)	Water	54.4	Extend and improve sewerage, waste-water treatment and water supply systems for several towns along Adriatic coast. Addresses severe pollution in Kastela Bay and the sea off Pula, and restores quality of bathing water, which will also boost tourism.
1995	Romania	Municipal Utilities Development Proj.	Water	22.2	Rehabilitate and improve municipal water services in five cities
1995	Lithuania	Kaunas Water and Environment Project	Water	11.9	To improve water and waste-water services in Lithuania's second largest city
1995	Estonia	Small Municipalities Environment Project	Water	24.0	Short-term water services investments in municipalities other than Tallinn
1994	Estonia	Tallinn Water and Environment	Water	47.9	Improve water and waste-water services in Tallinn. Loan improves existing water supply and waste-water system, develops new ground water wells, expand waste-water treatment. Improves reliability of water supply services, quality of drinking water, reduces waterborne pollution in Gulf of Finland and Baltic Sea.
1993	Macedonia	Elektrostopanstvo na Makedonija	Energy	35.9	Construct transmission line, support Energy Conservation Programme
1993	Hungary	Budapest Public Transportation Rehabilitation	Transport	61.9	Rehabilitate city's public transport system
1992	Lithuania	Energy Sector Emergency Investment	Energy	32	For urgent repairs to energy supply facilities to improve supply and end-use efficiency
1992	Latvia	Energy Sector Emergency Investment	Energy	31.6	Enable urgent repairs to energy supply facilities to improve supply and end-use efficiency
1992	Estonia	Energy Sector Emergency Investment	Energy	34.9	Enable urgent repairs to power and heating supply and improve energy efficiency
TOTAL *				647.3/ \$809.1	

Sources: EBRD information sheets, annual reports, web site ([www.ebrd.com/operat/country/](http://www.ebrd.com/operat/country/)). \*Exchange rate used is the 31 December 1996 rate of IECU=\$1.25.

environment projects; and its energy efficiency unit, which finances the ESCO projects in the region. The Bank's energy sector team, in turn, tends to finance the larger power sector projects, such as those rehabilitating thermal power plants and transmission systems.

The EBRD's energy efficiency projects, designed by the Bank's energy efficiency unit, emphasize the development of ESCOs and the use of credit lines for energy efficiency. This differs from the World Bank's approach to energy efficiency which has emphasized broader sectoral restructuring and policy reform. By the end of 1996, the EBRD had signed three Multi-Project Facilities (MPFs) with Western companies to set up ESCO companies in CEE. Typically, these are loans to companies like France's Compagnie Générale de Chauffage (CGC) or the U.S. Honeywell, which have expertise in energy controls and related environmental services. These companies, in turn, finance individual ESCOs in CEE, in which the EBRD takes a minority share.<sup>93</sup> The ESCOs provide energy saving services to clients that may include hospitals, district heating companies, and other institutions.<sup>94</sup>

The Bank has also financed a handful of other credit facilities for energy efficiency and municipal projects, which has allowed it to finance projects that would be too small for a normal EBRD loan. One example is the 14.5m DM credit line the EBRD extended to Priemyselna Banka Kosice (PBK) in Slovakia, which was enhanced by an additional 3.8m ECU interest-free grant from the EU. Two sub-projects were financed through this by the end of 1996: a 1.4m DM loan to a privatized district heating company to replace old boilers with more energy efficient systems; and another small loan to allow an industrial company to replace its old air compressors, and to purchase an electrical load management system.

Among the other energy projects in Table 5.7, energy conservation is a component of the broader project. For example, the Bank's 1993 project in Macedonia had several main goals aimed at helping the government restructure and strengthen its power sector. One

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<sup>93</sup>For example, under the 70m ECU facility the EBRD financed with the Swiss company, Landis & Gyr (Europe) Corp., the EBRD provides 35% of the financing for each ESCO set up by Landis & Gyr, which in turn provides the balance and takes a majority stake in the ESCO.

<sup>94</sup>:"East European Energy Wastage to be Tackled by EBRD and Landis & Gyr Partnership," Press Release (London: EBRD, 18 December 1996).

major goal was to construct a new transmission line to help the capital city, Skopje, achieve a more reliable supply of energy, which reduces the demand for electricity imports and saves scarce foreign exchange. Another goal emphasized energy conservation, by supporting the Government's Energy Conservation Programme. In particular, this involved the EBRD helping enterprises preparing for privatization to reduce their energy costs, in part to enhance their attractiveness to future investors.<sup>95</sup> The project also financed an Energy Conservation Unit in the Ministry of Economy, to help implement energy efficiency plans.

Other non-ESCO projects include the Romanian Energy Conservation project, which provided financing for the rehabilitation of district heating systems in five different cities, and the three Baltic emergency energy sector loans, were driven by the need for these countries to cope with sharply reduced fuel imports from Russia. All three loans contained energy efficiency components, as well as other energy supply components. The Estonian loan, for example, financed stations to meter gas imports from Russia, to help set up trade with Russia on a normal, commercialized basis; the completion of facilities to import and store heavy fuel oil to help Estonia meet its needs for several winters; spare parts to restore electricity and power output for power generation and heat production; and measures to improve energy efficiency in industry, residences and energy utilities.<sup>96</sup>

The EBRD's water projects, in turn, are produced by the Municipal and Environmental Infrastructure Unit. The EBRD's six water projects in Table 5.7 resemble those of the World Bank, in the sense that their goals are to improve waste water collection and treatment, as well as drinking water and quality. In particular, the projects in the Baltic states, like the World Bank's, are in areas that were deemed to be "hot spots" by the 1992 JCP. The Romanian projects, while not sought out by the Bank as a means to clean up tributaries to the

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<sup>95</sup>This would include the reconstruction of boilers to burn more energy efficient fuels, to use geothermal energy for heating purposes, to manufacture briquettes from waste wood, and so on. EBRD, "Former Yugoslav Republic of Macedonia: Power Sub-Sector Project," Report to Board of Directors, BDS93-157, 30 November 1993.

<sup>96</sup>This included financing for insulation for 300,000 apartments, hospitals and schools; refurbishing district heating substations in five cities and towns, by installing heat controls and meters; purchasing spare parts, insulation material, and various instruments to improve energy efficiency. EBRD, "Estonia Energy Sector Emergency Investment Project," Report to Board of Directors, EDS92-124 9 November 1992.

Danube River, are nonetheless in areas where the quality of water and waste water services was very poor.

The EBRD's water projects differ from the World Bank's in two ways. First, they do not include the additional, small "environmental management component" found in the World Bank's projects. The approach of the EBRD projects tends to be narrower, relatively more demand-driven, and with a greater emphasis on the corporatization of the municipal entity. Second, another distinction between the EBRD and World Bank projects is in terms of loan size; the average EBRD loan for water projects is around 24 million ECU (\$30 million), versus \$5 million for the World Bank. This difference in loan size reflects the fact that the EBRD is less willing to make individual, small loans, which has led it in some cases to make one loan that is in turn provided to a number of separate municipalities.

Finally, in the transportation sector, the Budapest Public Transport loan financed the purchase of 270 new buses, and the upgrade of 500 bus engines, which the Bank estimated would reduce bus emission levels in the city by around 25%. The project also sought to reduce traffic congestion, air pollution and noise by using technical cooperation funds from donors to introduce new parking schemes to deter traffic from the city center, and assisting in the restructuring of public transport fares.

Generally, the projects in Table 5.7 are distinctly more "bank-like" than the World Bank's portfolio, in the sense that they do not include the scope of environmental management and capacity building components of the World Bank's projects, nor do they cover areas such as forestry, or the broader category of sector loans that emphasize more macroeconomic policy changes such as the removal of energy subsidies. Yet, since most of the EBRD's projects are the work of specific "green" units within the Bank, they do reflect the Bank's desire to pursue activities that other bankers—within the EBRD, or in private sector banks—may not pursue. For example, in developing a niche in ESCO financing, the EBRD is designing projects that are typically much smaller than the average MDB loan, and the ESCO sector is not one that commercial banks have much experience in. The water

projects, in turn, do not emphasize a broader watershed management approach, as do the World Bank's projects. Yet a few of them—namely, the Baltic Sea projects—do address regional "hot spots" identified by regional countries as areas where reducing water pollution is a priority for environmental reasons.

As is the case of the World Bank, the projects in this portfolio emphasize environmental issues relatively more than other projects in the same sector. For example, the EBRD's broader set of energy projects includes loans to rehabilitate thermal power plants, to construct or reconstruct electricity networks, develop gas storage and distribution, and finance the modernization of gas station networks. As is the case with the other two banks, some of the energy projects in the broader portfolio have environmental benefits, but these are not the primary components or goals of the projects. The modernization and rehabilitation of power facilities, for example, tend to result in energy savings and can also avoid the need for additional power plants.

#### *Role of Recipient Demand*

Given its private sector emphasis, often EBRD projects are initiated when Western companies or CEE countries or cities contact the Bank with a suggestion for a project. However, the EBRD still differs significantly from a private sector bank in the degree to which it builds policy conditionality into all of its loans, and requires private sector borrowers to address certain environmental issues or standards. For example, a loan to EGIS Pharmaceuticals in Hungary contains environmental covenants to monitor implementation of the company's environmental compliance plan to reduce its waste water discharge, volatile organic compounds emissions, and soil and groundwater contamination. This is the area where the work of the Bank's environmental appraisal unit often shows up, since it can add environmental conditionality into loan covenants.

The Bank's environmental portfolio is probably relatively less demand-driven than other areas of Bank lending. For example, many municipal institutions or private enterprises in Central and Eastern Europe are unfamiliar with the concept of ESCOs, which must be sold

to them by the EBRD, or the energy companies it finances. Even the Western companies setting up the ESCOs in CEE had to be persuaded to move into the Eastern European market and to contribute some of their own finance to the projects.<sup>97</sup>

In addition, the municipal infrastructure projects also use sovereign guarantees to a greater degree than other departments at the Bank. Sovereign-guaranteed loans give Bank staff more leverage to build conditionality requiring policy changes than they have with private sector loans. Such policy changes, however, are "bottom-up"—often at the municipal, utility, or company level—versus the central government. Examples of this would be conditions requiring municipalities to raise tariff levels as part of a water and waste water treatment project, or requiring towns to penalize companies not meeting pollution emission standards.

Finally, loans developed in the municipal sector initially had much longer lead times and higher preparation costs than loans developed in other areas of the bank, particularly in first years of lending for municipalities. This reflected the challenges the Bank faced in devising loans for municipal agencies first gaining their autonomy from central governments, and with little experience in borrowing, or operating their agencies on a market basis. More "bank-like" financial institutions would stay clear of such challenges, particularly given the fact that most municipalities were not creditworthy enough to borrow on their own. Given that this sector of lending also had more of a development angle than the EBRD's work in other areas, it also attracted a great deal of bilateral grant financing, and other forms of donor assistance, often through the Project Preparation Committee.<sup>98</sup>

### *On Implementation*

Neither the EBRD nor the EIB provide the depth of information available on project implementation from the World Bank. As a result, assessing the implementation of EBRD

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<sup>97</sup>Member of EBRD energy efficiency team, interview with the author, June 12, 1996.

<sup>98</sup>The Municipal and Environmental Infrastructure Unit at the Bank is also one of the top users of the Bank's technical cooperation funds, bilateral pots of grant money provided to the Bank to fund technical cooperation activities, including project preparation, project implementation, advisory services, sector studies, and training. Head of EBRD Municipal and Environmental Infrastructure Unit, interview with the author, July 1996.

and EIB projects is difficult. This section draws mainly on interviews with central and municipal government officials, MDB staff, environmentalists, and visits to various CEE projects to meet with the project leaders. This research has shown while—as in the case of the World Bank—there are no projects that are considered to be major environmental disasters, implementation of the projects is often not exactly as planned, and there are specific projects that concern NGO watchdog organizations.

The main environmental group in the region that acts as a watchdog for MDB activities is CEE Bankwatch Network, whose members represent domestic environmental groups, and sometimes international NGOs such as Friends of the Earth.<sup>99</sup> CEE Bankwatch has been supportive of some of the EBRD's activities, particularly work done by the Bank's Energy Efficiency Unit. Peter Hlobil, CEE Bankwatch Network's Energy Project Coordinator noted, "Only the EBRD has adopted a progressive approach toward energy efficiency; it actively supports energy service companies and credit facilities for energy-efficiency projects."<sup>100</sup>

At the same time, looking at the broader EBRD portfolio, as noted above, environmentalists are sometimes critical of the choice of projects considered or funded by the EBRD, such as the Mochovce nuclear plant, and the ZSNP smelter (mentioned in Chapter 4). In terms of implementation issues, environmentalists have been most critical of the inability of the EBRD's Nuclear Safety Account (NSA) to result in the closure of any high risk nuclear reactors in the region. After organizing to fight against passage of the 1995 proposed Mochovce loan discussed in Chapter 1, environmentalists have also fought against a later proposal to finance the Rivne and Khmel'nitsky partially-built 1000 MW VVER nuclear plants in the Ukraine. The Ukrainian government hoped to complete these partially-built, Soviet-designed reactors to replace two units at the Chernobyl nuclear plant, which was slated to

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<sup>99</sup>CEE Bankwatch was founded in 1995 in Poland. Its members include environmentalists throughout the region. Its goal is specifically to monitor the MDBs, while raising public awareness of MDB activities, and promoting public participation MDB decision-making. "The CEE Bankwatch Network for Monitoring International Financial Institutions," Krakow, March 4, 1997.

<sup>100</sup>"E-note", International Institute for Energy Conservation, August. 1997.



close in 2000. However, in February 1997, an Independent Panel commissioned by EBRD concluded that project was not a least-cost option, given declining demand for energy in Ukraine and significant scope for energy conservation and demand-side management. Nonetheless, the Bank moved forward in the loan process, while environmentalists argued that the Bank should stop financing this project, given serious concerns about the nuclear plants' safety.

In Bulgaria and Lithuania, in turn, NSA-supported financing aimed at providing short-term improvements to nuclear plants in return for the plants' closure, has resulted in government maneuvers to instead extend the life of particular plants beyond dates desired by the EBRD and donor countries. In Bulgaria, while a 1993 agreement between the country and EBRD called for the government to shut down two of its Kozloduy nuclear reactors by the end of 1998, and an additional two by 2000, the government reneged, and decided to extend the closure dates to 2005 and 2010, respectively. Bulgaria received \$26 million to upgrade its reactors for the limited extension of their lives, but instead it stretched the extension, a move that may hurt its negotiations to accede to the EU.<sup>101</sup> CEE Bankwatch environmentalists have called for the EBRD to require immediate closure of Units 1 and 2 and require the government to agree to legally binding closure dates for Units 3 and 4 by 2000.

The situation was somewhat similar in Lithuania, where an agreement was signed with the NSA in 1994. Under the agreement, the government agreed not to extend the life of Ignalina nuclear plant's two units beyond the time when their fuel panels would need to be replaced.<sup>102</sup> However, under a safety assessment that was part of the agreement, a panel of independent safety experts commissioned by the Bank and the Lithuanian government recommended that the plant's two units should not be restarted after a 1997 shutdown for maintenance, until numerous safety issues were resolved in its operation and design. While

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<sup>101</sup>"Is Nuclear Safety Account Going to Fail?" Press Release, CEE Bankwatch, March 1998.

<sup>102</sup>EBRD, "Independent Safety Panel's Recommendations on Ignalina NPP Released by Nuclear Safety Account," <http://www.ebrd.com/english/opera/nucsafe/prelease/18mar21.htm>, 21 March 1997.

the EBRD has pressured Lithuania to close Ignalina, the government has balked and by mid-1998 had not produced a decommissioning plan.<sup>103</sup>

Turning to the projects in the Bank's environmental portfolio, to date there has been little assessment of credit-line related-activities, but other investment projects appeared to be performing reasonably well, despite the existence of various implementation difficulties. In the water sector, for example, the EBRD's projects face some of the challenges seen by World Bank's, in terms of municipal water companies struggling to make profits (and repay loans) given sharp declines in water consumption. Like the World Bank's projects, the EBRD water companies have had a difficult time in raising tariff levels, particularly in cities or towns facing increasing levels of unemployment and poverty. Nonetheless, the EBRD's projects were generally performing without major difficulties, and without criticism from local environmental groups.<sup>104</sup> However, these projects also faced their share of various--often small--implementation problems.

The Tallinn Water and Environment Project, for example, was generally seen as successful in reducing the discharge of untreated waste water into the Baltic, and cleaning up drinking water. The project financed rehabilitation of Tallinn's water treatment plant, existing ground water wells, the booster stations and network, and old sewerage pumping stations. It also financed the replacement of old consumer water meters as well as the installation of new meters, and upgraded the city's activated sludge treatment plant to meet HELCOM recommendations.<sup>105</sup> However, it did face unexpected delays when slow Parliamentary approval of the project put the project 9 months behind schedule. Also, the costs of investments and upgrading planned by the project were higher than anticipated, but the Tallinn Water Company was able to raise the additional funds from local banks.

According to Tallinn water officials, treated waste water going into the Baltic Sea was by

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<sup>103</sup>The EU may ultimately have more leverage to push for the closure of Ignalina, because the plant's operation is unacceptable to Brussels in accession negotiations with Lithuania.

<sup>104</sup> Friends of the Earth official in Tallinn, Estonia, interview with the author, 13 May 1998.

<sup>105</sup>EBRD, "Estonia: Tallinn Water and Environment Project," Report to Board of Directors, BDS94-93, 24 June 1994.

1998 now 2-3 times better than in 1993. Drinking water was also significantly cleaner after treatment, but further investments were needed in the water network to get the higher quality water to the consumer.<sup>106</sup>

In Kaunas, Lithuania, the EBRD's project was applauded by environmentalists, who had lobbied hard for the construction of a waste water treatment plant in the late 1980s. Kaunas is the second largest city in Lithuania, with a population of around 403,000, and before the EBRD project it had no waste water treatment and was responsible for around 90% of the untreated waste water discharged in Lithuania. As such, Kaunas was one of the "hot spots" identified under the 1992 Baltic sea Environmental Action Programme.<sup>107</sup> The project financed the first phase of the construction of a waste water plant that included mechanical treatment with chemical flocculation, while biological treatment of waste water was planned for the medium-term.<sup>108</sup> It also financed new pumping stations, and a new sewer network, among other components. Finally, the project, like most other MDB water projects, "twinned" Kaunas Water with a Western water company (in this case Stockholm Water Company), to help improve its management and implementation.

The Kaunas project had a slow start, and was delayed for over a year, mainly due to difficulty in meeting covenants on tariff increases. The initial project design, inherited from the Soviets, was also determined to be too big, after assumptions about water consumption were seen as too high. One actor involved in the project also noted that the central government was slow in transferring its share of project financing, while others complained that some of the bilateral actors involved in components of the project (such as PHARE) provided poor consultants, and that some delays were caused by constant political changes in the city, reflected by the fact that there were 8 different mayors from the time the project was

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<sup>106</sup>Official of Tallinn Water, interview with the author, May 14, 1998.

<sup>107</sup>EBRD, "Lithuania: Kaunas Water and Environment Project," Memorandum to Board of Directors, BDS95-99, 30 June 1995.

<sup>108</sup>The projects goals were to reduce heavy metals by 70%, total nitrogen by 10%, total phosphorus by 85%, BOD by 60% and suspended solids by 33%. Ibid., Annex 5.

agreed to mid-1998.<sup>109</sup> As in other municipalities, tariff increases proved too painful to be implemented as planned. The municipality also decided not to implement the planned construction of a potable water treatment plant, because it was too expensive.<sup>110</sup>

## **EIB**

### *General approach:*

The EIB's entry into CEE is a product of the desire by the EU and EU member states to "respond cohesively and effectively to the collapse of the communist regimes in Eastern Europe and to prepare to extend its membership to include some...of its former Comecon neighbors."<sup>111</sup> The EIB was "invited" by the European Council to initiate lending to Poland and Hungary in October 1989, and the money began to flow the following year. The Bank had a mandate to lend 1.7 billion ECU to the region in 1990-93; 3.0 billion ECU in 1994-96; and another 3.0 billion ECU for 1997-2000. In the latter period, as noted above, the Bank also set up an additional 3.5 billion ECU pre-accession lending facility for CEE countries and Cyprus to help to help these countries prepare for integration into the EU. The facility was set up to assist pre-accession countries in their adoption of EU legislation (*acquis communautaire*), particularly in the areas of infrastructure, industry, employment, regional cooperation and environmental protection.<sup>112</sup>

During the first period, lending was authorized to Bulgaria, Czechoslovakia (later separated into the Czech Republic and Slovakia), Hungary, Poland, and Romania. Lending was expanded to include Albania, Estonia, Latvia and Lithuania, while lending to Slovenia began in 1993 under a separate financial protocol with the EC. In the first three years of activities in CEE, just over half of the Bank's loans went to Poland and Hungary. Around 30% of the total loans focused on transportation projects, including road rehabilitation, air

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<sup>109</sup>Author interviews with Linas Vainius, Lithuania Green Movement, 20 May 1998; official from Kaunas Water Project Implementation Unit, 20 May, 1998; and official from EBRD resident office in Riga, Latvia, 22 May, 1998.

<sup>110</sup> Kaunas Water official, interview with the author, 20 May 1998.

<sup>111</sup>Jackie Gower, "EC Relations with Central and Eastern Europe," in *The European Community and the Challenge of the Future*, ed. Juliet Lodge (New York: St. Martin's Press, 1993), p. 283.

<sup>112</sup>These are loans, but do not require the extra EU member state guarantee.

traffic control system upgrading, and railway modernization.<sup>113</sup> In general, the Bank's lending in CEE has emphasized infrastructure work, particularly in the area of trans-European networks, or projects that better link the region to Western Europe. (See Appendix 3 for complete listing of projects).

#### *The EIB's Portfolio of Activities*

As Table 5.8 reveals, the Bank's portfolio reflects its emphasis on infrastructure projects. The single largest sector of lending is transport, with 38% of total commitments. Global loans, credit lines, and other loans for financial sector reform account for 20% of lending, as does infrastructure lending in the energy sector. The EIB tends to undertake similar types of projects in different countries. For example, in most countries in the region, it is involved in air traffic modernization, highway construction, and telecommunications modernization. All countries in the region have also received global loans for financial intermediaries to on-lend to small and medium-sized enterprises, in areas that may include energy efficiency or environmental protection, as well as tourism.

In some respects the EIB's portfolio is similar to the other two banks', where lending for transport, energy, and financial sector reform are also among the top areas of lending. In fact, the EIB lends far more to the transport sector than the other two banks, and ranks second behind the World Bank in energy lending. Within the energy sector, the EIB is to date the largest provider of loans for in the oil and gas sector, followed by the EBRD. The EIB is also the leading source of telecommunications financing of the three banks.

However, there are also differences between the EIB's portfolio in CEE, and the other two banks'. The most important difference is that, as the commitment tables show, the EIB does not engage in the scope of lending undertaken by the other two. The EIB concentrates in five main areas of lending (transport, financial sector, manufacturing, energy, and telecommunications). The World Bank's work, by contrast, extends to areas such as agriculture, health and population, urban development, education, and public sector

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<sup>113</sup>"EIB Financing in Central and Eastern Europe," EIB document, 27 February 1995.

**Table 5.8: European Investment Bank CEE Commitments  
by Sector, 1990-96  
millions ECU**

Sector		Sector Total	% of portfolio
Transport		1862	38
Roads/Highways	862		
Railroads	696		
Airports	215		
Other (includes port rehabilitation, metro)	89		
Banks (global loans, credit lines, financial sector reform)		1000	20
Energy:		1000	20
Power Generation	488		
Oil and Gas	505		
Heat Restructuring/Conservation (District Heating)	7		
Telecommunications		875	18
Manufacturing		155	3
Misc. Env. (forests)		13	.3
Water		60	1
<b>TOTAL</b>		<b>4903<sup>1</sup></b>	<b>100.3<sup>2</sup></b>

Sources: EIB, "Summary of Signed Operations in Central and Eastern Europe," June 1996; EIB press releases, various dates, EIB Annual Reports, 1990-1996.

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<sup>1</sup>Discrepancy with Table 5.2 due to rounding.

<sup>2</sup>Discrepancy due to rounding.

management, while the EBRD focuses much more on financing joint venture and manufacturing projects, as well as hotels, agricultural, real estate/construction, and insurance. Given the EIB's mandate and institutional set-up, as one would expect, it emphasizes more traditional MDB infrastructure projects.

Even in common sectors, such as transport, there are differences among the three banks' emphasis. The EIB and EBRD, for example, have financed more projects to construct new highways and road in the region, while the World Bank emphasizes road maintenance versus new construction. Environmentalists, as discussed below, have been highly critical of the EIB's work in road construction, arguing that an sustainable development approach would warrant a greater emphasis on public transport, such as railroads. The EIB's work in road construction, in turn, does reflect the EU desire to finance "Trans-European Networks".

#### *Approach to Addressing Environmental Issues*

Chapter 4 has shown that the ways in which environmental issue have been institutionalized at the Bank offer limited incentives for Bank staff to pursue environmentally-oriented projects beyond traditional infrastructure projects that have environmental components. Put into the language of Table 5.1, the EIB's activities largely fall in the "lighter green/minimal activity" area. A handful of energy and water projects can be argued as belonging to the category of projects that go beyond minimal environmental actions and have significant but not primary environmental objectives. A single project has a primary environmental goal; that is a 13m ECU loan to help finance re-forestation of abandoned state-owned agricultural land in Poland. The EIB co-financed this project with the World Bank, which took the lead in project development.

Unlike the other two MDBs, the EIB has spent little time and effort on broader environmental policy issues. As the Bank has noted, "The EIB has no role, of course, in the broad political choice of investment priorities (e.g. the arguments for investments in rail as

against road, nuclear as against other power stations, etc.)."<sup>114</sup> The EIB has been a peripheral player in the policy networks that have developed around the Environment for Europe process. However, it has been relatively more active in regional efforts to address environment degradation of the Baltic and Mediterranean seas. Since the late 1980s, the Bank has worked with the World Bank, EU, and UNDP, as well as recipient countries, to address common environmental problems in the Mediterranean region.<sup>115</sup> It worked with the World Bank to set up in 1988 the "Mediterranean Environmental Technical Assistance Programme," which carried out priority investments in the area. In 1992 it also began to participate in the Baltic Sea Joint Comprehensive Action Programme, under which it has financed two waste water treatment projects in Central and Eastern Europe, as well as several others in northern Germany and Sweden.<sup>116</sup>

Table 5.9 lists EIB loans for projects that have significant environmental components, which total 325 million ECU of lending for 6 projects. While the Bank describes a number of its global loans as being used to finance projects that have goals of energy savings or environmental protection, it does not release information on how the global loans are on-lent, so there is no way to know what percentage of those loans are actually used for "green" projects. The projects in Table 5.9 account for around 7% of the Bank's total lending for the region. Around 60% of this amount is for the CEZ I project in the Czech Republic, which involves the purchase of expensive desulphurization equipment for six Czech power plants. The Bank's energy project in Bulgaria also finances the purchase of FGD equipment for a power plant (in this case the Maritsa East II plant), and is part of a larger EBRD project there.

These projects have environmental benefits because they will result in a reduction of SO<sub>2</sub> emissions. The EIB's CEZ project is similar to that of the World Bank's in its emphasis on installing FGD equipment in power plants in northern Bohemia. The EIB project financed

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<sup>114</sup>"Environmental Protection and EIB Finance," *Information* May 1982, 2-3.

<sup>115</sup>"METAP: Helping to Preserve and Manage a Shared Resource in the Mediterranean," *Information* no. 88 (1996): 11.

<sup>116</sup>EIB, *Annual Report*, (Luxembourg: European Investment Bank, 1995), p. 44.



**Table 5.9: EIB Projects with Primary Environmental Goals or Significant Environmental Objectives in CEE: 1990-96**

Year	Country	Project Title	Sector	Loan/ Shares in ECU	Co-Financed with other MDBs	Environmental Objectives
1996	Latvia	Riga Water and Environment Project	Water	15	EBRD	Upgrade, rehabilitate water supply, sewerage systems in and around Riga to help with reduction of pollution to Baltic Sea, in line with Baltic Sea Joint Comprehensive Environmental Action Programme.
1995	Czech Rep.	CEZ I	Energy	200		Install desulphurization equipment in six thermal power plants to bring them into compliance with international standards. FGDs will reduce SO2 emissions by more than 90% in this Black Triangle region.
1994	Estonia	District Heat Rehabilitation	Energy	7	World Bank	Rehabilitate district heating system in Pärnu and Tallinn as part of the World Bank's District Heating Rehabilitation Programme. Finances equipment to convert oil-fired boilers to wood and peat, pumping stations, water treatment facilities, pipe insulation.
1994	Poland	Warsaw Sewerage Treatment Plant	Water	45		Construct new waste water treatment plant south of Warsaw on left bank of the river Vistula. Helps reduce pollution into the Baltic Sea.
1993	Poland	Forestry Development	Forests	13	World Bank	Afforestation program in parts of Poland. Helps finance the planting of around 17000 hectares of trees between 1993-95.
1992	Bulgaria	Energy I	Energy	45	EBRD	Help finance completion of lignite fired generator fitted with flue gas desulphurization equipment at Maritsa East II.
TOTAL *				325/ \$406		

Sources: EIB, "Summary of Signed Operations in Central and Eastern Europe," June 1996; EIB press releases, various dates; EIB Annual Reports, 1990-1996.

\*Exchange rate is 1ECU=\$1.25.

the installation of this equipment at six power plants, and estimated that SO<sub>2</sub> from these plants would drop by 93% and particles would decline by 50% as a result. It also notes that the equipment bought by the project complies with Czech laws on SO<sub>2</sub> emissions from power plants as well as the EC's Directive for large combustion power plants. The Bulgaria project, in turn, involves co-finance with the EBRD the completion of the Maritsa East II plant, including retrofitting with FGD, expanding the plant's ash disposal pond, rehabilitating its waters supply system, and purchasing equipment to measure air quality. The EIB provided 40% of the project's finance, and the EBRD provided 35%. The EIB project documents, unlike similar project documents from the other two banks, do not stress environmental issues in its rationale for funding. In the case of the Bulgarian project, for example, it emphasized the importance of increasing the safety and efficiency of Bulgaria's electricity capacity in order to provide more electricity.

Three of the other projects in this table are co-financed with one of the two other MDBs. These are cases where the projects were largely developed by either the World Bank or EBRD, and the EIB came on board to finance a particular part of the project. The Estonia district heating project, for example, was undertaken as part of the World Bank's District Heating Rehabilitation Program in Estonia. The EIB project focused on rehabilitating the district heating system in the city of Pärnu, although it also included a small component for rehabilitating the district heating system in Tallinn. The goal of the EIB's project is to reduce fuel costs to the company through fuel substitution and other energy savings measure, as a way to help Pärnu's district heating enterprise improve its performance in the face of declining demand and higher energy costs. The result would be significantly lower emissions of SO<sub>2</sub>, NO<sub>x</sub> and CO<sub>2</sub>, although it would also result in a minor increase in particulates emissions. The EIB's loan financed a series of studies, equipment, implementation and operation of facilities that converted two stoker grid boilers to be able to burn peat and woodchip burning with better combustion conditions. The "new fuels" are cheaper than the heavy fuel oil normally used in these facilities.

The EIB's component of the World Bank-designed Polish forestry project entailed a loan to Poland's environment ministry to help finance the planting of trees on abandoned State-owned agricultural land throughout Poland. It was part of a five-year program, supported by the World Bank, to rebuild and extend damaged forests, in part to ensure supplies for the country's wood processing industry. The Riga water project, in turn, co-financed the upgrading and rehabilitation of water and waste water systems in the Riga area as part of a larger EBRD project. This project was one of the "hot spots" identified by the Baltic Sea Joint Comprehensive Environmental Action Program. Finally, the EIB's waste water project in Warsaw was also being undertaken under the auspices of the Baltic Sea program, as another hot spot requiring urgent action. This project and the CEZ project are the only two in Table 5.9 that the EIB was undertaking on its own, without co-financing.

#### *Role of Recipient Demand, and Implementation*

The EIB is widely acknowledged by government officials, environmentalists, and project managers in CEE to be the most demand-driven of the three MDBs. In addition, its loans contain the least conditionality and offer the cheapest rates, without the up-front fees charged by the other MDBs. The expectations developed in Chapter 4 are borne out by analysis of the Bank's work in CEE; that is, the absence of any "green bankers," the small size of the EIB staff, and the dearth of Bank-sponsored policy work, results in the Bank having a less proactive approach to project identification than the other banks. Also, as previously noted, there are a number of examples of projects turned down by the other two MDBs for economic or environmental reasons that the EIB has decided to finance. In addition, four of the six "environmental" projects in Table 5.9 are projects that the EIB co-financed with either the World Bank or the EBRD. In those cases, the World Bank and EBRD played a bigger role in project design and analysis, and the EIB contributed a smaller component of the project.

Of the three MDBs, the EIB is also the most impenetrable on the issue of project implementation. As noted above, even for the global loans, which account for around 20%

of EIB lending, the Bank does not even provide information on the types of activities financial intermediaries on-lend the money for.<sup>117</sup>

NGOs following the Bank's activities in CEE have been particularly critical of the EIB's work in the transport sector, its largest portfolio of lending in the region. The EIB focuses on building new roads, versus rehabilitating and maintaining old roads (which is the World Bank's focus). NGOs argued that the Bank would be more sensitive about promoting sustainable development if it focused on public transport, versus roads that are likely to increase road traffic versus rail transport.

They launched a campaign to fight the EIB's M3 toll road in Hungary, which extends from Budapest to the Ukrainian border, passing through a relatively underdeveloped region of Hungary.<sup>118</sup> NGOs questioned the need to build a new toll road in an area where traffic levels are low, and where there was no connecting road on the Ukrainian side of the border. The extension of the M3 seemed to be a road going nowhere. Hungarian environmentalists argued that financing would be better spent in road maintenance. Indeed, the World Bank was first approached to finance this project, but it refused, arguing that Hungary's road maintenance expenditures were only 25% of the total needed to prevent further road deterioration, and that Hungary should spend more on maintenance and less on new roads.<sup>119</sup> Even the EBRD had noted that the far eastern sections of the road were not commercially viable as a toll road, given its location in a poor area of Hungary. The EIB, however, argued that the short section of the M3 that is covered by its loan was in fact, economically justifiable.<sup>120</sup>

The project itself has been supported as a major link in the planned "Trans-European Network" extension, as part of a Trieste-Ljubljana-Budapest-Lvov-Kiev corridor that was

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<sup>117</sup> James N. Barnes and Sandrine Bretonni, "An Overview of the European Investment Bank: Accountability and Transparency," (Paris: Friends of the Earth, 1997).

<sup>118</sup>This loan, for 95 million ECU, was signed in 1996. Its goal is to upgrade the M3 toll highway linking Budapest to Gyöngyös.

<sup>119</sup>World Bank Transport Sector Project Completion Report No. 15445, cited in Walter Hook, Andras Lukacs, "The European Investment Bank's Loan to Hungary's M3 Highway: A Case Study," Document from Hungary's Clean Air Action Group, 1997.

<sup>120</sup>However, the economic appraisal was not available for public scrutiny.

identified at the March 1994 Second Pan-European Transport Conference held in Crete. Pressure for the M3 road has also stemmed from members of parliament from Eastern Hungary (mainly 40 Socialist members of Parliament), Hungary's trade ministry, and a "concrete-lobby" of construction firms, trade unions, local mayors and Socialist Party groups.<sup>121</sup>

In terms of other projects on the list, as of late 1997, the Warsaw water project (signed in 1994) was stalled, and implementation had not begun. The project met with difficulties in terms of the ownership of land where the new waste water treatment plant would be built, since property rights of the proposed site were contested.<sup>122</sup> If it eventually moves forward, the plant will play an important role in cleaning up the Vistula River, into which most of Warsaw's sewerage flows, untreated.

## **Conclusion**

The MDBs are major donors in CEE and the ways in which they address environmental issues in their work can have an important impact on policy reform and infrastructural development in the region. This chapter has described the MDBs activities in CEE, and the ways in which those activities reflect how demand-driven and "bank-like" each institution is. The World Bank, the least bank-like of the three, has had the flexibility to undertake a broader array of "environmental" projects and policy activities compared with the other two banks, which in part reflects the activities of its internal network of "green bankers." Its role in the GEF also gives it an additional portfolio of projects not found at the other two banks. The EBRD, in turn, with its three "environmental" units, has created a niche for itself in environmental financing in the areas of energy efficiency and municipal infrastructure. Finally, the EIB's portfolio shows the least evidence of a proactive pursuit of projects with significant or primary environmental components or goals. The EIB's "environmental

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<sup>121</sup>Hook and Lukacs, "The European Investment Bank's Loan to Hungary's M3 Highway: A Case Study."

<sup>122</sup>EIB project official, interview with the author, July 1996; Polish Finance Ministry official, interview with the author, October 1997.

projects" reflect more its position as a co-financier of projects largely designed by the other two banks, rather than great initiative to search for such projects.

The chapter has shown that the more demand driven the bank, the less likely it will be involved in efforts to help governments reform their policies in ways that impact the environment. The catch, however, is that the more creditworthy a country is, the more options it has in finding capital for infrastructure and other activities, and the less leverage the MDB has. Therefore, there is an inverse relationship between an MDB's leverage and a country's economic health.

The chapter has also highlighted the fact that the "greenest" projects tend to be designed by bankers or units who have the specific task of looking for such projects. Environmental impact assessment units, in turn, tend to work as the banks' internal environmental watchdogs. While banks like the World Bank and EBRD have become more environmentally conscious over time, the fact is that the pace and process of "mainstreaming" these ideas remains slow.

The chapter also examined some of the challenges facing the MDBs in project implementation, which shows how difficult it is to know the ways in which a project ultimately affects the environment. Ultimately, while an MDB's broad environmental objectives may reflect the interests of its major shareholder countries, a focus on shareholder preferences is not sufficient to explain and understand the institution's actual work, and the ways in which it may impact recipient country policymaking.

## **Chapter Six**

### **Conclusion**

#### **Summary of the Argument**

The ability of international institutions to take on new policy issues is highly significant in an age when patterns of global governance are becoming both more complex and diffuse. International institutions are being scrutinized by some as loyal servants of states who continue to remain the dominant actors on the international scene, and by others as independent actors who can shape state interests and sometimes even tell them what to do. This dissertation shows that institutional behavior is not an "either-or" issue with respect to how an international institution's actions reflect member state interest versus the institution's own interests and capacity, but rather, a "when and how" issue. Further, the layering on of new mandates can either help or hinder international institutions in accomplishing either of these two goals, depending on how the institution is able to translate the new goals into action, and whether or not these new goals conflict with pre-existing aspects of institutional design and incentive systems. These issues therefore have important policy implications in debates about how international institutions should be designed and what types of factors can improve their performance in a more interdependent world.

This study shows the ways in which MDBs react to new environmental mandates are significantly shaped by the interaction between shareholder preferences, organizational dynamics and recipient demand. It argues that attempts to understand the "environmental behavior" of these institutions requires an analysis of what happens at three different stages of the policy process, since any one of these can be a source of innovation or inertia. An understanding of how the institution receives new policy objectives, how it institutionalizes

them, and how its translates these ideas into specific activities provides a clearer understanding of the ways in which external politics and internal organizational characteristics and incentives interact to produce outcomes.

New mandates tend to come into the MDBs through external channels, reflecting the interests of major board members. In the case of the World Bank, environmental NGOs played a significant role in how the U.S. defined its interests with respect to the environment. In the case of the EBRD, the interests of major donors were enhanced rather than directly driven by NGO support. The dissertation also shows how all three banks share the characteristic of diffuse governance structures. This makes it difficult for new mandates to "infect" the institution, and therefore new policy demands are constrained by organizational mission, design, financial tools, and a variety of other factors. Added together, these factors tend to reflect how demand-driven or "bank-like" the MDB is, which highly influences its ability to translate new policy goals that differ from more traditional MDB attention to economic development issues.

I have argued that attempts to understand the environmental behavior of the World Bank, EBRD and EIB in Central and Eastern Europe (CEE) must start from a recognition of the importance of shareholder commitment to the institution's environmental character, but also depends on the ways in which the institution itself is able to translate those ideas, given the factors that shape the incentives of its officials to take on new policy goals. Finally, even if the institution is able to offer a certain set of "green" activities, its ability to sell them to recipients depends on recipient demand for these activities and the leverage the MDB has to influence the borrower's choice of projects and programs.

At an MDB like the EIB, the story essentially stops at the first stage of the policy process. Weak donor commitment to the Bank's environmental activities results in essentially few if any organizational innovations to improve the incentives of its staff to proactively seek out projects for environmental reasons. While the Bank will seek to apply European Union environmental standards in its lending, the dissertation has shown that



oversight and transparency are weak within the Bank, and that these standards themselves can be of mixed strength.

The World Bank and EBRD, in turn, face the challenge of how to institutionalize and implement the strong environmental mandates given to them as a result of pressure from major shareholders backed by environmental NGOs. For the EBRD, this means squaring its environmental mandate with its private sector emphasis, since the more demand-driven an MDB is, the less ability it has to seek out projects with environmental goals that are not of interest to recipients. It has tackled this challenge through its environmental procedures, and through a few discrete units set up within the bank with a goal of designing projects that emphasize environmental goals. The World Bank has more flexibility than the EBRD in many ways, given that its mission and institutional design have made it the least demand-driven of the MDBs and the most oriented toward influencing recipient governments to adopt projects that come with conditionality effecting broader policy changes.

Yet, the dissertation has also shown there are limits to being a "darker green" MDB. An MDB has most leverage in selling certain types of policy ideas through its work either when the recipient does not have alternative sources of financing that require less policy conditionality, or where the goals of the Bank and client overlap. The World Bank has been most influential in CEE countries in the earlier stages of the transition process. As CEE countries grow economically stronger and have access to international capital markets, they have less incentive to agree to World Bank loans. In countries such as Poland, Hungary, and other pre-accession countries, the World Bank's role will continue to turn increasingly toward advice and technical assistance, versus projects and structural adjustment lending.

In evaluating outcomes, in terms of whether projects are implemented as planned, the dissertation highlights the importance of analyzing implementation issues in greater depth. Actually doing so for a significant set of the 500 plus projects the three banks have undertaken in CEE between 1991-96 is well beyond the scope of the dissertation, and clearly

a job for a team of researchers. However, the projects analyzed in the dissertation do illustrate why project documents are essentially guides that are rarely followed as written, as well as some of the different types of unanticipated obstacles or delays projects can face in the implementation process. Thus, determining the actual environmental *impact* of a project, such as its affect on reducing emissions of pollutants, or determining the impact of programs, policy studies and technical assistance on recipient country policy reform, is no easy task.

An examination of the environmental management components of the World Bank's Baltic water projects, for example, showed how some components fizzled out, while others—such as the pig farm study in Siauliai, Lithuania, discussed in Chapter 5—may have a significant impact on the amount of pollutants entering local water sources. An analysis of available data, backed by interviews with more than 100 MDB officials, environmentalists, donor and recipient government officials, and other actors, showed that there were no environmentally disastrous MDB projects in CEE, compared with the types of projects in other parts of the world that fueled the NGO campaign against the World Bank in the 1980s. At the same time, however, there are projects in CEE where the banks have not properly followed their environmental procedures, or projects whose goals are questionable in light of the banks' environmental policy objectives.

Finally, I argue that the definition of "environmental behavior" can encompass behavior ranging from a minimal response emphasizing mitigation measures for projects seeking to promote other—possibly conflicting—goals, to a more proactive response that specifically aims to achieve an environmental end. The boundaries between the two can be grey, and it is often impossible to quantify or delineate specific environmental benefits. This is an important point because it focuses attention on the types of projects international financial institutions are set up to do, given how "bank-like" their design and mission are. In other words, if an MDB is designed to be demand-driven, it is unrealistic to expect its staff to spend time identifying and designing environmentally-oriented projects that are not demanded by its clients. We should, instead, expect bank officials, at minimum, to follow a clear set of

environmental due diligence procedures to avoid financing environmentally destructive projects, and to improve project design to reduce potential negative environmental effects.

In addition, there is a set of more traditional MDB activities that happily meet the dual objectives of environmental improvement and economic development—for example, projects that seek to modernize or build more efficient energy facilities, or sectoral restructuring and structural adjustment work that calls for a reduction in energy subsidies. An MDB's recategorization of traditional activities as new "environmental" activities is what Ernst Haas would label an example of institutional adaptation, versus real learning.<sup>1</sup>

The dissertation has shown that in Central and Eastern Europe, the largest sectors of MDB financing are in more traditional areas of MDB activity—in the financial, energy and transport sectors. For the most part, the relatively "darker green" projects reflected greater attention to environmental issues in energy and water projects, projects MDBs have always financed. However, as Chapter 5 has shown, even in these areas there were a number of projects with significant environmental components or primary environmental goals, which were distinguished from more traditional types of project design. Many of the other environmental contributions of the World Bank, and to a lesser degree the EBRD, are difficult to quantify because they have to do with contributing to policy development and sectoral reform through non-lending activities such as technical assistance and agenda-setting exercises. The benefits of capacity building, policy prioritizing and training can be highly important but impossible to measure. The EIB has made the smallest environmental contribution of the three MDBs to date, but it is likely to face increasing pressure over time to improve its environmental performance. In particular, it will have to help accession countries comply with the EU's environmental *acquis communautaire*, in support of the accession process.

### **Theoretical Implications**

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<sup>1</sup> As noted in Chapter 2, learning entails a cognitive evolution. Adaptation, in turn, involves behavioral change that does not entail a re-examination of underlying values or changes in the dynamics of decisionmaking. See Ernst B. Haas, *When Knowledge is Power: Three Models of Change in International Organizations* (Berkeley: University of California Press, 1990).

The arguments made here challenge different schools of thought that seek to explain the behavior of international institutions. It joins the ranks of Historical Institutionalists in pointing out how neorealist and even neoliberal institutionalist theories of institutional behavior can be static and not work well in accounting for what happens when institutions are given somewhat conflicting demands by their member state owners. It also provides evidence for Historical Institutionalist arguments that the behavior of institutions can be "sticky;" that is, even if member state preferences change over time, institutional structures, procedures and incentives may adapt more slowly or not at all. In addition, this dissertation argues for the importance of looking more closely inside the institutions to determine the ways in which their organizational design and incentive systems shape behavior. Put differently, this is an argument for bringing back some of the lessons of organizational theory into the study of international institutions.

Finally, the arguments made here also serve as a critique for constructivist approaches that posit the ways in which new mandates affect an organization's mission, behavior or goals reflect the actions of epistemic communities. If this were the case, we would expect the actions of epistemic communities promoting greater environmental accountability at the MDBs to influence the actions of all three banks, and therefore we would see less variation in the banks' attempts to address environmental actions in their work. It is also important to pay closer attention to the ways in which organizational mechanisms can shape knowledge entering international institutions.

Generally, existing theories on international institutions tend to focus on one of the three stages of the policy process. My argument calls for a better integration of international relations theories emphasizing the importance of shareholder politics and preferences in shaping institutional behavior with organizational and institutionalist theories that focus attention on how what happens inside the black box of the institution can shape behavior. Furthermore, there is a need for more work that examines the mechanisms by which new ideas "infect" institutions.

## **Policy Implications**

Three sets of policy implications arise from these arguments. First, NGOs and other actors that seek to change the behavior of MDBs will be most effective when they attempt to influence the MDBs' boards of directors. There is little evidence that the institutions themselves are sources of significant change in environmental behavior, although institutional actors have been important in shaping how the broader mandates are translated into policies and procedures, e.g., through the development of environmental assessment procedures. In the three MDBs examined here, the major policy changes have external sources.

The problem with this approach, however, is the diffuse governance structures of the three MDBs. It is difficult to imagine, for example, that strong lobbying of the EIB's member state board members would easily translate into stronger environmental policies at the EIB. This is because the Bank has a non-resident board that consists of minister-level economics officials as well as some private sector members who are not directly accountable to anyone. A better tactic might be to pressure the environmental directorate at the European Commission, since the Commission has veto power on the EIB board. A related lesson is that member states have more leverage in pressuring an MDB to change its policy goals during times of capital replenishment. NGOs who pointed out disastrous World Bank projects to U.S. Congressional officials in the 1980s gave those officials greater power to insist on policy changes at the Bank during capital replenishment discussions. A number of other important policy changes at the World Bank, and to a lesser extent, the EBRD, also occurred through the process of capital replenishment negotiations.

A second major policy lesson is that there are limits to MDB leverage. First, the World Bank's ability to impose policy conditionality declines as a recipient country gains access to other sources of funding. Policy leverage is also a function of how "demand-driven" an MDB is. If an MDB tends to wait for clients to approach it with partially or fully designed funding proposals, the MDB has less ability to influence a project. Ironically, attempts by MDBs to gain leverage can also backfire and result in more potentially dangerous projects

than would otherwise have existed. This is lesson one can take from the failed Mochovce loan at the EBRD. Pressure for the EBRD to attach conditionality to this loan resulting in a safer nuclear plant was one of the reasons the Slovaks chose to finance the completion of the plant through other sources, which is likely to result in less safeguards than would have existed under an EBRD loan.

Finally, while a policy argument can be made that there may be synergy in the sense that the three banks' activities complement each other, I would argue that more attention must be paid to examples when one MDB undercuts another. In other words, donors should seek to avoid situations when the EIB is in a position to undermine World Bank conditionality by offering a similar loan for a project that is cheaper and contains fewer demands for policy changes. Recipient governments should not be able to play the banks against each other for the lowest level of conditionality.

It is particularly important to strengthen the environmental behavior of the EIB, because ultimately it will be the only one of the three MDBs to remain in CEE. Both the EBRD and World Bank have "graduation" policies, whereby countries reaching a certain level of development are no longer eligible to receive their loans. Indeed, if the EBRD is successful in its work to promote private sector development in CEE and the former Soviet Union, theoretically it should make itself extinct. Its closure would be the sign of its success. The presence of the EIB in Central and Eastern European countries planning to join the EU, by contrast, is growing and will continue to grow.

The world has changed considerably since the first MDB—the World Bank—was established in 1944 at Bretton Woods as a sort of afterthought to delegates' main goal of establishing the International Monetary Fund to help create a stable global economic order. When Harry Dexter White first wrote a draft proposal for an international bank in early 1942, he made no mention of development, but instead emphasized the importance of a new institution to supply the huge amount of capital needed for post-war reconstruction and

economic recovery.<sup>2</sup> The roles of the World Bank and other MDBs have evolved considerably since those days, as conceptions of what "development" means continues to expand to encompass an increasing array of meanings. MDBs will always struggle to varying degrees with their dual roles as financial institutions and development agencies. The ways in which they harmonize or prioritize sometimes conflicting goals reflect the extent to which there is value to their work beyond what a private sector bank can offer.

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<sup>2</sup>Rich, *Mortgaging the Earth*, p. 53.

**APPENDIX 1**  
**Summary of World Bank projects in Central and Eastern Europe 1990-1996<sup>1</sup>**  
**Millions of dollars**

<b>Fiscal Year</b>	<b>Project /Sector</b>	<b>Bank m\$</b>	<b>TPC m\$<sup>2</sup></b>
<b>Albania</b>			
96	IDA National Roads Project Rehabilitate and construct national roads.	25m	66m
96	IDA Forestry Project Restore degraded state-owned forest and pasture areas; promote sustainable use	8m	21.6m
96	IDA Power Transmission and Distribution Improve standard, reliability, efficiency of country's electricity transmission and distribution systems.	29.5m	117m
95	IDA Agroprocessing Development Develop agroprocessing sector, improve marketing of farm products, thereby improving income of poorer farmers and increasing availability of food products to consumers.	6m	7.1m
95	IDA Urban Works and Microenterprise Pilot Project Fund five-year program to boost employment and develop small-scale activity in urban areas.	4m	4.4m
95	IDA Rural Development Promote small farm and off-farm activities, repair basic rural infrastructure, create employment for rural population.	6m	12m
95	IDA Rural Roads Project Rehabilitate rural roads, which are in poor condition, by using labor-intensive methods that will generate 12,000 man-year jobs, especially benefiting poor and unemployed, over three year period.	15m	33.6m
95	IDA Power Loss Reduction Project Implement action plan to reduce non technical power system losses.	5m	8.7m
94	IDA Health Services Rehab. Project Prevent further deterioration of basic health services in poorer regions.	12.4m	16m
94	IDA Agriculture Increase agricultural production by raising farm productivity through rapid rehabilitation of existing irrigation and drainage infrastructure. Expected to benefit more than 50,000 families.	10m	44.1m
94	IDA Enterprise and Financial Sector Adjustment Credit Support for development of banking system, continued privatization in industrial sector, downsizing or liquidation of state enterprises.	15m	
94	IDA Tax Administration Modernization Project	4m	4.4m

<sup>1</sup>Sources: World Bank Annual Reports, 1990-96. The World Bank fiscal year is July 1-June 30. This list uses calendar year information, so that it is comparable with the other two banks, which have fiscal years based on the calendar year. Thus, this chart is based on date of approval. Dates found in the annual reports are adjusted to calendar year information obtained from the World Bank computer data base.

<sup>2</sup>Total project costs, if greater than World Bank contribution.



Develop, implement procedures in tax and customs administration, as well as value-added tax system.

94	<b>IDA Water Supply, Sewerage</b>	11.6m	19.5m
	Eliminate water shortages and associated health risks in district of Durres, develop strong local institutional framework for provision of water supply and sewerage services.		
94	<b>IDA Education</b>	9.6m	11.3m
	Rehabilitate damaged, dilapidated primary school facilities. Also strengthen Ministry of Education's ability to better use fiscal resources.		
93	<b>IDA Social Sector</b>	5.5m	6.2m
	Assist government in reforming systems of social protection of vulnerable, while configuring them in ways that make them compatible with market-oriented economy.		
93	<b>IDA Urban Development</b>	15m	40m
	To help develop first steps in market-based housing sector, completion of construction of 4500 apartments, which will be sold to individual households under mortgage and condominium arrangements. Cofinancing expected from USAID, other bilaterals.		
93	<b>IDA Social Sector</b>	5.4m	6m
	Support government's labor market-development program, designed to meet needs of unemployed and facilitate their return to employment. Supported through technical assistance, fellowships, training, training materials and equipment.		
93	<b>IDA Agriculture Sector Loan</b>	20m	47m
	Support government's agricultural reform program for 18 months, and provide credit line to government for onlending to rural entrepreneurs through a new Agricultural Bank. Co-financing expected from OECD, PHARE and Netherlands.		
93	<b>IDA Poverty Alleviation Program</b>	2.4m	4.8m
	Finance year-long pilot phase of government's rural poverty alleviation program. Local infrastructure will be repaired and rehabilitated, and small-scale credit provided to farmers, rural micro entrepreneurs. Co-financing from EC and UNDP.		
93	<b>IDA Transport Project</b>	18m	27m
	Rehabilitate, maintain, construct roads, repair quays and port surfaces at Durres, and provide technical training and assistance. Cofinancing from the KFAED.		
93	<b>IDA Technical Assistance Project for Economic Reform</b>	4m	4.6
	Help government's ability to formulate, implement reforms in macroeconomic management enterprise restructuring and privatization, and financial sector reform		
92	<b>IDA Nonproject</b>	41.1m	55.3m
	For importing and distributing critical imports in order to maintain or increase capacity utilization and production. Co-financing expected from Switzerland.		
	<b>TOTAL</b>	<b>272.5m</b>	

### **Bosnia and Herzegovina: Trust Fund**

96	<b>Emergency Education Reconstruction Project</b>	5m	32.8m
	Program of primary school rehabilitation and textbook printing, distribution. Additional 5m in IDA funds as well.		
96	<b>War Victims Rehabilitation Project</b>	5m	30m
	Integrate people with war-related disabilities into productive life through community-based rehabilitation and orthopedic and reconstructive surgery.		

95-96	Transportation	35m	152m
	Urgent high priority links, services in transport system will be reconstructed and repaired.		
95-96	Multisector	45m	160m
	Rehabilitate severely damaged productive capacity and infrastructure facilities to initiate production and economic activities.		
95-96	District Heating	20m	58m
	Restore district heating in Sarajevo by reconstructing district heat supply system.		
95-96	Water	20m	70m
	Restore water, sanitation, solid waste service to mitigate public health risk in priority areas.		
96	IDA Emergency Industrial Re-Start Project	10m	350m
	Support industry and production.		
96	IDA Local Initiatives Project	7m	
	Microenterprises will provide employment and help restart economy, local institutions. NGOs providing services to self-employed and microenterprises will be strengthened.		
96	IDA Essential Hospital Services Project	15m	33.5m
	Support modern, cost-effective, fiscally sustainable hospital service to reduce burden of disease and suffering for people most affected by war.		
96	IDA Transition Assistance Credit	90m	
	Support economic growth, political stability through measures to develop new government structures on state and federation levels, reintegrate economic system, reorganize public finance, create employment.		
96	IDA Emergency Housing Repair	15m	50m
	Repair around 20,000 war-damaged homes, enabling displaced people to return to their communities.		
96	IDA Emergency Electric Power Reconstruction Project	35.6m	196.4m
	Restore electricity services in major cities and vital industries.		
96	IDA Emergency Public Works and Employment Project	10m	45m
	Create labor-intensive employment to help those unemployed by war to clear war damage, rehabilitate small-scale public infrastructure.		
96	IDA Emergency Land mines Clearance Project	7.5m	67m
	Clear land mines to make way for urgent reconstruction and recovery priorities.		
96	IDA Emergency Demobilization and Reintegration Project	7.5m	20m
	Reintegrate demobilized soldiers, returning refugees into productive jobs in civilian economy.		
TOTAL:		327.6m	

## **Bulgaria**

96	Health Sector Restructuring Project	26m	47.1m
	Restructure health sector.		
96	Social Insurance Administration Project	24.3	32.3m
	Support government's reform of social insurance program, to lay groundwork for guaranteeing old-age income security.		
96	Rehabilitation Loan	30m	
	Support government stabilization and reform program, and strengthen social safety nets.		

95	Railway Rehabilitation Project	95m	126m
	Support and deepen restructuring process begun by Bulgarian State Railways and government by financing investments in line with restructuring.		
94	Agricultural development	50m	63.4m
	Private sector gets access to credit for investment in agriculture and agribusiness.		
94	Water Companies Restructuring and Modernization Project-- Increase autonomy, commercialization of the country's 29 regional water and sewerage cos. and make management more accountable to local authorities. Rehabilitate and upgrade selected water and sewerage facilities.	98m	131m
94	Debt and Debt Service Reduction Program.	125m	
	Finances a portion of the upfront costs of the recent debt and debt service reduction agreement on the restructuring of public external debt.		
93	Energy	93m	126m
	A first energy project seeks to increase efficiency of NEK, national electricity co., reduce its generating costs, improve dam safety, etc.		
93	Industry	55m	110m
	Investment/export credits for private sector, and technical assistance for financial intermediaries.		
93	Telecommunications	30m	339.8m
	Support government reform in telecommunications. Cofinancing expected from EIB and EBRD.		
91	SAL for economic reform program	250m	
91	Technical Assistance	17m	33.5m
	Support government implementation of economic reform program through provision of technical assistance in private sector development, bank reform, energy sector reform, etc.		
	TOTAL	893.3m	
<b>Croatia</b>			
96	Coastal Forest Reconstruction and Protection	42m	67.3m
	Restore and protect coastal forests destroyed by war.		
96	Emergency Transport and Mine Clearing	102m	122.3m
	Repair and reconstruct transport networks within Croatia and between Croatia and Bosnia and Herzegovina. Clear land mines.		
96	Capital Markets Development Project	9.5m	20.6m
	Strengthen regulatory, policy framework of capital markets.		
96	Technical Assistance Project	5.0m	6.2m
	Studies and advisory services to help design, implement reforms supported by Enterprise and Financial Sector Adjustment Loan.		
96	Farmer Support Services	17.0	30m
	Support technology-related services, to improve farmer income and increase agricultural productivity.		
95	Health	40m	54m
	Support government's health care reform program, which concentrates on providing primary health care to underserved areas.		

95	Transport	80m	567.8m
	Support and accelerate modernization and transformation of transport sector, with special emphasis on the main road network and the Croatian Roads Authority. Co-financed with EBRD.		
94	Emergency Reconstruction Project	128m	205.3m
	Reconstruct basic infrastructure destroyed by war, replace vital agricultural assets, help to reconstruct destroyed housing, provide supporting infrastructure.		
TOTAL		423.5m	

### **Czech Republic**

93	Telecommunications	80m	891.5m
	Expand, strengthen international/national phone networks. Co-financing from EBRD, EIB.		
92	Power and Environmental Improvement	246m	557.5m
	Improve efficiency at Prunerov II power plant in northern Bohemia through installation of equipment and operational improvements that will result in reduced lignite consumption and reduced emissions of sulfur dioxide and dust, thereby improving environment and health of local citizens. In addition, loan will modernize transmission system of Czech Power Enterprise (CEZ), as well as facilitate interconnection of CEZ and German power grids.		
91	Nonproject	300m	
	First phase of country's rapid transition to market economy will be supported. Co-financing expected from Export Import Bank of Japan.		
TOTAL		626m	

### **Estonia**

96	Agriculture Project	15.3	30.9m
	Increase rural income and stimulate rural economy through privatization or rural lands, selected infrastructure, introduction of new farming technologies.		
95	Haapsalu and Matsalu Bays	2m	8.4m
	Reduction of pollution in Haapsalu bay and Matsalu bay catchment area will be reduced through support for decentralization of environmental management responsibilities.		
95	Health Project	18m	34.5m
	Emphasize health promotion and disease prevention programs, enhance efficiency and quality of health services, develop sector human resources.		
94	Financial Institutions Development Banks	10m	31.8m
	Support implementation of reforms in the financial and enterprise sectors.		
94	Highway Maintenance	12m	25m
	Two year program of maintenance work financed. Cofinancing expected from Denmark, Finland, Sweden.		
94	District Heating	38.4m	64.5m
	Rehab. and improve heating systems in 3 of 5 largest cities. reduce fuel costs. capacity building assist. included. Co-financed with EIB.		
92	Nonproject/rehabilitation loan	30m	
	Foreign exchange provided for imports, supports government in stabilization, structural reform program.		
TOTAL		125.7m	

## Hungary

96	Public Finance Management	7.75m	10.7m
	Develop central treasury system and optimize budgeting and debt-management processes to reduce government borrowing needs and borrowing costs.		
95	Budapest Urban Transport Project	38m	67.1m
	Support urban transport reforms undertaken by Budapest Transport Co. and city of Budapest.		
94	Oil and gas, energy and Environment	100m	242.5m
	Next investment (construction of gas-fired combined cycle cogeneration unit) in national least cost power generation program, designed to improve energy efficiency, environmental conditions at major power stations		
93	Tax Administration Modernization Project	29m	55.6m
	Strengthen tax management by program of institutional development, development and implementation of new information technology system, and training in development and use of applications systems.		
93	Population/Health/Nutrition	91m	132.6m
	Health service interventions, training		
93	Public Sector Management	132m	201.3
	Reforms in social insurance system supported.		
92	Agricultural Credit	100m	254.5
	Financial and technical assistance to help pricing/operational efficiency of product markets, improving business env.		
92	Roads Project	90m	161.1m
	Address back log of highway rehabilitation works, and implement road safety project. Project also provides technical assistance to improve effectiveness of roads administration and expenditure.		
92	Enterprise Reform Program	200m	
	Support enterprise reform program aimed at accelerating privatization, restructuring state-enterprise sector.		
91	Education (human resources)	150m	340m
	Help government alleviate unemployment impact of restructuring and to invest in human resources to help promote economic and technological competitiveness.		
91	Second Structural Adjustment Loan	250m	
	Government's medium-term economic reform program supported by this second structural adjustment loan.		
90	Second Telecoms	150m	1400m
	A second telecom project part of Hungarian telecoms Company's investment program, etc. Cofinancing expected from EIB.		
90	Agriculture Support Export Project	100m	274m
	Credit line to enable agricultural enterprises (public/private) to improve operations, reduce production costs, increase export orientation. Technical assistance, training from OECD donor agencies.		
90	Financial System Modernization	66m	143.4m
	Modernization and strengthening of financial system supported. Borrower or guarantor is National Bank of Hungary.		
90	Structural Adjustment Loan	200m	
	Structural adjustment program, aimed at establishing competitive market economy, restoring reasonable rate of growth, improving external credit worthiness, reducing inflation. National Bank of Hungary		
TOTAL:		1.7b	

## Latvia

96	Structural Adjustment Loan	60m	
Support government's efforts to promote private sector development, improve public sector management.			
95	Jelgava District Heating Rehab. Project	14.0m	18.2m
Rehabilitate district heating system in city of Jelgava.			
95	Urban Development	27.3m	45.4m
Rehabilitate Riga's urban transport system, and water and wastewater-treatment plan in Daugavpils. Also, through financing of Municipal Development Fund, channel money to number of small-scale investments in municipal services elsewhere in the country.			
94	Liepaja Environment Project	4.0m	21.2m
Improve water and wastewater services in Liepaja, in context of country's legal obligations to protect the Baltic sea from ecological degradation.			
94	Enterprise and Financial Sector Restructuring Project	35m	114m
Accelerate reforms in enterprise and financial sectors.			
94	Agricultural development project	25m	45.1m
Support private agricultural development by providing credits to new private farmers, and expanding/upgrading private agro-industries and forest-based industries. Cofinancing from PHARE and BITS.			
92	Multisector	45m	
Forex for imports, technical assistance to support government stabilization/reform program.			
TOTAL		210.3m	

## Lithuania

96	Structural Adjustment Loan	80m	
Support government reforms to continue transition toward market economy.			
96	Highway Project	19m	45m
Preserve road network, improve road maintenance.			
96	Energy Efficiency/Housing Pilot	10m	20.6m
Improve energy efficiency in residential and public buildings, and support privatization of housing sector.			
96	Klaipeda Geothermal Demonstration	5.9	18m
Demonstrate feasibility of using low-temperature geothermal water as renewable indigenous energy resource for use in district heating systems.			
96	Private Agriculture Development	30m	54.8m
Assist government in developing viable, private agricultural sector, help those hurt by dramatic decline in rural employment to start their own businesses through increased access to credit.			
95	Liepaja Environment	6.2m	22.9m
Take first steps toward reducing pollution from the Upper Lielupe river basin, a major water-pollution source into the Gulf of Riga portion of the Baltic Sea.			
95	Enterprise and Financial Sector Assistance Project	25m	50.3m
Channel credit through selected participating banks to help finance investment and related permanent working capital needs of private and privatized enterprises.			
94	Klaipeda Environment Project	7m	23.1m
Improve water and wastewater services in Klaipeda, in context of country's legal obligations to protect Baltic sea from ecological degradation.			

94	<b>Energy--Power Rehabilitation Project</b>	26.4m	32.9m
	Rehabilitate two thermal power plants, improve safety, reliability, flexibility of electricity transmission system. Includes capacity-building assistance.		
92	<b>Nonproject</b>	60m	
	Provides foreign exchange to finance critically needed imports. Co-financing by PHARE and Sweden.		
	<b>TOTAL</b>	269.5m	
<b>FYR Macedonia</b>			
96	<b>IDA Health Sector Transition Project</b>	16.9m	19.4m
	Invest in primary health care and disease prevention.		
96	<b>Private Sector Development</b>	12m	
	Provides private sector finance to private enterprises, farmers to improve profitability and agricultural output.		
96	<b>IDA Private Farmer Support</b>	7.9m	10.2m
	Provides technology-related services to private farmers to improve production and income.		
95	<b>IDA Social Reform and Technical Assistance Project</b>	14m	17.1m
	Support labor redeployment in communities affected by enterprise restructuring, and develop program to better target social assistance to poor.		
95	<b>IDA Financial and Enterprise Sector Adjustment</b>	85m	
	Support implementation of major reforms in enterprise and banking sectors. Strengthen social safety program's ability to provide more equitable protection against poverty.		
95	<b>Transit Facilitation Project</b>	24.0m	38.7m
	Address transit crisis, caused by closing of Serbian and Greek borders to transport of goods, by upgrading east-west transit corridors.		
94	<b>Multisector Economic Recovery Loan</b>	40m	
	Structural reforms to help government restore growth supported.		
94	<b>IDA Multisector Economic Recovery Loan</b>	40m	
	Structural reforms to help government restore growth supported.		
	<b>TOTAL</b>	239.8m	
<b>Poland</b>			
96	<b>Port Access and Mgmt</b>	67m	145.6m
	Improve access to ports of Gdansk, Gdynia and Szczecin-Swinoujscie.		
96	<b>Bielsko-Biala Water and Wastewater</b>	21.5m	35.4m
	Rehabilitate and expand Bielsko-Biala's water and wastewater systems, providing consumers with more reliable, safer, better-quality services.		
95	<b>Power Transmission</b>	160m	275.7m
	Investments in rehabilitation and upgrading of key substations, as well as modernization of high-voltage transmission lines.		
94	<b>Katowice Heat Supply and Conservation Project</b>	45m	92.9m
	Provide funds to Katowice District Heating Enterprise to help finance investments in energy conservation and efficiency, asset-life extension, and reduction of air pollution.		
94	<b>Debt and Debt Service Reduction Loan</b>	170m	
	Finance part of the costs incurred in implementation of a debt and debt-service reduction operations.		

93	Forest Development Support Project	146m	335.4m
	Improve government's forest management practices, expand forest eco capital, accommodate sustainable forestry. Cofinancing from EIB.		
93	Agriculture Sector Adjustment Loan	300m	
	Assist government agricultural sector adjustment program.		
93	Nonproject (enterprise and financial sector adjustment)	450m	
	Government's Enterprise and Bank Restructuring and Privatization Program supported.		
93	Road project	150m	296.8m
	Finance portion of investment program of General Directorate of Public Roads. Institution-building assistance included.		
92	Population, Health, Nutrition	130m	227m
	Support government's health sector reform plan. Project designed to strengthen health promotion programs, support first steps in sectoral restructuring by shifting focus from institutional to primary care, strengthen sectoral institutional capacity, ensure sustainability of service by controlling costs.		
92	Small Scale Enterprises	60m	187.2m
	Create new private business by providing financing for efficient investment in private enterprises. Tech assist. also for private sector development.		
92	Urban Development/Housing	200m	677m
	Support government's first steps moving toward market based system for housing production through provision of credit lines for mortgages and construction, as well as technical assistance. Expect EBRD co-financing.		
91	Agriculture Development Project	100m	180.2m
	Private farmers supported and other private sector activities in rural areas promoted, mainly through restructuring high-priority rural cooperatives.		
91	Privatization and Restructuring Project	280m	915m
	Support privatization program, implement restructuring across major share of industry. Co-financing expected from EIB and others.		
91	Financial Institutions Development	200m	
	Action program on policy, regulatory, institutional fronts to extend financial sector reform. Institution building assistance included.		
91	Employment Promotion and Services Project	100m	142.2m
	Assist government in developing improved employment policies, institutions, programs to mitigate impact of adjustment on labor force.		
91	Heat Supply Restructuring and Conservation Project	340m	619.3m
	Implementation of comprehensive energy-sector restructuring, along with commercialization and privatization of restructured enterprises and petroleum exploration and production activities. Extends life of existing heating assets through rehabilitation and introduction of modern technologies and materials, thereby significantly reducing capital expenditures. Cofinancing expected from EBRD.		
91	Telecommunications	120m	379m
	First telecommunications project seeks to strengthen trunks network, carry out selected improvements. Co-financing expected from EIB.		
90	Structural Adjustment Loan	300m	
	Government's unprecedented economic transformation program supported.		
90	Agriculture	100m	154m



Rehabilitation, modernization, expansion of agroprocessing industries. Also funds import of around 100,000 tons of livestock feed.

90	Energy Resource Development	Energy	250m	616m
	Support government's program of energy conservation, environmental improvement through energy pricing reform and fuel-switching from coal to gas through investment in materials and equipment to increase production, distribution of natural gas. Preparation of studies on sector restructuring, gas development, encouragement of private sector participation in oil and gas sector, and tech assistance are included. Cofinancing expected from EIB.			
90	Industrial Export Development Project		260m	455m
	Direct foreign exchange costs of needed physical improvements made available to enterprises undertaking high priority, high return investments to expand exports to convertible currency markets. Also technical assistance for enterprise restructuring.			
90	First Transport Project (railways)		153m	216.5m
	Support government's transport-sector restructuring program, which emphasizes increased cost recovery, improved efficiency, increased market responsiveness. Investments in railway system will be financed; activities of Highways Admin. supported. Co-financing from EIB expected.			
90	Water supply and sewerage (environmental management)		18m	27.3m
	Technical assistance provided to help Poland strengthen its ability to analyze and design a series of policy, regulatory, institutional and investment actions it plans to undertake to improve environmental quality.			
TOTAL			4.12b	

## Romania

96	Reform of Higher Education		50m	84m
	Reform higher education system to provide skilled managers, technical professionals, entrepreneurs and societal leaders necessary to sustain transition to market economy.			
96	Bucharest Water Supply		25m	50m
	Rehabilitate Bucharest's water supply system.			
96	Financial and Enterprise Sector Adjustment Loan		280m	
	Provides balance of payments support to help government pursue its stabilization and structural reform program.			
96	Railway Rehabilitation Project		120m	383m
	Support restructuring of Romanian National Railways.			
95	Power Sector Rehab. and Modernization		110m	363.9m
	Support government's power sector reform program, and rehabilitate around 1,445 mw of existing thermal generating capacity. Co-financing from EIB/EBRD.			
95	Employment and Social Protection Project		55.4m	95.2m
	Implement reforms in social insurance and assistance programs, strengthen capacity of labor office to administer claims for unemployment benefits, and develop adult training system.			
94	Industrial Development Project		175m	334m
	On-lent to private enterprises. to improve competitiveness, expand exports.			
94	Petroleum Sector Rehabilitation Project		175.6m	345.6m
	Supports government petroleum sector restructuring strategy, designed to promote private sector investments, strengthen institutional capabilities, establish suitable regulatory framework to facilitate development of efficient, commercially oriented petroleum sector. Co-financing expected from EIB and PHARE.			
94	Education Reform Project		50m	73.5m

Improve quality of basic and secondary education by strengthening curriculum and teacher training, assessment and examinations and textbook quality. Also increase efficiency in management of public resources for education.

93	Roads Project	120m	405m
More than 1000 km of roads will be rehabilitated. Material, equipment, technical assistance and training provided. Co-financing by EBRD and EIB.			

92	Private Farmer and Enterprise Support	100m	164.7m
Private sector development in agriculture will be supported through project that finances credit to private business to improve input supply, food processing, marketing, distribution.			

92	Structural adjustment loan	400m	
Support government reform program.			

91	Health Rehabilitation Project	150m	207.5m
Rehabilitate, upgrade primarily health care system, first phase implementation of health sector financing restructuring.			

91	Technical Assistance	180m	262.4m
Make foreign exchange available for critical imports of spare parts. Cofinancing expected from EIB.			

TOTAL		2.0b	
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### **Slovakia**

93	Economic Recovery Loan--multisector	80m	
Support government reform program by financing many one-time costs associated with restructuring and breakup of CSFR, including social sector reforms and funding social safety net for vulnerable groups.			

93	Telecommunications project	55m	462.3m
Expand, strengthen phone networks. Cofinancing expected from EIB and EBRD.			

91	Nonproject	150m	
First phase of country's rapid transition to market economy will be supported. Co-financing expected from Export Import Bank of Japan.			

TOTAL		285m	
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### **Slovenia**

96	Investment Recovery	49.3m	
Support investment needs of emerging private sector by making long-term financing available through three borrowing banks.			

96	Environment Project	23.9m	
Focuses on mitigation of air pollution and institutional strengthening. It will include the expansion of existing and/or the building of new district gas-heating networks and institutional strengthening.			

93	Enterprise and Financial Sector Adjustment loan	80m	
Help privatization, accelerate development of financial sector, support more effective labor-market policies and social safety net for poor.			

TOTAL		153.2m	
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**APPENDIX 2**  
**Summary of EBRD projects in Central and Eastern Europe, by country, 1990-1996<sup>1</sup>**  
**Millions of ECU**

<b>Year</b>	<b>Project Description.</b>	<b>Bank mECU<sup>2</sup></b>	<b>TPC mECU<sup>3</sup></b>
<b>Albania</b>			
96	Euomerchant Albania Fund Venture capital fund to invest in small and medium-sized enterprises (SMEs).	2.8m shares	8.1m
95	Power Transmission/Distribution Project To improve power supply efficiency by reducing power losses Supports sector restructuring and commercialization. To KESH (Albanian Power Corporation). Co-financed with World Bank.	10.m	90.7m
94	Rogner Hotel Construction of new quality hotel business center.	11.6m loan and shares	16.5m
94	Drin River Cascade Rehabilitation To KESH for rehabilitation and modernization of Albania's main power plants. Goal is to allow Albania to export more electricity, provide reliable domestic supply. Modernization of equipment reduces health risks to personnel and makes dam safer. Advanced flood warning system to be established.	12.8m	46.6m
94	Banca Italo-Albanese Development of first commercial private bank in Albania.	2.0m shares	9.9m
93	Tirana Hotel Refurbish and operate as business hotel. Private sector project.	10.9m loan and shares	18.4m
93	Coca-Cola Tirana To construct soft drinks bottling facility and commence operations.	2.4m	7.6m
92	Albania Telecommunications Modernization and expansion of the telecommunications system. First phase of long-term program aimed at setting up fully digital, profitable network by end of century. Support from Norwegian Telecom, Swiss and Italian governments. Technical assistance from PHARE.	7.9m	32.3m
TOTAL EBRD loans and shares		60.4m	
<b>Bosnia and Herzegovina</b>			
96	Emergency Transport Reconstruction Project Road reconstruction and improvements to airport.	26.3m	76.0m
96	Equity investment in Hrvatska Banka For on-lending to local enterprises.	1.0m shares	1.0m
TOTAL EBRD loans and shares		27.3m	
<b>Bulgaria</b>			
96	Astera OOD Support privatization and modernization of personal care products company.	8.1m	14.3m

<sup>1</sup>Sources: EBRD information sheets, annual reports, web site ([www.ebrd.com/opera/country/](http://www.ebrd.com/opera/country/)).

<sup>2</sup>Financing in loans, unless otherwise noted.

<sup>3</sup>Total project costs.

96	Danone MPF--Serdika Capital Increase	1.2m shares	2.0m
96	Storco Update, modernize fruit and vegetable processing plant.	8.0m loan and shares	28.5m
96	First Investment Bank Ltd. Credit line for financing projects in SME sector.	3.2m loan and shares	3.2m
95	Railway Restructuring Project To Bulgarian State Railways (BDZ) for track repairs, safety/efficiency investments. Co-financed with World Bank.	35.7m	233.9m
95	Bulgaria Wholesale Markets Project Establish integrated wholesale market system.	27.8m	66.6m
95	Bulgarian Investment Bank-Capital Increase Banks Pro-rata participation in capital increase in BIB to meet new minimum capital requirements.	2.9m shares	4.7m
95	BNP-Dresdner Bulgaria Capital Increase Pro-rata participation in capital increase to meet new minimum capital requirements.	0.7m shares	3.3m
94	Danone-Serdika SA Upgrade and modernize product line at leading yoghurt maker.	1.2m shares	8.6m
94	BNP-Dresdner Investment in fully licensed bank to be created in Bulgaria.	1.3m shares	7.8m
94	Caresbac Equity in non-profit investment company financing Bulgarian SMEs.	3.2m shares	9.5m
94	General Insurance Co. Provide non-life insurance to local and foreign corporations in Bulgaria.	0.7m shares	3.5m
94	EuroMerchant Balkan Fund To establish venture capital fund investing primarily in Bulgaria.	6.6m shares	22.3m
94	Delta Dairy Improve production of ice cream and construction of cold storage facilities.	2.6m shares	13.2m
93	Bulgarian Transit Roads Road development and maintenance project, including completion of 32 km section of Trans-European motorway between Plovdiv and Orizovo, plus improvements to 800 km of primary roads serving both regional and long-distance traffic. Co-financed with EIB.	34.1m	83.8m
93	Bulgarian Investment Bank To new private sector banking group for investments and advisory services.	1.0m shares	4.6m
92	Maritza East II Power Project Finance for completion of construction of a unit of the power plant and to help finance retrofitting of desulphurization unit. Co-financed with EIB.	40.2m	41.4m
92	Eurovision-Bulgaria Loan to help finance design, supply and installation of earth stations to link to Eurovision network by satellite.	.8m	
92	Bulgarian Telecommunications Developing national network by digitalization, line renewal and expansion, short-term measures. Co-financed with World Bank, EIB.	32m	187m

<b>TOTAL EBRD loans and shares</b>	<b>211.3m</b>	
<b>Croatia</b>		
96 <b>Framework for SME Financing</b> Develop SME financing, particularly for Trgovacka Banka.	25.9m	25.9m
96 <b>Tourism Credit Line</b> First long-term funding of Croatia's tourism industry to help repair and upgrade hotels and other facilities along coast and on islands.	25.9m	25.9m
96 <b>Varazdinska Banka</b> For loans to industrial sector to aid privatization.	12.0m loan and shares	12.0m
96 <b>Alpe Jadran Banka</b> Bank-to-bank loan for on-lending.	5.2m	5.2m
96 <b>Bank Austria Croatia</b> Investment in new commercial bank.	3.1m shares	11.8m
96 <b>Dalmatinska Banka Credit Line Extension</b> Provide medium and long-term funding to SME investment projects.	10.4m	10.4m
96 <b>Municipal Environmental Infrastructure Invest. Prog. (Env.)</b> Extension and improvement of sewerage, waste-water treatment and water supply systems for several towns along Adriatic coast. Addresses severe pollution in Kastela Bay and the sea off Pula, and restores quality of bathing water, which will also boost tourism.	54.4m	164.5m
96 <b>Hypo Banka Croatia</b> Capitalize new financial intermediary to increase competition in banking sector.	2.7m shares	10.8m
96 <b>Panonska Pivovara d.o.o</b> Finance construction of new brewing facility.	17.1m	62.9m
95 <b>Highway Reconstruction</b> Assist completion or route improvement, finance road and pavement upgrade. Completes major road between Zagreb and Adriatic coast. Designed with road user charges. Co-financed with World Bank.	38.3m	190.9m
95 <b>Electricity Network Reconstruction</b> Restore power to war-affected areas and extend supply.	34.1m	57.3m
95 <b>Zagrebacka Banka IT Loan</b> To enable bank to buy IT equipment.	3.2m	3.2m
95 <b>Zagrebacka Banka Loan Facility</b> Enable bank to on-lend to SMEs and individuals.	27.0m	27.0m
95 <b>Agribus. Credit Line-Dalmatinska Banka</b> For SMEs in agribusiness sector.	10.8m	10.8m
95 <b>Agribus. Credit Line-Agro-Obrtnicka Banka</b>	5.4m	5.4m
95 <b>Pliva dd</b> Build plant to produce Azithromycin and similar antibiotic drugs.	48.3m	95.2m
94 <b>Air Navigation Rehabilitation</b> Assist with replacement of civilian radar and other air navigation facilities destroyed or damaged during war. Co-financed with World Bank.	17.4m	20.8m

<b>TOTAL EBRD loans and shares</b>	<b>341.2m</b>	
<b>Czech Republic</b>		
96 Fornasari Textile Holdings Support expansion, improve environmental conditions at facility.	10.3m	34.0m
96 Czech PPF Wholesale equity operation involving high-risk equity.	28.2m shares	80.5m
96 Rema 1000 Establish grocery franchise chain.	11.8m	38.2m
95 Technolen WF a.s. Upgrade company's capital asset base.	9.1m	16.1 m
95 Skoda Loverny s.r.o Invest in metal forger to support machinery modernization.	17.7m	49.0m
95 Investicni a Postovni Banka Provide export finance funding for bank's clients.	39.4m	39.7m
95 Sepap Steti a.s. For paper company to increase production of environmentally friendly pulp.	60.1m	170m
95 Ceske Drahy-Czech Railway Corridor Modernize Corridor to internationally accepted performance and safety standards.	42.5m	695.6m
94 TFP Komerčni Banka Provide credits to largest commercial bank to support export growth.	11.9m line of credit	11.9m
94 Karosa-Renault Enable Karosa to modernize its bus and coach manufacturing plant.	38.1m loan and shares	69.5m shares
94 Kabel Net Install, develop, operate cable TV service in Prague.	8.6m shares	32.1m loan and guarantee
94 Tesla-YS Update plant, add new technology for producer of ceramics for semiconductors.	5.9m	10.6m
93 CZ-Cagiva Financing restructuring of existing motorcycle, components and engine manufacturing plant in Strakonice.	8.7m	40.8m
93 Thurn Taxis Dorovice To major sugar-producing company for expansion and modernization.	4.1m shares	23.9m
93 ING Bank (CEAL) CES-Uniweb financing small and medium-sized enterprises.	1.6m line of credit	11.7m
93 ING Bank (CEAL) Tatrarex spol sro Financing small and medium-sized enterprises.	0.9m line of credit	2.2m
93 SPT Telecom Install digital overlay backbone network and improve telecoms systems in major cities. Co-financed with EIB.	69.8m	299.3m
92 Cokoládovny Restructure and privatize country's major chocolate and biscuit producer.	23.3m shares	163m

92	Ceskoslovenske Aerolinie (CSA) Co-financing of company's fleet replacement and modernization program.	23.9m shares	23.9m
92	Czech Slovak Investment Corp. Finance small and medium-sized enterprises.	7.3m	43.5m
92	Eurotel Praha Construction of cellular network and public switched packed data network.	8.7m	79.9m
TOTAL EBRD loans and shares		431.9m	
<b>Estonia</b>			
96	AS Hansapank Housing Loan (their sp.) Bank to bank loan, corporate credit line for housing finance facility.	6.2m	6.2m
96	AS Hansapank Housing finance facility in form of bank-to-bank loan, corporate credit line.	6.2m	6.2m
96	AS Tallinna Pank Credit Line To develop bank's corporate loan portfolio.	6.2m	6.2m
96	AS Eesti Forekspank Credit line for financing private enterprise projects.	6.2m	6.2m
95	AS Hansapank Enable bank to remove cash collateral deposits from international correspondent banks.	7.9m	7.9m
95	AS Eesti Holupank (Loan) Credit line for financing SME projects.	3.5m	7.0m
95	AS Eesti Holupank (Equity) Equity participation to assist the privatization of Holupank.	1.9m shares	2.4m
95	Eesti Uhispank Credit line for financing SMEs.	9.3m	9.3m
95	Small Municipalities Environment Project Short-term water services investments in municipalities other than Tallinn.	10.8m	46m
94	Tallinn Airport Rehabilitation Upgrade facilities and install new runways, taxiways, approach lights.	11.3m	13.7m
94	Estonian Investment Bank Provide SMEs with easier access to credit resources.	4.0m	8m
94	Tallinn Water and Environment Improve water and waste-water services in Tallinn. Loan improves existing water supply and waste-water system, develops new ground water wells, expand waste-water treatment. Improves reliability of water supply services, quality of drinking water, reduces waterborne pollution in Gulf of Finland and Baltic Sea.	24.0m	47.9m
94	Hansapank Credit line to allow bank access to medium-term funds to build loan portfolio.	4.6m	9.2m
94	Estonian Investment Bank Equity as part of capital increase of bank, which provides funds for private sector.	1.5m shares	4.5m
93	Estline Marine Co.	21.2m	47.5m

Joint venture for partial financing of ferry between Stockholm and Tallinn.

92	Eurovision- Loan to help finance design, supply and installation of earth stations to link to Eurovision network by satellite.	.7m	
92	Energy Sector Emergency Investment Enable urgent repairs to power and heating supply and improve energy efficiency.	34.9m	34.9m
TOTAL EBRD loans and shares		160.4m	
<b>Hungary</b>			
96	Digital 2002 Rt. Development of telecoms networks in two regions north of Budapest.	18.5m loan and shares	102.3m
96	Szakra Lapnyomda Rt. Enable company to improve color printing facilities and productivity.	6.6m loan and shares	14.4m
96	Goldsun II Fruit and vegetable freezing, processing operation.	1.1m shares	1.1m
96	Hungarian Equity Partners Venture capital fund for medium-sized enterprises.	6.8m shares	36.2m
96	General Purpose Credit Line for EBRD-PHARE Env. and Energy Efficiency Co-funding Scheme Finance viable private sector projects with environmental and energy benefits.	30m loan	47.5m
96	Hungarian Special Restructuring Program Support restructuring, turnaround of viable, under-performing companies.	30.0m shares	30.4m
96	OTP Subordinated Loan Improve capitalization, expand business activities including private sector loans.	40.3m	40.3m
96	Hungarian Bank for Investment and Development 8-year funding line for medium-sized investment projects.	15.9m	15.9m
96	Agricultural Restructuring Project Kereskedelmi-Bank Extension. Extend credit line to finance agribusiness investments.	31.7m	31.7m
96	BorsodChem Rt. Privatization Subscribe to capital increase, to finance capital expenditure program.	23.7m shares	79.3m
95	Hungarian Capital Fund Acquire controlling participations in companies needing restructuring.	16.0m shares	48.6m
95	Cofinec SA (Kner) Modernize and expand printers of packaging materials.	4.2m shares	10.1
95	Graboplast Rt Equity investment in home improvement company to develop production of floor coverings.	2.4m shares	8.3m
95	Investel Syndicated Loan Facility For expansion and modernization of MATAV's telecom network.	55.5m	809m
95	ARP-Budapest Bank-Extension Extension of credit line to bank as part of existing agricultural restructuring project.	11.9m	11.9m



95	Magyar Kulkereskedelmi Bank (MKB) Trade Facilitation Agreement--Strengthen and develop MKB's intraregional trade promotion service.	19.8m guarantee	39.7m
95	M5 Toll Motorway First phase of motorway to be built and operated by private, special purpose company.	119.1 m loan/guar.	368.3m
95	Budapest Bank Privatization Assist privatization of major state-owned bank.	36.6m shares	38.2m
95	Prometheus ESCO Financing For company to expand its activities in energy installation renovation to reduce fuel costs.	3.9m	3.9m
95	Déltáv Rt Help finance telecommunications company's capital expenditure program.	30.1m loan/shares	166.6m
95	EMITEL Rt Expand and develop local telecommunication networks in three regions.	11.9m	67.4m
94	Budapest Wholesale Market Finance construction of cold storage, handling and service areas.	5.6m	20.7m
94	Framochem Upgrade and enlarge a chemical plant, improving environmental performance.	1.6m	3.9m
94	ARP-Magyar Hitel Bank Medium and long-term financing to SMEs in agricultural sector.	24.6m line of credit	25.1m
94	Hungarian Foreign Trade Bank Increase bank's capital base, helping it to become leading financial institution.	20.3m shares	33.2m
94	OTP Bank Revolving standby credit facility to provide access to medium-term funds.	39.7m	79.3m
94	Central Business Center Develop modern, mixed-use building in Budapest.	6.1m loan and shares	17.8m
94	MOL-Zsana Gas Storage to MOL, Hungarian oil and gas company, for underground gas storage.	19.8m	67.4m
93	Kner Nyomda Rt Modernization and expansion program at printers of packaging materials.	5.4m loan and shares	5.5m
93	Eurocorp Aid initial capitalization of investment bank that will provide corporate finance advice.	0.1m shares	2.4m
93	PCA-Budafok Kft Enable producer of recycled paperboard to refurbish and upgrade facilities.	5.6m	15.3m
93	Hungarian Foreign Trade Bank Funding of medium-term lending.	8.1m	54.1m
93	RZB/CEAL Magyar Hotec Loan through regional multi-sector agency line co-financed by RZB.	0.9m line of credit	3.5m
93	ARP-Budapest Bank Medium- and long-term financing to SMEs in agricultural sector.	6.3m line of credit	6.3m
93	ARP-Kereskedelmi	32.8m line of credit	33.6m

Medium- and long-term financing to SMEs in agricultural sector.

93	ARP-OTP Medium- and long-term financing to SMEs in agricultural sector.	20.2m line of credit	20.5m
93	Budapest Public Transportation Rehabilitation Rehabilitate city's public transport system.	61.9m	173.5m
93	Goldsun Modernization of deep-freeze capacity of food company.	4.3m l	17.8m
93	Hungary Telecommunications Co. To finance HTC's Physical Investment Programme to improve telecoms services.	50.9m shares	256.6m
93	Accor/Pannonia For privatization and development of leading hotel group.	6.3m shares	45.6m
93	EGIS Gyogyszergyar To help privatize and fund development program, including environmental mitigation and improved marketing activities.	37.8m shares	56m
93	M1-M15 Toll Motorways Construct 43km motorway from Gyor to Austrian border and 15 km motorway toward Bratislava, to be run as toll roads.	109m loan and shares	329.6m
92	Hungarian telecom Support Hungarian Telecoms ongoing modernization and expansion program.	54.1m	207.6m
92	Westel Radiotelefon KFT Expand national mobile cellular telecommunications system	7.9m	7.9m
92	Fusion Investment Co. LTD. Development of food catering in joint ventures with local operators.	3m shares	19.4m
92	Raba/General Motors Partial financing of installation of an advanced engine manufacturing and car assembly plant.	32.4m	235.9m
92	Budapest Orbital Motorway partial financing of construction of part of road network, and consultancy services.	21m	108.8m
92	Columbian Tiszai Koromgyarto Kft Construction, commission, operation of greenfield carbon black facility.	7.1m	44.2m
91	Petőfi Nyomda Rt Finance modernization of packaging material manufacturing company.	5.4m	13m
TOTAL EBRD loans and shares		1.1 billion	

**Latvia**

96	A/S Latvijas Unibanka (Equity Investment) Assist in privatization of bank, strengthen its capital base and corporate governance.	7.7m shares	8.1m
96	Riga Water and Environment Project To reduce levels of raw sewage in the Daugava River and improve water supplies. Co-financed with EIB.	18.1m	97.5
96	SIA Vainionpaa Construction of modern full-scale saw mill in Taurkalne.	7.2m	21.8m

96	<b>Rigas Komercbanka Equity Investment</b> Improve corporate governance and capitalization of bank.	5.6m shares	5.6m
96	<b>Valdlemara Centre SIA</b> Construct first international-standard business center in Baltics.	5.4m	15.7m
96	<b>Special Restructuring Program</b> SRP fund to invest in state-owned enterprises and facilitate privatization.	15.0m shares	15.0m
95	<b>Latvijas Zemes Banka</b> Credit line for LZB to strengthen capital base, increase operations.	1.8m shares	2.2m
95	<b>Deutsch Lettische Bank</b> Credit line for on-lending to SMEs.	4.0m	9.5m
95	<b>A/S Latvijas Unibanka</b> Credit line to finance projects in SME sector.	15.9m	15.9m
94	<b>Investment Bank of Latvia</b> Fund bank's loan portfolio, to mobilize hard currency resources for SMEs. Co-financed with EIB.	1.4m shares	8.3m
94	<b>Daugava Hotel</b> Finance extension and renovation of Riga hotel.	9.5m	33.3m
94	<b>Road Project</b> To assist with rehabilitation and improvement of road transport infrastructure.	8.2m	21.3m
94	<b>Riga International Airport Enterprise</b> To rehabilitate runway, taxiways, airfield lighting system.	9.6m	10.5m
92	<b>Eurovision</b> Loan to help finance design, supply and installation of earth stations to link to Eurovision network by satellite.	.7m	
92	<b>Energy Sector Emergency Investment</b> For urgent repairs to energy supply facilities to improve supply and end-use efficiencies.	31.6m	37m
<b>TOTAL EBRD loans and shares</b>		<b>141.7m</b>	
<b>Lithuania</b>			
96	<b>Lithuanian Development Bank Credit Line</b> To fund on-lending and investment activity for SMEs.	5.3m	5.3m
96	<b>Post Privatization Fund</b> Assistance to enable privatized companies to progress in post-transition market economy.	15.0m shares	15.0m
96	<b>Via Baltica and Lithuania Road Project</b> Create improved road transport infrastructure.	18.7m	94.3m
95	<b>Paroc Silikatas</b> Purchase equipment to upgrade production of mineral rockwool insulation material.	5.7m	15.6m
95	<b>Viniaus Bankas</b> Medium to long-term credit line for on-lending to SMEs.	8.4m	8.4m
95	<b>Kaunas Water and Environment Project</b> To improve water and waste-water services in Lithuania's second largest city.	11.9m	80.5m

95	Bankas Hermis (Credit Line) Fund bank's medium-, long-term investments in SMEs.	6.0m	6.0m
95	Bankas Hermis (Equity) Equity investment via new share subscription.	2.5m shares	2.5m
94	Lithuanian Development Bank Provide medium and long-term funds to Lithuanian private sector.	1.8m shares	5.0m
94	Ignalina Nuclear Plant Grant from Nuclear Safety Account funded by donors and EC, administered by EBRD.	35m grant	
94	Transport Project Finance improvement of rail services from eastern border to Baltic coast, and implement improvements on major road network.	15m	36.9m
94	Telecom Development International Improve and restructure telecoms sector.	19.8m	47.2m
92	Energy Sector Emergency Investment To enable urgent repairs to power and heating supply and improve energy efficiency.	32 m	38.9m
TOTAL EBRD loans and shares (and grant)		177.1m	
<b>FYR Macedonia</b>			
96	Komercijalna Bank For on-lending to local SMEs.	7.8m loan and shares	7.8m
96	Gas Distribution Project Construct low-pressure piped gas distribution system.	33.9m loan and shares	64.1m
95	Macedonian Telecommunications Develop international, long distance and local phone network.	33.7m	65.1m
95	SME Credit Line Framework Loan to participating banks to fund local SMEs.	5.4m	5.4m
	SME Credit Line-Sopanska Banka	5.4m	5.4m
	SME Credit Line-Makedonska Banka	5.4m	5.4m
	SME Credit Line-Export-Import Banka	2.2m	2.2m
	SME Credit Line-Almako Banka	3.3m	3.3m
95	Skopje Airport Rehabilitation Rehabilitate runway and associated equipment improving airport safety.	9.6m	12.0m
94	Komercijalna Banka Trade facility to guarantee correspondent banks against non-payment.	4.8m guarantee	4.8m
94	Air Navigation System Upgrading Upgrade air navigation facilities and services.	10.9m	18.2m
93	Elektrostopanstvo na Makedonija Construct transmission line and support Energy Conservation Programme.	25.1m	35.9m
TOTAL EBRD loans and shares		147.5m	
<b>Poland</b>			
96	Netia SA	89.2m loan, shares	307.6m

		guarantee	
	Finance construction of 350,000-line local telecoms network in 10 areas.		
96	Kredyt Bank Help provide increased capital for Polish banking sector.	6.4m shares/guarantees	6.4m
96	Kujawy and RMC To construct, operate manufacturing facilities, under Lafarge multi-project facility.	27.4m shares	72.3m
96	KZP Additional loan to enable paper company to complete restructuring and to increase investments.	9.7m	42.0m
96	Warsaw Financial Center Finance construction of largest private sector office development in region.	22.9m	92.6m
96	Waresco Fund construction and operation of Sienna commercial office building in Warsaw.	7.6m	29.9m
96	Krotoszyn Equity Investment Equity investment to manufacturer of auto cylinder liners under MPP Equity Facility	6.2m shares	29.8m
96	Railway Modernization Project Modernize main rail artery, which is Poland's principal link with the EU and is part of the Trans-European Network. Co-financed with EIB.	50m	487m
96	Srubena Investment in Poland's leading manufacturer of industrial fasteners.	3.1m	6.2m
96	Rolimpex Support final stages of privatization.	13.0m shares	79.3m
96	Rolimpex On lending to SMEs.	16.1m	32.2m
96	Polish Enterprise Fund Make equity, equity-related investments in private, privatizing SMEs.	24.2m shares	120.8m
96	Warsaw Wholesale Market Construction of a new market to provide modern infrastructure for trade in food products.	12.1m	31.0m
96	FM Forte S.A. Equity investment in furniture manufacturing company.	9.1m shares	20.2m
96	Air Liquide-Huta Katowice On-site air separation plant for Huta Katowice.	13.5m	30.7m
95	BTU iR Heros Investment in one of Poland's largest private sector insurers to finance expansion.	1.4m shares	3.0m
95	Polsko-Amerykanski Bank Kipoteczny S.A Guarantee facility to PABH to finance larger multi-unit residential developments.	11.9m Guarant.	11.9m
95	Metalplast Privatize producer of building panels, with investment to improve quality standards.	6.2m shares	27.6m
95	Warsaw Distribution Park Sp. z.o.o. Help develop first international-standard industrial park in Poland.	4.2m	10.4m

95	Polski Fundusz Leasingowy Equity investment in company leasing industrial equipment to Polish-based companies.	0.3m shares	1.5m
95	Faure & Machet Logistics Invest in warehousing and distribution at greenfield site near Warsaw.	7.9m loans/shares	22.7m
95	Bank Rozwoju Eksportu SA Revolving Credit Facility--Fund and co-finance BRE's credit activities supporting Polish exports. (canceled).	23.8m	23.8m
94	Kronospan Szczecinek Install medium density fibreboard production line and resin plant.	16.2m	56.8m
94	Fiat Auto Poland Increase car-making capacity, modernize and improve environmental performance of seven manufacturing sites.	72.5m shares and loan	918.1m
94	Polish Development Bank Finance private sector companies.	23.8m	23.8m
94	Azur Ostoja Provide non-life insurance services to rural communities.	1.5m shares	3.6m
94	Polish Power Grid Co. Upgrade, extend transmission system and complete heat/power plant.	32.4m	96.4m
94	Atrium Business Centre Build a 20,000 m2 business center in Warsaw.	4.2m	28.4m
94	Kwidzyn Paper Mill Modernize existing pulp and paper production facility in Kwidzyn.	27m	264.9m
94	Schooner Capital make investments in established Polish businesses, primarily through privatization.	13.7m shares	79.3m
94	Farm Frites Poland Help construct facilities for potato storage and processing.	7.9m	27.7m
94	National Investment Funds	33m	33m
94	Pioneer Poland Fund Providing equity investment to private and privatizing companies. Some canceled.	1.4m shares	43.6m
94	Bank Przemyslowo-Handlowy Stand-by share purchase commitment in privatization of this Krakow bank.	34.2m shares	33.9m
94	Azur Cycle Life insurance to rural communities in Poland.	1.2m shares	2.7m
93	Huta Ssandomierz-Pilkington Joint venture to privatize Poland's largest sheet glass manufacturer and to construct float glass plant	4m shares and loan	138.1m
93	Wielkopolski Bank Kredytowy SA Investment in first privatization of Polish regional commercial bank.	10.4m shares	22.9m
93	Huta Warszawa-Lucchini Modernization of existing steel plant, new equipment and working capital.	30m	239.2m

93	Fabryka Papieru Malta Decor	4.3m	10.2m
	To Polish chipboard manufacturer for modernization and expansion of Polspan and upgrading of paper mill.		
93	Polspan So. z.o.o.	10.8m	44.8m
	To Polish chipboard manufacturer for modernization and expansion of Polspan and upgrading of paper mill.		
93	Rockwool Polans Sp z.o.o.	6.5m	19.6m
	JV company--loan will finance modernization of production lines.		
93	Caresbac Polska	4.1m shares	9.8m
	For risk capital investment in Polish private sector SMEs.		
93	RZB/CEAL Agora Gazeta	3.2m line of credit	9.4m
	Loan through regional multi-sector agency line co-financed by RZB.		
93	AmerBank	4m	4m
	To fund investment and loan projects in Polish SMEs (canceled).		
93	Trebruk/Kostrzyn	12.2 m	45.1m
	Paper mill disposed of to Swedish investors by company in process of reconstruction and modernization.		
93	Motorway Development Project	45m	83.6m
	Complete motorway construction projects, introduce highway tolls, develop strategy for national road network.		
93	Huta Szkia Jaroslaw SA	11.9m	54.6m
	Rehabilitate company's capacity to manufacture glass containers.		
93	Lodorz	1.7m	11.4m
	Polish JV created to build and operate cold storage facility in Szczecin.		
92	Polska Telefonii Komorkowa (PTK)	31.7m	142.8m
	Polish joint venture created to build and run countrywide cellular telephone network.		
92	Janofrost	1.9m	5.1m
	Polish joint venture set up to build and run food processing and cold storage facilities.		
92	Krespol	2m	5.1m
	Polish joint venture set up to build and run food processing and cold storage facilities.		
92	Kujawy-Frost	1.9m	5.2m
	Polish joint venture set up to build and run food processing and cold storage facilities.		
92	Polish Private Equity Fund	40.1m shares	119.1m
	To invest in Polish unquoted companies with growth potential, particularly SME privatization and restructuring.		
92	ABB Dolmel	5.2m	14.8m
	Expand facility producing generators for power generation equipment industry.		
92	Ringnes/PUBREX (BCCB Ltd.)	5.9m	18.7m
	Joint venture between Norwegian beverage co. and Polish construction co. to develop retail distribution network.		
92	Poland Housing Project	21.4m line of credit	270.5m
	Loan to finance residential construction projects by private and public developers.		

91	<b>WBK Poznan</b>	16.3m	48m
	For on-lending to implement comprehensive heating sector restructuring and rehabilitation.		
	<b>TOTAL EBRD loans and shares</b>	<b>874.2m</b>	
<b>Romania</b>			
96	<b>Prompt SA</b>	8.6m loan and	17.0m
	Expansion of company's knitware and other garment production capacity. shares		
96	<b>Railway Rehabilitation</b>	58.5m	338.2m
	Rehabilitation of traction and rolling stock.		
96	<b>United Romanian Breweries</b>	15.3m	44.3m
	Construct new brewery and develop modern distribution system.		
96	<b>Danube Holding Ltd.</b>	4.8m shares	24.2m
	Fund to invest in SMEs in Romania and Moldova.		
96	<b>Post Privatization Fund</b>	25.0m shares	50
	Invest in privatized and new private enterprises.		
96	<b>Energy Conservation and SME Credit Line</b>	8.1m	13.2m
	Invest in general and energy conservation projects.		
96	<b>Bucharest-Pitesti Motorway Upgrading</b>	42.8m	83.3
	Finance upgrading of 96 kilometers of highway to motorway standards.		
96	<b>Regional Water and Environment Project</b>	20.1m	42.4m
	Provide Jiu Valley with constant supply of drinking water.		
96	<b>NAR Restructuring and Road Rehab. Proj.</b>	69.2m	483.2,
	Support for commercialization, privatization of National Roads Administration.		
96	<b>Rompak S.R.L</b>	5.9m	15.8m
	Factory on greenfield site to produce high quality baker's yeast.		
95	<b>Municipal Utilities Development Prog.</b>	22.2m	49.7m
	Rehabilitate and improve municipal water services in five cities.		
95	<b>Leventis Timisoara Bottling Plant</b>	7.5m	17.8m
	Assist in purchase of equipment for four soft drink and juice bottling lines.		
95	<b>Commercial Bank Ion Tiriac Stand-by loan</b>	15.9m	15.9m
	Three-year revolving loan to enable bank to increase MT lending to SMEs.		
95	<b>Power Sector Operational Efficiency</b>	78.1m	184.6m
	Improvement Project--rehabilitate four thermal power plant units, upgrade transmission system.		
95	<b>Banca Agricola Extension of Credit Line</b>	39.7m	39.7m
	Extension of credit line for private sector agribusiness investments.		
94	<b>Romanian Bank for Development</b>	6.3m	6.3m
94	<b>Romanian Bank for Development</b>	39.2m	39.2m
	To support business plans contributing to the bank's institutional development.		
94	<b>Bucharest Wholesale Market</b>	19.8m !	38.9m
	Establish wholesale fruit and vegetable market for private traders, upgrade and interlink five retail markets.		



94	<b>Athéné Palace</b> To help refurbish prestigious hotel to international standards.	11.3m	46m
94	<b>Banca Agricola IT Loan</b> Improved information technology for part-privatized bank.	9.5m	15.9m
94	<b>Banca de Credit Cooperatist</b> To finance SME investment projects.	15.7m	15.7m
93	<b>Commercial Bank "Ion Tiriac" SA</b> Institutional development to aid development of financial services sector.	7.0m shares	26.2m
93	<b>European Roads Rehabilitation Project</b> Improve road network serving regional and inter-regional traffic.	63.5m	317.3m
93	<b>Capital SA</b> Establish financial advisory and investment institution in Bucharest.	1.7m shares	21.1m
93	<b>Bank of Bucharest</b> Investment in new commercial bank, to be controlled and managed by Credit Bank SA of Greece.	2m shares	7.9m
93	<b>Coca-Cola Bihor &amp; Iasi</b> To two new joint venture companies for bottling plants, marketing and distribution.	4.0m	19.9m
93	<b>Virolite Functional Polymers SA</b> Construction and operation of greenfield ion exchange resin plant.	11.8m loan and shares	31.3m
93	<b>Emcom-Siemens</b> Installation of plant to manufacture digital telecoms switching equipment.	38.4m shares	27m
92	<b>Romanian Telecom</b> Construct long-distance overlay digital network and rehabilitate local facilities.	142.0m	410.7m
92	<b>Banca Agricola</b> Bank will make subloans to private sector companies in agribusiness.	55.5m line of credit	55.5m
92	<b>Eurovision-</b> Loan to help finance design, supply and installation of earth stations to link to Eurovision network by satellite.	92	.8m
92	<b>Petroleum Pilot Modernization</b> Improve oil production operations, lay basis for restructuring and modernize R&D.	21.7m	30.3m
<b>TOTAL EBRD loans and shares</b>		<b>871.9m</b>	
<b>Slovakia</b>			
96	<b>Skloobal AS</b> Modernize smelting furnaces and aid privatization.	11.9m	44.4m
96	<b>Slovenske Lodenice a.s.</b> Finance shipbuilding.	44.0m	68.9m
96	<b>CGC Thermotech ESCO</b> Under the regional CGC Thermotech ESCO.	3.6m loan and shares	12.6m:
96	<b>Heatco District Heating Project</b> Under the regional FGG Municipal Services Multi-Project Facility.	3.2m loan and shares	10.7m

96	Tatra Banka Subordinated Debt Subordinated loan to private sector bank.	13.0m	13.0m
96	Pol'nobanka II (Formerly Slovenska Pol'nohospodarska Bank) For IT and branch network investment to strengthen capital base.	3.0m shares	15.1m
96	PBK General Purpose and Energy Efficiency Credit Facility Expand lending operations and finance dedicated to energy conservation projects	14.9m	18.8m
95	Slovenska Polnohospodarska Banka Co-financing Facility (food)		
		14.4m	28.9m
	SPB-Co-financing facility-Miva	0.6m	1.5m
95	Tatra Bank Credit Line Finance medium- and long-term funding to SMEs.	16.2m	16.2m
95	Advent International Additional financing for existing Advent Fund.	7.9m shares	7.9m
95	Slovnaft Equity part-fund construction of residue upgrader to convert heavy oil to lighter products.	44.2m shares	337.1m
95	Slovenska Polnohospodarska Banka Part of capital increase to maintain EBRD's 20% shareholding in SPB.	1.9m shares	10.8m
95	Istrobanka SA Finance medium- and long-term private sector investment projects.	16.2m	16.2m
94	Sloveca JV Finance construction of state-of-the-art ethoxylation plant.	8.1m	15.6m
94	ZSNP Complete construction of smelter meeting EU standards.	30.8m loans/shares 99.1m	126.9m 285.7m
94	Slovnaft Expand and modernize retail petrol service station network.	23.8m	42.4m
93	Slovak Telecommunications Install digital overlay backbone network, with modernization, expansion of telecoms systems in major cities.	44m	272m
93	International Road Corridor Improve condition of European road network.	15m	41.6m
93	Slovenska Polnohospodarska Banka Continued development of SPB's commercial banking service.	4.7m shares	20.8m
92	Eurotel Bratislava Construction of cellular network and public switched packed data network.	6.3m	33.7m
TOTAL EBRD loans and shares		426.80m	
<b>Slovenia</b>			
96	Poslovni sistem Mercator Construction, refurbishment, modernization of retail chain.	31.1m	95.1m
96	Yulon 2 dd Second phase of expansion of nylon textile production.	5.2m shares	5.2m

95	Slovenian Capital Development Fund Investment in private sector and privatizing companies.	5.8m shares	19.5m
95	Slovene SRP-Eurofin Special Restructuring Program to finance stabilization, restructuring, privatization of enterprises.	8.0m shares	8.0m
95	Slovene SRP-Druzba Special Restructuring Program to finance stabilization, restructuring, privatization of enterprises.	22.0m shares	22.0m
95	Slovenski Plinovodi-Retail gas Combustion To private sector co. to build, operate retail gas distribution systems.	8.1m	29.7m
95	Yulon d.d. partial finance for company privatization, modernization of nylon production.	17.3m	57.1m
94	SKB Banka Ljubljana Loans to SMEs in private sector.	27m	27m
94	Slovenske Zeleznice Improve productivity of railway system, support its restructuring. Co-financed with EIB.	44.7m	86.1m
94	Company for Motorways (DARS) Support investments to remove bottlenecks in main east-west corridor.	25.5m	50.8m
94	National Roads Administration Improve road system and support newly established motorway company.	23.8m	71.5m
94	Aquasava d.o.o Establish modern textile processing operation in Kranj.	4.9m	14.1m
94	Horizonte Fund Invest in venture capital fund to provide capital, mgmt. assistance to new private companies.	1.0m shares	11.5m
94	SKB Banka-Equity Aid bank's business plan of expansion and increased profitability.	14.9m shares	31.1m
94	Papirnica Kolicvevo d.o.o Equity Finance restructuring, capital expenditure and working capital of cartonboard manufacturer.	2.7m shares	35.9m
94	Papirnica Kolicvevo d.o.o Loan Finance restructuring, capital expenditure and working capital of paper company.	10.6m	35.9m
93	Drava River Hydroelectric Power Project Refurbishment, replacing turbines and network transformers, to improve costs and safety and to reduce pollution.	77.1m	135.1m
92	Eurovision Loan to help finance design, supply and installation of earth stations to link to Eurovision network by satellite.	.8m	
TOTAL EBRD loans and shares		330.5m	

### **Regional Projects**

96	New Europe Insurance Ventures Fund Co-investment with Regional Fund	20.1m shares	80.5m
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96	Landis & Gyr Multi-Project Facility Multi-project facility to support expansion of energy service companies	70m loan and shares	190m
96	Municipal Services Multi-Project Facility RWE Entsorgung Framework Agreement Finance investments in private provision of muni and environmental services.	33.7m loan and shares	103.6m
96	CGC ESCO Multi-Project Facility Multi project facility to finance energy service companies.	36.7m loan and shares	108.1m
96	FGG Municipal Services Multi-Project Facility Encourage private provision and financing of muni and env. services.	41m loan and shares	129.4m
96	Risk-sharing Agreement with EGAP Agreement with Czech Export Credit Agency (EGAP).	25m	25m
96	Carlsberg MPF Equity Line Modernization of existing breweries and limited new greenfield operations.	75m	200m
96	Environmental Investment Fund To finance manufacturing, services, development in infrastructure sector.	8m shares	40m
96	Multi-Project Facility: Lafarge Acquire, modernize, construct, operate manufacturing facilities for building materials.	45m shares	209.6
96	Honeywell Multi-Project Facility Establish energy service companies to implement energy efficiency projects.	20m shares	123m
95	MBA Loan Project Enable students from region to attending leading Western business schools.	9.2m Guarantee	18.2m
95	East European Food Fund Establish regional fund focusing on investments in food and beverage industry.	15.7m shares	79.3m
95	Baltic Venture Fund To achieve LT growth through equity investment in Estonia, Latvia, Lithuania.	6.0m shares	23.0m
95	International Black Sea Bank Multi-Project Facility--Framework agreement with the Commercial Bank of Greece to support banks in four countries.	11.9m	34.5m
95	Winterthus Schweizerische Versicherungs Gesellschaft Multi-Project Facility--for investment project in life insurance and pension sectors in five countries.	28.8m	100.3m
95	Co-financing Facility for the IØ Fund Co-finance SME projects created with fund sponsored by Danish Government.	20m shares/loan	20m
94	Alliance ScanEast Fund	2.7m shares	38.1m
94	Advent Fund Provide capital and mgmt. help to private companies in Czech Republic, Hungary, Poland and Slovakia.	12.5m shares	111m
94	First NIS Regional Fund Investment in newly established Fund.	15.6m shares	142.8m
93	New Europe East Investment Fund Fund to invest in large enterprises throughout the region	25.3m shares	100.7m

93	Dun and Bradstreet (C&EE) Holdings	2.4m shares	4.7m
	Investment in information service companies in Hungary, Czech Republic, and Poland.		
93	Renaissance Fund	8m shares	31.7m
	Capital and management assistance to new and recently established companies in Czech Republic, Poland, Slovak Republic.		
	TOTAL regional projects:	517m	

**APPENDIX 3**  
**Summary of EIB Projects in Central and Eastern Europe, 1990-1996<sup>1</sup>**  
**Millions of ECU**

<b>Year</b>	<b>Project Description</b>	<b>Bank mECU<sup>2</sup></b>
<b>Albania</b>		
95	APEX Global Loan For small and medium sized industrial, agro-industrial, tourism and related services, environmental protection, energy savings.	5m
95	Ferry Terminal in Port of Durrës Expansion of existing ferry terminal and priority repairs of quays and storage areas	5m
95	East-West Road Corridor Loan to Republic of Albania to help General Roads Directorate of the Ministry of Construction and Tourism to finance rehabilitation and improvement of around 94km of roads along main East-West road corridor. Will help link country with Trans-European Networks (TENs).	24m
96	Energy Rehabilitate, upgrade electricity grid.	12m
TOTAL		46m
<b>Bulgaria</b>		
95	Transit Roads II Rehabilitation and reconstruction of some 900km of main transit roads.	60m
94	Bulgaria Air Traffic Services (ATS)-B Modernization and upgrading of air traffic control facilities.	30m
93	Bulgaria Air Traffic Services (ATS)-A Modernization and upgrading of air traffic control facilities.	30m
93	Transit Roads Rehabilitation and completion of major transit roads and motorways. Co-financed with EBRD.	21m
93	BNB Apex Global Loan Loan to Republic of Bulgaria through Bulgarian National Bank, which will onlend to commercial banks operating at local level, to finance small and medium-scale manufacturing and tourism enterprises, as well as energy saving and environmental protection schemes.	30m
92	Energy I Help finance completion of 210 MW lignite fired generator fitted with flue gas desulphurization equipment at Maritsa East II power station in southeastern Bulgaria Plant. Total project estimated at 114m ECU, co-financed with EBRD (40m), and Bulgarian government, which has requested grant aid from PHARE.	45m
92	PT Telecommunications 17-year loan to Bulgarian Post and Telecommunications company to expand, modernize existing network. Works are part of a three-year priority investment program elaborated by EIB with support of PHARE and cooperation with EBRD and World Bank, which also provide financing.	70m

<sup>1</sup>Sources: EIB, "Summary of Signed Operations in Central and Eastern Europe," June 1996; EIB Press Releases, various dates; EIB Annual Reports 1990-1996.

<sup>2</sup>EIB does not provide data on total project costs outside of its loans.

<b>TOTAL</b>		<b>286m</b>
<b>Czech Republic</b>		
96	Railroads Modernize Warsaw-Ostrava-Vienna line	200m
96	Energy project Replacement of VW/Skoda's lignite-fired combined heat and power plant in Mlada Boleslav by coal-fired plant of same type.	55m
95	Czech E Roads Improvement of road network.	60m
95	C'EZ I (Power Plant Improvements) Installation of desulphurization equipment at six thermal power stations. Investments will bring the largest lignite-fired power stations into compliance with international standards. The FGDs will reduce SO2 emissions by more than 90% and have a major impact on air quality in the 'Black Triangle' region where nearly half of the electricity for the Czech Republic is generated with benefits across the border in Germany and Poland.	200m
94	Ceske Telecommunicatie Telecommunications 1-B, 15-year loan to state-owned SPT TELECOM to modernize, expand existing network.	30m
94	Rail Corridor Berlin-Prague-Vienna To Czech state railway co. to upgrade the Czech section of this railway line.	125m
94	MERO CR IKL Oil Pipeline Construction of oil pipeline linking TAL at Ingolstadt (Germany) and Druzhba pipeline (from Russia) at Kralupy (Czech Republic). Also includes pumping stations, storage facilities, telecommunications and safety equipment.	100m
93	Ceske Telecommunicatie Telecommunications 1-A, 15-year loan to SPT TELECOM to modernize, expand existing network. Total investment estimated at 700m ECU, with financing from EBRD, World Bank, export credits and SPT's own funds.	65m
93	Skoda/Volkswagen Modernization and expansion of car plant.	100m
92	CNB Apex Global Loan Line of credit for industrial projects.	57m
<b>TOTAL</b>		<b>992m</b>
<b>Estonia</b>		
96	Railroads Rehabilitate and upgrade sections of Tallinn-Narva main railway line.	16m
95	Estonian Investment Bank-B Second global loan to EstIB to finance small and medium-sized enterprises in industry, tourism and services related to industry, as well as energy saving and environmental protection schemes.	5m
94	Estonia District Heating Rehabilitation To Republic of Estonia for Municipality of Pärnu and to a smaller extent to the Municipality of Tallinn to improve reliability of district heating system and reduce fuel costs and oil imports. Investment comprise	7m

equipment for conversion of oil-fired boilers to wood and peat, pumping stations, water treatment facilities and pipe insulation.

94 Port of Muuga: Bulk Terminal 15m  
Loan to state-owned Port of Tallinn to construct new dry bulk terminal at deep sea Port of Muuga. Investment comprises two 15 meter deep quays, storage shed, bulk loading equipment.

94 Upgrading of Air Traffic Services (ATS) 20m  
Loan to Republic of Estonia for onlending to its Civil Aviation Admin. to finance new control center with radar, radio coverage for whole country, air navigation instruments, air traffic information service.

93 Estonian Investment Bank-A 5m  
Loan through Central Bank of Estonia for EstIB to finance small and medium-sized enterprises in industry, tourism and related services. EstIB set up in 1992 with support of EBRD and NIB under Baltic Investment Programme, as well as with grant aid from PHARE.

TOTAL 68m

## Hungary

96 Motorway upgrade 95m  
Upgrade M3 toll motorway linking Budapest to Gyöngyös.

96 Global loan 40m  
Finance small and medium-sized ventures.

95 Telecommunications II-B 50m  
17 year loan provided under a ten year investment program launched in 1990 to expand and modernize national telecoms network. The loan will help install 1 million new lines by 1996, increasing telephone density from 14 to 26 lines per 100 inhabitants.

95 Financial Sector Global Loan 150m  
Loan to two Hungarian banks (K & H Bank and OTP Bank) and to four Hungarian affiliates of Austrian, Italian and Dutch banks to help project promoters bridge needs for long-term funds and scarce local supply of resources.

94 Telecommunications II 100m  
Loan to Republic of Hungary to expand and modernize telecoms network. Part of 10 year program launched in 1990 to upgrade Hungarian telephone network.

94 Hungary Electricity Board (MVMT) Phase 2 Energy trans. 20m  
Improvement of Power Grid, Phase 2. Investments comprise computer controlled signaling devices and receivers at point of consumption, as well as auxiliary equipment. Works will lead to more rational use of energy and benefit environment through retirement of obsolete and polluting generating facilities.

94 Hungary Roads II 72m  
Loan to Republic of Hungary to help finance 34 km two lane urban by-pass and rehabilitation and improvement of around 350km of primary transit roads.

94 Municipal Infrastructure Global Loans 40m  
For financing municipal infrastructure capital investments in energy, environment, roads, telecoms, urban rehabilitation, transport, water supply and sewerage through OTP Bank.

92 Hungary Roads I 50m  
Rehabilitation of road system and construction of urban by-passes.

92 Hungary Air Traffic Services (ATS) 20m  
Rehabilitation and upgrading of air traffic services facilities.



91	Hungary Kelenföld Rehabilitation Modernization of heat and power plant.	35m
91	Hungary APEX Line of Credit Line of credit for Industrial Projects.	80m
90	Hungary Electricity Board (MVMT) Phase 1 Improvement of Power Grid, Phase 1 and Phase 2.	15m
90	Inter-Europa Bank (IEB) Line of credit for small and medium scale industrial projects. Bank owned by group of Hungarian companies and Istituto Bancario San Paolo di Torino of Italy.	25m
90	Telecommunications Project (MTV) 15-year loan toward first phase of 10 year program to upgrade national telecoms system. First phase, due to be completed by end 1993, is also supported by World Bank.	80m
	<b>TOTAL</b>	<b>872m</b>

### **Latvia**

94	Investment Bank of Latvia For financing SMEs in industry, tourism, related services, and environmental protection and energy-saving projects. LIB is new institution set up under Baltic Investment Programme with support of the Nordic Investment Bank and the EBRD.	5m
96	Riga Water Upgrade and rehab. water supply and sewerage systems in and around Riga.	15m
96	Hydroelectric Rehabilitate works and dam safety improvements at hydroelectric plants.	6m
96	Global loan to Investment Bank of Latvia Financing for small and medium-scale enterprises.	5m
	<b>TOTAL:</b>	<b>31m</b>

### **Lithuania**

96	Gas Distribution Construction of natural gas transmission and distribution pipelines.	10m
96	Railroads Modernize railway infrastructure.	22m
96	Roads Upgrade, rehabilitate selected sections of Via Baltica road corridor.	20m
96	Telecommunications Construct, operate first phase of mobile telecoms network.	15m
96	Global loan Financing for small and medium-scale ventures.	5m
95	Lithuanian Development Bank Global Loan Loan to Lithuanian Development Bank for financing small and medium-sized enterprises in industry, tourism and related services. LDB is new institution set under Baltic Investment Programme with support of Nordic Investment Bank and EBRD.	5m

95	Port of Klaipeda	14m
	Construction of small container terminal and upgrading of existing ferry terminal. PHARE is co-financing.	
94	Upgrading of Vilnius Airport	10m
	Loan to Republic of Lithuania for Vilnius Airport State Enterprise to finance renovation and strengthening of airside facilities of Vilnius International Airport.	
	TOTAL	101m

## **FYR Macedonia**

### **Poland**

96	Polish gas	180m
	Convert depleted Wierzychowice gas field, western Poland, into underground storage facility. Polish Oil and Gas Co.	
96	Telecommunications	100m
	Extension, modernization of telecoms network.	
96	Highways	100m
	Upgrade motorway between Bielany and Nogawczyce via Prady. Republic of Poland.	
95	Financial Sector Global Loan	100m
	Funds for Polish affiliates of EU banks: ABN AMRO Bank (Polska), Bank Creditanstalt, Internationale Nederlanden Bank (Warsaw Branch) and Raiffeisen Centrobank. Later on Deutsche Bank Polska gained access to these funds, which are to be onlent for financing industry, tourism and infrastructure projects	
95	Polish Railways III	40m
	Rehabilitate, upgrade first section of Warsaw-Terspol TEN railway line.	
94	Export Development Bank (EDB) II	13m
	Global Loan--to state-owned bank for financing small and medium-sized enterprises.	
94	Polish Telecommunications II	150m
	Expansion, modernization of Polish telecoms network. Co-financed with WB and PHARE.	
94	Warsaw Sewage Treatment Plant	45m
	Construction of new sewage treatment plant to process some of the capital's waste water.	
94	Poland Highways	125m
	Upgrading motorway standards of A4 highway between Bielany and Nogawczyce, Polish sections of TENs.	
93	Forestry Development	13m
	20-year loan to Republic of Poland made available to Ministry of Environmental Protection, Natural Resources and Forestry to help finance the planting of some 17,000 ha between 1993-95. Investment part of extensive 5-year program, supported by WB, for safeguarding and extending Polish forests, which have suffered extensive environmental damage.	
93	Polish Railways II	200m
	Loan to national railway company to modernize Polish section of E2- Berlin/Warsaw railway line. Funds for track renewal, embankments, platforms, signaling equipment, optic fiber telecoms cables and power systems. PHARE involved. Berlin-Warsaw line is crucial link in Trans-European rail network.	
93	Polish Development Bank II Global Loan	50m
	Line of credit for industrial projects.	
92	Warsaw Airport Modernization	50m

Modernize and upgrade Warsaw airport. Investments consist of new terminal building, rehabilitation of runways, installation of lighting and de-icing facilities, as well as access roads and various environmental measures.

91	Polish Telecommunications (TPSA) Expansion of existing network.	70m
91	Polish Development Bank Apex (PDB) Line of credit for Industrial Projects. PDB set up following recommendations of a study financed by EC. Additional financing from World Bank.	75m
90	Polish Railways Toward first phase of program to modernize State railway.	20m
90	Polish Oil and Gas Co (PGNG) To modernize domestic gas industry, increase gas production; reduce air pollution. Co-financed by World Bank.	50m
90	Export Development Bank (EDB) Credit line for Small and Medium Industrial Projects.	25m
<b>TOTAL:</b>		<b>1.406 billion</b>

## **Romania**

96	Roads Rehabilitate sections of E81 and E60 European road corridors. Romania for National Administration of Roads.	70m
96	Metro rehab. Renew rolling stock, complete network infrastructure on Bucharest metro.	20m
95	Romania Telecommunications Expansion and modernization of Romanian telecoms network. Loan is part of three -year program launched in 1994.	80m
95	Heat and Power Rehabilitation Loan to Romania on-lent to RENEL-Regia Autonoma de Electricitate for upgrading heat and power generation and electricity transmission and distribution network. 15-year loan will rehabilitate Bucharest South heat and power plant, and electricity transmission and distribution sub-stations in Rosiori, Smirdan and Brasov. It will also fund construction of a new sub-station in Bucharest.	60m
95	Constanta Port Rehabilitation 20-year loan to help repair storm and accident damage to the Northern breakwater and complete all breakwaters of the port, which is on the Black Sea. Constanta is Romania's principal sea port, the Eastern gateway to the Rhine-Main-Danube waterway. Its efficiency is important for development of TENs.	35m
94	Romania Air Traffic Services Modernization and upgrading of air traffic control facilities.	16m
94	Romgaz Rehabilitation and Modernization Loan to state-owned gas co. to modernize natural gas transmission and distribution network. Replaces 1000 km of steel pipes by polyethylene pipes, installation of modern control and telecoms system to improve safety and efficiency. Project is part of larger oil and gas investment program co-financed by World Bank.	50m
93	Roads I Rehabilitation of key transit European roads in Romania. Part of 1993-95 road rehabilitation and pavement program co-financed by EIB, EBRD and World Bank.	65m

93	Apex Global Loan	30m
	Line of credit for industrial, productive-sector, services and tourism projects.	
93	Romania Air Traffic Services (ATS)-A	24m
	Loan to country's air traffic control administration to modernize, upgrade air traffic control facilities.	
91	RENEL	25m
	Help finance rehabilitation of four 330 MW coal-fired generation units at Rovinari and Turceni power stations in south-central Romania. Project is co-financed with World Bank, which will also fund improvements in coal mines feeding the two power stations.	
	TOTAL	475m
<b>Slovakia</b>		
96	Energy	70m
	Rehabilitate Vojany I coal-fired power station.	
96	Energy	30m
	Modernize, expand international gas transit network.	
95	SPP Gas Transmission Project -A	30m
	Modernization and extension of Slovak international pipeline transporting Russian gas through Slovakia to western Europe. Part of EIB's promotion of TENs.	
95	National Bank Apex Global Loan II	50m
	Second global loan to National Bank of Slovakia for financing term credit operations in industry, tourism and related services, and environmental protection and energy saving.	
94	Slovenske Telekomunikacie	20m
	Telecommunications 1-B--Loan to state-owned telecoms utility to modernize and expand existing network.	
94	Air Traffic Services	15m
	To Slovak Republic for on-lending to air traffic control administration to finance new control center with radar coverage for whole country, air navigation instruments, communication system linking Bratislava airport and regional airports, as well as aeronautic information service.	
93	European Roads	10m
	Finance urgently needed road overlays and an urban by-pass at Sereď, in western Slovakia, a region with heavy transit traffic to the EC. Investment in line with objectives of the Edinburgh Declaration of European Heads of State and Government set December 1992, inviting EIB to accelerate financing of TENs in Community and also in CEEC. EBRD providing a parallel loan for road improvement in Slovakia.	
93	Slovenske Telekomunikacie-	45m
	Telecommunications 1-A--Modernize and expand existing network.	
93	Láb 4 Gas Storage	55m
	Expansion of underground gas storage reservoir to be used by Slovak, Czech, EU and Austrian gas companies.	
92	NBS Apex Global Loan	28m
	Line of credit for industrial projects.	
	TOTAL	353m
<b>Slovenia</b>		
96	Motorway	30m
	Construct three sections on Ljubljana-Celje east-west corridor.	
95	Slovenia Highways -B	32m

Loan to DARS, a company set up for financing, building and managing motorways. Loan will help finance the upgrading to motorway standards of around 55 km of secondary road of the Ljubljana bypass and the Ljubljana-Celje corridor.

94	Slovenia Railways II	13m
	Partial rehabilitation and upgrading of East-West trunk railway line.	
94	Slovenia Highways-A	28m
	Construction of 55.4 km of motorway on three sections of East-West axis road.	
93	Slovenia Railways	47m
	20 year loan, with 2% interest rate subsidy funded from Community budget to rehabilitate sections of trunk rail system. EBRD is co-financing.	
	TOTAL:	150m
	CEE TOTAL	4.8 billion ECU

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#### Interviews

"Off-the-record" interviews include:

EBRD officials from Executive Directors' offices, Municipal and Environmental Infrastructure, Energy Efficiency Unit, Environmental Appraisal Unit, various country teams, and representatives in Hungary, Latvia, Poland: October 1994; February-April 1995; June-August 1996; January 1997; May 1998.

EIB officials from the Projects Directorate, country units, Management Committee, Legal Directorate: April-May 1995; June-July 1996; November 1997.

European Commission, PHARE officials: August 1996, May 1998.

OECD official, July 1997.

Project Preparation Committee officials: In Washington, DC, October, December 1995, July 1997; in London, March 1995, July 1996.

U.K. Treasury official, July 1996.

U.S. Treasury officials: October, November 1994, February, March, July, August 1995; March 1996.

U.S. AID official, Environmental and Natural Resources Division, Bureau for Europe/New Independent States, July 1997.

U.S. EPA officials, July, September 1995.

World Bank officials from EMTEN, QAG, Executive Directors' offices and units designing projects in CEE, and representatives in Hungary, Lithuania, Poland: October-February 1995; August 1995; January, March, May 1996; April, July and August 1997; March, May 1998.

In the Czech Republic, July 1992, interviews included officials from: Czechoslovakia Federal Committee for the Environment, Ministry of the Environment, Institute of Geography,

In Estonia, May-June 1998, interviews included officials from: Tallinn Waste and Sewerage Municipal Enterprise, Ministry of Environment, Haapsalu Water Works.

In Hungary, June, July 1992, June 1993, October-November 1997, interviews included officials from: Central Bank, Ministry of Environment, Ministry of Finance, Federal Committee for the Environment, National Authority for the Environment, Municipality of the City of Budapest, parliamentary committee for environmental protection.

In Latvia, May-June 1998, interviews included officials from: Liepaja Environment Project, Ministry of Environment.

In Lithuania, May-June 1998, interviews included officials from: Klaipeda Water Company, Siauliai Vendenys, Siauliai municipality, UAB Geoterma, Ministry of Environment, Kaunas Water.

In Poland, October-November 1997, interviews included officials from: National Environmental Fund, Ministry of Environmental Protection, Ministry of Finance.

Other interviews:

Ada Amon, October 1997.

Ernst-Günther Bröder, March 1997.

Kerstin Canby, March 1998.

József Feiler, October 1997.

Judit Galambos, June 1992.

Alex Hittle November 1992.  
Stephen Lintner March 1998.  
Andras Lukacs, October 1997.  
Peep Mardiste, May 1998.  
Bruce Rich, October 1994.  
Wojciech Stolduski, October 1997.  
Magda Stoczkiewicz, October 1997.  
Jernej Stritih, October 1997.  
Tomasz Terecki, October 1997.  
Magda Toth Nagy, July 1992, October 1997.  
Linas Vainius, May 1998.  
János Vargha, July 1992.  
Durwood Zaelke, August 1995.

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