Norm Contestation and Sustainable Development within the World Bank
Group: The Never-ending Story?

Paper for the Contested Compliance Workshop
Portaferry, Northern Ireland
December 17-18, 2005

DRAFT – PLEASE DO NOT CITE

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Abstract

The World Bank Group (WBG) has internationally recognised social and environmental standards. These procedural norms of sustainable development are embedded in the organisation’s mandate, internal structures, and culture and are currently assessed on their internal and external impact. However, the extent to which the WBG has become green remains contested both theoretically and empirically. Arguably, this results from the elusive meaning of sustainable development itself. I argue here that norms are constituted through practice, and meaning attributed through interaction. As such, norm creation is a process of continual contestation. Yet this begs the question: will normative contestation cease? I argue that norm contestation will remain between the WBG, states and environmental organisations as long as the ideal of sustainable development remains. This paper therefore proposes that while norms are a “structure of meaning-in-use” that contestation over what constitutes sustainable development within the WBG will remain the never-ending story.

Although the literature continues to debate appropriate indicators of organisational change (such as the Bank’s greenness), a discussion over what exactly this means – either as a generic organisational attribute, or as an organisationally specific practice, remains unclear.

norms are constituted through practice, and meaning attributed via interactionSuch an examination therefore clarifies how sustainable development is (re)created by practitioners and scholars alike, and draws attention to the socially constructed process of change within relatively autonomous and powerful IOs. Both rationalists and constructivists examine different factors that influence IO behaviour. Rationalists focus on the material power of member states’ determining IO actions (Nielsen and Tierney 2005). Both neoliberalism and neorealism assumed that IOs respond to state demands unproblematically (Schweller and Priess 1997; Barnett and Coleman 2005: 594). On closer inspection this assumption has been found wanting: IO’s routinely make decisions autonomously from member state demands (Abbott and Snidal 1998). Moreover, Barnett and Finnemore argue that IO actions often do not conform to state interests, or if they do so, it may be for independent reasons (2004:
Within a rationalist framework, IO autonomy has been taken up by the Principal-Agent (P-A) model (Nielsen and Tierney 2005, 2003). The P-A model examines the disconnect between member state demands and IO performance. Reasons why IOs do not meet the demands of their principals include: not having adequate resources, not being able to meet competing needs of multiple principals, and being given impossible tasks (as well as being asked to undertake operations outside their purview). The aim of the rationalist research agenda is to determine which of these explanations come into play and when. The rationalist approach clearly articulates the bargaining and preferences of multiple member states and the material incentives or disincentives for IOs to meet principal demands.

Alternatively, constructivists analyse how international norms, IO culture and identities shape organisational behaviour (Weaver and Letereitz 2005; Park 2005a). Constructivists view actors’ interests and identities as socially constituted; social structures in the form of rules, norms and principles define expectations for behaviour (Schimmelfennig 2000: 114). Norms and socially constituted identities shape how IOs respond to demands from member states and non-state actors and situate IOs within a broader social environment. This has provided insight into why IOs behave in certain ways and not others (Ruggie 1998: 864), and has provided understanding of change that is deeper than merely strategic responses to external material demands. Constructivist therefore examine not only why IOs behave in certain ways and not others (based on organisational culture and identity) but detail how change is much deeper than rationalists allow.

However, recent scholarship attempts to integrates rationalist and constructivist insights that go beyond “either/or” theorising to “both/and” explanations of change. This has been concentrated on processes of socialisation involving IOs (Schimmelfennig 2005, 2000: 115, 119; Zurn and Checkel 2005; Lewis 2003). Specifically, scholars have denoted IOs as social environments that create communities within which states act strategically (Johnston 2001), and where socialisation from IOs to states can be explained rationally (Schimmelfennig 2005). The rationalist/constructivist integration has been placed in the background of Barnett and Coleman’s case study of Interpol’s organisational change (Barnett and Coleman 2005). Importantly, it places IOs at the forefront of its analysis, and identifies six strategies for IO responses to external change which include both strategic and cultural causes for the organisation’s actions. While the rationalist-constructivist
approach furthers examination of IOs as social environments or engaged in social practices that are played out with rational strategies, the debate remains over appropriate indicators of organisational change (such as the Bank’s greenness), and what exactly this means – either as a generic organisational attribute, or as an organisationally specific practice.

**Internal Indicators of IO Change**

IOs are analysed on their greenness according to their internal organisational changes. Specifically, the literature examines whether IOs change three aspects: their mandate; internal structures such as operating procedures, policies, and informal incentive processes (including establishing monitoring, evaluation and accountability mechanisms); and organisational culture. Each will be addressed in turn, before examining the extent to which scholars have analysed the impact of organisational change on outcomes.

1. **Mandate**

An organisation’s aims are determined by the mandate set for the organisation by its member states, often laid out in its constitution or articles of agreement. The extent that an organisation incorporates new goals into its operations are often evaluated on how this influences the organisations mandate (Haas and Haas 1995: 267). Notably, member states do not often alter IO constitutions, preferring to informally request an extension of IO operations (such as the role of the World Bank and International Monetary Fund in financial crisis bail-outs). As such, IOs can indicate their intentions via organisational mission goals and statements. This is important in signalling to member states and external stakeholders such as ENGOs of the degree to which new norms are prioritised. For example, Haas and Haas argue that the World Bank has learnt to incorporate environmental criteria as it has changed its goals to incorporate environmental issues while internalising environmental ideas from epistemic communities. They argue that only UNEP and the Bank were capable of integrating environmental considerations into their traditional responsibilities (1995: 266). Haas and Haas are not alone in focusing on an organisation’s goals and mandates as indicators of change. Scholars of organisational change routinely highlight the role of an organisation’s mandate as an indicator of normative change (Park 2005a, 2005b).

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2 The debate over why organisations become green is beyond the scope of this paper but is amply discussed elsewhere (Gutner 2005; Nielson and Tierney 2005, 2003; Park 2005).
2. Internal Structures

An organisation has not changed just because it signals, via its mission state or mandate, the incorporation of new norms. Rather, a change in an IOs internal operational procedures or compliance mechanisms demonstrate a commitment to change both formally and informally. The internal structures of an organisation include its rules, norms and procedures and cover the organisation’s policies, monitoring, evaluation and accountability mechanisms. While informal norms are an important aspect of an organisations identity, this is discussed separately below in order to give ample space to both formal and informal compliance mechanisms.

Reforming operational procedures and policies are key to debates over whether an organisation has fundamentally changed or whether it has attempted to “compromise” or “avoid” meeting external challenges (Barnett and Coleman 2005: 601). Within the organisational literature scholars attempt to ascertain the extent that internal changes have been successful in spreading new norms within the organisation. In order to address a new challenge an IO must establish procedures connecting its intentions via its mandate to a change in outcomes. For...

3. Organisational Culture

Scholars of IOs are now looking in more detail at how informal norms, ideas, culture and identity influence IO behaviour (Weaver and Letereitz 2005; Barnett and Finnemore 2004).

External Indicators of IO Change

Scholars of environmental change within IOs, and regimes more broadly, examine the extent to which the internal changes impact on the natural environment. Regarding the World Bank, this has been the crux of recent debates. Scholars that argue that the Bank has indeed changed, often do not explore the extent to which internal organisational changes impact on the outcome (see Park 2005a, 2005b). Recent work by Gutner (2005) and Nielson and Tierney (2005) thus aim to rectify such oversights by unpacking the connection between policy and procedural change on the impact of World Bank loans.

State what is missing in this analysis – repeat why meaning in use important addition
Is the WBG Green?

Having detailed four categories through which IO change is evaluated, this section applies these to the WBG. Through examining the four criteria: mandate, internal structures, org culture and impact on environment, it is demonstrated that the literature on organisational change overlooks important aspects to norm compliance, where organisations, states and non-state actors not only determine whether an IO adheres to new norms but how it adheres to the new norm.

Mandate

There were claims made by World Bank staff and academics that the Bank had learnt to be green. In 1991, Ibrahim Shihata argued that the Bank’s environmental shift had not been adequately appreciated. He argued that the Bank was a “beginner” that should be recognised for attempting to implement environmental goals.³ Haas and Haas⁴ also argued that the World Bank had learnt, stating that the Bank had analysed how environmental concerns fit within its organisational aims through a re-evaluation of its beliefs about cause and effect, resulting in a change of the organization’s goals to employ new environmental criteria (rather than superficial operational changes). They argued that only the United Nations Environment Program (UNEP) and the Bank were capable of integrating environmental considerations into their traditional responsibilities.⁵

While recognizing that the Bank has substantially incorporated environmental ideas, the distinction between adaptation and learning tends to separate an organization’s tactical responses to states and nonstate actors on the one hand, and complex learning or “norm consumption” on the other.⁶ Yet tactical concessions are often seen, in longer-term analysis, to be the first step in a process of norm adherence and internalisation.⁷ As such, distinguishing between adaptation and learning does not provide a clear indication of whether an organisation is green. Normative changes tend to be incremental, showing an unfolding understanding of the complexities inherent in internalising new norms while reconciling them with the organization’s

⁵. Haas and Haas 1995, 266.
identity, for example, as a development lender (World Bank), financier (IFC) or political risk insurer (MIGA).

Most recently, Gutner examined the extent to which the World Bank, the European Bank for Reconstruction and Development and the European Investment Bank had become green. She evaluated these institutions according to different shades of green: light, moderate and dark (darker equaling more environmental). A greener bank “finances projects with primary environmental goals and attempts to integrate environmental thinking into the broader set of strategic goals it develops.”8 While Gutner provides a basis to evaluate the extent to which an organisation takes up environmental ideas, there is no consensus over how to assess the way in which the organisation is perceived. By adding subjective and intersubjective insights from the WBG, states and ENGOs to evidence of change this approach reveals how a change in shared understandings of appropriate IO behaviour reconstitutes an organization’s identity around these new goals.

**Internal Structures**

In the literature on the World Bank, scholars surmised that the Bank had not internalised environmental concerns as a result of its internal procedures.9 For example, Wade argued that while the Bank had shifted from “an Old Testament harshness (‘environment versus growth’) to New Testament reconciliation (environmentally sustainable development)” it had not changed its internal incentive system thus undermining environmental rigor. Moreover, it had not found operationally meaningful internal consensus on environmental issues.10 Prominent critic Bruce Rich agreed that the Bank had only greenwashed its operations because its environmental criteria had not been implemented properly.11 Rich further argued that the Bank’s loan approval culture had been “fatally reinforced” under the leadership of James Wolfensohn, confounding attempts to further environmentally sustainable development.12

Echoing this point, Gutner argued that the Bank’s environmental agenda became entangled with three aspects of the Bank’s organizational structure: its

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governance, institutional incentives and goal congestion. Governance refers to the internal power dynamic between developed and developing states over the prominence of environmental concerns; institutional incentives reflect the “pressure to lend” structure that reward staff for approving loans over environmental sustainability; and goal congestion refers to the broadening of the Bank’s development mandate to incorporate multiple agendas. Arguably then, the Bank’s internal organizational structure and culture undermine its ability to become green.

Organisational Culture

IFC
The IFC was established in 1956. It shares its Board of Governors, Directors and President with the Bank, but has its own mandate, operations, Articles of Agreement and funding. Currently, IFC has 177 members, and the voting and influence is determined by the amount of share capital ‘paid in’ (the US dominates with 23.65 per cent). IFC raises additional funds through international capital markets. Its mandate is to partially finance and facilitate financing for private enterprise in developing countries where capital is not readily available (Mason and Asher 1973: 351). IFC is ‘the largest multilateral source of loan and equity financing for private sector projects in the developing world’ (IFC 2002a: Attachment II). IFC furthers development through providing venture capital for private projects in developing countries (Feinberg 1986: 125); through attracting international investors; and by providing technical assistance to companies and developing country governments (IFC 2002b). As demonstrated below, IFC’s mandate shifted in 1998 as a result of network influence to play ‘a leading role in the development of a sustainable private sector’ (IFC 1998: 8). Prior to this sustainable development was not integral to IFC’s mission (IFC 1995; 1996b; 1997).

As a financial organization, IFC is primarily staffed with investment bankers, but there has been a dramatic increase of environmental specialists from one in 1989 to 99 in 2004 (of approximately 2, 200 staff). Since 2003, more than 60 per cent of specialists are located in investment departments and regional offices and are now involved at an earlier stage of IFC’s project cycle. IFC now evaluates all projects for

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their environmental impact, thus mainstreaming environmental ideas through all project sectors. In addition, IFC has increased environmental and social development spending from two million in 1994 to $12.5 million in 2004 (IFC 2004b: 40, 53). Significantly, IFC is recognized by advocacy networks for being concerned with environmental improvement and IFC now diffuses sustainable development norms through the establishment and promotion of the Equator Principles (Interview with BIC September 2001; Wright, forthcoming).

IFC’s mandate shifted in 1998 as a result of network influence to play ‘a leading role in the development of a sustainable private sector’ (IFC 1998: 8). There has been a dramatic increase of environmental specialists from one in 1989 to 99 in 2004 (of approximately 2,200 staff). Since 2003, more than 60 per cent of specialists are located in investment departments and regional offices and are now involved at an earlier stage of IFC’s project cycle. IFC now evaluates all projects for their environmental impact, thus mainstreaming environmental ideas through all project sectors. In addition, IFC has increased environmental and social development spending from two million in 1994 to $12.5 million in 2004 (IFC 2004b: 40, 53).

In 1989 IFC created an Environment Division and appointed its first, and at the time only, environmental advisor. IFC emulated the Bank by introducing environmental categories (A to C) for its projects according to their potential impact on the environment. Yet in 1990, only 7 of 160 projects reviewed were deemed to have potentially significant environmental impacts; the volume of projects to review was beyond the capacity of one permanent staff member (IFC 2002c: 30). In 1993, during the direct socialization of the Pangue project campaign, IFC began to revise its use of World Bank safeguard policies (SPs).

IFC’s 1993 adoption of policies signified the establishment of safeguards as being part of IFC rather than the ill-defined use of Bank policies that had tentatively been in place since 1988, with ad hoc amendments in 1990 and 1992. Concurrent with the mass campaign against the Pangue Dam, IFC reviewed the Environment Department and drafted a ‘Best Practice Manual’ (IFC 1996a: 77-8). Yet, it was the Pangue Inspection Panel claim in 1995 that had convinced IFC to completely review its approach to environmental and social issues. It was not until direct and indirect socialization by transnational advocacy networks relating to the Pangue project culminated in the Inspection Panel claim in 1995 that IFC began to realize the importance of environmental and social aspects of development. Indeed, according to
one IFC staff member, the Pangue campaign really affected IFC’s outlook (Interview with NGO Officer IFC, September 2001). This is supported by the network who argue that IFC became much more responsive after the Pangue claim, by adopting, and then endogenising, safeguard policies (Interview with BIC September 2001). Indeed, recommendations from the 1997 Hair report lead to a wide scale review and comprehensive establishment of IFC’s own environmental and social safeguard policies in 1998 (IFC 2002c: 31).

IFC has established the independent Operations Evaluation Group (OEG), as well as other internal monitoring mechanisms. OEG results for 2001 presented cumulative findings for its recently matured investment operations by evaluating 171 randomly selected investments approved between 1993 and 1995, and evaluated between 1998 and 2000. The OEG concluded that two-thirds of projects were deemed satisfactory or excellent for their environmental, social, and health and safety requirements. The OEG states that only four per cent of projects evaluated were rated unsatisfactory because they were ‘concentrated in high risk countries’ where ‘ineffective legal and regulatory regimes…undermine projects’ compliance’ (OEG 2002: 2-4). A 2004 OEG report notes that unsatisfactory projects continue to be improved and, as of 2005, the OEG intends to link environmental evaluations back into the project cycle (IFC 2004b: 41-2). Other review mechanisms have been instituted to assist IFC staff, including the establishment of a Quality Portfolio Management (QPR) system in 2000 for environment and social specialists, and the introduction of an Environment and Social Risk Rating (ESRR) system in 2001 to identify projects with a high risk of non-compliance (CAO 2002: 19).

Throughout the 1990s and early 2000s, IFC implemented substantial changes organizational changes, including: incorporating sustainable development concerns into its mission statement; dramatically increasing environmental and social staff; and providing leadership in introducing safeguard policies in the finance industry. These changes are significant in demonstrating not only a change in IFC interests and practices, but a normative shift in its identity: from having no social and environmental conscience, to a position of ‘do no harm,’ to the present ‘do good’ (IFC 2002c: 2). Further ‘beyond compliance’ changes demonstrate IFC’s commitment to sustainable development norms: IFC now reports on its own greenhouse gas emissions and its environmental footprint (IFC 2001: 57). It instituted a Sustainability Initiative in 2001 to centre its approach to sustainable development lending and
investment (IFC 2001: 51). The Initiative embodies a triple bottom line approach
which equals a commitment to ‘people, the planet and profits’ (IFC 2002c). Its
success will be determined by IFC’s marketing of sustainable development to project
sponsors (see Wright, this volume).

**MIGA**

In comparison to the IFC, MIGA was established in 1988 with its own Board of
Governors, Directors, convention (constitution), budget, and Chairman. The President
of the World Bank was nominated as Chairman of MIGA’s Board of Directors, who
nominates the Executive Vice-President, the Agency’s head. MIGA currently has 165
members divided into ‘capital-exporting’ states seeking political risk insurance and
‘capital-importing’ states requesting technical assistance. Members have equal votes
and subscribe to MIGA’s capital stock, giving the Agency its underwriting capacity
(Shihata 1991: 284). MIGA provides political risk insurance covering non-
commercial risk to investors in developing countries and technical assistance to
developing states to attract private investment (World Bank 2001). By the mid-1990s,
MIGA had already grown to one of the largest investment risk insurers in the world
with over $1.6 billion in outstanding liabilities, and could boast the facilitation of $19
billion in direct foreign investment (FDI) between 1988 and 1997 (MIGA 2001).

MIGA’s mission statement does not specifically incorporate environmental
aspects of development: MIGA aims ‘to promote foreign direct investment into
developing countries, in order to support economic growth, reduce poverty and
improve people’s lives’ (MIGA 2004). As a political risk guarantor agency, it is
primarily staffed by risk analysts. It plays a central role in the insurance industry as an
affiliate of WBG, attracting the attention of the networks. In 1997, MIGA created the
Environment Unit which currently houses two environmental and one social specialist
(of 130 MIGA staff). In 2002 the agency adopted environmental and social safeguard
policies while engaging in heated debates with advocacy networks contesting
sustainable development. As a result, the networks consider MIGA a ‘dinosaur’
regarding its views on sustainable development (Interview with CIEL, September
2001). MIGA plays a central role in the insurance industry as an affiliate of WBG,
attracting the attention of the networks, detailed below.

In 1999, MIGA formally adopted IFC’s environmental safeguards. Prior to
this, there was the same assumption that MIGA would adhere to IFC standards just as
IFC had previously adhered to the Bank’s. The Agency began implicitly using Bank and IFC safeguard policies for its appraisals in 1991 (OEU 2003: 7). In 1996, advocacy networks began arguing that there were ‘a series of double standards between the World Bank’s public and private sector lending operations’ (Bosshard 1996a: n.p). The network argued that environmental assessment guidelines were less strict and comprehensive for MIGA projects and they were occurring too late in the project cycle, while the guarantee process allowed little time for a proper appraisal. The Berne Declaration argued that MIGA did not have its own environmental department, subcontracting its environmental project analysis to IFC. At that time IFC had a small department with seven staff and three consultants, reviewing between 200 and 250 new projects a year while supervising approximately 1,000 ongoing projects. The network claimed that up to 1993, only 10 of MIGA’s 185 projects were classified as Category A, even though MIGA underwrites projects known for their high environmental impacts such as mining and infrastructure (Bosshard 1996b: n.p).

The Agency created an in house environmental unit in late 1997. The unit currently has two environmental specialists, and employs consultants to undertake project appraisals. MIGA began drafting its own specific environmental policy in 1998 and in May 1999, MIGA’s Board adopted interim safeguard policies from IFC’s environmental and social policies (Van Veldhuizen 2000: 54). In early 1999, MIGA initiated a 50-day comment period open to all stakeholders, including investors, insurers, businesses, MDBs, and civil society on MIGA’s draft environment policies. MIGA’s interim safeguard policies were permanently adopted in 2002 (MIGA 2003). According to MIGA’s lead environmental specialist ‘[T]he environmental assessment policy formalizes an approach to environmental review that has been taken by MIGA for many years’ (Van Veldhuizen 2000: 54).

MIGA’s introduction of safeguard policies provides little indication of their impact on the organization. This contrasts with the extensive discussions and reviews that have taken place within IFC since 1998 and by the CAO over IFC policies from 2001 to the present. Significantly, MIGA noted that the process of adopting specific IFC environmental safeguard policies applicable to MIGA-insured investments had been ‘less than satisfactory.’ MIGA stated that this was partly the result of IFC having only officially adopted four of the Bank’s eight safeguard policies and that progress had been limited while awaiting IFC’s safeguard policy review (2001-2003). MIGA
intends to adopt specific environmental and social safeguard policies from IFC’s new Policy and Performance Standards that will replace its safeguard policies in 2006. MIGA awaits IFC’s conversion because its private sector needs are more akin to IFC than to the World Bank, and the Agency has limited capacity to undertake these conversions itself. MIGA therefore relies on IFC policies, even when these may not suit a political risk insurer. It also uses Bank policies when there are no IFC policies to cover specific environmental issues – although these are less likely to suit MIGA.

Yet MIGA is a small affiliate of the WBG and it is natural that it should rely on IFC, although IFC and MIGA are separate institutions with distinct operations and MIGA is not legally bound to the policies of IFC. The CAO review emphasizes that IFC and MIGA need to come to a formal arrangement in order for MIGA’s operations to be policy compliant.

The networks further argue that MIGA has done little to monitor the impacts of the investment projects it underwrites. In 1998, after network pressure on MIGA’s problem projects and its lack of environmental policies, the Agency released its first Development Impact Review, evaluating 25 projects covered by MIGA guarantees. In 2001, a more extensive Development Impact Review was undertaken evaluating 52 projects from 27 states and representing 75 per cent of all active projects backed by MIGA between 1990 and 1996 (West and Tarzona 2001: 25). While environmental impacts of MIGA backed projects are mentioned within the reviews, only 10 projects (17 per cent) were visited by environmental specialists.

Considering that manufacturing, mining, infrastructure, and tourism sectors account for 60 per cent of sectors evaluated (West and Tarazona 2001: 26-27) and generally have significant environmental and social impacts, demonstrates the need to analyse how to assess sustainable development. Environmental specialists involved in the evaluation process identified 10 of the 52 projects as requiring environmental monitoring (West and Tarazona 2001: 29). No projects failed on environmental grounds. Of the 52 projects analyzed, 22 were not measured, none failed, and none were deemed ‘untraceable’ (or unable to measure). However, little explanation is given as to why some projects were not measured. MIGA continues to underwrite projects in high environmental impact sectors such as oil, gas and mining, yet there is no response to advocacy network campaigns within these reports. Although the recent Extractive Industries Review by the Operations Evaluation Unit (OEU) argues that 73
per cent of extractive industry projects reviewed were consistent with current MIGA safeguard policies, it suggests that more needs to be done on information disclosure, due diligence, monitoring compliance, and reviewing social safeguard outcomes (OEU 2003: 9-13).

“Structure of Meaning-in-use”: The WBG and Sustainable Development: Implications for Norm Contestation and Compliance

sustainable development aims “to ensure that it meets the needs of the present without compromising the ability of future generations to meet their own needs” (World Commission on Environment and Development 1987: 8). How and what this means for IOs within international development (and increasingly in other issue areas also) remains unclear.

Make connection between procedural norms and generic norms of liberal environmentalism (Bernstein) and mutual supportiveness article

Conclusion

norms are constituted through practice, and meaning attributed through interactionThus, how the WBG interprets and reproduces sustainable development norms depends upon what operations are considered sustainable by IOs, states and non-state actors.
Bibliography

Norms are transformed through reproduction. Advocacy networks routinely demand changes to improve sustainability, thus ensuring continuous interaction.