

The Fletcher Forum of World Affairs Journal

Winter / Spring, 1999

23 Fletcher F. World Aff. 211

ISSUES & POLICY: The American Campaign for Environmental Reforms at the World Bank

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SUMMARY:

... The United States' efforts to reform the two most important international institutions -- the United Nations and the World Bank -- have differed significantly. ... Its actions would become the subject of fierce debate because the World Bank is not a U.S. government agency, subject to the normal process of congressional oversight; rather it is an international institution, governed through a multilateral mechanism. ... However, a controversy over a forest sector loan in Ivory Coast in 1990, which NGOs claimed would open 0.5 million hectares of rainforest to logging, indicated that the World Bank's conception of what constitutes sound forest lending was different from environmental groups' conception. ... The next set of congressional mandates for the World Bank shifted toward questions of process and procedure -- notably the use of environmental impact assessments (EIAs) and public access to information. ... The second was the 1989 Pelosi Amendment, which requires U.S. EDs to abstain from voting in favor of proposed MDB loans with potentially significant environmental impacts, unless an EIA has been made available at least 120 days in advance. ... First, this case shows the importance and power of cooperation between NGOs and congressional advocates: Environmental NGOs' reports largely prompted the realization within the U.S. government that multilateral development banks were in real need of reform. ...

TEXT:

[*211] The United States' efforts to reform the two most important international institutions -- the United Nations and the World Bank -- have differed significantly. American arrears to the U.N. have become a visible and heated political issue in the U.S. Congress, replete with partisan attacks and ideological counterpunching. In contrast, Congress has engaged in a lower profile, but more focused, 15-year campaign to reform the World Bank. In hindsight, this effort has been bipartisan in nature, methodical in approach, broad in scope and largely successful in terms of results. In this campaign, it is the environment -- more specifically, the impacts of large-scale lending on natural resources, oceans and the atmosphere -- that has been the rallying point. Environmental issues have served as a proxy for related issues of

democratic governance, public accountability and sensitivity to the concerns and aspirations of local communities in the developing world.

It is not an overstatement to say that all major environmental reforms at the World Bank find their roots in an activist U.S. Congress. The issues raised by World Bank reform have broad relevance to the United States as it determines its role in international institutions and broader questions of foreign affairs in the post-Cold War era. More precisely, what should be the role of the U.S. Congress in such questions? For example, what do budgetary constraints, political pressures and questions of national interest in the United States mean for the International [*212] Monetary Fund (IMF) as it evaluates interventions to stabilize the Asian capital markets? What role should the Senate play in formulating a U.S. position in international negotiations over a climate change treaty? What recourse does the Congress have to reject the findings of World Trade Organization (WTO) rulings that affect U.S. domestic laws? We do not seek to answer all such questions, but rather to draw out larger lessons from the experience of a series of successful congressional interventions to change the lending practices of the World Bank.

This article explores the congressional campaign and the motivations for it, discusses its results and the legislative means with which they were brought about, and draws conclusions about the broader implications of Congressional activism towards international institutions. We begin with a brief introduction to the World Bank, the criticisms leveled against it, and the mechanisms for formulating U.S. policy toward international financial institutions.

U.S. PARTICIPATION IN MULTILATERAL DEVELOPMENT BANKS

A compelling case can be made for vigorous American participation in international financial institutions like the World Bank, the IMF, and the Inter-American Development Bank. Global interdependence and a shrinking foreign aid budget help make multilateral development banks (MDBs) a sound investment. The MDBs provide a forum in which close international cooperation and a financial multiplier effect allow U.S. policies and interests to resonate effectively. They provide lucrative contracts and open new markets for U.S. companies. The MDBs also allow the United States to pursue its foreign policy more discreetly than it could if it were acting alone in the international arena, an important advantage when looking to implement solutions without offending delicate sovereign sensibilities. Finally, much of the U.S. contribution to the MDBs comes in the form of loans -- or callable capital -- instead of hard appropriations of grant funds, a formulation that creates economic value at lower cost to the Treasury.

There are inherent risks, however, in creating large international institutions like the World Bank. Bureaucracies take on a life of their own. Accountability can become diffuse. Large institutions may cease to be responsive to their clients -- in this case, donors and borrowers alike. Many have argued that this slowly took place at the World Bank, where bureaucratic self-perpetuation and a preoccupation with the uncritical approval of large volumes of lending had become goals in and of themselves.

[*213] Originally created in 1944 as the International Bank for Reconstruction and Development to facilitate postwar reconstruction in Europe, the World Bank has grown in size and influence. It has become the most important public development finance agency for most developing countries. As is the case with the other MDBs, the United States is formally represented at the World Bank by the Secretary of the Treasury, who serves on its board of governors. The secretary appoints a U.S. executive director (ED), who is confirmed by the Senate to serve on the board of directors of the World Bank and handle day-to-day management. A total of 24 executive directors serve on the board. Executive directors cast votes on individual projects and other matters based on a weighted proportion of paid-in shares that come in the form of appropriations of grant resources and callable capital. Because the United States is the largest donor to the World Bank, the U.S. ED has the greatest influence on the board. In turn, Congress has great leverage over the Treasury Department and its ED because it provides the annual appropriations

for the U.S. contribution to the World Bank.

Beginning in the early 1980s, the U.S. Congress began to pay greater attention to the growing criticisms of the World Bank. Critics charged that the World Bank paid scant attention to the environmental and social impacts of its projects. They contended that it was guided instead by a rigid development philosophy that dictated large-scale infrastructure investments as the cornerstone of economic growth strategies in developing nations. In particular, leading environmental organizations, such as the Natural Resources Defense Council, the Environmental Defense Fund and the National Wildlife Federation, documented cases where large World Bank-sponsored infrastructure projects were having significant negative environmental impacts in developing countries. Convinced the criticisms had merit, Congress -- through the House Banking Committee and other committees of jurisdiction -- began a long legislative process to address them. In taking on this challenge, Congress asserted itself in the international arena. Its actions would become the subject of fierce debate because the World Bank is not a U.S. government agency, subject to the normal process of congressional oversight; rather it is an international institution, governed through a multilateral mechanism.

EARLY REFORM EFFORTS

In 1984, after two years of hearings, at which members of the environmental community detailed the environmental impacts of World Bank development projects, the Subcommittee on International Development, Finance, Trade and Monetary Policy of the House Committee on Banking, Finance and Urban Affairs issued the Patterson Recommendations, named after the subcommittee chairman, Congressman Jerry Patterson. Environmentalists focused on a few themes: the ecological damage and social dislocation caused by infrastructure and energy projects, such as large hydroelectric dams; the loss of biologically rich tropical forests caused by poorly planned and often unsuccessful rural development projects; and the threats to natural ecosystems caused by large investments in the forestry sector. Underlying all these criticisms was the charge that the World Bank lending process did not allow for significant public consultation -- a fundamental element of transparent and democratic governance both for international institutions and individual governments. The Patterson Recommendations stressed the need to make the Bank more open and more accountable and served as a warning signal that Congress was preparing to engage itself fully in the reform effort. The following year Congress passed legislation building on the Development Subcommittee's efforts and specifically addressing World Bank reform for the first time.

Congress decided in 1986 that it would be unwise to rely entirely on the World Bank for information concerning its activities and requested that the Reagan administration look into establishing an Early Warning System (EWS). The EWS would serve as an independent mechanism that would allow U.S. government agencies, in particular U.S. embassies and the U.S. Agency for International Development (USAID), to provide detailed reviews of the environmental impacts of proposed World Bank projects and those of other multilateral development finance institutions. The following year, Congress formally created the EWS, which is still in operation today. In essence, the EWS was designed to create a sort of shadow environmental impact assessment of proposed World Bank projects based on field data brought in through other branches of the U.S. government. The EWS also served as a useful forum for cooperation between agencies and for meetings between U.S. government agencies and nongovernmental organizations (NGOs).

It is difficult to ascertain how much of an impact the creation of the EWS had within the Bank. However, the EWS certainly marked a rising tide of interest and activism on the part of the Congress and U.S. agencies in Bank projects, and indicated that the government intended to obtain as much information as possible about Bank lending, with or without Bank cooperation.

The Patterson Recommendations and actions, such as Senator Robert Kasten's 1984 letter to World Bank President A.W. Clausen criticizing [*215] the serious environmental impacts of the Polonoroeste project in Brazil, clearly influenced World Bank President Barber Conable's decision to make World Bank bureaucracy more environmentally conscious. The Polonoroeste project was a large-scale road, infrastructure and rural development project in the Brazilian Amazon, which environmentalists viewed as having a direct and significant adverse impact on tropical forest ecosystems. Because Senator Kasten served as chairman of the Senate Appropriations Subcommittee, which oversaw U.S. contributions to the World Bank, his action to ask President Conable to respond to environmentalists' concerns raised the stakes in terms of World Bank accountability to Congress. In a speech at the World Resources Institute in May 1987, Conable announced that he would be creating an independent Environment Department at the Bank, and would be establishing Regional Environmental Divisions (REDs) within each Vice Presidency. As the net effect of these administrative changes, environmental staffing at the World Bank would increase dramatically. This formal restructuring, which would allow the Bank to address environmental issues more effectively, had been one of Congress's earliest demands.

The 1987 reforms demonstrated Conable's good intentions and unquestionably raised the profile of environmental issues within the Bank, but the true impact on Bank lending remains unclear. Congressional leaders supported increasing environmental staff at the Bank, but had concerns about a formal World Bank Environment Department from the beginning. n1 They stopped short of requesting such a measure, because they feared that the new department might serve as a means of removing environmental issues from the mainstream. Indeed, some critics note today that the Environment Department lacks influence over lending operations and that the REDs essentially provide technical assistance rather than the necessary independent quality control.

INCREASED CONGRESSIONAL ACTIVITY: FOREST AND ENERGY SECTORS

Early congressional activism came in the form of broad brushstrokes. The Patterson Recommendations, the creation of the internal EWS, and congressional pressure for the establishment of an internal Environment Department at the World Bank properly represent initial U.S. government efforts to increase capacity to address environmental issues. The World Bank responded with modifications in its bureaucratic structure intended to address the broad issues the Congress and environmentalists raised. The next step in this process involved more detailed congressional involvement in specific sectoral policies.

[*216] In 1988, at a time when the media was filled with images of the burning Amazon and concern about global warming was rising, Congress opened a new front and began a concerted effort to push the World Bank to reform its forestry and energy policies. By 1989 Congress had passed legislation containing nine directives to the U.S. EDs at the various multilateral development banks to urge changes in MDB energy and forestry policies.

In his 1987 speech, Conable had promised that there would be a 150 percent increase in forestry lending by 1989, and in 1989 he announced that forest lending would increase by an additional 300 percent. However, a controversy over a forest sector loan in Ivory Coast in 1990, which NGOs claimed would open 0.5 million hectares of rainforest to logging, indicated that the World Bank's conception of what constitutes sound forest lending was different from environmental groups' conception. In the wake of this controversy, the U. S. ED and other executive directors on the World Bank board called on Bank management to halt all new forestry lending pending preparation of a more environmentally minded policy. The 1991 World Bank Forestry Policy emerged as a result of continued congressional pressure and persistent lobbying by the U.S. ED. One of the key tenets of the new policy was, for example, a prohibition on lending for commercial logging in primary moist tropical forest.

Commentators, such as then-U.S. ED to the World Bank, E. Patrick Coady, hailed the new forestry policy

as a victory for the NGOs that had initially called attention to the problem and had participated in drafting the new guidelines, as well as for a Congress that had shown leadership on the issue at an early date. The timing and content of the forestry policy certainly seemed to indicate that the World Bank had paid close attention to congressional and NGO criticism.

Congress took an even more hands-on approach with respect to energy sector lending. In 1988 Congress provided detailed guidelines on MDB energy sector lending, and then followed up in 1990 and 1992 with benchmarks against which to measure progress in energy lending. The goal was to move MDBs away from large-scale energy supply projects and toward lending designed to promote energy efficiency and demand-side management. As with forestry lending, Conable promised significant improvements and a new focus. By 1992, the Bank had a new policy on energy lending designed to promote efficiency and reform energy pricing to reduce consumption. Again, however, policies were undermined by a lack of meaningful implementation. A 1993 study by the Natural Resources Defense Council and the Environmental Defense Fund concluded that the bank had complied with its own energy policies only two out of 46 times. n2

[*217] Forestry and energy lending were two areas in which Congress had aggressively pushed for reforms. However, the Bank's refusal to follow its own policies made it clear to Congress and other Bank watchers that sector-based reform efforts were largely ineffective without corresponding procedural and administrative reform.

ENVIRONMENTAL AND INFORMATION DISCLOSURE POLICIES

The next set of congressional mandates for the World Bank shifted toward questions of process and procedure -- notably the use of environmental impact assessments (EIAs) and public access to information. EIAs have long been an integral component of governmental decision making in developed countries. Originally adopted in the United States, EIAs were designed to fulfill four functions: to compel government agencies to analyze the potential environmental consequences of a development project, to consider fully all reasonable alternatives (and their environmental impacts) to the project, to force the agency to explain clearly the reasons for choosing a particular course of action over the alternatives presented, and finally, to outline measures for environmental mitigation. Development agencies were slower to adopt EIA procedures. However, at the 1992 Earth Summit, participating nations agreed that governments and international agencies alike should implement EIA policies, and international development agencies now routinely use EIA procedures.

The Bank has maintained that it has carefully reviewed the potential environmental impacts of its loan operations since the early 1970s. However, NGOs, Congress and the Treasury Department deemed the weak policy on environmental impacts in place in 1984 insufficient, and Congress made EIAs at the World Bank an early priority. Congress used two tactics to push for new environmental assessment procedures. The first was to direct U.S. EDs to lobby for reform from within. Toward that end, in 1986 Congress directed the U.S. EDs to promote procedures to "mitigate or eliminate the environmental impacts of destructive development projects," n3 and in 1989 called for "management plans to ensure systematic environmental review of all projects." n4

The second tactic was to undertake independent measures to ensure that the United States would not be a party to the Bank's environmental fiascoes. The first of these measures was the Early Warning System already described, which essentially served as a surrogate EIA procedure. The second was the 1989 Pelosi Amendment, which requires U.S. EDs to abstain from voting in favor of proposed MDB loans with potentially significant environmental impacts, unless an EIA has been made [*218] available at least 120 days in advance. This policy came into force in December 1991 and is generally credited for playing a determining role in the development of the World Bank's EIA policy. n5

Passage of the Pelosi Amendment was controversial. The U.S. Treasury Department argued strenuously that completely removing U.S. EDs from the voting process would prevent them from exerting a positive influence on environmentally sensitive projects. In October 1989, in the middle of the congressional debate over EIAs, the World Bank released a formal statement of its environmental policy for the first time. This policy statement mandated preparation of an environmental assessment (EA) for projects potentially involving "diverse and significant environmental impacts." n6 ("Environmental assessment" is the term used by the bank to describe its entire environmental review process; EIAs constitute the most important part of this process.) The policy statement did not, however, address the key issue of availability of EIA documents to the EDs, the U.S. government or the public. Thus, the Pelosi Amendment was passed shortly thereafter.

In the wake of the Pelosi Amendment's passage during the second half of 1989 and first months of 1990, the Treasury Department took a strong stand on the environmental assessment issue. This occurred during negotiations on the ninth round of three-year financial replenishments of the International Development Association (the concessional lending window of the World Bank Group). This process was referred to as the "IDA-9" replenishment. Following a stiff negotiating round, in which the United States alone pressed for availability of EA documents, negotiators in the final IDA-9 report concluded that environmental assessment reports would be made available during the appraisal stage of a loan well in advance of the 120-day deadline imposed by the Pelosi Amendment. This agreement, and concerns expressed by Congress, NGOs and others, led to the adoption in October 1991 of a major revision to the World Bank's policy statement on environmental policy. This was two years after its initial adoption and two months before Pelosi's directives took effect.

Debate over the usefulness of the Pelosi Amendment -- particularly within the Treasury Department -- continues today. For example, the U.S. ED to the World Bank continues to vote on International Finance Corporation (IFC) projects even though the IFC, one of the World Bank Group institutions, does not release EIAs within the 120-day deadline. Yet, despite its limitations, the Pelosi Amendment remains one of the most visible successes of congressional reform efforts. At a minimum, most agree that Congress greatly increased the speed with which EIA [*219] procedures were adopted by the World Bank and other MDBs, and some argue that without congressional pressure, the World Bank would not have drafted EIA procedures at all. n7

INCREASING PUBLIC PARTICIPATION AND TRANSPARENCY

Apart from the use of EIAs, another concern of Congress was the lack of transparency in Bank operations and decision-making processes. This had been a major concern for environmentalists and Congress since the beginning of efforts to reform the environmental performance of the World Bank. Yet, during the early 1990s, congressional attention to this issue escalated, primarily due to increased environmental activism and voter awareness. The most significant breakthrough in the campaign to make the Bank more accountable to the public was the creation of the World Bank Inspection Panel in 1994, which for the first time gave the public a forum in which to file complaints concerning the World Bank.

The struggle over the creation of the inspection panel demonstrated that Congress was fully prepared to force the Bank to change its ways. Spurred by almost a decade of reform efforts on information policy issues, Congress insisted that an enforcement mechanism was necessary to ensure that the Bank was in fact implementing its policies. In June 1993, Senate Appropriations Subcommittee Chairman Senator Patrick Leahy wrote to Bank President Lewis Preston outlining Congress's concerns about the declining performance of World Bank projects documented in the Wappenhans report, a major internal World Bank evaluation of its own project portfolio. n8 In his letter, Senator Leahy stated that in light of the highly critical report issued by the Morse Commission, which had evaluated the Narmada dam project in India,

"serious consideration should be given to establishing a permanent, independent commission for investigating public concerns about Bank-financed projects." n9 Senator Leahy went further, referring ominously to ". . . the waning tolerance for an institution supported with public funds that denies the public access to relevant information, or to an impartial mechanism for investigating complaints about the use of those funds." n10

Senator Leahy's letter was the first step in a concerted effort by Congress to bring about the creation of the Inspection Panel. However, in 1993 Congress also needed to pass authorizing legislation for the IDA replenishment, and in the end, it was the congressional authorization process for IDA 10 appropriations that led to the creation of the inspection panel.

[*220] More specifically, Congressman Barney Frank, Chair of the Authorizing Subcommittee in the House, finally forced the issue. Following a series of meetings and discussions with the Treasury Department and Congressman Frank, World Bank Managing Director Ernest Stern stated in a telephone call to Frank that he did not think the World Bank had sufficient time to create an inspection panel by the end of the year, to which Chairman Frank reportedly replied that in that case, he did not think Congress had time to authorize IDA 10. n11 The Bank subsequently agreed to create the inspection panel in 1994 and Congress authorized the first two years of the IDA 10 replenishment.

ASSESSING THE IMPACTS OF CONGRESSIONAL ACTIVISM

In many instances, without congressional pressure, changes at the World Bank would have been much more gradual, if they had occurred at all. However, the reform process also involved a certain amount of experimentation. Congress is still in the process of defining the limits to its foreign policy power, and congressional experience with MDB policy prior to the mid-1980s was limited. Congress therefore had to test a variety of legislative mechanisms and find the right mix of legal tools to induce the Bank to adopt new lending policies. Several lessons have emerged from these efforts to reform the World Bank.

First, conditioning appropriations on specific structural changes is the most effective form of legislation. The U.S. Treasury Department ultimately has the responsibility to lobby for and negotiate changes at the Bank, and Treasury is best able to do so when Congress's position is stated clearly. Two significant achievements of the Clinton administration and the Democratic 103rd Congress were the creation of the inspection panel and the restructuring of the World Bank's Global Environment Facility (GEF). In both cases, Congress had conditioned funding on specific reforms. The GEF is a \$ 2 billion international fund established to help developing countries address climate change, biodiversity conservation and other global environmental issues. The World Bank serves as the trustee for the GEF, but it is governed by an independent executive council.

Second, policy-level changes require strong cooperation between Congress and the administration. Although Congress is still establishing its position in the international policy arena, it is also clear that Congress has neither the time nor the resources to monitor the MDBs on a day-to-day basis. Thus, Congress was able to establish the benchmarks with which to evaluate the Bank's performance in the forestry and energy [*221] sectors, but reform efforts would not have been possible without strong support from the Bush administration. Indeed, many of the real changes that were brought about concerning forestry policy were carried out by the World Bank board of directors while deliberating over approval of individual projects.

Third, restrictions on voting are not a precise instrument for changing policy and cause conflict with the executive branch. The Pelosi Amendment is the most serious restriction, and its value continues to be hotly debated. In addition to the requirement that World Bank executive directors have access to EIAs 120 days prior to board consideration of loans, the amendment has a number of vague provisions related

to the definition of environmental impacts and the quality of assessments. These provisions have complicated matters, making it unclear exactly what the executive directors can or cannot do, reducing their flexibility and negotiating power. Thus, voting restrictions can be an effective weapon and generate a response from Bank management, but in hindsight, conditioning IDA appropriations on a new procedure for board consideration of EIAs might have been more effective than limiting the U.S. ED's ability to vote on individual projects. The same result could have been achieved -- the Bank would have become more aware of the environmental consequences of its lending -- and the problem of strained relations between Congress and the Department of the Treasury would have been avoided.

Despite Congress's somewhat experimental approach to World Bank reform, the benefits of congressional activism are tangible. The Bank is now more transparent and accountable to the public, and more sensitive to the adverse social and environmental impacts of its lending. The costs of congressional intervention have been relatively minor -- the Treasury Department has lost some of its independence and is sometimes hampered by incompatible congressional mandates. Yet, at the Bank, the positive effect of congressional intervention is reduced by what Treasury Deputy Secretary Lawrence Summers has termed the "ritualization" of World Bank lending, or the tendency for loan documents to include elaborate statements on social and environmental issues -- statements that may have little actual bearing on project execution. n12

LESSONS LEARNED

Stepping back from the narrower lessons regarding an activist Congress's use of legislative instruments to influence international financial institutions, what can be said about the larger implications of this overall effort?

[*222] First, this case shows the importance and power of cooperation between NGOs and congressional advocates: Environmental NGOs' reports n13 largely prompted the realization within the U.S. government that multilateral development banks were in real need of reform. In the early 1980s, these environmental NGOs detailed the ecological impacts of several prominent Bank projects. They provided a steady supply of data gathered in the field to Congress, and Congress, in turn, acted as a megaphone, amplifying calls for reform and bringing to bear its considerable financial leverage.

Some critics argue that NGOs displayed a lack of sophistication and overplayed their hand, especially at the Earth Summit at Rio. n14 They argue that NGOs were so critical of development banks that they discouraged donor countries from providing funds, which, if used appropriately could have had a significant conservation impact. The fact that the Global Environmental Facility received a \$ 2 billion replenishment just two years after Rio belies this argument. In addition, given the resistance to progress and the massive inertia at the Bank, it is questionable whether anything short of dire threats could have induced change. More importantly, although NGOs used heavy-handed tactics that in some instances backfired, this in no way suggests that NGOs should have been excluded from the policy dialogue. Rather, it suggests that NGOs could have had an even more far reaching effect on the reform process. The NGO community's participation in efforts to reform multilateral development banks demonstrates that an important progression has occurred. NGOs are no longer restricted to gathering information and channeling public discontent; they are also agents of substantive change.

Second, this case illustrates the changing nature of governmental involvement in international affairs. Congress's use of its control over appropriations to influence international institutions represents an expansion into new foreign policymaking areas. Congress's response to criticism of its expanded role has been to argue that the power of the purse is explicit and plenary under the Constitution. Efforts to reform the World Bank, therefore, do not constitute establishing foreign policies, but are rather a simple exercise of oversight over the way taxpayer money is spent.

In articulating this case -- and taking steps to demand reforms at the World Bank -- Congress was nonetheless asserting itself into new arenas. These steps reflect an overall trend: Congress has been using the power of the purse aggressively since the end of the Vietnam War to assume an increasingly activist role in foreign policymaking. The War Powers Act, imposition of congressional restrictions on arms sales to certain [*223] countries, and the enactment of economic sanctions against South Africa over a presidential veto are prominent examples of this practice. Indeed, a growing number of constitutional scholars now argue convincingly that Congress may be entirely justified in taking such a course of action, because the President's power in foreign affairs may not be quite as far reaching, or at least not as exclusive, as previously believed. n15

In the case at hand, that the Treasury Department, the executive branch's designated liaison to the World Bank, chose not to sue to prevent Congress from involving itself in MDB policies is a potentially telling sign. It may only indicate that the Treasury Department fundamentally agreed with congressional policy directives, and did not deem it worth-while to engage in a prolonged turf war with the legislative branch on this issue. However, it may also indicate that the executive branch is unwilling to take legal action because it fears that a court might side with Congress, thereby setting precedent and formally expanding congressional authority in international affairs. The substantive merit of legislative mandates notwithstanding, Congress has influenced World Bank policies for over a decade without serious opposition from the executive branch or from the World Bank itself.

Third, this case illustrates the relative weakness of international institutions in arguing against the decision-making processes of its member countries. For its part, the World Bank has argued that actions have made it hostage to the directives of one country's legislature in clear violation of the institution's multilateral and apolitical nature. The World Bank management's concern about statutory limitations on the voting of its executive directors is clearly understandable. However, the suggestion that the United States' internal decision-making process concerning how or whether to finance the World Bank is a violation of the Bank's multilateral nature cannot be taken seriously. The U.S. government is at liberty to determine on what terms it makes financing available to the World Bank, whether it does so behind closed doors or in a public forum. In turn, the World Bank has the right to reject conditional funds or ignore policy recommendations that Congress makes.

The World Bank has also claimed that legislatively imposed guidelines force it to take political factors into consideration in its lending policies -- a violation of its articles of incorporation. The World Bank is prohibited from considering the politics of a borrower nation when deciding whether to approve loans. But this is a restriction designed to prevent the Bank from approving or disapproving loans based on ideological criteria, a restriction that had greater significance during the Cold War. The Bank considers the political climate, as well as the economic [*224] outlook, in a borrower country because in most cases political and economic forces are closely linked, if not indistinguishable. More to the point at hand, there is nothing essentially political or ideological about considering environmental protection as a factor in determining whether to grant a loan. Congressional motives for exerting pressure for environmental protection are not rooted in Cold War ideology or partisan politics.

FUTURE IMPLICATIONS

The success of congressional activism in this instance does not imply that such an approach is appropriate for all foreign policy issues in which the power of the purse is implicated. Indeed, conditions in this case were particularly well suited to legislative action. The United States has decades of experience with environmental legislation, as well as laws generally ensuring an open and transparent administrative process. Thus, the United States was clearly in a position to speak authoritatively in this domain. This case documents one bipartisan exertion of U.S. power to spread its experience in these areas into the

international arena. Cynics will stress that the U.S. Congress is interested in the World Bank only in so far as it serves as an instrument of U.S. policy and a vehicle for projecting U.S. economic influence abroad. Were this in fact the case, however, pushing for more transparent and democratic lending practices and furthering new regulations to address social issues, such as the environment and human rights, would surely be a low priority. History will reflect that both parties and both houses in Congress subjected the World Bank to serious scrutiny and criticism over a sustained period of time. The object remained throughout to ensure that the World Bank became a more democratic and socially conscious organization.

Conditions for congressional activism are not often as optimal as they were in this case. In this instance, the combination of domestic expertise, bipartisan support and strong cooperation with concerned nongovernmental organizations made the congressional voice particularly powerful. The issues raised by participation in multilateral institutions to promote trade and economic development will continue to be vexing as Congress assesses the implications of the recent WTO ruling on film sales in Japan, considers a capital increase for the IMF, and evaluates the possibilities for new trade accords. Nonetheless, Congress has unique tools at its disposal. Under certain circumstances, it can and should use them to encourage accountability from international institutions.

FOOTNOTES:

n1 Interview with Alec Echols, former Legislative Assistant to Senator Robert Kasten, Washington, DC (August 1994).

n2 Environmental Defense Fund and Natural Resources Defense Council, *Power Failure: A Review of the World Bank's Implementation of its New Energy Policy* (1994).

n3 H.R.J. Res. 738 § 539(h).

n4 22 U.S.C. § 262(m)(7)(e)(1990).

n5 Raymond F. Mikesell and Lawrence F. Williams, *International Banks and the Environment*, (San Francisco: Sierra Club Books, 1992), 270.

n6 World Bank Operational Directive 4.00, Annex A: Environmental Assessment (OD 4.00), (October 1989).

n7 Interview with Robert Goodland, Environment Department, World Bank, Washington, DC, (August 1994).

n8 Willi A. Wapenhans et al., *Report of the Portfolio Management Task Force* (Washington, DC: World Bank, 1992). The report documented the World Bank's failure to make timely disbursements of funds and failure to meet stated objectives.

n9 Bradford Morse, *Sardar Sarovar: Report of the Independent Review* (Ottawa: Resource Futures International, 1992).

n10 Letter from Senator Patrick Leahy to Lewis Preston, president, World Bank, Washington, DC (June 7, 1993), (on file with the authors).

n11 Interview with Congressman Barney Frank, Washington, D.C. (August 1994).

n12 Interview with Lawrence Summers, undersecretary of the Treasury for International Affairs, Washington, D.C. (August 1994).

n13 In particular, the Environmental Defense Fund, Friends of the Earth, the Natural Resources Defense Council and the Sierra Club.

n14 Gregg Easterbrook, *A Moment on Earth: The Coming of Age of Environmental Optimism* (New York: Viking, 1995).

n15 For example, Louis Henkin, Jaques LeBoeuf, Peter Raven-Hansen and Arthur Schlesinger all argue in favor of congressional authority in the foreign affairs arena.