

*Values, Institutions and Structures:
Islam, democracy and hegemony at the Islamic Development Bank*

By

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During the last twenty years and more, environmental and social activists have pressured the World Bank and other multilateral development banks (MDBs) to reform (Gutner 2002, Nielson and Tierney 2003; Nielson, Tierney and Weaver 2004, Wade 1997). These campaigns revolved around pushing MDBs to take environmental and social issues seriously. They argued that MDBs should not only avoid funding projects that were environmentally damaging or displaced indigenous peoples, but also that MDBs should refocus their lending to include on issues such as preserving biodiversity and human development (Rich 1994, Pincus and Winters yr, Fox and Brown yr, Le Prestre 1989). These protestors' attentions have resulted in some important institutional reforms across MDBs (Nielson and Tierney 2003, Lyne, Tierney and Nielson 2004, Nielson, Tierney and Weaver 2004, Gutner 2003). Activists, academics and others, meanwhile, have collectively ignored one of these organizations: the Islamic Development Bank (IDB), which has double importance. Not only could understanding the IDB better improve development lending in the Islamic world, it could play a powerful role in fighting the poverty which many see as an important cause of terrorism.

Why have the World Bank and other MDBs made varying steps toward activists' goals while the IDB has not? It would seem to be straightforward: These activists never focused their attentions on the IDB, thus, it remains unchanged. But the combined roles of values, regime types, and powerful players have all been important in making progress toward protestors' aims. First, the United States and the other major members of the World Bank are countries where the environment and social justice are valued. Without this background, the coalition of protestors and NGOs would have made little progress. Further, these nations are all democratic: what people think and want matters to politicians, as it keeps them in office. Last, the US and the rest of the West have significant institutional power at the World Bank and in other MDBs.

In a similar manner, I expect the same framework to explain the IDB's lending patterns. The combination of Islamic values which shape government preferences, a dearth of democracy among the IDB's members, and the absence of a hegemon which holds environmental and social values, leads to a lack of reform or lending shifts at the IDB. Islam's strong focus on social justice parallels the World Bank's earlier conception of development as poverty reduction and a lack of strong environmental concern leaves the IDB looking more like the World Bank of the sixties and seventies than the contemporary Bank (see Ahmad 1991). Further, with few democracies, especially few powerful democracies at the IDB, there are no formal mechanisms for citizens to transfer their preferences to the government, and no way for those citizens to hold that government accountable. Finally, without the US and other states susceptible to NGO's calls to address environmental and social issues, there is no external mechanism for the IDB to consider these calls.

I will use a two-stage "sequencing" model to combine insights from sociological institutionalism, constructivism and principal-agent theory to test this theory. I will test this model by using regression analysis on a dataset of IDB, World Bank, Asian Development Bank and Inter-American Development Bank loans from 1980 to 2000. This paper is divided into six sections. First, I discuss theories of IO behavior and construct my model. Following that, I will present my hypotheses and methodology. Then, I present brief history of the IDB. Finally, I will analyze my regressions and draw conclusions.

I. Theorizing International Organizations

While rationalist and constructivists contend about which endeavor offers more complete answers to the questions surrounding IO behavior, several political scientists have begun exploring the possibilities of theoretical synthesis. As neorealist and neoliberal theories tend to

focus on how and why IOs are created, constructivists and others focus on institutional autonomy, information provision, and norm creation. For most, these different approaches divide. However, others see a combined approach as valuable. Legro (1996), Nielson, Tierney and Weaver (2004), and Tierney and Weaver (2004) are among these. They develop models which combine rationalist and constructivist models to make the best use of the insights of both in an effort to avoid theoretical shortcomings. I build on these models.

Neorealism and neoliberalism have contested each other's claims to explain IO creation using a nearly identical ontology (Keohane and Martin 1999) since neoliberalism arose in response to Waltz's (1979) claims that systemic logic determine state behavior. In terms of IOs, realists argue that states create IOs in response to a collective threat or hegemonic coercion. When that threat dissipates, it is anticipated that the alliance or organization will as well. However, the realists predictions for a return to a chaotic multilateral system following the Cold War (Mearshimer 1994, Walt 1987) have not come to pass, as many Cold War organizations continue to function, but with new mandates (Keohane 1993).

Neoliberalism, on the other hand, argues that while states ought to be considered the primary actors in international relations and that uncertainty is a prevailing condition, cooperation is possible and even likely, as the creation of IOs decrease transaction and information costs for intergovernmental interactions which can lead to further cooperation (Keohane 1984). The prime theoretical challenge to the rationalism of neoliberalism and neorealism has come from the constructivists.

Constructivists generally get lumped together with sociological institutionalists because of their general focus on norms and institutions¹. Constructivism is a more general research

¹ Not to be confused with the rationalist use of the term, which focuses on formal and informal legalistic rules.

program focusing on norms, culture, and society, and how these shape and are shaped by the material world (Wendt 1992, Adler 1997, Adler and Barnett 1998, and Finnemore 1996b). Finnemore points out, however, that constructivism lacks a theoretical structure that relates social elements to one another as well as to an overarching social structure (1996b). Sociological institutionalism (SI), on the other hand, revolves around the spread of Weberian rational-legalistic norms by international organizations. Western style bureaucracy is perceived to have a legitimating effect on nations which structure their governmental systems similarly. So rather than tailoring governmental structure to fit the problem, states use structures which legitimate. Similarly, membership in IOs of this type also provide legitimacy. Inherent within these structures are norms of justice and equity which alter the preferences of states from the outside in (Finnemore 1993, 1996a, 1996b, Adler 1998).

Barnett and Finnemore (1999) employ both constructivism and sociological institutionalism to understand IO autonomy. Because of their Weberian bureaucratic structure and subject expertise, IOs become “autonomous sites of authority,” free to do pretty much as they please. Thus, depending on the perspective, IOs can act either as a “World Bankenstein”² or a global Good Samaritan. Once states establish these organizations, they have no control over them. For Gutner and other rationalists, institutions play an important role in outcomes, but not as a primary cause (35).

Bureaucratic or organizational behavior theories also offer an explanation for IO behavior, dovetailing in some aspects with SI (Miller-Adams 1999, Weaver, Schien). These theories focus on what happens once an organization has a mandate, arguing that the norms and

² Credit for this goes to Greenpeace 1994.

informal rules of operation that govern within an organization determine institutional outputs. Their main drawback lies in their focus on the institutional level.

Principal-agent (P-A) theory began as economists studied the firm and its organization and structure (Coase 1937). Since, its creation it has been used to understand Congress and American bureaucracy (Niskanen 1971; Calvert, McCubbins, Weingast 1989; Hammond and Knott 1996), and has only recently been imported into international relations (Pollack 1997, Nielson and Tierney 2003). Its economic character has allowed it to merge almost seamlessly with rational choice institutionalism, leading to the creation of an innovative approach to international organization. Although firmly a rationalist theory, P-A theory, like other rationalist theories, both allows for the inclusion of non-material interests by using other theories to determine interests and preferences and then channeling them through rationalist mechanisms. A P-A analysis might focus on material incentives at the interstate bargaining level, then on the institutional level by focusing on employment incentives. Nielson, Tierney and Weaver (2004) have demonstrated the compatibility of a two-stage P-A/organizational behavior model. An additional strength of P-A theory is the use delegation chain, which moves P-A theory from a two-level theory to one that can examine interactions from domestic to international to organizational levels.

II. Values and institutions in a two-stage model

Though some rationalists attempt to include non-material interests³ these attempts threaten the Lakatosian core of the approach (Keohane and Milner 1999). Rather than attempting to move rationalism to a more inclusive stance, rationalist theories might be better served by focusing on the process of striving for goals, including the material goals that are part

³ See, for example, Chong 2000.

and parcel to rationalist approaches. However, limiting rationalism to a set of predetermined material goals constrains its usefulness. Allowing for the inclusion of socially-determined preferences, derived from constructivism would enrich rationalism while preserving much of its theoretical core. A sequencing model would allow for preference identification from both rationalist assumptions and constructivist theorizing, while analyzing the pursuit of those preferences through rationalist focuses on strategic interaction and similar methods. In the case of MDBs generally and the IDB specifically, sociological institutionalism offers the beginnings of an understanding of lending preferences for its member states. Principal-agent theory offers a clear, broad, multilevel framework for understanding how preferences move from citizens to governments to IOs and emerge as policy.

Sociological Institutionalism and Lending Preferences

Sociological institutionalism argues that the spread of a Weberian norm of legality and rationality provides a focus for understanding state preferences. This culture emphasizes justice, framed as equality and expressed in bureaucracy, and progress, perceived as economic growth and embodied in markets (Finnemore 1996a). States exist in an international social system that shapes how they see the world and what their roles are. International society socializes states to want certain things. As states and the international social system are mutually constituted, states' preferences shape the system as much as they are shaped by the system.

However, sociological institutionalists focus more on the second process. They argue that so much the rationalist concentration on agency requires that it be balanced by study on the role of international social structures. Sociological institutionalists squarely emphasize the deterministic nature of structure in the agent-structure debate (Finnemore 1996b). Fortunately, scholars like Finnemore attempt to pave the way for a middle ground between SI's structural

core and neoliberalism/neorealism's agent-oriented ontology. Thus, states can be agents with preferences independent of those foisted upon them in by a world polity. This is fortunate, as Finnemore recognizes one of the inherent weaknesses of SI: it ignores politics. It further neglects conflict between international norms and regional or state held cultural norms (Finnemore 1996a).

In the case of interest formation, SI provides a start to understanding that international culture and norms exist, providing outside-imposed preferences on states. It must be furthered by developing ideas of contestation between these international norms and state-held ones. State leaders choose between preferences imposed on them by an international system and those that have roots in their local culture and needs. I argue that the process of increased exposure to international norms through membership in international organizations socializes, albeit incompletely, state leaders to international norms. State leaders inhabit a middle world caught between local values and needs and international norms (Liddle 1991). In this way, Islamic values plays an important role in state preference formation, even as those states converge in appearance and preferences.

The role of values can be treated much as Goldstein and Keohane's (1993)⁴ work in ideas. Where some ideas act as focal points, serving to resolve collective action problems, some act as roadmaps, facilitating the consideration and pursuit of certain policy options while eliminating others, while others become embedded in institutions and simply spell out a course of action. I argue that in Islam, the embedding of a value or virtue in some institution raises the salience of that value to adherents.

⁴ See also Ruggie yr.

Islam generally prescribes certain values which are generally held by Muslims worldwide. One of the principal values of Islam is that of socio-economic justice. The reformist Shi'ite president of Iran, Mohammad Khatami (1998), the extremist Egyptian activist Sayyid Qutb (2000 [1953]), and the moderate reformer Fazlur Rahman (1982) all agree on the importance of socioeconomic justice in Islam. Reducing poverty is of critical importance to these and other Muslim scholars⁵

The importance of socioeconomic justice can be attributed to its embeddedness as one of the five pillars of Islam. Each of these, *shahida* (testimony), *salat* (prayer), *zakat* (alms-giving), *sawm* (fasting during Ramadan) and *hajj* (the pilgrimage to Mecca), has a specific ceremonial form. Being a Muslim, at its most basic, is to follow these five pillars (Denny 1994, 113). No matter who reads it, the Qur'an specifies each of these pillars, enshrining a certain virtue or value. While not considered charity, *zakat* enshrines the value of socioeconomic justice. The Qur'an specifies a portion of wealth that must be given to the poor, who cannot be members of one's immediate family. In most Muslim states, the government collects *zakat* (124-25). Devout Muslims often pay a *zakat* in addition to this (Bowen 2002). Thus, Muslims like Rahman and Qutb, who disagree about issues like women's rights, agree on the importance of socioeconomic justice. In fact, some authors even frame the Islamic commitment to social justice as a commitment to poverty and income gap reduction (Ahmad 1991).

Environmentalism lacks a similar institutionalized quality. Islam emphasizes God's role as Creator and humanity's stewardship of the earth and its resources (Bagader et al. 1994, Kahlid and O'Brien 1992). Although the Qur'an teaches these ideas in several places, in no place does it take precedence the way one of the five pillars does. Because of this, like so many other

⁵ See also Kamali 2001 and Al-Omar and Abdel-Haq 1996, for example.

elements of Islam, it becomes subject to interpretation. Thus, significant amounts of variation exist among Muslims regarding the importance of the environment.

Islamic states face competing pressures regarding the role of the environment and social projects. At the state level, Islamic values ought to create lending preferences that look very much like World Bank lending from McNamara's emphasis on poverty reduction through the early 1980s. Social lending will be framed in terms of poverty reduction, while environmental lending will be unimportant. However, as explained in more detail below, in non-democracies, citizens' preferences will not correlate strongly with those of the governing elite, though shared norms will push them in similar directions. Also, as mentioned previously, international norms ought to have some influence on lending preferences. The more exposure a nation has to international society, the more its lending preferences ought to shift toward environmental and social projects. These social projects will begin to correspond with increased health, educational, and related projects. These lead to the following hypotheses:

- H1a (Population): As IDB member states' Muslim populations increase, social and environmental funding will remain unchanged.
- H1b (International Society): As IDB member states' membership in worldwide "open" membership IOs, social lending and environmental lending will increase.
- H1c (Interaction effects): As IDB member states' Muslim populations increase with IO membership, social and environmental lending will increase by a factor greater than what we see in H1b.

Principal-Agent Theory and Processes

The second part of my two-stage model brings the interests defined previously into a rationalist principal-agent analysis. Principal-agent theory in IR grew out of its use by Americanists to explain different aspects of American politics. It has been applied to

Congressional behavior, bureaucracy, and the judiciary.⁶ Its roots lie in economic theory of the firm, in which a principal (“P”) hires an agent (“A”) to perform a certain task. Recognizing that self-interest provides P and A with different interests, the problems of agency autonomy and shirkage arise. Economics dealt with these through contracting. Part of the problem of contracting, however, lies in the transaction costs of specifying every conceivable outcome. Rather than do this, economists and political scientists have striven to understand how to structure institutions to constrain agency losses.⁷ Kiewit and McCubbins (1991) are particularly well-known for their research in institutional structures which might constrain agency losses.

For explaining IO behavior, this foundation was insufficient. Both economists and Americanists neglected important aspects of P-A relationships that IR had to deal with. Nielson and Tierney (2003), Martens et al (2002), Lyne, Nielson and Tierney (2004) develop two mechanisms designed to strengthen P-A theory’s application to IR. The first is the delegation chain, in which one principal delegates to an agent who may be principal to another agent, and so on. Voters (Nielson and Tierney 2003, Cox and McCubbins 2001) or taxpayers (Martens et al 2002) give politicians a mandate which politicians can then pass on to an IO, which is passed to IO staff and eventually turned into IO policy. The second important innovation that IR added to P-A theory is the distinction between multiple and collective principals, and with it, the importance of voting structures within collective principals. Both of these concepts factor into this analysis.

Delegation chains, regime type, and preference transmission

Delegation chains allow actors to transmit preferences from one actor in the chain to another. Two factors determine the extent to which the principal’s interests become faithfully

⁶ See McCubbins and Schwartz 1987; McNolGast 1987, 1989; Dixit, Grossman, and Helpmann 1997; Hammond and Knott 1996; and Glazer and Hammond 2001, for example.

transformed into policy. First, the degree of convergence between principal and agent interests affects outcomes⁸ Second, where principals and agents do differ, the amount of control a principal has over an agent, or the ability of a principal to hold an agent accountable similarly affects these results (Nielson and Tierney 2003, Hawkins and Jacoby 2004). While different types of democratic institutions lead to differing development preferences (Nielson and Sterns 1997), similarly, differing regime types ought to affect which development preferences get passed on to the state. Leaders of democratic nations face incentives to pay attention to the will of their constituents and pass them on to MDBs. However, the fewer incentives and mechanisms for accountability exist between a citizenry and its leaders, the less likely those preferences are to be passed on. With no delegation from citizens, governments pass on whatever demands they have. Among IDB members, this factor shapes exactly what types of lending preferences get passed to the IDB, as most member states are not democracies.

Once development preferences have been formed at the state level (whatever the mechanism for doing so), they are further filtered by decision mechanisms at the IO level. However, as Lyne, Tierney and Nielson (2004) point out, social scientists must take care to specify the proper model, or accept incorrect outcomes from those models. Additionally, power matters, but in highly institutionalized contexts, institutionalized power matters, and international politics begins to look more and more like domestic politics.

Lyne, Tierney and Nielson point out that political scientists conflate multiple principal models of agency with collective principal models. In a multiple principal model, each principal has an independent relationship with the agent. Thus each principal can sanction or reward the

⁷ The contracting literature includes Sappington 1991, Maskin and Tirole 1999, Tirole 1999, Segal 1999.

⁸ The idea that principals and agents have divergent preferences was critical to the development of principal-agent theory. However, in early work (Coase 1937) this was assumed, while current work in p-a theory attempts to provide a stronger empirical foundation for this assumption. See particularly Hawkins and Jacoby 2004.

agent as it sees fit. In a collective principal, a single principal is composed of a group of states which must overcome collective action problems before delegating a task to an agent. MDB Executive Boards best resemble collective principals, which overcome their collective action problems by designing certain voting structures. MDB Executive Boards are composed of Executive Directors appointed by the states they represent. As these organizations, the IDB included, base voting on the “one dollar, one vote” rule, the states with the largest capital subscriptions have the most power. However, ignoring small states biases results, as small states can play important roles as coalition makers or breakers, just as small parties may play a similar role in parliamentary politics. For the most part, the interests of the most powerful states will shape MDB policies the most (Connolly 1996, Gutner 2002, Nielson and Tierney 2003). But for the above reasons, I use coalition theory to model the formation of minimum connected winning coalitions, following Tierney and Nielson (2003) and Lyne, Tierney and Nielson (2004).

Voting structures relate to a similar issue: which states are even members of the organization. In the case of the IDB, the United States and the rest of the Western powers are left out of the IDB. Thus, in large part, the US, which has often been the channel for NGO pressures for MDB reform (Nielson and Tierney 2003) because of the role its economic and hegemonic status have granted it, cannot push the IDB to reform the way it can in other MDBs.

Gutner’s (2002) comparison of the European Investment Bank (EIB), The European Bank for Reconstruction and Development (EBRD) and the World Bank demonstrates that even among a group of supposedly post-material states, the presence or absence of the US seems to have a profound impact on how much an MDB will fund environmental causes. The US’s membership in the EBRD and the World Bank leads to higher spending on environmental issues at those organizations than at the EIB, which has no official US presence. Thus, to the extent

that the US has been important to MDB reform elsewhere, it cannot play that role here. At the IDB, there are few states with the power and interests to play the same role as the US at the World Bank. These lead to my remaining hypotheses:

- H2 (Democracy): As member states become more democratic, environmental and social lending will increase.
- H3 (Hegemon): When the United States is a member of an MDB, environmental and social financing will increase.

III. Methods and Data

Distinct hypotheses can be derived from this theoretical argument. I will test these using a logit regression model. I have selected this particular model because both of my dependent variables, the social or environmental nature of a project, are coded as bivalariately. A logit model tests the effect that a one unit change in an independent variable results in a B unit change in the log of the odds ratios for success on the dependent variable. In other words, e^B is the odds ratio of success on the dependent variable. In this case, the odds of a given loan being social or environmental are e^B times greater for every unit increase in a given independent variable (ATS Stat Consulting Group 2004). I will test the following model:

$y = B_0 + B_1\text{ISLAM} + B_2\text{IO} + B_3[\text{ISLAM}*(1-\text{IO})] + B_4\text{HEGEM} + B_5\text{DEM} + \text{controls} + u$. Control variables are listed in Table 2, below.

The following revisits my hypotheses in both theoretical and econometric terms.

Cultural Hypotheses:

- H1a (Population): As IDB member states' Muslim populations increase, social and environmental funding will remain unchanged. In terms of null and alternative hypotheses, H1a0: $B_1=0$, H1a_a: $B_1\text{not}=0$.

- H1b (International Society): As IDB member states' membership in worldwide "open" membership IOs, social lending and environmental lending will increase. Again, H1b0: $B2=0$, H1ba: $B2>0$.
- H1c (Interaction effects): As IDB member states' Muslim populations increase with IO membership, social and environmental lending will increase by a factor greater than what we see in H1b. Thus, H1c0: $B3=0$, H1ca: $B3>B2$.

Delegation/Democracy Hypotheses:

- H2 (Democracy): As member states become more democratic, environmental and social lending will increase. So H20: $B4=0$, H2a: $B4>0$.

Hegemony Hypothesis:

- H3 (Hegemon): When the United States is a member of an MDB, environmental and social financing will increase. H30: $B5=0$, H3a: $B5>0$.

I draw my data from a randomly selected set of loans from the IDB as well as the Asian, Inter-American and World Banks (both International Bank for Reconstruction and Development and International Development Association), covering the years 1980-2000. This set comes to over 1400 loans.

The first dependent variable, SOC is a dummy measure of social lending. It includes traditional social categories such as education, health, water supply, housing, and similar projects. I have excluded Islamic lending which includes mosque-building, construction of Islamic schools and universities, Islamic financial institutions, and projects involving *waqf* endowments.⁹ I have coded the second dependent variable, ENV, as a dummy for both "brown" and "green" projects.

I have coded my major independent variables, DEM, ISLAM, IO, and HEGEM as follows: DEM is the aggregate score from the POLITY IV project, ISLAM is a percentage of

⁹ *Waqf* is a property grant made for religious or social purposes. While a *waqf* may be developed at a later time, any profits made from that particular endowment must be spent for the social or religious benefit of the community (Encyclopedia of Islam).

Muslims in a country,¹⁰ IO is a percentage of global open-membership international organizations a country belongs to, and HEGEM is a dummy for US involvement in an MDB. My primary independent variables are Islamic values, democracy, and US membership in an MDB; the connections between DEM and HEGEM and the variables I am trying to measure with them ought to be fairly straightforward. I expect the signs of my estimators on both of these variables to be positive in my both of my regressions.

For my Islamic values measure, I subtract IO from one, then multiply this number by ISLAM. As explained above, I focus on two issues in Islam, norms for socio-economic justice and environmentalism. As Islamic conceptions of socioeconomic justice can easily be framed to look like old World Bank lending, I expect both social and environmental lending to be uncorrelated with ISLAM. This ought to give me an idea of the strength of Islamic preferences without considering elites. I use the interaction of $(1-IO)$ with ISLAM to capture state-level preferences for Islamic lending. As the value of $(1-IO)$ increases, Islamic values ought to come out more strongly, while as it decreases, international norms will have more influence, thus Islamic financing will decrease while I expect the increase of social financing to make up for the decrease in Islamic financing. Environmental lending will also increase. For social financing I expect the coefficient on $[(1-IO)*ISLAM]$ to be positive; for environmental financing I expect it to be less than or equal to zero.

Although I expect there to be some correlation with scores on DEM and $[(1-IO)*ISLAM]$, I do not anticipate that it will be so high as to cause any multicollinearity problems. Also, although these data are drawn from across time, I assume that loans for a

¹⁰ For all non-IDB countries, I coded ISLAM as equal to the lowest IDB member's score. This simplifying assumption made doing calculations easier, but I intend to collect more accurate data for future iterations of this project.

country are independent from year to year, though this assumption does not hold up for loans given to the same country in the same year.

I drew the data for each of these variables from several sources. IDB funding was coded at the project level from the Bank's annual reports.¹¹ Additionally, the IDB funds additional social projects each year an average of approximately \$US one million as a part of special accounts/*waqf* fund operations. We have not yet collected all of this data. As such, any picture presented by this project is incomplete, though the absence of special accounts/*waqf* fund data should at worst lead regression analysis to underspecify the amount of social lending which occurs at the IDB.

Data for the other variables comes from the CIA World Factbook (2003) (IO), while Islamic population data (ISLAM) comes from the World Christian Encyclopedia (2001). The measure for DEM is drawn directly from POLITY IV, as mentioned above, and HEGEM is based on membership data for the AsDB, World Bank, and IADB. Controls came from the World Development Indicators (2001). I understand that my operationalization of these variables may not properly capture the relationships I intend them to. The variables ISLAM and IO and their interaction are most subject to this criticism. I would defend these operationalizations on the grounds that I have identified a value within Islam that is so strongly institutionalized that its required expression is an important part of what makes an individual Muslim. Thus, we ought to see preferences for social lending come through clearly in most Muslim groups. Environmentalism, on the other hand, is not institutionalized and weakly

¹¹ A group of BYU students was trained to code these variables, based on coding rules derived from the PLAID and Greenaid Projects at BYU and the College of William & Mary. A second group of students will recode this data to check for intercoder reliability. This dataset is not yet complete, however, as we are still missing several years of project data for the IDB.[0]

discussed and framed in Islam's sources. Thus in a random sample of Muslims one could expect not to see environmentalism emerge as a strong preference.

As a measure of the spread of the Weberian norms associated with sociological institutionalism, IO should hold up. This is what I hope to capture with this variable, and I think a percentage of global open membership IOs should encapsulate this concept. As a state's membership in these organizations increases, it *at the least* becomes more susceptible to accepting the norms they embody. Most important is the question of their interaction portraying the conflict over norms at different levels and which "win" in terms of preferences. This particular variable has presented some challenges in the way of data collection. First, to this point I have no sources for Yemeni population percentages in the former People's Democratic Republic of Yemen or for the Yemen Arab republic. What data I have for Yemen treats the country as one since 1990. To resolve this, I have summed their collective vote shares (which have both been equivalent and small across all IDB years) and assumed that I can use the Yemeni Muslim population data I have at this time. Second, although Palestine is not a nation-state, has membership at the IDB. However, its status has made collecting data on IO membership difficult, as Palestine has, at best, observer status at the kinds of IOs I have coded for this paper. Any count of Palestinian IO memberships would be biased for this reason. However, I cannot simply drop Palestine from my calculations as pivotal player indices require that every member and its vote share be accounted for. Thus, I include the mean of $[ISLAM*(1-IO)]$ as the measure for Palestine.¹²

Theoretically and empirically, this project has several limitations: First, while I attempt to specify my model in such a way that P-A theory and sociological institutionalism mesh, they

¹² I had to do the same for Taipei, Western Samoa, and Hong Kong to find their score on IO as I calculated pivotal player indices for these variables.

are competing theories which may not be perfectly compatible. My efforts to quantify such factors as values and norms may be the strongest example of this. Methodologically, my reliance on quantitative methods prevents me from dealing with the nuances of MDB lending. I am unable to say anything about the politics of getting social or environmental projects onto the IDB's agenda, for example. Also, my choice of quantitative methods also means that I have to figure out how to quantify ideas which are not easily quantifiable. My operationalization of the Islamic values variable may not hold up. I hope that with further research I can find a better way to quantify this particular variable. While this quantitative analysis ought to give me a sense of the general trends at the IDB, the dearth of information available on project level processes, as well as the institution's distance make qualitative research difficult. Primary sources on the IDB are difficult to obtain, and the secondary literature is thin. This problem also leads to a self-conscious ignorance of organizational culture and incentive structures. These have important influences on what IOs do with the preferences fed to them by states (Nielson, Tierney and Weaver 2004, Legro 1996, Martens et al 2003). In not accounting for this factor, I may miss an important determinant of project outcomes. As this data is almost impossible to come by but through time spent at the institution and in interviews with personnel, I cannot account for it at this time.

IV. The Islamic Development Bank

In 1975, the newly rich oil economies of the Middle East, with the blessing of the Organization of the Islamic Conference, met to discuss the possibility of establishing an organization which would allow them to invest their newly found wealth in an organization built on the idea of socio-economic development for Muslim countries. Once the states decided on

the idea of an *Islamic* development organization, the Saudi Arabian government put its full weight behind the project, and in 1975 the Islamic Development Bank was born (Meenai 1989).

The organizing states assembled a committee to decide how best to go about constructing the institution and decided on two conflicting guidelines. First, it would need to become operational as soon as possible. Second, its operations would need to conform with the *shariah*, or Islamic law. As Islamic banking was a relatively new field, there were questions as to what an Islamic bank, especially one designed to fund development, was supposed to do. In their efforts to answer these questions, the IDB's founding committee sent missions to the World, Asian and African Development Banks. On these missions they learned how international development banks operated. On their return, they recommended following the model presented by these organizations. The IDB began financing operations the next year.

Additionally, they decided that rather than try to figure out exactly what an Islamic bank does and then open the bank, they would start with their best understanding and use *ijtihad*¹³ to discover how to fund development according to the *shariah*. They began with several principals: *riba*, or interest, would be prohibited, thus any loans they offered would be interest free, although minimal service fees would be attached. Further, it was decided that technical assistance, equity participation and trade financing would be the Bank's major modes of operation. Loans would not be preferred, and would have to be kept in equal ratio with equity operations (IDB 1975, Meenai 1989).

In addition to the Bank's mission to provide for social and economic development among its members, it was decided that another of the Bank's major missions would be to investigate possibilities for economic cooperation among member states and strengthen them. This was

¹³ *Ijtihad* is a method of Islamic jurisprudence involving "independent legal reasoning" (Denny 1994, 390) or grappling with an issue to understand how to deal with some in an Islamic manner (Meenai 1989).

among the justifications for the Bank's foreign trade financing operations, in which trade among member countries receives first priority for funding. In keeping with this priority, the IDB chose to use short-term liquid funds for its trade financing operations. These trade financing operations easily account for most of the IDB's annual disbursements, well over half of the IDB's annually committed funds.

The IDB was formally established in October 20, 1975 and became operational only a year later, with a loan of US \$3.78¹⁴ million¹⁵ and an equity participation project of US\$5.03 million (IDB 1976). By 2004 the Bank has weathered a few crises and last year financed approximately US\$2 billion for development in the Islamic world. The IDB's members include all but one of the Organization of the Islamic Conference's members from Niger to Indonesia. Table 1 lists the IDB's member states. Unlike most MDBs, the IDB serves Muslims in non-member states as well as its member governments. The IDB has even funded several projects in the United States (IDB 1982). In its more than twenty-five years, the IDB's main challenges have been devising *shariah* compliant means of raising capital and learning how to fund development projects in the same way (IDB 1976, Meenai 1989).

¹⁴ In 1995 dollars.

Afghanistan	Guinea Bissau	Palestine
Albania	Indonesia	Qatar
Algeria	Iran	Saudi Arabia
Azerbaijan	Iraq	Senegal
Bahrain	Jordan	Sierra Leone
Bangladesh	Kazakhstan	Somalia
Benin	Kuwait	Sudan
Brunei Darussalam	Kyrgyz Republic	Suriname
Burkina Faso	Lebanon	Syria
Cameroon	Libya Malaysia	Tajikistan
Chad	Maldives	Togo
Comoros	Mali	Tunisia
Côte d'Ivoire	Mauritania	Turkey
Djibouti	Morocco	Turkmenistan
Egypt	Mozambique	Uganda
Gabon	Niger	United Arab Emirates
Gambia	Oman	Uzbekistan
Guinea	Pakistan	Yemen

The *shariah* is the system of Islamic law, based on the *Qur'an*, the *sunnah*, as well as various methods of Islamic jurisprudence¹⁶ (Denny 1994, 196-199). Much of what Muslims believe is based on these sources. The *Qur'an* is the holy book of Islam, as revealed to the prophet Muhammad. The *sunnah* contains the life and acts of Muhammad as derived from his reported sayings¹⁷ (the *hadith* Lewis and Algaoud 2001, Rahman 1982). Among the most important economic aspects of Islam is found in the *Qur'an*: the prohibition of *riba'* or interest. This is based on an Islamic prohibition against earnings for which one has not given any “just counter value”. Additionally, the injustice of interest lies in its certainty: a borrower’s interest on a loan is uncertain, while his obligation to pay interest is set, whether or not he profits from the loan. Additionally, Islamic economics are founded on a unique brand of contract law, which

¹⁵ The Bank’s currency is the Islamic Dinar (ID), which is on par with the SDR.

¹⁶ These include *ijtihad*, *ijma'*, and *qiyas*. See fn. 1 for a definition of *ijtihad*. *Ijma'* is the principal of scholarly consensus, while *qiyas* is a process of analogical reasoning, or deriving new laws based on preexisting principals.

¹⁷ Found in the *hadith*, see Lewis and Algaoud 2001, Rahman 1982

requires that the object of any contract must be lawful (according to the *shariah*), exist (or be produceable), deliverable, and determined, that is, all of an objects characteristics must be specified in advance (Al-Omar and Abdel-Haq 1996).

Financing techniques must meet these and other specifications found in the *shariah*. Financing techniques approved by the *shariah* generally revolve around some form of profit- or risk-sharing or entail a purchase made by an intermediary for a contractually agreed upon amount. One of the IDB's core missions is the identification of alternatives to financing through interest. It pioneered the use of installment sale and other means, and for a time, led the Islamic world in developing new financing techniques, including the development of an Islamic secondaries market (IDB 1985-1986, Al-Omar and Abdel-Haq 1996).

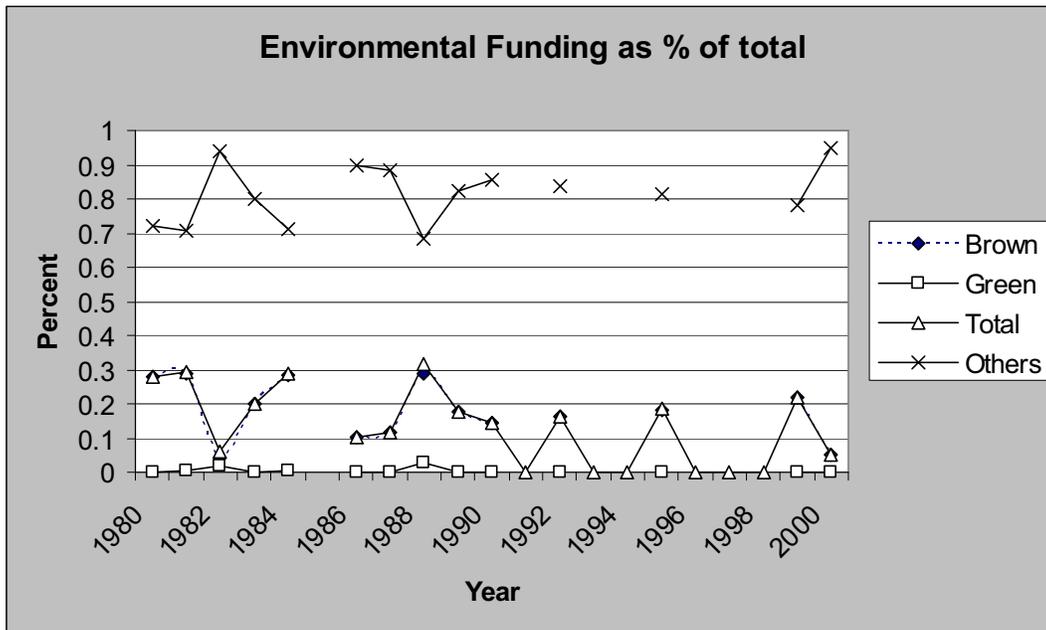
Although the IDB had its own set of challenges, little mention is made of the kinds of institutional reforms which the World Bank and other MDBs have been forced through. The IDB's growth required administrative rearrangement, and technical difficulties forced policy changes regarding financing instruments. For instance, while the Bank originally set out to focus on technical assistance, equity participation and trade financing, only trade financing remains a significant part of IDB operations. Meenai (1989) notes that member states' institutional structures and expectations revolved around loan and grant financing, and the Bank's reports question the value of equity participation when returns were low or nonexistent¹⁸ (IDB 1985-1986).

The Bank has averaged just over 56 projects per year, financing approximately US\$400 million per year.¹⁹ On average, the bank financed slightly more than US\$71 million for

¹⁸ Until I have a more complete data set for the period under study, I will limit descriptions of IDB financing to averages.

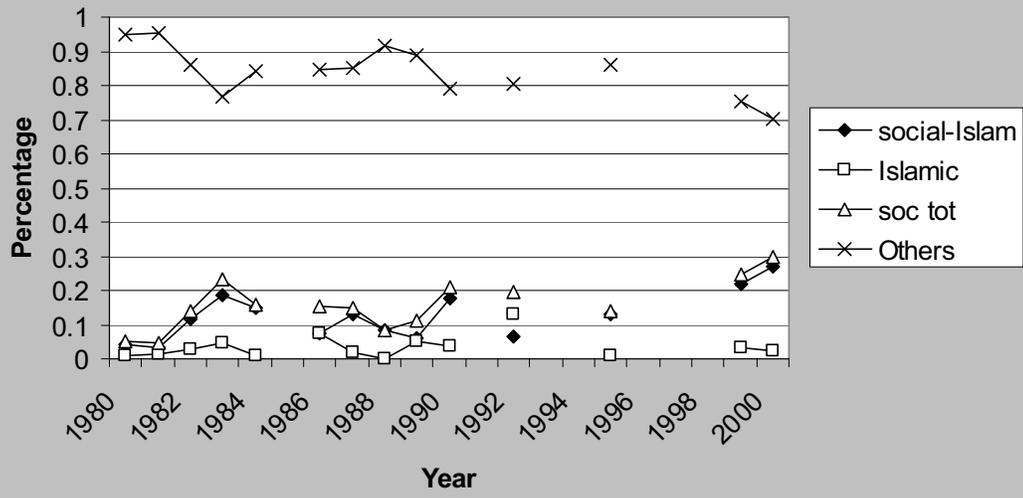
¹⁹ I used the 1995 CPI from the World Development Indicators to adjust yearly dollar lending amounts to constant dollars.

environmental projects, the bulk of which (97.8%) are “brown”.²⁰ In social lending, the IDB averaged US\$58.3 million in projects. If one includes projects with Islamic elements, the number becomes US\$71.45 million averaged over twenty years. The following charts present IDB funding during this period.

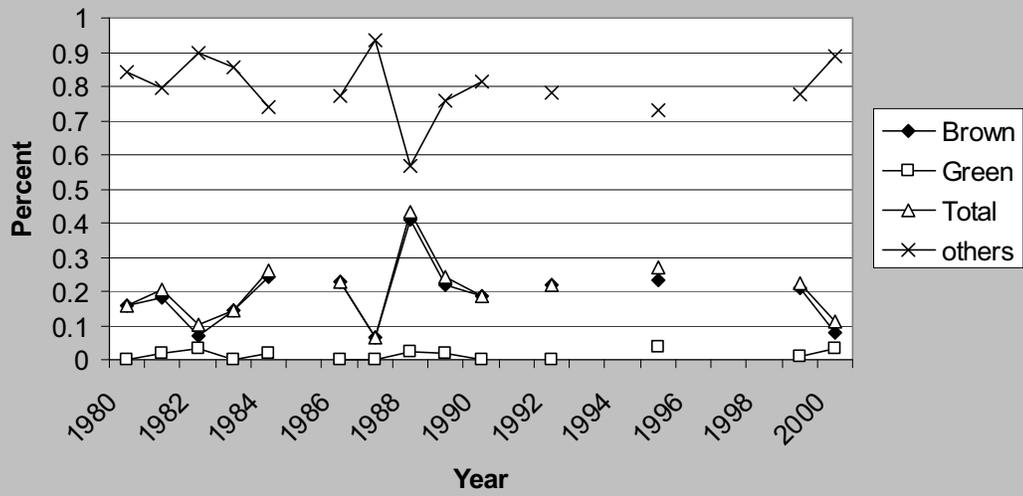


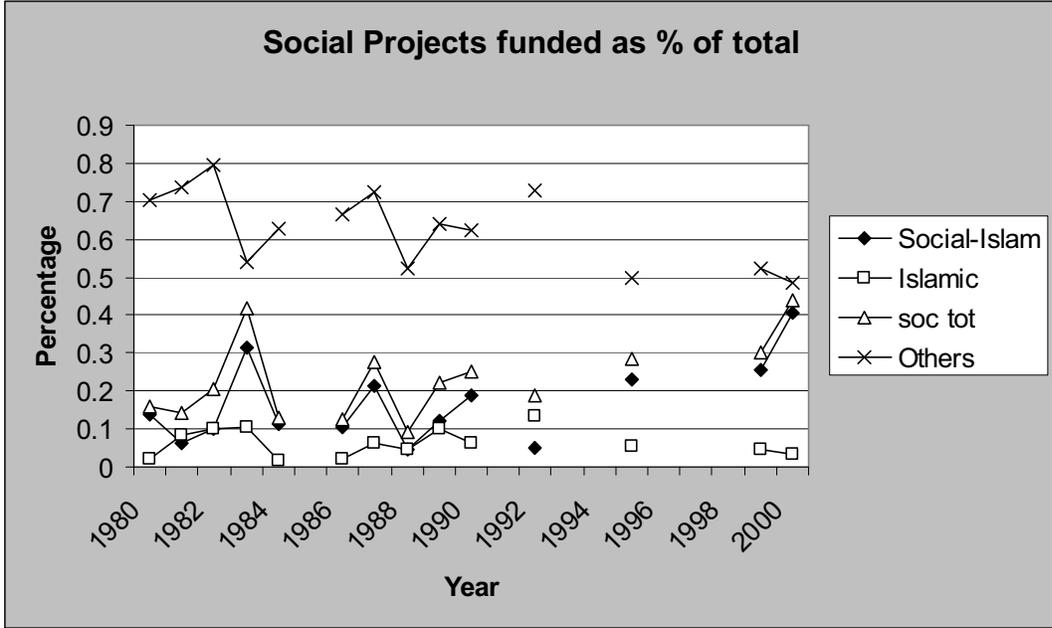
²⁰ Brown projects focus on clean-up and reclamation, while green focus on natural resource preservation and environmental capacity building (World Bank 1995, Nielson and Stern 1997).

Social Funding as % of total



Environmental projects funded as % of total





While the missing data currently make analyzing these graphs somewhat difficult, one can make out an upward trend in both the funds and number of socially-oriented projects at the IDB. In terms of the environment, however, both numbers fluctuate, and it appears that this type of lending is particularly unstable from year to year.

V. Regressions and Data Analysis

As mentioned in section III, I ran regressions on my primary variables IO, ISLAM, (1-IO)*ISLAM, HEGEM, and DEM for SOCIAL and ENVIRO and a set of controls. The results follow.

Table 2: SOCIAL Logit estimates

Number of obs = 1441
 LR chi2(10) = 27.90
 Prob > chi2 = 0.0019

Log likelihood = -761.41755

social	Coef.	Std. Err.	z	P> z
inf_mort	-.0018195	.002624	-0.69	0.488
i_gdpcap	.0000856	.0000561	1.53	0.127
i_hth_exp	-.0536199	.0595027	-0.90	0.368
i_schl_prim	-.0012073	.0034094	-0.35	0.723
i_gdp1995	6.83e-13	3.85e-13	1.77	0.076
i_pub_ed_exp	-.0152208	.0247201	-0.62	0.538
io	-4.721814	3.183523	-1.48	0.138
islam	-69.28672	22.11616	-3.13	0.002
hegem	60.90919	19.87365	3.06	0.002
dem	-.0040178	.0101147	-0.40	0.691
_cons	67.01036	21.04727	3.18	0.001

The results appear to bear out part of my causal story, with some twists. First, however, I had to drop $(1-IO)*ISLAM$, due to collinearity with ISLAM. ISLAM and HEGEM were both significant, at near the .001 level. ISLAM has a negative influence on the likelihood of a loan being social, while HEGEM has a positive influence. GDP also plays a less significant (between .05 and .1) role in determining a loan's "social-ness", which is to be expected.

This regression certainly does not bear out my hypothesis that the coefficient on ISLAM would be less than IO which would be less still than $(1-IO)*ISLAM$. Further, ISLAM is not, as I have measured it, an insignificant factor in how social MDB lending will be. Where Muslim populations are high, loans will be less social. In a sense, this confirms my expectations, but not in the manner I expected. As in the earlier World Bank, social lending is simply unimportant where Islam is concerned. Additionally, US involvement in MDBs does have a significant bearing on how social loans will be. My final primary variable, democracy has a practically small and insignificant effect on lending. There may be a correlation between ISLAM and DEM, such that higher levels of Muslim populations would be highly correlated with non-democratic regimes.

Regressions on ENVIRO were much less successful:

Table 3: Logit estimates

Number of obs = 1419
 LR chi2(13) = 23.55

Log likelihood = -434.16932

Prob > chi2 = 0.0356

envirotot	Coef.	Std. Err.	z	P> z
life_expect	-.0052193	.0180068	-0.29	0.772
i_paved_rds	.0039261	.0044208	0.89	0.374
i_gdp1995	6.49e-13	7.46e-13	0.87	0.384
i_vehicles	.0030371	.0022438	1.35	0.176
i_exports~p	.0172173	.0367049	0.47	0.639
i_savings	.0035596	.018032	0.20	0.844
i_ag_val_add	.0073222	.0116518	0.63	0.530
i_ind_val~d	.000081	.0176486	0.00	0.996
hegem	6.377023	23.94676	0.27	0.790
dem	.0130791	.0156358	0.84	0.403
i_trade_gdp	-.0107385	.0171126	-0.63	0.530
io	.2587148	4.313136	0.06	0.952
islam	-5.761779	26.63411	-0.22	0.829
_cons	3.946098	25.60781	0.15	0.878

The results of this regression are completely insignificant. IO does, at least, have a greater influence on environmental lending than ISLAM does, as I expected, but insignificantly so. ISLAM's insignificance does offer some support for my hypothesis here. ISLAM simply is not a factor in environmental lending. It would seem that Islamic values, as I have measured them, are irrelevant to changes in this type of lending. Unfortunately, I find no other support for my hypotheses here.

VI. Conclusions

It would appear that Islam does indeed have an effect on social lending at MDBs. A large body of literature, as well as political and social debate has grown up around the question of Islam and its relation to the attacks of September 11th. Additionally, many question the relationship between Islam and development and democracy. Is Islam in fact inimical to both these pursuits? Two divergent opinions have emerged. Some would argue that Islam is intolerant of others, a religion of the sword and oppression. Others argue for a more politically correct perspective and argue that Islam is not the true cause of underdevelopment that plagues most Islamic nations. Political and economic factors become the main players. The problem with Islam, as with any religion or large, widespread organization, is that one can find support for either position within the Qur'an and the other source materials upon which Islam is based.

The findings of this paper indicate that Islam has a strong negative effect on social development. The greater question here is which of the above stories is correct? I argued that norm for socioeconomic justice in Islam could easily be interpreted to match old World Bank environmental and social preferences, and that social lending at the IDB more or less wouldn't happen. But the results of the first regression seem to indicate that I have either misinterpreted Islam or that between pure population numbers and the preferences that state leaders have, some other variable intervenes. Certainly further study is merited, as answering this question will be key to understanding development in the Islamic world.

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