

IOs as Norms Platforms:
The World Bank's Influence on Environmental Practice at the Islamic
Development Bank¹

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Abstract

In this paper we explore the proposition that changes in international organization (IO) behavior might derive from the IO's interactions with other IOs. To test alternative mechanisms, we examine changes in lending behavior toward environmental protection at the Islamic Development Bank. Norm diffusion across IOs may take place via socialization by the norm entrepreneur—which, in early stages, may rely on material incentives or may occur as the norm adopter emulates the norm initiator. We also pay attention to non-IO sources of norms: member states and non-governmental organizations (NGOs). The Islamic Development Bank (ISDB) provides an ideal setting to evaluate our hypothesis: the originators of most global norms, the advanced industrial democracies, do not have voting shares on the Islamic bank's executive board. This allows us to focus on the effects of global norms diffused by IOs where the industrial democracies are the most powerful members from the effects of the preferences of IO's member states, who jointly form the collective principal of the ISDB. We test related hypotheses, controlling for an array of supply- and demand-side factors involved in development bank lending, on a dataset of 1,085 ISDB loans from 1980 to 2000.

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The influence of international organizations (IOs) on other IOs seems implicit in some accounts. According to Finnemore (1996a), the new norm of development as poverty reduction spread from the World Bank to the International Labor Organization (ILO), the Organization for Economic Cooperation and Development's (OECD) Development Assistance Committee (DAC), and the United Nations Development Programme (UNDP). Likewise Adler (1998) describes the spread of the security community norm in Europe. The Organization for Security and Cooperation (OSCE) began socializing its member states as a "security community." Without discussing the norm's origins, however, he proceeds to explain how the OSCE socialized its member states, pointing out along the way that other IOs, like the North Atlantic Treaty Organization (NATO), the Western European Union (WEU), the European Union (EU) and the Council of Europe (CoE) began operating on this norm. Did the states diffuse the new norm on to other IOs, or did these norms spread along other paths? These accounts leave the answers unclear.

International organizations have the means to influence other IOs. This influence may stem both from intentional and/or unintentional interaction as well as through emulation of and learning from other IOs. Scholars have explored how international organizations (IOs) diffuse norms to states, but they have paid little attention to the possibility that IOs might have both the means and mechanisms for diffusing norms to other IOs. The literature on IOs as norm entrepreneurs is extensive (Finnemore 1996a, Barnett and Finnemore 2004), yet, for the most part, ignores this possibility. Not only might IOs diffuse international norms to other IOs through mechanisms like socialization, but through unintentional but standard interactions. Additionally, influence might not involve interaction at all: important IOs can set the example for other IOs to follow. We specify a set of pathways by which IOs might influence other IOs.

Norm diffusion can occur as IOs that have already adopted a norm attempt to socialize others or as IOs that have not adopted a new norm decide to adopt it. Importantly, actors attempting socialization—inducing another actor to self-sanction when found violating a norm—rely on material strategies as well as argumentation, persuasion, and discursive enmeshment (Finnemore and Sikkink 1998, Checkel 2005, Risse, Ropp, and Sikkink 1998, Keck and Sikkink 1998, Hyde 2004, Goodliffe et al 2005, Kelley 2007). IOs may also influence each other when not intentionally pursuing socialization. IOs that have not internalized a norm may decide to adopt it because other IOs have legitimated it (Strang and Meyer 1993). Of course, IOs may have little to do with diffusion to IOs: states and non-governmental organizations (NGOs) may also socialize IOs (Nielsen and Tierney 2003, Park 2005; Keck and Sikkink 1998). We consider each of these channels in the context of World Bank influence on the Islamic Development Bank.

World Bank-Islamic Development Bank interactions provide an important example of IO-IO influence. At most multilateral development banks (MDBs), the advanced Western democracies from which new international norms usually emanate also hold dominant voting shares. Therefore, it is difficult to separate the influence of global norms from the formal authority manifest in members' voting power. The Islamic Development Bank (ISDB) is unique among MDBs in that no advanced industrial democracies hold capital subscriptions or exercise voting shares on the ISDB's executive board. As such, the ISDB stands apart from the other MDBs and provides a natural experimental setting where the effects of global norms (diffused from other IOs) versus member-state preferences can be more cleanly observed. Evidence from ISDB lending will speak to the debate over whether IOs are responsive to their member-state principals or to norms diffused from other IOs.

The key propositions tested here deal with the interdependence of IOs: we take the possibility of *independent* decision making as our null hypothesis. We ask, how much and through what channels do norms diffused from IOs to IOs account for IO behavioral change? Using ordered probit regressions, we test the effectiveness of various pathways of norm diffusion on producing more environmentally friendly lending. We do this using a dataset of more than 1085 loans issued by the Islamic Development Bank between 1980 and 2000. We proceed by briefly charting the history of the Islamic Development Bank (ISDB) and its environmental practice over time, and we also discuss changes in the World Bank's environmental practices. Next, we discuss the causal mechanisms by which the World Bank might influence the ISDB; from this we generate hypotheses. Finally, we test these hypotheses, discuss our results, and conclude.

The ISDB, the World Bank, and the Environment

In 1973, leaders from a group of Islamic states met, with the blessing of the Organization of the Islamic Conference, to discuss the possibility of establishing an organization on the idea of Islamic socio-economic development. 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).

In order to understand how international development banks operated, the new ISDB sent missions to the World Bank and Asian and African Development Banks. The preparatory committee also decided that the ISDB would conform to Islamic law, especially the prohibition against interest (Meenai 1989, 15). Any loans the bank offered would be interest free, although minimal service fees would be attached. Further, they 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 (ISDB 1975, Meenai 1989).

The ISDB was formally established in October 20, 1975 and became operational only a year later, with a loan of US \$3.78 million and an equity participation project of US \$5.03 million (ISDB 1976). By 2004 the Bank had weathered a few crises and last year financed approximately US \$2 billion for development in the Islamic world. By comparison, the World Bank averaged \$20 billion per year from 1980 to 2000, and the Asian and Inter-American Development Banks lent roughly half that total. The ISDB's members include all but one of the Organization of the Islamic Conference's members from Niger to Indonesia. Table 1, below, lists the ISDB's member states. Unlike most MDBs, the ISDB serves Muslims in non-member states as well as its member governments. The ISDB has even funded several projects in the United States (ISDB 1982). In its more than twenty-five years, the ISDB's main challenges have been devising means of raising capital and funding development projects consistent with Islamic law (ISDB 1976, Meenai 1989).

Although the ISDB has experienced its own set of challenges, little mention in the literature on the ISDB is made of the kinds of institutional reforms that the World Bank and other MDBs have been compelled to undergo. The ISDB's growth required the requisite 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 ISDB operations (Meenai 1989).

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	Tajikistan
Chad	Malaysia	Togo
Comoros	Maldives	Tunisia
Côte d'Ivoire	Mali	Turkey
Djibouti	Mauritania	Turkmenistan
Egypt	Morocco	Uganda
Gabon	Mozambique	United Arab Emirates
Gambia	Niger	Uzbekistan
Guinea	Oman	Yemen
	Pakistan	

Differences in preferences and behavior

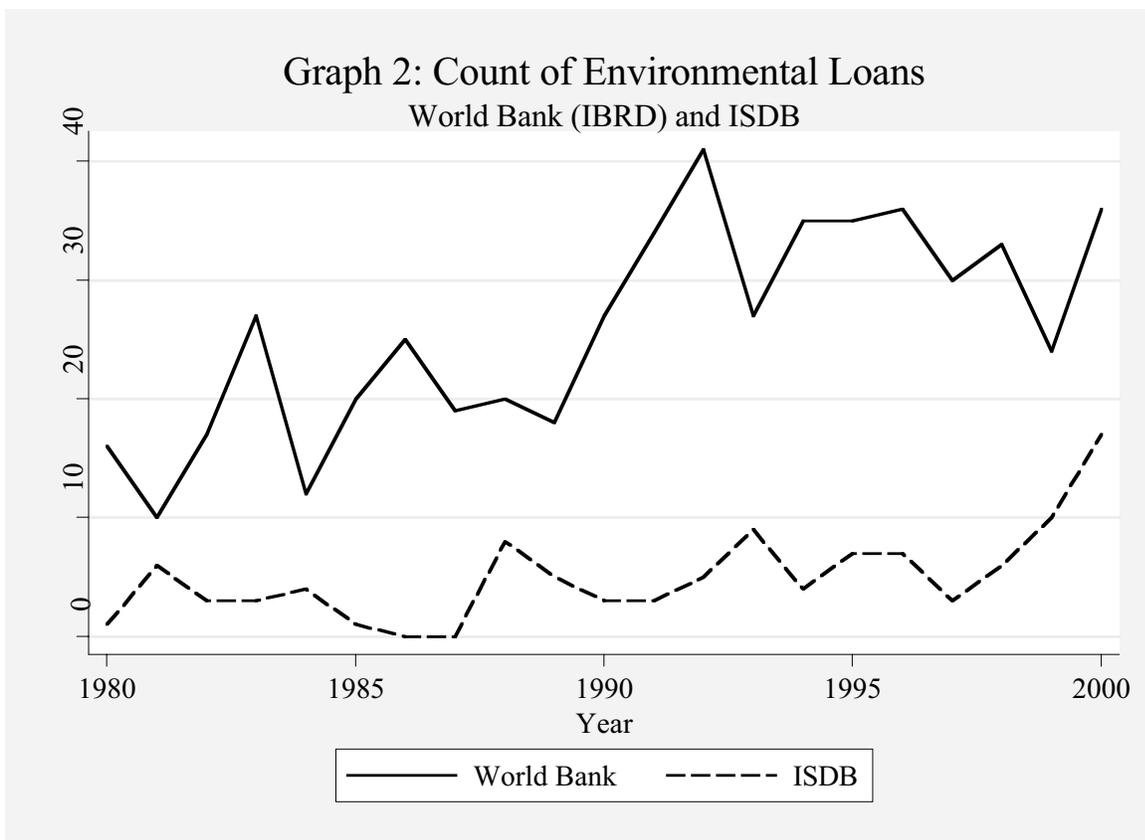
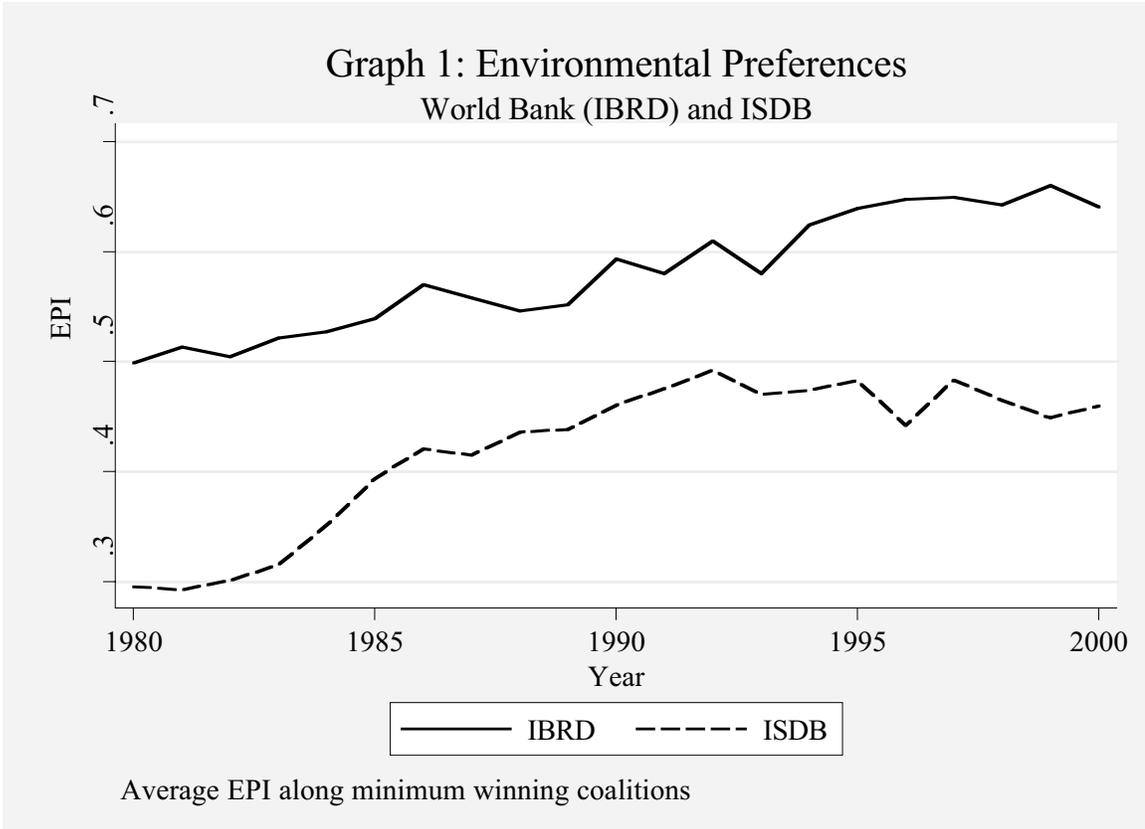
We see few signs that ISDB member states have internalized environmental norms. Most global norms originate from and are perpetuated by the advanced industrial democracies.

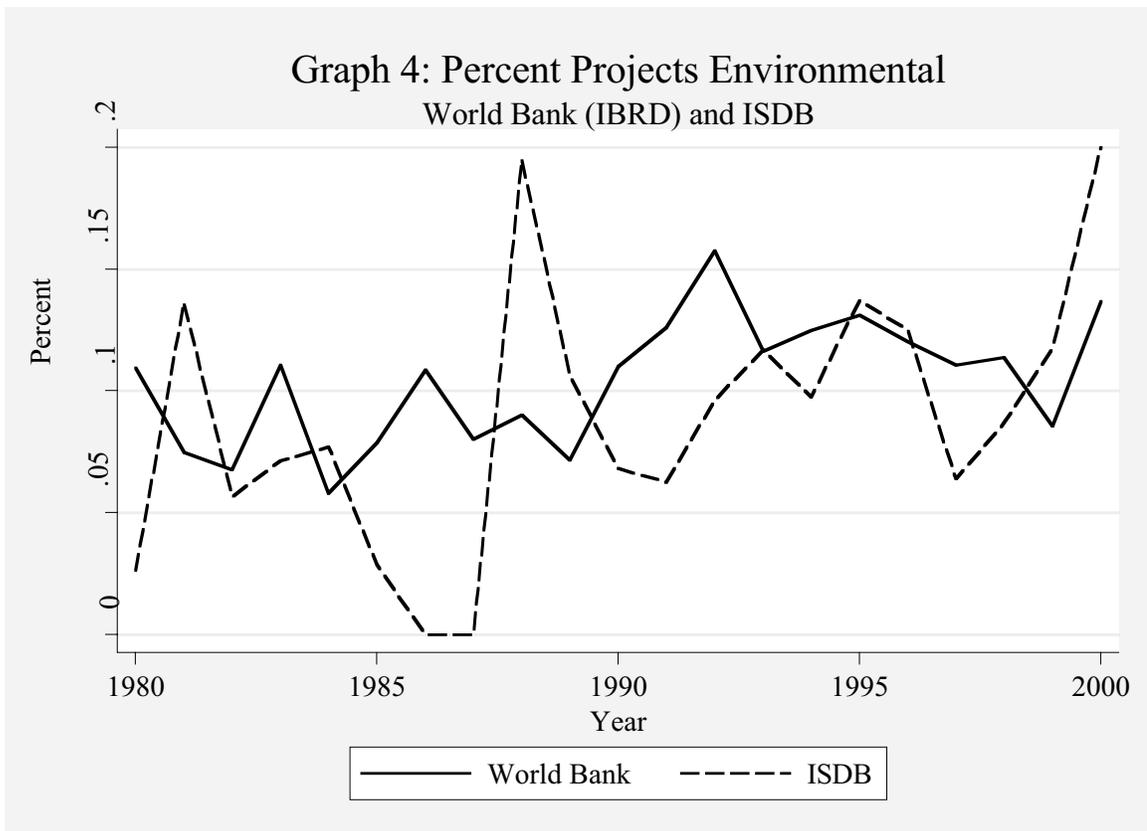
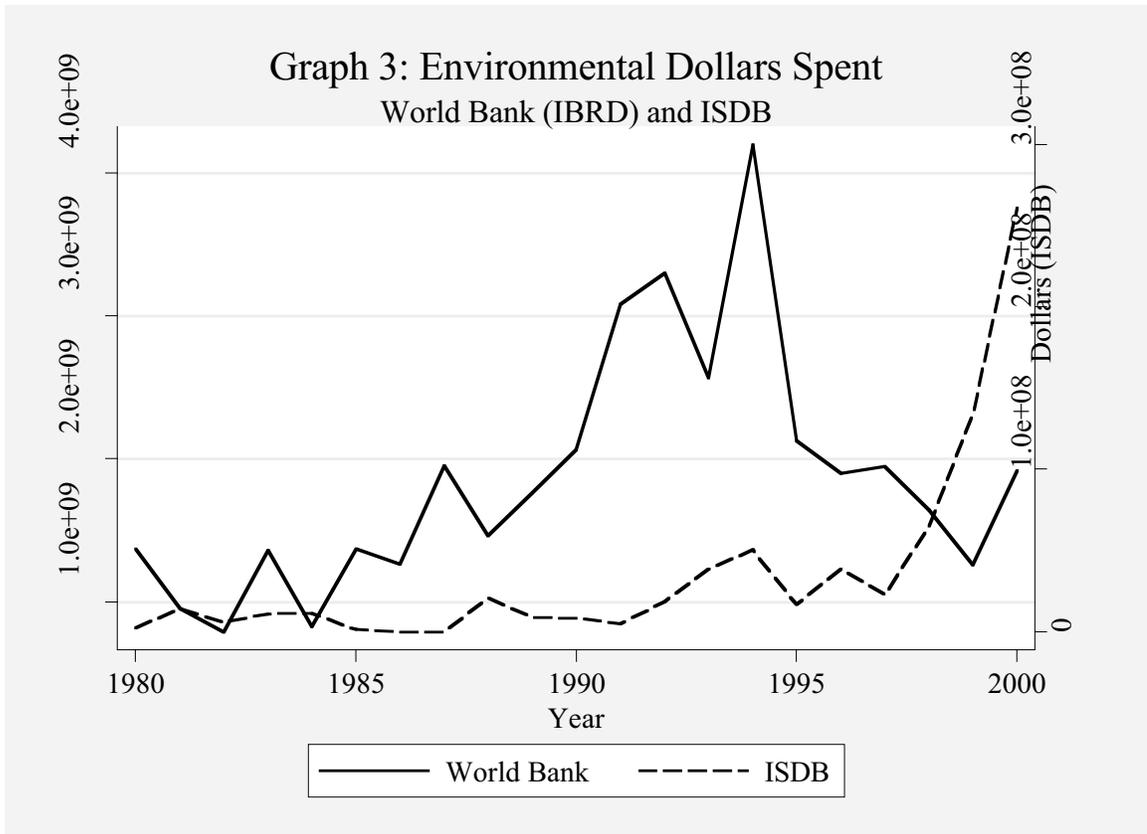
Previous research on behavioral changes at the MDBs has demonstrated the important role of member-government preferences in development bank lending (Nielson and Tierney 2003; Lyne, Nielson and Tierney 2006). Thus, where the norm creators among the advanced democracies have significant voting power on executive boards, as in the major MDBs, we would expect to see a stronger shift towards the new norm of environmental. In the ISDB, however, none of the advanced industrialized states have any institutional role. Non-Western Arab states with different preferences lead the bank, and, therefore, we expect to see the ISDB engaging in different behavior than the other MDBs where Western democracies dominate. We discuss below the different preferences we expect the member states of the ISDB to have.

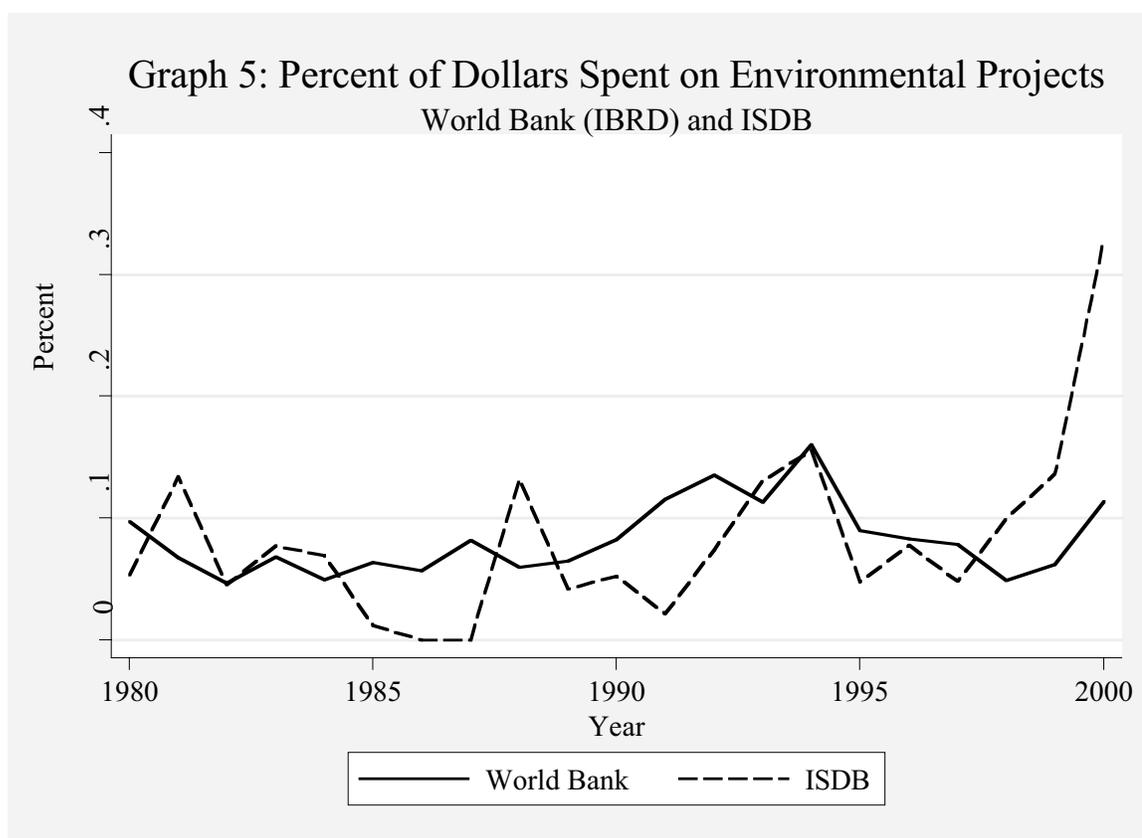
On one hand, Islamic texts provide qualified support for environmentalism. Nevertheless, environmentalism lacks the institutionalized quality that marks the role of poverty alleviation in Islam. Yet Islam does emphasize God's role as Creator and humanity's stewardship of the earth and its resources (Bagader et al. 1994, Khalid and O'Brien 1992, Foltz, Denny, Bahruddin 2003). Although the Qur'an teaches these ideas in several places, in no place does it take precedence over obligations like prayer, fasting, and almsgiving. Because of this, like so many other elements of Islam, it becomes subject to interpretation. Seyyid Hussein Nasr (2003, 87) argues that, for various reasons, Islamic environmentalism simply is not emphasized by most Islamic religious leaders.

We do not expect the Muslim leaders to be fully socialized to these norms. Patriarchy, traditionalism, corruption, and authoritarianism seem to be much more compelling norms among these leaders. Each of these prevailing norms challenges both the infusion of Western norms as well as Islamic ideals of social justice on various levels. Patriarchy and traditionalism bias leaders away from a concern for women in the state, where environmentalism often emanates. And corruption and authoritarianism limit the voice that citizens generally—another powerful source of environmentalism in other countries—have in affecting policy. For these reasons we expect Islamic states to be unreceptive to global environmental norms. When they are, we expect those norms to be passed to the ISDB through membership on the Executive Board (Nielson and Tierney 2003, Lyne, Nielson and Tierney 2006).

Using a measure of environmental preferences, the environmental policy index (EPI, discussed more thoroughly in the "Data and Methods" section), we chart shifts in the ISDB's environmental preferences and its behavior. Graphs 1, 2 and 3 present this information, in comparison to the World Bank.







As we see in Graph 1, the difference between the World Bank and ISDB in terms of preferences for environmental lending seems fairly constant, with more convergence between 1987 and 1993. Graph 2 demonstrates that in terms of the number of environmental projects, the World Bank produces many more environmental projects (because it produces many more projects overall), but trends at the ISDB have been roughly parallel to the World Bank. A late spike in ISDB dollar commitments to the environment, shown in Graph 3, may be following the World Bank's increase during the early 90s. In terms of the percentage of projects that are environmental, the overall trend appears to be similar, although the ISDB fluctuates significantly more than the World Bank, again probably due to the significantly fewer projects overall at the ISDB, where the environmental projects that are approved become influential in the ratio. Graphs 4 and 5 also show that the increase in environmental dollars at the ISDB is mirrored in terms of percentage of projects and dollars spent. It will be interesting to see if the ISDB is

simply making up for lost time, or if it continues to give a larger share of its aid for the environment than the World Bank. What contributes to this, given the seemingly different preferences of the member states at the ISDB? Before delving deeper, we explore theoretical mechanisms by which the World Bank might influence the ISDB.

Norm Diffusion and IOs

Norm diffusion to international organizations might occur through several mechanisms. We consider socialization by IOs, which includes material as well as social and ideational pressures to conform. We also consider emulation of IOs, delegation by member states, and socialization by NGOs. International norms have been defined as “shared expectations about appropriate behavior held by a community of actors” (Finnemore 1996a, 22-23), as isolating “single standards of behavior” (Finnemore and Sikkink 1998, 981) or “collective expectations for the proper behavior of actors with a given identity” (Katzenstein 1996, 5). In this logic behavioral change follows naturally from the adoption of norms in international relations.

Internalization and Socialization

According to Checkel, internalization of a norm occurs when actors have switched from a logic of consequences to a logic of appropriateness (Checkel 2005, 804). For Checkel this switch occurs independently of material incentives or sanctions. Internalization happens when norms become adopted as elements of an actor’s identity (type I internalization) or when an actor becomes persuaded of their inherent goodness (type II internalization) (Checkel 2005; See also Coleman 1990).

However, Wendt (1999) disagrees. Internalization occurs by degrees: the first degree he calls “force”; the second, “price”; and the third and final, “legitimacy.” That is, norms (and culture) can be maintained or spread by coercion, by manipulations to the costs and benefits of conforming or not (and therefore through provoking self-interest), or by appeals to the legitimacy of some behavior or policy. In the first degree, actors know what the norms are, but their compliance is achieved through the use of force or the immediate threat of it (268). Price internalization results from manipulations of self-interest rather than threat of violence. Because it is voluntary, this degree of internalization will be of a higher quality—both internally driven and self-regulating—than force internalization. But compliance in price internalization is still driven by external factors: if the costs of conforming to the norm come to outweigh the benefits, the norm gets jettisoned. In the third degree, actors follow norms because of their legitimacy—corresponding to Checkel’s definition of internalization. This choice can still be framed as utilitarian, if one includes an actor’s desire for legitimacy as a component of the utility function.

Although socialization and internalization are often used interchangeably, they are not identical processes. Socialization, on the other hand, is the process by which one actor seeks to induce another to internalize a norm, in Checkel’s sense (Coleman 1990). Research suggests that coercion and material mechanisms can, in fact, play a role in norm diffusion. For example, NGO campaigns often include manipulating material concerns through economic sanctions and other means—principally by enlisting a powerful state or organization in the cause (Keck and Sikkink 1998, Risse, Ropp and Sikkink 1999). In the case of election monitoring, Hyde (2004) demonstrates that a norm entrepreneur may not be necessary, as early adoption by one actor may provide incentives for others.

International organizations often cooperate on various tasks, and in the case of the international financial institutions (IFIs), they often seek co-financing arrangements, ostensibly so that smaller organizations can bolster their funds (Meenai 1989, Mingst 1987), while the larger ones providing the funds can train them or influence policy indirectly (Mingst 1987, pg). Gould (2006) addresses broader issues in co-financing arrangements, as well as the Bank-Fund relationship. Co-financing arrangements allow third parties—creditor states, private financial institutions, and multilateral development banks—to influence IMF conditionality. Co-financing may provide material incentives for norm diffusion in the case of IOs.

Emulation

Emulation may also play an important role in norm diffusion. Policy makers also look to others when seeking legitimacy. This process may be strategically rational or entirely ritualistic (Finnemore and Sikkink 1998). In the former case, states seek legitimacy, and adopt behaviors that correspond to legitimated norms, in spite of the possibility that these behaviors have no functional role (Finnemore 1996a, Simmons et al 2007). Similar to the use of framing to spread norms (Keck and Sikkink 1998), organizations create categories that define identities, structures and tasks (March and Olsen 1998, 964; Meyer et al 1997, 163; Finnemore 1996b). Experts and organizations “theorize” by defining categories in terms of legitimacy. Organizations then place themselves within these categories for the sake of that legitimacy (Strang and Meyer 1993, 494). In doing so, they adopt structures and tasks that are appropriate to the category they have chosen. The result of this process, “institutional isomorphism”—the end result of organizations adopting similar structures and tasks—is often distinguished from materially-driven diffusion by noting that the newly isomorphic organization takes on tasks and structures that exist independent of an

objective “need” (Finnemore 1996a, Simmons et al 2007). In addition, the moral or expert authority of some IOs relative to others provides legitimization to that IO’s behavior, increasing the attractiveness of adopting those behaviors by other IOs (Barnett and Finnemore 2004).

Alternative Pathways

We consider two pathways by which IOs might adopt new norms, independent of other IOs. IO member states may have adopted norms from other sources and pressured their agent to conform. Principal-agent theory (Pollack 1997, 2002; Nielson and Tierney 2003, 2005; Hawkins et al 2006) explores the possibility of divergent principal (state) and agent (IO) interests, where change occurs as principal interests shift concurrently and control mechanisms prevent agency slack (Nielson and Tierney 2003, 2005). The principal’s authority to renegotiate the agent’s contract gives it a potentially powerful means of calling the agent to account. Problems of hidden information and hidden action make this task difficult. Other actors must find ways to push their demands for IO change through states (Nielson and Tierney 2003). Principals may use their discretion to open IOs to other potential sources of change (Park 2005).

Alternatively, NGOs might diffuse norms to an IO through information, accountability, and symbolic politics, in addition to leveraging states or IOs to apply pressure (Keck and Sikkink 1998, 16). These techniques, along with argumentation, persuasion, and discursive enmeshment (Risse, Ropp and Sikkink 1999) might allow NGOs to pressure IOs into adopting norms that they might not otherwise accept. These techniques might be especially effective against “vulnerable” IOs. Vulnerabilities include uncertainty about identity or interest (Risse 2000), a target’s desire to be a part of a normative international community or desire for legitimacy, and the nature of conflicting norms (Risse, Ropp, and Sikkink 1999).

IOs might adopt new norms because of socialization by other IOs—which may include material pressure, alongside social and ideational mechanisms, by emulating other IOs, by member state delegation, or NGO pressure. Having considered these theoretical mechanisms for IO influence, we turn to pathways specific to the ISDB.

The World Bank’s influence on the ISDB

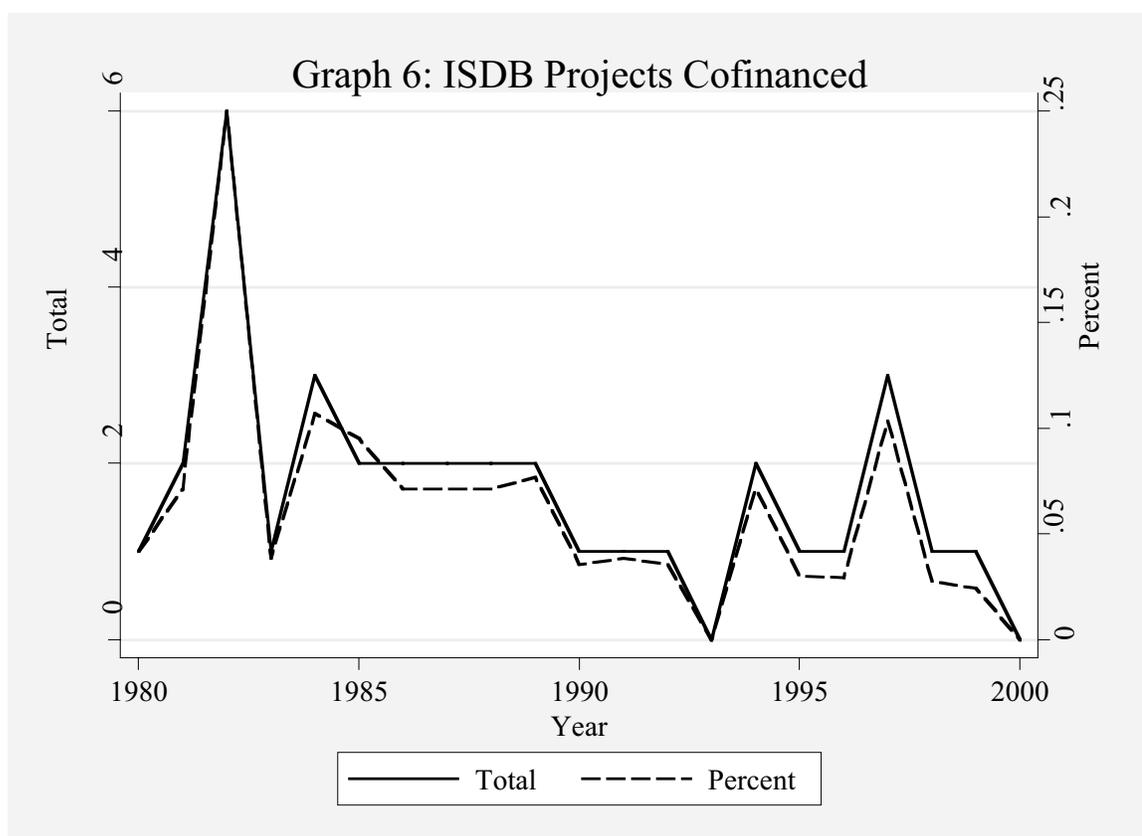
The World Bank might affect ISDB lending patterns in several ways. The World Bank can co-finance ISDB projects; it can participate in staff exchanges and secondment programs with the ISDB; it can send delegations to the ISDB to train ISDB staff; it can include the ISDB in donor harmonization efforts, conferences, and discussions about what development banks should be doing; and finally, the ISDB may look to the World Bank as an exemplar of good development practice and adjust its lending accordingly. These pathways broadly correspond to different causal mechanisms described above. Co-financing suggests material pressure, secondment and training brings to mind socialization strategies aimed at legitimizing and internalizing new norms, and the World Bank as example of “best practices” evokes emulation.

As the new ISDB began its work, it had limited capital. Leveraging these funds through co-financed projects with the other MDBs, the ISDB was able to produce more projects than it would have otherwise. This practice continues, and the ISDB holds that it is an important channel for maintaining relationships with other MDBs (ISDB 2005, 17) ISDB historian Meenai recognized the ISDB’s loss of independence that co-financing brings, especially in terms of project appraisal, and he recommended it be re-examined (Meenai 1989, 117). The resulting dependence creates an avenue for other institutions to influence the ISDB. Graph 4 charts WB-ISDB cofinancing. Unfortunately, the low number of projects actually cofinanced—thirty five

total from 1980 to 2000—makes us skeptical about the role of World Bank co-financing in influencing ISDB environmental practice.²

Another possibility exists with co-financing, which goes both to the possibility of socialization and also to the opportunity for direct remediation: the World Bank may co-finance loans that are particularly threatening to the environment. Since every World Bank project must undergo an extensive environmental-impact assessment, the World Bank may offer partnership on the project explicitly because it can use its co-financer status to leverage greater environmental amelioration for that particular project. As World Bank staff work directly with ISDB staff on the environmentally threatening project, they can inculcate new norms and practices of environmental assessment and amelioration. If this alternative hypothesis is correct, the sign on the regression coefficient should be negative, not positive. Co-financing should be correlated with environmentally damaging projects.

² Additionally, ISDB annual reports inconsistently included data on the amount co-financed by the World Bank. Of the thirty five projects cofinanced, only sixteen included this data.



Staff exchanges and secondments also create an avenue for influence. Whichever direction the transfer occurs in, there is an opportunity for the transmission of norms through a staff member's interaction with other staff members. Of course, since environmental norms are stronger among World Bank staff, the effect of an ISDB to World Bank exchange should be stronger than a World Bank to ISDB exchange. Exchanges and secondments should be more powerful when they occur within the environmental sector—that is, when an ISDB staff member goes to the World Bank expressly for training in the environment, or when the World Bank sends an environmental staff member to the ISDB. The necessity of cooperation on these transfers introduces some endogeneity, in that it may be that ISDB management *want* to send their staff to the World Bank or get World Bank staff sent to them in order to learn more about how to shift the norms.

Participation in high-level fora and similar meetings might be valuable for encouraging ISDB management and Executive Directors to adopt new norms. For whatever reason, ISDB participation in multilateral finance issues remains marginal. Since 1983, The ISDB has been an observer, alongside multiple other international development agencies, of the joint World Bank-IMF Development Committee. The Development Committee consists of delegates appointed by executive directors (ED)—or groups of executive directors, in the case of the countries lacking sufficient vote shares to have their own ED—who meet to discuss important development issues (Development Committee 1984, 3). The committee only began discussing the environment in 1988 (Kivanc 1995, 45). Participation on the Development Committee should only have an effect once it has begun considering environmental issues.

The ISDB participated in the 2005 Paris Declaration on aid effectiveness and the 2003 Rome High Level Forum on Harmonization (High Level Forum 2003, 2005). Although it participated in the 2002 meetings of the Monterrey International Conference on Financing for Development in 2002 it has not been involved with the follow-up roundtables to Monterrey. The ISDB is not a member of the Evaluation Cooperation Group, an association formed in 1996 to improve “collaboration and harmonization work among the evaluation units of the multilateral development banks.” The ISDB seems to be increasing its recent participation in such events, but aside from observer status in the Development Committee, a lack of engagement indicates limited interactions with the other MDBs. While co-financing may provide a window for direct influence, the limited amount of contact the ISDB has with other MDBs makes us doubt the effectiveness of this path.

Lastly, training missions should have a similar effect as participation in high-level fora and staff exchanges. World Bank members meet with ISDB staff and present material about

development banking from an authoritative position. In their presentations they give the “how” about development, which includes attention to norms such as environmental and social aspects of development financing.

The World Bank is widely seen as the premier development institution. This position grants it various forms of authority, which allow its pronouncements and practice to be influential without any direct interaction between the World Bank and the Islamic Development Bank (Finnemore 1996a, Barnett and Finnemore 2004). As the World Bank has increased its environmental lending and commitment to sustainable development, the Islamic Development Bank, to the extent that it considers itself a development institution like the World Bank and therefore has adopted an MDB “identity,” may simply follow the World Bank’s lead.

Although we have specified several pathways through which the World Bank might influence ISDB practice in the environment, we only have the data to test a few: namely, the effect of cofinancing, the ISDB’s observer status at the Development Committee, and the effect of the World Bank’s moral and expert authority. We derive the following hypotheses from this discussion:

H1: As World Bank co-financing of ISDB loans increases, ISDB loans will be of higher environmental quality.

H2: In years during which the ISDB was an observer at the Development Committee, ISDB loans will be of higher environmental quality.

H3: As World Bank funding for environmental lending increases, ISDB loans will be of higher environmental quality.

Data and Methods

We test our hypotheses about IO-IO influence using a dataset of 1,085 ISDB projects from 1980 to 2000, coded as part of the Project Level Aid (PLAID) database.³ As our dependent variable, we take an environmental impact rating (Hicks et al. 2005; Nielson and Tierney 2005), which ranks the environmental impact of an aid project on a five-point scale. To test our hypotheses, we use a dummy variable to indicate if a project was co-financed by the World Bank or one of its sister institutions, the total projects co-financed by year, a dummy for the year in which the ISDB was an observer on the development committee, and the total environmental lending by the World Bank in the previous year. To account for the role of delegation, we begin with an environmental policy index (EPI), which we process through an algorithm that finds the average EPI for the minimum connected winning coalition at the ISDB in a given year (see Lyne et al. 2006). Last, we counted the number of environmental NGOs, by year, in the *World Directory of Environmental Organizations Online*⁴ to account for NGO influence on the ISDB. Our analysis includes a set of controls. We lag all of our independent and control variables by two years to account for the ISDB's project cycle. Lastly, we multiply impute missing values. Using ordered probit regressions, we test our claims.

Dependent variable

As a part of a project aimed at collecting a comprehensive dataset of project-level development aid, this rating uses a five-point scale, coded from aid purpose codes in the

³ Funded by the National Science Foundation grant SES-0454384.

⁴ At www.interenvironment.org/index.

Organization for Economic Cooperation and Development's Creditor Reporting System. The measure focuses specifically on environmental effects, which all derive from human activity—either the production of some output which returns processed materials to the environment or use of natural resources. The rating ranges from environmental strictly defined (ESD) to dirty strictly defined (DSD) and includes a neutral (N) category. Environmental strictly defined projects have an immediate, positive impact on the environment. Such projects usually have clear, measurable criteria for success (McNamara, et al 2005, 12). Examples of these projects include solar power projects, projects aimed at preserving bio-diversity or that reduce desertification (24). Dirty strictly defined projects, on the other hand, have a severe, negative impact on the environment (12). These include projects relating to chemical production, dams, or logging (25).

Projects coded as ESD are considered the best for the environment. This coding is based strictly on the effects of a given project on the environment. It may be that a project categorized as DSD will be necessary for a country's development efforts, while ESD projects may only be marginally related to those efforts. Additionally, by incorporating environmentally beneficial components, especially where they relate directly to ameliorating the negative environmental effects of a project, a project might receive the "greener" coding.⁵

Independent variables

We test the effects of co-financing, participation in the Development Committee, World Bank environmental lending, ISDB member preferences, and NGOs on the environmental

impact rating. We code co-financing and observer status on the Development Committee as dummy variables, where a World Bank co-financed project and years during which the ISDB participated on the Committee both coded as “1”. Because we orient our dataset around projects, the co-financing dummy only tests if co-financing *on that project* made *that project* more environmental. We are more interested in the effect of co-financing on the “greenness” of the ISDB overall portfolio. To test this, we include the total number of World Bank co-financed projects in a given year. To capture the effects of the Committee’s consideration of the environment, we interact it with a dummy for 1988, the year the Committee first considered environmental issues. As an alternative, we interact it with the environmental policy index (EPI) of the World Bank. We describe the EPI below. We operationalize World Bank environmental lending is simply the total of World Bank projects that rate ESD or EBD (environmental strictly or broadly defined) for a given year. We operationalize this in several ways: first, as the total dollars spent on projects that rate ESD or EBD; second, as the total number of World Bank projects that rate ESD or EBD; third, as the percentage of World Bank projects with those ratings; and fourth, as the percentage of World Bank dollars spent on projects with those ratings.

To measure ISDB member state preferences, we use an algorithm that creates a weighted average of the EPI values for the minimum connected winning coalition in a given year. See Appendix A for more information on the algorithm. We use member country’s vote shares as weights. The EPI is a revealed preference index of variables that national policy effects, ranging from atmospheric sulfur dioxide concentration to dissolved oxygen levels in freshwater to number of reporting commitments kept as part of the Convention on International Trade in

⁵ The PLAID codebook, which includes coding rules for the environmental impact rating, can be found at www.wm.edu/irtheoryandpractice/plaid/codebook.php.

Endangered Species. It was originally used in Nielson and Tierney 2003. See Appendix B for more information on the EPI.

We take the total number of international environmental NGOs in a year as a proxy for NGO influence on the ISDB. We coded these data from the *World Directory of Environmental Organizations Online*. Most references included a year in which an NGO was founded. If not, we performed online searches for the organization, taking the year of its first publication as the year of its establishment. We excluded organizations whose main purpose was not environmental, which often included scientific organizations with committees on the environment or organizations like the International Studies Association, whose main purpose is not environmental, but also includes a section on the environment. We excluded issues like noise control but included organizations relating to water issues. Of 350 organizations that we coded, we could not find any information online for fifteen of them. This measure will bias our results in favor of the NGO hypothesis, since it certainly includes some NGOs that are now defunct.

Controls

In addition to the independent variables that are central to testing our argument, we include a large number of control variables. Overall GDP and GDP per capita in 1995 dollars are standard comparative measures and control for the size of a given country's economy and its relative wealth, respectively. As per-capita wealth increases, the need for environmental projects should increase. The greater relative wealth often engenders higher education, health, social welfare outcomes and environmental awareness. Using a different logic, as country size increases, the probability that a country will receive an environmental loan—or any loan, for that

matter—likely also increases. MDBs do business with larger countries more frequently than with smaller ones, and larger country size should result in higher probabilities for environmental loans. We expect, however, that as a country's GDP increases, it will increase at a slower rate as it approaches a point at which countries receive no foreign aid. We also expect that as levels of democracy increase, environmental loans will increase, as voters express a preference for them. We expect the opposite effect for corruption.

We include variables that account for the objective environmental need in ISDB member countries. We control for sanitation coverage, expecting both of these to increase demand for neutral and broadly environmental loans. We also control for deforestation, endangered mammals, sulfur dioxide emissions, coal use per land area, organic water pollution, and potable water. Each of these indicates a level of objective need for environmental lending.⁶ Additionally, we control for the level of secondary school enrollments, as environmental awareness ought to increase with education.

Last, we include several political variables—a democracy-autocracy scale (Marshall and Jaggers 2002), and ICRG's corruption and government stability ratings. Autocracy, corruption and government stability should affect the willingness of an MDB to allocate environmental aid. Table 2 presents summary statistics for the dependent, primary independent and control variables used in the models.

⁶ It has also been suggested that we include oil exports and rates of desertification. We do not include oil exports because our model attempts to explain the environmental quality of ISDB loans and not factors that might influence the allocation of loans or World Bank cofinancing. We do not include desertification simply because we have had difficulty finding good data.

<i>Variable</i>	<i>Mean</i>	<i>Std. Error*</i>	<i>Minimum</i>	<i>Maximum</i>
Environmental Impact†	2.44	0.031	1	5
Cofinancing**	0.028	0.0055	-0.79	1
Yearly co-financing total	0.028	0.0020		
World Bank enviro. Projects	25.43	0.28	-4.391	41
Ln(World Bank enviro. Dollars)	21.26	0.019	16.248	22.158
% World Bank enviro. Projects	0.10	0.00074	0.0108	0.158
% World Bank enviro. Dollars	0.082	0.001	0.0102	0.161
Development Committee**	0.79	0.012	0	1
Dev. Committee post 1988**	0.60	0.015	0	1
Dev. Committee*EPI (IBRD)	0.47	0.0078	-0.182	0.650
Environmental NGOs	239.11	2.062	137	329
EPI (ISDB)	0.41	0.0023	0.212	0.492
Coal per land area	0.000034	3.03e-06	-0.000329	0.00123
Exports as % GNP	27.48	0.57	-28.293	121.663
Forestation rate	-0.040	0.0047	-0.463	0.422
Ln(GDP)	22.87	0.065	-0.0339	10.257
GDP growth	3.72	0.18	-42.451	36.6
Ln(Organic water pollutants)	6.99	0.064	-0.0339	10.257
Potable water	73.06	0.61	18.333	122.911
Secondary school enrollments	36.65	0.81	-32.049	131.130
% threatened mammals	0.11	0.0021	-0.0813	0.667
Sulfur dioxide	2525.01	46.56	-1883.689	6656.1
Polity2 score	-3.36	0.17	-20.996	12.561
Ln(Population)	16.28	0.048	12.612	19.249
Corruption	2.62	0.091	-2.691	24.019
Government Stability	6.59	0.17	-0.0239	13.930
<i>All variables lagged two years except for co-financing variables.</i>				
*Standard errors in multiply imputed datasets account for variation within and across datasets				
** Dummy variable				
† Dependent variable				

Methods and Results

We use an ordered probit to test the effects of our independent variables on the environmental quality of aid. We cluster by country, which reflects our belief that, while projects for a given country will likely be independent from projects for other countries, this

independence probably does not hold for loans approved within a given country's portfolio. That is, we expect loans for a given country to be related systematically to other loans for the same country. Clustering allows us to make this correction. Additionally, we use robust standard errors. Because there is a two-year project cycle on average at the development banks, we lagged all of our independent variables by two years. The loans approved for each year, which comprise our dataset, should reflect the conditions and member preferences from two years before a given annual portfolio is announced more than they reflect the current interests of the board. We also use fixed effects for year, and as a robustness check, we employed country fixed effects.

To account for missing data, we multiply impute our dataset using Amelia. This allows us to avoid bias from casewise deletion and increase the efficiency of our estimators (Honaker and King 2006, King et al 2001). Our dataset has only a 15.75% rate of missingness, so we impute the standard five datasets (Schafer n.d.).⁷

We attempt to use year dummies to control for the effect of time. Unfortunately, this introduces collinearity with our measure of the number of projects co-financed by the World Bank in a year and adds significant levels of collinearity to the model generally. As an alternative correction for time effects, we run the model using year and year squared. This both imposes assumptions on the data—specifically, that the effect of time is quadratic and makes our model slightly more complex. Using the Bayesian information criterion (BIC) as our guide, we

⁷ This is an unusually low rate of missing data given how problematic cross-national data can be. Although we did not have to impute many observations on our dependent variables (only where lagging created missing observations), we also used a dataset of previously linearly imputed controls. We intend to correct this, using an entirely non-imputed dataset prior to imputation, in the next draft.

favor a model with no time controls, since the estimates of our independent variables do not change significantly. Following Raftery (1996, cited in Long and Freese 2006, 113), the evidence against the other two models is very strong. Of course, it may be that none of these attempts to deal with time—ignoring it, using quadratic terms, or using annual time dummies—are appropriate for our model. However, we fail to see what structure of dummies might be more appropriate than annual dummies, and seeing that ignoring time has little effect, we selected that option. See Appendix C for a comparison of models using one of our imputed datasets.

We use Clarify (Tomz, Wittenberg and King 2000, 2001) to obtain predicted probabilities, which we present in table 3.

Table 3: Effect of the World Bank on Environmental Impact of ISDB loans						
<i>Variable</i>	<i>Model 1</i>	<i>Model 2</i>	<i>Model 3</i>	<i>Model 4</i>	<i>Model 5</i>	<i>Model 6</i>
Co-financing	-0.667*** (-3.40)	-0.664*** (-3.42)	-0.666*** (-3.42)	-0.658*** (-3.37)	-0.667*** (-3.5)	-0.667*** (-3.39)
Yearly co-financing total	-4.164** (-2.41)	-4.125** (-2.36)	-4.277** (-2.46)	-3.928** (-2.28)	-4.072** (-2.27)	-3.934** (-2.3)
Ln(WB Enviro. Dollars)	-0.0123 (-0.095)				0.0472 (0.38)	-0.00385 (-0.029)
WB Enviro. Projects		0.00173 (0.24)				
% World Bank enviro. Projects			1.554 (0.76)			
% WB Enviro. Dollars				-0.945 (-0.67)		
Development Committee	-0.287 (-1.65)	-0.287** (-1.65)	-0.251 (-1.46)	-0.320** (-1.8)		
Dev. Comm. post 1988					-0.199 (-1.04)	
Dev. Comm.*EPI						-0.452 (-1.22)
Environmental NGOs	-0.00155 (-0.88)	0.00137 (0.72)	0.00123 (0.68)	0.00164 (0.933)	0.00277 (1.41)	0.00197 (1.12)
EPI (ISDB)	1.470 (0.97)	1.399 (0.87)	1.188 (0.734)	1.739 (1.16)	0.1221 (0.081)	1.152 (0.74)
Ln(GDP)	3.88e-13 (1.53)	3.94e-13 (1.59)	4.08e-13 (1.61)	3.63e-13 (1.45)	3.88e-13 (1.52)	3.95e-13 (1.53)
GDP growth	0.00301 (0.51)	0.00299 (0.49)	0.00276 (0.45)	0.00345 (0.58)	0.00309 (0.54)	0.00289 (0.49)
Exports as % GNP	0.00193 (0.963)	0.00198 (0.99)	0.00201 (1.01)	0.00201 (0.99)	0.00192 (0.98)	0.0019 (0.95)
Coal per land area	100.478 (0.27)	100.720 (0.27)	99.01 (0.27)	102.627 (0.28)	117.848 (0.32)	99.926 (0.27)
Forestation rate	-0.279 (-0.85)	-0.274 (-0.83)	-0.281 (-0.86)	-0.256 (-0.78)	-0.285 (-0.87)	-0.28 (-0.85)
Ln(Org. Water Pollut.)	-0.0000082 (-1.02)	-0.0000082 (-0.99)	-0.0000080 (-0.97)	-0.0000085 (-1.03)	-0.0000091 (-1.11)	-0.0000083 (-1.04)
Potable water	0.00106 (0.397)	0.000885 (0.33)	0.000807 (0.304)	0.00114 (0.42)	0.00125 (0.48)	0.00106 (0.4)
Sec. School Enroll.	0.00165 (0.79)	0.00169 (0.80)	0.00169 (0.81)	0.00169 (0.81)	0.00149 (0.71)	0.00163 (0.78)
% Threat. Mammals	-0.791 (-1.11)	-0.813 (-1.12)	-0.851 (0.73)	-0.754 (-1.05)	-0.708 (-1.01)	-0.788 (-1.11)
SO ₂ Emissions	0.0000448 (1.43)	0.0000457 (1.47)	0.0000464 (1.48)	0.0000461 (1.482)	0.0000439 (1.38)	0.0000449 (1.44)
Polity2 score	0.00323 (0.463)	0.00320 (0.47)	0.99339 (0.49)	0.00273 (0.38)	0.00334 (0.49)	0.00337 (0.48)
Ln(Population)	-2.77e-9* (-2.04)	-2.75e-9** (-2.02)	-2.76e-9* (-2.03)	-2.73e-9** (-1.98)	-2.75e-9** (-2.03)	-2.78e-9** (-2.04)
Corruption	-0.0614 (-1.36)	-0.0639 (-1.54)	-0.0698 (-1.66)	-0.0532 (-1.17)	-0.058 (-1.2)	-0.0628 (-1.38)
Government Stability	0.0309 (1.03)	0.0321 (1.19)	0.0343 (1.26)	0.0249 (0.82)	0.0351 (1.22)	0.0329 (1.07)

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$; Robust standard errors in parentheses

After estimating these models, we choose to use the log of the dollars spent on the environment by the World Bank. It does not appear to matter which measure we select; in no case is this variable significant. Additionally, changing this variable has few consistent effects on the results overall, including our independent variables. In a few cases the development committee dummy becomes significant, but this is the weakest of the three measures of the effect of development committee membership. As a final point, we expect the total dollars spent by the World Bank on the environment to be an easy measure for the ISDB to follow. If they do not respond to this measure, we find it unlikely that the others, which require more calculation on the part of staff members, to be more influential.

Using alternative measures of the effect of the ISDB's membership on the Development Committee does not substantively alter the results. Co-financing and yearly co-financing have a consistent and significant negative effect. Although the Development Committee dummy is significant in two cases, they are not in the model that we have chosen as our base. Unfortunately, using Clarify with multiply imputed datasets does not present statistics, such as BIC, that might help us select across models, as one of these measures, although insignificant, might contain more information than the others. None of our other independent variables have significant effects. We are particularly surprised by the failure of ISDB EPI, as this or similar measures are consistently significant in similar approaches to aid allocation (Nielson and Tierney 2003, 2005, Lyne Nielson and Tierney 2006, 2007, Nielson and O'Keefe 2006, 2007).

An additional curiosity is the direction of our variables. We expected a positive result on environmental quality across indicators of the possible effect of World Bank lending on ISDB behavior. In some cases this is simply inconsistent, but in the case of co-financing and the yearly co-financing count, these variables are significantly and negatively related to the projects'

environmental impact. An increase in population also consistently and significantly decreases the probability that a loan will be of higher environmental quality. Otherwise, none of our variables are significant. Generally, this does not appear to be an effect of the inflated standard errors that results from the across-dataset variance when using multiple imputation, as individual datasets are generally consistent. In table 4 we present predicted probabilities generated from model 1. This helps us specify the size of these effects, as well as understand the possible significance of changes within the categories of our dependent variable.

Table 4: Predicted probabilities from model 1

<i>Variable</i>	<i>Environmental Impact</i>	<i>Point estimate</i>	<i>Confidence interval</i>
All variables at mean (baseline)	DSD	0.124	0.0943, 0.1576
	DBD	0.484	0.443, 0.528
	N	0.303	0.264, 0.345
	EBD	0.0168	0.00779, 0.0258
	ESD	0.0711	0.0535, 0.0922
			<i>Difference from predicted probability at mean</i>
Co-financing (Min)	DSD	0.0438	-0.080
	DBD	0.336	-0.148
	N	0.396	0.093
	EBD	0.0328	0.016
	ESD	0.191	0.120
Co-financing (Max)	DSD	0.308	0.184
	DBD	0.51	0.026
	N	0.157	-0.146
	EBD	0.00556	-0.011
	ESD	0.0191	-0.052
Yearly co-financing total (Min)	DSD	0.0968	-0.027
	DBD	0.454	-0.030
	N	0.335	0.032
	EBD	0.0205	0.004
	ESD	0.0938	0.023
Yearly co-financing total (Max)	DSD	0.207	0.083
	DBD	0.519	0.035
	N	0.226	-0.077
	EBD	0.0102	-0.007
	ESD	0.0372	-0.034

Table 4 (Continued): Predicted probabilities from model 1

Ln(World Bank enviro. Dollars) (Min)	DSD	0.132	0.008
	DBD	0.44	-0.044
	N	0.303	0.000
	EBD	0.0199	0.003
	ESD	0.104	0.033
Ln(World Bank enviro. Dollars) (Max)	DSD	0.13	0.006
	DBD	0.485	0.001
	N	0.299	-0.004
	EBD	0.0165	0.000
	ESD	0.0696	-0.002
Development Committee (Min)	DSD	0.0858	-0.038
	DBD	0.433	-0.051
	N	0.349	0.046
	EBD	0.0225	0.006
	ESD	0.111	0.040
Development Committee (Max)	DSD	0.137	0.013
	DBD	0.495	0.011
	N	0.29	-0.013
	EBD	0.0155	-0.001
	ESD	0.0632	-0.008
Environmental NGOs (Min)	DSD	0.164	0.040
	DBD	0.502	0.018
	N	0.266	-0.037
	EBD	0.0134	-0.003
	ESD	0.0544	-0.017

Values in bold (and starred) are significantly different from baseline.

<i>Variable</i>	<i>Environmental Impact</i>	<i>Point estimate</i>	<i>Confidence interval</i>
All variables at mean (baseline)	DSD	0.124	0.0943, 0.1576
	DBD	0.484	0.443, 0.528
	N	0.303	0.264, 0.345
	EBD	0.0168	0.00779, 0.0258
	ESD	0.0711	0.0535, 0.0922
			<i>Difference from predicted probability at mean</i>
Environmental NGOs (Max)	DSD	0.1	-0.024
	DBD	0.453	-0.031
	N	0.331	0.028
	EBD	0.0206	0.004
	ESD	0.0948	0.024
EPI (ISDB) (Min)	DSD	0.199	0.075
	DBD	0.504	0.020
	N	0.239	-0.064
	EBD	0.0121	-0.005
	ESD	0.0468	-0.024
EPI (ISDB) (Max)	DSD	0.104	-0.020
	DBD	0.459	-0.025
	N	0.328	0.025
	EBD	0.0197	0.003
	ESD	0.0901	0.019

Values in bold (and starred) are significantly different from baseline.

When we look at the predicted probabilities, we note that each of our independent variables has some significant effect on the probability that at least one of the categories of environmental impact will change. Only moving from the mean to the maximum in the cases of the log of World Bank environmental spending, our Development Committee dummy, and the ISDB EPI is there no significant effect. We examine each of our independent variables in turn. We discuss cases where the change in predicted probability is greater than ten.

Hypothesis 1: The Effect of Co-financing

Co-financing. When the World Bank does not co-finance a project, that project is 14 percent less likely to be dirty broadly defined and nearly 19 percent more likely to be environmental strictly defined. When the World Bank does co-finance a project, the probability increases by 18 percent that it will be dirty strictly defined and decreases by 14 percent that it will be neutral. The overall effect, as noted above, is that it appears that co-financing from the World Bank does not increase the environmental quality of a specific loan. This evidence undermines our argument that more co-financing should induce greater environmental sensitivity in projects. Instead, it supports the alternative hypothesis that the World Bank may choose to co-finance projects that are environmentally threatening in order use their environmental impact assessment protocols to pull the projects in a more environmentally sensitive direction.

Yearly co-financing total. When the World Bank co-finances fewer projects in a year, individual projects are slightly more likely to be dirty. Likewise, when more projects are co-financed, projects are less likely to be environmental. These changes are not particularly large substantively. Taken together with co-financing, these results undercut hypothesis H1, that co-

financing from the World Bank will have a positive effect on the environmental quality of ISDB lending.

Hypothesis 2: The Effect of World Bank Spending

World Bank environmental spending. In this case there are no probabilities with large substantive effects, but when the effect is significant, a decrease in spending on the environment by the World Bank decreases the probability that a loan will be dirty and increases the probability that it will be clean. There is no significant effect when spending increases. Note that overall (Table 3) that there is no significant effect of World Bank spending on environmental quality. We fail to find support for the second hypotheses.

Hypothesis 3: The Effect of Membership on the Development Committee

Development Committee (dummy). In a few of our models we found an overall significant effect of membership on the Development Committee, but not in the base model we used to compute predicted probabilities. Here again, we find that when the ISDB was not a member of the Development Committee, loans were less likely to be dirty and more likely to be clean, although these effects were not large. We find no support for the third hypothesis.

Alternative Hypotheses: NGOs and Member States

When there were fewer NGOs, we find that projects were more likely to be dirty and likewise more likely to be clean when there were more NGOs, but neither effect is significant statistically nor large substantively. In the case of state preferences for the environment—the hypothesis that member states may have altered their preferences and then delegated those to the

ISDB, we find that a lower EPI at the ISDB did increase the number of dirty projects and decrease the number of clean projects, but higher EPIs had no significant effect on environmental quality, although the signs point in the right directions. Thus we find some minimal evidence that NGOs and member states play some role in the “greening” of the ISDB’s lending, but these effects are not significant statistically, nor do they have an important effect substantively.

In each of our core hypotheses, we find that there are arguments that may explain the outcomes we see. First, in the case of co-financing generally, as we noted, the World Bank has expressed an interest in getting involved in projects that have negative environmental impacts in an effort to blunt those impacts. If this is the case, we may be seeing the World Bank’s involvement in these cases but no significant positive effect of the World Bank’s involvement on the ISDB’s selection of less environmentally damaging projects. Perhaps despite changes in the environmental quality of lending at the World Bank (Nielson and Tierney 2003, 2005), the World Bank’s rules may not provide much leverage on the type of projects chosen by partners.

It is also possible that the second and third hypotheses are not necessarily wrong but simply misspecified. That is, changes in World Bank environmental spending and close contact with the ISDB through membership on the Development Committee may indicate either a division of labor between the World Bank and the ISDB or it may indicate that the ISDB takes information that the World Bank is more environmental as a signal to become less so, perhaps because the ISDB’s identity as a non-Western institution overwhelms its identity as a development institution. In some sense, the ISDB board, management and staff may reply to World Bank normative shifts by saying something to the effect of “Well, that’s all well and good

for a *Western* development agency, but we are an Islamic organization, and we do things differently.”

Conclusion

The evidence suggests that the World Bank does not have a positive effect on ISDB environmental quality. Specifically, co-financing on individual projects, the yearly cumulative effect of cofinancing, the amount that the World Bank spends on environmental projects, and the ISDB’s more frequent interactions with the World Bank through membership on the Development Committee overall seem to be associated with ISDB projects that are less environmentally sensitive projects, not more so. Environmental NGOs and the preferences of the ISDB’s members may have some positive effect on projects environmental impact, but those results were not significant statistically.

In a paradoxical way, the evidence may suggest some support for our broader point: that the World Bank does appear to influence the Islamic Development Bank. At the very least, it suggests that the World Bank is trying to influence the ISDB by co-financing projects with more negative environmental impacts, presumably in an attempt to ameliorate the worst of their environmental effects. Of course, this is essentially a quantitative case study, and we cannot generalize that IOs will necessarily influence other IOs or even try to do so. We have uncovered evidence that such influence, if not realized, may still be attempted. At the very least, this research underscores the importance of thinking about the role that IOs might have, not simply on state policy, but on the policy and behavior of other IOs. In terms of policy implications, if IOs do in fact have important effects on state policy, then the spread of certain norms across IOs can strengthen the pressures on states to conform to norms, or, in the case of the ISDB, can

weaken those pressures. In this case, the call for more research is not *pro forma* but a genuine plea for greater attention to the possibility of IO's influence on one another.

APPENDIX A:

MINIMUM CONNECTED WINNING COALITION ALGORITHM

For each bank year we arrayed all countries from highest to lowest on the EPI. We then summed all possible values of the voting shares of countries adjoining one another, creating a matrix of all possible coalitions.

For all of the coalitions where the sum of voting shares was greater than .50, we computed the consequence to the potential coalition of each extreme partner's defection. If the defection of a partner on one of the ends of the potential coalition would cause the coalition's collapse (vote shares fell below .50), we counted this as an instance where the defecting country would prove "pivotal". We summed all such instances and then gave each country a "pivotalness" score based on the proportion of all instances where the given country proved pivotal to a potential coalition. In general this means that countries proved more pivotal where they had large vote shares and/or where their policy index scores were near the center of the index. We then weighted all countries' scores by the pivotalness share. Finally, we summed the products of all the countries' EPI values multiplied by their pivotalness share to produce the collective principal's environmental preferences for each bank year.

APPENDIX B:
THE ENVIRONMENTAL POLICY INDEX

From environmental policy outcomes Nielson and Tierney (2003) induced comparative environmental policy preferences. This approach has the advantage of not presuming that public opinion is translated directly into government preferences. Instead, a country's environmental interest is derived from observed outcomes after all relevant interest organizations and political institutions have filtered environmental demands.

For these reasons we use the environmental policy index (EPI) constructed by Nielson and Tierney (2003, 2005). In constructing the index they gathered 1996 data for 122 countries on 22 distinct measures of environmental policy outcomes, ranging from atmospheric sulfur dioxide concentration to dissolved oxygen levels in freshwater to number of reporting commitments kept as part of the Convention on International Trade in Endangered Species. Data on these variables were gathered from World Development Indicators (2000) and World Resources Institute, various years.

They standardize the measures, aggregating them into 17 indicators (air pollution, water pollution, biodiversity, etc), and then averaging them to generate the EPI. They then use this 1996 index as a baseline from which they calculate a pooled time series for all countries with voting shares in MDBs from 1980-1999 (the largest set was 179 countries in the IBRD for 1999), allowing index scores to vary over time. The EPI is a comparative measure of environmental sustainability, not an absolute measure. The higher a country's score on our index, the more sustainable are its environmental outcomes compared to the 179 countries in the index in 1996. Hence, this offers a relative measure of environmentalism, which varies over time. These index

scores were weighted according to countries' voting shares, and then summed for each year for each MDB, creating an overall environmental voting score for each bank year.

APPENDIX C:

ACCOUNTING FOR TIME IN MODEL SELECTION

<i>Table C.1: Comparison of models with respect to time</i>			
<i>Variable</i>	<i>Model 1 (no time)</i>	<i>Model 2 (quadratic time)</i>	<i>Model 3 (year dummies)*</i>
Co-financing	-0.660***	-0.647***	-0.668***
Yearly co-financing total	-3.976	-3.867	--
Ln(World Bank enviro. Dollars)	0.012	0.113	-0.151
Development Committee	-0.235	-0.392*	0.087
Environmental NGOs	0.001	-0.010	-0.006
EPI (ISDB)	1.540	2.020	10.711
Coal per land area	-44.315	-10.308	-7.486
Exports as % GNP	0.001	0.001	0.002
Forestation rate	-0.392	-0.397	-0.452
Ln(GDP)	0.000**	0.000**	0.000**
GDP growth	0.001	0.002	0.001
Ln(Organic water pollutants)	-0.000	-0.000	-0.000
Secondary school enrollments	0.001	0.001	0.002
% threatened mammals	-0.738	-0.661	-0.822
Sulfur dioxide	0.000	0.000	0.000
Polity2 score	0.005	0.005	0.006
Ln(Population)	-0.000*	-0.000*	-0.000*
Corruption	-0.069	-0.051	-0.084
Government Stability	-0.051*	-0.036	0.045
Time	--	0.075	--
Time ²	--	0.002	--
AIC	2675.036	2675.481	2681.686
BIC	2784.720	2795.137	2871.140
*We omit the actual values of the time dummies.			

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