Explaining the Gaps between Mandate and Performance: Agency Theory and World Bank Environmental Reform

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International organizations (IOs) face a quandary. They are expected to play a more significant role in global governance, while they also struggle to respond to relentless criticism for poor to mixed performance. Questions of how much authority can effectively be delegated to IOs while they are being asked to juggle more complex issues have prompted heated policy debates about the role of IOs today. This challenge is most visible in the case of multilateral development banks (MDBs), where a variety of institutional reforms have failed to placate critics. As the banks work to adjust their activities with the demands made on them, evidence of gaps between shareholder efforts to reform MDBs and improved MDB performance persists and offers a puzzle for international organizations scholars and a problem for policymakers, activists, and individuals directly affected by MDB activities.

An important case is the attempt by MDBs to address environmental issues in their work. Shareholder countries have asked MDBs to provide leadership in global and regional environmental governance, while critics contend these institutions do a poor job following their own environmental policies and have contributed to environmental degradation in a number of recipient countries. The case of the environment is notable for three additional reasons. First, criticism of the World Bank's environmental behavior in the early 1980s prompted the first large NGO campaign for MDB reforms, and this provided inspiration for more recent campaigns against the international financial institutions (IFIs).[1] Second, and related, MDB attempts to improve their environmental performance since the late 1980s are more established than policies in other "new" issue areas, such as gender and "good" governance. Third, MDBs have placed considerable emphasis on "mainstreaming" the environment into all of their activities, versus treating it as a separate sector. Therefore, a more precise explanation of the factors that influence an MDB's ability to address environmental issues in its activities helps us to better understand the challenges it faces carrying out activities in other new areas that are not an easy fit with their traditional economic development goals.

International relations theory seeking to account for the gaps between the mandates and performance of IOs is underdeveloped, since the field's focus has been dominated by broader debates about why states create IOs, whether institutions matter, and whether they have autonomy. This article seeks to contribute to a growing body of work interested in more precisely explaining institutional performance, behavior, and effects. One promising strand of theory can be found in the application of principal-agent (P-A) models toward understanding the performance of international and supranational organizations. These models are premised on the assumption that performance problems naturally arise when one actor (the principal) delegates to another actor (the agent) the authority to act in the former's interest. These models seek to explain why and how the divergence of interests between the two parties may result in the agent's actions differing from the principal's expectations, and how agents may be better controlled. In other words, P-A models recognize the existence of gaps between institutional goals and actions that are caused by these "side effects" of delegation that generate agency losses and other costs to the principal, and are used to suggest measures to reduce opportunistic agent

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[1] By IFIs, I refer to the MDBs and the IMF.

behavior. The solution is a variety of screening, contracting and oversight mechanisms that the principal may employ to reduce agency losses (Kiewiet and McCubbins 1991: 24-34).

However, the traditional model's focus on one agent or set of agents engaged in opportunistic behavior with one principal or set of principals ignores critical factors that help to explain some major sources of gaps between the mandates and performance of IOs. I argue that the P-A model may be usefully calibrated to more precisely explain IO performance pathologies by better recognizing problems of *antinomic delegation* and the dual role of MDB as principal and agent. Antinomic delegation is defined as delegation consisting of conflicting or complex tasks that are difficult to institutionalize and implement, so that performance problems may not solely reflect agency shirking, but rather be traced to the more intricate challenge agents face trying to implement goals that are difficult to specify and/or juggle. In the case of MDBs, this arises in their inter-connected challenges of being both financial institutions and development agencies, and of balancing environmental issues with other goals such as economic development and poverty reduction. The broader problem of mission creep easily contributes to the specific problems of antinomic delegation.

Analysis of the dual role of MDB as principal *and* agent at different stages of the policy process, in turn, reveals additional opportunities for gaps between mandates and on-the-ground behavior. Most of the recent IR literature applying P-A models to IOs addresses one of these two sets of P-A relationships--usually from elected political officials to the bureaucracy agent. This means that the chain of delegation, and hence analysis of performance, stops with the organization, and does not address implementation issues. While IOs are characterized by a set of collective principals that may create opportunities for institutional autonomy, the recognition that IOs themselves may be seen as principals delegating to recipient country agents reveals additional opportunities for agency losses.

I illustrate these modifications to the traditional P-A model by analyzing attempts by the World Bank to improve its environmental performance. The World Bank is the world's most prominent development bank and a model for regional development banks. It is also one of the most powerful IOs, lending billions of dollars a year for projects that require a range of policy changes within recipient countries. Its lending is a magnet for additional financial resources from other actors, such as recipient government and bilateral aid donors, which increases the Bank's leverage. The Bank is also an institution under sustained attack from a variety of sources for the gulf between its publicly stated goals and its performance on a range of issues (Miller-Adams 1999; Pincus and Winters 2002; Thorne 2003; Fox and Brown 1998; International Financial Institution Advisory Commission 2000; Zuckerman and Qing 2003; Wilks 2003; Einhorn 2001). In the area of environment, the Bank has recognized its own shortcomings. As the head of the Bank's Operations Evaluations Department (OED) noted in a 2002 evaluation of the Bank's environmental performance:

> The momentum of the early 1990s dissipated in the face of constraints in the operating environment. Environmental sustainability was not integrated into the Bank's core objectives and country strategies, and linkages between macroeconomic policy, poverty alleviation and environmental sustainability were not explicitly forged (World Bank 2002a: vii).

The evaluation concluded, "The modest extent of mainstreaming the environment into the Bank's overall program is disturbing" (World Bank 2002a: 19).

I show how agency theory offers a potentially powerful tool for identifying key sources of gaps between IO mandates and performance when it explicitly recognizes and analyzes problems inherent to the delegation side of the principal-agent relationship, and problems revealed by studying an IO as both an agent and a principal. Certainly no one theory can explain all performance problems facing IOs, since different political, economic, technical and organizational factors may influence an institution's actions at different stage of the policy process extending from the formulation of a new institutional policy mandate through its implementation (Gutner 2002). Rather, agency theory illuminates specific performance problems in the design and implementation of Bank policies and projects that may be traced to delegation and incentive choices and mechanisms. Better pinpointing where and why these problems exist more clearly reveals why environmental reform at the Bank has been an uneven process, with forward steps often followed by backwards or sideways steps.

The article proceeds by examining the development of the P-A literature and its application to the study of IOs, highlighting the model's utility and its blind spots. I then advance suggestions for increasing the model's explanatory power by applying my arguments to the case of the World Bank's environmental reforms. The article concludes by discussing the theoretical and policy implications of these modifications.

P-A Models and Institutional Performance

Agency models and theory have their roots in studies of economic contracting and corporate governance, and have since expanded into a broad literature with strands in institutional and development economics, organizational theory, public administration and political science. They migrated into political science via studies of the behavior of Congress and other public bureaucracies, and more recently have been applied by IR scholars pursuing rationalist research agendas in the study of IOs in general, and development aid organizations in particular. Within the political science literature, the P-A relationship is generally viewed as a political principal delegating some degree of policymaking authority to an implementing bureaucratic agent. The model has attracted interest because it offers a useful way for scholars to move beyond blunt debates on whether institutions matter and have autonomy to more nuanced explorations of the sources of institutional inertia, change, effectiveness and dysfunctional behavior.[2] It is based on the assumption that performance problems are a likely result when one actor delegates authority to another because the two sides have divergent interests.

The ideas underlying the model are certainly not new. Adam Smith wrote in the *Wealth of Nations* about the divergent interests between the directors and proprietors of joint stock companies: "The directors of such companies…being the managers rather of other people's money than of their own, it cannot well be expected that they should watch over it with the same anxious vigilance with which the partners in a private (company) frequently watch over their own….Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company."[3]

Jumping to the 20th Century, Adolf Berle and Gardiner Means (1932) posed the classic agency problem in 1932 when they examined implications of the separation of management and control of modern corporations. One key conclusion was that "in the corporate system, the

[2] For alternative approaches to these issues in the field of IO, see Haas (1990); Barnett and Finnemore (1999); Bernauer (1995); Keohane and Levy (1996); Moravcsik (1998); Victor et al., (1998).
[3] Smith (1776: book 5, chapter 1).

'owner' of industrial wealth is left with a mere symbol of ownership while the power, the responsibility and the substance which have been an integral part of ownership in the past are being transferred to a separate group in whose hand lie control."

The development of a more formal agency theory has its roots in the 1970s in economic studies seeking to explain and improve the performance of firms in ways that challenged neoclassical conceptions of the firm as a simple production function seeking to maximize profits. Classic explications of agency theory can be found in the work of economists such as Alchian and Demsetz (1972), and Jensen and Meckling (1976), who recognized the divergence of interests that may occur between sets of principals and agents found in the modern firm, and offered ideas on how to structure monitoring and contractual mechanisms to better align the agent's incentives to the principal's.[4] Much of the literature assumes the central problem to be solved is how to induce the agent to maximize the principal's welfare, and it also recognizes that there are costs to the various control mechanisms.

Scholars applying the model to political institutions acknowledge the obvious differences between the behavior of firms and public organizations. These include the observation that government agencies have numerous mandates that are often difficult to measure, that they are often agents to multiple, competing principals, and that politicians do not always delegate based on commonly assumed notions of efficiency (Moe 1984, 1990; Tirole 1994).[5] Nonetheless, P-A models direct attention "to the more subtle web of incentives and relationships that condition political control," and shed light on the efficacy of institutional arrangements and oversight options that political principals use to control bureaucratic agents (Moe 1984). Common control measures include screening and selection mechanisms to avoid selecting an inappropriate (e.g., incompetent or corrupt) agent; mechanisms to control agency discretion; financial incentives linked to performance; and different forms of inspection linked to positive benefits or negative sanctions (McCubbins, Noll, and Weingast 1987, 1989; Bawn 1995; Kiewiet and McCubbins 1991).

While much of this work on political institutions comes out of the field of American politics, new strands have appeared in other fields. Europeanists, for example, have applied insights from P-A models to examine when and how European Union (EU) institutions exhibit autonomy from member governments, why states delegate to supranational institutions, and how EU institutions impact P-A relationships at the member state level (Pollack 1997, 2003; Talberg 2003; Alter 1998; Bergman 2000).

Another strand of scholarship exists within the fields of IR and development economics, to explain why foreign aid institutions often fail to achieve the desired results.[6] Most of this work either looks at the aid organization as principal and the recipient country as agent, or at the aid

[4] Alchian and Demsetz focused on shirking that can occur in team production, while Jensen and Meckling were specifically concerned with owners or shareholders as principals and management as agents. This work also drew from Ronald Coase's (1937) work challenging neoclassical theories of the firm.

[5] On multiple mandates, Tirole (1994) notes, "…who will put reliable numbers on the U.S. Department of State's performance in 'promoting the long-range security and well-being of the United States?'" On questions of efficiency, Moe (1984) observes, "A contractor may be chosen because he is a major contributor to a subcommittee chairman's campaign; a bureau may be created because it opens opportunities for patronage; and the control structure may have less to do with the direction of policy than the funneling of expenditures to legislative districts."

[6] See, for example, Burnside and Dollar (2000); Dollar and Svensson (1998); Cassen (1994). For an excellent literature review on principal-agent models and conditionality contracts between aid donors and recipients, see Martens (2002).

organization as the agent of member state principals (multiple principals), without accounting for the fact that the organization may be both an agent and a principal, depending on which stage of the policy process is being analyzed.[7] The work viewing the aid organization as principal has focused on why aid conditionality is so often ineffective. Conditionality, by definition, is a P-A issue, because it is all about donor-principals seeking to induce policy change in recipient-agent countries in return for aid. As such, development economists recognize that IFI principals lending to recipient country agents have much in common with the traditional P-A relationship between private lenders and borrower. Asymmetric information endemic to both sets of relationships gives rise to problems such as moral hazard, where the borrower may decide it has an interest in taking more risks that may increase the possibility of default (Khan and Sharma 2001; Dixit 2000). Tony Killick (1996), in turn, uses a P-A model to highlight the asymmetric risk burdens facing donors and recipients, given that adjustment measures pose heavy economic costs on recipient countries and therefore political costs to their governments, while the IFIs face few direct repercussions from the consequences of their lending decisions. Heavy conditionality may also encourage recipients to evade commitments when possible.[8]

Other work along these lines has argued that the ability of the donor institution to use conditionality to exert leverage over the recipient country depends on factors such as the degree of asymmetry in their bargaining power. Weak recipients dependent on aid are more likely to accept conditionality offered by strong donors, while strong recipients with the ability to tap into alternative sources of financing with fewer strings attached are better able to shape aid packages (Ostrom et. al 2002; Gutner 2002).

Donor institutions also delegate implementation responsibility to contractors, and there are many examples of performance problems arising as the latter pursue their own interests. For example, Alexander Cooley and James Ron (2002) describe cases where Western donor use of one-year renewable contracts creates incentives for international nongovernmental organization contractors to "downplay government subversion of economic reforms, withhold information about ineffective projects, and tolerate bureaucratic opportunism."

Scholars examining the conditionality problem from the perspective of the institution as the agent of member state principals address issues such as how and why the IMF itself has in many cases flouted member state preferences on the design of conditionality. Erica Gould (2003), for example, suggests that IMF autonomy is enhanced because its political principals are a set of multiple principals whose preferences may diverge, and because staff gain autonomy as a result of Board incentives to avoid rejecting agreements between Fund staff and recipient countries.[9]

Recent scholarship on international organizations contains few attempts to explore the ways in which agency theory can enrichen rationalist approaches to explaining IO performance. The emphasis has been on the politics of member state delegation to IOs, rather than IO activities. One exception is work by Daniel Nielson and Michael Tierney (2003) that seeks to apply some lessons of agency theory specifically to the case of the World Bank's environmental behavior to argue that shareholder principals were successfully able to change the behavior of Bank officials. It is worth discussing this in some detail, because it uses the same theory and case study presented here to arrive at quite different conclusions. The authors use a P-A model

[7] Notable exceptions include Ostrom et. al. (2002) and Martins (2002).
[8] See also Kapur (1998) for an argument on moral hazard and the IMF.
[9] She argues that the IMF's board have over the years called for conditionality to be narrower and more uniform.

to argue that in 1994 the World Bank suddenly undertook sweeping environmental reforms that significantly altered its environmental lending portfolio and behavior. The driving force, they claim, was the Bank's shareholder principals, led by the U.S., enacting a variety of reforms, such as new reporting requirements and an increase in environmental staff, which resulted in reining in the Bank-as-agent. The evidence offered is an analysis of Bank-approved loans between 1980-2000 showing what the authors argue is a statistically significant increase in environmental percentage of Bank lending and number of stand-alone-environmental projects after 1993 (Nielson and Tierney, 2003: 269, 270).

I disagree with their conclusions, which conflate *behavior* with *intention* and are based on a coding of Bank projects that does not accurately measure the environment. I will argue that 1994 was not a benchmark year for behavioral change at the Bank, and that existing evidence paints a picture not of significant change as the authors assert, but rather, a slower, more uneven process. The authors measure "behavior" by analyzing board-approved projects without examining what happened *after* approval; in other words, without knowing whether and why projects are cancelled, partially implemented, poorly implemented, or implemented in a way that promotes environmental degradation, there is no way to begin to determine whether Bank officials have been reined in or not. There is also no analysis of whether and how the design of projects has been influenced by the Bank's new environmental policies or procedures. As I discuss below in greater detail, not all design and implementation problems reflect agency slack; nonetheless, improvements in Bank performance, or even a more narrowly defined term of Bank lending *commitments*, can hardly be inferred by examining data that does not examine any design issues and stops before any money has flowed and any investments are made on the ground.

Also problematic is the fact that the authors code Bank projects as "primarily environmental or not," without clearly defining the terms, as they seek to measure increases in lending for projects with primary environmental goals, and a decline in lending for projects that are environmentally harmful. Indeed, the authors consider the projects that may *harm* the environment as including projects in the energy, transportation and urban development sectors, but in fact, many of these projects have significant environmental benefits, e.g., an energy project that improves energy conservation and efficiency. Conversely, some projects that appear on paper to be environmentally beneficial have been accused by NGOs as causing environmental degradation.[10] The point is, if projects are categorized by sector and without attention to design or implementation, we simply cannot tell if changes in Bank policies or staffing influenced how the projects address environmental issues. The article's finding of increased environmental lending totals and number of projects traces much of the boost to the inclusion of dollars and projects from the Global Environmental Facility (GEF) activities. The GEF, in fact, is a *separate* mechanism funded by donor governments to provide grants to developing countries for projects addressing global environmental issues. The Bank is one of the GEF's implementing agencies, along with UNDP and UNEP. This finding undermines the article's central argument—in other words, to show that improvements in Bank environmental lending reflect the activities associated with a separate grant-based mechanism does not support the argument that improvement in Bank

[10] One example would be forestry projects that have generated controversy for appearing to be environmentally friendly but causing harm on the ground. In fact, Nielson and Tierney implicitly recognize that implementation must be addressed in coding projects because they exclude forestry projects from their data set. For an example of criticism of the Bank's behavior in the forest sector, see World Rainforest Movement (2002).

environmental lending behavior reflect actions by Bank principals to rein in agents through new oversight and monitoring mechanisms. Even if there is utility in measuring the composition of the Bank's lending portfolio without examining implementation, Nielson and Tierney's findings of a "punctuated and significant" increase in environmental lending differs sharply from the Bank's own assessment that environmental components and objectives of its loans have fallen from 14% of its 1993 portfolio to a historical low of 5% in fiscal 2002 (Lovei 2003).[11]

The following section presents an alternative picture to that of Nielson and Tierney, showing how agency theory can help to explain why performance has been uneven rather than unambiguously positive. I first offer evidence that the process of environmental reform at the Bank can be characterized as containing forward steps accompanied or followed by backward or sideways steps. I then turn to a discussion of how agency theory offers a powerful analytical tool to determine some of the main sources of these performance problems. Problems of complex delegation and the dual role of Bank as principal and agent are enhanced by the fact that aggregate environmental performance is extremely difficult to measure.

"Greening" the World Bank

The birth of an environmental initiative at the Bank occurred in 1970, when president Robert McNamara set up a new unit, the Office of Environmental and Health Affairs, to help developing countries "avoid or mitigate some of the damage economic development can do to the environment, without at the same time slowing down the pace of economic progress" (McNamara 1981).[12] The office, soon renamed the Office of Environmental Affairs (OEA), was powerless, lacking the staff, resources, and the political will of shareholders to strengthen the Bank's environmental scrutiny. It had a small staff—three specialists by 1983 and five by 1987—to screen over 200 projects a year. They had little ability to introduce changes in project design and no power to block projects from going to the Bank's board for approval. The definition of what exactly an "environmental issue" was remained poorly developed, and the office tended to emphasize public health issues. As Wade noted, "…what the Bank did under the label 'the environment' included residual things like the relocating of a power line so as not to spoil the view from a game lodge, matters no one else wanted to deal with" (Wade 1997).

In 1987 the Bank embarked on a process of significant environmental reform in response to strong pressure from the U.S., the Bank's single most powerful shareholder, backed by other major European shareholders. These shareholder efforts, in turn, were pushed by a major environmental NGO campaign to reform the Bank (Rich 1994; Wade 1997; Gutner 2002). The NGO campaign, launched by the Natural Resources Defense Council, the Environmental Policy Institute (which later merged with Friends of the Earth), and the National Wildlife Federation, took its ammunition from the existence of a handful of Bank projects that were causing enormous degradation. One example was the huge Polonoereste projects in Brazil, for which the Bank provided over $450 million in loans in the early 1980s to promote agricultural colonization and road-building in the state of Rondônia. NGOs and others argued that project encouraged a massive migration of

[11] My critique of Nielson and Tierney (2003) is presented in detail in Gutner (2005).
[12] On the factors shaping this decision, see LePrestre (1979), Wade (1997), Gutner (2002).

colonists that overwhelmed support efforts, resulted in slash and burn agriculture, and ultimately was responsible for enormous deforestation, among myriad other problems.[13]

The leading role of the U.S. in forcing the Bank to reform its environmental policies and actions is widely recognized and has been described in detail in accounts by Bruce Rich (1994) and Robert Wade (1997), among others.[14] Between 1983-87, over twenty hearings on MDB performance were held before six Congressional subcommittees. NGOs were able to build support within Congress at a time when the U.S. was negotiating over its contribution to a round of capital replenishment at the Bank. Capital replenishment has become a key way for shareholders to lobby for changes within MDBs.[15] Given the degree of Congress's frustration with the Bank's environmental behavior, it was clear that an increase in the U.S. contribution to IBRD or IDA would be difficult in the absence of environmental reform. The House Subcommittee on International Development Institutions and Finance issued in late 1984 a set of recommendations to the U.S. Treasury and U.S. executive directors at the World Bank and other MDBs to increase environmental staffing, to consult with NGOs and environmental ministries in project preparation, to create a new staff position at Treasury to help monitor MDB environmental behavior, and to fund more small, environmentally oriented projects (Rich 1984; Schwartzman 1984). "It appeared to be a remarkable breakthrough," wrote Rich (1984:119), who was actively involved in the campaign, "In the highly ideological, politically charged atmosphere of Reagan's first term, the administration and the Democrat-controlled House agreed on what was a bipartisan environmental policy for U.S. participation in the World Bank and its sister institutions." The NGOs also found a powerful ally in the U.S. Treasury, which oversees U.S. participation in the IFIs, and beginning in 1986, joined in to pressure the Bank to address the environmentalists' concerns. The Treasury was concerned about avoiding any threats to the IBRD's capital increase since addressing the Latin American debt crisis required more IBRD money (Wade, 1997: 667-68). Support from other major shareholders, such as Germany, also increased pressure on the Bank.

Barber Conable, who became president of the Bank in July 1986, had been a Republic congressman for over 20 years, and well understood the obstacles faced in Congress to increased U.S. funding. The result was his admission in 1987 that the Bank was "part of the (environmental) problem," and the announcement of a central environmental department to "take the lead in development strategies to integrate environmental considerations into our overall lending and policy activities" as well as regional environmental offices to act as "environmental watchdogs" over Bank projects (Conable 1991).

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[13] Rich (1994) wrote, "Polonoroeste transformed Rondonia—an area approximately the size of Oregon or Great Britain—into a region with one of the highest rates of forest destruction in the Brazilian Amazon, increasing its deforested area from 1.7 percent in 1978 to 16.1 percent in 1991. By the mid-1980s, the burning of Rondonia's forests became a major focus of NASA research as the single largest, most rapid human-caused change on earth readily visible from space." Another example was the Indonesian Transmigration project, which sought to relocate millions of people from Indonesia's inner islands to its less populated outer islands. The project was criticized as being politically motivated, and resulted in the clearing of enormous tracts of tropical forest, with little sign of alleviating poverty.

[14] In addition to being the Bank's largest shareholder, with 16.4 percent of the votes, it is one of only a handful of countries with its own executive director on the Bank's board. The Bank is also based in Washington, D.C., and its president is an American citizen. Shareholding size also reflects subscription size.

[15] Also see Le Prestre (1979) for analysis of this campaign. The Bank's International Development Agency (IDA), which offers no-interest loans to the Bank's poorest members, has its funds replenished on a three-year cycle, while the IBRD's capital replenishments occur less often. Congress would decide on its contribution to IDA's eight replenishment and the IBRD's capital increase in 1987.

The 1987 reforms are an example of major forward steps taken by the Bank to better address environmental issues. Other such steps include the development of safeguard policies such as environmental assessment procedures in 1989 (revised in 1991 and 1999), to prevent or mitigate a project's possible adverse environmental impacts; specific efforts to promote loans with primary or significant environmental components; and a variety of projects and programs to help member countries develop environmental institutions, strategies and policies.[16] At the global and regional levels, as noted above, the Bank is an implementing agency for the GEF (established in 1991), as well as the Montreal Protocol's Multilateral Fund (established in 1990). It has also played a leadership role in international programs for the Mediterranean, Baltic, Caspian, Red, Black and Aral seas, and a joint initiative with IUCN that created the World Commission on Dams. Since 1999 it has also operated a Prototype Carbon Fund to help governments and companies invest in projects that reduce green house gas emissions in ways that fit the Kyoto Protocol framework. It has also sought to incorporate environmental issues into its country policy work and its country assistance strategies (CAS), which guide lending.

Other measures to increase accountability and transparency include the 1993 creation of an Inspection Panel to investigate claims by private citizens that Bank projects have not followed proper policies or procedures; and a public information policy adopted in 1994 and revised in 2002 aimed at increasing transparency by making available documents that were once confidential. Additional oversight mechanisms created in the 1990s and early 2000s are the internal Quality Assurance Group (1996) to assess the quality of projects, supervision and analytical work, and a new Quality Assurance and Compliance Unit (2000) specifically to oversee Bank staff compliance with safeguard policies.

It is important to note that many of these reforms can be directly traced to pressure for change by the U.S. and other leading shareholders, often during times of capital replenishments (Gutner 2002; Wade 1997; Rich 1994). As such, they do reflect attempts by the shareholder state principals to improve the performance of the Bank-as-agent. Yet, few of these major measures have escaped criticism. For example, the 1987 reorganization did not stop the Bank from getting involved in projects seen as highly controversial from an environmental perspective.[17] Key policies for the environment have also faced internal and external criticism for having limited impact on project design and hence project outcomes. Bank safeguard policies in general have faced "…gaps, inconsistencies, and ambiguities that often lead to confusion among operational staff, clients, and external shareholders," according to an internal Bank report (World Bank 2000b). Another study pointed out that "very few EAs (environmental assessments) influence project design" (World Bank 1996). In particular, implementation has been mixed due to problems such as assessments not being completed early enough in the project cycle to impact project design, inadequate mitigation measures, and weak supervision. Other Bank studies have criticized the CAS for isolating environmental issues from other issues discussed in the strategy (World Bank 2000c). The integration of environmental issues into CAS remains an " elusive goal" because the CAS has a short time horizon, and issues such as poverty

[16] Conable (1991); Wade (1997); Gutner (2002). The latter efforts include the National Environmental Action Plans (NEAPs) that the Bank requires for IDA borrowers and suggests for IBRD borrowers. NEAPs describe and analyze a country's major environmental problems and offer policy solutions and other actions for addressing them.

[17] Projects that were controversial in the 1990s and early 2000s included the Narmada River Sardar Sarovar dam construction projects in India, the Chad-Cameroon oil pipeline project, the canceled Arun 3 dam project in Nepal; and the canceled China Western Poverty Reduction project.

reduction and macro-economic stabilization are higher reform priorities. Of the CASs reviewed between 1992-99, only half "adequately" addressed environmental issues (World Bank 2002a:xiv).

Even the Inspection Panel, while a commendable step in improving Bank accountability, is not uniformly viewed as a successful oversight tool. Fox (2002), for example, has argued that the Panel's results are limited and its impact ambiguous, given that the Panel serves at the Board's discretion and that the Board can reject its recommendations. While it may be the case that over time these various reforms will have a clear impact on lending behavior, new Bank policies and procedures themselves cannot be considered proxies for behavioral change without analysis of their implementation.

The positive reforms at the Bank have also been accompanied by backward or sideways steps. One of the most important examples of a backward step is the 1997 organizational restructuring under current Bank president James Wolfensohn, which shifted power in the Bank to country directors who control country budgets and are supposed to offer recipient countries more influence in developing lending priorities. While the move was applauded as a means to increase the Bank's accountability to its client countries, many recipient countries and country directors see environmental issues as relatively lower priorities than they may be for the Bank's major shareholders. The result has been country directors calling less often on environmental staff to design projects featuring environmental goals unless such projects also fulfill other priority needs. As the OED noted in 2002, "Many countries are reluctant to borrow for environmental projects and to implement Bank environmental policies, which they perceive as costly and rigid." It concluded that, "Bank management, concerned with an ever-growing development agenda, has not been consistent in its commitment to the environment; and managers have not been held strictly accountable for complying with the Bank's environmental policies" (World Bank 2002a: viii, xi).

Another example is the fact that the Bank is moving toward allowing middle-income countries to rely on their own national and social environmental policies, rather than the Bank's. NGOs are deeply concerned that such the devolution of responsibility for such safeguard policies to borrower governments will "undermine social and environmental standards and the accountability of the World Bank in order to increase lending," particularly in countries where capacity and political will are lacking (Brosshard 2004). The Bank, which is keen to reduce the decline in lending to these countries, has argued that costly fiduciary and safeguard requirements are "obstacles to timely quality lending operations" in countries that have acceptable domestic policies and procedures (World Bank 2004). It is too early to assess the impact of this new strategy, which will be implemented in a handful of pilot countries, yet it is clearly a move that reduces Bank oversight on environmental aspects of its loans.

Given the widespread perception that the Bank has not successfully "mainstreamed" environmental issues into its activities, the question remains: what factors contribute to the gap between intention and performance?

Certainly the existence of such a gap is no surprise to organizational theorists, sociological institutionalists and others who assume the existence of multiple sources of pressures hinder intended performance outcomes.[18] P-A models also have yielded insights into the gaps between

[18] In particular, see March (1978), for a review of the impact of bounded rationality, limited rationality, process rationality, and contextual rationality on choice behavior; Cohen, March and Olsen (1972), on how organizations lacking clear goals may be subject to independent streams of problems and solutions; and Haas (1990) on

institutional objectives and performance, but they have yet to explain challenges to delegation within IOs that are not directly caused by agent opportunism and cannot be fully understood by viewing the organization solely as principal or agent. The following section analyzes the ways that antinomic delegation problems and the long delegation chain illuminate ongoing criticism of the Bank's environmental behavior.

Antinomic Delegation

Principal-agent models tend to find the obstacles to performance in the opportunistic behavior of agents, and examine various techniques that may be used to give the agent greater incentive to pursue the principal's agenda. Yet what if the problem comes from the delegation side, in the sense that the principals are delegating tasks that do not easily conform to the institution's mission and internal incentive systems, or are simply very complex and difficult to carry out? The literature on principal-agent models commonly recognizes that bureaucracies have multiple or collective principals who push for a variety of sometimes conflicting goals. There is debate about whether the existence of multiple principals may create more efficient outcomes by creating systems of checks and balances (Tirole 1994); or whether the potential problems facing multiple principals make delegation less attractive (Pollack 2003). However, there are few attempts that analyze the impact these challenges have on the performance of international organizations. Hence, this paper does not explicitly test hypotheses on *why* the World Bank juggles a multitude of mandates, but, rather, focuses on the Bank's mixed efforts to respond to them.

There are two interrelated ways in which delegation is complex at the World Bank. One reflects a more macro-level problem of mission creep, or the mushrooming of new institutional goals without a corresponding reduction in old goals. As Tirole (1994) has noted, the existence of multiple goals does not automatically mean that principals cannot construct strong incentive schemes to address various performance components. Yet multiple goals do bring into sharp focus individual components that are difficult to weigh.[19] The second area of complex delegation, then, is where different goals directly conflict with one another, making implementation inherently difficult. This is the problem of antinomic delegation. In the case of the World Bank, the latter includes the challenge of being a financial institution and development agency; and the challenge of integrating environmental considerations into its economic development and poverty alleviation work.

Mission Creep

All IFIs have seen an increase in the number of tasks added by their member state principals. In fact, mission creep is prevalent across the board of IOs, if one thinks of NATO's expansion in the wake of the Soviet Union's demise; the United Nations' involvement in intra-state wars; and WTO's enhanced powers to settle trade disputes. In the case of the World Bank, Einhorn (2001), a former managing director, argues that the Bank's "mission has become so complex that it strains credulity to portray the Bank as a manageable organization." In recent years, for example, it has been asked to be involved in postwar reconstruction in the Balkans,

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characteristics of "turbulent nongrowth," where institutional adaptation has essentially failed. Interestingly, Haas viewed the World Bank as an example of an IO that successfully adapted to change.

[19] He uses the example of the U.S. Environmental Protection Agency's instructions to "curb pollution at a reasonable costs for the industries." Not only is it difficult to measure pollution levels and industry costs, but who defines what is "reasonable"? He concludes that a decision about what is optimal ultimately is shaped by the EPA's perception of its constituency (Tirole 1994: 4).

and to help combat HIV/AIDs in Africa. Its lending themes include public sector governance, rule of law, "social development, gender and inclusion," and "human development," among other areas. It has strategies to assist countries in changing gender patterns, empowering society, and protecting the environment. It is also helping to implement all the goals of the 2000 U.N. Millennium Declaration, which contains ambitious targets for reducing infant, child and maternity mortality, and achieving universal primary and secondary education, among other issues.

There is no shortage of hypotheses seeking to explain World Bank mission creep, mainly from the policy world, but few if any explanations have been systematically tested. They include blaming the Bank's current president for poor leadership, blaming the board of directors for lacking consensus about the Bank's mission and for giving management sometimes conflicting guidance, and blaming pressure from civil society in pushing member states to add new mandates (Einhorn 2002; Fidler 2002; Naim 1993; Kapur, Lewis and Webb 1997). In principal-agent language, all of these explanations eventually point to shortfalls on the principal side of the equation. Something is lacking in Bank leadership that has resulted in the absence of a clear, focused mission that impacts the incentives facing Bank staff and management to do their jobs.[20]

While it is true that these problems no doubt contribute to agency slack and that more precise monitoring and oversight mechanisms may tweak agent behavior, it is important to get at the root of the problem and recognize that the principal may make poor decisions, may make sensible decisions that are difficult to implement, may not fully understand the implications of some of its actions, and may not be able to provide helpful guidance on how the agent should implement these actions. It is also possible that principals may have political or other reasons for producing policies it knows cannot be easily carried out. Bank officials have noted that it sometimes takes few years for new policies to become "institutional realities" as staff adjust and determine how to implement them.[21] While the problem of mission creep illustrates a macro picture of institutional struggle, the next section shows how a P-A framework helps to better explain the problems the Bank faces in juggling its goals as financial institution and development agency, and addressing environmental issues within its broader mandates.

Bank versus development agency

Multilateral development banks face the everyday challenge of simultaneously functioning as part financial institution and part development institution. They are financial institutions in the sense that their primary function is to lend money to creditworthy governments or private sector actors for projects that meet the banks' criteria on financial, economic, technical and legal viability. Loans, unlike grants offered by bilateral aid agencies, must be repaid with interest. Of course, MDBs are also distinctly different from private banks. They are supposed to lend money that may enhance but not crowd out private sector lending, although in practice it is often difficult to determine whether or not a project would have existed without MDB involvement. MDB loans also have longer maturities, grace periods and lower interest rates than commercial loans, and MDB loans to governments usually require sovereign guarantees.

Yet MDBs are also development institutions whose shareholder governments give them instructions to promote a wide range of activities in recipient countries that often go well beyond the traditional infrastructure lending that is their specialty. MDB loans contain conditionality

[20] Even where problems are attributed to the Bank president, who can be seen as an agent of member state principals, the question is why has the president-as-agent been able to have so much influence on Bank behavior?
[21] Author interview with senior Bank environmental specialists, August 2003.

that requires borrowing governments to change their policies in ways that would not be required by a private bank, and they must follow a number of safeguard procedures designed to ensure Bank projects have no unintended damaging effects on issues such as the environment or third parties. The result is that MDBs ultimately have the most policy leverage in countries that do not have easy access to attractive, alternative sources of financing.

In practice, MDBs make choices about whether they will emphasize their banking goals or their nonbanking goals. MDBs emphasizing their financial institution characteristics will be more driven by borrower ("client") demands and less interested in trying to sell particular projects to borrowers. One example is the European Bank for Reconstruction and Development (EBRD), which must target at least 60% of its loans, guarantees and equity investments to the private sector (EBRD 1990).[22]

The ways in which member state countries design an MDB to fall on the continuum between most and least "banklike" will influence its environmental lending behavior because stand-alone environmental projects are often not high on the wish-list of projects borrowing countries want MDB loans to undertake (World Bank 2001). This means that a more "banklike," client-driven MDB will generally face fewer incentives to design environmental activities than a less "banklike" MDB.[23] Relatively more banklike MDBs also have fewer staff, because they depend on borrowers to come to them with ideas. The European Investment Bank (EIB), for example, one of the most banklike of MDBs, lends more than the World Bank each year, but contains a staff approximately one-tenth the size of the Bank's.[24]

The World Bank's position along this spectrum has become confused in recent years, which has affected its ability to carry out some of its environmental goals. It has historically been among the least "banklike" of MDBs, given its record of lending in areas such as health, nutrition, and education. However, under Wolfensohn's tenure, the pendulum is swinging in the other direction, reflecting a number of steps taken since the mid-1990s to be more client-driven. While the goal of greater Bank accountability to borrowers has few critics, the fact is that this move reduces borrower demand for stand-alone environmental projects. As the Bank recently noted, "Many developing country governments view international concern over environmental problems in their countries as intrusive and likely to impede development" (World Bank 2002a: 5). This sentiment is also reflected, in part, in a decline in "direct environmental lending" from 15 projects totaling $1 billion in 1996 to 13 projects totaling $514 million in 2000 (World Bank 2002a). Some Bank officials argue that there are signs of growing borrower demand for projects in areas like water treatment and supply, where environmental goals coincide with other major goals, such as giving more people access to clean drinking water, and believe that developing countries are becoming more aware of the importance of environmental financing.[25] It is also the case that external factors can influence a country's demand for environmental financing, such as the need for countries joining the EU to adopt EU environmental directives, which require billions of dollars of financing (Hughes and Bucknall 2000).

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[22] The London-based EBRD was established in 1990 to assist postcommunist countries with the enormous task of creating market economies.

[23] See Gutner (2002) for a comparative study of three MDBs, which shows a correlation between how "banklike" the MDB is, and the depth and scope of its environmental activities.

[24] The vast majority of EIB lending is to its member EU states; however, more than 15% of its lending is to non-member states.

[25] Author interviews with senior World Bank environmental officials, July and August 2003.

The point is that relatively more demand-driven MDBs are more dependent on the borrower's interest in the funding of particular types of projects. This means that *even if the Bank's most powerful principals continue to use their leverage to promote more environmental lending and tighter environmental policies, their plans may be thwarted where there is tepid interest from recipient countries*. In addition, while the degree to which an MDB is demand-driven shapes the types of projects an MDB finances, it does not tell us whether its overall portfolio seeks to avert negative environmental impacts. In other words, one can imagine the possibility of a more banklike MDB that has few stand-alone environmental projects but addresses the environmental impact of its work through safeguard procedures and policies. The following section addresses the issue of how to measure MDB environmental behavior.

Defining, Measuring, and Engaging in Environmental Behavior

While there is agreement within the NGO community and parts of the World Bank (such as the OED) that environmental reform within the Bank is far from an unqualified success, it is also true that defining and measuring the Bank's environmental behavior is a complex task. This complexity is further evidence of challenges on the delegation side of the P-A relationship, in that what is being delegated is ultimately difficult to precisely define and measure. This, in turn, creates some degree of wiggle-room for Bank staff in their environmentally-related work. Even when MDB shareholders have called on management and staff to improve MDB environmental lending and policies, and when shareholders have also instituted various mechanisms to encourage such improvements, the translation process is not straightforward for a variety of reasons. For example, most of an MDB's activities put pressure on the environment. Investment projects in agriculture, energy, industry, urban development, transport, and poverty reduction almost always have environmental implications, since they involve clearing land, using natural resources, emitting pollutants, promoting economic growth, and so on.

The links between structural adjustment lending (SAL) and the environment are also complex, but there is ample evidence of the many ways in which SAL results in additional pressure on the environment.[26] In fact, many of the Bank's safeguard procedures focus primarily on Bank projects, which means they are not applied to the Bank's structural adjustment lending, a significant part of the Bank's portfolio (World Bank 2000a). Only 23 percent of Bank SALs contained environmental conditionality in the 1990s (World Bank 2001).[27] A non-Bank study analyzing the Bank's attempts to promote forest policy reform through SAL concluded that environmental conditionality measures were easy to undo, and were weakened by the inability of short-term adjustment lending to support implementation and institutional reform (Seymour and Dubash 2000).

There are certainly areas where economic development and environmental improvement easily overlap in what the Bank calls "win-win" combinations, such as projects or programs requiring the removal of energy subsidies, but these do not account for the bulk of MDB portfolios.[28] Conversely, there are areas of lending where environmental objectives may directly

[26] These include trade liberalization that increases the export of natural resources and budget-cutting that reduces environmental spending. See Reed (1996).

[27] In recent years, structural adjustment lending has ranged from 63% of total IBRD lending in fiscal 1999 to 38% in fiscal 2001.

[28] See the 1992 World Bank World Development Report for details of such "win-win" areas. The existence of conflict between economic growth and environmental sustainability is also at the heart of the broader discussion on what "sustainable development" means and how it can be undertaken. The 1992 WDR, in fact, draws from the discussion in the 1987 Brundtland Commission report. It is also the case that the World Bank's top areas of lending

clash with economic development or poverty reduction objectives, such as when new power plants are built, creating a new sources of greenhouse gas emissions, or rainforests are cut down to make way for highways.

Sometimes the trade-offs are more subtle, occurring in areas such as project impact or budget allocation. For example, while Bank's primary goal is poverty reduction, it is not always clear how environmental projects impact the poor. One Bank study reviewing 61 environmental projects in four geographical regions found that few sought to quantify their impact on the poor, and that a project's benefit to the poor was influenced more by individual design than country or sector. The report concluded that "Environmental benefits were seen as good outcomes in their own right, or perhaps as part of a framework for making economic growth sustainable" (Bucknall, Kraus and Pillai 2000). The Bank's new environmental strategy document also notes that "the Bank's environmental activities have to compete for staff and budget with sectors such as health, education, social welfare, and rural development, which more directly address issues of poverty" (World Bank 2001).

How, then, can an MDB show that it is addressing environmental issues in its work? Most MDBs define their environmental performance in terms of funding objectives and degrees of compliance with due diligence or safeguard procedures. The first category includes loans the banks' have agreed to finance for projects with primary environmental goals—such as pollution abatement or nature protection—or significant environmental components. The second category includes the banks' procedures for ensuring that all projects try to mitigate or avert environmental degradation. One can also include research on the environment, agenda setting efforts (such as the World Bank's actions in developing country or regional environmental action programs to help countries define and priorities environmental issues), and other environmental capacity building efforts that may take place outside of traditional loans. Indeed, the World Bank's OED report on Bank environmental performance measured performance in the areas of stewardship (helping borrowers to develop priorities and institutions), mainstreaming, safeguards, and building awareness about pressing global issues (World Bank 2002a: xiii).

These definitions are imperfect measures of environmental performance for several reasons. First, as noted above, in terms of environmental lending, the aggregation of project loan totals or components or numbers of projects in a specific category reveals nothing about project design or implementation (such as whether the project actually helped or harmed the environment), and so may be a measure of intention but not action. To date, there are no aggregate analyses of how completed Bank projects have actually impacted specific environmental issues or fulfilled project environmental objectives.[29] Second, using the aggregate amount of "environmental lending" as a sign of a trend in changing environmental behavior ignores the fact that some of an MDB's smaller projects are actually more effective in their environmental impact than larger, complex projects that are often more difficult to implement (World Bank 1997: 12). Third, projects not explicitly designed with environmental components may also be environmentally beneficial, such as projects to modernize industry in ways that

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are precisely those where it is most challenging to integrate environmental issues, such as electric power/energy and transportation. In terms of portfolio composition, between fiscal 1990 and 2000, just under 50% of the Bank's investment projects required a full or partial environmental assessment, meaning that the projects were seen as having significant or potential adverse environmental impacts. World Bank (2000a).

[29] There are, of course, numerous internal and external analyses of specific projects. As an example, the Bank's OED reviews Bank lending to individual countries. NGOs also commonly review projects, but tend to focus on problematic projects. See for example, Schwartzman (1986).

result in more efficient energy use. Fourth, there are no simple ways to quantify the impact of an MDB's research, agenda setting and other non-lending activities on shaping domestic policy reform or contributing to tangible environmental improvements (Goldman 2001).

To illustrate, the World Bank has been at the forefront of MDB efforts to more accurately define environmental objectives and measure behavior, and its conclusions have evolved over time. For example, for the region of Central and Eastern Europe during 1990-94, Bank documents contained at least three very different totals for environmental lending. The annual report listed one environmental sector loan ($18 million), while a second publication added two other loans for a total of $184 million, and a third document listed six projects for a total of $1 billion (Gutner 2002). The Bank's efforts to refine its definitions and measurements in the 1990s included attempts to distinguish between projects with "primary environmental objectives" and "major environmental components" and simply "environmental components." Projects in the first category include those where the costs of environmental protection or benefits exceed 50% of project costs or benefits, and tend to include water supply and sewerage, environmental capacity building, and forestry projects. Later definitions of the Bank's environmental portfolio included projects in the areas of water resources management and pollution management, environmental policy and institutions, and land management. Consensus has by no means been obvious.[30] A number of Bank officials and studies have been openly critical of attempts to define and treat the environment as a stand-alone sector of lending, rather than something that should be integrated into all of its works. The problem with a sectoral treatment, they argue, is that it creates competition between environmental units and other sectoral units seeking "funds and slots in country lending programs" (World Bank 2002a: 17).

By the late 1990s, the Bank began emphasizing the importance of "mainstreaming" the environment, or integrating environment into all projects, programs, CAS, sectoral and structural lending, and economic and sector analytical and advisory work. Gradually, the Bank has downplayed stand-alone environmental lending, and placed more emphasis on identifying environmental components in individual projects. This has occurred as adjustment lending has increased as a percentage of Bank lending, compared with project-based lending. In this way, the Bank is choosing to emphasize its safeguard procedures, analytical work, "ability to leverage policy dialogue," and discrete environmental components of projects, rather than individual environmental projects and outcomes.[31] The 2002 OED evaluation also admitted the Bank had no consistent criteria for monitoring its attempts to mainstream the environment, noting that "the lack of guidelines for monitoring of (sic) the extent of mainstreaming is itself a cause for concern" (World Bank 2002a: 9). Ultimately, the available data tends to focus on whether or not various policies and procedures have been captured by project design and implemented on the ground, and as discussed above, numerous studies have presented a picture of mixed performance.

[30] See Archaya and Abuyuan (2002) on numerous instances of Bank staff placing projects in incorrect categories, misusing sector codes involving the environment, and creating a coding system where categories such as environment and urban sector greatly overlap.

[31] The Bank recently instituted a new system for coding its portfolio, whereby each activity may be divided into ten economic sectors and eleven themes. One result is that the theme of "environment and natural resources" is the largest of the eleven in fiscal 2002. At the same time, the Bank's Quality Assurance Group warns that the quality of the new system depends on how well Bank staff define their work and how they understand the various new definitions. World Bank (2002b, 5).

While these weaknesses in environmental performance may reflect, or be exacerbated by, opportunism on the part of the Bank as agent, they share as a source problems on the delegation side of the principal-agent relationship. The argument, however, should not be interpreted as a means for an institution to explain away poor performance. Instead, I am suggesting that strategies for reducing problems of antinomic delegation are different from strategies aimed at reducing agency opportunism. Classic agency theory prescriptions emphasize screening, oversight and monitoring mechanisms, and this has been the Bank's emphasis, most recently seen in the creation of the Quality Assurance Group and Quality Assurance and Compliance Unit.[32] Yet problems stemming from antinomic delegation require attention to where and why goals may clash, ways of improving institutional leadership, how to clarify or simplify what is being delegated, and more precise methods to define and measure the performance of complex tasks.

Chain of Delegation

The broader principal-agent literature recognizes that principals may also be agents and vice-versa, depending on which stage of the policy process is being analyzed. For example, Congress is an agent to voters, but a principal to other bureaucratic agencies. The more points at which delegation is taking place, the more opportunities there are for agency slack. But scholars risk getting carried away by pointing out all the different areas where one actor is delegating to another; such as voters delegating to Congress, which delegates to Treasury, which delegates to the U.S. Executive Director at the World Bank, which contributes to delegation (via its role on the board) to Bank management and staff, which delegate to consultants and recipient country ministries, which delegate to specific project managers, and so on. For the purposes of analytical clarity, I choose to focus on the two major levels of P-A relationships characteristic of international aid organizations; one with shareholder states as a set of collective principals delegating to the organization as an agent; and the second with the organization as principal delegating to the aid recipient(s) as agent.

As noted above, the existence of these two levels of P-A relationships is not well recognized in the IO field, where most analysis focuses on the first level, particularly on why member state principals delegate to IO agents, and how they try to control IO behavior. The problem with stopping analysis at the level of organization-as-agent, is that we can learn nothing about on-the-ground implementation. Member states may take actions to reign in organization-agents that appear to be successful at the organizational level, but these gains may prove illusory when one opens the analytical lens further to see how such actions play themselves out in the IOs activities. In other words, focusing on only one level of delegation limits the application and efficacy of P-A analyses to the behavior and performance of IOs. The fuller analytical picture reveals more starkly the challenges of setting up mechanisms for accountability.

The tangle of P-A relationships and the difficulty of measuring some of the outputs of assistance create opportunities for any party to avoid accountability (Ostrom et. al. 2001). These problems are exacerbated by the fact that aid institutions are also characterized by an inherent break in the delegation chain, because the final beneficiaries of a project have no direct ability to

[32] Another example would be more stringent EIA procedures introduced in the mid-1990s. Since then, the person responsible for the environmental aspects of a project must sign an "Integrated Safeguards Data Sheet" (or ISDS) *before* project appraisal, rather then when the project documents are sent to the board. Author interview with senior Bank staff, August 2003.

shape the organization's control mechanisms (Seabright 2002: 36). Furthermore, multilateral development banks have another unusual wrinkle in their governance, in that recipient countries wear two hats; one as members of the Bank, with varying degrees of influence on its board, and one as recipients of its loans and other activities. That means that recipient countries at the World Bank, and other IFIs, are *both* principals in one set of P-A relationships, and agents in the other. This is significant, for example, in cases where powerful developing country shareholders, such as China or India, disagree with major developed country shareholders. Accountability is also less clear when aid organizations are trying to empower countries to do more themselves, such as the emphasis by the World Bank and IMF that countries be in the "driver's seat" in designing their poverty reduction strategies. The following section looks more closely at the sources of agency slippage at the major points in the Bank's delegation chain.

Shareholder principal-institution agent

The Bank's member state shareholders are represented through the board of governors and the board of directors. The Governors generally consist of finance ministers, and they meet once a year to lay down the overall directives for the Bank, review the annual report, consider new membership, and so on. While the Governors are the agents of member state government, they are also principals delegating to the board of directors, which is responsible for the Bank's day-to-day operations, including approving loans and major Bank policies. The board, in turn, is usually seen as the main political principal to the Bank-as-agent, since it is the primary channel through which member states are directly involved in its activities. However, the nature of the board's composition and the structure of its activities create conditions that weaken its ability to tightly control the institution.

The World Bank's (IBRD's) Board consists of 24 Executive Directors (EDs) representing 184 countries.[33] Only the U.S., France, Germany, Japan, Britain, Saudi Arabia, China and Russia have their own EDs, and all other countries are grouped into constituencies represented by one ED. The size of these groups ranges from four to over 20 countries, with several containing more than 10 members. Each country's share of the vote reflects the size of its contribution to the Bank's capital, which in turn roughly reflects the size of its economy. The result is that major donors have the most power on the board, and most member states do not have a direct voice or vote.

Other characteristics of the board also affect its oversight abilities. First, board directors have a short tenure of two-year, renewable appointments, and turnover is relatively high.[34] In terms of loan approval, which is one of the board's most important activities, most EDs receive detailed information about most loans at the end of the project cycle, which limits their ability to influence the projects.[35] The board also receives shortened, summary versions of project documents, and its procedures have been streamlined so that some projects do not even come up for a formal vote. If a project does not involve a new country, or some problematic component, and no ED seeks to raise an issue related to it, the project is automatically approved. Given the heavy volume of projects going to the Board each year, ED officials do not have the ability to carefully assess each one. Between fiscal 1994-99, for example, the World Bank approved an average of 281 projects a year. Finally, voting procedures at the World Bank encourage

[33] IDA's membership is slightly smaller, at 163.

[34] Naim (1994), a former U.S. ED, estimated that over 60 percent leave after serving for under three years.

[35] Recipient country directors do communicate with Bank staff involved in their countries. Rich country directors also have incentive to learn about projects in advance to encourage procurement to flow to their nation's companies.

consensus, and formal voting is rare. If a project is contentious and a formal vote is taken, no single country has enough voting power to block the project without support from other members.[36]

These features of World Bank governance ultimately give its directors more power in addressing broad issues of strategy, policy and institutional design, and less oversight in the types of projects Bank staff identify, and how specific projects are designed and implemented.

Bank principal-borrower agent

Examining the Bank as a principal to a recipient country client is useful in more precisely identifying the role that recipients may play in influencing what is widely seen as an aspect of "Bank behavior," or how the Bank puts its policies and strategies into practice. In other words, one can find examples where the principal-agent relationship "worked" at the first level of delegation, as the Bank designs environmental activities that reflect the board's strategic intentions of "mainstreaming" the environment, but where something may go wrong at the recipient country level, resulting in activities that are not undertaken or are poorly undertaken. While it is analytically easier to separate an institution's intentions from its actual activities, an examination of the latter is critical to understanding a fuller and more realistic picture of behavior, performance, and effects.

Recipient country actors are agents in the sense that they are responsible for making sure the conditions of Bank loans and other activities are implemented as agreed. Compliance with Bank conditionality is subject to the usual problems such as moral hazard and adverse selection common to such delegation (Murrell 2002). If recipients do not comply, disbursement may be halted. Recipients have incentives to use strategies to increase the amount of aid received, or at least to ensure that the flow of aid is not stopped or slowed for any reason. These strategies may include withholding negative information about project implementation, pitting one donor against another, hiding evidence of corruption, and so on. Agency slack may also be increased by the fact that World Bank loans are often disbursed through a number of different actors, including the relevant recipient country ministry, the local government authority, the specific organization for whom the aid is intended, and so on (Murrell 2002). Critics have also argued that the World Bank's "clientitis" has made it harder for the Bank to cut off loan disbursements even where there is evidence that borrowing governments are violating major conditions. Rich and others have argued that one of the results has been Bank complicity in misspending and corruption in large borrowers such as Russia and Indonesia (Rich 2002:34, 47-48).

In the case of World Bank environmental activities, an obvious form of agency slack at the recipient country level manifests itself in cases where the recipient agrees to a Bank-funded environmental activity but is not committed to carrying it out or faces other incentives to drag its feet. There is certainly anecdotal evidence that environmental activities work better in countries that are politically committed to addressing such issues, whether for economic, health, political, or ecological reasons. Indeed, lack of demand for environmental assistance is commonly recognized as one reason behind gaps between donor efforts to mainstream environmental priorities in bilateral aid programs and their assessment of the impact of aid (for example, Flint et. al 2000). The Bank has stated that weak domestic interest has contributed in "less than successful" staff efforts to address forest reform in Cameroon, water issues in Mexico, and industrial pollution in India (World Bank 2002a:17).

[36] The U.S. is the single largest shareholder, with a 16.41 percent vote.

Weak borrower commitment has also been a problem hindering the "implementation" of environmental action plans (NEAPs). As noted above, this is one of the diagnostic exercises undertaken by the Bank since 1987 to help countries prioritize their environmental problems and be aware of different policy options that may be undertaken to address these problems.[37] NEAPs are supposed to be "country-owned," while in practice the Bank assists countries in preparing them. The implicit assumption is that NEAPs provide a usable guide governments can use in implementing environmental reform policies and prioritizing projects. While helpful knowledge-creation exercises, there is nothing in NEAPs that compels countries to implement them. The result has been that while some NEAPs are seen as successful, others are seen by recipients merely as hoops to jump through in order to meet donor requirements. They may end up as documents collecting dust on bookshelves, rather than activities that stimulate policy change and lead to environmental investments. As the Bank's new environment strategy document noted, many countries view NEAPs as "a product rather than a process that needs to be nurtured and integrated into development strategies" (World Bank 2001:26).

The Bank has also recognized that it lacks adequate measures to encourage borrowing countries to pursue environmentally-oriented activities. The OED's 2002 evaluation of the Bank's environmental performance pointed out that some borrowers and Bank task managers believe that environmental mitigation actions can be "an added cost and burden that retards project execution" (World Bank 2002a:xvi). It noted that in some countries, "using GEF funds is almost the only way to get an environmental project into the program" (World Bank 2002a:11).

Agency slack is only one source of implementation problems. Project implementation may be hurt by factors such as procurement or contracting delays, weak local institutions, overly ambitious or ambiguous expectations or assumptions, shifting economic or political conditions, and misperceptions between donors and recipients, or between different recipients (Brinkerhoff and Crosby 2002; Landau and Gwyer 1997; Hirschmann 1967; McGillivray and Morrissey 2001). The Bank's Quality Assurance Group has 12 different criteria for "projects at risk," which include factors such as weakness in a project's legal covenants, financial performance or management, safeguards, supervision, disbursement, and weakness in a country's economic management, among others (World Bank 2002b: 16). These problems in turn, may be traced back to delegation or agency problems, or other technical, political, and organizational weaknesses that are more difficult to categorize and may not necessarily reflect agency slack. The point is, the identification of performance problems that reflect agent slippage at the recipient level directs analytical and policy attention to oversight, monitoring and contracting tools useful for correcting such problems. Yet the success of tools like stricter procurement policies, stringent conditionality, and enhanced supervision and other incentives to improve implementation, in turn depend on the political will of the Bank and its major donor members.

Conclusion

The magnitude of the delegation and performance problems facing international organizations today could hardly be greater. IOs will succeed or fail on the basis of how complex principal-agent relationships are managed. Both the scholarly and policy worlds must

[37] There are actually a growing number of diagnostic exercises, with many of the Bank's regional units developing their own tools. These include "environmental issue papers" and "policy notes" in Latin American and Caribbean countries, and Country Environment Strategy Papers in the Africa region. A recent internal review has argued that this work has been "unsystematic and sporadic." See Pillai (2002).

further develop and sharpen analytical tools that can better pinpoint and correct political and institutional areas where guiding ideas and strategies not only fit an organization's capacity and capability, but filter down to more effective performance. Neither the scholarly nor the policy literatures have offered powerful explanations on inconsistent World Bank performance. The policy literature often blames the Bank for poor performance on mandates that are themselves flawed. Much of the scholarly literature's lines of debate, in turn, demarcate power politics from organizational and/or sociological explanations of IO behavior, but focusing on one set of variables at the expense of another offers partial and unsatisfactory explanations of the factors accounting for mixed or poor institutional performance.

Agency theory offers a potentially powerful tool for identifying major sources of gaps between IO mandates and performance when it explicitly recognizes and analyzes problems inherent to the delegation side of the principal-agent relationship, and problems revealed by studying an IO as both an agent and a principal. As such, it expands the rationalist research agenda in the field of IO, offering a more nuanced set of tools in a field often criticized for overly blunt analytical approaches (see Simmons and Martin 1998). It offers a perspective for addressing the sticky or dysfunctional behavior that is more widely analyzed by historical institutionalists and constructivists.

The case of the World Bank shows how an examination of the nature of the tasks being delegated and the incentives shaping both sides of the delegation relationship can explain some key sources of disconnect between an institution's stated goals and on-the-ground implementation. Understanding, for example, whether a problem is caused by complex delegation or agent opportunism more precisely reveals powerful sources of institutional inertia and weak performance, but also clearly influences the options for correcting them. Modifying the traditional P-A model, in turn, is essential in cases where oversight and monitoring tools are clearly necessary but not sufficient to solve performance problems.

This analysis also has significant policy repercussions. First, delegation complexities that require actions like streamlining a large IO's mission require political will and leadership from major member states that are significantly more difficult to obtain than agreement on more specific screening, oversight and monitoring mechanisms. The latter can contribute to institutional adaptation without getting at the root of the problem. The World Bank's single largest shareholder, the U.S., has certainly not offered strong leadership and vision to most major IOs in recent years. And some widely debated policy reform options discussed in the U.S. would mainly serve to utterly enfeeble the institution, rather than reforming it in such a way as to make its work more manageable. A 2000 U.S. congressional commission (Meltzer Commission, 2000), for example, recommended that the World Bank essentially ends its life as a financial institution, and instead change its name to "World Development Agency," and give out grants on problems such as the treatment of tropical diseases. Purely grant-giving organizations require their coffers to be refilled on a more regular basis than a loan-making institution, and it is difficult to imagine donor countries regularly coughing up the billions a year the Bank now lends.

Second, the challenges of being a financial institution and development agency have only intensified over the years, thanks to mission creep. This means that many of the gaps between mission and performance are not likely to disappear. The realistic policy response may well be how to narrow rather than remove individual gaps, such as those between environment and poverty reduction. A profitable area of future research would be a focus on the extent to which the Bank is responding to performance criticism by putting more emphasis on activities that

emphasize *process* of policy reform over more tangible, traditional investment projects. This is the latest iteration of a broader shift over the past 20 years in donor aid from traditional investment projects (such as infrastructure) to the promotion of policy reform (Dollar and Svensson 2000; Brinkerhoff and Crosby 2002). Certainly, the World Bank is engaged in a growing number of such activities that focus on policy reform processes—such as bringing stakeholders together to discuss action plans, policy reforms, global issues, regional cooperation; building partnerships; encouraging "country-owned" processes for poverty reduction; offering "knowledge activities" and so on. Indeed, the Bank's 2003 Annual Report's "fiscal 2003 highlights" devotes one paragraph to its lending for the year, and the remaining six to process-oriented activities, including a conference organized on development economics, a new investment partnership, a "development marketplace" linking entrepreneurs to resources, and an urban research symposium (World Bank 2003). This emphasis on process inputs clearly offers the Bank ways to show it is improving its accountability and transparency, and many of these activities may truly be excellent ways for the Bank to achieve its more tangible goals. Yet, process input activities may also deflect attention from performance measured as successful implementation of loan-based projects and programs. And, as Martens has warned us, when aid shifts from investment projects to activities with difficult-to-measure outputs, such as institutional reform, the old problems of moral hazard and adverse selection remain alive and well (Martens 2002).

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