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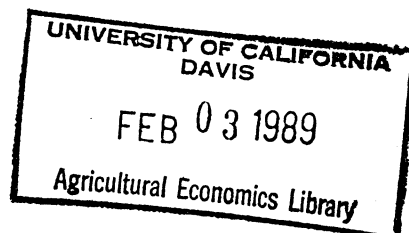
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THE MULTILATERAL DEVELOPMENT BANKS AND THE GLOBAL ENVIRONMENT



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INTRODUCTION

Following successful efforts in the 1970s and 1980s to lobby Congress for legislation to protect the environment in the United States, in 1983 U.S. environmental interest groups focused their attention on a related issue: the environmental consequences of development projects funded by the United States and the multilateral development banks (MDBs) in Third World countries. The U.S. Agency for International Development (AID) was an early target of environmental interest groups who succeeded in convincing Congress that AID should take environmental impacts of its development projects into account in project design and evaluation. From 1983 to the present, the environmental groups have lobbied the Congress intensively and effectively in an effort to get the MDBs to take greater account of the environmental impacts of their operations.

This paper will discuss the role of environmental interest groups and congressional committees in pressuring the MDBs to take into account environmental impacts of project and program lending. It will describe current practices in the MDBs that respond to these pressures, and conclude with a discussion of some of the issues raised by incorporating environmental concerns into MDB operations.

INFLUENCING THE MDBs: ROLE OF CONGRESS AND ENVIRONMENTAL INTEREST GROUPS

Organized environmental interest groups have been urging increased attention to domestic and international environmental issues since the late

1960s.¹ Concerns about population pressure on natural resources, deterioration of the environment, and natural resource depletion were expressed in Paul Erlich's *Population Bomb*(1968)² and the Club of Rome's *Limits to Growth* (1972).³

Until the early 80s, most U.S. environmental interest groups focused largely but not exclusively on domestic environmental issues, but groups such as Zero Population Growth and Friends of the Earth expounded a global outlook. Environmental organizations like the Center for Law and Social Policy, the Sierra Club, the National Audubon Society, and the Natural Resources Defense Council established international projects in the early 1970s.

Other influential organizations were active in the 70s. These included the American Committee on International Conservation which worked closely with the International Union for the Conservation of Nature and Natural Resources (IUCN) and the U.S. World Wildlife Fund. In addition, policy studies and reports dealing with environmental issues in a global context were published by Barbara Ward's International Institute for Environment and Development (IIED) and Lester Brown's World Watch Institute.

U.S. environmental groups and environmentalists participated in 1972 in

¹ Thomas B. Stoel, Jr., International aspects of U.S. environmental policy and politics since world war II, paper prepared for the conference on the evolution of American environmental politics, June 28, 29, 1984, organized by the program on American society and politics, the Wilson Center, Smithsonian Institution, Washington, D.C.

² New York, Ballantine, 1968.

³ New York: Universe Books, 1972.

the Stockholm conference on the Human Environment, a landmark event. IUCN published its World Conservation Strategy in 1980.⁴

On the domestic front, Congress passed the National Environmental Protection Act (NEPA) in 1970, which among other things, contained an explicit directive that the U.S. Government improve the international environment through cooperation with other countries. (More recently, there has been a congressional initiative to apply NEPA environmental impact assessments to U.S. participation in MDB activities.)

Beginning in 1983, a small number of environmental activists began to lobby Congress intensively to require U.S. Executive Directors of the MDBs, especially the World Bank, to press for more responsiveness by MDBs to environmental concerns.⁵

U.S. policy for the MDBs is the responsibility of the Treasury Department. U.S. Executive Directors of the MDBs report to the Treasury Department. Congressional jurisdiction over Treasury department activity with respect to the MDBs is divided between committees responsible for authorizing legislation and those responsible for appropriations for the MDBs. The authorizing committees include the Subcommittee on International Development Institutions and Finance of the House Committee on Banking, Finance and Urban Affairs and the Subcommittee on Economic Policy of the Senate Foreign Relations Committee.

⁴ Gland: Switzerland, 1980 by the IUCN. Throughout the 70s, U.S. environmental groups participated in global environmental group networks such as the Environment Liaison Centre, Nairobi, Kenya and the Pesticide Action Network-International.

⁵ Bankrolling disaster: International development banks and the global environment. A citizens' environmental guide to the World Bank and the Regional Multilateral Development Banks. Sierra Club, Washington, D.C., 1986. This report chronicles from the Sierra Club's perspective the campaign to influence MDBs to take environmental impacts of projects into consideration.

The appropriations committees include the Foreign Operations Subcommittees of both House and Senate Appropriations Committees.

U.S. environmental organizations promoted or participated in more than 20 hearings before congressional subcommittees on the environmental and social impacts of MDB operations. The object of their participation was to convince the relevant committees and through them the Treasury Department that the MDBS, especially the World Bank, should direct attention to environmental impacts of their lending activity.

In response to information supplied by environmental interest groups, the House Banking Committee held the first congressional hearing in June 1983 on environmental impacts of specific World Bank funded projects.⁶ Testimony at that hearing by the Deputy Assistant Secretary of Treasury with responsibility for overseeing the operations of the MDBs clearly showed that environmental aspects of MDB operations had not previously been of concern to the Treasury Department nor to the U.S. representative on the World Bank's board of executive directors. This hearing marked the beginning of a campaign of continuing pressure by the environmental lobbyists on the banking, foreign affairs and appropriations committees.

The House Banking Committee subsequently published a set of recommendations for giving higher priority to environmental issues within the MDBs. The recommendations included proposals for increased staffing with

⁶ U.S. House of Representatives, Committee on Banking, Finance and Urban Affairs, Subcommittee on International Development Institutions and Finance, Hearings, Environmental impact of multilateral development bank-funded projects, 98th Congress, 1st session, serial no. 97-37, Washington, U.S. Govt. Print. Off., June 28 and 29, 1983.

professionals trained in environmental matters and for policy changes.⁷ Other committees also responded to the environmental lobbyists, and for the past several years appropriation bills providing for U.S. contributions to MDBs have included numerous environmental provisions.

The environmental groups have documented and publicized specific instances where MDB projects have entailed negative environmental consequences. In addition, these groups have developed close working relationships with the staffs of the committees with jurisdiction over U.S. policy or appropriations for the MDBs.

The FY1986 foreign aid appropriations legislation contained provisions requiring the U.S. Executive Directors of the MDBs to promote a series of reforms aimed at incorporating environmental concerns into design and implementation of MDB-funded projects.⁸ The legislation instructs U.S. Executive Directors of the MDBs to vigorously promote:

- o an increase in environmentally trained professional staff
- o increased participation of environmental and indigenous peoples' NGOs in the planning and implementation of projects
- o involvement of environmental and health ministers in loan negotiations; and
- o support for smaller scale, appropriate technology projects.

Environmental proponents of these measures already see a measure of success in the reforms and steps taken since 1986 by the MDBs with respect to

⁷ U.S. House of Representatives, Committee on Banking, Finance and Urban Affairs, subcommittee on International Development Institutions and Finance, Hearings, Draft recommendations on the multilateral banks and the environment, 98th Congress, 1st session, serial no. 98-113, Washington, U.S. Govt. Print. Off., September 11 and 13, 1984.

⁸ P.L. 99-100, Section 540, December 19, 1985.

environmental impacts of their operations. As a specific example of success at the operations level, the Sierra Club reported in 1986 that:

"After two years of pressure and publicity from environmental and indigenous rights organizations, the World Bank halted disbursements on the Polonoroeste Project, demanding that Brazil meet the conditions in the loan agreement designed to protect the environment and the indigenous populations. This was the first time the World Bank exerted such leverage for environmental and social reasons.⁹

The efforts to influence Congress have been very successful in obtaining legislation that promotes higher priority for environment in MDB operations, but the environmental lobbyists are still hard at work monitoring MDB operations and demanding more information on environmental impacts of MDB-funded projects.

CURRENT MDB POLICY AND PRACTICE

The World Bank¹⁰

Since the early 1970s the World Bank has had an environment office charged with reviewing environmental effects of its operations. World Bank policy called for protection of the environment and the natural resource base in borrower countries. Although the World Bank was a leader in articulating policies to protect the environment, critics saw little evidence that these policies were translated into practice. Neither the size of the environmental staff nor project activity reflected policy statements with respect to the environment.

The small environment office numbered some three to ten professionals over the years, and had to carefully pick three or four major efforts in any given year to exert their mandate. Their most strenuous efforts to obtain a halt or

⁹ Sierra Club, Bankrolling disaster, p. 20.

¹⁰ This discussion draws on personal interviews of one of the authors, Susan Abbasi, with World Bank staff.

modifications in some projects sometimes met with little success. The World Bank suffered increasingly severe criticism from environmental organizations for the negative environmental effects of its projects, with momentum building rapidly in the wake of the House Banking Committee hearing in 1983.

In mid-1987, after Congress had passed appropriations bills with requirements for the U.S. Executive Director to promote greater consideration of environmental impacts of World Bank operations, World Bank President Barber Conable announced a major new priority for the environment and promised an enlarged staff and elevated organizational setting for a new Environment Department.¹¹ However, immediately following this announcement, Mr. Conable instituted a major reorganization of all World Bank functions. In the resulting upheaval, the prominence of the environmental reorganization was dwarfed. Although the promised Environment Department was established, it was staffed in part by some professionals who had little or no environmental expertise, who had been displaced from other World Bank positions during the reorganization.

The first year of the Environment Department's existence found it trying to define its goals and positions amid the major confusion of massive reorganization. By mid-1988, however, the World Bank had some 50 professionals devoted to environmental concerns. These professionals were grouped in seven divisions. Three divisions constituted the new Department of the Environment:

Economics and Policy, responsible for economic analysis--improving techniques to incorporate environmental concerns in economic policies

¹¹ Barber Conable, A new world bank policy on the environment, address to the World Resources Institute, in Congressional Record, May 18, 1987, pp. E1958-E1960.

and designing economic analysis techniques that can take into account unquantified (or difficult to quantify) long-term environmental factors.

Environmental Systems and Technology, responsible for specific issue areas, such as tropical forestry, desertification, biological diversity, and providing state-of-the-art knowledge and expertise in these areas.

Environmental Operations and Strategy, which provides services and support to World Bank operations, including data systems, overview of environmental operations, and monitoring and tracking environmental assessment procedures.

Four regional divisions with about 5 people in each were created in the regional departments of the World Bank--Africa, Asia, Latin America, and Europe and the Middle East. These divisions have the responsibility for reviewing all the projects in their respective region and "clearing" them on environmental grounds.

Current World Bank procedures call for review of each project at each stage of the project cycle by the regional environmental staff. At any of these stages, this staff may require that specific environmental factors be taken into account or require preparation of an environmental assessment if there is none. The staff may veto a project on environmental grounds if appropriate modifications cannot be identified. Four types of projects always require an environmental impact assessments: hydropower projects, resettlement projects, projects involving wild lands (wilderness), and projects in countries where domestic law requires an environmental assessment.

Project appraisals incorporate the results of studies on all concerns raised about the project, including environmental concerns, before projects are

voted on by the executive directors. The U.S. Executive Director has a mandate in law to assure that environmental issues are taken into account. At present, none of the Directors from other countries have mandates requiring them to take environmental impacts of projects into consideration. However, environmental assessments are not part of the package presented to directors; if they wish more information about environmental aspects of projects than is provided in the appraisal, they must query the staff on such issues. Because the project appraisal is presented to the Directors only about two weeks prior to a vote, collection of additional information can be a problem at that stage. The difficulty of obtaining information about World Bank projects has been an on-going concern to those worried about the ability of Directors to vote on the basis of specific issues like environment. In practice, projects are rarely rejected at board meetings, thus issues must be raised and resolved prior to presentation of a project to the board for a vote.

The Inter-American Development Bank¹²

The Inter-American Development Bank (IDB) has instituted a number of measures designed to take environmental impacts of its operations into account. The IDB reports also that it funds on an ongoing basis such environmentally beneficial projects as soil conservation, watershed management, water supply and sanitation projects. The IDB also reports that it has financed projects aimed at upgrading the efficient use of energy and other resources.

¹² This discussion of other MDB environmental policy and practice summarizes a recent report of the U.S. Department of the Treasury, Progress report on implementation of environmental reform in multilateral development banks, report submitted under the provisions of section 539 of p.l. 99-591, Washington, D.C., 1987. This report primarily reports what the MDBs submitted to the Treasury Department. It provides little or no evaluation of the information.

Staff with training and experience in ecology and related areas have been hired and training to enable existing staff to carry out environmental review of projects has been initiated. New IDB staff include a senior grade ecologist to be a permanent advisor to the Bank's staff; this individual serves as advisor to the Environmental Management Committee. In addition, training seminars in environmental impacts of projects have been held. No specific career incentives are offered in recognition of improved environmental analysis. The IDB is also supporting the strengthening of local staff resources during project implementation. Recent infrastructure projects have included components to improve the capacities of units responsible for natural resource conservation. The IDB is also including training in environmental science and land use planning in training and education projects.

Instead of establishing a line unit to review environmental impacts of projects and activities, the IDB has created an interdepartmental committee to review projects in both the preparation and implementation phases for possible adverse environmental consequences. The IDB's field offices have been instructed to emphasize environmental and socio-cultural issues during project supervision and monitoring visits.

The IDB has targeted environmental and health ministries in borrower countries for involvement in the preparation of "environmentally sensitive projects and in bank-supported country planning and strategy sessions..." The IDB has begun to seek participation of non-governmental organizations (NGOs) in strategy formulation and project planning. IDB has conducted seminars for NGOs in both borrowing and non-borrowing countries. U.S. environmental organizations have been enlisted to promote participation by Latin American environmental organizations. IDB field offices have been instructed to brief

NGOs and local community representatives on IDB activities under active consideration as well as projects currently being implemented.

Land use planning has become a critical issue. Projects are reviewed for adverse environmental impacts. The IDB has already incorporated land use planning and remote sensing techniques into some of its projects. An example is a recent grant to strengthen a regional training center in the collection, analysis and interpretation of remote sensing of natural resource data.

The IDB is supporting research on ecosystem management through its financing of national and international agricultural research centers and through national science and technology programs.

The Asian Development Bank

The Asian Development Bank (ADB) has also taken a number of steps to take environmental impacts of its operations into account. The ADB indicates that it has supported environmentally beneficial projects, such as reforestation, soil conservation, etc. But the Treasury Department Report notes that continued monitoring is necessary to ensure that the Bank places an increasing emphasis on this area.

The ADB employs staff consultants in sociology and anthropology. The Treasury Department Report makes no mention of the ADB having hired persons trained in ecology or related areas. No specific career incentives are offered or planned for improved environmental performance. The ADB has declared a policy of support for strengthening member governments' institutions and line agencies that deal with environmental issues. The ADB is, according to the Treasury Department Report, giving more attention to environmental training components of projects than it did previously. For example, a marine science education project in Indonesia includes a program on marine ecology and environmental technology and management. This project will estimate the need

for graduates in environmental sciences. The ADB is also reviewing its education loans to include environmental components in future projects.

The ADB has established a line unit, reporting to the Vice-President for Projects through the Director of the Infrastructure Division. The ADB reports that it plans to establish a Division of Environment this year.

To monitor on-going projects for their effects on the environment and on indigenous people, the ADB has developed environmental review procedures that operate throughout the entire project cycle. These procedures include the use of screening methods, environmental guidelines, and a computerized reporting system.

The ADB issues for its official contacts in member governments a document entitle "Briefing Profiles for Country Programming Missions: Environmental and Natural Resources Development Projects in Selected Developing Member Countries." These contacts are notified about projects in the pipeline which the ADB's environmental unit believes require some environmental assessment. The Board of Directors of the ADB has approved a working document entitled "The Bank's Cooperation with Non-governmental Organizations" which endorses the use of local NGOs in borrower countries. A final version of this document, prepared in consultation with a consortium of NGOs, will fully document procedures for cooperating with environmental NGOs.

The ADB recently issued a memorandum to project staff directing them to identify and assess potential environmental and socio-cultural issues likely to be generated by projects and to adopt necessary mitigation measures.

The ADB indicates that it supports multidisciplinary planning in the project development cycle. Examples include the Han River Environmental Master Plan in Korea, the Songkha Lake Environmental Improvement project in Malaysia, and the Samutprakarn Industrial Pollution Control and Management Project in

Thailand. The ADB has also distributed a document entitled, "Guidelines for Regional Environmental Development Planning", which incorporates multidisciplinary planning into the project development cycle. The ADB indicates it is exploring the role of various information systems in natural resource planning and management.

The African Development Bank

The African Development Bank (AfDB) has instituted measures for taking into account the environmental effects of its lending operations. It also reports that it has financed a number of projects that have environmentally sound components. This includes irrigation projects with anti-flooding controls and livestock projects that include seeding to mitigate effects of over-grazing. The Bank has expressed interest in financing projects such as small scale agriculture, forest management and anti-desertification projects, multidisciplinary research to improve productivity and natural resource management of small scale farmers and pastoralists, and programs to reduce population pressures. The AfDB also indicates it has financed projects that introduce a number of technologies to improve energy conservation.

The AfDB has hired permanent staff members as technical assistants to work on environmental issues. Although the AfDB is focussing additional attention on environmental issues, it reports it has no resources within current budgetary constraints for offering special incentives for environmental activities.

Monitoring projects for environmental impacts has for the most part been done on the basis of individual projects and the Treasury Department Report notes the need for a more systematic approach. When it reorganized in March 1987, the AfDB created an Environment Division within the Department of Central Projects. This new division is developing environmental guidelines to be

issued in 1988. The division is also developing an Early Warning System to inform other specialists of problems with projects in the pipeline as early as one year in advance of board consideration. The management of the AfDB has directed its staff to consult with environmental and health ministers. The AfDB incorporates training in land-use management and environmental sciences in selected projects. To date the Treasury Department reports, the AfDB has not put special emphasis on the incorporation of training in land use planning and environmental science in institutions of higher education.

Guidelines for operational missions now require that AfDB staff contact representatives of bilateral, multilateral and non-governmental organizations who have shown an interest in environmental issues. The AfDB expects to benefit according to the Treasury Department Report from the establishment of an African NGO Environmental Network (ANEN) which has established contact with some 300 different organizations in a majority of African countries. The AfDB calls for its project missions to consult with local communities when this is considered an appropriate step. The AfDB's management acknowledges that this is an area which requires more attention and the issue will be promoted during the course of 1988.

The AfDB is in the process of preparing a new and comprehensive environmental policy to be finalized this year. It reports that more emphasis will be placed on sustainable agriculture. For example, the South East Rangeland Development Project in Ethiopia is expected to improve productivity of pastoral systems through better management of rangeland resources (water and land) in a semi-arid region susceptible to desertification. The project also encompasses a wildlife sanctuary in which residual population of elephants will be maintained.

ISSUES

Several issues are raised by the effort to incorporate environmental considerations into MDB lending activity. One is methodological; the others are institutional and political.

o **Incorporating Environmental Factors into Project Appraisal**

Environmental critics of MDB operations point to the neglect of environmental considerations in project appraisal. Yet MDB-financed projects can fail if unforeseen environmental factors or effects undermine the purposes of the projects or impose high costs on other sectors.¹³ Examples include dams that silt up if watersheds are not protected and the loss of valuable fisheries when wetlands are drained for agriculture. These environmental consequences result when ecosystem linkages are not considered or identified during project appraisal.

Environmental factors are often not taken into account in project appraisal for a variety of reasons:

- o Environmental factors are often qualitative and difficult to quantify
- o Methods of project analysis put greater weight on short-term returns and costs than on long-term benefits or costs; environmental deterioration, a long-term effect, would tend to be heavily discounted even if included in project analysis
- o Data on resource and environmental factors are poor
- o Relevant environmental expertise is not often integrated into the analytical process

¹³ For a discussion of the role of environmental factors in project analysis, see Environment and international economic development: The role of cost-benefit analysis by John L. Moore and Susan R. Abbasi, Congressional Research Service, CRS Report for Congress, No. 87-994 ENR, September 21, 1987.

- o Organizational separation of economic analysis staff and environmental staff. An adversarial relationship may exist between economists and environmentalists.
- o The need to move money creates built-in resistances to including additional variables such as environmental or resource constraints that add complexity and slow the appraisal.

Methods of valuation/quantification for environmental factors have been developed, but are used relatively rarely. There are a number of easy steps that could assure that cost-benefit analysis take into account the major physical effects of many kinds of development projects and incorporate them into existing methodologies. Carrying out project analysis in a multidisciplinary context, drawing on the necessary environmental and related experts with knowledge of natural systems, could also help to identify and quantify important ecosystem relationships.

- o **The Pace of Institutional Change**

The organizational structure for incorporating environmental considerations in World Bank operations has been put in place. The integration of environmental professionals into the regional divisions with authority to review and clear projects on environmental grounds is a major reform of past practice. In addition, the staff heading the Environment Department and the three divisions within it are given high marks for their capability.

At issue, however, is whether or how quickly these review processes can overcome the institutional inertia and practices that have for so many years left environmental concerns out of the equation. It is this issue that continues to motivate the environmental interest groups and Congress to press for information about World Bank and MDB policies and practices, and to press

for evidence that environment is taken into account in project and planning decisions.

In the case of other MDBs, the issue is the same: How effectively are the MDBs implementing the newly established policies and practices in day-to-day operations.

o **Limited Impact of MDB Reform on Environmental Policy in Developing Countries**

Incorporating environmental considerations into MDB project lending may have only a limited impact in terms of improving the environment or protecting natural resources in developing countries. Thus MDB environmental reform will also be limited in its impact. High environmental costs may be imposed by cumulative, small-scale, private sector activities, such as fuelwood collection or environmentally damaging agricultural technologies (slash and burn farming, cultivation on steep slopes, etc.) Such activities may be influenced, not by project lending, but by macroeconomic or sector-specific policies whose environmental impacts are hardly if at all recognized.

Projects are only one component of MDB operations. Program, planning and other analytical work in the MDBs provide countries with information on their economic situation, and help them determine priorities for development. This aspect of the MDBs' role gives them enormous influence over the policy choices of developing country governments.

The MDBs, especially the World Bank, are currently emphasizing lending to support structural or sectoral adjustment in developing countries.¹⁴ These loans are not project-specific but are aimed at economy-wide or sector reforms (changes in monetary or fiscal policy, changes in agricultural pricing policy,

¹⁴ See Cheryl Christensen's paper, 'Environmental issues and structural adjustment in sub-saharan Africa, prepared also for this symposium.

and the like). Attaching environmental conditions to structural or sectoral adjustment loans could increase the impact of the MDBs on environmental policy in developing countries.

o **Lack of Articulated LDC Interests in MDB Environmental Reform**

Leadership to reform environmental policy and practice of the MDBs has been vested thus far in the United States. The U.S. Executive Directors at the MDBs have taken the lead in fulfillment of their legislative mandate to promote changes in the way environmental factors are considered in MDB operations. To a certain extent, U.S. Executive Directors have been joined by their European counterparts, and the Japanese executive director, but many Third World Executive Directors are more reticent with respect to the environmental impacts of MDB operations.

Economic development agendas in developing countries are not as comprehensively articulated as in the industrial countries. Environmental considerations may figure little if at all in development plans of developing countries. Moreover, NGOs in the developing countries do not have the same capacity to influence their governments as do NGOs in the industrialized countries. They may be fewer in number, lack financing, organization, or access to political institutions. In politically repressive regimes, NGOs may be highly suspect and considered revolutionary.

These factors will certainly constrain efforts of the MDBs to take account of environmental aspects of their operations.

o **Competing Development Strategies**

In a fundamental sense, concerns about environmental impacts of MDB operations reflect a desire on the part of environmentalists for a new development strategy. To date this strategy is defined more by what it is not than by what it is. In the view of many environmentalists or environmental

organizations, current development strategy as implemented by the MDBs, is heavily weighted toward projects that are "big, expensive, environmentally destructive, and unsustainable."¹⁵ Such projects are the result of decisions made at high management levels with little or no participation by an informed citizenry. In contrast, a more desirable development strategy is one that does not destroy or damage the natural resource base nor does it displace indigenous societies or communities. Such projects are usually small-scale, decided on at low management levels by citizens in the local community, sustainable, and often implemented with the assistance of NGOs.

Environmentalists' concerns are likely to persist unless conflicts between development strategies can be resolved to their satisfaction. The MDBs, and especially the World Bank, face a decided challenge in reconciling orthodox development strategy with the development strategy espoused by environmental organizations.

¹⁵ See, for example, Bankrolling disaster and Stoel cited above and Bruce Rich, The multilateral development banks, environmental policy, and the united states, Ecology law quarterly, volume 12, number 4, 1985, pp. 681-744.