

Institutionalizing External Accountability: Claims for Environmental Performance at the World Bank Inspection Panel

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Abstract

Civil society organizations might play an important role in holding international organizations (IOs) accountable for their performance. In particular, civil society groups are often best positioned to monitor the activities of IOs involved in development, economic cooperation, and transboundary environmental management. However, civil society groups often face the difficult task of appealing to powerful member states of IOs that may be more or less willing to act on monitoring information. The Inspection Panel at the World Bank is one of the most important experiments in external IO accountability, since claims made by civil society groups about poor performance are automatically considered in a visible, high-level, and institutionalized forum. I test whether the institutionalization of external accountability gives civil society groups leverage over World Bank lending decisions. I examine when civil society groups are likely to provide monitoring information through the Inspection Panel and how prior Inspection cases influenced lending decisions about environmentally risky projects between 1994-2009. I show that civil society groups are effective at changing the lending behavior of the World Bank, but that these groups are not uniformly available to monitor performance across different countries. This result indicates that the institutionalization of external accountability can change the behavior of IOs beyond what is possible with state oversight alone.

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“It was hoped that this citizen driven process would provide some means of holding the bank accountable to the people affected by its lending decisions, and that having such a mechanism in place would lead to the avoidance of further disastrous projects.” (Clark, 2003, p. 2).

Introduction

By the late-1980s, opposition from civil society groups to environmentally damaging World Bank development projects had grown increasingly strident. The Narmada Dam Project, which was approved for financing by the World Bank in 1985, became a focal point for this opposition. When it became clear that thousands of people would lose their homes as a result of the project, and that vast areas of natural and agricultural land would be inundated by the dam, a massive mobilization of both Indian and international civil society organizations ensued. In India, hundreds of thousands of people marched against the project and participated in civil disobedience throughout areas that were scheduled for inundation (Clark, 2003). These protests were supported by international civil society organizations in the developed world, leading to legislative hearings in donor countries about the environmental and social practices of the World Bank.

In response to these protests and donor country pressures, the World Bank agreed to form an independent commission to review the Narmada project. The commission found systematic flaws in the planning, design, and implementation of the Narmada project, mostly regarding environmental management and resettlement (Morse & Berger, 1992). In 1993, facing growing criticism from both donor countries and civil society organizations, the World Bank canceled its support for the Narmada project. Political leaders in Europe and the United States wanted more systematic reforms. In the following year, non-governmental organizations (NGOs) and some donor countries pushed the World Bank to establish a permanent commission that would be available to review civil society claims of poor environmental and social performance in projects. In 1994, as part of the 10th International Development Association (IDA) replenishment, the US insisted that the World Bank adopt a permanent Inspection Panel that would be available to review civil society claims of poor environmental and social performance. Following a series of oversight hearings in the US Congress about World Bank environmental and social policies, the Board of the World Bank approved a permanent Inspection Panel.¹ The Inter-American Development Bank and the Asian Development Bank instituted a similar set of reforms in a matter of months (McGill, 2001; Miller, 2001).

In recent years, researchers have questioned whether civil society organizations might substantially influence the behavior of international organizations (IOs) by monitoring their performance. Establishment of an Inspection Panel at the World Bank and the regional development banks is remarkable because states have typically reserved the authority to hold IOs accountable for performance (Clark, 2003, p. 9). Civil society groups that wish to challenge the actions of IOs often face the difficult task of appealing to their member states, which are not always receptive to their claims (Keck & Sikkink, 1998; Woods & Narlikar, 2001). It is well known that IOs are able to behave in

¹ For a more complete history of the establishment of the World Bank Inspection Panel, see (Shihata, 2000) and (Clark, Fox, & Treakle, 2003).

ways that run counter to the interests of their member states, since states may lack the ability to monitor or sanction IOs for their behavior (Abbott & Snidal, 1998; Barnett & Finnemore, 1999; Gutner, 2005; Martens, 2005; Nielson & Tierney, 2003; Pollack, 1997; Weaver, 2010). It is an open question whether member states to IOs can leverage civil society monitoring as a way to overcome these challenges.

To this day, the Inspection Panel at the World Bank is the most visible, high-level and institutionalized way that civil society groups can seek accountability for poor IO performance. While it has been recognized that civil society groups can provide important monitoring functions to states (Dai, 2007; Steffek & Ferretti, 2009), there are few other examples where civil society groups in less-developed countries have the ability to publicize their grievances about IO performance in ways that attract significant attention from member states and potentially cause offending IOs to incur large financial and organizational costs. In this paper, I examine when civil society groups are likely to provide monitoring information using the Inspection process and how prior Inspection cases influence future lending decisions about environmentally risky projects. By examining both the provision and influence of civil society monitoring processed through the Inspection Panel, I show that civil society monitoring has altered World Bank lending practices, when it has been available.

Accountability for Performance at International Organizations

In recent years, students of international relations have delved more seriously into the politics of IO performance, recognizing that IOs have been delegated important authority to carry out a wide range of activities at the international level. In the context of this research, I define performance as *the successful achievement of mandates and tasks that are assigned to IOs by their collective state principals*. Despite the recognition that some IOs are far more effective at carrying out tasks that have been assigned to them, understanding of the internal and external factors that contribute to this variation is in its infancy. Possible factors that influence IO performance include bureaucratic culture, organizational resources, incoherent or conflicting mandates, and knowledge management practices (Gutner & Thompson, 2010). Perhaps most importantly, the development of organizational practices that promote performance are often based on external accountability (Elsig, 2010; Johns, 2007; Reinalda & Verbeek, 2004).

Accountability for IO performance is generally considered to be the exclusive realm of states. States hold IOs accountable for achieving their mandates by imposing costs and rewards that align with performance. States can decrease the amount of resources to IOs that fail to achieve their mandates (Crane & Dusenberry, 2004). States are also able to change the mandate of IOs and restrict their activities in response to poor performance or grant IOs greater authority and resources in response to satisfactory performance. Prominent examples of this form of accountability are the periodic capital increases that donor states negotiate with the multilateral development banks. In 1994, for example, the United States threatened to withhold resources from the World Bank's International Development Association, unless the World Bank adopted new policies to protect the environment in its lending operations (Nielson & Tierney, 2003). In this case, poor environmental performance prompted a powerful state to directly threaten the financial standing of an international organization.

Despite this type of possibility, member states often face significant barriers to exercising claims for accountability (Grant & Keohane, 2005; Reinisch, 2001). Studies have documented various reasons why IOs exhibit behaviors that are inconsistent with the interests of their member states. IOs can develop internal cultures and practices that are difficult for member states to change. States often lack the ability to monitor internal

practices and understand how technical information is used in decision-making (Barnett & Finnemore, 1999). States can also face great difficulty in monitoring the ongoing activities of IOs and may lack the ability to sanction IOs for day to day decision-making (Hawkins & Jacoby, 2006; Woods & Narlikar, 2001). Furthermore, member states may not have uniform interests, which can make it difficult to press claims of accountability without a broad consensus among states about what constitutes good performance (Woods, 2003). Taken together, these challenges have stoked fears that there is a “democratic deficit” regarding IOs (Nye, 2001; Stutzer & Frey, 2005). For IOs that are involved in international development, these problems have been cited as a key reason for poor performance (Wenar, 2006).

In recent years, increased attention has been devoted to the possibility that non-state actors might help to make IOs more accountable for their performance. Since the inability of states to monitor the performance of IOs at the operational level is a key impediment to heightened accountability, non-state actors that are in an advantageous position in terms of monitoring might alert states to instances of poor performance (Dai, 2007; Lake & McCubbins, 2006; Raustiala, 1997). Civil society groups, for instance, are often well-positioned to monitor how decisions about economic and development policy made within IOs affect people on the ground. Recent decades have seen a surge of protest from civil society groups around the world about economic globalization (Roberts, 2008), the environmental impacts of multilateral development projects (Khagram, 2004), and the imposition of macroeconomic policies of austerity and restructuring by the International Monetary Fund (Almeida, 2007).

The MDBs and other international financial institutions have a particularly vibrant constellation of civil society organizations that monitor their activities and have displayed a willingness to seek accountability for poor performance. These non-state actors are able to impede the activities of IOs through protests, shaming, or by not providing cooperation that is necessary for IOs to carry out their mandates (Khagram, 2004; P. J. Simmons, 1998). Civil society groups might provide state principals with low-cost performance monitoring, thereby enabling more vigorous state responses to lapses in IO performance (Dai, 2007; Steffek & Ferretti, 2009). In the case of international development projects, it is often private citizens and domestic civil society groups that are best positioned to collect information about outcomes.

While it is undeniable that civil society groups are now more active in pursuing their interests in international forums, their ability to directly influence decisions made at the international level still depends crucially on gaining access to powerful states that are sympathetic to their interests (Keck & Sikkink, 1998). Civil society groups often lack institutionalized ways to participate in decision-making at the international level (Acuña & Tuozzo, 2000). This is the primary obstacle facing non-state actors in their pursuit of IO accountability. More specifically, civil society groups have had few effective mechanisms for sanctioning international organizations in the absence of appealing to powerful states. Accordingly, Grant and Keohane argue that “sanctions remain the weak point in global accountability since they can only be implemented by the powerful – for example, by powerful states over multilateral organizations” (Grant & Keohane, 2005). Civil society groups must rely on “peer” and “public reputational” forms of accountability and use informational strategies to highlight how international organization fail to live up the performance standards of powerful member states. This problem is compounded for civil society groups in poor countries, which may face the difficult task of gaining access to international advocacy networks to exercise even weak forms of accountability (Keck & Sikkink, 1998; Kravchenko 2010).

The establishment of Inspectional Panels at the MDBs is a novel and important experiment in accountability because it cuts out the need for civil society groups to find

sympathetic states. The Inspection Panel will automatically consider all claims from groups of people materially affected by World Bank projects that allege environmental and social policies were not implemented properly. The Inspection Panel will produce an eligibility report and initial investigation regardless of the interests of member states. Since Investigations can last months and impose very significant operational costs on World Bank management, the establishment of an Inspection Panel allows civil society groups in less-developed countries the ability to *directly* sanction the World Bank for poor performance. Poor environmental practices are the most common grievance lodged by civil society groups at the Inspection Panel, reflecting the advantage civil society groups have in monitoring this type of performance.

A Brief Introduction to the Inspection Panel Process

The Inspection process provides state principals of the World Bank with “fire alarm” oversight of environmental damages that are caused by development projects (McCubbins & Schwartz, 1984). A group of any size that is materially affected by a project can submit a claim and if they are determined to be eligible, that claim will receive the attention of member states through the Board. While the formal rules governing Inspectional Panel claims have been documented extensively elsewhere (Shihata, 2000), it is worth noting the main elements of the process. Beginning in the early-1990s, the World Bank established policies and procedures that required every project to be designed in ways that prevented environmental and social damages. For example, an environmental impact assessment is necessary if a project is likely to cause negative environmental damages. If a group of people is negatively affected by a World Bank project because these policies are not carried out with due diligence, then they can file a claim to the Inspection Panel, which will investigate whether policies have been violated.

Owing to the negative attention that World Bank management receives from member states and the significant resources that are required to defend themselves if an investigation is approved by the Board, typically both the World Bank management and the relevant borrowing country have sought to have inspection requests declared ineligible (Clark, 2003, p. 12-13). They rarely succeed in avoiding Inspections when grievances are legitimate and verified. If the Inspection Panel determines that the claimants are eligible and the Board approves a recommendation for an Inspection investigation, then the Panel conducts a formal investigation, which includes field visits, interviews with the claimants and Bank staff, and a review of project documents. Based on the investigation, the Panel produces a public report that documents its findings about any policy violations and makes recommendations for remedial activities. Civil society groups are not able to demand specific compensatory actions (Fox & Treakle, 2003, p. 282-283; Steffek & Ferretti, 2009, p. 41).

Thus, the Inspection process functions by alerting member states and other interest groups to instances of poor performance, but ultimately depends on member states (“the Board”) to approve any remedial actions. If the Board approves recommendations made by the Inspection Panel, then they become a binding directive for the management. While various authors have noted that this long chain of events may decrease the effectiveness of Panels in providing accountability (Fox, 2000; Fox & Treakle, 2003), the systematic impact of this performance-revealing mechanism on lending decisions has not been examined. Most existing studies of the Inspection process rely on single cases examined at great depth (Clark, et al., 2003). This prevents us from understanding whether the institutionalization of accountability to civil society groups has the potential to change the behavior of the World Bank.

Provision of Inspection Panel Requests

To understand whether civil society monitoring can induce selectivity in World Bank allocation decisions, it is first necessary to examine when and why such monitoring is likely to be provided. The first factor that may account for Inspection requests is the availability of a strong civil society. Civil society groups are not available to provide monitoring in many authoritarian or semi-authoritarian countries. In these places, affected citizens might not be able to avail themselves of the Inspection process. Civil society groups may lack the ability to organize in ways necessary to produce an Inspection claim, which must include multiple households. Citizens in places with fewer political freedoms may lack information about their options, since they have fewer links with international civil society organizations (Linaweaver, 2003). In addition, Inspection Panel investigations often delay the disbursement of lending projects, which may harm the borrowing country. Under these conditions, authoritarian borrowing countries may repress claims for inspection (P. Ho, 2001). If civil society groups are not available to seek recourse in many places where the MDBs operate, the promise of the Inspection Panel to promote better environmental performance would be circumscribed. This “logic of availability” leads to the following hypothesis:

Hypothesis 1: A greater number of environmental NGOs and higher levels of political rights in a borrowing country will increase the number of Inspection requests.

Both the MDBs and civil society groups might learn from past Inspection investigations. The MDBs might respond to previous requests by ensuring better safeguard policy implementation in future periods, rather than avoiding projects with environmental risks. Indeed, none of the Inspection Panel charter documents envision a situation where the establishment of the Inspection process would change allocation practices, but rather that MDB management would be accountable for diligently implementing operational policies.² One of the reasons why international development organizations have not been responsive to their mistakes is that internal incentives reward continued project approvals, rather than responses to lessons of past operations (Biggs & Smith, 2003). The Inspection Panels made the costs of noncompliance with environmental safeguard policies high for staff and management, thereby increasing internal incentives to carry out safeguard policies with due diligence.

All of the multilateral development banks have placed a great deal of emphasis on becoming “learning organizations,” mainly through increased transparency about the successful and unsuccessful attempts at promoting development (Asian Development Bank [ADB], 2009; Ellerman, 1999). One of the most difficult parts of creating a “learning culture” within complex organizations is the lack of incentives to share and learn from examples of failed operations (Storey & Barnett, 2000). In a way, establishment of the Inspection process has forced the MDBs to deal directly with instances where they failed to ensure that environmental and social safeguard policies are implemented. Thus, the Inspection processes may have promoted “learning by doing,” whereby the World Bank management becomes more acutely aware of the risks associated with their programs in particular countries and adjust to these risks in future periods.

On the other hand, civil society groups might learn about the political efficacy of filing requests based on past cases. Since Inspection requests are often followed by

² See for example, the resolution establishing the World Bank Inspection panel, at: <http://siteresources.worldbank.org/EXTINSPECTIONPANEL/Resources/ResolutionMarch2005.pdf> (Accessed March 2011).

concessions from the management, either to head off full Inspections or as required by remedial directives, civil society groups in particular countries might be successful at spreading knowledge of this mechanism. A similar phenomenon has been found for World Trade Organization dispute filings (Bermeo, 2010). In addition, the World Bank might find it difficult to be selective about environmentally risky projects in some countries despite the risk of Inspection, owing to borrowing country development priorities. In these countries, the risks of Inspection requests do not overwhelm the expected benefits of pursuing risky projects, leading to repeated Inspection requests over time. These competing propositions lead to the following testable hypothesis:

Hypothesis 2: Borrowing countries that have experienced previous Inspection investigations will be less likely to have their projects subjected to additional Inspection requests and investigations in future periods.

Finally, it may be the case that civil society groups file requests for Inspection when the underlying environmental performance of projects is poor. It has often been noted that civil society groups have advantages in monitoring the performance of MDBs as compared to member states (Gemmill & Bamidele-Izu, 2002). It is possible that the establishment of the Inspection process simply reinforces performance information that the World Bank has already collected through project evaluations. As I discussed in previous research, the Asian Development Bank responds strongly to information about negative environmental performance contained in project evaluations (Buntaine, 2011). Thus, if poor safeguard implementation performance predicts Inspection requests and investigations, then the root causes of lending responses to safeguard performance would have to be more carefully teased out. On the other hand, if Inspection cases are independent from safeguard performance as documented in project evaluations, then it may be possible that multiple streams of performance information exert important influence on environmentally risky lending decisions. It may be the case that civil society monitoring acts as a early warning for environmental performance issues that will show up in later evaluations. Under these conditions, the usefulness of civil society monitoring as an additional stream of information would be greatly enhanced:

Hypothesis 3: Inspection requests are likely to precede project evaluations that report poor environmental safeguard performance.

Inspection Panel and Selective Allocation

After testing hypotheses about the provision of monitoring through the Inspection Panel, it is necessary to understand the effect of this monitoring on World Bank decisions about the allocation of projects. Given that Inspection documents are made publicly available and receive immediate, high-level attention from member states, the World Bank management and many less-developed member states have feared that establishment of the Inspection Panels would make the World Bank overly *risk-averse* about infrastructure projects that are important for economic development (World Bank, 2001). Environmentally risky projects are beneficial to the World Bank for two reasons. First, environmentally risky projects tend to be large infrastructure projects that are a more efficient use of scarce administrative resources, because they quickly meet lending targets and potentially avoid the need to steer multiple, smaller projects through the approval process. Second, from the standpoint of development outcomes, infrastructure projects have generally achieved more satisfactory outcomes because implementation requires meeting physical outputs that can often be sourced from contractors, rather than more difficult institutional outcomes that require a great deal of borrowing country commitment (Freeman, 2009). Thus, there have been fears that the

establishment of the Inspection Panel would make the World Bank risk-averse in the sense that they would choose less effective interventions in order to avoid the possibility of having a project subjected to an Inspection Panel investigation.³

This concern has been voiced both inside and outside of the MDBs, and especially the World Bank. Shihata (2000, p. 230), a World Bank insider, writes that there are two primary risks involved with establishing the Inspection Panel. First, there was a “perceived risk was that the establishment of the Panel might have a deterrent effect on Bank’s staff, causing them to be over-concerned with following the rules and procedures and less innovative in their work.” In other words, Bank staff would become so cautious that less-developed countries would lose access to needed infrastructure financing. Second, borrowing countries have resisted the establishment of Inspection Panels because of fears that they “internationalize” disputes with private citizens that should be handled domestically, making borrowers less likely to pursue projects with environmental risks through the MDBs. This might result in borrowing countries seeking financing for risky projects from sources that do not require any social or environmental safeguards.⁴

Based on Inspection Panel cases, developed shareholder states have shown a propensity to sanction MDBs for poor environmental performance. For example, the US and some European countries have consistently voted to authorize inspections of MDB projects despite opposition from borrowing countries (Fox, 2000, p. 303-305). In some instances, Inspection cases have resulted in hearings from the US Congress and other bodies.⁵ Discussions of Inspection cases and other “disaster projects” frequently arise as part of replenishment and capital increase negotiations and often lead to calls for organizational reforms at the MDBs (Nielsen & Tierney, 2003). Thus, establishment of the Inspection Panels might have created a strong reluctance towards pursuing environmentally risky projects, which suggests the following hypotheses:

Hypothesis 4a: The World Bank will be less likely to approve an environmentally risky project in any given year for a country where a previous project has been subjected to an Inspection Panel case.

Hypothesis 4b: Given that the World Bank approves an environmentally risky project in a given year, the amount of environmentally risky financing will be lower for a country where a previous project has been subjected to an Inspection Panel investigation.

³ For an excellent exposition on defining risk-aversion for international relations theory, see (O’Neill, 2001).

⁴ For example, Khagram (2004) documents a decline in the number of dam projects financed by the MDBs over the last several decades. While the MDBs are no longer actively involved in this area, many new dams are now financed by the Chinese and other bilateral that do not require any social or environmental safeguards. For an NGO perspective on this process, see the International River Networks “Dams Built by China” page at: <http://www.internationalrivers.org/taxonomy/term/736> (Accessed March 2011).

⁵ For example, Inspection cases that were filed relating to the Yacyreta Dam Project, which was jointly financed by the World Bank and Inter-American Development Bank, became a major part of a hearing on US appropriations to multilateral development banks in 1997. See minutes for appropriations hearing, US House Subcommittee on Foreign Operations, Export Financing, and Related Programs on 12 February 1997, available at: <http://www.gpo.gov/fdsys/pkg/CHRG-105hhrg41767/html/CHRG-105hhrg41767.htm> (Accessed March 2011).

Modeling Environmental Performance and Requests for Inspection Investigations

Description of Inspection Requests and Findings, 1994-2009

From 1994-2009, Inspection requests were filed for 61 World Bank projects, with some projects generating multiple requests (Appendix 1). Of the 41 requests that included an environmental complaint, the Board approved 25 for full investigations, and of those investigations 21 reports found environmental safeguard violations that required remedial actions by the Bank management. It is interesting to note that environmental problems were noted in the substantial majority of Inspection cases approved for a full investigation.

Model Variables

The primary purpose of the first set of models presented below is to test hypotheses about the supply of Inspection requests. To test whether an active civil society in a borrowing country leads to more Inspection requests, I use the number of environmental NGOs (*ENGOS*) as documented in various editions of the *Environment Encyclopedia and Directory* and the Freedom House index of political rights (*FEWER POLITICAL RIGHTS*) as predictor variables. To test whether establishment of the Inspection process has created a “learning by doing” process for either the World Bank or civil society groups, I generate the variable *PREVIOUS REQUEST*, which is positive whenever a separate request was previously filed from groups in a particular borrowing country. Finally, to examine whether civil society groups target borrowing countries with poor performance as revealed in evaluations, I generate two variables. The first indicates whether an evaluation completed during the previous five years found poor safeguard performance (*SAFEGUARD FAILURE REVEALED*), while the second indicates that an evaluation is completed later, but covers a project that was active during the particular country-year in the panel, indicates poor safeguard performance (*SAFEGUARD FAILURE REALTIME*).

I also control for several other potential predictors of Inspection. First, it is possible that governments that are effective at implementing policies are more likely to avoid Inspection requests, given their higher levels of policy implementation. I use the World Development Indicator’s index of *GOVERNMENT EFFECTIVENESS* to control for this possibility. It is also likely that borrowing countries that receive a higher number of risky projects will be more likely to have Inspection requests, given that risky portfolios provide more opportunities prior to poor safeguard implementation. Thus, for the World Bank, I control for the number of projects flagged as requiring environmental impact assessments during the five years prior to any particular country-year (*No. RISKY IN PAST 5 YR.*). In the models below, the outcome variable is a binary indicator of whether an Inspection request was filed during a particular country-year, which is modeled with a standard logit link function.

Model Results

The model results reported in Table 1 show that the provision of Inspection requests has as much to do with the availability of civil society groups as it does with the underlying performance of World Bank projects. Having more environmental civil society groups is a strong predictor that Inspection requests will be filed. In addition, it also appears that borrowing countries that afford their citizens with fewer political liberties are less likely to face Inspection requests, indicating that the ability of civil

society groups to organize opposition to policies and projects is important for their ability to provide monitoring. It also seems that civil society groups, rather than the MDBs themselves, learn about the efficacy of filing civil society requests. In Model 1b, borrowing countries that experienced previous Inspection requests are more likely to experience additional requests in the future. It is also the case that borrowing countries that receive a higher number of environmentally risky projects over the previous five years are much more likely to experience Inspection requests. Taken together, these results indicate that several baseline conditions make it likely that monitoring is practiced through the Inspection Panel – an active civil society engaged in environmental issues, past experiences with Inspection requests, and a lending portfolio with numerous environmentally risky projects.

Table 1: Requests for Inspection Involving Environmental Performance Issues at the World Bank

Model	1a	1b
<i>No. ENGOs</i>	0.04** (0.01)	0.03** (0.01)
<i>FEWER POLITICAL RIGHTS</i>	-0.21 (0.13)	-0.21* (0.13)
<i>PREVIOUS REQUEST</i>	0.65 (0.41)	0.73* (0.41)
<i>SAFEGUARD FAILURE REVEALED</i>	0.29 (0.76)	
<i>SAFEGUARD FAILURE REALTIME</i>		0.92* (0.51)
<i>GOVERNMENT EFFECTIVENESS</i>	-0.79** (0.37)	-0.77** (0.37)
<i>No. RISKY IN PAST 5 YR.</i>	0.09** (0.03)	0.09** (0.03)
Data Subset	Full Panel	Full Panel
Observations (Countries)	1611 (138)	1611 (138)
Residual Deviance	315.9	313.3
Null Deviance	344.9	344.9

All models are generalized linear models with logit link function
Null Deviance is calculated using intercept as only predictor
Statistical significant indicators are: * p < 0.10; ** p < 0.05

Another important result from these models is that civil society groups appear to provide an independent and early-warning of performance issues that are later raised in evaluations. This confirms their role as providers of information that might not be available otherwise. In Model 1a, I do not find that Inspection requests are more likely *following* the completion of an evaluation that find poor implementation of

environmental safeguards. However, when I instead test whether requests are more likely when an evaluation *later* reveals poor performance in implementing environmental safeguard, I find evidence that civil society groups provide important monitoring information that is not yet available through evaluation. This confirms the expectations of those who have argued that civil society groups have important monitoring advantages (e.g., Dai, 2007).

To show the substantive effect of environmental NGO availability and previous inspection requests on the probability that a borrowing country will face an Inspection request during a particular year, I simulate 90% predictive intervals that include uncertainty across all of the estimated model coefficients. As shown in Figure , projects in all borrowing countries, regardless of past requests, received more requests as the number of environmental NGOs increases. However, project in borrowing countries with previous Inspection requests are much more likely to receive additional Inspection requests, indicating that civil society groups may learn about the political efficacy of Inspection Panel requests and investigations at the World Bank.

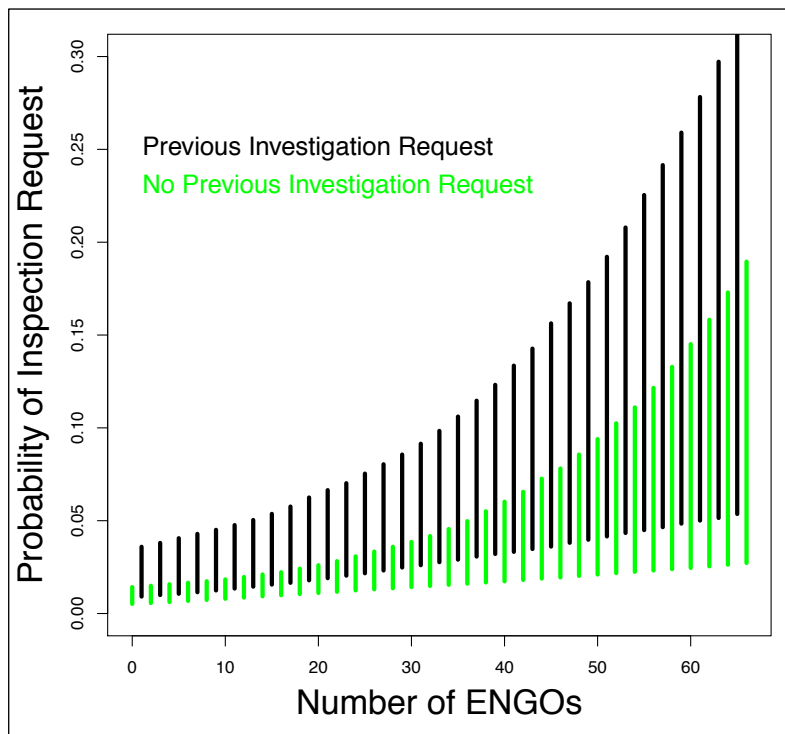


Figure 2: Predictive Probability of Receiving an Inspection Claim in a Given Year (Model 1b)

Now that it is clear that the provision of civil society monitoring through the Inspection Panel is a function both of the availability of monitors and of underlying performance, it is important to understand whether this type of monitoring can influence lending decisions. While the results above provide some of the only available systematic evidence about the ability of civil society groups to provide independent monitoring information, this type of monitoring may or may not be effective at changing MDB practices, a key consideration in understanding how non-state actors can promote accountability at the international level.

Inspection Panel Cases and Aversion to Environmentally Risky Lending

Description of Environmentally Risky Project Data, 1994-2009

It is not enough to know when the Inspection process is likely to elicit monitoring from civil society groups. The effect of Inspection cases on future lending decisions can reveal whether the World Bank actually responds to performance signals received from civil society groups through the Inspection process. The most direct way to test whether or not Inspection cases alter future lending decisions is to examine their impact on the allocation of projects that tend to give rise to Inspection requests. The World Bank requires that an environmental risk category be assigned to every project. This risk category indicates the likely severity of negative environmental impacts and risks to the project. The riskiest projects are classified as category "A," and require full environmental impact assessments and environmental management plans to safeguard against negative environmental risks.

Of the 5426 projects approved by the World Bank from 1994-2009, 465 projects received a category "A" risk rating. The combined value of these projects is \$73 billion, which represents 15% of total World Bank development lending during this time period. In the models presented below, I use projects assigned a category "A" risk rating to construct the dependent variable. First, I consider the factors that make a borrowing country more likely to receive at least one such project in a given year. Second, I test what factors increase the value of category "A" lending in a particular country-year, given that at least one such project is approved.

Factors Contributing to Approval and Allocation of Risky Projects

The primary purpose of the models presented in this section is to test whether borrowing countries that have been subjected to previous Inspection requests and investigations have a lower probability of receiving an environmentally risky project during any given year, and when they do receive a risky project, whether its value is lower (see Hypotheses 4a-b). The main variables used to test these hypotheses are whether the borrowing country had experienced at least one full investigation related to environmental concerns in the past five years (*INVESTIGATION PREVIOUS 5YR.*) or whether a request for such an investigation was made (*REQUEST PREVIOUS 5YR.*). In addition, since I have found that both the World Bank and Asian Development Bank responded strongly to performance information contained in evaluations, I include a count of the evaluations completed during the previous five years that indicate failure to implement environmental safeguards (*No. EVALS W/ SAFEGUARD FAILURE*) and the count of evaluations that indicate successful implementation of environmental safeguards (*No. EVALS W/ SAFEGUARD SUCCESS*).

Given that opposition to environmentally risky projects originates with civil society groups, it is also possible that the MDBs avoid risky projects in borrowing countries where opposition is likely. Thus, I include the Freedom House index for political rights (*LESS POLITICAL RIGHTS*) as a control variable. Approval and allocation decisions are also likely to be influenced by characteristics of the country portfolio that have little to do with performance or likely opposition to risky projects. Borrowing countries that receive more total projects during any given year (*No. PROJECTS*) should also be more likely to receive at least one environmentally risky projects. Likewise in the allocation model, countries that have a larger total lending amount during a given year (*PORTFOLIO SIZE*), should receive greater financing

amounts for all projects. In addition, countries that primarily borrow a greater proportion from concessional lending windows (*CONCESSIONAL*), such as the World Bank's International Development Association, are likely to have fewer and smaller projects that may carry decreased risks.

For the approval model, each country-year is coded as a binary variable to indicate whether the World Bank approved an environmentally risky project during that year. This type of data structure is often modeled using the familiar logit link. I adopt a more conservative modeling approach than many researchers in the aid allocation literature by accounting for temporal dependence among observations and country-effects within the logit model. I follow Beck, Katz, and Tucker (1998) and include dummy variables for each time interval since the last project approval. This is equivalent to estimating a non-parametric event history model where the hazard function is not based on researcher distribution assumptions (Box-Steffensmeier & Jones, 2004). It is also possible that there are consistent country-effects that are not modeled with the included variables. Since a fixed-effects model is not identified because some of the countries do not have variation in the dependent variable (no projects are approved during the sample period), I employ a random-intercept model estimated by Laplace approximation to account for unobserved differences between countries (Gelman & Hill, 2007, Ch. 14). For the allocation model, I similarly employ a random-intercept linear model to account for unobserved unit heterogeneity in the size of projects that are received.

Model Results

For environmentally risky projects, having prior Inspection investigations or requests does not appear to decrease the probability of receiving risky projects (Table 2, Models 2a-b). This result holds after controlling for temporal dependencies in the data, the number of projects that a borrowing country receives, and a random intercept that captures unobserved variance across countries. This finding indicates that internal sources of performance information play a more important role in driving lending decisions. In all of the model specifications, when an evaluation is available from the evaluation department that indicates poor environmental safeguard performance, the probability that a borrowing country will receive an environmentally risky project decreases. This initial results calls into question the notion that external monitoring by civil society groups can increase accountability for performance at international organizations.

Table 2: Influence of Inspection Panel Requests and Investigations on Environmentally Risky Project Approval Decisions

<i>Model</i>	2a	2b
<i>INVESTIGATION PREVIOUS 5YR.</i>	0.20 (0.34)	
<i>REQUEST PREVIOUS 5YR.</i>		-0.01 (0.29)
<i>No. EVALS W/ SAFEGUARD FAILURE#</i>	-0.72* (0.43)	-0.72* (0.43)
<i>No. EVALS W/ SAFEGUARD SUCCESS</i>	0.31* (0.16)	0.32** (0.16)
<i>FEWER POLITICAL RIGHTS</i>	0.17** (0.06)	0.17** (0.06)
<i>No. PROJECTS</i>	0.29** (0.04)	0.30** (0.04)
<i>CONCESSIONAL</i>	-0.77** (0.23)	-0.77** (0.23)
Time Dummies	neg, 3+ gap**	neg, 3+ gap**
<i>No. RISKY SECTOR 5YR.</i>		
Random Intercept Variance	0.56	0.57
Observations (Countries)	1450 (136)	1450 (136)
Residual Deviance	1088.0	1088.0
Null Deviance	1301.0	1301.0

#For the Asian Development Bank, failures that are the result of design flaws removed.

All model are random-intercept logit estimated by Laplace approximation.

Null Deviance is calculated using random country intercept and time dummies as predictors.

Statistical significant indicators are: * $p < 0.10$; ** $p < 0.05$

Model results robust to inclusion of ENGOs, but omitted because ~30% of observations deleted.

GOVERNMENT EFFECTIVENESS variable dropped because collinear with *FEWER POLITICAL RIGHTS*, which is significant in both specifications, but not vice versa.

Unfortunately, the models presented on the provision of monitoring show that several of the variables that predict Inspection requests also predict whether the World Bank will approve risky projects, posing a significant threat to inference. Since Inspection requests are not assigned randomly and co-vary systematically with the availability of civil society groups and the riskiness of the portfolio for a borrowing country, it is necessary to more explicitly tackle possible selection effects.⁶ Control

⁶ For another example of the general approach taken here and a discussion of addressing selection effects with selection models and matching techniques, see Simmons and Hopkins (B. A. Simmons & Hopkins).

variables in a regression only reduce bias in the estimate of a treatment effect when the controls are weakly related to the treatment variable (Rubin & Thomas, 1996). To control for possible selection effects, I adopt a pre-matching process proposed by Ho and colleagues (2007). The basic goal of this approach is to prune and re-weight the dataset so that treated observations (i.e., country-years with Inspection requests in past five years) are not observationally different from control observations with regards to other observed variables, or more formally:

$$\rho(X|T=0) = \rho(X|T=1)$$

where ρ is the observed probability, X is a matrix of control variables, and T is the treatment state. In this way, the dataset is pruned so that it is observationally equivalent to a randomized controlled trial.

There are a variety of matching techniques that can be used to accomplish this goal (Rubin, 1973a, 1973b, 1979; Rubin & Thomas, 1996). For this research, I first pre-prune the dataset based so that the treatment and control observations have common support based on a convex hull test (King & Zeng, 2007). In essence, the convex hull test discards treatment or control observations that would require extrapolation to match with the other group.⁷ Based on this pruned dataset, I use a genetic algorithm to search across different datasets where each treatment observation is matched to one or more control observations so that treatment and control groups are observationally balanced on other potentially confounding variables (for an overview and technical aspects, see Diamond & Sekhon, 2008; Mebane & Sekhon, 1998; Sekhon & Grieve, 2008). This approach does not require any distributional assumptions about the way the treatment and control groups are constructed or which observations are discarded, since it is based entirely on evaluating the balance between treatment and control groups.⁸

As can be seen in Table 3, country-years in the panel that are covered by Inspection requests and investigations are systematically different from country-years that do not receive requests. For example, countries affected by Inspection requests and investigations tend to have much more risky portfolios. The standardized mean difference, which measures this discrepancy, is the amount the treatment group is different from the control group measured in standard deviations of the control group. For example, in Model 5a, at the pre-matching state used for the regression results reported above, the treatment group is 0.42 control standard deviations above the

⁷ As King and Zeng argue, model dependence and the opportunity for biased estimation is higher with extrapolation than with interpolation. An intuitive explanation of common support in two dimensions would be to stretch a rubber-band around the tacks on the thumb-board. If this process were completed for the two-dimensional values of any treatment group, control observations that do not fall within this area would be discarded and vice versa. This concept generalizes to multiple dimensions. This test is built into the R package **MatchIt**, which is described in (D. E. Ho, Imai, King, & Stuart, 2008).

⁸ Genetic matching uses a weighted Mahalanobis distance to determine the optimal weight that each variable should have in determining the distance between any two observations. Unlike standard Mahalanobis distance, where each variables is weighted equally in determining the distance between two vectors, a weighted Mahalanobis distance allows the importance of each variable for the distance measure to vary so long as it improves balance in the matched sample. The algorithm iteratively searches through a population of different matching solutions using evolutionary heuristics to minimize the maximum balance discrepancy between the treatment and control groups on any included matching variable. With genetic matching, a weight matrix with non-zero values on the diagonal is the object on which the evolutionary heuristics operate. A population of matched samples is created using different weight matrices and the loss function is the smallest p -value between the treatment and control groups on a single included matching variable as computed by Kolmogorov-Smirnov tests and paired t-tests for difference of means. Matching solutions that decrease the maximum discrepancy between the treatment and control groups are passed on to the following generation. Other cross-over and mutation observations are also passed along to ensure that the algorithm searches the full space of possible matched samples. See (Diamond & Sekhon; Mebane & Sekhon; Sekhon & Grieve). This process is completed using the R package **Matching** (Sekhon, 2007).

control group, but only 0.01 standard deviations different after matching. Approximately 40% of observations with no common support or that do not match well are discarded by the genetic algorithm to create this post-matching balance, as can be seen in the observations left in the post-matching dataset.

Table 3. Post-Matching Estimates of Inspection Panel Requests and Investigations on the Approval of Environmentally Risky Projects at the World Bank

	Standardized Mean Difference (Pre Post)	Model 3a. Post-Matching Estimates	Standardized Mean Difference (Pre Post)	Model 3b. Post-Matching Estimates
<i>REQUEST PREVIOUS 5YR.</i>		-0.51* (0.29)		
<i>INVESTIGATION PREVIOUS 5YR.</i>				-0.94** (0.42)
<i>FEWER POLITICAL RIGHTS</i>	-0.16 -0.07	0.22** (0.06)	0.09 -0.01	0.23** (0.07)
<i>NO. SAFEGUARD SUCCESS 5YR.</i>	0.24 0.06	0.72** (0.21)	0.28 0.04	0.63** (0.28)
<i>NO. SAFEGUARD FAILURE 5YR.</i>	-0.05 0.08	-0.28 (0.69)	0.05 0.05	-1.69** (0.74)
<i>NO. RISKY 5YR.</i>	0.42 0.01	0.88** (0.07)	0.42 0.00	1.36** (0.11)
<i>CONCESSIONAL</i>	-0.22 -0.01		-0.02 0.03	
Post-Matching Observations (Countries)		977 (116)		740 (97)
Residual Deviance		755.2		462.2
Null Deviance		1295.0		996.0

Post-matching models are generalized linear models with logit link function.

Statistical significant indicators are: * $p < 0.10$; ** $p < 0.05$

After pruning the dataset so that control observations are observationally equivalent to the country-years with Inspection requests and investigations, I find significant support that the Inspection process at the World Bank has caused it to be more selective about environmentally risky projects. As expected, the effect of experiencing a full Inspection investigation is both substantively and statistically stronger than receiving only a request. This matching process also confirms that the effects of independent evaluations are statistically independent from the effect of Inspections. This means that both evaluations and Inspection requests independently influence decisions about environmentally risky projects, as shown in Figure 1.⁹

⁹ All other continuous model variables are held at their mean and discrete model variables are held at their median.

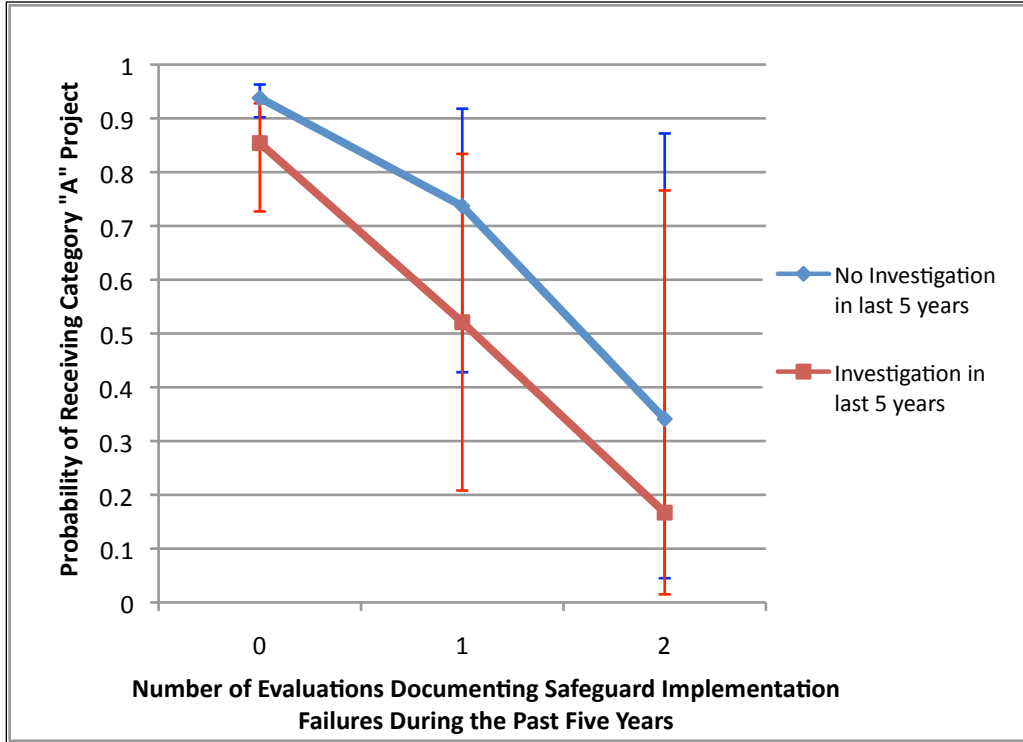


Figure 1: Influence of Inspection Investigations on the Approval of Environmentally Risky Projects (Model 3b)

It is also possible that Inspection investigations would decrease the amount of financing allocated to environmentally risky purposes (Hypothesis 4b). For the World Bank, I do not find support for this hypothesis (Table 4). Neither being subjected to an Inspection investigation, nor having the Inspection Panel confirm poor safeguard implementation decreases the total amount approved for activities that were found to be risky. This finding lends further support to the argument that the risk-aversion and selectivity primarily operate at the point of project selection, rather than the size of the project. Instead, the two significant predictors of the size of environmentally risky projects given their approval are fewer political rights and a borrowing country that has a larger lending portfolio overall.

Table 4: Influence of Inspection Panel Requests and Investigations on the Amount of Environmentally Risky Financing Approved at the World Bank

Model	4a	4b
<i>No. PREVIOUS PANEL INVESTIGATIONS</i>	23.5 (26.0)	
<i>No. PREVIOUS PANEL REQUESTS</i>		-9.0 (18.9)
<i>No. EVALS W/ SAFEGUARD FAILURE</i>	-3.0 (62.7)	10.3 (62.6)
<i>No. EVALS W/ SAFEGUARD SUCCESS</i>	3.7 (13.9)	6.0 (14.0)
<i>FEWER POLITICAL RIGHTS</i>	24.4** (9.6)	23.0** (9.8)
<i>PORTFOLIO SIZE</i>	0.33** (0.02)	0.34** (0.02)
<i>CONCESSIONAL</i>	-51.1 (38.6)	-49.0 (38.9)
Random Intercept S.D.	109.4	111.0
Data Subset	Years with Risky Projects	Years with Risky Projects
Observations (Countries)	255 (80)	255 (80)
Residual Deviance	3427	3427
Null Deviance	3626	3626

Null Deviance is calculated using random country intercept and time dummies as predictors

Statistical significant indicators are: * p < 0.10; ** p < 0.05

To sum up, the models presented in this section have revealed a number of important findings: (1) Being subjected to Inspection investigations *decreases* a country's probability of receiving environmentally risky projects in future period; (2) being subjected to Inspection investigations *does not* decrease the amount of risky financing that a country receives, conditional that it receives at least one risky project; (3) the MDBs are more likely to approve environmentally risky projects for borrowing countries where there is less likely to be civil society opposition. Taken together with the results of the previous section, it appears that the Inspection process can increase accountability and change allocation decisions when civil society groups are able to avail themselves of the process.

Conclusions

The model results in this paper indicate that civil society monitoring, institutionalized through establishment of Inspection Panels, can play an important role

in promoting accountability for performance at the World Bank. After explicitly addressing potentially confounding influences on allocation decisions, I find that borrowing countries that experience Inspection requests and investigations are less likely to receive environmentally risky projects in the following five years. This result suggests that environmental civil society groups can drive selectivity at the World Bank. What makes this result even more important is that civil society groups appear to provide an “early warning” of projects that will later be evaluated as having poor performance, confirming the potentially important role that civil society organizations can play as monitors.

More broadly, this finding shows that the threat of sanctioning can induce selectivity at the development banks. Previous research has shown that high level threats by donor countries to withhold financing have produced environmental policy reforms, but not necessarily the due diligence implementation of these new policies (Gutner, 2005; Nielson & Tierney, 2003). Because World Bank member states are not often in a position to gather the type of information necessary for effective oversight of environmental policies, extending the possibility for civil society groups to submit claims appears to have been crucial to achieving selectivity based on safeguard performance. These results indicate that if states wish to cause IO behavioral change, automatic triggers of oversight are necessary. As Dai (2007) argues, civil society groups may be particularly adept at providing this type of oversight to improve IO performance.

The primary limitation of civil society monitoring is that it is not provided uniformly across all countries. This means that citizens in borrowing countries that repress political rights are not as likely to avail themselves of the Inspection process when their interests are harmed. Likewise, in countries that do not have a strong civil society mobilized around environmental issues, Inspection requests are less frequent. Under these conditions, civil society monitoring does not provide a substitute for systematic monitoring and evaluation carried out by the IOs. Furthermore, since civil society groups seem able to provide monitoring information on an “early warning” basis, new outreach strategies that specifically involve civil society monitoring might be applied more systematically.

Recent reforms at other MDBs will be interesting to watch in light of the results presented here. Both the Asian Development Bank and African Development Banks have recently updated their Inspection processes to include a “consultation phase” between civil society claimants and bank management. This has prevented many projects from automatically going to Inspection, and may serve to either enhance or detract from implementation performance. The relative balance of accountability and consultation and their effects on MDB behavior will be important considerations in the years ahead. Overall, however, it appears that civil society groups can play an important role in providing oversight for IOs. This type of activity fills a void in IO accountability that has long been a source of concern.

Appendix 1. World Bank Inspection Panel Requests

Country	Project Name	Year	Environmental Complaint	Full Investigation	Remedial Environmental Actions
Nepal	Arun III Proposed Hydroelectric Project	1994	YES	YES	YES
Ethiopia	Compensation for Expropriation and Extension of IDA Credits	1995	NO		
Tanzania	Power VI Project	1995	YES		
Brazil	Rondonia Natural Resources Management Project	1995	YES		
Chile	Financing of Hydroelectric Dams in the Bio-Bio River	1995	YES		
Bangladesh	Jamuna Multipurpose Bridge Project	1996	YES		
Argentina	Yacyreta Hydroelectric Project	1996	YES		
Paraguay	Yacyreta Hydroelectric Project	1996	YES		
Bangladesh	Jute Sector Adjustment Credit	1996	NO		
Brazil	Itaparica Resettlement and Irrigation Project	1997	YES		
India	NTPC Power Generation Project	1997	YES	YES	YES
India	Ecodevelopment Project	1998	NO		
Lesotho	Phase 1B of Lesotho Highlands Water Project	1998	YES		
South Africa	Phase 1B of Lesotho Highlands Water Project	1998	YES		
Nigeria	Lagos Drainage and Sanitation Project	1998	NO		
Brazil	Land Reform Poverty Alleviation Project	1998	NO		
Lesotho	Highlands Water Project	1999	NO		
China	Western Poverty Reduction Project	1999	YES	YES	YES
Argentina	Special Structural Adjustment Loan	1999	NO		

Country	Project Name	Year	Environmental Complaint	Full Investigation	Remedial Environmental Actions
Brazil	Land Reform Poverty Alleviation Project	1999	NO		
Kenya	Lake Victoria Environmental Management Project	1999	YES	YES	YES
Ecuador	Mining Development and Environmental Control TA	1999	YES	YES	YES
India	NTPC Power Generation Project, Second Request	2000	YES		
Chad	Petroleum Development and Pipeline Project	2001	YES	YES	YES
India	Coal Sector Environmental and Social Mitigation Project	2001	YES	YES	YES
Uganda	Third Power Project and Fourth Power Project	2001	YES	YES	YES
Papua New Guinea	Governance Promotion Adjustment Loan	2001	YES		
Paraguay	Reform Project for the Water and Telecommunication Sectors	2002	YES	YES	YES
Argentina	Reform Project for the Water and Telecommunication Sectors	2002	YES	YES	YES
Cameroon	Petroleum Development and Pipeline Project	2002	YES	YES	YES
Philippines	Manila Second Sewerage Project	2003	YES		
Cameroon	Petroleum Development and Pipeline Project	2003	NO		
Mexico	Indigenous and Community Biodiversity Project	2004	NO		
Colombia	Cartagena Water Supply, Sewerage and Environmental Management	2004	YES	YES	YES
India	Mumbai Urban Transport Project	2004	YES	YES	YES

Country	Project Name	Year	Environmental Complaint	Full Investigation	Remedial Environmental Actions
Burundi	Public Works and Employment Creation Project	2004	NO		
Pakistan	National Drainage Program Project	2004	YES	YES	YES
Cambodia	Forest Concession Management and Control Pilot Project	2005	YES	YES	YES
Democratic Republic of Congo	Transitional Support 2005 for Economic Recovery Credit Operation	2005	YES	YES	YES
Honduras	Land Administration Project	2006	YES	YES	NO
Romania	Mine Closure and Social Mitigation Project	2006	YES		
Nigeria	West African Gas Pipeline Project	2006	YES	YES	YES
Brazil	Parana Biodiversity Project	2006	YES		
Argentina	Santa Fe Infrastructure Project	2006	NO		
Uganda	Private Power Generation Project	2007	YES	YES	YES
India	Uttaranchal Decentralized Watershed Development Project	2007	YES		
Albania	Power Sector Generation and Restructuring Project	2007	YES	YES	YES
Albania	Integrated Coastal Zone Management and Clean-Up	2007	YES	YES	NO
Ghana	Second Urban Environment Sanitation Project	2007	YES	YES	YES
Cameroon	Urban Development Projects	2007	NO		
Argentina	Santa Fe Infrastructure Project	2007	YES	YES	YES
Columbia	Bogota Urban Services Project	2007	NO		

Country	Project Name	Year	Environmental Complaint	Full Investigation	Remedial Environmental Actions
Panama	Land Administration Project	2009	NO	YES	N/A
Democratic Republic of Congo	Private Sector Development and Competitiveness Project	2009	NO		
Yemen	Institutional Reform Development Policy Financing	2009	NO		
India	Mumbai Urban Transport	2009	NO		
Kenya	Export Development Project	2009	YES		
Cambodia	Land Management and Administration Project	2009	NO	YES	NO
Peru	Lima Transport Project	2009	YES	YES	NO
Papua New Guinea	Smallholder Agriculture Development Project	2009	YES	YES	<i>Pending</i>
Pakistan	Tax Administration Reform Project	2009	NO		

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