

# GOVERNANCE

BASEL INSTITUTE ON GOVERNANCE

Conference «Non-State Actors as Standard Setters: The Erosion of the Public-Private Divide» | February 8-9 2007 | Hotel Hilton Basel, Switzerland

## Environmental standards courtesy of northern financial institutions – insular phenomenon or the future of standard-setting in the South?

Marcus Schaper, University of Maryland, USA

This paper examines the application of financial leverage in greening infrastructure development in developing countries. The establishment of environmental policies for multilateral development banks (MDBs), export credit agencies (ECAs) and private banks has attached green strings to the bulk of international financing available for large infrastructure projects. The consequence is that many infrastructure projects in developing and transition countries are now subject to environmental scrutiny before financing for such projects is granted – even if such environmental regulations are weak or absent in the recipient country. All three sets of policies share a common history and apply similar qualitative and quantitative standards for project evaluation. Arguably, environmental policies of the World Bank Group have spread to other providers of finance. This has occurred as a consequence of widespread concern about the environmental performance of such projects in the past. This move towards environmental rules for international finance has coincided with an expansion of private financing available for types of projects that were predominately financed with official development assistance (ODA) and by MDBs previously. Also implementation of ECA (public policy) and private bank standards (private-sector policy) is left to private-sector actors.

In previous papers, I have assessed differences in the implementation of these standards and the different manifestations of power in setting the standards. The first paper (Schaper 2006) assessed their monitoring and compliance systems clearly. Purpose of that paper was to assess how substantially similar environmental standards can result in considerably different environmental policies when adopted by purely public, mixed private-public, or private financial actors. Especially the role of transparency provision as a basis for monitoring and enforcement as well as the resulting role of non-state actors in watching about the implementation of these rules was of concern. The second paper (Schaper 2005) traced differences in implementation to the diverging

nature of the actors setting them and to the power constellations which prompted their enactment.

For this paper I propose to take a Southern perspective. From such a point of view, the (i) legitimacy of such policies, (ii) the distribution of costs and benefits, as well as (iii) the impact on domestic-level institutions in client countries are of central concern.

All three sets of policies were mostly designed by Northern actors with little or no input from the client countries. Yet, these policies and standards almost exclusively affect environmental condition in client countries – even in countries with no applicable environmental policies of their own. Beyond the normative question of the desirability of such rules, one needs to ask under what condition the projection of such standards into a polity – which may have chosen not to enact such policies – is legitimate.

The benefits of managing reputational risks resulting from environmental and social risks associated with projects go almost exclusively to Northern providers of finance whereas the costs of bringing projects into compliance with environmental and social rules are borne by the Southern project sponsors and developers.

Finally, an important question is whether such rules can have lasting effects on client countries beyond the projects to which they apply. Can they diffuse into domestic-level institutions in the client countries? Do the consultation requirements for affected communities have an effect on civil society mobilization?

While the first two issues are of a mostly theoretical nature, the third item calls an empirical assessment. Based on case material compiled by a transnational activist network advocating reform at the financial institutions I will assess the effects of consultation processes on local groups. The more complicated question of the effect on domestic institutions will be tackled by a review of existing literature and interviews with Washington-based institutions.

**References**

Schaper, Marcus. 2005. Applying Financial Leverage to Green Infrastructure Development: Environmental Policies of the World Bank, Export Credit Agencies, and Private Banks. Paper presented at the Conference "Global Governance and the Power of Business", 8-10 December 2005, Wittenberg.

———. 2006. Delegated Delegation: Environmental Rules for Project Finance. Paper prepared for a special issue of the Review of International Political Economy "Finance as Power". July 2006. College Park, MD.