No-Growthers' 'Green Line' Shouldn't Deter Bank Loans

By Neil Hrab

America's top banks are routinely asked to support all sorts of charitable causes. Yet not all causes deserve support.

One such unworthy cause is the tax-exempt Rainforest Action Network's campaign to get America's largest financial institutions to stop making loans to economic development projects in the Third World that RAN opposes.

In January, RAN got Citigroup to pledge not to fund projects that RAN says damage the environment — after a long campaign of attacks on Citigroup that included street demonstrations and banner hangings in front of the bank's New York headquarters.

Now RAN is after the next 10 largest banks — J.P. Morgan Chase, Bank of America, FleetBoston Financial, Wells Fargo, Goldman Sachs, John Hancock, Wachovia, U.S. Bancorp and SunTrust.

Costs Of Compromise

Considering the persistence that activist groups like RAN bring to their campaigns, compromising with them initially seems like a sensible option. (In the case of America Inc., where I am president,) Banks that go along stand to lose not only customers but also, as Loewen notes, “good bankers” concerned about the environment — and inoculate themselves against the high-profile reputational attacks at which RAN excels.

However, banks should consider the possible long-term unintended costs — not only on their own financial health, but also on the world's poor.

RAN's long-term objective is to draw what one activist calls “green lines” around parts of the world that would remain pristine and undevolved. RAN works on the premise that economic growth hurts the environment. By this view, to minimize environmental damage, it is necessary to slow economic growth.

An unintended corollary thesis is that the quality of life of people residing in what RAN calls the “green lines” would not be very high. That aspect of environmentalist campaigns against economic development rarely gets noticed.

However, some in the academy are beginning to address this phenomenon.

Not Enough Capital

For example, a December 2003 paper by Duke University scholar Stephen Loewen notes that a similar campaign by activist non-governmental organizations against World Bank loans to poor countries could, if taken too far, produce “an underinvestment in projects in an era when further development is desperately needed.”

Loewen — a conservative — also notes that NGO campaigns can lead developing countries' governments to square environmentalism with “foreign meddling.”

Ironically, this gives “government officials an excuse to pay less attention to economic issues. Indeed, Third World governments on the receiving end of NGO criticism are becoming bolder about fixing back or exploring opportunities to self-finance development projects.”

In 2001, foreign NGOs — including the International Rivers Network and Friends of the Earth — repeatedly denounced the government of Ugandan President Yoweri Museveni for pressing on with a dam construction project.

Museveni's response: “Those who are saying the World Bank should not give us money, like environmental activists, should know that (the dam) will be built, whether it is by the World Bank or by ourselves. Those who don't want the dam, do not think they are dealing with a bunch of fools. If private companies don't build it, we shall build it.”

And in 2001, Ecuadorian President Gustavo Noboa condemned NGOs' demands for his government to abandon an oil and gas development project. He said the NGOs were “kicking Ecuador in the nuts, hummingbirds, trees and forests” aside of work for “our people and food for our children.”

This raises an important question.

If a bank goes along with the NGO-directed green-lining campaign, what are the implications for its reputation among foreign governments? What are the possible effects on a bank's reputation in emerging markets if loans in regions that desperately need development see it as an ally of foreign anti-growth NGOs?

Don't Abandon Principle

Banks, as I noted earlier, are regularly asked to support all sorts of causes. Protecting the environment is certainly a good and worthy cause.

But when faced by campaigns such as RAN's, banks need to stand up — for what is right — that is, in need to find ways to beyond corporate citizen- citizens without jeopardizing economic growth in poor countries or putting their reputations in tomorrow's emerging markets at risk. Caving in to NGO demonstrations and public protest is the wrong way to go.

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