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# US Politics and World Bank IDA-Lending

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## ABSTRACT

This paper studies the role of US political factors in the allocation of World Bank concessional lending, where US political interests are proxied by voting similarity in the United Nations General Assembly on issues identified as important by the US Department of State. In contrast to previous studies we find that the US exerted a significant influence on IDA lending during the period 1993 - 2000. We demonstrate that the influence was both statistically as well as economically significant. Finally, we demonstrate that our result is robust with respect to the omission of the IDA Country Performance Rating index.

JEL classification: F34, F35, O19.

Keywords: Aid, World Bank, US Political Influence.

## 1. INTRODUCTION

Responding to the critique of the Meltzer Commission Report, Charles Calomiris notes that there is a (silent) debate as to whether these international financial institutions should have narrowly defined objectives or, alternatively, be used as tools of ad hoc diplomacy.<sup>1</sup> '[B]ehind closed doors critics are candid about their primary reason for objecting to our proposals: "Forget economics; it's the foreign policy, stupid." For our proposed reforms to succeed, then, they must face the challenges posed not only by economic logic, but by the political economy of foreign policy.' (Calomiris 2000: 86).

An increasing number of academic studies indicating that political factors - in particular US political factors - do play a role in determining who receives IMF loans have emerged recently (e.g. Thacker, 1999, Barro and Lee 2002, Andersen *et al.* 2005). With respect to World Bank lending, however, there are only a few recent studies offering evidence indicating that flows are under the influence of the US. For instance, in an interesting paper Fleck and Kilby (2005) find that US commercial interests influence the geographical distribution of total World Bank lending (measured as the sum of IDA, IBRD and IFC loans). Moreover, they find that this influence differs across different presidential administrations.<sup>2</sup> Yet, with respect to the soft loan window, IDA, there is to our knowledge no clear evidence of US interference.

At first glance, this is not surprising since IDA's allocation criteria are (arguably) more explicit than those of any other donor, rendering a direct political influence more difficult. However, since the crucial CPIA and ARPP scores governing the allocation of IDA funds are not publicly available, the scope for political influence is clearly present despite explicit allocation criteria.<sup>3</sup> At the same time, the secret nature of country performance scores makes a proper statistical analysis somewhat difficult; one must establish that the omitted variables problem does not invalidate the statistical inference.

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<sup>1</sup> The report is a blueprint for reforming the IMF, the World Bank, and the other multilateral development banks. Allen H. Meltzer chaired the commission; Charles Calomiris was one of the eight members of the bipartisan majority who signed the report.

<sup>2</sup> Related, work (in progress) by Axel Dreher and Jan-Egbert Sturm explores to what extent G7 countries have been able to buy votes from countries with IMF and World Bank money.

<sup>3</sup> CPIA is the Country Policy and Institutional Assessment while ARPP is the Annual Portfolio Performance Rating. Both ratings are made by World Bank staff.

Notwithstanding statistical problems, there is an abundance of anecdotal evidence suggesting that the US can exert an influence on IDA lending. Kapur (2002), for instance, argues that the US enjoys pre-eminence within the World Bank despite a sharp decline in voting power from 35% in 1947 to 16.5% in 1999. Kapur lists three reasons for the continued US preeminence. First, the US has been more than willing to exercise power. Second, there are few countervailing pressures from other shareholders. Third, it is an inevitable outcome of what Nye (1990) has dubbed the “soft power” of the United States: Today a much higher percentage of World Bank staff is educated in the US compared to the early years, and the shaping of World Bank policies are heavily influenced by a number of US-based civil-society actors (academia, think tanks, NGOs, etc.).

There are also clear cases of politically motivated World Bank lending decisions. For instance, the Bank turned down lending to Vietnam in 1977 despite the fact that staff members admitted that project implementation was much better there than in many countries actually receiving loans. Even more starkly, the suspension of lending to Chile during the Allende years 1970-1973 were cited in a US Treasury report as a significant example of the successful exercise of US influence on the Bank (Gwin 1997). More recent examples include the Bank’s decisions not to lend to Nicaragua in the 1980s and Iran in the 1980s and the 1990s (Gwin 1997, Kapur 2002). Finally, following the 9/11 terrorist attacks and the ensuing military campaign in Afghanistan, World Bank ODA to Pakistan, a key ally of the US in its ‘War on Terror’, tripled from USD 226 million in 2001 to USD 860 million in 2002 (UN System Pakistan 2004).

In this paper, we ask whether IDA lending is influenced in any systematic way by US political factors. Our measure of political interest is that used by Thacker (1999) in a study of the role of US foreign-policy factors in IMF lending. Thacker relies on the degree of coincidence between the votes of the sample country and the US in the United Nations General Assembly (UNGA) on issues, which the US Department of State defines as ‘key votes’. The precise definition given by the State Department is: ‘all such votes on issues which directly affected important United States interests and on which the United States lobbied extensively.’ (US Department of State 1994:1).

Key votes are listed in the annual US Department of State publication ‘Report to Congress on Voting Practices in the United Nations’. The first report from 1985 notes that the: ‘only votes that can legitimately be read as a measure of support for the United States are those which we identified as

important to us, and on which we lobbied other nations' (quoted in Thacker 1999:53).

Moreover, the report from 2000 states that:

'[A] country's behaviour at the United Nations is always relevant to its bilateral relationship with the United States, a point the Secretary of State regularly makes in letters of instruction to new U.S. ambassadors. This is also why copies of this report are presented to UN member foreign ministries throughout the world and to member state missions to the United Nations in New York. The Security Council and the General Assembly are arguably the most important international bodies in the world, dealing as they do with such vital issues as threats to peace and security, disarmament, development, humanitarian relief, human rights, the environment and narcotics - all of which can and do directly affect major U.S. interest.' (US State Department 2000:8).

Specifically, the State Department lists identical votes, opposite votes, and abstentions and absences. Voting coincidence is then calculated by dividing the number of identical votes with the number of identical and opposite votes. Voting coincidence is listed for all countries in the Report to Congress, where an overall ranking is also provided. Hence voting behaviour on key UNGA votes is publicly available and easy accessible.

Using voting coincidence on UNGA key votes as a proxy for US-political influence, we demonstrate a significant influence on World Bank IDA-lending in a data set covering 1993-2000. The influence is not only statistically significant; the gain or loss in terms of USD is noticeable for the recipients. Moreover, we demonstrate that the omission of the (secret) country performance ratings is unlikely to cause significant bias in our results.

The paper is structured as follows: In Section 2 we provide a discussion of IDA, including a discussion of IDA allocation criteria and of the different ways in which the US can exercise influence within the World Bank. Section 3 contains a brief selective survey of the empirical literature on aid allocations with a view to World Bank lending, while Section 4 provides the empirical analysis. Section 5 concludes.

## 2. BACKGROUND

### *2.1 The World Bank and IDA*

IDA, which was established in 1960, is the arm of the World Bank that lends to the poorest developing countries on concessional terms. Loans are normally interest free, with a service charge less than 1 percent (currently the charge is 0.75 percent), and have a 10 year grace period with maturities of 40 years (35 years for IBRD-IDA blend countries). These loans are categorized as ODA (Official Development Assistance); and by this definition, IDA is one of the most important aid donors. In the period under study, IDA allocated about 11 percent of total ODA; more than any bilateral donor save Japan. In 2002 the total value of IDA lending was USD 8.1 billion, distributed to 62 recipient countries. Moreover, because of the well-documented ‘bandwagon effect’ by which bilateral donors tend to support countries with IDA loans, the importance of the Bank’s allocation policies is actually amplified by bilateral allocations (Sender 2002, Ranis 1997).

### *2.2 Allocation criteria*

IDA’s allocation criteria are probably more explicit than those of any other donor. In order to be eligible for IDA lending, the per capita GNI of a country must fall below a certain threshold;<sup>4</sup> the country must lack access to international capital markets; it must adhere to certain policy- and institutional standards set by the Bank; and it must be a member of the World Bank. Some countries that do have access to international capital markets but are very poor, such as India and Indonesia, are eligible for IDA funds. These are referred to as ‘blend’ countries, since they receive funds from both the IBRD (the arm of the World Bank that lends on commercial terms) and from IDA. Moreover, exceptions are given to several small island economies (IDA 2003a).

Among eligible countries funds are allocated according to poverty (as measured by GNI per capita) and to the CPR (IDA Country Performance Rating). The CPR is an index calculated as a weighted average of a country’s score on two indices: the CPIA (Country Policy and Institutional Assessment) and the ARPP (Annual Report on Portfolio Performance), where the former weighs 80 percent and the latter 20 percent.

The CPIA is the average of a country’s score on 20 indicators grouped in four categories: economic management, structural policies, policies for social inclusion/equity, and public sector management

and institutions. On each of the 20 indicators, countries are rated between 1 and 6. The ARPP measures the performance of past World Bank projects in the country. To produce the final CPR, the weighted average of the CPIA and the ARPP is multiplied by the ‘governance factor’, which is composed of seven governance indicators, six of which are also included in the CPIA.

Based on the CPR and the GNI per capita, a formula exists to calculate how much IDA funding a country can expect to receive if it maintains its policies and institutions at a stable level, assuming that high-quality projects are available (IDA 2003a). This level of funding is however not an entitlement, and it is not always adhered to strictly. Exceptions are given to countries emerging from protracted violent conflict, which under certain circumstances may be eligible for more funds than their PR would otherwise indicate (IDA 2003b). Allocations to blend countries are adjusted downward, since these countries also have access to funds from the IBRD and from commercial sources.

The allocation mechanism has developed gradually over the years, with progressively higher weight put on policies and institutions. Policy-based lending has been practiced at least since the debt crisis in the early 1980s (Gwin 2002), but institutional indicators were not added to the CPIA until 1998 (Neumayer 2003a). Unfortunately, the Bank does not disclose countries’ exact scores on the CPIA, ARPP and CPR; only quintile distributions are available (covering only the very recent past). However, since countries are themselves informed about their own scores, it would appear from the above description that the allocation mechanism of IDA is impartial, detailed and transparent. We shall argue that contrary to this appearance, the political interests of the United States do in fact play a systematic role in the allocation of IDA funds.

### *2.3 US influence*

The US has several avenues for influencing the decisions of IDA and other parts of the World Bank Group. The general management of the Bank is undertaken by the Board of Executive Directors, which is responsible for the approval of all loans and decides on policy issues that guide the general operations of the Bank. The US is one of the five countries with a permanent representation in this body; the other countries are the UK, Japan, Germany and France. The board of Executives elect the President of the World Bank, who is by custom always a US citizen (a part of an informal agreement, which also says that the managing director of the IMF is always a European).<sup>5,6</sup> Voting

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<sup>4</sup> In the fiscal year 2004 the threshold was USD 865.

<sup>5</sup> Although originally born in Australia, current World Bank President James Wolfensohn is a naturalized United States

in the World Bank is based on shareholding, and since the US is the largest shareholder in IDA, it has the largest voting power in the organization, currently 14.3 percent. World Bank institutions are governed according to a set of Governing Articles that define their purpose, organization and operations, and since changing these Articles requires a qualified majority of 85 percent, the US comes close to having veto power with regards to Article amendments in IDA.

The US has seen its voting shares in the Bank's institutions decline steadily over the years, but arguably this has not led to a decrease in its actual power in the organization. For example, in response to declining vote shares, the US in 1989 managed to push through a proposal to increase the qualified majority required for changing the Governing Articles of the Bank to the above mentioned 85 percent, allowing it to maintain its near veto power (Woods 2000).

Because IDA lending is on concessional terms, IDA resources must continually be replenished by the donors. Accordingly, donors meet every three years for replenishment negotiations. At these meetings donors also agree on overall policy directions for IDA. These meetings therefore represent crucial opportunities for exercising political leverage. The last negotiation round (the IDA-13 Replenishment) was concluded in 2002, with the US contributing the largest share of funds (just over 20 percent). In cumulative terms, the US and Japan are the largest IDA donors. Obviously, the IDA-replenishment negotiations are part of a much larger foreign policy game, and the US can increase its influence beyond what springs directly from the size of its monetary contribution if it links issues of World Bank policy with other foreign policy issues. According to Woods (2000), the US has increased pressure for influence at the replenishment negotiations from the 1990s onwards.

Moreover, the US has maintained its dominance in the World Bank because it has increasingly been willing to exercise power, while other countries have done little to resist US pressure, and because of the increasing soft power of the US. Concerning the latter, one study of professional staff in the Policy, Research and External Affairs Departments in 1991 showed that 62 percent of employees with graduate-level education had their degrees from US institutions (Stern and Ferreira 1997). The geographical location of the World Bank headquarter in Washington D.C. means that American

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citizen.

<sup>6</sup> The nomination of candidates is considered sufficiently important by the US so that the task is undertaken by the White House, and not by the Treasury, which otherwise is responsible for most interactions between the US and the Bank (Fidler 2001).

players have privileged access to the Bank, all of which combines to create a pressure for American ideas and values to influence decision-making processes in the Bank.

The presence of strong US influence, which is hardly doubted by anyone, does not necessarily imply that the US uses this influence actively to make the allocation of IDA funds deviate from the official allocation criteria described above. However, as mentioned in the introduction, anecdotal evidence suggests that it has sometimes influenced allocation criteria. Examples serve to illustrate that US political interests do sometimes override considerations of poverty alleviation and development in the loan-allocation policies of the World Bank in general and of IDA in particular. However, they do not provide systematic evidence.

### 3. A BRIEF SURVEY OF THE ECONOMETRIC LITERATURE

There is a large literature on the determinants of aid allocation in general (a survey is found in Neumayer 2003a), but most studies focus on bilateral donors, in particular the US, while only a few studies look at the World Bank.

Early studies of the influence of donors' political interests on aid allocation include McKinlay and Little (1979) and Maizels and Nissanke (1984). Both studies focus on the US and find that a set of political-interest indicators such as strategic and commercial ties are much stronger predictors of US aid allocations than a set of development-interest variables such as GDP per capita and the Physical Quality of Life Index. Among the many, more recent, studies, Schraeder, Hook and Taylor (1998) analyze the allocation of aid from the US, Japan, France and Sweden, and show that political-interest variables are significant for all four donors although different variables are important for different donors. Alesina and Dollar (2000) study a broad set of bilateral donors and find that political interests, measured by colonial history and voting similarity in the UNGA, are generally more important determinants of aid allocation than institutional- and policy performance variables, such as the level of democracy and the degree of trade openness in the economy. With particular relevance for the present paper, Alesina and Dollar report that voting similarity with the US in the UNGA is significantly correlated with the allocation of US bilateral development assistance.

There is some debate as to whether policy and institutional performance play any role at all for bilateral aid allocation. Alesina and Dollar (2000) find that while they are less important than the political-interest variables, openness and democracy are significant predictors of aid allocation for some countries, including the US, but not for others. Svensson (2000) and Alesina and Weder

(2002) find that there is generally no relationship between corruption and aid allocation. Neumayer (2003a) looks at all the important aid donors and investigates a broad set of institutional (or governance) variables, including democracy, human rights, corruption, military expenditure, rule of law and regulatory burden. He finds that none of these variables show a consistent pattern of significance across the group of bilateral and multilateral donors, although all of them are significant for some donors.

Studies of other multilateral agencies apart from the World Bank have indicated that these are often affected by the political interests of major contributors. Tsoutsopolides (1991) shows that aid allocation by the European Community (EC) from 1975 to 1980 is affected by colonial affiliation with the original six EC members. Neumayer (2003b) reports that the Asian Development Bank, UNICEF and UNTA share a tendency of several bilateral donors of giving more aid to former colonies of large donor countries, although the opposite effect is found for The African and Inter-American Development Banks, and possibly for UNDP. Interestingly, he also finds that the UN agencies tend to counteract certain biases of bilateral donors. Whereas bilateral donors tend to give more aid to countries geographically close to themselves, the UN agencies give more aid the further away from the United States, Western Europe or Japan a country is located. Neumayer (2003c) also shows that the Arab-dominated multilateral aid agencies are affected by potential recipients' voting similarity with major Arab donors in the UNGA.<sup>7</sup> Furthermore, Islamic countries have a larger probability of receiving positive amounts of aid from these agencies.

Studies of the IMF have demonstrated that the probability of receiving IMF loans is affected by the political interests of the US and other major donors. In particular, Thacker (1999) shows that countries that move closer to the US policy stance on issues considered important by the US in the UNGA increase their probability of receiving loans. Barro and Lee (2002) show that voting similarity in the UNGA and intensity of trade with the US and major European shareholders significantly increases the size of IMF loans a country receives.

Turning to studies of the World Bank, Frey and Schneider (1986) provide an early example.<sup>8</sup> In a study of the determinants of IBRD loans as well as IDA credits, they find that both economic needs

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<sup>7</sup>The Arab dominated aid agencies include the Arab Bank for Economic Development in Africa, the Arab Fund for Economic and Social Development, the Islamic Development Bank and the OPEC Fund for International Development.

<sup>8</sup>Other early studies of World Bank aid allocation include Cline and Sargen (1975) and Isenman (1976).

of the recipients and political interests of major World Bank shareholders are significant determinants of the Bank's allocation of funds in the period 1972-1981. Among donor-interest variables, they find that the amount of IDA funds received by a country is significantly related to its share in exports from the UK, France, the US and the Benelux countries, and to being a former colony of France, or being a country 'dominated' by the US.<sup>9</sup> Frey and Schneider also provide evidence in favour of the hypothesis tested in this paper: viz. that US political interests affect the allocation of IDA funds. These findings are not reproduced in more recent studies, however.

Burnside and Dollar (2000) find that World Bank aid is more sensitive to economic needs (measured by GDP per capita) and to an index of good policies than is the aid from bilateral donors; and that it is less sensitive to the strategic interests of donors (measured by regional dummies and a dummy for Egypt).

Dollar and Levin (2004) study the sensitivity of aid allocation to institutions and policy. They find that IDA, like many other donors, has become more sensitive to policies and institutions in the 1990s as compared to the 1980s. They also find that IDA is among the donors with the highest sensitivity to these factors. These results are found both when institutional- and policy performances are measured by the CPIA (the World Bank's own indicator, as discussed above) and when indicators produced independently of the World Bank are used.<sup>10</sup> No variables measuring the political interests of donors are included in the models of the paper, however. Only population and GDP per capita are controlled for.

Fleck and Kilby (2005), mentioned in Section 1, find that US commercial interests influence the geographical distribution of total World Bank lending (measured as the sum of IDA, IBRD and IFC loans).

Finally, looking at the period 1991 to 2000 and using the model specification and data that we shall build upon in this paper, Neumayer (2003a) finds that IDA aid allocations are responsive to GDP per capita, population and institutions in the form of human rights standards. Importantly, he finds that no donor-interest variables are significantly related to the allocation of IDA lending.

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<sup>9</sup>Dominance is defined as the value of a country's export to the US relative to GNP (i.e., it is just trade dependence).

In sum, the small group of recent studies of World Bank lending tend to portray IDA as a donor institution, which is responsive to economic needs, rewards good policy and institutional performance, and as being unaffected by the political interests of major shareholders.

## 4. EMPIRICAL ANALYSIS

### 4.1 Data

In our empirical analysis we rely on a slightly expanded version of the Neumayer (2003a) data set. The dependent variable is ODA commitments (as opposed to ODA disbursements). One advantage of using commitments when attempting to explain the allocation of aid is that commitments are fully controlled by the donor, whereas disbursements partly rely on recipient behaviour. The dependent variable is then total aid committed (in real terms) to a given country.

The explanatory variables include measures of recipient needs, institution and governance indicators and donor interests. Recipient needs are captured by per capita income and a quality of life index. Indicators for institutions and governance include a combined freedom index (political rights and civic liberties) based on Freedom House data; a human rights index based on two political terror scales; a measure of corruption; a measure of rule of law; a measure of the regulatory burden imposed on the private sector; and the share of government expenditures spend on military purposes. Donor interests are captured by colonial status; a weighted average of donor countries' export to the recipient country, where weights are equal to the share of the donor's contribution in total DAC aid; the percentage of Christian people living in the recipient country; and, our variable of interest, a measure of political similarity based on voting behaviour in the UNGA.

Neumayer (2003a) relies on a broader political-similarity measure developed by Signorino and Ritter (1999) and compiled by Gartzke *et al.* (1999) using all UNGA votes (i.e. key votes and non-key votes). Neumayer does not find evidence of political influence using this measure. However, in our view this measure suffers from two drawbacks: First, by using voting behaviour on all UNGA resolutions, the political-similarity measure does not discern important votes from less important ones. Second, political similarity is a weighted average of voting coincidence with all DAC donors, which renders a direct interpretation somewhat difficult. Using voting similarity with the United

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<sup>10</sup>The authors have access to the CPIA data because they are at the World Bank.

States on key UN votes (calculated by dividing the number of identical key votes with the number of identical and opposite key votes) is in our view a more direct measure of political factors. Therefore, we employ this measure to study US influence on allocation of IDA lending. All variables and sources are further described in the Appendix.

In 2005 there are a total of 81 countries eligible for IDA funds. In this paper, we have data for 76 IDA countries over the period 1993-2000 in the most parsimonious empirical specification. In our most elaborate specification, data coverage drops to 54 IDA countries; the reason is lack of publicly available data on institutional quality for a number of IDA countries.

#### *4.2 Regression results*

The basic empirical specification used in this paper follows Neumayer (2003a), although we depart from the Neumayer study in several ways. First, we use levels of real ODA commitments as opposed to shares of total donations. The main reason for doing so is to avoid violating the adding-up constraint when using the log-transformation. Second, as explained above, we use the US State Department classification of key UNGA votes as our political-interest variable. Third, we include two additional allocation indicators: viz. external debt to GDP and trade openness (the sum of merchandise imports and exports relative to GDP). Finally, we estimate a Heckman sample-selection model to account for the eventuality of sample-selection bias. It should be noted that only six sample countries (out of 76) never received any IDA funds over the period.<sup>11</sup>

Estimation results are reported in Table 1. In all estimations, the explanatory variables are lagged one year, save the UN key-voting coincidence, which is lagged two years.<sup>12</sup> Column 1 in Table 1 excludes several variables in order to maximize country coverage.<sup>13</sup> Columns 2 and 3 include additional variables progressively and country coverage decreases accordingly; column 4 is the OLS estimation of the model corresponding to column 3.

Our main finding is that UN voting on key issues is positive and significant at five percent in the specification with maximum country coverage (column 1) and at one percent columns 2 and 3. We

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<sup>11</sup> IDA countries that did not receive any funds during the sample period include Afghanistan, Kiribati, Liberia, Myanmar, Samoa and Uzbekistan.

<sup>12</sup> In Tables A.2 and A.3 in the Appendix we provide summary statistics of the variables used in the estimations and the correlation matrix.

interpret this as strong evidence in favour of the hypothesis that US political interests affect the allocation of IDA resources. Moreover, UN voting is insignificant at the selection stage in all estimations.<sup>14</sup> Finally, OLS on the selected sample (associated with column 3) gives similar results to the selection-corrected estimation reported in column 3.<sup>15</sup>

Several other results from Table 1 are noteworthy. The coefficient on log population is positive but significantly below one in all level estimations, indicating the often-found small-country bias. The log of GDP is insignificant in all specifications. This is a result of the role of GDP per capita at the eligibility stage: since only poor countries are eligible for IDA lending, there is only limited variation in this variable. The physical quality of life is significant in columns 2 and 3, but enters with the ‘wrong’ sign. Countries with a higher physical quality of life receive more aid, indicating that this variable should not be regarded as a measure of the need for aid, as in Neumayer (2003a), but rather as an indicator of good policies. Keeping GDP per capita constant, countries that achieve better performance in health and education are expected to have more effective, pro-poor policies. Among the indicators for institutions and governance, we repeat the finding in Neumayer (2003a) that the human rights variable is positive and significant. Political freedom is significant at one percent in all regressions, but has the ‘wrong’ sign. Somewhat surprisingly, trade openness is insignificant. However, this is in accordance with other studies. Finally, the debt variable in model 3 points towards that those countries with high debt ratios receive more aid. We interpret this as an indication of the much discussed defensive lending by the IFI’s in the 1980s and 1990s (see e.g., Birdsall *et al.* 2003).

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<sup>13</sup> There are no exclusion restrictions in the Heckman model; identification relies on the non-linearity of the model.

<sup>14</sup> The selection equations are not reported but, naturally, they can be obtained from the authors on request.

<sup>15</sup> A natural step further would be to ask whether the UN voting variable indicates that actual vote buying in the UN plays an important role for aid allocation, or whether it is a proxy for alliances with the US in a broader sense. In this paper, we leave this as an open question; see also endnote 2.

TABLE 1

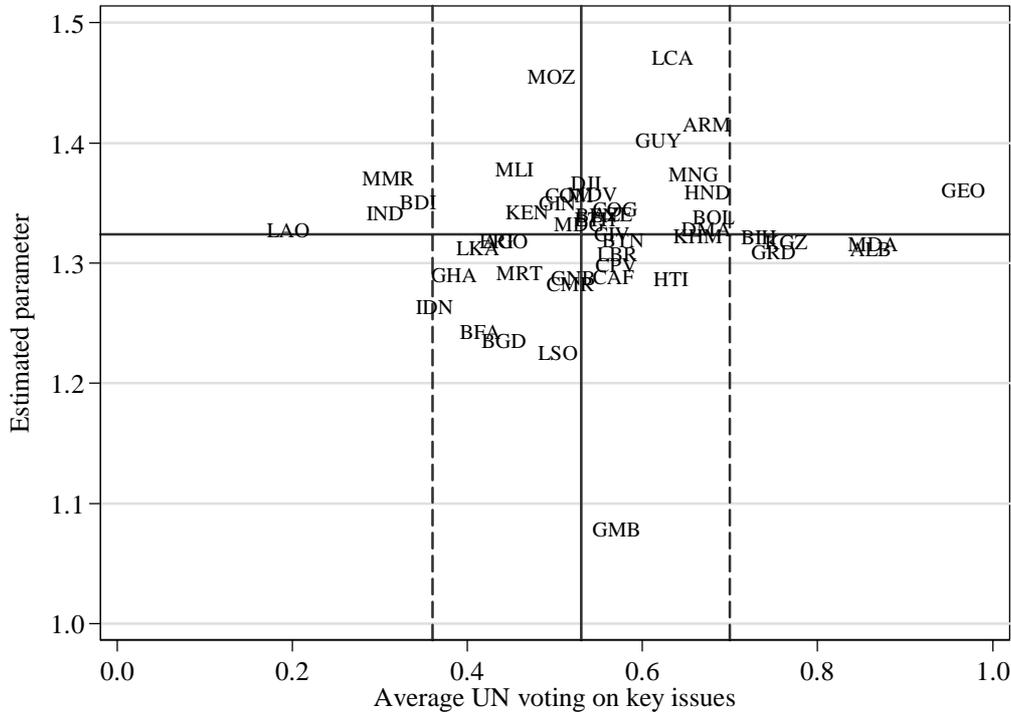
Heckit and Least Squares results for IDA commitments to developing countries (1993-2000)

Dependent variable:	IDA commitments (log)			
	Heckit			OLS
Model:	1	2	3	4
Log(population)	0.449*** (0.087)	0.578*** (0.122)	0.649*** (0.113)	0.634*** (0.091)
Log(GDP per capita)	0.037 (0.224)	-0.202 (0.220)	-0.195 (0.177)	-0.178 (0.169)
Physical quality of life	0.007 (0.008)	0.011* (0.006)	0.010* (0.006)	0.012*** (0.004)
Former Western Colony	0.001 (0.004)	-0.002 (0.003)	-0.003 (0.003)	-0.001 (0.003)
Log(DAC export to recipient)	0.102 (0.106)	0.037 (0.120)	0.060 (0.110)	0.026 (0.093)
Percentage Christian	0.003 (0.003)	0.003 (0.002)	0.003* (0.002)	0.001 (0.002)
Political freedom	-0.099*** (0.029)	-0.110*** (0.033)	-0.095*** (0.033)	-0.046** (0.022)
Human rights		0.156** (0.079)	0.137* (0.075)	0.198*** (0.068)
Military expenditures		0.004 (0.012)	-0.004 (0.010)	-0.004 (0.007)
Trade openness		-0.224 (0.198)	-0.136 (0.177)	-0.336** (0.161)
External debt		0.118 (0.074)	0.104* (0.062)	0.171*** (0.053)
Corruption			0.200 (0.178)	0.052 (0.134)
Rule of law			0.041 (0.177)	0.191 (0.161)
Regulatory burden			-0.252 (0.174)	-0.020 (0.129)
UN voting on key issues	0.782** (0.382)	1.191*** (0.404)	1.208*** (0.444)	1.324*** (0.395)
Constant	-4.113 -2.911	-4.075 -3.441	-5.288* (3.153)	-4.371 -2.860
Total number of observations	553	420	389	299
Number of uncensored observations	362	312	299	299
Number of countries	76	60	54	51

Notes: Autocorrelation and heteroscedasticity robust standard errors in parentheses; Asterisks \*, \*\*, \*\*\* denote significance at 10%, 5% and 1%, respectively.

FIGURE 1

The estimated impact of UN voting on key issues when countries are omitted one-by-one



gia, does not affect the estimated impact. In this sense the regression results are very robust to changes in the sample.

In conclusion, the results indicate that considerations of need and of the quality of institutions do matter for the allocation of IDA lending, but that US political interests also play a decisive role IDA lending. The next section addresses the economic importance of these factors.

#### 4.3 Implicit incentives in IDA lending

Using the specification in column 3 of Table 1, we can estimate the rewards associated with changes in the UN voting coincidence, the physical quality of life, and in human rights. These three variables are all significant in column 3; they are all, at least to some extent, under the discretion of recipient governments; they are also insignificant at the selection stage (not reported); and finally, the correlations between the three variables are quite small whereby comparisons of counterfactuals in which the measures are changed one-by-one are empirically meaningful. (See Table A.2).<sup>17</sup>

In Table 2 we report three measures of the economic impact of changes in the three variables. In the last column in Table 2 we report the gain from a one standard deviation change in the explanatory variables – evaluated at the average level of IDA lending.

TABLE 2  
Estimated partial effects on IDA lending

	$\hat{\beta}$	sd(x)	$\widehat{\Delta ODA}$ USD million, 1995-prices
UN voting on key issues	1.208	0.20	33.8
Physical quality of life	0.010	17	23.8
Human rights	0.137	0.93	17.8

The estimated rewards are calculated as  $\widehat{\Delta ODA} = \hat{\beta} \times \text{sd}(x) \times \overline{ODA}$  where  $\text{sd}(x)$  is a one-standard deviation change in  $x$ . Average ODA,  $\overline{ODA}$ , is USD 140 million (1995-prices) for IDA loans.

The UN voting coincidence variable is continuous on [0,1], where zero indicates no alignment with the US in the UNGA. The standard deviation of the UN voting variable is reported in column 2 in

<sup>17</sup>Needless to say, in this comparison one should also consider the costs associated with changes in UN voting, quality of life and human rights to make it meaningful. However, we conjecture that the cost of changes in UN voting does not exceed the costs of changes in the two other variables.

Table 2. The reward facing an average country from a one standard-deviation increase in alignment with the US in the UNGA is an increase of approximately USD 33.8 million of ODA commitments from IDA.

Compare this to an improvement in the physical quality of life. This variable is continuous on  $[0,100]$ , where one hundred is best. The estimated increase in IDA lending following a one standard-deviation improvement in the physical quality of life is an increase of USD 23.8 million.

Changes in the physical quality of life are probably harder to obtain than voting coincidence. Therefore, a comparison with human rights may be more interesting. The human rights variable is continuous on  $[-5,-1]$ , where minus one is the best and the sample average is  $-2.95$ . An increase in the human rights index of one standard deviation leads to an estimated reward of USD 17.8 million.

Interestingly, we find that an increase in voting alignment with the US in the UNGA on key issues is more important (in the sense of being more rewarding) than comparable increases in both human rights and the physical quality of life. Thus, in addition to statistical significance, the UN voting variable also has economic significance.

#### *4.4 Robustness of the interpretation of key votes*

As described in Section 2, IDA's official allocation criteria rely heavily on the policy- and institutional performance of recipient countries, as measured by the Country Performance Rating (CPR), which is a combination of the CPIA index and the Annual Report on Portfolio Performance (ARPP) as described in Section 3. Since none of the three indices are publicly available we cannot include these ratings in our model. Consequently one should worry that the UN voting variable is effectively a proxy for the CPR index—or for some aspects of it—and that may be the reason why we record a positive impact. However, there are strong indications that this should not be a cause for concern.

First note that the regressions in Table 1 contain a large number of institutional and policy variables, which may be expected to capture most of the variation in the CPR index; we show below that this is indeed the case. Second, the UN voting variable is much more significant when it is lagged two periods than when the one year lag or even the current value is used. This squares well with the story that commitments in year  $t$  are decided in year  $t-1$ , based on voting performance in

year  $t-2$ . Related, if UN voting was merely a proxy for institutions and policies, we should not expect the twice lagged value to be a stronger predictor of aid allocation than the lagged or current value.

An even stronger argument can be made by looking at the variation in the voting behaviour and the institutional and policy variables across the CPR-2001 country quintiles.<sup>18</sup> Table 3 lists the means and standard deviations for the central variables in the regression model according to the CPR country quintiles, and the ANOVA  $F$ -test for equality of the means across the country groupings. Table 3 shows that the UN voting behaviour is not systematically related to the CPR country ratings. If anything, US alignment is far more pronounced in the second quintile compared to the top and bottom quintiles. In contrast, political freedom, the regulatory burden and the rule-of-law are all significantly related to the CPR in the way one would expect. In particular, the mean of these three indicators are decreasing systematically and significantly from the second to the fifth CPR quintile. Moreover, military expenditures are also (marginally) related to the CPR, with larger expenditure shares in the lower quintiles compared to the upper quintiles.

TABLE 3

Means and standard deviations of UN voting, institutional and policy variables across IDA Country Performance Ratings 2001

CPR quintiles	UN voting on key issues		Political Freedom		Military expen- diture		Regulatory Burden		Rule-of law		Corruption	
	Average 1995-99 Mean	Std.dev	Average 1995-99 Mean	Std.dev	Average 1995-99 Mean	Std.dev	(Time constant) Mean	Std.dev	(Time constant) Mean	Std.dev	(Time constant) Mean	Std.dev
1 (best)	0.466	0.126	-8.50	3.08	14.12	6.67	-0.134	0.586	-0.392	0.492	-0.520	0.474
2	0.563	0.162	-7.59	1.53	10.29	9.29	-0.344	0.405	-0.536	0.420	-0.486	0.259
3	0.490	0.194	-9.02	2.72	7.78	2.94	-0.140	0.389	-0.550	0.408	-0.607	0.430
4	0.423	0.124	-10.34	2.56	15.06	7.32	-0.486	0.760	-0.653	0.450	-0.382	0.432
5 (worst)	0.473	0.200	-11.56	1.99	17.44	12.95	-1.040	0.575	-1.193	0.503	-0.841	0.466
Total	0.486	0.168	-9.48	2.71	12.81	9.00	-0.445	0.633	-0.685	0.519	-0.576	0.432
ANOVA	1.30	[0.28]	4.76	[0.00]	2.44	[0.06]	5.20	[0.00]	5.20	[0.00]	1.98	[0.11]
Bartlett	4.86	[0.30]	5.08	[0.28]	20.61	[0.00]	6.34	[0.18]	0.68	[0.95]	3.80	[0.43]
Countries	70		55		55		55		55		55	

Notes: ANOVA is the one-way analysis-of-variance  $F$ -test for equality of the means across the quintiles. The  $p$ -value of the test statistic is reported in brackets. Bartlett is Bartlett's test of equality of variances across the quintiles. The test statistic is distributed as  $\chi^2(4)$ . The  $p$ -value of the test statistic is reported in brackets.

Source: The Country Performance Rating country quintiles are from IDA (2002).

<sup>18</sup> The countries in each quintile are listed in Table A.4 in the data appendix. Note that for the five variables using only 55 countries in Table 3 the loss is mainly in the first quintile in which we have only observations for 8 countries compared to 11, 13, 11, and 12 countries in quintiles 2-5. This probably explains why the mean of the first quintile is often lower than the mean of the second quintile. Hence, we conjecture that the systematic relationship is stronger in the population compared to our sample.

As we only have the CPR for 2001 we use averages over 1995-1999 for the UN voting behaviour, political freedom and the military expenditures.<sup>19</sup> Even though the CPR is expected to be very persistent over time (being mainly a function of the CPIA) the averaging may blur a systematic relationship between the UN voting behaviour and CPR. In order to look into this issue we use a set of other indicators of institutions and policies available from the World Bank for which we have data from 1996, 1998 and 2000. Specifically, Kaufmann, Kraay and Zoido-Lobaton (1999) and Kaufmann, Kraay and Mastruzzi (2003) have collected a large set of governance indicators from various sources, and summarized them in six indicators of different dimensions of governance using an unobserved components model. We refer to these measures as the KKZ indices. The six indices measure voice and accountability, political stability, government effectiveness, regulatory quality, rule of law and control of corruption. For several reasons, we expect them to capture a large part of the variation in the CPR index. First, since they originate from the same institution and are intended to measure broadly similar phenomena, we should expect them to be correlated. Second, the CPIA is listed as one of the sources of the KKZ indices. Specifically, the KKZ measures of government effectiveness, regulatory quality, rule of law and control of corruption all include some of the items from the CPIA index (Kaufmann, Kraay and Mastruzzi, 2003). Third, the KKZ indices are conceptually similar to the CPIA items, both focusing on rule-based, accountable, transparent and incorrupt government, and market-friendly economic policies. As the KKZ indices are only available for 1996, 1998 and 2000 including them in our model would entail a severe loss of observations. Hence, instead, we use an indirect argument to show that the results on the importance of voting coincidence with the US on key issues would most likely not be affected if the KKZ variables were to be included.

Table 4 reports the means and standard deviations of the six KKZ indices across the CPA country quintiles, analogues to the results in Table 3. As seen, we find a very strong systematic association between the CPR country ranking in 2001 and the KKZ indices in 2000. This supports our hypothesis that the KKZ indices and the CPR are highly correlated measures.

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<sup>19</sup> The regulatory burden, rule of law and corruption measures are time constant.

TABLE 4

Means and standard deviations of KKZ indices 2000 across IDA Country Performance Ratings 2001

CPR quintiles	Voice and accountability		Political stability		Government effectiveness		Regulatory Quality		Rule-of law		Control of corruption	
	Mean	Std.dev	Mean	Std.dev	Mean	Std.dev	Mean	Std.dev	Mean	Std.dev	Mean	Std.dev
1 (best)	-0.046	0.919	-0.510	0.879	-0.003	0.387	0.070	0.264	-0.205	0.495	-0.113	0.610
2	-0.035	0.614	-0.309	0.481	-0.442	0.396	-0.233	0.321	-0.461	0.274	-0.514	0.219
3	-0.466	0.681	-0.324	0.774	-0.537	0.378	-0.221	0.368	-0.614	0.321	-0.610	0.398
4	-0.474	0.771	-0.684	0.702	-0.620	0.455	-0.401	0.477	-0.726	0.251	-0.608	0.345
5 (worst)	-1.080	0.534	-1.408	0.794	-1.224	0.355	-1.14	0.732	-1.075	0.346	-0.964	0.339
Total	-0.420	0.797	-0.649	0.823	-0.565	0.553	-0.387	0.610	-0.616	0.447	-0.561	0.479
ANOVA	5.31	[0.00]	5.01	[0.00]	18.38	[0.00]	14.31	[0.00]	12.85	[0.00]	8.50	[0.00]
Bartlett	4.75	[0.31]	4.00	[0.41]	0.94	[0.92]	18.03	[0.00]	8.18	[0.09]	14.60	[0.00]
Countries	74		60		74		74		74		74	

Notes: ANOVA is the one-way analysis-of-variance  $F$ -test for equality of the means across the quintiles. The  $p$ -value of the test statistic is reported in brackets. Bartlett test is Bartlett's test of equality of variances across the quintiles. The test statistic is distributed as  $\chi^2(4)$ . The  $p$ -value of the test statistic is reported in brackets.

Source: The Country Performance Rating country quintiles are from IDA (2002). The KKZ indices are from Kaufman, Kraay and Mastruzzi (2003).

TABLE 5

Correlations between institutional and policy variables in the model and the KKZ-indices

KKZ-indices	Institutional and policy variables					
	UN voting (t-2)	Political freedom	Military expenditure	Regulatory burden	Rule of law	Corruption
Voice and accountability	0.34	0.95	-0.56	0.81	0.86	0.84
Political stability	0.02	0.70	-0.48	0.69	0.81	0.76
Government effectiveness	-0.10	0.69	-0.38	0.80	0.92	0.93
Regulatory quality	-0.07	0.75	-0.47	0.91	0.86	0.83
Rule of law	0.00	0.78	-0.41	0.82	0.97	0.93
Control of corruption	0.02	0.74	-0.37	0.79	0.92	0.95

Source: KKZ indices are from Kaufmann, Kraay and Mastruzzi (2003).

Moving further to a comparison of the KKZ indices and the variables included in the regressions in Table 1, we report the sample correlations between the KKZ indices and our UN voting variable and of institutions and policies, using observations from 1996, 1998 and 2000 in Table 5. The Table reveals two important pieces of information. First of all, the correlations between UN voting and the KKZ variables are very moderate in size suggesting that UN voting is a poor proxy for the CPR index. Second, the KKZ indices are all very highly correlated with one or more of the measures of policies and institutions included in our model. For example, the variable most highly correlated with UN voting, "Voice and Accountability", has a correlation of 0.95 with the measure of Political freedom included in our model. Moreover, notice that the pair wise correlations between the meas-

ures of Regulatory burden (quality), Rule of law, and Corruption are all in excess of 0.9, implying that we have almost perfect indicators. This means that most of the variation in the KKZ indices—and by implication most of the variation in the CPR index—is already accounted for by the variables included in our model.<sup>20</sup>

We take these results as a strong indication that most of the variation in the CPR index is captured in our model, and that it is not closely correlated with the UN voting variable. This strengthens the interpretation of the UN voting variable as an indicator of US political interests.

## 5. CONCLUDING REMARKS

Compliance with US political interests in the UNGA affects the allocation of aid flows to developing countries. This is well known from anecdotal evidence and backed by empirical work on USAID allocations and IMF lending. However, the World Bank, and in particular IDA, is by many perceived as a donor escaping strong US influence. Specifically, while US influence has been detected in empirical work covering the 1970s and early 1980s, none of the recent econometric studies of IDA lending, covering the 1980s and 1990s, have found significant effects of compliance with US policies using UNGA voting coincidence as the proxy for compliance.

In this paper, we have demonstrated that, when key votes (defined by the US State Department) are used to proxy compliance, it is possible to capture a statistically significant US influence on IDA lending. This result carries economic significance and is robust across different specifications. Moreover, our results are not influenced by the omission of the secret CPIA index.

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<sup>20</sup>An important reason for the high correlations is of course that the measures in part build on the same surveys and polls. For example, the Freedom House indices of political rights and civil liberties, which we use as a measure of political freedom, is one of the components in the KKZ index of voice and accountability.

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#### A. DESCRIPTION OF VARIABLES, SUMMARY STATISTICS AND IDA COUNTRY PERFORMANCE RATINGS

Table A.1 provides a description of variables employed in the empirical analysis. All variables, except UN voting, IDA lending, debt and openness, are taken from Neumayer (2003a). Since this author provides a very detailed account of the data, we only provide the original source and a brief description. Neumayer should be consulted for further details.

TABLE A.1  
Description of variables and sources

Variable	Source	Description
Real IDA	World Bank (2002)	The amount of Real ODA commitments in millions of USD 1995 pledged by the International Development Association (IDA).
Population	World Bank (2001)	Population (not scaled).
GDP per capita	World Bank (2001) and WHO (2000)	GDP per capita in purchasing power parity units.
Physical quality of life	World Bank (2001)	Quality of life index ranging from 0 (worst) to 100 (best). It consists of three weighted components: literacy, infant mortality and life expectancy.
Former Western Colony	Alesina and Dollar (2000)	Number of years a country has been a DAC country colony in the period 1900-1960.
DAC exports to recipient	OECD (2002c)	Weighted measure of DAC countries' exports to a recipient country as a share of total exports. Weights equal the shares of respective donors DAC contribution.
U.S. military grants	USAID (2002)	Percentage share of total U.S. military grants a recipient country receives.
UNGA voting on key issues	U.S. State Department (various years)	Voting coincidence on key UNGA issues as defined by the State Department. The measure ranges from 0 (no coincidence) to 1 (voting in complete accordance with the U.S.).
Percent Christian	La Porta et al. (2000)	Percentage of Christians in the population.
Political freedom	Freedom House (2000)	A combined freedom index based on adding the two Freedom House indices: political rights and civic rights. The combined index was reverted such that it ranges from -2 (best) to -14 (worst).
Human rights	Gibney (2002)	A combined human rights index based on adding the two Purdue Political Terror Scales (PTS). The combined index ranges from -1 (best) to -5 (worst).
Military expenditures	World Bank (2001), US Bureau of Arms Control (1995, 1998) and Encyclopedia Britannica (2001).	Percentage of government expenditure used on the military.
Corruption	Kaufman et al. (1999a,b).	Corruption is based on the graft indicator created by the World Bank. It is based on subjective measures of corruption obtained from surveys of residents and entrepreneurs within the country and polls of experts. The indicator is normalized such that it ranges from -2.5 (worst) to 2.5 (best), and has mean zero and a standard deviation of one.
Rule of Law	Kaufman et al. (1999a,b).	Measure of "respect for law and order, predictability and effectiveness of the judicial system, and enforceability of contracts". The indicator is normalized as the corruption indicator above.
Regulatory burden	Kaufman et al. (1999a,b).	Measure of the "burden on business via

Variable	Source	Description
Openness	World Bank (2002)	quantitative restrictions, price controls and other interventions in the economy". Normalized as above. Openness is the sum of merchandise exports and imports, measured in current U.S. dollars, divided by the value of GDP in U.S. dollars.
Debt	World Bank (2002)	Debt is debt owed to nonresidents repayable in foreign currency, goods, or services, divided by the value of GDP in U.S. dollars.

TABLE A.2

Summary statistics for the sample of IDA countries

	mean	std. deviation	min	max
Real ODA	140.38	192.43	0.21	1231.80
Population (million)	70.2	229	0.47	1125
GDP per capita	1653.07	880.55	436.07	4579.97
Physical quality of life	55.16	16.52	10	90
Former Western colony	40.76	25.80	0	60
ln (DAC export to recipient)	0.113	0.413	0.0002	2.91
Percent Christian	26.16	31.22	0	99.1
Political freedom	-9	2.74	-14	-3
Human rights	-2.92	0.93	-5	-1
Military expenditures	11.40	7.23	0	53.26
Corruption	-0.54	0.39	-1.57	0.35
Rule of law	-0.52	0.45	-1.62	0.27
Regulatory burden	-0.25	0.51	-1.82	0.88
Openness	4.11	0.48	2.72	5.64
Debt to GDP	1.10	0.97	0.03	6.71
UN voting on key issues	0.52	0.20	0	1

TABLE A.3

## Correlation matrix for the sample of IDA countries

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
(1) ln(population)	1.00													
(2) ln(GDP per capita)	0.04	1.00												
(3) Physical quality of life	0.15	0.67	1.00											
(4) Former W. colony	-0.05	-0.43	-0.48	1.00										
(5) ln (DAC export to recipient)	0.82	0.37	0.35	-0.11	1.00									
(6) Percent Christian	-0.24	-0.07	0.06	0.09	-0.15	1.00								
(7) Political freedom	-0.21	0.08	0.16	-0.06	-0.13	0.18	1.00							
(8) Human rights	-0.39	0.07	0.15	-0.07	-0.25	-0.05	0.38	1.00						
(9) Military exp.	0.29	-0.04	-0.16	-0.05	0.19	-0.14	-0.39	-0.49	1.00					
(10) Corruption	0.08	0.08	-0.01	0.23	0.10	0.00	0.07	-0.10	0.02	1.00				
(11) Rule of law	0.27	0.22	0.25	-0.07	0.28	-0.18	0.13	0.20	-0.10	0.33	1.00			
(12) Regulatory burden	0.29	0.17	0.26	0.11	0.40	0.24	0.39	0.16	-0.28	0.17	0.53	1.00		
(13) Openness	-0.54	0.34	0.32	-0.08	-0.25	0.10	0.11	0.40	-0.25	0.03	0.03	-0.05	1.00	
(14) Debt	-0.37	-0.13	-0.12	0.17	0.21	0.31	0.08	0.08	-0.19	0.02	-0.19	-0.04	0.34	1.00
(15) UN voting on key issues	-0.49	0.16	0.08	-0.35	-0.37	0.09	0.27	0.19	-0.27	-0.04	-0.11	-0.14	0.25	0.06

TABLE A.4

## IDA Country Performance Ratings 2001

First quintile	Benin, Bhutan, Cape Verde, Grenada, Honduras, India, Maldives, Mauritania, Rwanda, Samoa, Sri Lanka, St. Lucia, St. Vincent and the Grenadines, Tanzania, Uganda
Second quintile	Albania, Armenia, Bosnia and Herzegovina, Burkina Faso, Dominica, Ghana, Madagascar, Malawi, Moldova, Mongolia, Mozambique, Nepal, Pakistan, Senegal, Vanuatu
Third quintile	Eritrea, Ethiopia, Georgia, Guinea, Guyana, Indonesia, Kenya, Kirgyz Republic, Lesotho, Mali, Nicaragua, Niger, Vietnam, Zambia
Fourth quintile	Azerbaijan, Bangladesh, Bolivia, Cambodia, Chad, Comoros, Cote d'Ivoire, Gambia, The, Kiribati, Lao PDR, Nigeria, Sao Tome and Principe, Sierra Leone, Tonga, Yemen, Rep.
Fifth quintile	Angola, Burundi, Cameroon, Central African Republic, Congo, Dem. Rep., Congo, Rep., Djibouti, Guinea-Bissau, Haiti, Solomon Islands, Sudan, Tajikistan, Togo, Uzbekistan, Zimbabwe