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CHOOSING TO TARGET

What Types of Countries Get Different Types of World Bank Projects

By MATTHEW S. WINTERS*

BEGINNING with the Pearson Commission Report in 1969, through the seminal *Assessing Aid* report from 1998 and its involvement with the 2002 Monterrey Consensus on Financing for Development, the World Bank has advocated selectivity in the provision of foreign aid.¹ The criteria for selection have been based, first, on the quality of economic policy and, more recently, on the quality of governing institutions. Given research claiming causal priority for rule-of-law institutions in bringing about economic growth,² governance-based selectivity seems an important mechanism for making foreign aid effective as an engine of development.

Evidence of donor selectivity exists. Recent research shows that some—but not all—donors take account of governance, rule of law, and democracy when making lending decisions.³ However, as some of

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¹ The Pearson Commission says, "[I]ncreased allocation of aid should be primarily linked to performance." Cited in Easterly 2007, 637. *Assessing Aid* argues that "financial assistance must be targeted more effectively to low-income countries with sound economic management"; World Bank 1998, 4. The Monterrey Consensus proclaims, "[S]ound policies and good governance at all levels are necessary to ensure ODA effectiveness"; United Nations 2002.

² E.g., Acemoglu, Johnson, and Robinson 2001; Rodrik, Subramanian, and Trebbi 2004.

³ E.g., Neumayer 2003b; Berthélemy and Tichit 2004; Dollar and Levin 2006; Easterly 2007; Bermeo 2008; Freytag and Pehnelt 2009. One could also read the empirical results this way in Bueno de Mesquita and Smith 2007; and Bueno de Mesquita and Smith 2009. They find that larger winning coalitions in recipient countries result in more aid. Although the authors argue that this supports their theoretical model of foreign aid being used to purchase policy concessions, it could indicate that donors reward countries for being more democratic.

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these papers acknowledge, political incentives, particularly for bilateral donors, might shift the focus from the governance characteristics (or other measures of deservingness) of aid-receiving states.⁴ Even though some argue that multilateral aid—as compared with bilateral aid—is less likely to be driven by strategic motives, substantial evidence suggests that it ultimately is.⁵

As in existing research, I, too, examine the impact of borrower governance characteristics on overall World Bank aid flows and find that, controlling for other country characteristics, the Bank gives more money to well-governed countries. However, I also move beyond this aggregate focus to look at specific aid project decisions, using an original data set of World Bank projects that allows me to see whether the World Bank alters its lending strategies in terms of the modalities through which it gives aid.

If the World Bank has a preference for aid being used for poverty reduction and development, then, according to standard principal-agent models, it should use more constrained forms of aid in situations where it anticipates government malfeasance. Specifically, for countries with worse governance characteristics, it should demonstrate a preference for project aid (that is, specific investment loans) over programmatic aid (that is, budgetary support or structural adjustment lending). In addition, when the Bank uses project aid in countries with more severe governance problems, it should target this aid at specific constituencies, as more focused projects can be better monitored, thereby reducing government discretion.

The data provide evidence that well-governed countries receive a larger proportion of their project lending as nationwide projects. With regard to programmatic lending, I find that the pattern varies across the two main branches of the World Bank.⁶ For the World Bank's

⁴ A vast literature has established the dominance of political motives in determining bilateral aid flows (e.g., McKinlay and Little 1977; McKinlay and Little 1978; Maizels and Nissanke 1984; Schraeder, Hook, and Taylor 1998; Alesina and Dollar 2000; Bueno de Mesquita and Smith 2007; Bueno de Mesquita and Smith 2009).

⁵ Maizels and Nissanke 1984 and Girord 2008, for example, argue that multilateral aid is more likely to be given for development purposes. However, for evidence that the United States and other large donors exercise extensive political influence inside multilateral institutions, see Frey and Schneider 1986; Thacker 1999; Neumayer 2003a; Stone 2004; Barro and Lee 2005; Andersen, Hansen, and Markussen 2006; Fleck and Kilby 2006; Dreher and Jensen 2007; Dreher, Sturm, and Vreeland 2009.

⁶ The World Bank group comprises five organizations. The International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA) lend to member governments, the latter at concessional rates and using a significant amount of grants. The International Finance Corporation (IFC) lends to the private sector in the developing world, whereas the Multilateral Investment Guarantee Agency (MIGA) provides insurance for investors largely from the developed world. The International Court for the Settlement of Investment Disputes (ICSID) is an arbitration body that does not engage in the direct transfer of resources.

concessional-lending wing, the International Development Association (IDA), good governance surprisingly predicts *less* programmatic lending. In contrast, for the World Bank's market-rate-lending wing, the International Bank for Reconstruction and Development (IBRD), good governance predicts a higher proportion of programmatic lending. I explore the extent to which these discrepant patterns might be the result of political influence. Given that the IDA relies on regular budgetary replenishments from donor countries, it may be more susceptible to such influence.

In the next section I discuss how the World Bank has conceptualized the importance of governance in development and describe specifically how governance characteristics are supposed to operate in World Bank lending. I also offer an intuitive explanation for why a poverty-responsive institution should prefer more discretionary (that is, programmatic and national) lending in well-governed states. After reviewing relevant research on aid allocation, I describe the data that I use in this study. I then examine trends in the total amount of aid that countries receive and in the proportion of this aid that they receive as programmatic and national projects. I check the robustness of the results by adding additional potential confounding covariates, paying particular attention to variables that other scholars have used to proxy for political influence among aid donors.

I. THE ROLE OF GOVERNANCE IN WORLD BANK LENDING

For much of its history the World Bank's discussion of governance in borrower countries was limited.⁷ The Bank's charter explicitly states: "The Bank and its officers shall not interfere in the political affairs of any member; nor shall they be influenced in their decisions by the political character of the member or members concerned. Only economic considerations shall be relevant to their decisions."⁸ Bank staff interpreted this "apolitical clause" in the extreme to mean that even the discussion of corruption in recipient country governments was forbidden. Since the charter also says that it can operate only through national governments, the Bank generally has been constrained to work with borrower governments as they currently exist.

⁷ For an excellent review of these issues and a description of how the World Bank came to develop its current governance and anticorruption agenda, see Weaver 2008.

⁸ Article IV, Section 10.

Nonetheless, it has been easy to see how poor governance has impeded aid from meeting development objectives. Consequently, the discourse on governance in the World Bank's official lending policies has grown over time. Since 1977 the Bank has divided IDA funds using the Performance-Based Allocation System (PBA), which "tak[es] into account country performance," as defined in terms of "a borrower's implementation of sound policies and institutional arrangements conducive to sustainable economic growth and poverty reduction within a framework of good governance."⁹

In the early 1990s governance—defined as "accountability, openness and predictability of government actions"—began to play a larger role in the country policy and institutional assessment (CPIA) measure that is part of the PBA: that index started to reward community participation in projects and to punish the diversion of resources for nondevelopment purposes.¹⁰ These elements disappeared from the CPIA in a 1995 revision, only to be reintroduced in 1997. In 1998 the Bank introduced a "governance discount" to the CPIA formula based on six governance criteria that "reflect[ed] the importance attached to governance by IDA management and IDA deputies."¹¹

The signal moment at the World Bank for the emergence of "good governance" as *the* post-Washington Consensus development paradigm was World Bank president James Wolfensohn's October 1996 "cancer of corruption" speech, in which he described corruption as inimical to development. Under Wolfensohn's leadership, members of the Bank's research department started producing the leading research on the relationship between governance and development,¹² including the late 1990s papers suggesting that foreign aid works best in well-governed countries.¹³ Although the original statement of the Burnside and Dollar hypothesis—that aid results in economic growth only conditional

⁹ World Bank 2001, iv. The IDA lends about \$10 billion per year to a subset of around eighty eligible countries. The PBA is used to allocate about two-thirds of IDA resources. Lending to blend countries—those that are also eligible for IBRD borrowing—and postconflict states falls outside the purview of the system. World Bank 2007, 2, fn. 7, 24. Since its inception in 1960 IDA credits and grants have totaled over \$180 billion. See World Bank, "What Is IDA?" at <http://go.worldbank.org/ZRAOR8IWW0>.

¹⁰ World Bank 2001, 5–6. It is worth noting that this change predates James Wolfensohn's arrival as president of the Bank.

¹¹ World Bank 2001, 20.

¹² E.g., Knack and Keefer 1995; World Bank 1997; Kaufmann, Kraay, and Zoido-Lobaton 1999. Another early and influential paper in this area came from the IMF; Mauro 1996.

¹³ World Bank 1998; Burnside and Dollar 2000; Burnside and Dollar 2004; Collier and Dollar 2002. For a general review of the role of politics in the foreign aid and growth literature, see Wright and Winters 2010.

on good policies—defined “good policies” as an index of macroeconomic outcomes (that is, fiscal deficit, inflation, and trade openness), in their later research the authors shifted the focus from policies to institutions, arguing that aid results in economic growth conditional on good governance.

This focus on governance is related to the idea that where there are clear rules of the game—expectations about government actions and legal enforcement—then investors, firms, and households make more efficient economic decisions that, in turn, bring about faster economic development.¹⁴ In addition, good governance is taken to include accountability mechanisms through which a government responds directly to the needs of its citizens, leading to better antipoverty policies and less rent seeking and corruption. (These accountability mechanisms may include democratic institutions, but this does not necessarily have to be the case.) Today, the received wisdom asserts that economic development is hindered when states lack stable property rights and are not accountable to their citizens.¹⁵

Another strain of research provides evidence that national governance quality affects the implementation quality of development projects. World Bank projects in countries with high levels of civil liberties or superior institutions perform better.¹⁶ The quality of governance institutions appears to affect even the quality of World Bank project preparation.¹⁷ One paper has concluded that reallocating aid to well-governed countries with the most extreme poverty could approximately double the effectiveness of global aid.¹⁸

Therefore, insofar as the World Bank is a development institution with the stated goal of eliminating poverty in the world, we would expect World Bank staff to be motivated to target aid and to design aid projects based on national governance characteristics. In addition to the explicit incorporation of governance concerns into the PBA system, the Bank has also described its market-rate lending through the International Bank for Reconstruction and Development as “strongly influenced by the Bank’s assessment of countries’ policies and institutions,”

¹⁴ See the useful discussion in Birdsall 2007. Other studies show that foreign aid leads to better human development outcomes in more democratic countries; Kosack 2003; Rajkumar and Swaroop 2008.

¹⁵ Some authors question whether good governance really leads to development (given the difficulty of knowing whether to define fast authoritarian developers like China and Korea as having had good governance) and therefore question whether the emphasis on governance leads to an efficient allocation of donor resources. See, for example, Chang 2002; and Khan 2002.

¹⁶ Isham, Kaufmann, and Pritchett 1997; Dollar and Levin 2005. For a review of these issues, see Winters 2010.

¹⁷ Wane 2004.

¹⁸ Collier and Dollar 2002.

saying that “[n]onconcessional lending (IBRD) also goes primarily to countries with good ratings for policies and institutions.”¹⁹

In a policy paper suggesting ways in which donors can improve aid effectiveness, Steven Radelet argues, “Aid delivery mechanisms should differ significantly between well-governed and poorly governed countries.”²⁰ He calls for well-governed countries to receive programmatic aid—budgetary support—since they have well-functioning governments that can allocate this money to appropriate development-oriented destinations, whereas he argues for poorly governed countries to receive short-term project aid that can be implemented through nongovernmental organizations (NGOs), thereby avoiding the grabbing hand of the state.²¹ Radelet writes: “Providing recipients with more flexibility, greater latitude, and more ownership is precisely the right way for donors to move in well-governed countries.... [I]n weak, failing, and poorly governed countries, donors should retain a strong role in setting priorities and designing programs.”²²

This idea corresponds to the classic principal-agent issue of how much discretion to allow an agent in implementing policy. When principals and agents have similar preferences, the principal should allow more discretion because this reduces transaction costs and increases efficiency. However, when preferences are different, the principal should reduce discretion so that the end result will be more proximate to her preferences.²³ In well-governed countries, a donor can expect aid funds to be used to build and maintain schools, roads, and health clinics. In such cases, programmatic aid to the government is likely to allocate resources more efficiently than would a series of specific projects designed in consultation with a foreign donor. By contrast, in a poorly governed country, donors should expect a significantly lower likelihood of the “right” type of projects being implemented. There is instead an increased likelihood that a government will take advantage of its discretionary power to use aid funds to purchase military goods, to improve the presidential palace, or to line the pockets of political allies.²⁴ Since

¹⁹ However, “[i]t does not typically go to countries with the highest ratings [because] these countries tend to have good, if volatile, access to capital markets”; World Bank 2002, 98, 101.

²⁰ Radelet 2004, 3.

²¹ For a formal model that suggests that budgetary support is a superior instrument in countries that are committed to development, see Cordella and Dell’Ariccia 2003.

²² Radelet 2004, 13.

²³ The classic statement of this idea is Holmström 1984. For applications to foreign aid, see Svensson 2000; Azam and Laffont 2003; and Hefeker and Michaelowa 2005.

²⁴ In thinking about bilateral donors trading foreign aid for policy concessions by recipient governments, Bueno de Mesquita and Smith propose that the bargain is more effective when aid-receiving states have small winning coalitions—that is, when there are lower levels of democratic accountability

these are inefficient outcomes from the perspective of poverty reduction, international donors interested in combating poverty need to take a more hands-on approach, to be more involved in designing specific projects, and to fund projects that the government is likely to implement as specified. These characteristics point toward the wisdom of using project lending rather than highly fungible programmatic lending in poorly governed states.²⁵

It is crucial to note, however, that a sizable body of evidence indicates that the World Bank responds to political pressure from the United States and other large donor countries that want to advance their own strategic interests by providing resources in the form of aid to particular recipient countries.²⁶ Given that programmatic loans are an easy way to transfer large amounts of fungible resources to a country, the best way to provide strategically motivated aid is, in fact, through programmatic lending. Therefore, although I expect World Bank technocrats motivated by the goal of poverty alleviation to choose appropriate levels of discretion for meeting this goal, I recognize also that political influence plays a role in World Bank lending decisions.

Just as switching from programmatic to project aid reduces a government's ability to use foreign aid for nondevelopment purposes, in the context of project aid, donors can reduce government discretion by targeting projects more narrowly. This is true for at least two reasons. First, concentrated targeting reduces the costs of collective action. If a development project is targeted at a single city or a single province, then there is a more clearly defined set of beneficiaries than if the national government is supposed to undertake a national project. Whether these beneficiaries are local governments, local NGOs, or local citizens, the fact that they can identify as a relatively concentrated group will enhance their ability to organize pressure on the government to deliver the intended goods and services.²⁷ Because of the clear demarcation of recipients, the costs of mobilizing will be lower.

Second, concentrated targeting decreases information costs, allowing for more effective monitoring and thereby again increasing the possi-

and more value to aid-receiving leaders in being able to provide private goods. They find empirical evidence that bilateral aid goes to states with smaller winning coalitions. Bueno de Mesquita and Smith 2007; Bueno de Mesquita and Smith 2009.

²⁵ An important consideration, however, is the fact that project aid can displace institutional development and therefore *contribute* to poor governance. See van de Walle 2001, chap. 5; and Radelet 2004.

²⁶ Frey and Schneider 1986; Andersen, Hansen, and Markussen 2006; Fleck and Kilby 2006; Dreher, Sturm, and Vreeland 2009.

²⁷ Olson 1971; Becker 1983.

bility of collective action.²⁸ If a project is supposed to occur in a single city, finding out whether or not it has occurred and what the quality of its outputs are is relatively cheaper than monitoring a project that is being implemented across the entire country. Further, if a project is supposed to occur in only a single city or a single province, the government cannot make excuses that the money is being spent elsewhere or that the area will receive the expected goods and services at a later date. When the intended outputs of a project are more delimited, it is easier for beneficiaries to know whether or not those outputs have arrived. This monitoring then implies that the constituency of end users will be better equipped to hold the government accountable for the goods and services the constituency was supposed to receive. In this way, the World Bank can reduce government discretion around the use of aid funds.

To summarize, I expect a World Bank interested in ensuring that its money is used for development purposes to employ programmatic lending and national projects in well-governed countries and to decrease government discretion over foreign aid in poorly governed countries by using subnational project lending. But I also highlight the fact that the strategic goals of bilateral donors might influence the operations of the World Bank such that the level of discretion allotted to governments does not correspond to the quality of their governance. And in particular, this might be the case for IDA lending, given that the IDA is dependent on bilateral donors for triennial budget replenishments and therefore is more susceptible to donor influence.

II. EMPIRICAL EVIDENCE ON GOVERNANCE AND AID ALLOCATION

There is ongoing debate about the level of attention that donors pay to governance characteristics in determining the amount of aid countries receive. The first wave of studies focused on democracy. (I stress here that good governance is not synonymous with democracy, since non-democratic countries might still have reliable laws and institutions that produce fixed expectations among economic actors.) These studies find that only a limited number of donors have allocated more aid to more democratic countries, although the IDA is among them.²⁹ In his review of the impact of good governance on development assistance in the 1990s, Neumayer concludes, “[T]he variables of [good governance] are

²⁸ For evidence that decreased information costs increase punishment of corruption, see Deininger and Mpuga 2005; Reinikka and Svensson 2005; and Ferraz and Finan 2008.

²⁹ Svensson 1999; Alesina and Dollar 2000; Berthélemy and Tichit 2004; Easterly 2007.

of both limited statistical significance and limited substantive importance in the allocation of aid in the 1990s by most donors.”³⁰ However, Neumayer finds that both human rights protection and low regulatory burden positively predict IDA allocations. Easterly also finds that recent IDA flows have responded to the level of corruption in a country.³¹ Dollar and Levin find, by contrast, that IDA allocations have not been significantly associated with democracy and were *negatively* associated with rule of law in the period 1984–94 but have been positively associated with rule of law since 1994—a fact consistent with increased attention to governance within the World Bank.³²

In a recent paper similar in content to this article, Bermeo looks at how governance characteristics relate to aid flows across different types of aid. She examines aggregate flows of bilateral and multilateral aid in the period 2000–2005 and finds that democracy has a positive impact on bilateral aid flows in nearly all sectors, although less of an impact on multilateral aid flows, and that governance has a positive relationship with both bilateral and multilateral aid flows in some sectors and a negative relationship in other sectors.³³ Therefore, across several studies we see evidence that the overall lending flows of some donors, including the IDA, respond to the quality of country-level governance in some time periods. There is no single consistent pattern across donors or time periods.

III. DATA ON WORLD BANK PROJECTS

Has the World Bank operated in such a way that it favors programmatic lending in well-governed countries and project lending in poorly governed ones? And in the context of project lending, does the World Bank use more targeted projects (for example, subnational projects) in countries that suffer from poor governance? To answer these two questions, I use a project-level data set in which I have classified the type of World Bank aid that countries are receiving.

I use data describing World Bank loans from 1996 to 2002: I have coded all IDA, IBRD, and “blend” projects—that is, those using funds from both the IDA and IBRD—from these years with regard to wheth-

³⁰ Neumayer 2003b, 6.

³¹ Easterly 2007, table 9. In contrast, Alesina and Weder 2002 find no relationship at all between aid flows and recipient-country corruption levels.

³² Dollar and Levin 2006.

³³ Bermeo 2008. Specifically, food aid and emergency assistance flows are negatively related to the quality of governance. This likely is reverse causality: countries with poor governance are more likely to suffer from humanitarian disasters requiring food aid and emergency assistance.

er each was an instance of programmatic or project lending and, for project loans, information about what constituency was ultimately supposed to benefit from the project.³⁴ I group these projects into three nested categories. Loans may be either programmatic or project loans, and then project loans may be either national or subnational.

The World Bank describes its lending as belonging to two categories: investment loans and development policy lending (formerly known as adjustment lending).³⁵ The Bank classifies seven lending instruments as investment lending: specific investment loans, sector investment and maintenance loans, adaptable program loans, learning and innovation loans, technical assistance loans, financial intermediary loans, and emergency recovery loans. As of 2005, there has been only one type of development policy loan; in the past, however, programmatic loans were also known as rehabilitation loans, sector adjustment loans, structural adjustment loans, poverty reduction support credits, and debt and debt reduction service loans.

For the purpose of thinking about project lending versus programmatic lending, the Bank's categorization generally works well, although in my coding of the projects the correspondence is not exact. For instance, a number of emergency recovery loans, which the Bank classifies as investment loans, are much closer in content to structural adjustment or budgetary support loans.³⁶ Adaptable program loans, which the Bank lists as a type of project lending, also often have clear programmatic objectives.³⁷ It is therefore necessary to look at the actual goals and operations of the various loans in order to judge whether or not a given loan is programmatic or project lending.

As Table 1 shows, there are cases in which I have classified both loans using what the Bank considers to be investment instruments as programmatic lending and loans using what the Bank considers to be programmatic instruments as investment lending. In the latter instance, however, fifteen of the nineteen cases are actually subnational

³⁴ As is common, I use the word "loan" to refer both to the market-rate lending that the World Bank does under the auspices of the IBRD and to the concessional and grant-based lending done under the auspices of the IDA. Frequently, scholars conducting studies of aid look only at IDA loans, since IBRD lending is made to so-called middle-income countries. Since I am interested in decision-making processes at the World Bank, I look at overall World Bank lending and also separately at IDA and IBRD lending.

³⁵ See World Bank, "Investment and Development Policy Operations," <http://go.worldbank.org/C4UAVZ7TK0>.

³⁶ For example, the goals of the 2004 Emergency Economic Recovery Credit Project in Bolivia (World Bank Project ID P087661) were to provide budgetary support for critical imports and to improve governance.

³⁷ For example, the Capacity Building for Service Delivery Project in Guinea (P049716), which aimed to decentralize government functions.

TABLE 1
WORLD BANK LENDING INSTRUMENTS AND PROJECT TYPE^a
(1996–2002)

<i>Lending Instrument</i>	<i>Project Lending</i>	<i>Programmatic Lending</i>
<i>Investment Project Instruments</i>		
Adaptable Program Loans	136	2
Financial Intermediary Loans	21	0
Emergency Recovery Loans	55	13
Sector Investment and Maintenance Loans	51	0
Specific Investment Loans	969	7
Learning and Innovation Loans	110	0
Technical Assistance Loans	145	0
<i>Programmatic Instruments</i>		
Debt and Debt Service Loans	1	3
Rehabilitation Loans	0	4
Sector Adjustment Loans	3	87
Structural Adjustment Loans	11	183
Programmatic Structural Adjustment Loans	4	17
Poverty Reduction Support Credits	0	7
Total	1,506	323

SOURCES: Author's coding of World Bank projects approved between 1996 and 2002 based on relevant Project Appraisal Documents, Project Information Documents, Staff Appraisal Reports, Technical Annexes, or Implementation Completion Reports.

^aThe programmatic column includes general budget support at the national level and debt relief projects; the project column includes subnational structural adjustment loans for reasons described in the text. The table does not include twenty projects from this period where the project involved multiple national governments or an intergovernmental organization as the borrower.

programmatic loans that I classify as project lending because they are targeted at a subnational entity.³⁸

In terms of classifying World Bank investment projects as being national or subnational, the Bank itself does not describe projects according to how they are targeted. I therefore code investment projects according to nine classifications—(1) a single city, (2) multiple cities, (3) a single region, (4) multiple regions, (5) the rural sector, (6) the urban sector, (7) a specific social group, (8) business or industry, and (9) national.

The Bank sometimes—although rarely—lends to a subnational entity.³⁹ In all of these cases the national government must also sign off on the loan, even if responsibility for its implementation rests with a subnational entity. I have coded these projects based on where the benefits were expected to go.

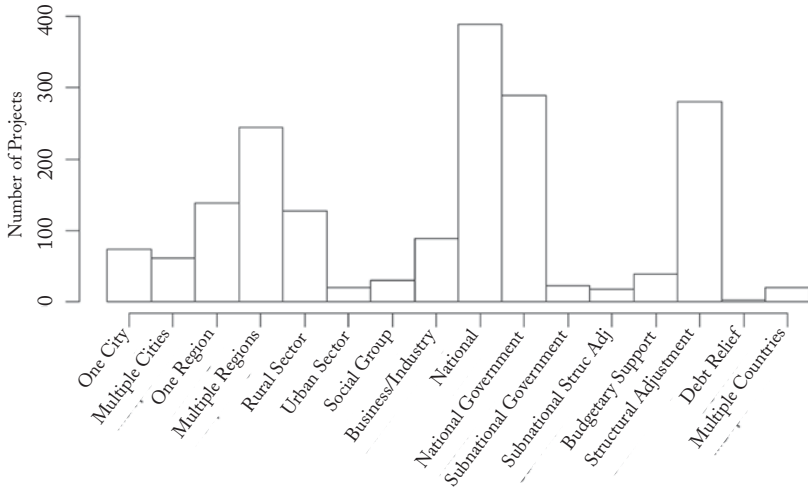
Figure 1 shows the distribution of projects in the data set across these targeting categories, both in terms of project numbers and in terms of dollar amounts. In general, there is a close correspondence between the number of projects of a given type and the total amount of aid spent by the World Bank in that category. With national technical assistance projects, there are many very small projects, and with structural adjustment projects, the loan size tends to be quite large.

In the analysis that follows, I make use of a strict geographic definition of subnational targeting, considering those projects targeted at one or more cities or one or more regions as subnational projects. In a later section, I examine the robustness of the results to an expansive definition that also includes those projects targeted at the urban or rural sectors, specific social groups, or business.

The two histograms in Figure 2 show the variation that exists across countries for the time period 1996–2002 with regard to World Bank aid flows. In the upper histogram we can see that a large number of countries (38 of 127) received no programmatic aid at all from the World Bank during this period and that only two countries—the Slovak Republic

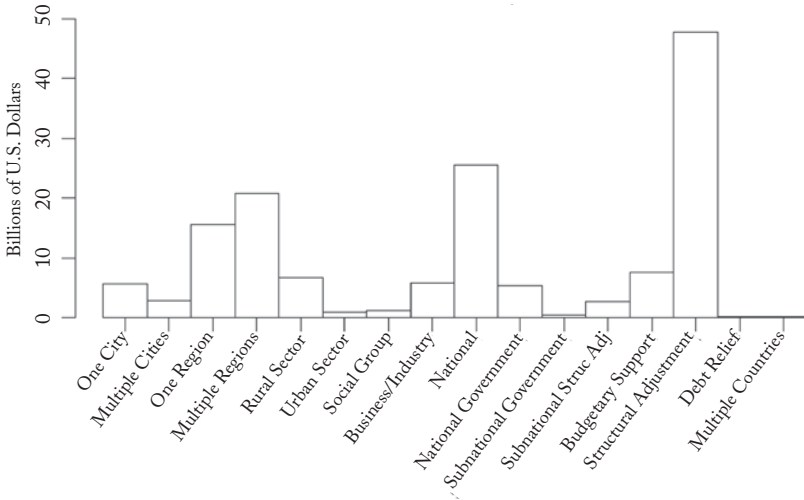
³⁸ The other four projects are a commercial debt reduction project that benefits businesses in Côte d'Ivoire (P053328), a technical assistance project that is a component of a structural adjustment project in Malawi (P045739), and two large loans to Turkey that include either a social fund or other direct grant components for the agricultural sector (P070286 and P074408).

³⁹ As noted earlier, the Bank, by its charter, must lend to a national government, but it sometimes enters into an arrangement where an entity other than the national government has responsibility for a project. For example, a 1998 power system project involved money going directly to the Macedonian national electric company, and the Bank made a series of structural adjustment loans to Argentine provinces in 1997. In the late 1990s, according to former World Bank chief economist Joseph Stiglitz, this type of arrangement was considered an option for countries with poor national governance or poor national bureaucratic capacity (personal communication; June 2008).



(a)

World Bank Projects, 1996–2002

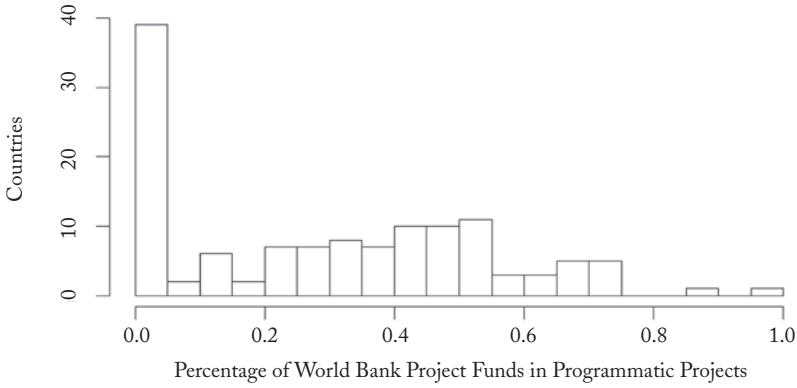


(b)

World Bank Aid Flows, 1996–2002

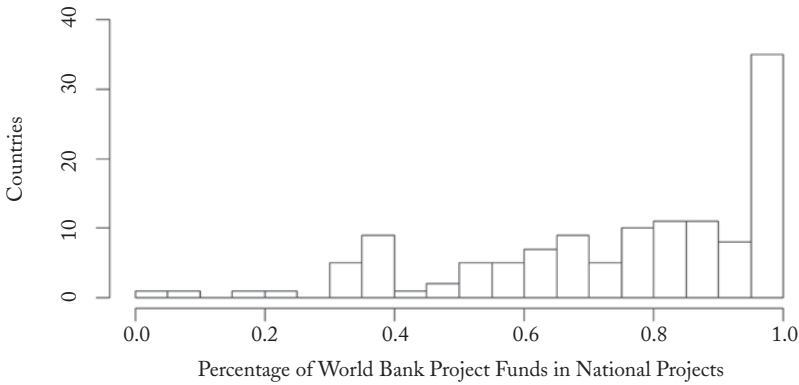
FIGURE 1
HISTOGRAM OF PROJECT TYPES

SOURCE: Author's coding



(a)

World Bank Programmatic Lending within Countries, 1996–2002



(b)

World Bank National Lending within Countries, 1996–2002

FIGURE 2
VARIATIONS IN AID MIXES ACROSS COUNTRIES

SOURCE: Author's coding.

and South Korea—received very high proportions of programmatic lending. The lower histogram shows that a large number of countries (34 of 127) received only nationally targeted investment project aid. One country—Turkmenistan—received only subnational projects.

The data on World Bank lending were originally compiled as a list of World Bank projects; I used that list to create time-series cross-

sectional data with annual observations from 1996 to 2002. I use this longitudinal data to look at the effect of governance on overall lending patterns, where the dependent variable is the amount of World Bank aid given country i in year t .⁴⁰ For the main analyses—those that look at the relative allocation of programmatic versus project lending and national versus subnational investment lending—I compress the data into cross-sectional observations and make use of proportions as outcomes. Using a proportion for each year in the data is not feasible because of the large number of missing values produced by years in which the World Bank did not provide any aid to a country (368 out of 1,024 country-years) or did not provide any investment project lending (an additional 47 out of the remaining 656 country-years).⁴¹

The explanatory variable of interest is a measure of governance quality. I use an average of all six World Governance Indicators.⁴² Coverage for the World Governance Indicators begins only in 1996 and skips every other year until 2002. Therefore, for loans approved in the first half of 1996, I use 1996 values (whereas I would have used 1995 values if they existed, according to the rule described below), and I have taken the linear interpolation of scores for 1997, 1999, and 2001.⁴³

In keeping with previous studies on aid allocation and paying particular attention to the way in which demographic factors might affect the types of aid being received by countries, I include as explanatory variables the size of the country, measured in terms of both population and land area, and the wealth of the country, measured as GDP per capita.⁴⁴ I expect poorer countries to receive larger overall aid flows from the World Bank. I also anticipate that larger and more populous

⁴⁰ I scale this variable using a logarithmic transformation. I add one to each observation before taking the logarithm in order to account for zero values. There is an ongoing debate about whether aid flows should be measured in level or per capita terms. Since I am explicitly interested in how the size of a country affects aid flows across different sectors, I use levels and include population size as an explanatory variable. Using levels can create heteroskedasticity, as residuals will be much larger for larger recipients; Berthélemy and Tichit 2004. For this reason among others, I use a heteroskedasticity-consistent transformation of the variance-covariance matrix. My decision to use levels also is motivated by the belief that World Bank decision makers think about loan sizes in dollars, not in dollars per capita. Summary statistics for all variables used in the analysis are included in the online appendix, at <http://netfiles.uiuc.edu/mwinters/www>.

⁴¹ In future research, following additional data collection, I hope to explore changes over time in the way that the World Bank has viewed governance by subsetting the data into multiple-year periods.

⁴² Bermeo 2008 excludes the voice and accountability component from her aggregate governance measure because she includes the Freedom House measure of democracy in her regressions in addition to the governance measure. Since I do not include a separate measure of democracy in my baseline regressions, I do not exclude any of the World Governance Indicators.

⁴³ In the last section I review results where I use each of the individual World Governance Indicators as the explanatory variable of interest.

⁴⁴ These data come from the World Bank's World Development Indicators. I scale all three measures using a logarithmic transformation.

countries will receive less programmatic lending and, in particular, less nationwide project aid. There simply will be more investment projects to undertake, leading to increased investment lending, and national projects in large countries will be expensive, so we will see more projects that are directed at specific subnational units.

In their recent study of how UN Security Council membership affects World Bank project receipt, Dreher, Sturm, and Vreeland find that a country's participation in an IMF program, its external debt-to-GNI ratio, and its investment-to-GDP ratio are consistent predictors of the number of projects that a country receives from the World Bank.⁴⁵ The existence of an IMF program or a high debt-to-GNI ratio is indicative of balance-of-payments problems that should result in the World Bank providing programmatic lending. When the IMF initiates a program in a country, the standard protocol for the World Bank is to sign a memorandum of understanding describing how it will contribute to the adjustment operation. I therefore expect both the debt ratio and the existence of an IMF program to positively predict overall lending and the proportion of programmatic lending. With regard to the investment ratio, since its inception foreign development aid has been motivated by the presumed existence of a financing gap, where countries were not saving enough to invest in capital and public goods.⁴⁶ A country with a low investment-to-GDP ratio is therefore likely to be a country that needs more aid.⁴⁷ Insofar as a low investment ratio suggests that a country needs foreign aid money for investment, we might expect this ratio to negatively predict the proportion of programmatic lending received by a country. I include these three variables in all models.⁴⁸

In the regression explaining overall lending, I account for changes in the Bank's available resources by including a quadratic time trend.⁴⁹ And to account for variation in decision making across departments of the World Bank, I include in all models indicators corresponding to the geographic region of World Bank operations into which a country falls.

⁴⁵ Dreher, Sturm, and Vreeland 2009.

⁴⁶ Harrod 1939; Domar 1946; Chenery and Strout 1966; see also Easterly 1999.

⁴⁷ A reviewer proposes an alternative hypothesis: a low investment-to-GDP ratio is indicative of a lack of government capacity or effort. This lack of capacity, however, should be picked up by the key explanatory variable (that is, governance).

⁴⁸ The data on IMF program participation come from Dreher 2006. I calculate the external debt ratio from the World Development Indicators, and the investment-to-GDP ratio comes from the Penn World Tables 6.2.

⁴⁹ For the time period in question overall World Bank lending first increased and then decreased: for the years from 1996 to 2002 the total amount approved each year was \$21.6B, \$23.6B, \$31.9B, \$19.5B, \$16.6B, \$18.6B, and \$18.3B. Coefficient magnitudes and statistical significance levels of the variables of interest do not change noticeably under two alternative specifications (a variable measuring the World Bank's overall budget for each year or year fixed effects).

For the moment, I ignore the extensive literature on donor political influence at the World Bank and its effects on World Bank lending patterns. I will take up this topic in Section VII, where I will demonstrate that the inclusion of these variables changes the coefficient estimates on the governance measure in only a limited number of cases.

In the TSCS regression of total lending, I assign World Bank projects initiated in the first half of a calendar year to the previous calendar year, since it is likely the characteristics of the country in that year that matter for the design of the project. This is equivalent to running the analysis by fiscal year (although with incomplete observations in the first and final fiscal years). In the cross-sectional regressions, I take an average measure across the time period of the study for each explanatory variable.

IV. OVERALL WORLD BANK LENDING PATTERNS

Figure 3 shows the results from three pairs of random effects OLS regressions⁵⁰ explaining total World Bank commitments, total IDA commitments, and total IBRD commitments to individual countries in the period 1996–2002.⁵¹ In the first regression in each pair the governance variable is not included. Based on the regression in column 2, governance is a positive, statistically significant predictor of overall World Bank lending. Judging by columns 4 and 6, however, most of this effect seems to come from IDA lending; the coefficient on governance in the IBRD-only equation is not statistically significant. For the IDA equation, the substantive effect of governance is quite large—a 0.10 unit increase in governance leads to a 72 percent increase in lending.⁵²

Inclusion of the governance variable increases the magnitude and significance level of the measure of GDP per capita in the overall and IDA equations, yet this variable—the most basic indicator of develop-

⁵⁰ Given the presence of large numbers of zeros in the TSCS data—years in which the World Bank gave no aid or no aid of a particular type to a country—random effects OLS may not provide the best fit for the data. Therefore, I reran all of the TSCS regressions using a random effects tobit model. Across all cases, the results are almost exactly the same in terms of statistical significance and the relative magnitude of the coefficients.

⁵¹ Countries that receive both IDA and IBRD funding—so-called blend countries—are included in the IDA data with the exception of China, Indonesia, and Uzbekistan, which received only about 10 percent of their World Bank funding from the IDA and are therefore included in the IBRD data.

⁵² As recently emphasized by Bartels 2008, one important question is whether these effects are being identified based on the cross-sectional or intertemporal variation. Differences in governance are greater across countries than over time within the same country. Therefore, these results must be interpreted with caution: the World Bank will not necessarily reward a country for changing the quality of its governance, but it certainly currently provides more aid to countries that already have better governance.

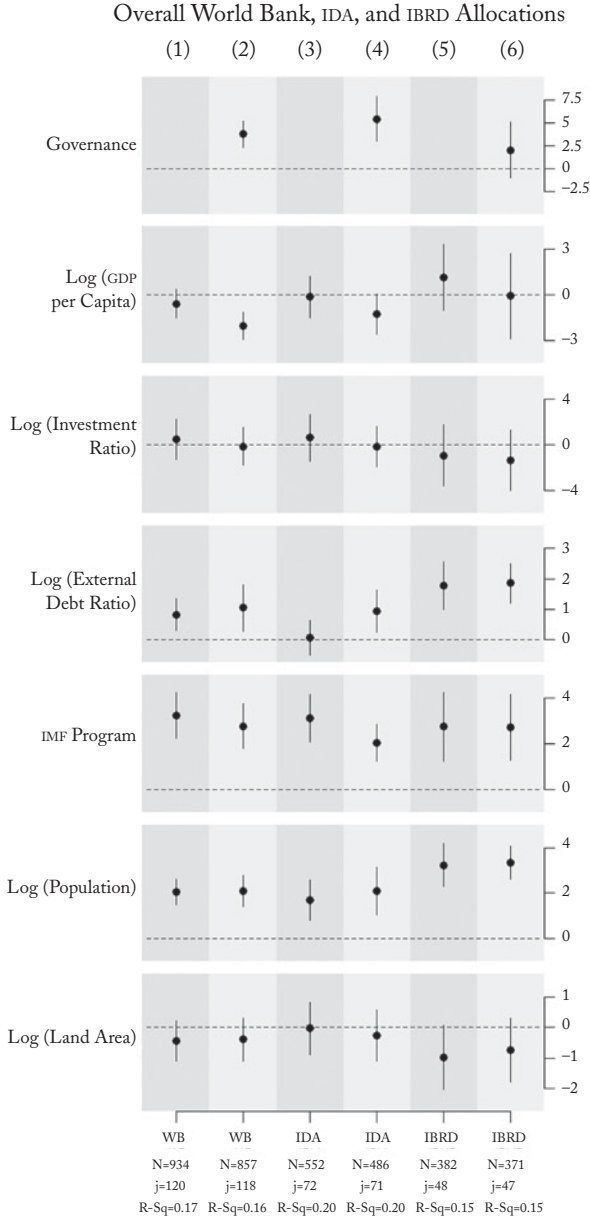


FIGURE 3
EXPLAINING WORLD BANK COMMITMENTS TO INDIVIDUAL COUNTRIES^a
(1996–2002)

^aPoint estimates and 95 percent confidence intervals. Outcome variable is $\ln(\text{World Bank commitments} + 1)$. All models are random effects OLS models with HC3 robust standard errors. All models include a quadratic time trend and regional fixed effects.

ment need—surprisingly obtains statistical significance only in the case of total World Bank lending. External debt ratios, participation in an IMF program,⁵³ and population⁵⁴ are all significant predictors of the size of lending flows.

Therefore, as previous studies have concluded, it seems clear that better-governed countries receive more money from the IDA, the World Bank's concessional-lending wing, even accounting for a variety of other country characteristics. Given the way that the rules for IDA allocation are written, this should not come as a surprise. This trend, however, does not carry over to the World Bank's market-rate-lending wing, the IBRD, where governance is a positive but not significant predictor of lending amounts.

V. ANALYSIS OF PROJECT TYPE DECISIONS

In this section and the following one I try to answer a new question regarding aid allocation: does the quality of governance in recipient countries affect the *type* of aid that countries get from the World Bank? Having shown that the Bank is responsive to governance in its overall lending patterns, is it also responsive to governance in choosing the modalities of aid? I begin by analyzing the factors predicting whether countries receive programmatic lending or specific investment projects. In order to do this, I use the proportion of a country's total aid from the World Bank in the period 1996–2002 that was programmatic aid (as compared with project aid) as the dependent variable in a linear regression. If the World Bank is paying attention to the governance characteristics of countries when making its lending decisions, I expect to see governance quality positively predict the proportion of programmatic lending.

The solid circles in Figure 4 represent the coefficient estimates when the proportion of programmatic lending is the outcome variable. I again separate out overall World Bank lending, IDA lending, and IBRD lending. Looking at overall lending in column 1, governance does not appear to have an effect on the proportion of a country's aid portfolio that consists of programmatic lending. However, the two subdivisions of

⁵³ Note that the IMF indicator is likely absorbing effects attributable to other variables in the model, given that the existence of a high external debt ratio or a low GDP per capita has already helped a country to receive an IMF program.

⁵⁴ The size of the population coefficient estimates is large, representing a more than proportional increase in aid for increased population. This finding contrasts with the finding in the literature of small-country bias through which donors give more aid per capita to less populous countries, for example, Easterly 2007.

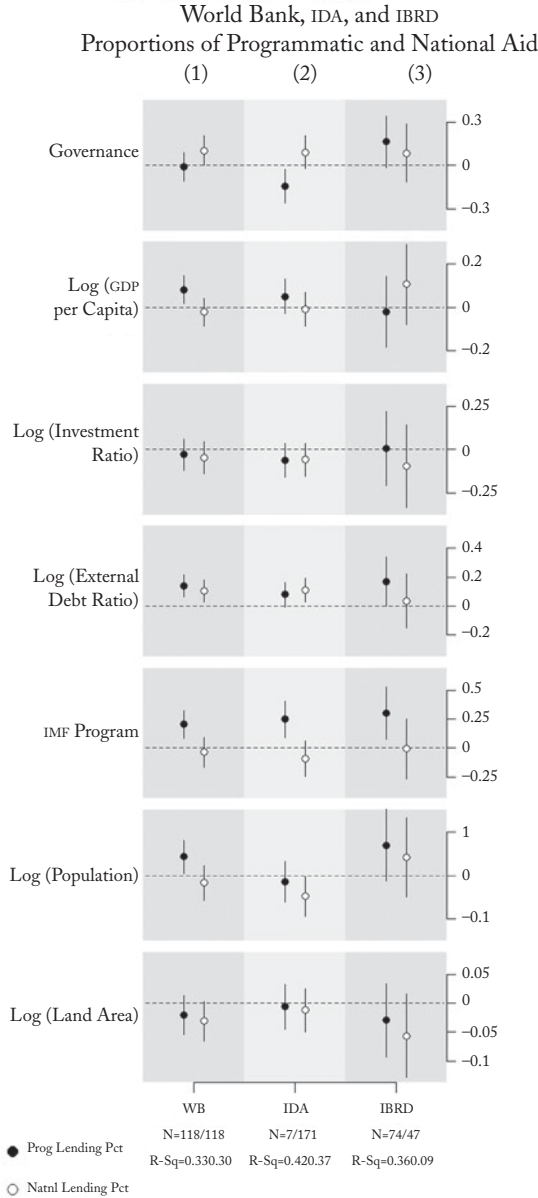


FIGURE 4
EXPLAINING THE PROPORTIONS OF WORLD BANK PROGRAMMATIC AND NATIONAL COMMITMENTS TO INDIVIDUAL COUNTRIES^a
(1996–2002)

^aPoint estimates and 95 percent confidence intervals. Outcome variables are the proportion of programmatic lending (versus project lending) and the proportion of national lending (versus subnational lending) in terms of the total value of lending over the period from 1996 to 2002. All models are linear regressions including a constant and regional fixed effects.

the data reveal that this is because governance predicts the proportion of programmatic lending in opposite directions across IDA and IBRD lending. Within the category of IDA lending in column 2, governance is a significant and surprisingly negative predictor of the amount of programmatic aid in a country's portfolio—well-governed countries are getting *less* programmatic aid from the IDA! The coefficient estimate suggests that an increase of one standard deviation (that is, three-fifths of a unit) in average governance quality would lead to a 9 percentage point decrease in the proportion of programmatic lending. Within the category of IBRD lending in column 3, however, well-governed countries receive a larger share of their loans as programmatic ($p < 0.09$).⁵⁵ Among IBRD borrowers, a one standard deviation increase in the quality of governance corresponds to a 10 percentage point increase in the proportion of programmatic loans in a country's aid portfolio.

At first glance, it is not entirely clear what explains these discrepant results. The IDA and IBRD officially have similar attitudes toward recipient country governance; if either entity has made stronger statements about governance, it is the IDA, where we see the reverse of the expected relationship. The IDA is likely the entity more susceptible to manipulation by wealthy donor countries, however, depending as it does on triennial replenishments for the majority of its budget.⁵⁶ Although I show below that the relationship is robust to the inclusion of a variety of measures of the strategic importance of recipient countries, political manipulation is still a plausible explanation for this pattern, one that I hope to be able to identify more concretely in future work, as I discuss in the conclusion.

The positive relationship in the IBRD data suggests that the IBRD is more discerning with its development dollars, providing more programmatic lending to countries that are better governed and increased project lending to partners that are poorly governed. The IBRD has long been concerned with “bankable” projects—because of its need to raise money on international bond markets and to sustain its budget through the repayment of its loans—so this correspondence between governance quality and programmatic lending may reflect these attitudes.

Looking at the other variables in the model, IMF program participation is the single most important predictor of the amount of World Bank programmatic lending. Holding all else constant, a country that spent half of the years from 1996 to 2002 under an IMF program would

⁵⁵ All p -values reported in this article refer to two-tailed t -tests.

⁵⁶ The IBRD, by contrast, is able to raise money on international bond markets and through the fees and interest that it charges on its near-market-rate loans.

see a 10 percentage point increase in the proportion of programmatic lending that it received from the World Bank as compared with a country that was never under an IMF program during this period.

Therefore, these results reveal that the most important factor for determining the proportion of programmatic lending that a country receives from the World Bank is whether or not the country is participating in an IMF program. However, the effect of governance—whether it is negative, as in the case of IDA lending, or positive, as in the case of IBRD lending—is not insignificant: the IDA is surprisingly including relatively less programmatic lending in the aid that it sends to well-governed countries, whereas the IBRD is including relatively more programmatic lending in the aid that it sends to its well-governed borrowers. This suggests that market-rate IBRD lending may be focusing more on development goals than the ostensibly more development-oriented IDA lending. Previous research has missed this important variation in World Bank behavior by focusing only on IDA lending and by not disaggregating project types.

VI. ANALYSIS OF INVESTMENT PROJECT TARGETING

The second way in which national governance characteristics might have an impact on World Bank lending is within the category of investment project lending. Where national governance is poor, the World Bank might be more likely to create projects that are subnationally targeted such that the government will have less discretion over implementation. In order to examine this hypothesis, I create an outcome variable measuring the proportion of nationally targeted aid within the category of investment project aid—programmatic aid is completely excluded from the data.

The models indicated by the empty circles in Figure 4 provide support for the idea that the World Bank does pay attention to country governance characteristics in designing aid projects, although the effect is statistically significant only in the combined data. The coefficient is always estimated with a positive sign, although it is far from statistical significance in the IBRD data in column 3, just shy of marginal significance in the IDA data ($p < 0.13$) in column 2, and just at the 95 percent confidence level of significance in the combined data ($p < 0.05$) in column 1. The substantive effects also are limited. In the combined data a one standard deviation increase in governance quality corresponds to a six percentage point increase in national lending (equivalent to one-quarter of a standard deviation of the outcome variable).

Therefore, whereas good governance predicted less programmatic lending within IDA aid portfolios, the same variable predicts *more* national lending. And whereas governance predicted programmatic lending in opposite directions for IDA and IBRD borrowers, when looking at national lending, the variable is similarly signed across the two subsets of the data. This positive relationship between governance and national project lending corresponds to the predictions of a principal-agent model of responsible development aid in which there will be more discretion when there is better preference alignment. Whereas the IDA result with regard to programmatic aid leaves us questioning the World Bank's commitment to holding development interests paramount in the design of its aid programs, the result with regard to national aid makes the Bank look more interested in pursuing antipoverty objectives.

VII. POLITICAL INFLUENCE AND WORLD BANK LENDING PATTERNS

An extensive literature on aid allocation documents the influence of powerful donor countries in determining World Bank lending patterns. Using former colonial status, trading patterns, financial flows, alliances, military ties, UN voting similarity, membership on the UN Security Council, migration stocks, or oil production as proxies for donor interest in a country, research finds that the interests of bilateral donors predict World Bank aid allocation.⁵⁷ In this section I check whether the inclusion of proxies for donor influence changes any of the conclusions reached above. In particular, this political influence might encourage the targeting of either well-governed or poorly governed client states, such that the relationships above between governance and lending patterns are spurious.

Donor influence can be thought of as originating either with the United States or with a broader set of leading powers. Current results in the literature have tended to find U.S. influence lurking behind some multilateral aid allocation decisions. A likely proxy for U.S. interest in a country is the level of U.S. military assistance to that country.⁵⁸ I also look at U.S. trade levels with recipient countries and the similarity of UN voting patterns between the United States and recipient countries.⁵⁹

⁵⁷ Frey and Schneider 1986; Andersen, Hansen, and Markussen 2006; Fleck and Kilby 2006; Dreher, Sturm, and Vreeland 2009.

⁵⁸ U.S. military assistance is reported in the U.S. Greenbook, available on the U.S. Agency for International Development Web site, at www.usaid.gov.

⁵⁹ The trade data were collected by the OECD and comes from the OECD Web site. The UN voting data come from Dreher and Sturm 2006. I use their moving average of the fraction of times that a country votes the same as the United States (either both voting yes, both voting no, both abstaining, or both being absent), which they derive from the variable used in Barro and Lee 2005.

Thinking about other influential donors besides the United States, I look at the predictive power of trade with the OECD, average voting similarity at the United Nations with all of the G7 powers, whether or not the country holds a rotating UN Security Council seat, the stock of migrants from the country in OECD countries (measured in 2006), whether or not the recipient country is a former colony of one of the OECD's Development Assistance Committee member states, and the number of barrels of oil produced in the state.⁶⁰

Figure 5 shows the results for the time-series cross-sectional analysis of lending patterns. I have again separated out the data into overall World Bank lending, IDA lending, and IBRD lending and have presented the results in that order. Each column contains a different measure of donors' strategic interests, indicated on the horizontal axis. Very few of these variables are statistically significant.⁶¹ More importantly, the pattern of results for the governance variable does not change: good governance positively and significantly predicts IDA lending and, as a consequence of this, also positively and significantly predicts overall World Bank lending flows. Again, this confirms results from previous literature.⁶²

Figure 6 shows the results for the two proportional dependent variables when a measure of donor strategic interest in a recipient country is added to the regression. Looking first at the solid circles, reflecting the models explaining the proportion of programmatic lending, we see that, for overall World Bank lending, governance again is not a significant predictor of the proportion of programmatic lending in any of the specifications. For IDA lending, however, governance remains a statistically significant negative predictor of programmatic lending across all of the specifications—in no case does the inclusion of a political covariate result in the estimate dropping below the 95 percent confidence level.

For IBRD lending, governance generally remains a marginally significant positive predictor of the proportion of programmatic lending. The exception is when UN voting correlations for either the U.S. recipient

⁶⁰ The trade and UN voting data are from the sources cited above. The data on rotating UN Security Council seat holders come from Dreher, Sturm, and Vreeland 2009. Migration data are from the OECD Web site, at www.sourceoecd.org/database/16081269/intmigration. The data on colonial history are from the Issue Correlates of War Colonial History Supplementary Data Set. The data on oil production are from the BP Statistical Review of World Energy.

⁶¹ Trade with the OECD is a significant negative predictor of overall World Bank lending and IDA lending. Trade with the U.S. is a marginally significant positive predictor of IBRD lending. Being a former DAC colony is a significant positive predictor of overall lending.

⁶² It is important to note that I have included the IMF variable for all of these regressions, and it is quite possible that the United States or other wealthy donor countries have already used their influence at the IMF in order to enroll a country in an IMF program. In this case the estimated effect of the political variable in these World Bank equations would be attenuated, since the IMF variable is proxying for some of this influence.

Donor Strategic Interests and Proportions of National and Programmatic Lending

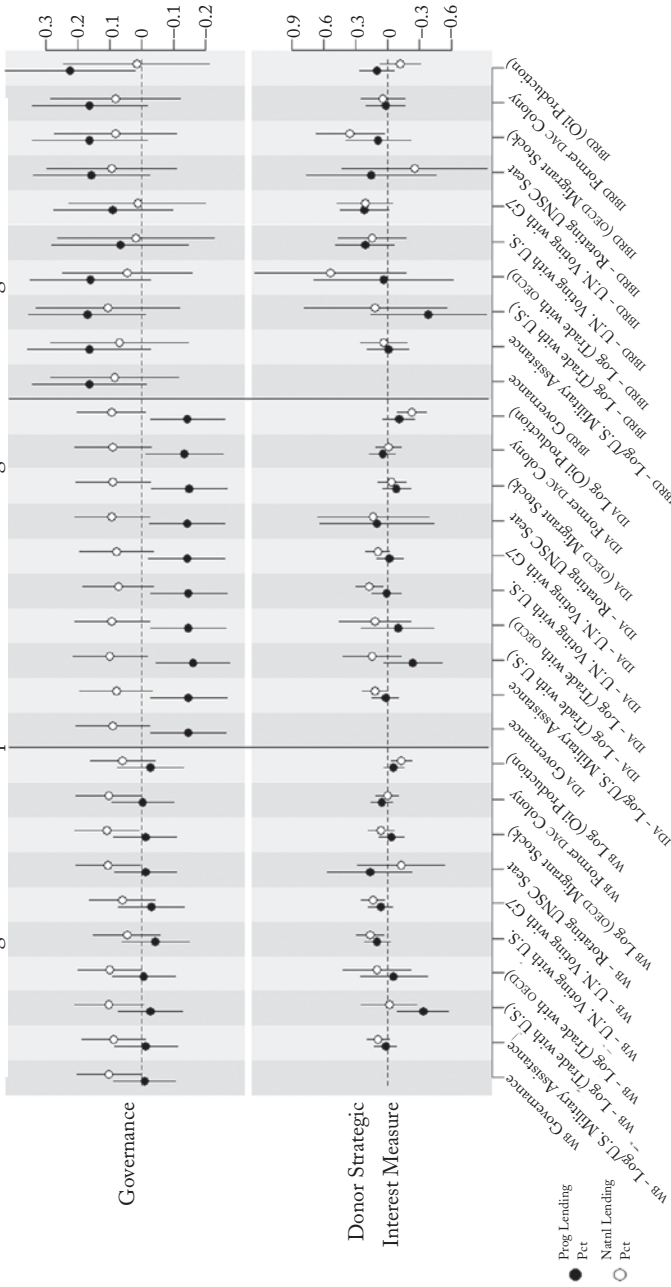


FIGURE 6

EXPLAINING THE PROPORTIONS OF WORLD BANK PROGRAMMATIC AND NATIONAL COMMITMENTS TO INDIVIDUAL COUNTRIES, 1996–2002: ACCOUNTING FOR POLITICAL VARIABLES^a

^aPoint estimates and 95 percent confidence intervals. Outcome variables are the proportion of programmatic lending (versus project lending) and the proportion of national lending (versus subnational lending) in terms of the total value of lending over the period from 1996 to 2002. The coefficient estimate reported in the row for Donor Strategic Interest Measure refers to the variable listed on the horizontal axis. All models are linear regressions including the covariates found in Figure 4 and regional fixed effects.

country or the G7 recipient country are included as predictors. The inclusion of these variables results in a decline in the substantive size and statistical significance of governance as a predictor. In both cases there is a statistically significant and substantively large correlation between the UN voting variable and the governance measure ($r=0.50$ for the correspondence to U.S. voting and $r=0.49$ for the correspondence to G7 voting). The variable accounting for the correlation between the recipient country's voting record and that of the G7 countries at the UN is a marginally significant ($p<0.06$) predictor of the outcome variable while that accounting for the correlation with the U.S. is somewhat less significant ($p<0.14$). In the case of U.S. voting, we can reject with marginal confidence the joint hypothesis that both the governance measure and the UN voting measure are equal to 0 ($p<0.08$); in the case of G7 voting our confidence in rejecting the joint hypothesis is slightly higher ($p<0.04$).

Therefore, in the case of the proportion of programmatic lending that a country receives from the World Bank, the negative relationship between governance and this proportion within the IDA data remains, and the positive relationship between governance and this proportion within the IBRD generally remains, although because of collinearity with the UN voting variables, there is some question about the independent effect of governance. The positive correlation between governance and the percentage of programmatic loans in IBRD borrowers' portfolios actually may reflect the political proximity of some of these borrowers to the wealthy donor countries. The significance and the direction of the UN voting variables therefore provide some indication that U.S. and G7 allies might be rewarded with programmatic loans from the IBRD, but the evidence is inconclusive.

For the proportion of national lending in a country's World Bank investment aid portfolio, a similar pattern holds across the inclusion of different political variables. Governance is a positive but not statistically significant predictor for both IDA and IBRD lending. In the combined World Bank data, the governance variable is a marginally significant positive predictor of the proportion of national lending until I again control for the similarity between recipient country UN voting and either U.S. or G7 UN voting. When one of the UN variables is included in the regression, the significance level of governance falls dramatically. In addition, the governance variable loses significance when controlling for the level of oil production.

The UN voting variables, meanwhile, are statistically significant positive predictors of the proportion of national lending in World

Bank aid flows. A 10 percentage point increase in the correlation between a recipient country's voting record at the UN and that of the U.S. corresponds to a 10 percentage point increase in the proportion of national lending that it receives from the World Bank ($p < 0.01$). (For the measure using all of the G7 members' voting records, the comparable change is five percentage points.) The substantive size and the significance level of these variables are also the same within the subset of IDA data, and the substantive size is the same within the set of IBRD countries, although the significance level is less. Therefore, there is some indication that political allies of the United States (and other large Western donors) are rewarded with an increased proportion of national projects from the World Bank and that this effect overwhelms the impact of governance. However, because of the high collinearity between these two variables, it is not appropriate to read this result as saying that governance has no effect. With the expansion of the data set, I hope to be able to reach more concrete conclusions.

I also looked at the influence of strategic interests in terms of whether or not they condition the effect of governance on World Bank lending using a series of interaction models.⁶³ Looking at overall lending patterns, there is a clear interaction by which governance becomes a less substantively relevant predictor of aid flows as countries become more strategically relevant. This pattern is most pronounced in the overall and IBRD data; for the IDA data, the magnitude on the governance coefficient shifts in a less predictable manner, sometimes increasing and sometimes decreasing with the measure of strategic importance.

With regard to programmatic lending, I had hoped that the interaction models might explain the aberrant IDA finding. However, the models produce the opposite result of what I had anticipated. For countries that measure low on the proxies for strategic relevance, governance has a significant *negative* effect on the proportion of programmatic lending; as apparent strategic importance increases, however, this negative effect attenuates and becomes insignificant. For IBRD lending, the slope of the interaction is in the expected direction, and the positive governance effect obtains (marginal) levels of significance among the less strategically important countries.

For the analysis of national lending, the results are again mixed—the coefficient on governance surprisingly grows (and sometimes becomes significant) as strategic interest increases for a number of the strategic interest proxies, although in other cases, it either decreases or remains

⁶³ I thank a reviewer and the editors for suggesting this to me. The results are in the online appendix, at <http://netfiles.uiuc.edu/mwinters/www>.

essentially flat. Given the small sample size, not too much stock should be put into these interaction models; with the expansion of the data set to additional years, allowing for multiple periods per country, I hope that more leverage can be gained on the importance of strategic interests in conditioning the aid-governance relationship.

In sum, within the data I consider there is some evidence of bilateral donor political influence at the World Bank. Specifically, those countries that vote more similarly to the United States and the other major donors at the United Nations receive a greater share of proportional and national loans from the World Bank. Two of the fundamental results in this paper with regard to governance are unchanged by the inclusion of these political variables: better-governed countries receive more aid from the World Bank, and better-governed IDA borrowers receive less money in the form of programmatic lending. The apparent fact that well-governed IBRD borrowers receive an increased proportion of their loans in the form of national projects is not robust to the inclusion of controls for a country's voting record at the United Nations because of high collinearity between the two explanatory variables.

VIII. ROBUSTNESS CHECKS

ADDITIONAL CONTROL VARIABLES

The results reported above are robust to the inclusion of several additional covariates.⁶⁴ Since overall lending and, in particular, programmatic and national lending—as more fungible forms of aid—might decrease during times of conflict, I include a measure of whether or not there is an ongoing civil war at the time the World Bank is making its decision about aid (or, in the cross-sectional regressions, the percentage of years during the period under study during which the country was experiencing civil war).⁶⁵ I also include a measure of the number of people affected by natural disasters to capture the possibility of increased aid related to humanitarian disasters.⁶⁶ Insofar as disasters are geographically specific, I expect the proportion of national investment projects to decrease in the face of disasters. Neither of these variables is a significant predictor of any of the outcome variables.

⁶⁴ Robustness checks are in the online appendix.

⁶⁵ These data are from the UCDP/PRIO Intrastate Conflict Onset Dataset, described in Gleditsch et al. 2002. Bermeo 2008 includes the variable in her study of governance and aid.

⁶⁶ The data are from EM-DAT: Emergency Events Database, maintained by the Centre for Research on the Epidemiology of Disasters at the School of Public Health of the Université Catholique de Louvain in Brussels. I scale this measure using a logarithmic transformation. I again follow Bermeo 2008 in including this variable.

Since the World Bank designs its programs in conjunction with aid-receiving governments, I attempt to assess the extent to which national governments might prefer subnational lending and therefore ask the World Bank for more targeted investment projects. I included demand-side indicators for whether or not the country has a federal system and whether or not the country has meaningful plurality voting. In the case of either federal state or plurality voting, we might expect the national government to respond more markedly to requests for projects from subnational units, resulting in more subnational World Bank loans.⁶⁷ But controlling for these variables does not change the significance level or substantive size of the coefficient on governance across any of the specifications, nor do these additional predictors achieve statistical significance at conventional levels.

ALTERNATIVE OUTCOME VARIABLES

If I classify subnational structural adjustment loans as programmatic loans instead of subnational project loans, the results are substantially the same—good governance positively predicts the proportion of overall national lending, negatively predicts the proportion of IDA programmatic lending, and positive predicts the proportion of IBRD programmatic lending—although the significance levels fall slightly in all three cases.

If I broaden my definition of subnational projects to include, as well, projects targeted at the rural and urban sectors, a particular social group, or the business sector as subnational, the governance variable ceases to be a statistically significant predictor of the proportion of national projects ($p < 0.59$ for overall World Bank lending and $p < 0.43$ for IDA lending). Therefore, the results with regard to national lending are not robust to an expanded definition of what counts as a subnational project.

ALTERNATIVE SPECIFICATIONS OF THE KEY EXPLANATORY VARIABLE

In this article I have used an aggregate governance measure obtained by taking the mean of all six World Governance Indicators. In this section, I examine whether the relationships reported in the article hold for each of the individual World Governance Indicators, for measures

⁶⁷ I measure these country characteristics using data from the Database of Political Institutions 2006. I use an indicator for whether or not states and provinces have authority over taxation, spending, and legislation, recoding missing values to 0, and an indicator for whether or not legislators are elected using a winner-take-all rule within constituencies, recoding missing values for nondemocratic states to 0, as they do not have meaningful plurality rule.

of democracy, such as Freedom House and Polity, and for Transparency International's Corruption Perceptions Index, another possible indicator of governance quality

With regard to overall lending flows, all six components of the WGI average are at least marginally significant; regulatory quality has the largest magnitude coefficient, followed by government effectiveness. Within the IDA subset, they are all positive and statistically significant predictors; the average variable has the largest magnitude coefficient with the measures of government effectiveness and regulatory quality next in order. For IBRD lending, five of the six components are positive predictors (control of corruption is signed negatively), but only the regulatory quality variable is a statistically significant predictor. (Recall that the average is not a significant predictor of IBRD lending.) These results confirm a finding from Neumayer's work that regulatory quality is the governance characteristic that is most often associated with lending levels, including for the IDA.⁶⁸

A country's Freedom House score is a statistically significant positive predictor of both IDA lending flows and overall lending flows, whereas the Polity measure does not obtain statistical significance for any of the three data subsets. The coefficient for the Freedom House index is smaller in magnitude than any of the Governance Matters indicators in the IDA data and larger only than the political stability measure in the overall data.⁶⁹ In combination with the evidence that the most important governance characteristics are regulatory quality and government effectiveness, this reinforces the idea that the World Bank does not necessarily mean democratic responsiveness when referring to "governance." Transparency International's Corruption Perceptions index is not a statistically significant predictor in any of the three cases, although it is largest in magnitude and significance level for the IBRD data.

For the proportion of programmatic lending received by a country, there is a similar pattern. All six components of the WGI average are signed negatively in the IDA data and positively in the IBRD data. They generally are (marginally) significant. In both subsets government effectiveness is the coefficient with the greatest magnitude. A country's Freedom House score is not a significant predictor of the proportion of programmatic loans that it receives, whereas its Polity score is a significant positive predictor of the proportion of programmatic lending

⁶⁸ Neumayer 2003b.

⁶⁹ I standardized the Freedom House measure for the purpose of comparison.

from the IBRD and the World Bank overall, but the coefficient estimate is small relative to the significant WGI indicators.

For the proportion of national lending, several WGI components are significant predictors in the IDA data only: voice and accountability and the rule of law. (Regulatory quality is also a marginally significant predictor.) Both voice and accountability and the rule of law have slightly larger coefficients than the WGI average within the IDA subset. In addition, both the Freedom House and Polity scores are significant predictors in the IDA subset. In this case, therefore, it appears that the democratic qualities of a country *are* what lead to the association between governance and an increased proportion of national lending. In the overall World Bank data these same four measures are also statistically significant at conventional levels.

Looking at the components of the WGI average provides interesting avenues for future exploration. These robustness checks provide some evidence that, for overall lending patterns and the proportion of aid that is programmatic, it is the regulatory and bureaucratic qualities of a country—as compared with its level of democracy—that most heavily influence World Bank lending practices. By contrast, for the proportion of investment aid that is national, democracy measures—at least in the IDA data—seem to be doing the heavy lifting, such that more democratic countries are receiving a larger proportion of their investment aid as nationwide projects.

IX. CONCLUSION

Over the past decade the good governance paradigm has become the dominant paradigm in the aid community. According to theories of good governance, where there is increased transparency, accountability, and rule of law—such that expectations about government behavior and the functioning of the legal system are clear and such that the government responds to the needs and demands of its citizens—then foreign aid will be more effective in promoting economic growth and other developmental outcomes. According to this logic, donors that are truly concerned with development should provide discretionary programmatic aid and national investment projects when countries are well governed; but when countries are poorly governed, donors should give project aid, providing money for very specific poverty-alleviation purposes.

Using newly collected data, I examine trends in World Bank lending from 1996 to 2002 to see whether the Bank lends according to these

expectations. Although good governance correlates positively with overall World Bank lending flows and IDA lending flows after controlling for other variables that influence aid, once we start to look at the disaggregated data, the World Bank's lending patterns—and IDA lending patterns in particular—are less clearly responsive to governance in the expected fashion.

With regard to programmatic aid, as compared with investment project aid, there is a discrepancy in how the World Bank's concessional lending wing, the International Development Association, and its nonconcessional lending wing, the International Bank for Reconstruction and Development, respond to governance. The IBRD rewards well-governed countries with increased programmatic lending, as I would expect of a donor concerned with development objectives, but the IDA perplexingly provides a larger share of programmatic loans to poorly governed countries. Although I am unable to identify it explicitly by looking at variables that proxy for the strategic interests of the wealthy countries that fund the IDA, I suspect that this may be due in part to the susceptibility of the IDA to bilateral donor pressure. With regard to national aid, by contrast, there is more consistent evidence from across both World Bank branches that well-governed countries receive a greater share of their investment aid in the form of national projects, as a prodevelopment theory of aid giving would expect.

By using data disaggregated across the two lending wings of the World Bank and by project type, I have shown that the overall trend of giving more aid to better-governed countries is not necessarily an appropriate summary of all World Bank behavior. At the moment, I can only speculate that the deviations we see may be due to donors' strategic concerns; as I add observations to the data set and make use of other information about World Bank decision-making processes, I will seek to identify this interference more concretely. Nevertheless, the robust negative relationship in the present IDA data between governance and programmatic lending raises a flag that the World Bank is not yet doing all that it can do to design projects in line with countries' quality of governance.

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