Political Affinity and Multilateral Aid : A Study Putting in Perspective the Political Affinity of World Bank Recipient Countries with the United States

Dimitri Thériault[1]

March 2018

Introduction

With commitments that reached more than 60 billion dollars in 2015 alone, the World Bank is undoubtedly a key player in development aid. Yet the neutrality of this international institution and its main mission, namely poverty reduction and economic development, have been challenged by allegations of political interference in the allocation of its loans. These claims cover several states, but particularly the United States. For example, the United States supported a loan of $ 114.3 million to China in exchange for support or abstention for UN Security Council Resolution 678 authorizing the deployment of armed forces against Iraq during the first Gulf War in 1991 (Eldar, 2008).

According to scientific research, the Bank served the interests of the United States (Fleck & Kilby, 2006), but the American influence on this institution decreased after the Cold War (Morrison, 2011; Dreher & Sturm, 2012). This subject should, however, be re-examined for two main reasons. First, we do not know whether the influence of the United States on the World Bank and on the states receiving the loans is effective, because few studies have put it in perspective by taking into account the influence of other states. It would be difficult to conclude that American influence is effective if, for example, states receiving larger loans vote more often in line with Russia in the UN General Assembly. Second, it is possible that, as a result of the terrorist attacks of September 11, the United States interfered with the World Bank's affairs as strongly as during the Cold War (Morrison, 2011). Indeed, after these attacks the White House has

[1] Dimitri Thériault, Master's student in International Studies at Université Laval, note prepared under the supervision of Professor Érick Duchesne. dimitri.theriault.1@ulaval.ca

increased the American bilateral aid budget while aligning it more directly with their security objectives (Lancaster 2007, Tarnoff & Lawson, 2016). The World Bank thus regained a particular attraction as a channel for the pursuit of the US national interest. In sum, this research fills a gap in the scientific literature and sheds light on the World Bank and the political affinity of its recipient countries.

Methodology

To put the American influence into perspective and to determine whether the September 11 terrorist attacks had an impact on the World Bank's loan disbursement, it is necessary to build an econometric model and test it. If the influence of the United States on the Bank and the states receiving the loans is effective, the indicators of the variables reflecting American interests should be significant, while those representing the interests of a state that is opposed to the United States, for our research Russia, should not be. Moreover, by testing our econometric model according to the periods of the Cold War, post-Cold War and post-September 11, the results obtained will make it possible to identify changes in the Bank's loan allocation.

The econometric model is constructed using different indicators that may affect the Bank's loan allocations. The dependent variable is the per capita amount of IDA and IBRD gross disbursements[2] in current US dollars received by State i at time t[3]. For their part, the independent variables are indicators that reflect the need for aid, governance, globalization, the amounts of development assistance received from the member states of the Development Assistance Committee (DAC) of the OECD and the United States, the presence of armed conflict (intra- or inter-state), and the alignment with US and Russian interests.

Regarding the type of model chosen, we use a pooled time-series cross-section analysis with fixed effects and Driscoll and Kraay standard errors (1998). The

---

[2] IDA and IBRD are the two major World Bank institutions that deal with lending to governments.

[3] Only states that have received loans are considered.

advantage of this type of model is that it is robust to the different forms of heteroscedasticity. Finally, our panel data separately cover the years 1973 to 1990 (Cold War), 1991 to 2000 (post-Cold War), and 2001 to 2013 (post-September 11) and a maximum of 115 states.

Results

First, our model indicates for the Cold War period that opposing US foreign policy significantly decreases the amount of loans received. An increase of one unit of the indicator representing the distance that separate the recipient's foreign policy from the US policy decreases the amount of loans received by 28.10%. Regarding our indicator about Russian political interests, moving away from a unit of the Kremlin's foreign policy increases the amount of loans received by 36.34%[4]. Apart from these two indicators, only the indicator reflecting governance is statistically significant. According to our model, the more authoritarian governance a state

has, the lower the amount of loans it receives.

For the period 1991 to 2000, moving away from US foreign policy once again has a negative and statistically significant effect. However, moving away from Russia's policies also has a negative and significant effect[5]. To illustrate these effects, moving away from a unit of US policies decreases the amount of loans by about 28.19% and moving away from a unit of Russian policies decreases the amount of loans by about 18.45%. A plausible explanation is that the change in Russia's political regime brought the Kremlin closer to the policies of the White House to such an extent that the closer a recipient was to Russian foreign policy, the greater the amount of money he received. In addition to governance, which has the same effect as during the Cold War, two other characteristics have a statistically significant effect. Experiencing armed conflict has a negative and significant effect on the

---

[4] The political interest indicators of the United States and Russia are both significant at the 1% level.

[5] *Idem*.

amount of loans, and the higher the amount of official development assistance a state receives, the higher the amount of loans it receives from the Bank.

For the years 2001 to 2013, the World Bank seems to have abandoned political considerations more significantly in the allocation of its loans. Indeed, although political factors are significant, the post-Cold War period is marked by a loan allocation that is based on a multitude of aspects: per capita income (positive effect), population (negative effect), globalization (positive effect), authoritarian governance (negative effect), development aid (positive effect), sitting on the UN Security Council (positive effect) and being in conflict (negative effect)[6]. On indicators representing US and Russian political interests, moving away from a unit of US foreign policy decreases the dependent variable by 30.58% and moving away from Russia's policies has once again a negative effect, but no longer significant. This change appears to reflect the fact

that since the 2000s, the Kremlin's foreign policy has moved away from White House's foreign policy rather than coming closer to it as in the post-Cold War period. In addition, our model indicates that the more a recipient country trades with the United States, the lower the amount of loans he receives. However, it should be mentioned that this correlation is significant only at a level of 10%. Finally, the larger the amount of US military assistance received, the higher the amount of loans received from the Bank. This correlation is also significant at the 10% level only, but considering the impact of 9/11 on US bilateral aid, the US security interests also appear to have been served by the World Bank between 2001 and 2013.

Recipient Countries' Political Affinity

We have just seen that the more a recipient moved away from Washington's foreign policy, the lower the amount of loans received from the World Bank. Also, we have seen that

---

[6] These effects are all statistically significant with a p-value that is at least less than 0.05.

moving away from Russia's policies has only increased the amount of loans received during the Cold War. On the other hand, we do not yet know whether the recipients of Bank loans have more political affinity with the United States than with Russia. To find out, we have constructed box plots that separately show the dispersion of Lijphart's index of agreement between Bank loan recipients and the United States and Russia. The Lijphart Index is obtained by the voting coincidence in the UN General Assembly and it measures the agreement between two states; a score of 1 showing perfect agreement and conversely, a score of 0 showing perfect disagreement. According to our results (Figure 1), recipients of Bank loans have historically been, on average, closer to Russia than to the United States. This result implies that the Bank's loans would be used to buy and reward supports or abstentions for specific resolutions in the United Nations rather than for all the resolutions adopted in a session.

Figure 1 : Dispersion of Lijphart's index of agreement between World Bank recipients and the United States and Russia
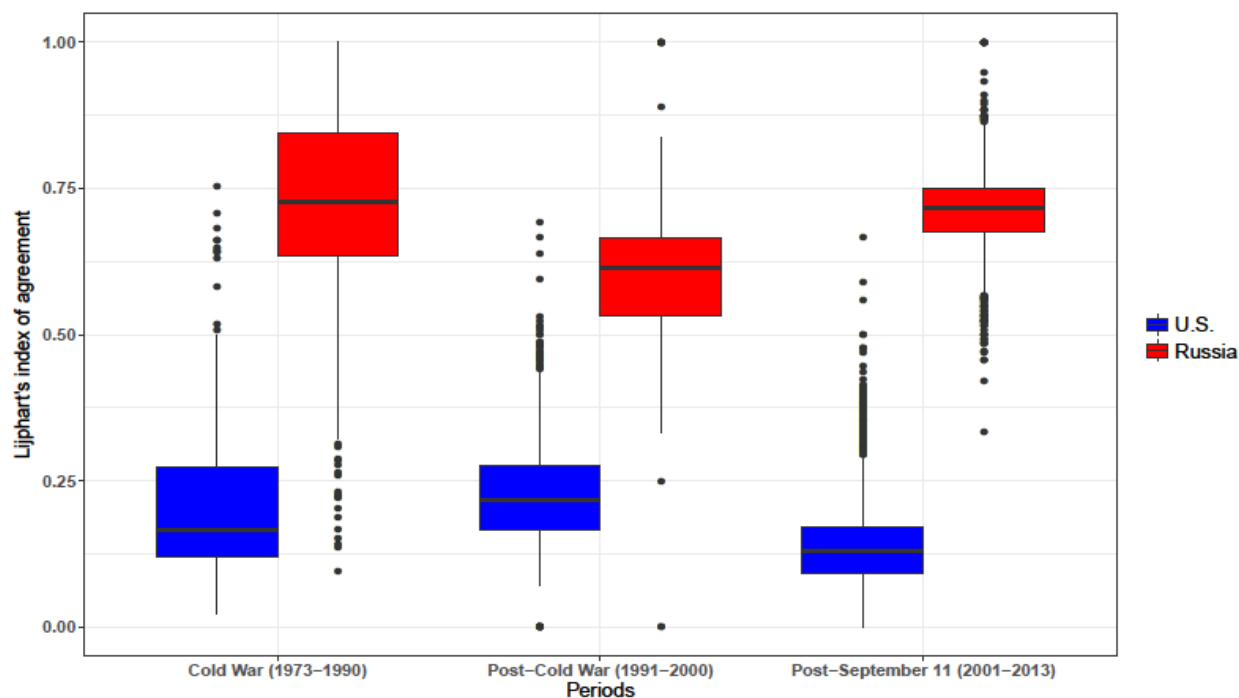
The index equals 1 if the state always agrees with the other and 0 if it always votes in the other way. If the state votes yes and the other abstains, the vote is coded 0.5.

Conclusion

We now know that recipients of World Bank loans that have supported the United States have always received higher loans, but on average they have more political affinity with Russia. Therefore, World Bank loans would be used to buy and reward states for only few votes in UN General Assembly sessions. Finally, although the World Bank appears to have had limited political considerations in the allocation of its loans since the end of the Cold War, the terrorist attacks of September 11 had a certain impact on this institution since the recipients that received more military assistance from the United States also received more assistance from the Bank between 2001 and 2013.

References

BAILEY, M. A., S TREZHNEV, A. & VOETEN, E. (2015). Estimating dynamic state preferences from United Nations voting data. Journal of Conflict Resolution, DOI: 0022002715595700.

DREHER, A. & STURM, J.-E. (2012). Do the IMF and the World Bank influence voting in the UN General Assembly? Public Choice, 151 (1-2):363–397.

DRISCOLL, J.C. & KRAAY, A.C. (1998). Consistent covariance matrix estimation with spatially dependent panel data. The Review of Economics and Statistics, 80 (4):549–560.

ELDAR, O. (2008). Vote trading in international institutions. European Journal of International Law, 19 (1), 3-41.

FLECK, R. K. & KILBY, C. (2006). World Bank independence: A model and statistical analysis of U.S. influence. Review of Development Economics, 10 (2):224–240.

LANCASTER, C. (2007). Foreign aid: diplomacy, development, domestic politics. The University of Chicago Press, Chicago and London.

MORRISON, K. M. (2011). As the World Bank turns: Determinants of IDA lending in the Cold War and after. Business and Politics, 13 (2):1–27.

TARNOFF, C. & LAWSON, M. L. (2016). Foreign aid: An introduction to U.S. programs and policy. LIBRARY OF CONGRESS WASHINGTON DC CONGRESSIONAL RESEARCH SERVICE.