As the World Bank Turns: Determinants of IDA Lending in the Cold War and After

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Abstract

How does the internal organization of a foreign aid donor affect its aid allocation decisions? Despite the voluminous literature on the political economy of foreign aid, little systematic scholarship exists on this topic. This paper analyzes the allocations of the International Development Association (IDA), the World Bank’s lending arm for the poorest countries, to all eligible countries between 1977 and 2005. While factors such as a country’s need and its policy environment have consistently impacted IDA’s allocation decisions, other factors have changed in important ways. For example, IDA disbursements do not follow US aid disbursements in the post–Cold War period the way they did during the Cold War. And most strikingly, IDA’s allocations have become tightly linked to debt owed to IDA’s sister organization, the International Bank for Reconstruction and Development (IBRD). While IDA used to shy away from countries with higher debt to the IBRD, the last two decades have seen IDA engage in apparently defensive lending for the IBRD, lending more to countries with outstanding balances to that institution. The results suggest greater focus on the internal structures of donors would yield insight into their allocation decisions.

KEYWORDS: World Bank, International Development Association, foreign aid, debt, multilateral development institutions

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Introduction

Given the billions of people living in poor countries, and the importance of foreign aid in the economies of many of these countries, one of the significant questions in the political economy of development over the past decades has been how donors allocate their foreign aid. While some scholars dispute the potential of aid ever being able to help with development, even supporters of aid would argue that it would be more effective for development if it were allocated with development goals in mind. For this reason, understanding the political and economic determinants of foreign aid has been the focus of a voluminous literature. As will be reviewed below, these determinants have ranged from recipient need to the political and strategic interests of donor countries.

While we have learned much from this literature, it is surprising that few works in it have focused on how the internal structure of donors affects their aid allocation decisions. After all, one of the main thrusts in the literature on the political economy of economic development in the past two decades has been the importance of institutions, and the role that institutional incentives play in guiding behavior. These institutional factors in developing countries have even been identified as influencing the effects of foreign aid in those countries. However, far less attention has been paid to how the institutional details within donor governments or international organizations determine how aid is allocated in the first place.

The work that does exist on this topic suggests the importance of further study. For example, Ashwin Kaja and Eric Werker have recently studied the importance of a particular institutional detail at the World Bank. At the Bank, approval of new loans is made by a group of 24 Executive Directors (EDs), many of whom come from developing countries eligible for World Bank loans. Since the actual country filling an ED slot rotates, it is plausible that these changes might influence lending patterns. And indeed, Kaja and Werker find that loan commitments to a country from the World Bank’s non-concessional lending arm—the International Bank for Reconstruction and Development (IBRD)—increase when that country holds an ED position.

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1 For recent reviews of the literature on aid, see Wright and Winters 2010 and Easterly 2009.
2 For example, Alesina and Dollar 2000.
3 For example, Acemoglu, Johnson, and Robinson 2001; North 1990.
4 Burnside and Dollar 2004; Wright 2010.
5 Kaja and Werker 2010.
6 Another example in this area is the work that has suggested that the common practice among donor agencies of evaluating staff based on whether they disburse funds, rather than the development impact of that money, has led to systematic increases in aid budgets over time. For example, Easterly 2002a. In addition, there is the body of work on the influence of the US on the...
This paper contributes to the literature on aid allocation by attempting to further our understanding of how organizational details affect allocation practices of aid donors. In particular, it examines the determinants of disbursements from the International Development Association (IDA), the concessional lending facility of the World Bank, examining how these determinants have changed over time (or not) as conditions within and around the Bank have shifted. Among other factors, the analysis particularly examines the relationship between IDA’s disbursements and debt owed to the IBRD. As discussed in the paper, though the IBRD and IDA ostensibly serve different functions within the World Bank, they are directly linked by a variety of factors, including staff. I demonstrate that while during the Cold War debt owed to the IBRD was negatively correlated with IDA disbursements, this debt peaked around the end of the Cold War, and subsequently countries’ IBRD debt has been positively correlated with IDA disbursements.

In addition to its focus on institutional structure, the paper makes a contribution merely by its focus on the determinants of multilateral aid. While a large literature has studied the determinants of bilateral aid, far less attention has been paid to multilateral aid. Multilateral aid accounts for about a quarter of overseas development assistance to developing countries, and there are reasons to suspect that multilateral lending may be more immune than bilateral lending to the political influences found to be important in the literature. For example, multilateral organizations consist of large numbers of member countries, potentially making it difficult for any one of them to use lending for political purposes. If so—that is, if multilateral lending could be more targeted for development purposes than bilateral aid—it might be able to have more of a positive effect on development than other kinds of aid.

IDA is the largest multilateral donor, accounting for 34% of multilateral official development assistance (ODA) over 2007-08 (and nine percent of all ODA). It also accounts for essentially all of the World Bank’s work in Africa, the poorest region of the world. However, despite its importance as a donor, surprisingly little systematic work has been done on the determinants of its lending allocations. The best work on the subject remains incomplete. Robert Fleck and Christopher Kilby develop a formal model of Bank lending and statistically analyze the implications of their model, but they lump IDA together with its sister organization, the International Bank for Reconstruction and Development, which primarily focuses on middle-income countries. In fact, the IBRD does not give concessional loans, and so its disbursements are not technically ODA. It is reasonable to expect, therefore, that these organizations

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World Bank and International Monetary Fund, which derives partly from its advantages granted by the governance structures of these institutions. This work is discussed below.

7 Fleck and Kilby 2006.
work in different ways. Thomas Andersen and his colleagues focus exclusively on IDA in their work, but their analysis does not account for two of the main determinants of IDA lending in the literature, which are the Bank’s policy evaluations of countries and the debt exposure of IDA’s sister organization, the IBRD.\textsuperscript{8} They also do not explore the possibility that the Bank’s influences have changed over time, which Fleck and Kilby’s study suggests is a strong possibility.

This paper attempts to improve upon these existing studies by focusing specifically on IDA, accounting for all the potential determinants identified in the literature, and exploring the possibility that the Bank’s lending practices have changed over time. The next section outlines the factors that have been identified in the literature as driving the allocations of aid donors, in order to develop an appropriate statistical model. I then discuss the data and methodology used in the paper. I study IDA allocations to all eligible developing countries between 1977 and 2005 using a variety of different statistical models. Results and robustness checks follow, and a final section concludes.

The regressions yield an interesting perspective on the Bank’s evolution over time. While the impact of measures of a country’s need and its policy environment has been relatively stable over time, other factors have changed in important ways between the Cold War and after. For example, IDA disbursements do not follow US aid disbursements in the post-Cold War period the way they did during the Cold War. And most strikingly, the effect of debt owed to the IBRD has switched completely: during the Cold War, this debt was negatively associated with IDA disbursement, and since the end of the Cold War, it has been positively associated with IDA disbursement.

\textbf{Theoretical Perspectives on Multilateral Lending}

Prior research has identified four sets of factors that influence aid flows and particularly those flows from the World Bank: the needs of recipient countries, the existing policies in those countries, political factors, and donor institutional incentives. While the last of these will be the primary focus of my attention, I cover the others first. At the end of the section, I also discuss the possibility that these influences have changed in importance over time.

\textit{Recipient Need}

The “need” of recipient countries for aid is a well established determinant of aid flows. David Lumsdaine argues that need plays a role in aid because of the “benevolence” of donors.\textsuperscript{9} As he writes, “The way donors [have] spent their

\textsuperscript{8} Andersen, Hansen, and Markussen 2006.
\textsuperscript{9} Lumsdaine 1997.
money cannot be explained on the basis of donor economic and political interests alone, though these [have] certainly played a part; concern for economic development and for helping people escape poverty clearly had a large influence as well.”

Need has principally been operationalized by two variables in the empirical literature on the determinants of aid. The first and most established indicator is income per capita. The importance of this variable for the World Bank is demonstrated by the very existence of IDA, the arm of the Bank dedicated to financing the poorest countries. The second indicator of need that has received solid empirical support is population, since for obvious reasons a given amount of aid will be worth less per person as the population rises. Often both of these variables are thought to have diminishing marginal effects, and steps are taken in empirical analyses to account for this.

Finally, with specific regard to the World Bank, there is an additional relevant indicator of need, identified in an interesting article by William Easterly. Easterly describes how the Bank has used the Harrod-Domar growth model to calculate short-run investment requirements for growth. This model’s most important use is to determine financing shortfalls, so Easterly terms it the “financing gap” model. He writes,

The model has two important features: (A) investment requirements to achieve a given growth rate are proportional to the growth rate by a constant known as the incremental capital output ratio (ICOR). (B) Aid requirements are given by the “financing gap” between the investment requirements and the financing available from the sum of private financing and domestic saving.

10 Lumsdaine 1997, 100.
11 Besides the ones considered here, other measures of need have been tried in the literature, including infant mortality rates, and life expectancy, but the results with these measures have been inconsistent.
12 For a review of these studies, see Neumayer 2003b.
13 See, among others, Alesina and Dollar 2000.
14 Specifically, they enter regression equations either in natural log form or with a squared term.
15 Easterly 1999.
16 Easterly mentions that other international financial institutions have also used this model. The Harrod-Domar growth model is attributed to Harrod 1939 and Domar 1946, and it was further developed by Chenery and Strout 1966.
17 Easterly 1999, 424.
Easterly goes on to argue that:

Over 90% of country desk economists at the World Bank...use some variant of the financing gap model today to make growth and financing gap projections...Country economists make assumptions about ICORs and national saving and calculate the financing gap corresponding to a target growth rate. World Bank staff present the result of this calculation at meetings where aid donors agree upon aid amounts for a specific country. The donors and multilaterals also apply analytical and political judgment to determine the aid given, of course, but the number produced by the financing gap model influences the outcome.18

Policy Environment

A second set of factors in donor allocations focuses on the recipient policy environment. This set of factors includes a wide range of variables, from political criteria like the political regime in place (democratic or authoritarian), to economic policies, to social criteria like respect for human rights.19 With specific regard to the World Bank, which officially does not take the recipient country’s political characteristics into account in its lending, analysts have focused primarily on economic policies. For example, Bruno Frey and Friedrich Schneider took this approach to analyzing the World Bank’s pattern of lending and argued that “Countries which are expected to put the credits to the most effective use are expected to get most financial aid.”20 They cite support for this assertion from Edward Mason and Robert Asher’s influential study of the history of the World Bank;21 an operational memorandum of the IBRD that says “Bank and IDA lending...involves an examination of past performance in borrowing countries;” and Aart van de Laar’s work analyzing the Bank’s operations.22 Frey and Schneider suggest that this practice might apply more to IBRD lending than to IDA lending, since the IBRD must pay attention to risk ratings. However, in fact IDA itself has asserted that “The main factor that determines the allocation of IDA resources among developing countries is each country’s performance in implementing policies that promote economic growth and poverty reduction.”23

18 Easterly 1999, 424.
19 See, for example, McKinlay and Little 1977 and Svensson 1999.
20 Frey and Schneider 1986, 227.
As discussed by Andersen and his colleagues, the Bank is actually quite precise in terms of how it thinks countries are performing.\textsuperscript{24} Every year, Bank staff members evaluate countries on a specific set of policy and institutional criteria and give the countries a Country Performance and Institutional Assessment (alternatively called a Country Performance Rating). Since IDA’s bylaws specifically call for these ratings to be used in allocation, statistical studies of the determinants of IDA allocation should include them. However, the Bank has kept this data confidential.

\textit{Shareholder Influence}

A third set of factors is political: how the Bank’s shareholders influence aid flows. There is little doubt that political factors drive bilateral aid flows.\textsuperscript{25} Less work has been done on the political determinants of multilateral institutions, and in fact, one might expect that multilateral institutions are more immune to this sort of influence. Frey and Schneider’s article was one of the earliest systematic studies to show this influence, and it was their most important result.\textsuperscript{26} They showed that countries “dependent” on important shareholder countries—operationalized by either being colonies or receiving large amounts of trade—received higher amounts of loans from the Bank than other countries. This political influence on aid has been demonstrated for bilateral donors in many studies since Frey and Schneider, though only recently have analysts looked at the effects on multilateral institutions besides the IMF.\textsuperscript{27}

In the case of the World Bank, investigations of political influence must begin with the role of the United States. Catherine Gwin has outlined four reasons for this.\textsuperscript{28} First, the US has always been and is still the largest shareholder in the Bank, and the largest contributor to IDA. This gives the US obvious leverage in discussions with management and other members of the Board. In particular, the US has used its large share of contributions to IDA to “condition” its participation on the implementation of certain policy initiatives in IDA.

Second, the importance and power of the US dollar has meant that the Bank depends greatly on the US capital market. Inherent in the US’s power in the Bank is therefore the potential ability to deny the Bank access to those markets

\begin{footnotesize}
\textsuperscript{24} Andersen, Hansen, and Markussen 2006.
\textsuperscript{25} See Neumayer 2003b for a good review.
\textsuperscript{26} Frey and Schneider 1986. Maizels and Nissanka 1984 had tested a political influence model on multilateral aid and found no relationship.
\textsuperscript{27} For example, Andersen, Hansen, and Markussen 2006; Fleck and Kilby 2006; Kilby 2006; Neumayer 2003a. Political influence on bilateral aid is demonstrated by, among others, Alesina and Dollar 2000. Political influence on the IMF is demonstrated by, among others, Stone 2002 and Barro and Lee 2005.
\textsuperscript{28} Gwin 1997.
\end{footnotesize}
(the Bank is required to obtain the permission of any country to borrow in its currency). Third, by (a rather controversial) tradition, the US is able to name the president of the World Bank (the head of the IMF is similarly a European), and that president has always been a US citizen. As Gwin writes, “This prerogative was initially granted not only because the United States was the Bank’s largest shareholder but also because it was the key guarantor and principal capital market for Bank bonds.”

Fourth and finally, Gwin argues that the US has simply paid closer attention to the Bank than any other major shareholder, no doubt aided by the fact that the Bank’s headquarters are three blocks from the White House:

The U.S. is the only country that carries out detailed reviews of every Bank loan proposal and the only one to maintain constant contact with the Bank through government officials in addition to its representative to the board. Often, the United States will question a prospective loan early in the preparation process. And during final deliberation of a loan proposal by the Bank’s executive board, it will make comments designed to draw attention to general matters of concern in order to influence future lending. Bank policy papers, evaluation reports, and special studies are also closely monitored. Executive branch officials have often emphasized that these procedures provide the United States with a substantial measure of influence and have repeatedly offered examples to illustrate the extent to which the Bank has been willing to make changes in loan and policy proposals on U.S. recommendations.

Although Gwin argues that the US has had privileged access to the World Bank, few studies have examined this influence using statistical analysis. The notable exception to this is the study by Fleck and Kilby, who find that US influence over the World Bank has varied over US presidential administrations.

**Institutional Incentives**

A final set of factors revolves around what can be termed the “institutional incentives” in donor organizations. For example, Frey and Schneider tried to account for the “prestige” desired by Bank staff, who see themselves as members of the international financial community. The authors hypothesized that seeking

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29 Gwin 1997, 246.
31 Fleck and Kilby 2006.
32 Frey and Schneider 1986.
to maintain this prestige would lead the Bank to follow conservative lending practices—in particular, the Bank would lend to countries with low inflation and government deficits, as well as those in which a ‘capitalist climate’ was in place. In addition, it would lend less to countries with high external debts and unstable political conditions.

However, there is reason to suspect that Frey and Schneider’s specification of this variable is less relevant for the purpose at hand, which is to study the lending practices of IDA, as opposed to its sister institution, the IBRD. IDA is a trust fund overseen by the IBRD to provide grants and interest-free loans to the poorest countries, while the IBRD lends money at market-rates to richer countries (although the IBRD’s repayment period is longer than that of commercial lenders). While it is therefore plausible that the staff of the IBRD would be concerned with their prestige in the international financial community, it is widely known that IDA is not a “normal” financial institution. In fact, its very existence is largely due to the fact that normal financial institutions will not lend to most of its client countries. Thus, it is impossible to expect IDA staff to adhere to normal banking standards.

Instead, prestige is likely to work more through the Bank as a whole, meaning that IDA and IBRD would work together to protect the institution’s reputation. This reputation is most importantly reflected in the institution’s bond rating. In their authoritative study of the history of the Bank, Devesh Kapur and his colleagues note that these bond ratings have not only a prestige factor but also a very practical importance as well:

Even as the Bank was establishing its reputation over the 1950s, its management was aware that its competitive advantage was due in part to its capacity to borrow money relatively cheaply from financial markets and in part to the fact that “easy money” was not readily available to its prospective borrowers. The Bank’s capacity to borrow depended on the quality of its bond ratings, which explained why it would act in a manner that would seem to pay inordinate attention to Wall Street.

The Bank has not always had a good bond rating, and indeed it struggled to achieve it. It was not until 1959 that it achieved the highest possible rating, AAA, and this was only after ratings agencies warned the Bank that its ratings

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33 The current qualification for eligibility for IDA lending is a gross national income per capita below $1135 and a lack of financial ability to borrow from IBRD.

34 In fact, the results of Frey and Schneider 1986 show that these banking standards do not end up predicting IDA lending. See their Table 4, p. 239.

were in jeopardy because its outstanding obligations were too high. The Bank rapidly mobilized its first capital increase as a result of this episode—from $10 billion to $21 billion—and shortly afterwards received the AAA rating. The Bank has not lost this rating since then, and it has boasted on its website:

As a reflection of the strength of the institution's capital backing as well as its prudent financial policies and risk controls, debt issued by the World Bank has been AAA-rated since 1959. The World Bank’s debt instruments represent a more diversified country-risk profile than sovereign or sovereign-guaranteed debt and are not vulnerable to many of the types of risk than can impair the long-term value of corporate bonds…. It is the World Bank’s practice not to reschedule interest or principal payments on its loans, and the World Bank has never written off a loan.\(^\text{36}\)

This last sentence is, however, slightly misleading. While the Bank has never written off a loan and rarely reschedules loans, it has “exchanged” outstanding debts from the IBRD for more concessional loans from IDA. In fact, IDA itself came into being only when the IBRD’s portfolio was becoming excessively risky. In the late-1950s, the Bank’s lending was shifting from richer European countries to poorer and indebted ones, and the IBRD’s exposure was concerning to the Bank’s supporters. The relevance of Frey and Schneider’s “prestige” factor, as it relates to the role of the IBRD and IDA in maintaining that prestige, is visible in this passage from Kapur and his colleagues:

While the discussions on IDA were in high gear, [Eugene R.] Black [then President of the World Bank] dispatched his general counsel, Davidson Sommers, to New York to talk to the Bank’s underwriters. Black and [George] Woods (then chairman of First Boston, one of the two managing underwriters of IBRD bonds) both shared the feeling that “soft-lending” was not a reputable activity for any respectable lending institution.

The argument almost immediately won Woods, and the markets, over. Much later an elaborate internal analysis of the IBRD’s loan portfolio acknowledged that the decline in the portfolio share of the most risky category of borrowers, between the end of the 1950s and the mid-1970s, could be explained as “presumably resulting from the introduction of IDA.”…Although IDA’s finances have

\(^{36}\) World Bank 2003.
always been distinct from those of the Bank (except for IBRD transferring a fraction of its net income to IDA) there can be little doubt that from the very beginning IDA played an important role in allaying creditworthiness concerns with respect to IBRD lending.\textsuperscript{37}

The existence of this relationship between the IBRD’s lending and that of IDA has been further suggested by both case study and statistical analysis. One case in particular is that of Zambia in the late 1980s. For both internal and external reasons, Zambia’s limited attempts at reform had borne little fruit between the mid-1970s and the mid-1980s. However, the country had been receiving money from donors throughout this period and thus fell into a debt crisis. In August 1987, Zambia went into arrears and non-accrual with the World Bank. As a result, the Bank arranged a “bridge loan” from the United Kingdom and the US to clear the arrears to the IMF and IBRD, and an IDA credit was used to re-pay the bridge loan.\textsuperscript{38} In order to do this, “IDA allocation criteria had to be bent to give the country an IDA allocation that on a per capita basis was equal to that of the best-performing country.”\textsuperscript{39}

Relying more on statistical analysis, and looking at net transfers to heavily indebted poor countries from 1979-1997, Easterly finds that while concessional and non-concessional lending were both positive over the period 1979-87, “there was a huge shift in net transfers from 1979-87 to 1988-97, a period in which debt ratios stabilized. Large positive net transfers from IDA and bilateral concessional sources offset negative net transfers for IBRD, IMF, bilateral non-concessional, and private sources.”\textsuperscript{40} Looking specifically at the World Bank, Easterly finds that despite their poor policies, heavily indebted poor countries received more in World Bank lending than other less developed countries, even controlling for income. As Easterly concludes, “A cynical interpretation would be that as countries could not or would not pay their non-concessional debt, official lenders replaced their non-concessional debt with concessional debt that had a large grant element.”\textsuperscript{41}

The reader will note that this type of coordination between IDA and IBRD would necessarily entail quite a high degree of interaction between the two

\textsuperscript{37} Kapur, Lewis, and Webb 1997, 933-4. The citation for the “internal analysis” is World Bank 1975, 6.
\textsuperscript{38} This case is discussed in Kapur, Lewis, and Webb 1997, 786-7 and 1156n.
\textsuperscript{39} Kapur, Lewis, and Webb 1997, 786-7.
\textsuperscript{40} Easterly 2002b, 1689.
\textsuperscript{41} Easterly 2002b, 1691. In addition, as Birdsall, Claessens, and Diwan 2003 note, defaulting on multilateral loans would mean that the offending country would have to be cut off from international lending, something the Bank—which is, after all, in the business of lending—would not desire.
organizations. This is certainly plausible, as the two organizations share the same buildings and even staff at the headquarters of the World Bank in Washington, DC. However, the cooperation goes even deeper than that. As Kapur and his colleagues relate,

The defining aspect of the Bank-IDA merger was its closeness. For most operating purposes, the two operations became as one. [The merger]...gave a second face to the same institution—but in a way that changed the original as well as the add-on....The “seamless web” between the Bank and IDA, made unmistakable by their shared management, staff, and organizational structure, had a profound effect on the Bank....The merger had an equally profound impact on the multilateral concessional lending program. It immersed the latter thoroughly and fully in the Bank’s operating culture. Not only did the same people manage and do the work of the nonconcessional and concessional programs: it was the same work.42

In sum, it seems evident that while Frey and Schneider certainly were on to something with regard to the potential importance of bureaucratic influence on lending, they misspecified the independent variable. Instead of a country’s deficits or investment climate (which may factor in the Bank’s evaluation of a country’s policy environment, as discussed above), the relevance of this factor is likely to show up in the Bank’s desire to avoid default in a client country, particularly on a loan to the IBRD. This hypothesis has not been tested in any existing work. While Easterly looks at Bank behavior toward countries with high debt in general, he does not parse out the specific effects of debt owed to the Bank itself.43 While the Bank would likely want to avoid any defaults on the part of the client country, the preceding discussion suggests that the most important debt would presumably be that to itself.

**Changing Determinants over Time**

Before moving on to examine the relative impacts of these various determinants on IDA lending, it is important to note the possibility raised in recent research that determinants of donor allocations have changed over time. For example, David Dollar and Victoria Levin have shown that some donors have paid increasing attention to the policy environment of recipients since the Cold War ended, while

42 Kapur, Lewis, and Webb 1997, 1132, emphasis in original.
43 Easterly 2002b.
strategic concerns have ostensibly diminished in importance.\textsuperscript{44} Stijn Claessens and his colleagues have found similar results.\textsuperscript{45} And relatedly, Joseph Wright and Matthew Winters have found that donors seem to have rewarded politically competitive regimes more in the post-Cold War world than they did previously.\textsuperscript{46}

In this light, it is reasonable to think that the end of the Cold War might have coincided with important changes within the World Bank as well, for example with regard to an increased focus on the policy environment of recipient countries. As Jessica Einhorn wrote, “By the early 1990s, the bank was ready to embrace the post-Cold War optimism on development and the global economy…. In short, hope was in the air. In its 1990 World Development Report, the bank promoted a two-pronged strategy to combat poverty through better market incentives, social and political institutions, infrastructure, and technology.”\textsuperscript{47}

In addition, it seems likely that the massive political changes associated with the end of the Cold War may also have coincided with changing influences on the Bank from its member countries. However, it is not \textit{a priori} clear what the nature of these changes might have been. Take the US, for example. The end of the Cold War left the US as the undisputed hegemon, with perhaps less incentive to compromise with differing opinions with Bank membership. However, the end of the Cold War, as discussed above, might also have plausibly initiated a time in which political influences on aid diminished, potentially signaling reduced political interference on the Bank by the US.

Related to this last point, the end of the Cold War seemed to signal a new opportunity and need for aid coordination across donors. Not only were the strategic imperatives of the Cold War not as salient, but foreign aid programs were being cut in donor countries as a result. Coordination among donors had intensified during the debt crisis of the 1980s, as the World Bank, IMF, and the OECD’s Development Assistance Committee all tried to coordinate donor actions to address the crisis. As a result, Dane Rowlands and Ian Ketcheson wrote, “the conditions of the 1990s may be thought of as being perhaps the most conducive for both implicit and explicit donor coordination.”\textsuperscript{48} It is unclear, however, exactly what this would have meant in terms of aid flows. Few studies have analyzed how donor flows relate to one another, and those that do seem to arrive at contradictory conclusions. On the one hand, B. Mak Arvin and his colleagues found that there seemed to be “herding” behavior among donors, finding a positive correlation between the aid of one country and those of its G-7 partners.\textsuperscript{49}

\textsuperscript{44} Dollar and Levin 2006.
\textsuperscript{45} Claessens, Cassimon, and van Campenhout 2009.
\textsuperscript{46} Wright and Winters 2010.
\textsuperscript{47} Einhorn 2001, 26.
\textsuperscript{48} Rowlands and Ketcheson 2002, 28.
\textsuperscript{49} Arvin, Savage, and Scigliano 1998. Also see Black, Thérien, and Clark 1995.
On the other hand, Saori Katada found that Japan and the US coordinated over a “division of labor” in Latin America prior to the end of the Cold War.\textsuperscript{50} For their part, in their study of all World Bank lending (IBRD and IDA) Fleck and Kilby found that at times US aid seems to have acted as a complement to Bank assistance and at other times as a substitute, depending on the US presidential administration.\textsuperscript{51} They did not compare the overall patterns during and after the Cold War.

\textit{Figure 1: Average level of debt to the IBRD as a share of gross national income, 1977-2005}

In addition to the changing geopolitical environment surrounding the Bank’s operations, the end of the Cold War seems also to have coincided with important dynamics \textit{within} the Bank. As mentioned above, the period before the end of the Cold War was a time of rising levels of debt to the IBRD. This is displayed graphically in Figure 1, which tracks the average level of countries’ IBRD debt as a share of their gross national income over time (using data from the World Bank’s \textit{Global Development Finance}). As the figure shows, the debt level rose over the course of the 1980s, peaking around the time just before the end of the Cold War, and then underwent a systematic decline over the 1990s and early 2000s. This seems to be strongly suggestive that something might have

\textsuperscript{50} Katada 1997. Also see Hickman 1993.

\textsuperscript{51} Fleck and Kilby 2006.
changed in the Bank’s approach to lending during this time, a hypothesis that will now be explored with more rigor.

Data and Methodology

In order to evaluate the relative importance of the determinants discussed above, and how they may have changed over time, I study IDA disbursements to the countries eligible for assistance from the International Development Association over the period 1977-2005. I use an ordinary least squares model with country fixed effects and robust (Huber-White) standard errors as my principal regression equation, though I test the robustness of the results to other specifications.

As the dependent variable in the model, I use the recipient country’s share of gross disbursements from IDA to developing countries in a given year. These figures are from the OECD’s International Development Statistics database (various years). The share of lending has similarly been used as a dependent variable in several studies, including those by Eric Neumayer and Fleck and Kilby. In the context of budget constraints within an organization, using the share of lending helps account for the tradeoffs involved in giving money to one country and not another. It also is a measure that emerges as the key parameter in formal models of aid allocation.

The independent variables that enter into the model derive directly from the above discussion of the literature. To account for country need in the Bank’s calculations, I use three variables. The first two are population and GDP per capita in constant US dollars—both in natural log form to account for diminishing marginal effects. The third is the same measure that Easterly uses in the work discussed above regarding the “financing gap.” When he tests the effect of aid on investment, and the effect of investment on short-term growth, he operationalizes the ICOR by the ratio of investment to GDP. The data for all three of these indicators come from the World Bank’s (various years) World Development Indicators.

To account for the recipient’s policy environment, I use the exact measure that the World Bank uses: its own staff assessments. Each year World Bank country staff members calculate a Country Policy and Institutional Assessment (CPIA) for every country. For my purposes, it is an ideal indicator, because it captures the Bank’s evaluation of how much a country has progressed in implementing policies the Bank finds desirable. The CPIA is a measure from 1 to 6, higher scores indicating a better policy environment in the eyes of Bank staff.

53 For example, Fleck and Kilby 2006 and Trumbull and Wall 1994.
54 Easterly 1999.
Though the data are confidential, Bank staff members have used them in a variety of academic publications.55

To account for the influence of the US on the World Bank, I include the share of US bilateral aid flows that a country received. Specifically, I use the share of gross US ODA disbursements as a measure of the strategic value to the US. This echoes Randall Stone’s operationalization of US influence in his study of the IMF, as well as Kilby’s and Fleck and Kilby’s operationalization of the influence of the US on the Asian Development Bank and World Bank, respectively.56 Using aid in this way is also supported by numerous studies showing that bilateral aid—and US aid in particular—is allocated based on strategic goals.57 The assumption is that the larger share of aid a country receives from the US, the more strategically important that country is to the US, and the hypothesis is that the US will influence IDA to lend money to that country. The data on US bilateral aid flows is from the Development Assistance Committee of the OECD.

To account for the institutional incentives discussed above, I include in my model the amount of debt owed by a country to the IBRD, as a share of the country’s population. This share suggests the ability of the country to pay back its debt and is calculated using data from the World Bank’s Global Development Finance.58

Finally, to account for the possibility that the effects of each of these variables changed after the Cold War, I interact all of them with a dummy indicator equal to one if the year is equal to 1990 or above, and zero otherwise. I also include the dummy variable on its own, as is best practice when using interaction terms.59

**Results and Robustness Checks**

Table 1 presents the principal results of the analysis. To facilitate interpretation of the results, I have calculated the coefficients and standard errors in both the Cold War and the period after it. Interpretation of regression equations with interaction terms is difficult, because models such as these examine *conditional* hypotheses (such as the effect of GDP per capita conditional on being in the period of the Cold War).

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55 For example, Burnside and Dollar 2000 and Collier and Dollar 2002.
56 Fleck and Kilby 2006; Kilby 2006; Stone 2002.
57 For example, Alesina and Dollar 2000 and McKinlay and Little 1979.
58 Initially, I used IBRD debt as a share of GDP for this indicator, instead of as a share of population. However, an insightful reviewer noted that this operationalization might cause bias, in that negative economic shocks may lead GDP to go down (and thus debt-to-GDP to go up) while also causing aid to go up. While debt as a share of population is therefore the preferred indicator, the results with the other were similar.
Cold War, and conditional on not being in the period of the Cold War). Therefore the coefficients and standard errors (and by implication statistical significance) of interacted variables must be calculated using both the coefficient of a variable by itself and the coefficient of the interaction term including that variable. To put this in more concrete terms, the coefficients and standard errors in the “Cold War” columns are simply the coefficients and standard errors on those variables in the regression equation. The interaction term does not affect these, because the post-Cold War variable is coded as a zero, and therefore the interaction term is equal to zero. In the “Post-Cold War” columns, however, the coefficient and standard errors are calculated using both the variable and its interaction with the post-Cold War variable. The presentation in Table 1 therefore enables one to compare directly the effects of the variables in the Cold War and afterwards.

I present two versions of the model, the second of which includes year fixed effects in addition to the country fixed effects. The inclusion of these year fixed effects accounts for changes in averages over time, but doing so causes the post-Cold War dummy variable to drop out of the equation because of collinearity. I therefore present both versions of the model so that the reader can see the similarity in the results.

For the “need” and “policy environment” variables, there is little difference across the two periods. There is no evidence that GDP per capita or investment as a share of GDP have a significant effect on IDA disbursements in either period. However, population is significantly and positively associated with higher IDA disbursements in both periods in Model 2, with year fixed effects. As for the policy environment, the results confirm IDA’s own statement (quoted above) that the policy environment of a country has always weighed heavily in the allocation of IDA disbursements.

60 Brambor, Clark, and Golder 2006; Braumoeller 2004; Kam and Franzese 2007.
61 Specifically, they are calculated using the lincom command in Stata.
62 To be perfectly clear, let me give an example with regard to GDP per capita. In the regression equation, GDP per capita enters on its own and in interaction with the dummy variable indicating the period after the Cold War. The effect of GDP per capita on the dependent variable is therefore conditional on whether or not the Cold War is present or not. If it is not, the interaction term is equal to zero (because the dummy variable equals zero), and so in the column on the left of Table 1 (and Table 2), the coefficient and standard error for the GDP per capita simply come from the variable on its own in the regression. By contrast, when an observation occurs during the Cold War, the dummy variable is coded as a one, which means the interaction term’s coefficient partly determines the effect of GDP per capita. Therefore, the column on the right of Table 1 is calculated using the coefficients and standard errors of both that variable and the interaction term.
63 Angrist and Pischke 2009.
Table 1: Main results

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>Cold War</th>
<th>Post-Cold War</th>
<th>Cold War</th>
<th>Post-Cold War</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP per capita (ln, t-1)</td>
<td>-0.00592</td>
<td>-0.00855*</td>
<td>-0.00450</td>
<td>-0.00594</td>
</tr>
<tr>
<td></td>
<td>(0.00429)</td>
<td>(0.00441)</td>
<td>(0.00472)</td>
<td>(0.00471)</td>
</tr>
<tr>
<td>Population (ln, t-1)</td>
<td>0.00773**</td>
<td>0.00457</td>
<td>0.0258***</td>
<td>0.0225***</td>
</tr>
<tr>
<td></td>
<td>(0.00392)</td>
<td>(0.00317)</td>
<td>(0.00602)</td>
<td>(.00501)</td>
</tr>
<tr>
<td>Investment/GDP (t-1)</td>
<td>8.78e-05</td>
<td>0.0000527</td>
<td>7.53e-05</td>
<td>0.000053</td>
</tr>
<tr>
<td></td>
<td>(9.97e-05)</td>
<td>(0.0000362)</td>
<td>(9.85e-05)</td>
<td>(0.0000361)</td>
</tr>
<tr>
<td>IBRD debt per cap (t-1)</td>
<td>-0.000126**</td>
<td>0.000136***</td>
<td>-0.000123**</td>
<td>0.000145***</td>
</tr>
<tr>
<td></td>
<td>(5.44e-05)</td>
<td>(0.0000451)</td>
<td>(5.55e-05)</td>
<td>(0.0000482)</td>
</tr>
<tr>
<td>CPIA (t-1)</td>
<td>0.00267**</td>
<td>0.00300***</td>
<td>0.00298***</td>
<td>0.00317***</td>
</tr>
<tr>
<td></td>
<td>(0.00107)</td>
<td>(0.000966)</td>
<td>(0.00105)</td>
<td>0.00100</td>
</tr>
<tr>
<td>Share of US aid (t-1)</td>
<td>0.543***</td>
<td>0.145</td>
<td>0.541***</td>
<td>0.142</td>
</tr>
<tr>
<td></td>
<td>(0.183)</td>
<td>(0.101)</td>
<td>(0.185)</td>
<td>(0.103)</td>
</tr>
<tr>
<td>Constant</td>
<td>-0.0473</td>
<td>0.0132</td>
<td>-0.247***</td>
<td>CW Dummy Dropped</td>
</tr>
<tr>
<td></td>
<td>(0.0622)</td>
<td>(0.0557)</td>
<td>(0.0696)</td>
<td></td>
</tr>
<tr>
<td>Observations</td>
<td>1345</td>
<td>1345</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Countries</td>
<td>74</td>
<td>74</td>
<td></td>
<td></td>
</tr>
<tr>
<td>R-squared</td>
<td>0.829</td>
<td>0.830</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Root MSE</td>
<td>0.0164</td>
<td>0.0165</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Dependent variable is the share of IDA disbursements in a given year. Both models include country fixed effects (not reported). Model 2 also includes year fixed effects (not reported). Robust standard errors in parentheses. The difference between the constants in the Cold War and post-Cold War periods reflects the coefficient on the post-Cold War variable. *** p<0.01, ** p<0.05, * p<0.1.
In contrast, the other two variables differ across the periods in significant ways. The first of these is the amount of debt owed by the country to the IBRD, as a share of its population. During the Cold War, disbursements of IDA funding had a negative and significant correlation with IBRD debt, which would seem to be in line with a prudent lending strategy within the Bank, in line with Frey and Schneider’s initial work on prestige. However, after the Cold War, IBRD debt has been positively and significantly correlated with disbursements of IDA lending, as the organization has apparently sought to defend its overall reputation as a creditor. This is strongly suggestive evidence that disbursements from the most important provider of multilateral development assistance have been affected by that organization’s own internal structure.

The second variable that changes in important ways is the share of US aid a country receives. While this indicator was positively and significantly related to IDA disbursements in the Cold War period, it has been insignificant in the post-Cold War period. Seen in the light of other studies that have examined the association between the aid flows of different donors, this result would seem to reflect a diminished influence of the US on the World Bank in the post-Cold War period, as any kind of aid coordination would be reflected in a significant coefficient (either positive for “herding” or negative for “division of labor”).

How robust are these findings to other specifications? Table 2 presents the results of a reasonable modification to the regression in Model 1 of Table 1: including dummy variables denoting each country’s geographic region. The results are essentially identical to those in Table 1, although the population variable is made insignificant by the inclusion of the regional dummies, particularly the South Asia dummy which enters with a positive and significant coefficient in both periods. The results for the other regional dummies indicate that East Asia & the Pacific and the Middle East & North Africa received less than other regions during the Cold War, but that this is no longer the case.

---

64 Frey and Schneider 1986.
Table 2: Results including regional effects

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>Cold War</th>
<th>Post-Cold War</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP per capita (ln, t-1)</td>
<td>-0.00418</td>
<td>-0.00554</td>
</tr>
<tr>
<td></td>
<td>(0.00448)</td>
<td>(0.00403)</td>
</tr>
<tr>
<td>Population (ln, t-1)</td>
<td>0.000457</td>
<td>0.000698</td>
</tr>
<tr>
<td></td>
<td>(0.00424)</td>
<td>(0.00360)</td>
</tr>
<tr>
<td>Investment/GDP (t-1)</td>
<td>0.000103</td>
<td>0.000643*</td>
</tr>
<tr>
<td></td>
<td>(9.61e-05)</td>
<td>(.000379)</td>
</tr>
<tr>
<td>IBRD debt per capita (t-1)</td>
<td>-0.000101*</td>
<td>0.000141***</td>
</tr>
<tr>
<td></td>
<td>(0.0000547)</td>
<td>(0.0000466)</td>
</tr>
<tr>
<td>CPIA (t-1)</td>
<td>0.00364***</td>
<td>0.003978***</td>
</tr>
<tr>
<td></td>
<td>(0.00111)</td>
<td>(0.000998)</td>
</tr>
<tr>
<td>Share of US aid (t-1)</td>
<td>1.344***</td>
<td>0.0446</td>
</tr>
<tr>
<td></td>
<td>(0.411)</td>
<td>0.0778</td>
</tr>
<tr>
<td>East Asia &amp; Pacific</td>
<td>-0.0249***</td>
<td>-0.00750</td>
</tr>
<tr>
<td></td>
<td>(0.00784)</td>
<td>(0.00774)</td>
</tr>
<tr>
<td>Latin America &amp; Caribbean</td>
<td>0.00730</td>
<td>0.00899</td>
</tr>
<tr>
<td></td>
<td>(0.00700)</td>
<td>(0.00592)</td>
</tr>
<tr>
<td>Middle East &amp; North Africa</td>
<td>-0.163**</td>
<td>0.00842</td>
</tr>
<tr>
<td></td>
<td>(0.0636)</td>
<td>(0.0127)</td>
</tr>
<tr>
<td>South Asia</td>
<td>0.202***</td>
<td>0.187***</td>
</tr>
<tr>
<td></td>
<td>(0.0196)</td>
<td>(.0177)</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>-0.00212</td>
<td>-0.000884</td>
</tr>
<tr>
<td></td>
<td>(0.0110)</td>
<td>(0.0101)</td>
</tr>
<tr>
<td>Constant</td>
<td>0.00435</td>
<td>0.00998</td>
</tr>
<tr>
<td></td>
<td>(0.0832)</td>
<td>(0.0722)</td>
</tr>
<tr>
<td>Observations</td>
<td>1345</td>
<td></td>
</tr>
<tr>
<td>Countries</td>
<td>74</td>
<td></td>
</tr>
<tr>
<td>R-squared</td>
<td>0.847</td>
<td></td>
</tr>
<tr>
<td>Root MSE</td>
<td>0.0155</td>
<td></td>
</tr>
</tbody>
</table>

Dependent variable is the share of IDA disbursements in a given year. Country fixed effects not reported. Robust standard errors in parentheses. The difference between the constants in the Cold War and post-Cold War periods reflects the coefficient on the post-Cold War variable. *** p<0.01, ** p<0.05, * p<0.1.

Table 3 presents results attained using a standard Heckman selection model, using the variables in Table 2. Since a number of observations in my data have zero disbursements from IDA, it is possible that there is some process whereby the Bank first selects those countries that will receive aid and then distributes the aid accordingly. Accounting for this process may not be important.

---

65 Heckman 1976. Results were similar using Models 1 and 2 from Table 1.
to the statistical results, and the stability of results using this kind of model has been questioned. However, because some other relevant works have used this technique, I estimate two equations. The first estimates the effects of the variables discussed above on the probability of being selected to receive aid, and the second estimates their effects on the amount of aid a country is allocated, conditional on being selected to receive aid.

For my purposes, the equation of interest is the allocation equation, which captures the dynamic analyzed in Tables 1 and 2. The results in Table 3 indicate that selection effects were not driving those results, as the significance levels of the coefficients are virtually identical to those in Table 2. It is difficult to know what to make of some of the results in the selection equation (for example, population has negative and significant coefficients), which are of course driven by the 124 observations not selected for IDA disbursements. There does not seem to be any obvious pattern among these observations, as they span 26 countries and all geographic regions. This may be a subject of future research, but again, the important point here is that accounting for this selection process does not change the principal results in the analysis of the levels of IDA disbursements.

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66 For a skeptical view of the need to run selection models, see Chapter 3 of Angrist and Pischke 2009.
67 As discussed by Cameron and Trivedi 2009, 543, identification in Heckman selection models is often based on the nonlinearity in the functional form of the selection equation. “Because the selection equation is nonlinear, it potentially allows the higher powers of regressors to affect the selection variable. In the linear outcome equation, of course, the higher powers do not appear. Therefore, the nonlinearity of the selection regression automatically generates exclusion restrictions. That is, it allows for independent source of variation in the probability of a positive outcome.” As Sartori 2003 has discussed, however, these models can be very unstable, with imprecise estimates in the second stage. Some empirical work supplements this identification through nonlinear functional form by including a variable(s) that can generate significant variation in the selection variable but does not affect the outcome variable directly. However, in this particular case I cannot think of what such a variable would be.
68 Neumayer 2003b and Kilby 2006 run a similar model.
Table 3: Results using a Heckman selection model

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>Selection</th>
<th>Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cold War</td>
<td>Post-CW</td>
</tr>
<tr>
<td>GDP per capita (ln, t-1)</td>
<td>0.505</td>
<td>1.392**</td>
</tr>
<tr>
<td></td>
<td>(0.865)</td>
<td>(0.610)</td>
</tr>
<tr>
<td>Population (ln, t-1)</td>
<td>-4.198***</td>
<td>-3.840***</td>
</tr>
<tr>
<td></td>
<td>(1.133)</td>
<td>(1.014)</td>
</tr>
<tr>
<td>Investment/GDP (t-1)</td>
<td>0.0551**</td>
<td>0.0199</td>
</tr>
<tr>
<td></td>
<td>(0.0269)</td>
<td>(0.0190)</td>
</tr>
<tr>
<td>IBRD debt per cap (t-1)</td>
<td>-0.0153</td>
<td>0.00291</td>
</tr>
<tr>
<td></td>
<td>(0.0114)</td>
<td>(0.00864)</td>
</tr>
<tr>
<td>CPIA (t-1)</td>
<td>0.269</td>
<td>1.150***</td>
</tr>
<tr>
<td></td>
<td>(0.255)</td>
<td>(0.240)</td>
</tr>
<tr>
<td>Share of US aid (t-1)</td>
<td>198.0**</td>
<td>105.265**</td>
</tr>
<tr>
<td></td>
<td>(80.64)</td>
<td>(42.203)</td>
</tr>
<tr>
<td>Constant</td>
<td>68.82***</td>
<td>56.922***</td>
</tr>
<tr>
<td></td>
<td>(18.80)</td>
<td>(15.527)</td>
</tr>
<tr>
<td>Observations</td>
<td>1461</td>
<td>1337</td>
</tr>
<tr>
<td>Countries</td>
<td>75</td>
<td>74</td>
</tr>
<tr>
<td>Wald $\chi^2$ (91)</td>
<td>7243.09</td>
<td></td>
</tr>
<tr>
<td>Prob &gt; $\chi^2$</td>
<td>0.0000</td>
<td></td>
</tr>
</tbody>
</table>

Note: Results in table are from a Heckman selection model estimating the selection and allocation equations simultaneously. The dependent variable in the selection equation is whether or not a country received positive IDA disbursements, and the dependent variable in the allocation equation is the share of IDA disbursements. Fixed country and regional effects not shown. The difference between the constants in the Cold War and post-Cold War periods reflects the coefficient on the post-Cold War variable. *** p<0.01, ** p<0.05, * p<0.1.

In sum, the results with regard to the influences on IDA disbursements are quite stable across all of the various specifications. Finally, I subjected the results during the post-Cold War period to an additional robustness check. It is possible that the time between the end of the Cold War and September 11, 2001, marked a unique period in the relations between the United States and the World.

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In response to a reviewer, I also ran a regression in which the share of US aid was replaced by a measure of the similarity between the IDA recipient and the US in voting at the United Nations General Assembly (Voeten and Merdzanovic 2009). While none of the other results changed, this measure of “affinity” was not significant in either period. One reason is likely to be that countries that are “friendly” with the US as reflected in their UN voting pattern may not be particularly strategic. For example, in my sample, Pakistan has an average share of US aid much higher than the sample average, while having a lower than average voting affinity with the US. This no doubt reflects its geo-strategic position, and indeed aid may be given to that country in order to keep it from developing even less affinity with the US.

I am very grateful to a reviewer for suggesting this.
Bank, during which the US was less concerned about the strategic implications of Bank lending. After the 9/11 attacks, it is conceivable that the US went back to “business as usual,” in the sense that it used its influence on the Bank for strategic purposes in the same way it did during the Cold War.

In order to test this hypothesis, I ran a regression only with the sample of observations after the Cold War had ended, and interacted all of the variables with a dummy variable representing the period from 1990 to 2000. Table 4 presents the results. With regard to most of the variables, the results are quite similar to those reported in Tables 1 through 3, though here income enters with a significant and negative coefficient. It is very interesting to note, however, that while US aid is insignificant in the 1990s, it again becomes positive and significant after 2000. In other words, the period 2001-2005 seems to resemble the Cold War period in terms of the influence of the US on the Bank. As more data become available for the 2000s, this will be an interesting hypothesis to continue to examine.

Table 4: Analysis of the Post-Cold War Period

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>1990-2000</th>
<th>2001-2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP per capita (ln, t-1)</td>
<td>-0.00926***</td>
<td>-0.01113***</td>
</tr>
<tr>
<td></td>
<td>(.00391)</td>
<td>(0.00398)</td>
</tr>
<tr>
<td>Population (ln, t-1)</td>
<td>-0.00176</td>
<td>-0.00248</td>
</tr>
<tr>
<td></td>
<td>(0.00414)</td>
<td>(0.00423)</td>
</tr>
<tr>
<td>Investment/GDP (t-1)</td>
<td>.0000194</td>
<td>8.12e-05*</td>
</tr>
<tr>
<td></td>
<td>(0.0000358)</td>
<td>(4.44e-05)</td>
</tr>
<tr>
<td>IBRD debt per capita (t-1)</td>
<td>.000114**</td>
<td>.0000878**</td>
</tr>
<tr>
<td></td>
<td>(.0000494)</td>
<td>(.0000443)</td>
</tr>
<tr>
<td>CPIA (t-1)</td>
<td>0.00222**</td>
<td>0.00284**</td>
</tr>
<tr>
<td></td>
<td>(0.000966)</td>
<td>(0.00141)</td>
</tr>
<tr>
<td>Share of US aid (t-1)</td>
<td>-0.0267</td>
<td>0.394*</td>
</tr>
<tr>
<td></td>
<td>(0.01721)</td>
<td>(0.234)</td>
</tr>
<tr>
<td>Constant</td>
<td>0.213**</td>
<td>0.233**</td>
</tr>
<tr>
<td></td>
<td>(0.0944)</td>
<td>(0.0968)</td>
</tr>
<tr>
<td>Observations</td>
<td>897</td>
<td></td>
</tr>
<tr>
<td>Countries</td>
<td>71</td>
<td></td>
</tr>
<tr>
<td>R-squared</td>
<td>0.883</td>
<td></td>
</tr>
<tr>
<td>Root MSE</td>
<td>0.0099</td>
<td></td>
</tr>
</tbody>
</table>

Note: Dependent variable is the share of IDA disbursements in a given year. Country fixed effects not reported. Robust standard errors in parentheses. The difference between the constants in the 1990-2000 period and the 2001-2005 period reflects the coefficient on the 1990s dummy variable. *** p<0.01, ** p<0.05, * p<0.1.
Conclusion

This paper has attempted to provide the first systematic analysis of the determinants of lending from the International Development Association, the World Bank’s provider of concessional assistance to poor countries and the largest multilateral provider of foreign aid. After a comprehensive review of the various factors the literature has identified as plausible influences on IDA’s lending, I have provided the results from a variety of statistical specifications analyzing IDA disbursements to all eligible countries from 1977-2005.

The overall results in Tables 1 through 4 point to areas of both stability and change in the way the World Bank operated over these decades. The effect of need has been relatively consistent, though population seems to have been more important than other measures of need for the Bank. Similarly, the influence of the Bank’s Country Policy and Institutional Assessment has remained steady over time. In contrast, there has been less of an association between US aid flows and IDA disbursements in the post-Cold War than previously, though as reported in Table 4, this seems largely due to the period of the 1990s between the Cold War and the beginning of the US’s “war on terror.” After 2001, US aid has again been positively and significantly associated with IDA disbursements.

Beyond this overall picture of how IDA lending has evolved over time, the most notable finding of this analysis is the dramatic switch in the influence of debt owed to IDA’s sister institution, the International Bank for Reconstruction and Development. This is the only variable whose effect consistently switched signs, while remaining significant, across the two periods. From being negatively correlated with IDA disbursements during the Cold War, IBRD debt became positively correlated with IDA disbursements after the Cold War ended. These results echo the broader trend of aggregate defensive lending by donors suggested by Easterly as well as Nancy Birdsall and her colleagues, but they are the first to identify this sort of behavior within one institution, the most important multilateral development institution.71

The results in this regard are not only theoretically important but also substantively significant. On average, a country in my sample received 1.88 percent of IDA disbursements in a given year. Using the results in Table 1, for example, this means that during the Cold War, a one standard deviation jump in debt owed to the IBRD resulted in a decline of about seven percent (0.131 percentage points) of that country’s share of IDA disbursements. However, the

71 Birdsall, Claessens, and Diwan 2003; Easterly 2002b. It should be noted that the overall development impact of IDA lending following IBRD debt is not altogether clear. While this trend might lead IDA to lend to countries with worse policies, as argued by Birdsall and her colleagues, it might also lower the interest burden on those countries, as IDA loans are much cheaper than IBRD loans.
same jump after the Cold War would have resulted in about a six percent increase (0.115 percentage points) in that country’s share of IDA disbursements.

Together, the results presented in this paper suggest the importance of studying how donor organizations change over time, as well as how their organizational structures affect their allocation activity. Existing studies of aid allocation tend to give short shrift to both of these factors, particularly the latter. In part this reflects the attention in much of the foreign aid literature to “donors” as an aggregate category, without as much attention to the particular details of individual donors. This paper, however, has provided evidence that these details can matter a great deal. Certainly there is an argument to be made that greater attention to the institutional details of at least the largest foreign aid donors might reveal additional important factors driving the allocation of aid around the world.

References


