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## The costs of favoritism: Is politically-driven aid less effective?

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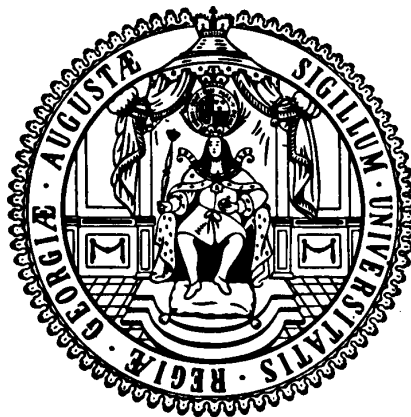
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# **Courant Research Centre**

## **‘Poverty, Equity and Growth in Developing and Transition Countries: Statistical Methods and Empirical Analysis’**

**Georg-August-Universität Göttingen**  
(founded in 1737)



Discussion Papers

**No. 26**

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**March 2010**

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## **The costs of favoritism: Is politically-driven aid less effective?**

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**Abstract** As is now well documented, aid is given for both political as well as economic reasons. The conventional wisdom is that politically-motivated aid is less effective in promoting developmental objectives. We examine the ex-post performance ratings of World Bank projects and generally find that projects that are potentially politically motivated – such as those granted to governments holding a non-permanent seat on the United Nations Security Council or an Executive Directorship at the World Bank – are no more likely, on average, to get a negative quality rating than other projects. When aid is given to Security Council members with higher short-term debt, however, a negative quality rating is more likely. So we find evidence that World Bank project quality suffers as a consequence of political influence only when the recipient country is economically vulnerable in the first place.

Keywords: World Bank, Aid Effectiveness, Political Influence, United Nations Security Council

JEL codes: O19, O11, F35

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## 1. Introduction

It has now been well established that foreign aid is frequently granted for reasons of politics rather than need (Dollar and Svensson 2000, Kilby 2000, 2001).<sup>1</sup> This fact, of course, comes as little surprise to scholars and practitioners of statecraft. As Hans Morgenthau, one of the founders of realist international relations theory, noted: “the transfer of money and services from one government to another performs here the function of a price paid for political services rendered or to be rendered” (1962: 302). Indeed, since the late 1940s, every US administration has considered foreign aid to be important in achieving foreign policy goals (Ruttan 1996).

Perhaps even better documented than the political determinants of aid is the failure of development assistance, on average, to noticeably raise GDP growth in recipient countries (e.g., Boone 1996, Easterly, Levine, and Roodman 2003, Rajan and Subramanian 2008, Doucouliagos and Paldam 2009). While there is a large on-going controversy over the effectiveness of aid (e.g., Sachs 2005 versus Easterly 2006), the debate in economics journals largely turns on the question of whether the very small effects found are statistically significant, or whether these small effects differ significantly depending on donor or recipient characteristics or behavior (e.g., Burnside and Dollar 2000, Hansen and Tarp 2001). It is no great leap to speculate that the political patterns of aid disbursement could partly be responsible for aid’s lackluster performance. In one of the most cited of the recent econometric studies detailing the political determinants of aid, Alesina and Dollar (2000) conclude that the political allocation of aid “provides evidence as to why it is not more effective at promoting growth and poverty reduction.” Other studies make the same claims, though only a handful consider the impact of donor behavior on aid effectiveness in detail (Dunning 2004, Minoiu and Reddy 2007, Headey 2008, Bermeo 2008, Bearce and Tirone 2009, Kilby and Dreher 2010).

Part of this literature has focused on motivations and effectiveness of bilateral aid. A literature has also developed documenting the relevance of politically-motivated aid allocation in multilateral development organizations such as the World Bank and the

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<sup>1</sup> Also see, among many others, Kaufmann and Wang (1995), Burnside and Dollar (1997), Meernik, Krueger, and Poe (1998), Dollar and Pritchett (1998), Isham and Kaufmann (1999), Alesina and Dollar (2000), Berthélemy and Tichit (2004), Kuziemko and Werker (2006), Canavire et al. (2006).

International Monetary Fund (IMF). These intergovernmental organizations, though technocratic, are hardly free of politics. The World Bank itself freely admits that its lending practices were politically motivated during the Cold War,<sup>2</sup> and scholars have found this to be the case both during and after the Cold War period (Schneider et al. 1985, Frey and Schneider 1986, Andersen, Hansen and Markussen 2006, Fleck and Kilby 2006, and Dreher, Sturm and Vreeland 2009a). As with bilateral aid, there is a debate on the effectiveness of aid from these organizations, although much of this debate focuses on the effectiveness of stabilization and structural adjustment programs, rather than aid more generally (e.g., Mosley, Harrigan and Toye 1991, Tarp 1994, Dollar and Svensson 2000, Vreeland 2003). Moreover, as suggested by Stone (2002), the effectiveness of multilateral aid may be influenced by the collective political motivations of donor community.<sup>3</sup>

The theoretical case for political aid being less effective than developmental aid is not without controversy. If political motivations lead to choosing inferior projects or lowers the determination to implement them successfully, the result may indeed be a drop in quality. Dollar and Svensson (2000) suggest that because aid allocation may follow strategic considerations, development agencies like the Bank have incentives to “prepare adjustment assistance for countries that are objectively low probability reformers” (2000: 910). Considering the lending decisions of the World Bank specifically, Kilby (2009) shows that countries favored by the largest shareholder at the World Bank (the United States) face weaker enforcement of the economic policy conditions attached to their loans. He suggests that such lending may thus be less effective.

However, there are good reasons why the quality of political aid may not suffer. Donors may give additional funds to their allies, not just to curry favor but also to see them succeed developmentally. Furthermore, while aid allocation decisions may be made by politicians, the aid bureaucrats who actually carry out projects may handle their

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<sup>2</sup> According to the World Bank web page, “When the board makes a decision on lending, the decision is based on management's estimation of how the project will benefit the developing country that asks for our support. It is true that during the Cold War years aid was politically motivated. Now however, aid is being delivered to countries most in need and to those who show they are determined to use it well.”

<sup>3</sup> For a “common agency” perspective on the IMF, see Copelovitch (forthcoming). For a discussion comparing multilateral and bilateral aid directly, see Schneider and Tobin (2010).

assignments with the same capacity regardless of the initial reasons for the loan. Because of this theoretical ambiguity, we look to test the hypothesis using empirical data.

As it turns out, there are at least two reasons why it is no easy matter to test whether politically-driven aid is less effective. First, the impact of aid on the obvious outcome measure, GDP per capita, is notoriously difficult to measure with any precision (Roodman 2007) – standard errors only increase if a researcher attempts to classify aid into political and non-political flows. Second, even if the outcome variable were not so noisy, most measures of political motivation—like former colonial status, military assistance, and United Nations (UN) General Assembly voting—are problematic. Colonial status has no time variation, so any comparison of aid effectiveness along this dimension simply contrasts former colonies with non colonies, hardly an even match. Comparing recipients of military aid with non-recipients, cross-sectionally or dynamically, compares across very different regimes with very different priorities. UN voting might stand the best chance of the three but since countries’ preferences over international policy are likely correlated with how easy it is to deliver effective aid, UN voting would need a strong instrument, which has yet to be identified. In short, most measures of political motivation of foreign aid do not allow the researcher to control for unobserved recipient characteristics when investigating aid effectiveness.

The strategy of this paper is to narrow the lens so as to circumvent these challenges. We consider the multilateral context and look at World Bank projects, which allow us to use a less noisy outcome variable: the Bank’s own evaluation of the project. The Bank’s Independent Evaluation Group<sup>4</sup> has rated or audited a large fraction of over 8000 projects delivered to all its client member states during the past five decades, with a remarkable level of objectivity (see below).

We choose two measures of political motivation: (1) temporary membership on the United Nations Security Council (UNSC), and (2) holding a Directorship on the World Bank Executive Board (WBEB). As Dreher, Sturm, and Vreeland (2009a) show, countries serving as temporary members of the UNSC are more likely to receive World Bank projects. Presumably, the World Bank’s major shareholders seek to win favor with UNSC members in case of an important vote regarding international security; the finding

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<sup>4</sup> The Independent Evaluation Group was formerly called the Operations Evaluation Department.

is consistent with research that finds temporary UNSC members receive more US, UN, and IMF money (Kuziemko and Werker 2006, Dreher, Sturm, and Vreeland 2009b). Similarly, Kaja and Werker (2009) find that developing countries serving on the WBEB receive more development funds from the World Bank. Since the WBEB oversees all day-to-day Bank operations, a seat around the table can improve a country's chance of receiving a project. Both of these measures of political influence allow for less problematic use of panel data than other measures of political importance.

We analyze the comprehensive dataset of over 8,000 World Bank project evaluations in order to understand how the political motivation of aid affects project quality. In our baseline model, we find no effect of political influence on the likelihood of a successful project evaluation. And under no conditions do we find that projects approved when countries are WBEB members have a significantly different quality level. Yet, when we examine projects granted to UNSC members that also face economic mismanagement or vulnerability—measured by short term debt and debt service burden—we find that project quality suffers. These results suggest that World Bank project quality is generally unaffected by political motivation, unless the recipient country is economically vulnerable in the first place.

The rest of the paper is organized as follows. Section 2 summarizes the World Bank evaluation procedures and dataset, while Section 3 explains our choice of variables to measure political influence. We present our argument in section 4. Section 5 describes additional data and empirical specifications, with the results from our analysis presented in Section 6. We present a series of robustness tests in section 7, and section 8 concludes.

## **2. Project Evaluation at the World Bank**

Since the 1970s, all World Bank projects have gone through an ex-post evaluation. The evaluation system, as it currently operates, involves a “self-evaluation” by staff involved with the project and usually takes place about six months after the project is completed. The lengthy evaluation process involves considerable documentation and considers three

criteria measured in both quantitative and qualitative terms: (1) outcomes,<sup>5</sup> (2) sustainability, and (3) institutional development.<sup>6</sup> Ex-ante project goals and extenuating circumstances are also taken into account. The borrower is then invited to comment on the evaluation, and those comments (if any are received) are appended to the World Bank's own evaluation, but do not affect the rating of the project.

While it is certainly possible that staff judgments may be incorrect or even biased in individual cases, there is little ground to suspect systematic bias linked to political motivations that were relevant at the time of approval.<sup>7</sup> This is related to several practices within the Bank that would make such a systematic bias unlikely. Firstly, frequent staff rotations at the Bank ensure that the person managing the completion report is rarely the person who supervised the early stages of the project. Secondly, career advancement at the Bank is tied more to preparing projects and getting them approved than to high ex-post performance ratings (Mosley, Harrigan, and Toye 1991). Indeed, there is no formal process holding individual staff members (or their supervising managers) accountable for unsatisfactory projects, and there are no direct consequences in terms of pay or promotion.<sup>8</sup> Finally, and perhaps most importantly, even if there were some benefit, it would be risky to distort evaluations because the practice might be detected if the project is selected for a direct audit by the Independent Evaluation Group.<sup>9</sup>

The Independent Evaluation Group (IEG), formerly known as the Operations Evaluation Department (OED), evaluates a sample of World Bank projects (World Bank 2003). The Bank first instituted a separate evaluations department in 1971 (prior to this, projects were evaluated on an ad-hoc basis).<sup>10</sup> Since 1975, the evaluations department has reported directly to the World Bank Executive Board, bypassing the Bank's own

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<sup>5</sup> Outcome evaluations sometimes include an ex post calculation of the project rate of return for projects where this is deemed appropriate (such as infrastructure projects); for many loans (including policy based loans, technical assistance projects, projects with high presumed externalities such as health and education investment projects), no rate or return calculation is provided.

<sup>6</sup> Separately, the performance of Bank and borrower is also assessed, partly to help identify reasons for project success or failure. The evaluation process usually lasts several months and involves part-time work for a team of two to four people.

<sup>7</sup> For further discussion see Kilby (1994, 2000) and Dollar and Svensson (2000).

<sup>8</sup> Staff members are held accountable in the rare case that there is clear evidence of corruption or criminal behavior associated with a project.

<sup>9</sup> The self-evaluation usually is completed about one year after the closing of the project (which is the date after which no further disbursements are possible); for projects selected for audit, the time lag is 3.3 years.

<sup>10</sup> For our analysis, we focus on the period 1975-2006, a time when a systematic review process was already under way.



management layers. To further insure independence, evaluations managers and staff are mostly senior managers who move to IEG as the last step in their career and others come from outside of the Bank.

The IEG/OED directly audits a substantial fraction of the staff self-evaluations. Audits are non-random, focusing on projects that are programmatically, politically, or environmentally important. But all projects have a positive probability of being audited, and audits tend to produce similar results as the self evaluations. Over the years, the share of directly audited projects has steadily declined, from 100 percent in the 1970s to about 50 percent in the 1980s and 25 percent today. Overall, the share of directly audited projects from 1975 to 2006 (the data we use below) is about 35 percent.

The World Bank has assembled the full universe of project evaluations – self-evaluations and direct audits by the IEG/OED – into a dataset. The performance rating ranges from highly unsatisfactory to highly satisfactory since 1993, and was binary before. In line with the standard practice of the World Bank and with Dollar and Svensson (2000), we group highly to marginally satisfactory together, and highly to marginally unsatisfactory together in order to generate a Boolean variable.<sup>11</sup>

Table 1 reports descriptive statistics from the evaluations data. There is no difference in the performance ratings of projects that received an audit from the IEG/OED and those that did not: both audited and non-audited projects have an average satisfactory rating of 73 percent. Projects in agriculture and population, and health and nutrition received the lowest share of satisfactory ratings, while education, poverty reduction and social protection projects received the highest share. Satisfactory ratings are lowest in sub-Saharan Africa at 63 percent, while over 80 percent in East Asia and Western Europe. The share of satisfactory projects has fluctuated over time, reaching a nadir in 1988.

These data have not previously been analyzed with respect to the political motivation behind the project. In the next section we discuss appropriate measures of political motivation at the World Bank.

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<sup>11</sup> We test below whether our results are robust to this choice.

### 3. Politically-motivated Projects at the World Bank

Scholars have proposed several variables to capture the political importance of countries to the major shareholders of the World Bank.<sup>12</sup> These include (1) voting patterns at the UN General Assembly (Thacker 1999, Copelovitch 2007), (2) bilateral aid provided by the major shareholders (Stone 2002, 2004), (3) major shareholder bank exposure (Oatley and Yackee 2004), and (4) membership in international committees (Dreher, Sturm, and Vreeland 2009a,b, Bueno de Mesquita and Smith 2009, Kaja and Werker 2009).

Since our outcome variable is project effectiveness, these variables may be problematic. Regarding UN voting and bilateral aid, countries that vote in a similar fashion to, or receive bilateral support from, the major shareholders might very well be the same sorts of places in which World Bank projects are especially easy to implement due to shared values or operating styles between the Bank staff and their national counterparts. Similarly, countries with excessive New York or London bank exposure might be in the midst of a financial bubble and therefore places with unobservable project risk.

Among potential variables of political influence, we believe that international committee membership poses the fewest problems because of the scarcity of membership positions, the temporary nature of service, and the exogeneity of the selection process. Thus we use two crisply coded dichotomous measures that have been shown in previous research to be associated with World Bank political favoritism. The first measure is whether the country has a temporary seat on the UN Security Council and the second is whether the country has a directorship seat at the World Bank Executive Board.

The importance of UNSC membership has been explored by Kuziemko and Werker (2006) and Dreher, Sturm, and Vreeland (2009a,b). There is good reason to believe that the major shareholders of the World Bank—the United States, Japan, Germany, France, and the United Kingdom—agree on the importance of winning favor with some elected members of the UNSC.<sup>13</sup> The Security Council is the most important

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<sup>12</sup> Most of these variables have actually been proposed to measure political importance to the major shareholders of the IMF, but this is actually the same set of countries: the United States, Japan, Germany, France, and the United Kingdom.

<sup>13</sup> Note that while Germany and Japan are not permanent members of the Security Council, they care a great deal about how the body votes on matters of international security, particularly in the last two decades when the two countries have assumed a greater role on the world stage. They play active roles in the

organ of the UN; its actions are visible to the public, sometimes receiving considerable press, and its duties include taking military action. Every member of the UNSC is given a prominent voice on the most pressing issues of international security.

While five members of the UNSC (China, France, Russia, the United Kingdom, and the United States) serve on a permanent basis, ten others are elected. These elected members serve non-renewable two-year terms. While by no means a random draw, membership appears to be largely idiosyncratic due to varying regional norms. Different regions follow different norms (Dreher et al. 2009a,b): Africa typically rotates. Latin America and Asia hold competitive elections with regional hegemony winning most often (e.g., Brazil and Japan). Western Europe has a mixture of rotation and competitive elections. Eastern Europe, since the Cold War (when most of them joined the IMF and the World Bank), has exhibited no systematic pattern.<sup>14</sup> Two-year term limits are strictly enforced, which also reinforces the exogeneity of the selection process. These mechanisms lead us to believe that temporary UNSC membership is unrelated to the political factors driving additional projects from the World Bank.

As for the political importance of temporary membership, UNSC decisions on substantive matters require a majority of nine votes. Even though the five permanent members have veto power, temporary UNSC members may be sought out to ensure an oversized coalition (see, e.g., Volden and Carrubba 2004) and to increase the legitimacy or domestic support of the debated action (Voeten 2001, 2005, Chapman and Reiter 2004, Hurd 2007, Chapman 2007, Hurd and Cronin 2008, Chapman forthcoming).

Thus, the major shareholders of the World Bank may often agree that the temporary members of the UNSC are politically important. In fact, there is mounting evidence that powerful countries do favor elected UNSC members in various ways: They receive increased aid from the United States and the United Nations (Kuziemko and

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elections when other countries run. Japan has been elected itself more than any other country in the world, with Germany not far behind. One might argue that these powerful countries care even more about influencing the UNSC because they lack veto power and do not always get to participate directly. For work on the international politics of Japan's bid for a permanent seat, see Weiss (2008).

<sup>14</sup> The ten elected seats are allocated by region, with three seats for Africa, two for Asia, two for Latin America, one for Eastern Europe, and two for the Western Europe and Others group. Typically, regions agree on a clean slate of nominations in advance, which is then ratified by the United Nations General Assembly. Sometimes competitive elections are held, decided by a two-thirds majority rule by the Assembly.

Werker 2006). They are more likely to receive a loan, and with fewer conditions, from the International Monetary Fund (IMF) (Dreher, Sturm, and Vreeland 2009b). With respect to the World Bank, Dreher, Sturm, and Vreeland (2009a) find that UNSC membership increases the number of projects awarded to a country between 10 and 25 percent. For all of these reasons, we consider UNSC participation to be a good measure of importance to the World Bank's major shareholders.

The importance of Executive Board membership at the World Bank has been explored by Kaja and Werker (2009). There are 24 members of the Board of Executive Directors of the International Bank for Reconstruction and Development (IBRD), the largest division of the World Bank. Five of these are appointed, while the remaining 19 are elected for optionally renewable two-year terms. Countries are grouped in an ad-hoc manner, though often in accordance with region, into "seats"—with a single representative on the Board. Each of the ad-hoc groupings – which tend to be stable from election to election – has its own norms for choosing a representative, with some groups taking turns (e.g., Africa) and others dominated by regional hegemons (e.g., India). Since the WBEB makes nearly all of the important day-to-day decisions in running the Bank, those countries without a seat at the table face a disadvantage in securing Bank projects. Kaja and Werker (2009) find that countries serving on the WBEB receive around double the funding from the IBRD.<sup>15</sup> The results are robust to changing the functional form, dropping countries that never served, or ignoring the seats without meaningful rotation. As with temporary UNSC members, World Bank loans to WBEB members drop off precipitously once their term expires.

Typically, the WBEB is far less politically charged than the UNSC. Moreover, while the additional Bank projects that come with UNSC membership are the result of a complex game of global horse-trading, the WBEB is more like a simple appropriations committee since it actually doles out money. Thus, "politically-motivated" aid projects to UNSC members are likely driven by international politics, while to WBEB members are driven by more narrow institutional influence.

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<sup>15</sup> The Bank's second-largest division, the poverty-oriented soft loan window International Development Association (IDA) also has an executive board which is nearly overlapping with the IBRD board, but Kaja and Werker (2009) find no effect of board membership on IDA funding; therefore, we limit our definition of WBEB member to the IBRD.

#### **4. The argument**

How might political favoritism negatively influence the impact of foreign aid in general and the quality of World Bank projects in particular? While aid-and-growth scholars generally assume that politically-motivated aid is less effective than development-oriented aid, the theoretical logic behind this is more ambiguous.

There are good reasons why politically-motivated aid may be just as effective. Cold War donors, for example, may have wanted not only to curry favor with their client states, but also to help their allies succeed economically. The East Asian Tigers, for example, received tremendous amounts of politically-motivated assistance during the Cold War that does not appear to have impeded their economic development.

Moreover, once an aid allocation decision has been made – with or without political intentions – it must be delivered by the aid bureaucracy. The bureaucratic agents, for their part, may desire to implement effective programs regardless of the political motivations of donors. For example, when deciding how to allocate economic aid to Pakistan to increase political support for anti-Taliban operations, a US aid official said, “We had to choose a method of funding that was most likely to produce results efficiently and effectively” (Perlez 2009). Thus, the evidence of political bias in aid allocation need not imply ineffectiveness.

Furthermore, at any given time, there may be a plethora of worthwhile possible investment projects with similar potential effectiveness. Choosing among these projects according to political criteria may not reduce the average effectiveness of aid programs.

However, there are also strong reasons why politically-motivated aid might fall short in delivering development benefits. The first is that politically-motivated aid allocation leads to the approval of lower-quality projects to favored countries, compared with competing projects from other countries. As hinted at above, this presumes that the allocation decision is made facing a declining marginal return schedule of projects and political motivation just ensures that lower return projects get prioritized. Thus the problem is already apparent at the stage of project approval.

The second line of argument is that politically-motivated projects reduce the motivation on the part of the World Bank and/or the recipient country to invest as much in project success as for other projects. The granting of the project may delay important

policy reforms that would, among other things, also promote project success. With specific reference to World Bank projects, Kilby (2009) suggests an important implication of such favoritism in project allocation is that it undermines the credibility of conditionality, rendering it ineffective. Favoritism might also allow projects to go ahead where the preconditions are not met.

This does not imply that politically important countries necessarily follow unsound economic policy. Sometimes governments and the World Bank agree on policy; some governments even invite policy conditionality (Vreeland 2003). Other times, governments may follow a different policy course than that recommended by the World Bank and still produce fine results.<sup>16</sup>

Still other times, however, politically important countries may be unable or unwilling to follow World Bank conditionality even though economic imperatives require tough adjustment. This may be particularly likely when a government faces a high ratio of short-term to long-term debt or simply when debt service in general is too high. When a politically important country obtains a loan from the World Bank under these circumstances, it signals that weak enforcement of conditionality on the part of the Bank and the project loan itself reduces the immediate necessity to undertake important adjustment.

Consistent with these arguments, Stone's (2008) work on the International Monetary Fund suggests that politically important countries will employ their leverage when they are economically vulnerable. The argument is straightforward and compelling. While political importance allows governments to seek out assistance from World Bank major shareholders, they may rely more heavily on their political leverage under certain circumstances than others.<sup>17</sup> When a politically important country is economically vulnerable, it may seek World Bank assistance to promote short-run economic goals and

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<sup>16</sup> South Korea during the early 1980s is a good example. The World Bank suggested an austerity program, but the Korean government argued that this would cause a counterproductive recession. So the Korean government dropped out of a Bank-sponsored Structural Adjustment Loan and followed its own policies to good ends. The government later returned to the Bank for another loan, effectively on Korea's own terms.

<sup>17</sup> Sometimes politically important countries choose not to borrow from the World Bank or IMF; others gladly accept the loans but follow sound economic policies. Consider East Asian Tiger South Korea, for example, who participated in IMF programs consecutively from 1965 to 1977. The country's strategic importance to the West during the Cold War may have improved the chances for the country to borrow from the IMF, but did not lead them to follow policies detrimental to long-run economic growth.

use its political leverage to avoid following policies that might be painful in the short-run even if this may damage the viability of the project and its potential impact on the long-run development of the country. Or they may simply be focused on securing the foreign financing to mitigate their vulnerability with lesser interest to invest in project success. As the major shareholders of the Bank may be concerned with short-run political objectives, they may encourage the World Bank to let the government get away with this. To be blunt, when times are hard, governments may seek to take the money to address their short-term needs and worry less about project success and policy reforms, and the World Bank may be pressured to let them do it if they are important enough to the major shareholders.

Since there are theoretical reasons why political aid may be less effective, or just as effective, as developmental aid, we must now turn to the empirics—in this specialized setting—to search for evidence.

## **5. Data and Empirical Specifications**

Our basic empirical test is measuring whether politically motivated World Bank projects are less likely than other projects to be of high quality. Our measurements of political motivation are whether the recipient country has a seat on the UNSC or the WBEB, and our quality measurement is the Bank's internal evaluation procedure. We face two concerns with this approach: (1) political motivation may be co-determined with project quality, and (2) project quality may be measured in a way correlated with political motivation. We address each of these in turn.

Since membership on the UNSC or WBEB is non-random, countries that obtain membership in these powerful committees may also offer better environments for project implementation. We note first that this omitted variable problem, though present, is much smaller than with competing variables of political motivation, and that Dreher et al. (2009b) have found that UNSC membership appears to be idiosyncratic once basic observables are controlled for. Our strategy to manage this challenge is to include a number of control variables as well as country fixed effects. In addition, fixed effects control for those WBEB members that are consistently elected. We also control for

committee membership at time of project rating in addition to our variable of interest: membership at time of project approval. While this principally deals with measurement error—that project rating itself may suffer from political bias (discussed below)—it also allows the reader to get a sense of the extent to which projects of committee members are rated successfully. After all, since a project spans the time between approval and evaluation, the latter measure may address unobservable measures of implementation suitability, such as the support for reform among the population, that are not captured by the fixed effects but still may be correlated with international committee membership.<sup>18</sup> Importantly, while we expect temporary UNSC members to receive favorable treatment while serving, we do not expect them to receive favorable treatment years later when they no longer serve on the UNSC, and the World Bank retrospectively evaluates the performance of their projects. Evidence shows that the perks of being a committee member disappear quickly after a term of service ends (Kuziemko and Werker 2006, Dreher, Sturm, and Vreeland 2009a,b, Kaja and Werker 2009).

Our strategy for addressing the potential correlation of project rating measurement error with political influence, namely that political influence can bias ratings upward, is threefold. One, we recall the discussion in Section 2 that notes how for various institutional reasons—including the political independence of evaluators, the duration of the projects and rotation of staff, and the minimal value placed on successful ratings of individual projects—the rating of individual projects is basically non-politicized. Two, as mentioned above, we include a control variable for committee membership at time of project evaluation. Some countries serve relatively frequently on the UNSC, and especially the WBEB, so it is possible that the same country may be on at time of approval as well as of evaluation. If ratings are politicized, then controlling for political influence at time of evaluation will allow us to remove this particular potential source of measurement error.

The final potential source of measurement error between project evaluation and our measure of political influence comes from the effects of committee membership on number of projects. After all, as the earlier papers demonstrated, political influence will

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<sup>18</sup> As pointed out earlier, there is a lag of 1-3 years between project completion and the final rating so that, given the usual length of a World Bank project of 3-7 years, the time period between approval and final rating could be as large as 10 years.



bring about more projects and aid. Thus, our measure of political importance does not only measure influence over existing projects, it also measures influence over a marginal, additional project. If such an additional project stretches the resources of the bureaucracy too thin, then lower project ratings may result regardless of political influence. Rather than attempt to neutralize this potential source of measurement error, we highlight it as an advantage of our empirical strategy. Since political influence brings about additional aid, research into how influence affects the quality of aid should study the marginal project and determine whether—because of shoddy economic justification, bureaucratic overstretching, or poor project implementation by the recipient—that project is of “marginal” quality.

Our reduced-form empirical specification, then, is at the project level:

$$(1) \textit{Quality}_{ijt} = \alpha + \beta \textit{CommitteeMembership}_{ijt=\textit{approval}} + \gamma \textit{CommitteeMembership}_{ijt=\textit{evaluation}} + \delta \mathbf{X}_{ijt=\textit{approval}} + \varepsilon_{ijt}$$

where *Quality* is whether the World Bank measure of (project *i* in country *j* at year *t*) quality was satisfactory; *Committee Membership* is whether country *j* is a member of the UNSC or WBEB at the time of project approval or evaluation; *X* is a matrix of control variables, sometimes including country or year fixed effects, at the time of project approval; and  $\varepsilon$  is an error term.<sup>19</sup>

Our analysis includes borrower-related control variables suggested by Dollar and Svensson (2000) in their analysis of the determinants of success of World Bank (adjustment) projects: time in office of the borrower government (and its square), ethnic fractionalization and ethnic fractionalization squared, instability, and democracy.<sup>20</sup> Our measure of time in office comes from Beck et al. (2001). The longest period of time a country’s leader has been in office is 46 years: Jordan in 1999. Our measure of ethnic fractionalization comes from Easterly and Sewadeh (2001) and ranges from zero

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<sup>19</sup> When we include year dummies along with country dummies, many of our regressions fail to converge so we focus our attention on the specifications with country fixed effects. While there might be year-specific effects on the likelihood of project success, there is no good reason to assume they would be systematically related to temporary UNSC membership or WBEB membership.

<sup>20</sup> Dollar and Svensson (2000: 901) point out “the political economy literature suggests that ethnic fractionalization and length of tenure affect the probability of successful reform, but does not exactly identify the functional form of this relationship. The quadratic form chosen yields the best results.”

(Republic of Korea) to 93 (Tanzania). Following many other studies (e.g., Easterly and Levine 1997, Dollar and Svensson 2000, Broz 2002, Bueno de Mesquita et al. 2003), we include the number of government crises as a measure of instability. The variable is defined as “the number of any rapidly developing situation that threatens to bring the downfall of the present regime” (Databanks International 2005).<sup>21</sup> The maximum number of crises in our sample is four (in Iran, 1978; Liberia 1980, 1981; Argentina 2002). Our measure of political regime, a binary indicator of democracy, comes from Cheibub et al. (2009).<sup>22</sup> We also control for the administrative costs of the loan to the World Bank, which is included in our database for most, but not all of the projects (transformed to real 2000 US\$ using the GDP deflator).<sup>23</sup>

This specification has a number of forces biasing against finding an effect from political motivation in a finite sample. As with any investigation, the evaluation data might be too rough on their own to identify significant patterns. In this case, however, only about 10 percent of the projects starting at a country’s tenure on the UNSC are likely to be politically motivated, on average (Dreher et al. 2009a). Even if these projects are of lower quality, they might not reduce the average sufficiently to be observed amidst the noise in the data. Moreover, political bias might be present in the project goals already, making them easier to attain or less related to developmental outcomes. To the extent that goals are taken into account when evaluating a project, we would not find a significant effect here, even if politically motivated projects are indeed of lower quality.

Noting those limitations, we begin by estimating specification (1) for the entire sample. Following Bermeo (2008), who argues that the political motivations driving foreign aid were stronger and more pernicious during the Cold War, we also divide the sample into the Cold War and post-Cold War periods to investigate whether the higher

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<sup>21</sup> This variable is available to us only up to 2003 and thus restricts our sample.

<sup>22</sup> The measure of democracy is a binary indicator of whether the chief executive and the legislator are both filled through contested elections, where “contested” is defined by the observation that incumbents face some probability of losing, and they actually step down from office when they do.

<sup>23</sup> The costs of the loan to the World Bank include the size of the loan and also any additional project-related costs. The results are unchanged when only loan size is used. Dollar and Svensson (2000) also include a number of variables related to the World Bank itself, like the time spent by World Bank staff to prepare or supervise a specific project. Their results show that once endogeneity of Bank effort is addressed, the World Bank related variables do not significantly affect project evaluation. We thus exclude them here.

political stakes of the Cold War affected the impact of politics on project quality. This also allows us to test the World Bank's own claim (cited above).

To test whether political motivation affects quality more in economically mismanaged or vulnerable countries, we interact committee membership with two variables capturing the recent history of poor decision-making or desperation: short-term debt as a percentage of total debt; and debt service as a percentage of gross national income (GNI):

$$(2) \text{Quality}_{ijt} = \alpha + \beta \text{CommitteeMembership}_{ijt=\text{approval}} + \\ \text{EconomicVulnerability}_{ijt=\text{approval}} + \\ \beta' \text{CommitteeMembership}_{ijt=\text{approval}} * \text{EconomicVulnerability}_{ijt=\text{approval}} + \\ \gamma \text{CommitteeMembership}_{ijt=\text{evaluation}} + \delta \mathbf{X}_{ijt=\text{approval}} + \varepsilon_{ijt}$$

Sovereigns with poor credit, like other borrowers, will find it difficult to borrow from commercial sources over long horizons, and having short-term debt means the country is vulnerable to the creditors deciding not to roll over their debt. Since some of the very poorest borrowers may only receive loans from international financial institutions, which are often subsidized and of longer duration, we also looked at debt service as a percentage of GNI. This variable captures both the interest rate as well as the overall debt of the country. These two variables have also been used by Stone (2008) as proxies for economic vulnerability.<sup>24</sup>

The above variables are summarized in the Appendix, which also presents descriptive statistics and sources. Armed with these measures we now turn to the results.

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<sup>24</sup> Stone (2008) also suggests trade openness as additional measure of vulnerability. While we omit this measure here, note that the results reported below also hold for openness to trade.

## 6. Results

Table 2 presents our overall results. Throughout, we employ a logit model, where our dependent variable is an indicator coded 1 for projects that are rated as satisfactory and 0 otherwise. Standard errors are clustered at the country level.

In the first four columns we examine the impact of UNSC membership on project quality. In the first column we include basic control variables, in the second we add additional regional and economic controls, in the third we add year fixed effects, and in the fourth—our preferred specification—we estimate a country fixed effects model (conditional logit).

Of the control variables, only ethnic fractionalization squared (negative) and the indicator variable for East Asia (positive) are significant at the ten percent level or lower. According to column 1, the probability of a positive evaluation also increases with democracy (significant at the ten percent level). When we introduce additional control variables in column 2, the coefficient of the democracy indicator is not significant at conventional levels. The results are qualitatively unchanged when adding the year dummies in column 3. In the fixed effects specification, ethnic fractionalization is dropped as it does not vary over time.

The coefficient on our key independent variable of interest, UNSC membership at time of approval, is negative but statistically insignificant. UNSC membership at time of evaluation is positive, but similarly insignificant. Columns 5 through 8 repeat the analysis with WBEB as the independent variable of interest. World Bank Board membership is statistically insignificant across all specifications, and the results for the control variables are similar. From this analysis, it appears then that the political motivation of aid, as proxied by committee membership, does not have a discernible effect on project quality. Tables 3 and 4 break up the sample into the Cold War and post-Cold War periods. As Table 3 reveals, during the Cold War, World Bank projects awarded to countries that were UNSC members at the time of project approval subsequently experienced significantly worse project evaluation results, a result that is significant at the five percent level in column 1 and at the ten percent level when including the additional variables or estimating the conditional fixed effects model in columns 2 and 3. The magnitude of the effect does not vary substantially across the specifications. In the third column, with fixed

effects, the coefficient on UNSC membership is -0.471. Calculating marginal effects (assuming the fixed effects to be zero; not shown in the table), this result implies that temporary UNSC membership at approval time reduces the probability of successful evaluation by 11 percentage points. The (negative) statistically insignificant coefficient on UNSC membership at time of evaluation indicates that measurement bias on project review does not appear to be an issue.

In contrast, columns 4 through 6 do not show any evidence that WBEB membership during the Cold War led to significantly worse project evaluations. These results suggest that the politics of the Cold War significantly detracted from project quality when they resulted in marginal projects being awarded to politically important countries on the Security Council. Perhaps because World Bank Board membership had much weaker linkages with global politics, the Cold War had no additional effect on project ratings.

When the sample is limited to the post-Cold War era (Table 4), neither UNSC nor WBEB membership at approval time has a statistically significant effect on project quality. Interestingly, the positive coefficient of WBEB membership at the time the project gets evaluated is significant at the ten percent level, potentially indicating pressure by Executive Board members to evaluate projects of current WBEB members more positively. The coefficient is not statistically significant at conventional levels, however, when we control for the additional variables (in column 5) or estimate the conditional fixed effects logit model (in column 6).

In Table 5 we present the results from specification (2), interacting our measures of political importance with vulnerability. Interpreting the interaction effect in nonlinear models such as logit is not straightforward.<sup>25</sup> Figures 1 and 2 thus illustrate the quantitative effect of UNSC membership at approval time and its significance. We graph the effect of a change in temporary UNSC membership on the probability of a satisfactory project rating for different values of short-term debt and total debt service, holding the additional explanatory variables to their means, and assuming country fixed

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<sup>25</sup> As Ai and Norton (2003: 123) point out, “the magnitude of the interaction effect in nonlinear models does not equal the marginal effect of the interaction term.” It can even be of opposite sign. Moreover, a simple t-test on the coefficient of the interaction term is not appropriate to test for the significance of the interaction.

effects to be zero. UNSC members at time of project approval with relatively high levels of short-term debt or debt service experience significantly worse project ratings. As Figure 1 shows, UNSC membership has a statistically significant negative effect (at the ten percent level) on project quality when short-term debt to debt has a ratio of 20 percent or more.<sup>26</sup> Within our sample, this is true for almost 18 percent of the observations. When the ratio is around 40 percent, the probability of a satisfactory evaluation declines by about -0.16 with temporary UNSC membership. To put this in perspective, this is almost the same magnitude as the difference in the observed rates of success in Africa and Eastern Europe, according to the descriptive data in Table 1.<sup>27</sup>

Similarly, Figure 2 shows that UNSC-member projects with a debt service greater than 13 percent of GNI, twice the sample mean, are significantly less likely to receive a satisfactory rating. In our sample, this is true for about 6 percent of the observations. At this level of debt service, the estimated effect of UNSC membership on project satisfaction is around -9 percentage points.<sup>28</sup>

As columns 3 and 4 of Table 5 show, there is no discernable effect on project quality for WBEB members that are economically vulnerable or mismanaged. Figures 3 and 4 do not reveal any remarkable patterns on how the marginal effect changes over the range of the debt variables; at no level of debt is the effect of WBEB membership statistically significant at conventional levels.

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<sup>26</sup> Note that the mean of short-term debt in the sample is 12.7 percent, the maximum is 89 percent.

<sup>27</sup> The cases of UNSC members with short-term debt service above 20 percent at time of project approval and unsatisfactory projects include countries from Latin America, Africa, and Asia, such as Argentina (2005), Colombia (1990), Republic of Congo (2007), Ecuador (1991), Nigeria (1995), Thailand (1986), and Zambia (1988), among others.

<sup>28</sup> Temporary members of the UNSC with debt service above 13 percent and unsatisfactory project ratings include Angola (2003), Cote d'Ivoire (1991), Indonesia (2007), and Nigeria (1995), among others.

## 7. Robustness

In this section we test for the robustness of our two main results, the negative influence of UNSC membership on satisfactory evaluation during the Cold War and the negative effect at times of high economic vulnerability or mismanagement throughout. To anticipate our results, the vulnerability results are robust, while the Cold War finding is not. In the interest of brevity, we focus on short-term debt rather than total debt service, although the results are robust to using either measure.

The lending environment of the World Bank is unique. Table 6 attempts to control for a number of Bank-specific idiosyncrasies in case these idiosyncrasies themselves might be responsible for the observed correlations. The odd-numbered regressions repeat the basic specification of column 1 in Table 5, in which we find that UNSC members with a high short-term debt service receive lower project evaluation ratings. The even-numbered regressions repeat the specification of column 3 in Table 3, in which we find that UNSC members during the Cold War receive lower project evaluation ratings.

In columns 1 and 2 we exclusively focus on projects evaluated by the IEG/OED. Limiting the sample to the audit control variable substantially increases the size of the interaction term between short-term debt and UNSC membership (-0.21 becomes -0.46) in column 1 and the graph for the marginal effect of UNSC membership is very similar to figure 1 (not shown). The coefficient on UNSC membership during the Cold War period is no longer significant, however.

Columns 3 and 4 introduce control variables for the project sector, including controls for energy/mining, transport, and other (with rural/agriculture as the omitted sector). The regressions indicate that transport and other sector projects are more likely to be successful than rural/agricultural projects. The result is significant at the one percent level in both samples. For the Cold War sample, projects in mining sectors are also more likely to be successful, a result significant at the one percent level. Even as sectors have different success rates, the coefficients of interest for the vulnerability hypothesis remain nearly unchanged. The Cold War finding, however, is again not statistically significant.

Columns 5 and 6 add controls for development policy loans. Policy loans, including structural and sectoral adjustment loans, are quite different from typical project loans in several respects. They are disbursed more quickly, they may be granted more

often due to financial vulnerability, international political factors feature more prominently in their approval and supervision, and policy conditionality is a key feature of these loans. Thus one might expect that our political variables would have a stronger effect for development policy loans.<sup>29</sup> But this does not appear to be the case. The coefficients of interest are essentially the same as compared to table 2; the indicator variable for development policy loan is significant at the five percent level, with a positive coefficient in the full sample, but not significant at conventional levels in the Cold War sample.

In columns 7 and 8, we adjust the timing of the control variables. The projects are implemented over the period between approval and evaluation. Above, we have taken control-variable values from the time of project approval—in case the project itself influences the outcomes of the control variables. For instance, receiving a World Bank loan with long-term financing will arithmetically decrease the percentage of short-term debt in the country, one of our control variables. That said, most of the magnitudes of the control variables are driven by extraneous factors unrelated to the World Bank projects, and using the value from time of project approval does not perfectly capture the situation during implementation. The specifications in columns 7 and 8 use the average value for the control variables across the period between implementation and evaluation.<sup>30</sup> While the UNSC-short term debt variable in column 7 is unaffected by this change, the UNSC variable during the Cold War in column 8 is not statistically significant.<sup>31</sup> Among the control variables in column 8, only two change in magnitude substantially. The largest change occurs for the short-term debt variable, which, as one would expect, is affected by the long-term loan associated with the project itself. Thus it is unclear whether this robustness check reveals a weakness in the result or whether it is simply misspecified.

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<sup>29</sup> When interacting the indicator for development policy loans with the indicator for UNSC membership at project initiation and, respectively, the interaction of UNSC and short-term debt, both additional interactions are completely insignificant.

<sup>30</sup> Note that when we use average values of the control variables for the entire span of the project, we add some observations that are missing at the country-year level.

<sup>31</sup> Note that the UNSC variable still refers to the time of project approval. When we include the share of years a country was on the UNSC during project duration instead it is insignificant throughout. This seems to imply that it is the political situation at project approval rather than the situation over the project period that matters for the outcome.



Columns 9 and 10 address the possibility of non-random assignment of projects. We use a Heckman two-step approach, where the first stage – the selection stage – is the decision to provide World Bank projects to a country, and the second stage – the outcome stage – is the evaluation logistic regression that we have used throughout. Following Heckman, the outcome stage includes the Inverse Mills Ratio (IMR) estimated from the selection stage (not presented but available on request). The IMR has a convenient property: when included in the estimation of program effects, the parameter capturing its influence indicates the correlation between the selection and the outcome error terms (see Vreeland 2003). Hence, if this parameter is significant, there is selection on unobserved variables, and excluding the IMR may result in omitted variable bias. As with columns 3 and 4, the interaction term in column 9 is unaffected by this addition, while the UNSC coefficient during the Cold War in column 10 loses its statistical significance.

Next we distinguish between lending from the IBRD and the IDA, the soft-loan window for the poorest developing countries. Columns 11 and 12 focus on those projects that received financing by the IBRD, while columns 13 and 14 report results for projects financed by the IDA. In the IBRD sample, the coefficient of the interaction term remains qualitatively similar, but in the IDA sample, it differs substantially.

Recalling that we cannot directly interpret the coefficient and statistical significance of the interaction term in the non-linear logit model, figures 5 and 6 report the graphical representation of the marginal effects of short-term debt for these two regressions. The figures show a very similar result for the IBRD, as compared to the overall sample. For the IDA, however, the marginal effect of temporary UNSC membership is qualitatively similar, but not statistically significant at conventional levels for any size of short-term debt. This is also in line with findings from Kaja and Werker (2009) who also did not find any politically-motivated aid allocation effect for the much scarcer IDA funds. Note, however, that the coefficient of UNSC membership is significant at the ten percent level in the Cold War sample for the IDA, but not significant at conventional levels in the IBRD sample.

In column 15 we slightly change the definition of our dependent variable. From 1993 onwards, the IEG reports more fine-grained evaluation outcomes, including the category moderately satisfactory. While we did include this category as “satisfactory”

throughout the analysis, here we test whether the result depends on this choice and rather include it as “unsatisfactory.” As can be seen, our results are not affected by this change.

In Table 7 we come back to the question of which channel is responsible for the negative conditional effect of UNSC membership on project evaluation outcomes. One of our arguments can directly be tested. When only projects approved when a country is (i) a temporary member of the UNSC and (ii) economically vulnerable at the same time are really politically motivated, we should expect vulnerability to matter at the selection stage already. Table 7 therefore replicates the analysis in Dreher et al. (2009a) on the impact of temporary UNSC membership on the number of new World Bank projects in a particular country and year, adding the interaction between UNSC membership and short-term debt.

Column 1 replicates column 4 of Table 2 in Dreher et al. (2009a). The dependent variable is the number of new World Bank projects approved in a particular country and year. This number rises with temporary UNSC membership, an indicator for contemporaneous IMF programs, higher debt service (in percent of GDP), higher investment (in percent of GDP), lower (log) GDP per capita, and lagged elections, at least at the ten percent level. The natural logarithm of population size is not significant at conventional levels. Column 2 replaces debt service by short-term debt and adds its interaction with temporary UNSC membership. The marginal effect of temporary membership is displayed in Figure 7. The marginal effect is significant at the ten percent level for short-term debt in the range of 6-15 percent of GNI. The impact of temporary membership, however, seems to decrease with short-term debt, if anything. To formally test whether the impact of UNSC membership depends on the level of short-term debt we conduct t-tests testing for their equality, comparing the marginal effect at the mean with those at the maximum and, respectively, minimum value of short-term debt shown on the graph. According to the results, neither at the minimum nor at the maximum do statistically significant differences exist. We conclude that “vulnerability” does not matter for project selection and therefore the mechanism suggested in Stone (2008) for the IMF does not drive our results for the World Bank. The negative effect of UNSC membership in countries with high short-term debt is thus most likely due to the incentives of borrowing governments to ask for different types of projects and invest less

in their successful implementation as compared to what they ask for at normal times, rather than receiving more projects than the average temporary UNSC member.

## **8. Conclusion**

We have attempted a modest test of the oft-assumed hypothesis that since much aid is allocated for political rather than economic or humanitarian reasons it must therefore lead to worse development outcomes. Specifically, we have investigated whether World Bank project quality suffers when the projects are awarded to countries that experience fleeting increases in their political power resulting from membership on the UN Security Council or the World Bank Board of Executive Directors. We find little evidence that project quality suffers on average, especially after the Cold War. We find no evidence that projects awarded to WBEB members suffer at all in their quality.

We do find evidence, however, that projects awarded to UNSC members when the recipient governments are economically vulnerable or mismanaged are significantly lower in quality. And the magnitudes are large: With a ratio of short-term debt around 40 percent, the probability of a satisfactory evaluation declines by about 0.2 with temporary UNSC membership. Projects approved for countries with debt service greater than 15 percent of GNI also have about a 0.2 lower probability of successful evaluation. This is about the same magnitude as the difference between the observed rate of project success in Africa and the rate of success in Western Europe.

These findings suggest that World Bank project quality may not be affected by politics except in exceptional cases of political stakes or against a challenging economic backdrop. The scope of our analysis limits our ability to extrapolate these findings to other settings of political influence over aid allocation. The World Bank may deploy a consistent capacity in delivering projects regardless of the motivation behind them, compared with bilateral donors. The Bank as an institution may also have less riding on political outcomes than a sovereign embroiled in an international power struggle. Thus, given that we find evidence that certain politically-motivated Bank projects suffer in their quality, it is not unreasonable to imagine that politically motivated aid from bilateral

donors could also be less effective from a developmental standpoint, particularly if the recipient government is already mismanaged.

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Table 1: Final Performance Rating

Variable	Count	Percent Satisfactory
Final Performance Rating		0.73
Satisfactory	6533	
Unsatisfactory	2380	
Final Performance Rating (Audit Reports only)		0.73
Satisfactory	2284	
Unsatisfactory	826	
Final Performance Rating (Cold War)		0.77
Satisfactory	2027	
Unsatisfactory	619	
Final Performance Rating (Post Cold War)		0.72
Satisfactory	4506	
Unsatisfactory	1761	
Regions		
Western Europe	399	0.86
East Asia	1322	0.81
Eastern Europe	855	0.79
Latin America	1753	0.75
Middle East	805	0.74
South Asia	1092	0.74
Sub Saharan Africa	2588	0.63
Sectors		
Agriculture and Rural Development	2139	0.66
Economic Policy	543	0.76
Education	782	0.81
Energy and Mining	1266	0.73
Environment	196	0.74
Financial Sector	364	0.69
Financial and Private Sector Development	364	0.69
Global Information/Communications Technology	364	0.69
Health, Nutrition and Population	358	0.63
Poverty Reduction	28	0.86
Private Sector Development	21	0.81
Public Sector Governance	435	0.69
Social Development	25	0.72
Social Protection	230	0.84
Transport	1137	0.82
Urban Development	425	0.76
Water	438	0.72

Table 2: Satisfactory Project Evaluation, Logit

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
UNSC, approval time	-0.060 (0.45)	-0.122 (0.88)	-0.074 (0.51)	-0.104 (0.79)				
UNSC, evaluation time	0.110 (0.79)	0.130 (0.73)	0.150 (0.84)	0.067 (0.41)				
WB Executive Board member approval time					0.191 (1.40)	-0.036 (0.26)	-0.030 (0.22)	0.038 (0.31)
WB Executive Board member evaluation time					0.058 (0.37)	-0.199 (1.24)	-0.192 (1.15)	-0.077 (0.55)
Short-term debt	0.007 (1.15)	0.002 (0.37)	0.004 (0.56)	-0.004 (0.62)	0.005 (0.84)	0.001 (0.20)	0.002 (0.29)	-0.005 (0.74)
Time in office	-0.020 (0.83)	-0.014 (0.59)	-0.020 (0.83)	-0.002 (0.06)	-0.016 (0.65)	-0.012 (0.54)	-0.020 (0.86)	0.003 (0.11)
Time in office, squared	0.001 (0.93)	0.000 (0.42)	0.001 (0.59)	-0.000 (0.43)	0.001 (0.83)	0.000 (0.40)	0.001 (0.63)	-0.001 (0.68)
Ethnic fractionalization	0.013 (1.51)	0.013 (1.33)	0.012 (1.23)		0.017 (1.92)*	0.014 (1.32)	0.014 (1.35)	
Ethnic fractionalization, squared	-0.000 (1.95)*	-0.000 (2.00)**	-0.000 (1.98)**		-0.000 (2.33)**	-0.000 (2.01)**	-0.000 (2.13)**	
Instability	0.007 (0.05)	-0.055 (0.50)	-0.119 (1.20)	0.102 (0.85)	-0.057 (0.42)	-0.076 (0.62)	-0.149 (1.33)	0.084 (0.64)
Democracy	0.254 (1.70)*	0.190 (1.28)	0.105 (0.67)	0.070 (0.30)	0.217 (1.45)	0.262 (1.72)*	0.208 (1.22)	0.115 (0.50)
(log) GDP p.c.		-0.072 (0.81)	-0.062 (0.69)			-0.080 (0.94)	-0.069 (0.81)	
(log) Population		0.051 (1.14)	0.053 (1.14)			0.070 (1.54)	0.081 (1.71)*	
Lending Project Cost		-0.023 (0.95)	-0.029 (1.15)			-0.028 (0.99)	-0.034 (1.14)	
East Asia		0.614 (2.44)**	0.589 (2.35)**			0.676 (2.56)**	0.676 (2.48)**	
Latin America		0.004 (0.04)	-0.084 (0.71)			0.015 (0.12)	-0.049 (0.36)	
Middle East		0.242 (0.63)	0.112 (0.28)			0.359 (1.01)	0.267 (0.71)	
South Asia		0.354 (1.16)	0.352 (1.12)			0.406 (1.32)	0.412 (1.31)	
Sub Saharan Africa		-0.161 (0.55)	-0.213 (0.69)			-0.102 (0.35)	-0.098 (0.31)	
Country fixed effects	no	no	no	yes	no	no	no	yes
Year fixed effects	no	no	yes	no	no	no	yes	no
Period	all	all	all	all	all	all	all	all
Number of observations	5795	4483	4463	5793	5371	4140	4120	5370
log likelihood	-3543.93	-2650.88	-2601.71	-3203.24	-3290.24	-2452.08	-2403.78	-2964.47
Pseudo R2	0.01	0.03	0.04	0.00	0.01	0.03	0.04	0.00

Notes: The dependent variable is an indicator for successful project evaluation. Unless otherwise noted, all variables are measured at the time of project approval.

Standard errors are clustered at the country level. (absolute) z statistics in parentheses:

\*, \*\*, \*\*\* significant at 10, 5, 1%.

Table 3: Satisfactory Project Evaluation, Logit, Cold War period

	(1)	(2)	(3)	(4)	(5)	(6)
UNSC, approval time	-0.484 (2.25)**	-0.512 (1.75)*	-0.471 (1.76)*			
UNSC, evaluation time	-0.162 (0.65)	-0.259 (1.15)	-0.170 (0.71)			
WB Executive Board member approval time				0.263 (1.08)	0.016 (0.05)	-0.156 (0.70)
WB Executive Board member evaluation time				-0.085 (0.26)	-0.377 (1.33)	-0.068 (0.25)
Short-term debt	-0.005 (0.60)	0.002 (0.32)	-0.005 (0.64)	-0.006 (0.79)	-0.017 (1.48)	-0.006 (0.67)
Time in office	-0.002 (0.05)	-0.037 (0.94)	-0.000 (0.01)	-0.006 (0.14)	-0.090 (1.29)	-0.005 (0.10)
Time in office, squared	0.002 (0.96)	0.003 (2.12)**	-0.002 (0.68)	0.002 (0.99)	0.005 (1.74)*	-0.001 (0.52)
Ethnic fractionalization	0.029 (1.76)*	0.009 (0.60)		0.032 (1.99)**	0.037 (2.03)**	
Ethnic fractionalization, squared	-0.000 (2.21)**	-0.000 (1.56)		-0.000 (2.41)**	-0.001 (2.64)**	
Instability	0.313 (1.89)*	0.284 (1.59)	0.340 (1.79)*	0.284 (1.67)*	0.347 (1.46)	0.321 (1.64)
Democracy	0.370 (1.49)	0.013 (0.06)	-0.302 (0.91)	0.254 (1.01)	0.006 (0.02)	-0.372 (1.27)
(log) GDP p.c.		-0.205 (1.33)			0.029 (0.10)	
(log) Population		0.060 (0.78)			0.066 (0.64)	
Lending Project Cost		-0.111 (1.22)			-0.161 (1.43)	
East Asia		0.489 (1.46)			0.671 (1.58)	
Latin America		-0.456 (2.06)**			-0.759 (2.59)**	
Middle East		-0.168 (0.34)			0.370 (0.59)	
South Asia		0.390 (0.92)			0.755 (1.34)	
Sub Saharan Africa		-0.486 (1.10)			-0.016 (0.03)	
Country fixed effects	no	no	yes	no	no	yes
Period	<1991	<1991	<1991	<1991	<1991	<1991
Number of observations	1387	1227	1352	1390	485	1355
log likelihood	-813.52	-684.45	-626.61	-815.90	-264.07	-628.84
Pseudo R2	0.03	0.05	0.01	0.03	0.09	0.01

Notes: The dependent variable is an indicator for successful project evaluation. Unless otherwise noted, all variables are measured at the time of project approval. Standard errors are clustered at the country level. (absolute) z statistics in parentheses: \*, \*\*, \*\*\* significant at 10, 5, 1%.

Table 4: Satisfactory Project Evaluation, Logit, Post-Cold War period

	(1)	(2)	(3)	(4)	(5)	(6)
UNSC, approval time	0.061 (0.41)	-0.011 (0.07)	0.025 (0.18)			
UNSC, evaluation time	0.206 (1.29)	0.234 (1.09)	0.209 (1.14)			
WB Executive Board member approval time				-0.046 (0.29)	-0.215 (1.06)	-0.089 (0.57)
WB Executive Board member evaluation time				0.316 (1.96)*	0.079 (0.47)	0.200 (1.48)
Short-term debt	0.012 (1.89)*	0.003 (0.37)	-0.001 (0.20)	0.009 (1.40)	0.004 (0.46)	-0.004 (0.46)
Time in office	-0.043 (1.72)*	-0.046 (1.78)*	-0.026 (0.97)	-0.038 (1.52)	-0.042 (1.58)	-0.019 (0.73)
Time in office, squared	0.001 (1.70)*	0.001 (1.31)	0.001 (0.63)	0.001 (1.56)	0.001 (1.16)	0.000 (0.37)
Ethnic fractionalization	0.009 (0.99)	0.015 (1.33)		0.013 (1.28)	0.017 (1.41)	
Ethnic fractionalization, squared	-0.000 (1.33)	-0.000 (1.77)*		-0.000 (1.56)	-0.000 (1.83)*	
Instability	-0.078 (0.58)	-0.169 (1.63)	0.062 (0.52)	-0.172 (1.29)	-0.244 (2.03)**	0.031 (0.24)
Democracy	0.252 (1.58)	0.196 (1.09)	0.179 (0.64)	0.244 (1.42)	0.282 (1.41)	0.284 (0.99)
(log) GDP p.c.		-0.052 (0.46)			-0.036 (0.23)	
(log) Population		0.094 (1.64)			0.116 (1.69)*	
Lending Project Cost		-0.021 (0.79)			-0.031 (1.04)	
East Asia		0.777 (2.25)**			0.891 (2.38)**	
Latin America		0.288 (2.11)**			0.372 (2.28)**	
Middle East		0.390 (0.95)			0.574 (1.40)	
South Asia		0.453 (1.25)			0.535 (1.49)	
Sub Saharan Africa		0.146 (0.43)			0.314 (0.82)	
Country fixed effects	no	no	yes	no	no	yes
Period	>1990	>1990	>1990	>1990	>1990	>1990
Number of observations	4408	3256	4401	3981	2842	3975
log likelihood	-2704.97	-1936.87	-2388.37	-2451.13	-1688.58	-2147.39
Pseudo R2	0.02	0.03	0.00	0.02	0.03	0.00

Notes: The dependent variable is an indicator for successful project evaluation. Unless otherwise noted, all variables are measured at the time of project approval. Standard errors are clustered at the country level. (absolute) z statistics in parentheses: \*, \*\*, \*\*\* significant at 10, 5, 1%.

Table 5: Satisfactory Project Evaluation, Interaction with vulnerability, Conditional Logit

	(1)	(2)	(3)	(4)
UNSC, approval time	0.183 (0.95)	0.175 (1.26)		
UNSC, evaluation time	0.066 (0.41)	0.050 (0.31)		
Short-term debt	-0.000 (0.07)		-0.005 (0.76)	
UNSC*Short-term debt	-0.021 (1.95)*			
Total debt service		-0.009 (1.27)		-0.010 (1.30)
UNSC*Total debt service		-0.042 (2.12)**		
WB Executive Board member approval time			-0.127 (0.58)	0.019 (0.09)
WB Executive Board member evaluation time			0.037 (0.31)	0.034 (0.28)
WBED*Short-term debt			0.003 (0.35)	
WBED*Total debt service				-0.016 (0.70)
Time in office	-0.002 (0.08)	0.001 (0.05)	0.003 (0.11)	0.004 (0.18)
Time in office, squared	-0.000 (0.41)	-0.000 (0.50)	-0.001 (0.68)	-0.001 (0.76)
Instability	0.105 (0.86)	0.108 (0.87)	0.085 (0.66)	0.094 (0.72)
Democracy	0.074 (0.31)	0.089 (0.38)	0.117 (0.50)	0.144 (0.62)
Observations	5793	5626	5370	5193
log likelihood	-3201.01	-3092.80	-2964.42	-2847.36
R2	0.00	0.00	0.00	0.00

Notes: The dependent variable is an indicator for successful project evaluation. Unless otherwise noted, all variables are measured at the time of project approval.

Standard errors are clustered at the country level. (absolute) z statistics in parentheses:

\*, \*\*, \*\*\* significant at 10, 5, 1%.

Table 6: Satisfactory Project Evaluation, Tests for Robustness, Conditional Logit

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
UNSC, approval time	0.448 (1.50)	-0.296 (0.75)	0.204 (1.03)	-0.453 (1.62)	0.190 (0.99)	-0.468 (1.74)*	0.168 (0.87)	-0.460 (1.72)*	0.195 (0.99)	-0.440 (1.29)	0.208 (0.88)	-0.040 (0.13)	0.290 (0.73)	-0.862 (1.77)*	0.334 (2.03)**
UNSC, evaluation time	0.177 (0.84)	0.139 (0.35)	0.071 (0.44)	-0.156 (0.67)	0.060 (0.38)	-0.177 (0.75)	0.071 (0.44)	-0.173 (0.69)	0.055 (0.32)	-0.215 (0.85)	-0.004 (0.02)	-0.141 (0.46)	0.306 (1.20)	-0.131 (0.35)	0.124 (0.84)
Short-term debt	0.003 (0.28)	-0.014 (1.04)	0.000 (0.07)	-0.006 (0.74)	0.001 (0.18)	-0.004 (0.57)	-0.002 (0.34)	-0.007 (0.81)	0.001 (0.17)	-0.011 (1.40)	0.003 (0.48)	-0.014 (1.39)	-0.010 (1.02)	-0.008 (0.52)	0.013 (1.92)*
UNSC*Short-term debt	-0.046 (2.56)**		-0.022 (2.03)**		-0.021 (1.98)**		-0.021 (1.92)*		-0.024 (2.22)**		-0.023 (1.95)*		-0.040 (0.95)		-0.027 (2.70)**
Time in office	0.004 (0.14)	0.117 (1.77)*	-0.002 (0.06)	0.016 (0.32)	-0.001 (0.02)	0.002 (0.04)	0.006 (0.22)	0.047 (0.74)	0.013 (0.53)	0.035 (0.62)	0.003 (0.11)	0.054 (0.92)	-0.021 (0.56)	-0.074 (1.13)	0.031 (1.38)
Time in office, squared	-0.001 (0.49)	-0.007 (2.23)**	-0.000 (0.43)	-0.003 (1.00)	-0.000 (0.48)	-0.002 (0.74)	0.000 (0.09)	-0.003 (1.08)	-0.001 (0.71)	-0.003 (0.86)	-0.001 (0.44)	-0.007 (2.43)**	0.000 (0.03)	0.004 (1.43)	-0.002 (1.99)**
Instability	0.106 (0.52)	0.124 (0.53)	0.100 (0.84)	0.358 (1.88)*	0.099 (0.80)	0.340 (1.80)*	-0.054 (0.45)	0.157 (0.65)	0.128 (0.90)	0.319 (1.51)	0.109 (0.90)	0.158 (0.80)	0.063 (0.30)	0.616 (2.85)***	-0.024 (0.23)
Democracy	-0.023 (0.06)	-0.376 (1.39)	0.045 (0.19)	-0.353 (1.07)	0.064 (0.27)	-0.303 (0.91)	0.020 (0.07)	-0.439 (0.91)	0.127 (0.46)	-0.341 (1.06)	0.201 (0.58)	-0.652 (2.54)**	-0.144 (0.76)	0.367 (0.42)	-0.506 (2.75)***
Energy and Mining Sector dummy			0.169 (1.24)	0.943 (4.09)***											
Transport Sector dummy			0.609 (4.50)***	0.627 (2.62)***											
Other sectors dummy			0.338 (3.71)***	0.648 (3.43)***											
Development Policy Loan dummy					0.279 (2.22)**	0.127 (0.37)									
Inverse Mills Ratio									2.174 (0.74)	-8.530 (1.49)					
Sample	IEG	IEG<1991	all	<1991	all	<1991	all	<1991	all	<1991	IBRD	IBRD<1991	IDA	IDA<1991	all <sup>a</sup>
Observations	1717	543	5793	1352	5793	1352	5793	1352	4965	1049	3562	805	2194	524	5795
log likelihood	-909.81	-225.45	-3182.37	-612.48	-3196.93	-626.52	-3204.50	-628.92	-2718.20	-475.78	-1883.09	-341.61	-1208.13	-237.78	-3596.79
Pseudo R2	0.01	0.02	0.01	0.03	0.00	0.01	0.00	0.01	0.00	0.01	0.00	0.02	0.00	0.03	0.01

Notes: The dependent variable is an indicator for successful project evaluation. Control Variables refer to the time of program start in all column except (7) and (8), where they are averages of values at program start and program evaluation. The sample in (1) and (2) contains only projects evaluated in a direct audit by the IEG/OED. <sup>a</sup> In column 15 we recode the dependent variable so that all projects with satisfactory and highly satisfactory evaluation are one, and all others zero (including moderately satisfactory).

Standard errors are clustered at the country level. (absolute) z statistics in parentheses:

\*, \*\*, \*\*\* significant at 10, 5, 1%.



Table 7: The impact of UNSC membership on new World Bank projects

	(1)	(2)
Temp. UNSC member	0.094 (1.74)*	0.148 (1.69)*
IMF program	0.250 (6.31)***	0.259 (6.50)***
Debt service (% GDP)	0.005 (3.67)***	
Short-term debt		-0.001 (0.49)
UNSC*Short-term debt		-0.003 (0.50)
Investment (% GDP)	0.021 (4.83)***	0.019 (4.54)***
GDP per capita (log)	-0.576 (5.50)***	-0.551 (5.31)***
Population (log)	-0.036 (0.39)	-0.040 (0.44)
Lagged election	-0.083 (2.07)**	-0.077 (1.92)*
Observations	2135	2092
Number of countries	113	110
log likelihood	-3097.25	-3073.64

Notes: The dependent variable is the number of new World Bank projects in a particular country and year.

(absolute) z statistics in parentheses: \*, \*\*, \*\*\* significant at 10, 5, 1%.

Figure 1: Marginal Effect Table 5, Column 1

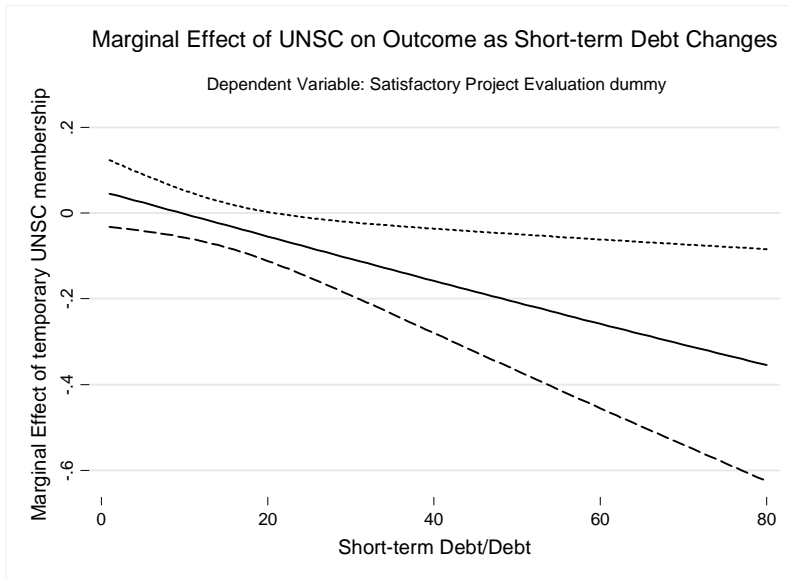


Figure 2: Marginal Effect Table 5, Column 2

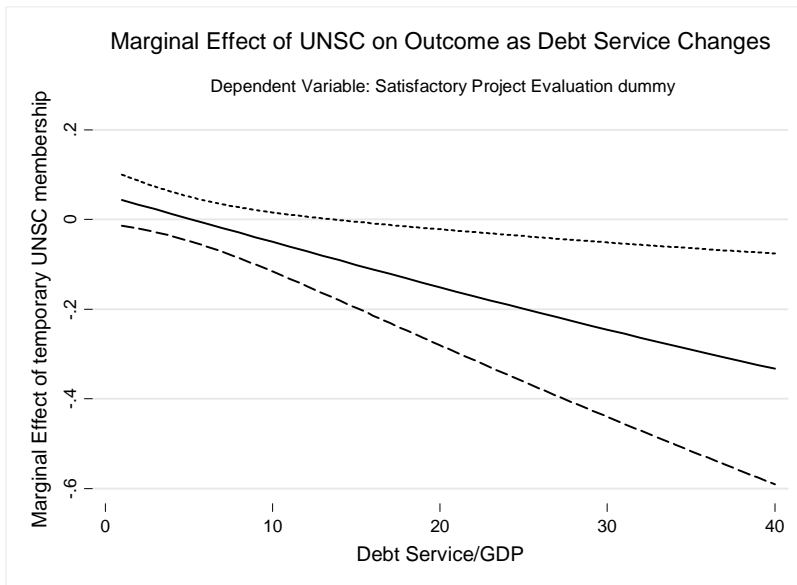


Figure 3: Marginal Effect Table 5, Column 3

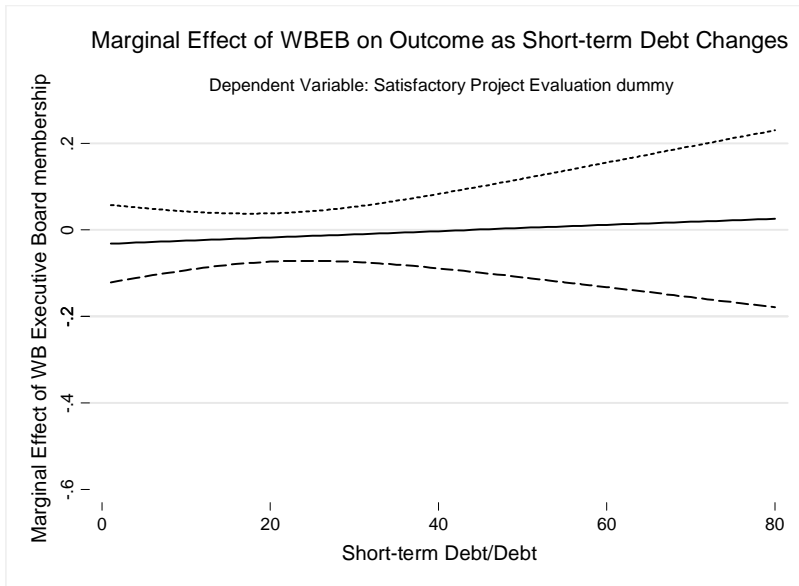


Figure 4: Marginal Effect Table 5, Column 4

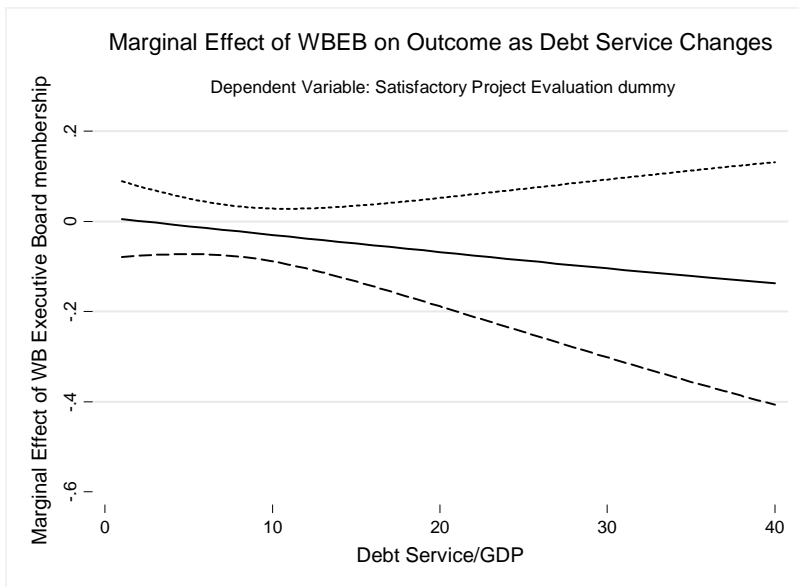


Figure 5: Marginal Effect Table 6, Column 11

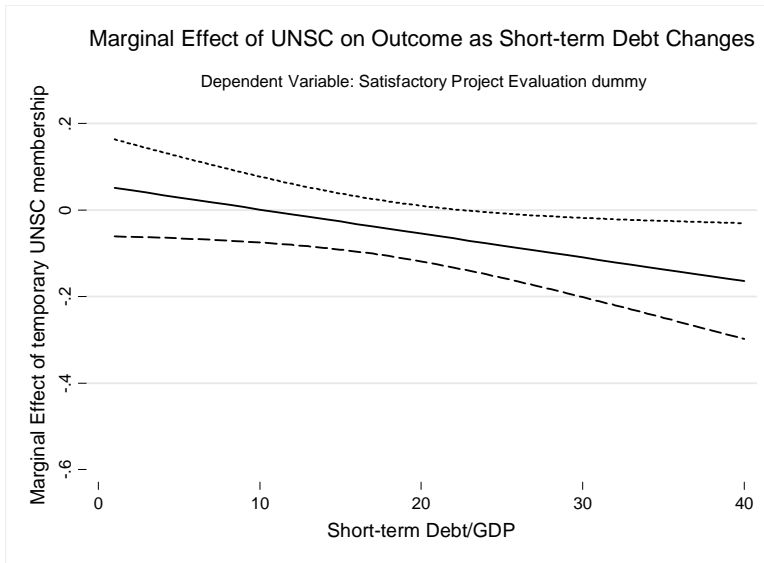


Figure 6: Marginal Effect Table 6, Column 13

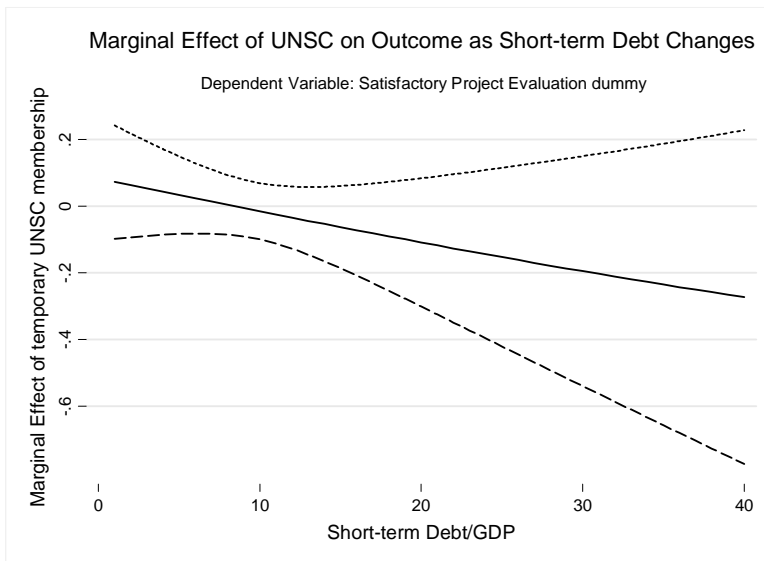
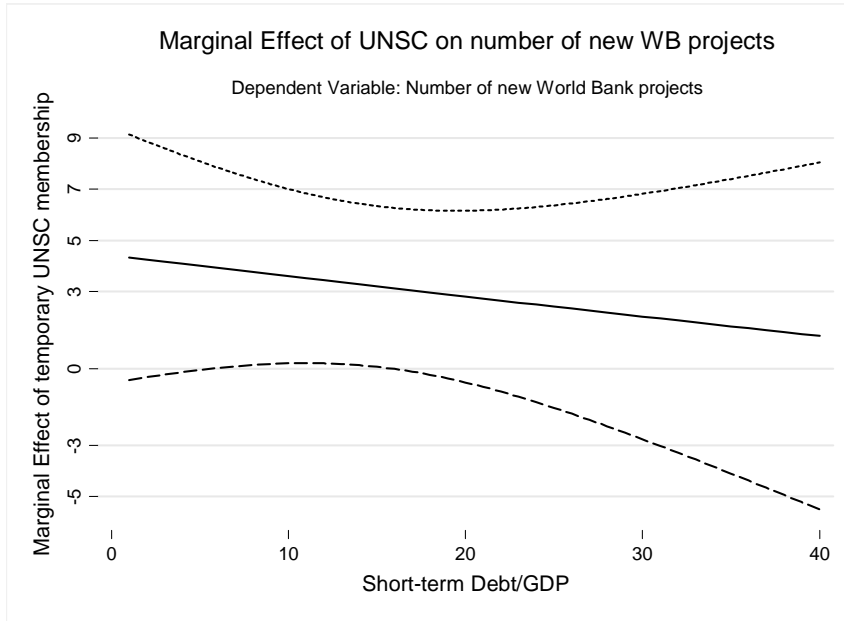


Figure 7: Marginal Effect Table 7, Column 2



Appendix: Descriptive statistics (estimation sample of Table 2, column 1)

Variable	Source	Mean	St.dv	Min	Max
UNSC, approval time	Dreher et al. (2009)	0.10	0.31	0.00	1.00
UNSC, evaluation time	Dreher et al. (2009)	0.09	0.29	0.00	1.00
WB Executive Board member at project evaluation	Kuziemko and Werker (2006)	0.19	0.39	0.00	1.00
WB Executive Board member at project start	Kuziemko and Werker (2006)	0.19	0.39	0.00	1.00
Short-term debt (% of total external debt) at project start	World Bank (2008)	12.69	9.38	0.00	88.93
Total debt service (% of GNI) at project start	World Bank (2008)	6.21	5.11	0.00	107.37
Time in office at project start	Beck et al. (2002)	8.61	8.31	1.00	46.00
Time in office, squared at project start		143.19	255.01	1.00	2116.00
Ethnic fractionalization	Easterly and Sewadeh (2001)	52.51	30.15	1.00	93.00
Ethnic fractionalization, squared		3666.36	2862.79	1.00	8649.00
Instability at project start	Databanks International (2005)	0.17	0.47	0.00	4.00
Democracy dummy at project start	Cheibub et al. (2009)	0.37	0.48	0.00	1.00
(log) GDP p.c. at project start	World Bank (2008)	6.60	1.05	4.40	9.01
(log) Population at project start	World Bank (2008)	16.99	1.59	13.29	20.77
Lending Project Cost, real	Independent Evaluation Group data	1.33	2.23	0.00	31.50