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DIPLOMARBEIT

THE RHETORIC OF MULTILATERAL FOREIGN AID ASSESSING THE IMPORTANCE OF GOOD GOVERNANCE AS A LENDING CRITERION OF THE WORLD BANK

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ABSTRACT

This study² presents two areas of good governance and assesses their relevance for the World Bank's lending policy. First, the definitions and criteria of good governance of four multilateral organisations, namely the World Bank, the International Monetary Fund, the United Nations Development Program and the Development Assistance Committee of the OECD are outlined and discussed. A differentiation between a non-political core area and an associated political area of governance is introduced, and the different governance aspects are allocated to them. Building on these findings, the second part of this study analyses the importance of good governance and alternative factors as lending criteria for the World Bank. Several OLS regressions for three cross-sections between 1983 and 1997 show that the different aspects of good governance play only a subordinate role for the allocation of World Bank credits. Only countries reducing their excessive military potential are favoured by the World Bank shortly after the end of the Cold War. Instead, economic and other donor interests, such as length of colonial dependence, increasingly influence the Bank's credit lending policy over time. The results show little statistical evidence for an impact of recipient need considerations. As previous literature has shown, a negative relationship between population size of a country and the share and change of lending is also observed. Further, the World Bank and the International Monetary Fund focus on the same developing countries, whereas the official development assistance of the U.S. is directed to different countries.

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TABLE OF CONTENTS

Abstract	i
Table of Contents.....	ii
List of Tables and Graphs	iv
Abbreviations	v
Chapter I: Introduction	1
1.1. Previous Research.....	5
1.2. Study Outline.....	8
Chapter II: The Concept of Good Governance.....	9
2.1. Definitions	9
2.2. Theoretical Background	12
Chapter III: Governance & International Organisations	15
3.1. The World Bank	17
3.1.1. Definition.....	18
3.1.2. Criteria.....	19
3.2. The International Monetary Fund.....	25
3.2.1. Definition.....	26
3.2.2. Criteria.....	27
3.3. United Nations Development Program.....	30
3.3.1. Definition.....	30
3.3.2. Criteria.....	31
3.4. Development Assistance Committee of the OECD.....	34
3.4.1. Definition.....	34
3.4.2. Criteria.....	35
3.5. Core and Associated Areas of Governance	39
Chapter IV: Lending Activities of the World Bank	41
Chapter V: Hypothesis-Building.....	45
5.1. Good Governance	46
5.2. Recipient Need	48
5.3. Donor Interests	49
5.4. Congruence.....	52
5.5. Control Variables.....	53

Chapter VI: Operationalisation	55
6.1. Case and Time Period Selection.....	55
6.2. The Dependent Variables	56
6.3. Good Governance Indicators	57
6.3.1. Measuring the Core Area of Good Governance	58
6.3.2. Measuring the Reduction of excessive Military Spending.....	63
6.3.3. Measuring the Associated Political Area of Good Governance	64
6.4. Alternative Independent Variables	65
6.5. Control Variables.....	67
Chapter VII: Statistical Analysis	67
7.1. Descriptive Statistics	68
7.2. Expected Results.....	71
7.3. Bivariate Analysis.....	73
7.4. Multivariate Analysis	78
7.4.1. Assumptions	78
7.4.2. Influence Analysis	81
7.4.3. OLS-Regressions	81
7.5. The Importance of Good Governance	94
Chapter VIII: Conclusion	97
References	101
Appendices	111
Appendix A: List of Interview Partners	111
Appendix B: Questionnaire	112
Appendix C: Definition of Variables.....	113
Appendix D: Hypothesised Relationship and Source.....	115
Appendix E: Eligible Countries for World Bank funding.....	116
Appendix F: Rank List of Receiving Countries	117
Appendix G: Construction of Democracy Score	118
Appendix H: Good Governance Variables.....	119
Appendix I: Factor Analysis.....	120
Appendix J: Descriptive Statistics	122
Appendix K: Correlation Matrix of the Independent Variables	124
Appendix L: Residual Plots.....	127
Appendix M: Cook's Distance Measurement	130
Appendix N: Multivariate Analysis: Governance Indicators	133

LIST OF TABLES AND GRAPHS

LIST OF TABLES:

Table 1:	Areas and Conditionality of Governance	16
Table 2:	World Bank Good Governance Criteria.....	25
Table 3:	IMF Good Governance Criteria	29
Table 4:	UNDP Good Governance Criteria.....	33
Table 5:	DAC Good Governance Criteria	38
Table 6:	Core and Associated Areas of Governance.....	40
Table 7:	Indicators of Good Governance	58
Table 8:	Factor loadings 1993-1997:.....	61
Table 9:	Expected Signs	72
Table 10:	Bivariate Analysis (Share of World Bank Lending)	73
Table 11:	Bivariate Analysis (Change of World Bank Lending)	76
Table 12:	Results of OLS Regression: DV1S (Share of total World Bank lending).....	83
Table 13:	Results of Stepwise Regression: DV1S (Share of total World Bank lending)....	86
Table 14:	Results of OLS Regression: DV2C (Change of total World Bank lending).....	88
Table 15:	Results of Stepwise Regression: DV2C (Change of total lending).....	93
Table 16:	Expected Signs for Governance Criteria.....	95

LIST OF GRAPHS:

Graph 1:	Core and associated political area of Governance.....	15
Graph 2:	Total IBRD loans and IDA credits (1983 - 1997).....	43
Graph 3:	Regional distribution of IBRD loans and IDA credits (1997).....	44
Graph 4:	Factor loadings 1993-1997	62
Graph 5:	Dependent Variables 1983-1987	68
Graph 6:	Dependent Variables 1988-1992	69
Graph 7:	Dependent Variables 1993-1997	70

ABBREVIATIONS

BMZ	Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung
DAC	Development Assistance Committee of the OECD
GDP	Gross Domestic Product
GNP	Gross National Product
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IMF	International Monetary Fund
NZZ	Neue Zürcher Zeitung
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OLS	Ordinary Least Squares
PSM	Public Sector Management
UNDP	United Nations Development Program
US	United States of America
WB	World Bank

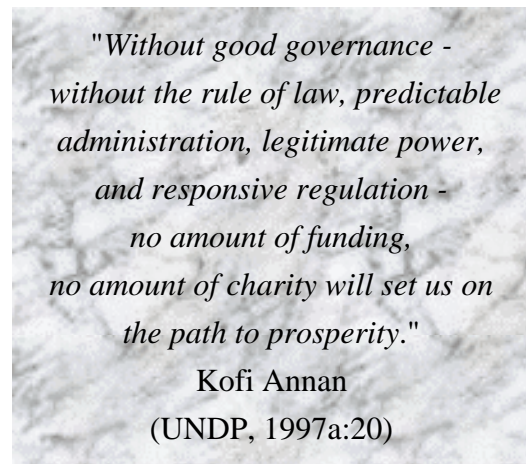
VARIABLES:

ADMC	Administration Change
DEMC	Democracy Change
DV1P	Dependent Variable 1: Percentage of World Bank lending
DV2P	Dependent Variable 2: Change of World Bank lending
FIBR	Funding by IBRD
INDEPTI	Length of Independence
LGNP	Log of GNP per capita
LIMF	Log of IMF credits
LPOP	Log of size of population
LTRAD	Log of Trade (% of GNP)
LUSA	Log of US official development aid
MILC	Military Change
NAM	Non-Alignment Country
NLIE	Needs: Life Expectancy
PGC	Public Goods Change
WBI	World Bank Interest

CHAPTER I: INTRODUCTION

The fall of the Berlin Wall opened a "*window of opportunity*" (NZZ, 1999:29) for the donors of development assistance. Strategic and security interests became less important for the allocation of development aid with the end of the bipolar world system. Emancipating from its subordinated role as an instrument of foreign policy (NUSCHELER, 1996:358ff.), development policy developed new and theoretical based conditions for the allocation of official development aid. Political

prerequisites for sustainable development increased its prominence as a criteria for development assistance at the bilateral and multilateral level. Focusing on the quality of government in the recipient countries, the term "**governance**" - promoted by the World Bank - was easily pushed to the top of the developmental agenda.



Although, considered to be the initiator of the debate on governance and still leading the ongoing discussion and research about it, the **World Bank** has some problems in addressing this issue. According to its articles of agreements³, the World Bank's work has to be guided solely by economic - and not political - considerations. To circumvent this dilemma, the Bank rhetorically distinguishes between the **political and economic dimensions of governance**. All governance aspects related to the form of the political regime of a country are not addressed by the Bank. Therefore, the World Bank focuses on the non-political dimensions of governance: 'public sector management', 'accountability & financial management', 'legal framework for development' and 'transparency & information'.

This study tries to unveil whether the World Bank's rhetoric emphasis on certain aspects of good governance had an impact on its lending policy. The leading question of this paper is: **How important is good governance as a lending criterion for the World Bank?** Does good governance influence the decision-making of credit allocation or is the vagueness of the term 'governance' only used to justify some decisions made by the World Bank? Besides the interest in the empirical evaluation of the Bank's lending criteria, there is a second rational for the choice of this leading question. To pursue its goals of promoting sustainable economic and social development, the World Bank should invest its scarce resources carefully. From a

³ The articles of agreement are the statute of the World Bank and can be found at <http://www.worldbank.org/html/extdr/about/agreements.htm>

neo-institutional perspective, credits to 'good governed' countries are 'good investments' and therefore should be favoured by the Bank.

However, before an evaluation of the Bank's lending activities can take place, the meaning of good governance has to be clarified. Unfortunately, the term governance or good governance shares the fate of many popular catchwords in the political arena: Everybody feels free to use this fashionable term to address a particular aspect which seems to be important. Therefore, the concept of good governance has, despite its popularity, remained very obscure and vague. Almost every bilateral and multilateral organisation has developed a specific good governance approach according to its particular needs.

Therefore, in a **first step** this paper aims to shed some light into this confusing black box of good governance. It tries to find out what governance means by answering the following questions:

- Which good governance approaches have been developed by international organisations?
- How do they define governance and good governance?
- Which aspects of governance do they address?

A concentration on the governance concept of the World Bank would be too narrow and neglect some important aspects. Therefore, I decided to compare the **definitions of and criteria for good governance** of the World Bank, the International Monetary Fund, the United Nations Development Program (UNDP) and the Organisation for Economic Co-operation and Development (OECD) in Chapter III. The relevant information has been obtained from publications (e.g. FUSTER, 1997; UNDP, 1997 a, b and c, 1998 a, b and c; IMF 1997 a and b; WORLD BANK, 1989b, 1992 and 1994; OECD, 1994) and expert interviews⁴. To categorise the different identified aspects of governance, this study relies on the work of Thomas Fuster who introduced a differentiation between the non-political core area and the associated political area of good governance (FUSTER, 1997:90ff.). This distinction between non-political and political aspects of governance is questionable as discussed later. For the empirical analysis of the World Bank lending policy, the following categorisation has been undertaken: The **core area** comprises the so called non-political aspects upon which all four organisations agree. The non-political dimension of good governance includes indicators measuring the provision of public goods, the efficiency of the administration and the reduction of excessive military spending. The **associated political area** of good governance includes the controversial political aspects of governance - condensed in the question about

⁴ Several personal interviews were conducted at the World Bank, IMF and UNDP by the author. The questionnaire and a list of interview partners can be found in the appendices A and B. The documentation of the interviews remain with the author.

the type of the regime in this study. This categorisation and the quantification of the different aspects will be used for the second part of this study - the examination of the importance of good governance criteria for the credit lending of the World Bank.

The World Bank concentrates on the core area of good governance. If the Bank's governance approach influences its credit allocation, it can be assumed that developing countries with a better record on core governance aspects are able to obtain more credits from the Bank. If the World Bank takes its own emphasis on good governance seriously, such a relationship should be observable. The assessment of the importance of good governance as a lending criterion of the World Bank is the second and main part of this study. Therefore, the following **main hypothesis** will be tested: "*States with a better fulfilment of the World Bank's good governance criteria receive more credits from the World Bank*".

Although the World Bank stresses the non-political dimensions of good governance, I will also test whether the associated political area of good governance, similar to the approaches of UNDP and OECD, play a role in the lending activities of the Bank. Especially the form of the political regime of a country should have no significant impact on the distribution of the World Bank's credits.

Assessing the importance of good governance as a lending criterion, I must also check for alternative criteria. Most quantitative studies on the allocation of development assistance rely either upon recipient needs or donor interests models as developed by McKinlay and Little (see ZANGER, 2000; SCHRAEDER / HOOK / TAYLOR, 1998; MEERNIK / KRUEGER / POE, 1998; MAIZELS / NISSANKE, 1984; MCKINLAY / LITTLE, 1977). Therefore, both models will be applied to test for the influence of alternative factors on the World Bank's credit allocation.

If the World Bank's distribution of credits is motivated by **recipient needs**, than it would be expected that the poorest countries in the world receive the highest amount of credits. Life expectancy and GNP per capita would be significant explanatory variables.

Donor interest models describe development assistance as an instrument for the donor to pursue its own interests. In the case of the World Bank, there are several actors which could be named 'donor'. Firstly, the staff of the Bank influences its performance to a large degree. To legitimate its existence and to build up a good reputation, the Bank needs 'success stories': Poor countries which progressed in their development with assistance from the World Bank. Therefore, the Bank might prefer to support poor countries with a high potential for sustainable development, such as countries with a growing economy.

Secondly, the owners of the World Bank are its member countries. The voting power of each country is related to its share of capital stock, whereas the so called "Big Five" - USA, Japan, France, United Kingdom and Germany - possess almost fifty percent of the shares⁵ of the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA) of the World Bank⁶ (KOLL, 1988:34). This voting power allows them to pursue their own strategic and economic interests through the World Bank Group. Therefore, I will analyse whether their historic international relations (former colonies), UN-voting alliances, as well as trade and military interests, have a significant impact on the Bank's lending policy.

As the largest shareholder, the USA is often especially accused of intensively influencing the World Bank and of benefiting "*substantially in both foreign policy and economic terms from the Bank's promotion of development*" (GWIN, 1994:1). If the World Bank's work is largely influenced by the interests of its major donating member, then a congruence between the distribution of their official development assistance (ODA) and the Bank's credit allocation should be observable. A further independent variable will be the credit allocation of the IMF because it is often suspected that the work of the IMF and the World Bank are interrelated (see BIRD, 1995).

The wind of change in the early 90s allowed the donors of development assistance to address the issue of governance. However, the analysis of the influence of non-political and political dimensions of good governance as well as the influence of various other factors uncovers a gap between official statements of the World Bank and its practical work. As this study will show, there is no statistical evidence for any impact of good governance aspects on the allocation of the Bank's credits. It seems to be, as if good governance is only a lending criterion for a minority of developing countries. Donor interests and partly recipient needs have a superior impact. The findings of the multivariate analysis show that former colonies and countries with strong trade relations are favoured by the World Bank. Also, countries with a small population size are more successful in borrowing. One explanation for these results might be that the World Bank is in need of success stories. Small countries and countries with a previously good economic record might be more promising for future success.

⁵ Every member state possesses 250 votes plus one additional vote per share (100.000 US\$) of the capital stock of the particular bank or programme. For further details see World Bank, 1989a: Art.V,3 and Art.II.

⁶ The World Bank group consists of five closely related institutions. The IBRD and IDA are the two most prominent. The work of the World Bank will be presented in more detail in Chapter IV.

1.1. PREVIOUS RESEARCH

Different types of publications are relevant for this study. The first group of literature describes the meaning and content of good governance. Secondly, there are several empirical analyses which share either the dependent or the independent variables with this study. As outlined later, the combination of both streams of empirical analysis are considered as an important contribution of this paper to the governance discussion.

In the academic world there is a growing interest in the issue of good governance. However, surprisingly little effort has been made to clarify the **concept of good governance**. There is no consensus definition or coherent approach. On the contrary, almost every bilateral and multilateral donor has formulated and published its own approach (e.g. BMZ, 1998:29ff.; UNDP, 1997 a, b and c, 1998 a, b and c; IMF 1997 a and b; WORLD BANK, 1989, 1992 and 1994; OECD, 1994). There are almost no publications which deal with the issue of governance on a more general level. An exception is the book by Thomas Fuster in which the good governance discussion of the World Bank and the Development Assistance Committee (DAC) of the OECD is described. It analyses the differences of their two approaches in detail (FUSTER, 1997; see also WOODS, 1999 and RAUCH / EVANS, 1999). Other publications examine, mostly as case studies, the more general issue of political conditionality (e.g. WARD, 1998; OLSEN, 1998; BURNELL, 1997; CRAWFORD, 1997; SMITH, 1997; RAFFER / SINGER, 1996:155ff.; STOKKE, 1995; BRÜNE, 1995; BAYLIES, 1995; BENEDEK, 1994; BAEHR, 1994). Only recently, the World Bank Institute made the effort to construct aggregated indicators⁷ related to the following six basic governance concepts: Voice & Accountability; Political Instability and Violence; Government Effectiveness; Regulatory Burden; Rule of Law and Graft.

Two groups of previous studies are related to the empirical analysis in this study. The first group asks about the determinants of development aid allocation. Most of them are concerned about bilateral donors, only a few authors explore multilateral lending. The right hand side of the model equation is the same as in this regression model. However, these studies either neglect the issue of governance⁸ or do not specify the different dimensions of governance. A more differentiated quantification can be found in the second group of empirical studies. These studies explore the impact of good governance on economic performance. This study combines the approaches of both groups. The operationalisation of governance aspects relies on the previous work of the later group. The dependent variable and alternative factors are

⁷ The indicators haven been developed only for the year 1997/98. Assessing the importance of governance during several time periods, the data set could not be applied for the empirical analysis of this study.

⁸ This is mostly the case for studies conducted before 1990, when the issue of governance was not yet on the developmental agenda.

mostly derived from the first group of previous literature. The following text contains representative studies of both groups:

Empirical studies analysing the **determinants of official development assistance** often test donor interest and recipient need models as introduced by McKinlay and Little (MCKINLAY / LITTLE, 1977). They agree on the role of poverty, colonial history, trade, political institutions, and the strategic importance of the receiving countries as being factors which determine the distribution of foreign aid. However, there is disagreement about the importance of these factors (ZANGER, 1999 and 2000; DERTWINKEL, 1999; SCHRAEDER / HOOK / TAYLOR, 1998; ALESINA / DOLLAR, 1998; BURNSIDE / DOLLAR, 1997; BOONE, 1994 and 1996; LUMSDAINE, 1993; WECK-HANNEMANN / SCHNEIDER 1988 and 1989; MAIZELS / NISSANKE, 1984). Depending on the period of time, region of interest, donor country, and applied methods, different factors are identified as significant.

Most studies only concentrate on bilateral donors (for example SCHRAEDER / HOOK / TAYLOR, 1998 or FLEMMING, 1985). Maizels and Nissanke analyse the allocation of development aid of both types of donors. They show that bilateral donors pursue their own interest, whereas the distribution of **multilateral aid** can be explained by the recipient need model. However, they use aggregated data for multilateral aid⁹ and do not analyse particular multilateral organisations (MAIZELS / NISSANKE, 1984). Weck-Hannemann and Schneider also evaluate multilateral foreign assistance, however they do not analyse the activities of the World Bank (WECK-HANNEMANN / SCHNEIDER 1989). Self-interests of the multilateral organisations and interests of the donating countries are the best explanatory variables. Relying upon four different approaches, Bruno Frey and Friedrich Schneider analyse the credit allocation of the World Bank. Their analysis suggests that the politico-economic model performs best¹⁰. Low per capita income combined with past growth, as well as former colonial status, and 'capitalist climate, are significant factors (FREY / SCHNEIDER, 1986).

Studies conducted before the early 90s - when the concept of good governance became popular - do not consider the impact of good governance at all. Instead they focus on the distinction between recipient needs and donor interest models (e.g. WECK-HANNEMANN / SCHNEIDER, 1988 and 1989; WECK-HANNEMANN / FREY; 1987; FLEMMING, 1985; FREY, 1984; MAIZELS /NISSANKE, 1984). More recent studies also neglect the issue of governance performance (see SCHRAEDER / HOOK / TAYLOR, 1998).

⁹ Multilateral aid includes aid from the World Bank Group, regional Development Banks, European Economic Community, IMF Trust Fund and the aid agencies of the United Nations (MAIZELS / NISSANKE, 1984: 893).

¹⁰ The other models ('Need', 'Deserve' and 'Benevolence') have not been confirmed by the analysis.

Only a small number of studies explicitly address the **issue of good governance**. Analysing the European development assistance, Sabine Zanger uses the variables "*respect for human rights*", "*adoption of democratic political structures*" and "*reduction of military expenditures*" to measure good governance. She demonstrates that European aid does not pay much attention to the issue of good governance (ZANGER, 2000). Alberto Alesina and Beatrice Weder examine whether corrupt governments receive less aid from a good governance perspective. They answer this question with a clear "No". There is no evidence that less corrupt governments receive more foreign aid (ALESINA / WEDER, 1999:4). Other recent studies only control for some governance aspects like 'democracy score'. (see for example APODAGA / STOHL, 1999; MEERNIK / KRUEGER / POE, 1998; MEERNIK / POE, 1996; POE / MEERNIK, 1995; POE, 1991 and 1992; KEGLEY AND HOOK, 1991). A serious shortcoming of the existing literature is that most studies reduce the issue of good governance to certain aspects like corruption or human rights. They only pay attention to the political dimension of governance. Issues like the effectiveness of the public administration or the rule of law have not yet been considered. The second group of empirical analysis seeks answers to a different question, but applies more adequate governance measures.

The empirical studies of the second group analyse the relationship between governance performance and **economic outcomes**. Their neo-institutional approach and quantification of governance is very similar to this study. Most of them document the negative effect of corruption on economic growth, foreign direct and public investments, or the official economy (JOHNSON / KAUFMANN / ZOIDO-LOBATÓN, 1998; WIE, 1997; TANZI / DAVOODI, 1997 and 1998; ADES AND DiTELLA, 1996; MAURO, 1995). Isham and his colleagues empirically established that civil liberties, like freedom of the press and the right to organise, facilitate voice which leads to better economic outcomes (ISHAM / KAUFMANN / PRITCHETT, 1997) Other researchers documented the importance of institutions for economic growth (WOHLMUTH, 1998; KNACK / KEEFER, 1995 and 1997; RODRIK, 1997; BARDHAN, 1997; CLAGUE, 1997; WHITELEY, 1997; NORTH, 1990). Knack and Keefer, for example, show that the institutional guarantee of property rights increases economic outcome (KNACK / KEEFER, 1995). Many of these studies rely on institutional indicators of private-service rating agencies, like the International Country Risk Guide (ICRG) or the Business Environmental Risk Intelligence (BERI) (see DETHIER, 1999:43). Unfortunately, their data sets are not freely available and could therefore not be applied to this analysis. The World Bank Institute provides empirical evidence that a good performance in governance is related to low infant mortality, high adult literacy, and high per capita income (KAUFMANN / KRAAY / ZOIDO-LOBATÓN, 1999b). The efforts to construct good governance indicators in this study are based on the work of this group of literature.

This study tries to fill a gap in academic literature on good governance by combining two streams of previous literature. Earlier studies did not adequately analyse the influence of good governance criteria on World Bank lending policy. In accordance with the literature about the influence of good governance on economic performance, this study uses newly developed and more specific aggregate indicators of governance. This allows a more sufficient empirical analysis of the influence of good governance on the credit allocation of the World Bank.

1.2. STUDY OUTLINE

This research paper is structured as follows: **Chapter II** gives an introduction into the field of governance. It presents a comprehensive definition of good governance and illuminates the theoretical background of the concept by referring to neo-institutional concepts such as transaction costs approaches. Furthermore, it will be explained what the anticipated effects of good governance are, and why the issue was able to attract so much attention.

Chapter III discusses the different definitions of, and criteria for, good governance of four international organisations. The focus will be on the World Bank, but differences to the approaches of the International Monetary Fund (IMF), the United Nations Program (UNDP) and the Organisation for Co-operation and Development (OECD) will be illustrated as well. There are mainly differences on the political dimension. This chapter should clarify the rhetoric distinctions on good governance and introduce a differentiation between the core area and associated political area of good governance.

The World Bank and its credit lending activities are the subjects of **Chapter IV**. First, the structure and functioning of the International Bank of Reconstruction and Development (IBRD) and the International Development Association (IDA), both parts of the World Bank Group, will be explained. Next, there will be a closer look at the dependent variable, the credit allocation itself. The distribution and volume of credits over time to the eligible countries will be investigated.

The derivation of the main and alternative hypotheses will take place in **Chapter V**. The hypotheses incorporate good governance concepts, recipient needs, and donor interest models. Some hypotheses also test if the credit distribution by the World Bank is influenced by the foreign aid allocation of other donors.

Chapter VI first discusses the reasons for the selection of the three cross-sections and cases of the studies. Then the different concepts will be quantified. The sub-chapter on the

operationalisation of the core area of good governance also comprises a short description of the conducted factor analysis.

Basic descriptive analysis of the data and the hypotheses-testing will be conducted in **Chapter VII**. After the outline of the expected results, I will assess the importance of good governance and competitive factors as lending criteria of the World Bank by using a multivariate OLS regression.

Finally, the findings of this research will be summarised in **Chapter VIII**. It will be restated that the purpose of this study is to make two contributions to the scientific discussion on good governance. First, the paper aims to clarify the rhetoric of multilateral organisations on governance. Second, this paper examines whether the credit lending policy of the World Bank to developing countries can be explained by the Bank's own good governance criteria. The study concludes with some comments on the implications of the results for future research.

CHAPTER II: THE CONCEPT OF GOOD GOVERNANCE

Ten years after the term "Governance" became popular in the field of development policy it is common knowledge that there is a need for „**good governance**“. However, as governance is related to many developmental issues, everybody is using this fashionable term to address a different aspect. The price of its popularity is that the concept of good governance has remained very obscure and vague.

This chapter presents some general definitions and the theoretical background of the good governance concept. Referring to neo-institutional theories, I will explain why there is so much weight put on institutional reforms to promote sustainable development.

2.1. DEFINITIONS

There is no single commonly accepted **definition of governance**. However, all definitions¹¹ stress the importance of **the manner in which power is exercised to control and manage a country**. A broad working definition, which includes most of the more specific definitions, is suggested by the World Bank Institute. They define governance "*as the traditions and*

¹¹ This study concentrates on the developmental governance discussion only. Other applications of the term, as for example in the field of organisational theories (compare KENIS / SCHNEIDER, 1996), are not considered.

institutions by which authority in a country is exercised" (KAUFMANN, / KRAAY / ZOIDO-LOBATÓN, 1999b:1). They emphasise that their definition includes "(1) the process by which governments are selected, monitored and replaced, (2) the capacity of the government to effectively formulate and implement sound policies, and (3) the respect of citizens and the state for the institutions that govern economic and social interactions among them" (KAUFMANN, / KRAAY / ZOIDO-LOBATÓN, 1999b:1).

Obviously, these three dimensions are related to the three political dimensions **politics** (political process), **policy** (public action) and **polity** (institutional system) (see ALEMANN, 1995). These terms are often used in political science as analysis instruments (e.g. ROHE, 1994; PRITTWITZ, 1994; BÖHRET, 1988). Politics means the process of decision-making. It addresses the procedural dimension of interest mediation and civil conflict resolution. Studying the process of decision-making enables the analyse of how and by whom power is exercised. Political goals, outcomes and programs are described by the term policy. The third dimension, polity, describes the institutional side. Institutions, such as constitutions, laws and traditions, affect the political processes and outcomes (ALEMANN, 1995).

This broad definition includes the institutional form (polity), the process of decision-making (politics), and the programs (policy) of a country. This means that governance is strongly interrelated with political aspects. Therefore, it is quite confusing that many donors claim to address only non-political governance aspects. The reasons for this artificial distinction along the political dimension are laid down in the history of the governance discussion and the institutional constraints of several multilateral donors.

The term "governance" was introduced to the developmental community by the World Bank's 1989 report "Sub-Saharan Africa: From Crisis to Sustainable Growth". It soon became popular in development circles because the term seemed to cover all issues which were identified as responsible for the lack of development in many countries. In addition, after the End of the Cold War strategic security factors decreased in its importance for the allocation of official development assistance (see ZANGER, 2000; SCHRAEDER/HOOK/TAYLOR, 1998; ALESINA/DOLLAR, 1998; BURNSIDE/DOLLAR, 1997; BOONE, 1996 and 1994; LUMSDAINE, 1993) and the aid donors started to address more openly their concerns.

Because of their non-political mandate, some organisations, like the World Bank and the IMF, have tried to distinguish between the political and economic dimensions of governance. This has to be regarded as a rhetorical effort to circumvent criticism. The exercise of authority or power always includes a political dimension. Institutions define the rules of the game - the distribution of power in a society influences the political processes, and policy outcomes effect the national well-being. Governance addresses all three political dimensions: politics,

policy and polity. Therefore from a theoretical point of view, such a differentiation does not make much sense. In practice, the limitation of some international organisations to solely non-political topics had one important consequence. These organisations put the question about the **form of the political regime** to one side, whereas mainly bilateral donors also addressed this dimension and asked for democratic reforms.

Bilateral donors, at a later point of time, added the word “good”. The term **Good Governance** is often used as a normative justification of aid conditionality (FUSTER, 1997:71). However, the definitions of what good governance is, are often even broader than the one for the term governance. For example, in 1992 the World Bank described good governance as synonymous for "*sound development management*" (WORLD BANK, 1992:3). Many organisations fail to explain what good governance is. Instead, they often describe the meaning of **poor governance** (see for example the chapter on the definitions given by the World Bank).

Good Governance is a **normative construct**. It means that power in a country is exercised in a 'good' manner. Depending on the point of view, the word 'good' addresses different issues on the level of policy, politics and polity. In general, there is agreement upon the outcome (policy) of good governance. Sustainable development and poverty reduction are the two most frequently quoted policy goals. Focusing on the process (politics) of decision-making, the conditions of transparency, accountability and participation of the concerned are often named. There is less agreement on the polity level. As described above, some bilateral donors and international organisations see a democratic regime as a necessary condition for good governance. Other organisations do not address this issue because of their mandate.

From a theoretical point of view, the distinction between political and non-political aspects of good governance is very questionable. Also, several governance criteria can be allocated to both aspects. However, it is not the purpose of this study to discuss the usefulness of such a differentiation. Instead, I am interested in analysing the importance of good governance for the World Bank lending policy. Therefore this study defines the two areas of governance as follows: The core area comprises the so-called non-political aspects on which all four organisations agree. These aspects primarily refer to 'good' outcomes (sufficient provision of public goods) and processes (efficient administration). Also, the necessity of a reduction of excessive military spending is now generally acknowledged. The more controversial political aspects of governance are allocated to the associated area. Central to the area in this study is the demand of some donors for a democratic political system in the recipient country. The World Bank's demand for good governance is based on neo-institutional arguments which will be presented in the following sub-chapter.

2.2. THEORETICAL BACKGROUND

The emergence of good governance criteria was favoured by the dominance of neo-institutional thinking in development theories in the early 90s (FUSTER, 1997:25). Earlier, from the 50s to the 70s structural theories¹² like dependency or dualism models dominated the field of development theory. They blamed structural failures, such as imperfect capital markets (see WAGNER / KAISER, 1995:52ff.), for underdevelopment. The succeeding neo-classical "counter-revolution" (TOYE, 1993) pointed to the importance of government failure¹³. A more neutral picture of the role of the state is drawn by the **neo-institutional 'synthesis'** (see FUSTER, 1997:33). The disappointing results of the neo-classical structural adjustment programs, especially in Africa, led to a rethinking of the role of institutional frameworks for sustainable social and economic progress. The neo-classical approach was now seen as too focused on government restrictions to promote private market activities. Even World Bank economists admitted that, "*the argument that the size of the public sector needs to be drastically reduced has probably been taken too far, without really analyzing the full consequences of the shift. [...] The issue is the quality, not the size of the state*" (ISRAEL, 1990:3).

From a neo-institutional perspective, institutions which are defined here as "*the rules of the game in a society*" (NORTH, 1990:3) determine the performance of a society. It is the duty of the government to set up these rules, to make markets work efficiently, and to intervene where markets fail (MCLEAN, 1987: 19ff.). Commonly known and enforced rules reduce the costs of transacting and promote investments and sustainable development (see EGGERTSSON, 1990: 13ff.). **Transaction costs** are defined as "*the cost of arranging a contract ex ante and monitoring and enforcing it ex post*" (MATTHEWS, 1986). For example, a stable and fair legal framework decreases the transaction costs for economic transactions in the market place. There are commonly known rules about how the transaction has to be executed and, if problems occur, the judicial system can enforce the contract. Low transaction costs promote economic interactions and increase the efficiency of a national economy. Neo-classical theories do not consider transaction costs and they therefore neglect the role of institutions. However, especially in developing countries, the 'wrong' institutional setting often hinders social and economic development. Therefore, the new 'parole' to "*get the institutions right*" (Williamson, 1996:323) was formulated by neo-institutional scientists.

¹² An overview of structural development theories and its representatives is given by WAGNER, 1996:127ff. and COLCLOUGH, 1996:22.

¹³ See for example TOLLISON, 1982 or ASHOFF, 1988.

Besides the establishment of an efficient institutional framework, it is also the task of the government to correct failures. For example, if **public goods**¹⁴ are not forthcoming from the private sector, the state has to provide them. Important public goods are education, health, and infrastructure. The provision of information is also an important public good to foster socio-economic development. Imperfect or asymmetric information between contract partners often hinders transactions. The government can reduce information costs for example by providing relevant economic data and by improving the transparency and accountability of its own financial and fiscal policies (see FUSTER, 1997:36f. and KLITGAARD, 1995:3).

To provide public goods, the state depends on revenues to pay for them and on 'agents', who "*collect taxes from the public and produce and deliver essential services*" (WORLD BANK, 1992:6). These agents have to be qualified in order to manage their tasks efficiently. Also, there have to be provisions to prevent the agents from opportunistic behaviour and 'rent-seeking'. Government agents generally possess superior information and thus, without effective supervision, they might be seduced into acting in their own interests¹⁵. Therefore, "*to constrain officials to act in the public interest, it is necessary to have safeguards against capture, checks-and-balance mechanisms and other institutions for controlling authority*" (DETHIER, 1999:12). Principal-Agent theory analyses interest conflicts of principals and agents because of asymmetric information and opportunistic behaviour (KLEINE, 1996:1). Agency relationships¹⁶ arises "*whenever one individual depends on the action of another [...]. The individual taking the action is called the agent. The affected party is the principal*" (PRATT / ZECKHAUSER, 1985:2). Principal-Agent approaches¹⁷ deal with the question of which incentives have to be set to overcome the various principal agent problems like hidden action, hidden characteristics, and hidden intention (TROST, 1995:3ff.; see also SPREMANN, 1990). To guarantee a legitimate and efficient public management, good governance concepts demand provisions like reliable and free flows of information, publicly known and fair rules, as well as accountability and transparency of the public administration. Only a sound development management, based on systems of accountability, adequate information and efficient public resource management, will encourage the creation of efficient institutional frameworks and the sufficient provision of public goods.

Good governance does not only mean that the government output (laws, programs,...) has to be beneficial for the progress of the whole society, the underlying institutional setting of the political and administrative apparatus also has to be 'good'. The World Bank and other donors

¹⁴ Public goods are goods that are non-rival (consumption by one user does not reduce the supply available for others) and non-excludable (users cannot be prevented from consuming the good).

¹⁵ Rent-seeking by state officials is widely spread in developing states. To describe this phenomenon, Elsenhans introduced the term "Staatsklasse" (ELSENHANS, 1981:23ff.)

¹⁶ For an enumeration of alternative definitions see for example MEINHÖVEL, 1999:8.

¹⁷ Introductions to the principal-agent-model are given, for example, by LAUX, 1990; STIGLITZ, 1987 and EBERS / GOTSCH, 1999:209ff..

claim that incentives are needed to improve the public management capacities and to create beneficial institutional frameworks (WORLD BANK, 1992:1). To set such incentives, political aid conditionality¹⁸ was implemented in the early 90s. Aid conditionality means that "*the donor sets certain conditions to be met by the recipient as a prerequisite for entering into an aid agreement or for keeping up aid*" (STOKKE, 1995:11). To receive funding from the World Bank, 'client states' had to reorganise or at least announce a reorganisation of their bureaucratic structures, policy-implementation structures, and other characteristics of their institutional framework. Conditions are not a novelty in the area of development assistance, but "*conditionalities to politics, particularly in regard to the manner of structuring the political and administrative framework, certainly are*" (DOORNBOS, 1995: 380).

The good governance concept is theoretically based on the neo-institutional approach. A transparent and accountable institutional framework reduces the transaction costs and consequently promotes social and economic activities in a society. The manner in which power is exercised to control and manage a country determines its performance. Therefore, governance matters for sustainable development. From a neo-institutional perspective, 'governance' is not a diplomatic synonym for human rights, as many suspect¹⁹. Instead, good governance means the establishment of efficient institutional frameworks and the provision of public²⁰ goods with the purpose of decreasing transaction costs and information asymmetries and thus promoting sustainable development. However, there is disagreement about which institutional setting is the best. Hence, each donor developed a set of good governance criteria which corresponds best to its own idea of governance. To clarify the differences and overlaps of several governance approaches, the next chapter presents the governance definitions and criteria of four multilateral organisations.

¹⁸ A comprehensive introduction to the relationship of aid and political conditionality is given by STOKKE, 1995.

¹⁹ This suspicion was articulated in one of the expert interviews conducted at three multilateral organisations. See the appendix for a list of the interviewed experts.

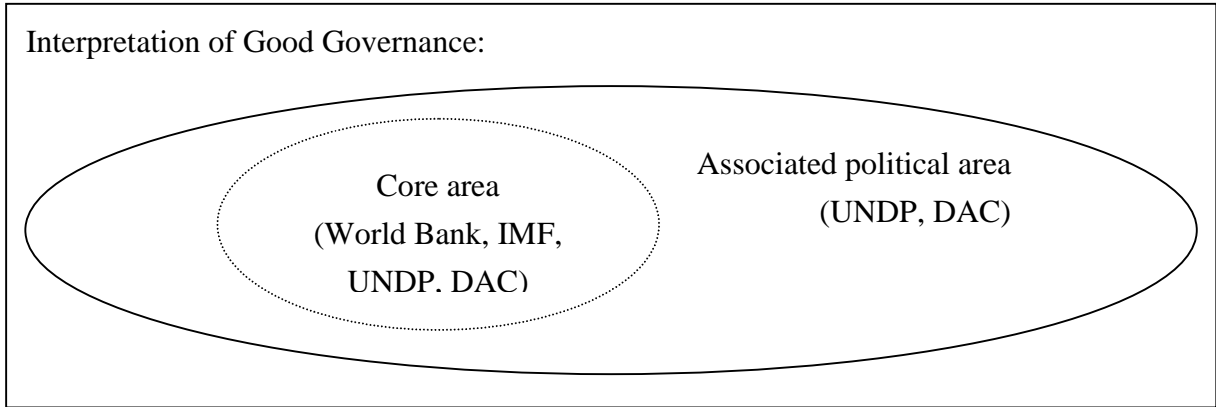
²⁰ The establishment of an institutional framework can also be described as a public good.

CHAPTER III: GOVERNANCE & INTERNATIONAL ORGANISATIONS

This chapter outlines the conception of good governance of four international organisations. The **World Bank**, the **International Monetary Fund (IMF)**, the **United Nations Development Program (UNDP)**, and the **Development Assistance Committee (DAC)** of the OECD all agree on the importance of good governance for sustainable development. Only when a country is controlled and managed in a 'good' manner, there will be significant and sustainable economic growth and reduction of poverty (compare KNACK / KEEFER, 1995 and 1997; RODRIK, 1997 and KAUFMANN / KRAAY / ZOIDO-LOBATÓN, 1999b). However, the four organisations address different aspects of governance.

Limited by their mandates, the World Bank and the IMF pretend to concentrate solely on the economic dimension of governance. The World Bank's work on governance can be summarised under four categories: public sector management, accountability and financial management, legal framework for development, and transparency and information. Despite its non-political statute, the Bank was able to address the issues of military expenditures, corruption or social security under these headings. The IMF abides more to its macroeconomic mandate. Primarily, the Fund emphasises the macroeconomic aspects of 'public resource management', and 'transparency & stability'. UNDP does not undertake the impossible task of blocking out the political side of governance. It openly mentions the political, economic, social, and administrative dimensions of governance. Unfortunately, UNDP is not very clear as regards its good governance criteria and offers a long list of governance characteristics. The DAC as an association of bilateral donors embraces the same aspects of governance as the other three multilateral organisations. However, it also associates three political aspects with governance: participatory development, democratisation, and respect for human rights.

GRAPH 1: Core and associated political area of Governance



(Source: FUSTER, 1997:3)

All four institutions may address different aspects of governance, but they all agree on a **core concept of good governance**. This smallest common denominator consists of the non-political dimension of governance. The four categories of the World Bank can be used as the nucleus of this core concept. Most of the criteria of the four multilateral institutions can be subsumed under the categories **public sector management, rule of law, transparency & information, and accountability & financial management**. Political dimensions of governance such as the demand for free and fair elections are behind the limits of this core area. Thomas Fuster calls this extended area the associated political area of governance (Fuster, 1997:90ff).

A differentiation of the four multilateral institutions is also possible on a second dimension. There seems to be a divergent intensity of the conditionality of good governance. UNDP addresses a wide range of governance issues, but works together with all UN member states. Poor governance has no effect on the intensity of development assistance²¹. The IMF weakens the impact of good governance by setting boundaries in its guidance notes. Poor governance performance can only be addressed by the IMF when it has significant macro-economic implications. As the DAC consists only of bilateral donors, it does not have to pay much attention to the interests and sensibilities of developing countries. It can be assumed that bilateral donors are more willing to enforce their own conditions (STOKKE, 1995:13ff.). The World Bank presents a limited approach to good governance, but in its rhetoric there seems to be a high commitment to it. It is the purpose of this study to assess the importance of good governance for the credit lending by the World Bank. This analysis will reveal whether the World Bank is displayed in the right position in the following table. The empirical examination of the positions of the other organisations must be the subject of further research.

TABLE I: AREAS AND CONDITIONALITY OF GOVERNANCE

Addressed are of Governance	Conditionality of Good Governance	
	Strong	Weak
Core area of Governance	WORLD BANK	IMF
Associated political area of Governance	DAC MEMBERS	UNDP

(Source: own presentation)

As initiator of the debate on governance and main subject of the analysis, I will first explore in the following sub-chapter the World Bank's work on governance . Then I will turn to the International Monetary Fund (IMF) which presents a complementary approach to the World Bank by concentrating on macroeconomic issues. The more political governance work of the

²¹ This information was obtained from the expert interviews. For a list of interview partners and the questions, see the appendix.

United Nations Development Program (UNDP) will then be analysed. Afterwards the work of the Development Assistance Committee of the OECD will be described. Finally, I will arrange all the identified criteria according to its belonging to the two areas of governance: the core area and the associated political area of governance.

I have repeatedly structured the analysis of the governance work of the World Bank, IMF, UNDP and OECD in the same way. First, I will show how the particular international organisation has defined the terms 'governance' and 'good governance'. Then, relying on relevant publications and personal interviews, the specific criteria for good governance will be presented. Here, criteria means the most precise instructions for concrete actions to improve governance performance. The World Bank, for example, sees the privatisation or reform of public enterprises as a criterion for good governance.

3.1. THE WORLD BANK

After the fall of the Berlin Wall, it was the World Bank who initiated the debate about good governance. The World Bank might not be able to claim having been the first organisation addressing the problem of good governance, but it has certainly pushed the issue to the top of the developmental agenda. The bank is still the leading institution in the ongoing discussion about, and research on, governance.

Addressing the issue of good governance is quite a difficult undertaking for the World Bank. According to its statute, the World Bank's work has to be guided by purely economic - and not political - considerations. The central purpose of the World Bank²² - which includes the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA) - is to promote sustainable economic and social development. Both organisations try to reduce poverty and improve living standards in the developing world. Their purposes have been written down in Article One of the particular articles of agreement. For example, article one of IDA states: "*The purposes of the Association are to promote economic development, increase productivity and thus raise the standards of living in the less-developed areas of the world included within the Association's membership [...]. The Association shall be guided in all its decisions by the provision of this Article*"²³. The World Bank's statute explicitly prohibits the interference in a country's internal politics (WORLD BANK, 1994:VII).

²² Information about the structure of the World Bank Group can be found at <http://www.worldbank.org/html/extdr/about>

²³ The articles of agreement can be found at: <http://www.worldbank.org/html/extdr/about/agreements.htm>

Despite its narrow mandate, the World Bank has succeeded in putting the issue of governance on its agenda and has gone even further by openly approaching topics such as corruption and the reduction of military expenditures (TITSWORTH, 2000). The new Comprehensive Development Framework, as proposed by the President of the World Bank Group, Mr. Wolfensohn, can be seen as another attempt to expand its mandate into the more political sphere. He stresses a broader concept of development and argues: *"We cannot adopt a system in which the macroeconomic and financial is considered apart from the structural, social and human aspects, and vice versa"* (WOLFENSOHN, 1999).

3.1.1. DEFINITION

The World Bank rhetorically distinguishes between the political and economic dimensions of governance to by-pass the problem of addressing a - per se - political issue when only having an economic mandate (see WORLD BANK, 1992 AND TITSWORTH, 2000). As a consequence, governance issues related to the form of the political regime are outside of the World Bank's area of action²⁴. In its report "Governance and Development" governance was defined as the *"manner in which power is exercised in the management of a country's economic and social resources for development. The institutional capacity effectively to exercise this power leads directly into the World Bank's Development mandate"*²⁵ (WORLD BANK, 1992:3). The paper also identified three distinct aspects of governance (WORLD BANK, 1992:58 and WORLD BANK, 1994:XIV):

1. The form of political regime
2. The process by which authority is exercised in the management of a country's economic and social resources for development
3. The capacity of governments to design, formulate and implement policies and discharge functions.

The World Bank admitted that the first aspect falls outside its mandate, because of the aspect's political nature. However, the World Bank claimed the other two aspects as being addressable. Starting with these two aspects, the World Bank developed four areas of governance that are consistent with the Bank's mandate: **public sector management, accountability, the legal framework for development, and information and transparency** (WORLD BANK, 1992:2). I will use these four areas of governance as a starting point to describe the World Bank's criteria of governance (see next sub-chapter).

²⁴ To find out more about the World Bank's limitations by its mandate, see WORLD BANK, 1992:5 and SHIHATA, 1990 and 1991.

²⁵ This definition originates from Webster's New Universal Unabridged Dictionary (London: Dorset&Baber, 1979).

The World Bank does not offer a clear definition of **good governance**. In 1992 the term is used as a synonym for "*sound development management*" (WORLD BANK, 1992:1). The World Bank identified some main symptoms of "**poor governance**" (see WORLD BANK, 1992:9):

- Failure to make a clear separation between what is public and what is private, hence, a tendency to divert public resources for private gain
- Failure to establish a predictable framework of law and government behavior conducive to development, or arbitrariness in the application of rules and laws
- Excessive rules, regulations, licensing requirements, and so forth, which impede the functioning of markets and encourage rent-seeking
- Priorities inconsistent with development, resulting in a misallocation of resources
- Excessively narrowly based or non-transparent decision-making

The Bank blames a low quality of government action for the failure of technically sound programs and projects. It argues that sustainable development will only occur when "*a predictable and transparent framework of rules and institutions for the conduct of private and public business*" (WORLD BANK, 1994:VII) exists. The World Bank's review "Governance. The World Bank's Experience" offers the following description of good governance: "*Good Governance is epitomized by predictable, open, and enlightened policymaking (that is, transparent processes); a bureaucracy imbued with a professional ethos; an executive arm of government accountable for its actions; and a strong civil society participating in public affairs; and all behaving under the rule of law*" (WORLD BANK, 1994:VII). This vast description seems to be more or less a justification for the World Bank's criteria of governance, which are outlined in the following chapter.

3.1.2. CRITERIA

The World Bank's criteria of good governance should make the Bank's understanding of good governance more visible. To find out more about the World Bank's perception of good governance, I analysed their governance work from the early 90s until the year 2000. The analysis starts with the examination of their standard governance publications from 1992 and 1994 (WORLD BANK, 1992 and 1994) and closes with the World Bank president's proposal of a new comprehensive development framework in 1999 (WOLFENSOHN, 1999). Expert interviews²⁶ have been used for background information.

²⁶ Some interview partners insisted that the interview documents are not published and remain with the author.

Referring to the process of governance and the governance capacity of the government, the World Bank identified four areas of action (see WORLD BANK, 1992:2; ILLY, 1994:129 and FUSTER, 1997:92ff.):

1) **Public Sector Management**

The World Bank has many years of experience in this area. Improving Public Sector Management (PSM) through public expenditure management, civil service reform, and parastatal reform had received primary attention by the World Bank in the 1980s (WORLD BANK, 1992:12). Capacity building and increasing the efficiency of the public sector are seen as a key issues of sustainable development. Public Sector Management "*has to do with the capacity of governments to make and implement public policy, the effectiveness of public programs, and the strength of public institutions*" (WORLD BANK, 1994:1). The World Bank describes PSM as a "*key dimension of governance*" which is underpinned by the other three dimensions (WORLD BANK, 1994:VIII).

Weak public sector management can be seen as poor governance. The World Bank's ideal is a lean state with a highly qualified and accountable bureaucracy which provides an "*enabling environment*" (WORLD BANK, 1994:XVII). The State should concentrate on its core functions. The government should only regulate and set the rules. As a result the private sector should enlarge and take over former public services (WORLD BANK, 1994:2). State enterprises should be privatised or at least reformed to achieve a competitive performance (WORLD BANK, 1994:4f.).

The World Bank addresses the issue of reducing military expenditures to a reasonable rate under the heading of governance. I will include this issue under the dimension of public sector management. Good governance means a reasonable level of military expenditures. Budget allocations for social and other development-oriented programs should not be pushed aside for military expenditures (WORLD BANK, 1994:XVIII).

2) **Accountability and Financial Management**

At its simplest, accountability means "*holding governments responsible for their actions*" (WORLD BANK, 1992:13). Rulers are held responsible for the ruled. Public accountability involves three interrelated groups (WORLD BANK, 1992:14): a) the general public as public service recipients, b) public leaders who have to direct and supervise the public services and c) the service providers themselves. Every group has specific and often divergent interests. There are different Principal-Agent problems²⁷ (a-b, a-c, b-c) which can be solved by greater accountability. Mechanisms of

²⁷ For information on Principal-Agent problems see Chapter II: Theoretical Background.

accountability are, for example, decentralisation, participation, competition and a hierarchical order.

The World Bank addresses three different dimensions of accountability: **decentralisation of government, financial management and fighting corruption** (WORLD BANK, 1994:12ff.). Decentralisation allows less authoritarian modes of governance on a local level and "*can lead to significant improvements in efficiency and effectiveness*" (WORLD BANK, 1992:21). However, decentralisation does not automatically improve the quality of governance. Poor management and corruption at a local level can seriously distort sustainable development. The World Bank promotes decentralisation as an instrument to improve accountability (WORLD BANK, 1994:XVI).

Financial management addresses the issues of a) a functioning accounting and auditing system, b) compliance with international financial management standards and c) accountability for overall economic standards. This includes external audit systems and reviews on the efficiency of the use of public resources (WORLD BANK, 1992:13ff.).

Last but not least, fighting corruption has become more and more important in the World Bank's effort to improve accountability. The negative impacts of corruption have been widely discussed (see for example MAURO, 1995 and 1997; TANZI / DAVOODI, 1998). Where public resources are diverted to the corrupt elite, and where trust in public officials has vanished, reduction of poverty and economic growth will hardly be achieved.

3) **The Legal Framework for Development and the Judicial System**

The **rule of law** is important from the perspective of the World Bank, because it secures an enabling environment for economic development (WORLD BANK, 1992:28ff.). A flourishing market economy requires a reliable set of rules and laws, which provide predictability and stability. This set of rules and laws has to be the basis for binding mechanisms of conflict resolution through an independent judicial system.

The legal framework of a country comprises "*the laws and regulations, the processes through which they operate, and the institutions that apply to them*" (WORLD BANK, 1994:22). A '**fair**' **legal framework** comprises the instrumental and substantive dimension of the rule of law. The instrumental dimension "*concentrates on the formal elements necessary for a system of law to exist*" (WORLD BANK, 1992:30). The substantive dimension "*refers to the content of the law and concepts such as justice (for example, due process), fairness (the principles of equality), and liberty (civil and political rights)*" (WORLD BANK, 1992:30). Although the World Bank stresses the

importance of a fair legal system in the sense of "*balanced development*" (WORLD BANK, 1992:30), its focus is more on the instrumental dimension. The Bank concentrates on "*the processes of formulating and applying rules*" (SHIHATA, 1991). In its work on providing a legal framework for development, the World Bank considers five elements as critical (WORLD BANK, 1992:30ff.):

1. A set of rules known in advance
2. Rules that are actually in force
3. Ensuring the application of the rules
4. Conflicts resolution through binding decisions of an independent judicial body
5. Amending procedures for the rules when they no longer serve their purpose

The World Bank has also started to carefully address the issue of **human rights** or as the Bank itself phrases it, "*those aspects of human rights relevant to its mandate*" (WORLD BANK, 1994:53). The Bank claims that the **political dimensions** of human rights have no influence on its lending decisions. In the same paragraph they have to admit "*human rights are in a larger sense indivisible*" (WORLD BANK, 1994:53). Again these contradictory statements are due to the World Bank's mandate. Not being allowed to use the 'p-word', the Bank speaks about "*economic and social human rights*" (WORLD BANK, 1994:53). As described in the World Development Report 1990, these rights are meant to provide the poor with social services and opportunities to participate in economic growth (WORLD BANK, 1990). Compared to other international organisations and bilateral aid donors, this is a very narrow view of human rights. Thus, we can see that human rights are not an important aspect of good governance in the eyes of the World Bank. They can be subsumed under the substantive dimension of the rule of law as outlined above.

4) **Transparency and Information**

Access to relevant, actual, and reliable information lowers transaction costs and is a vital condition for a competitive market economy. The World Bank stresses three main benefits to be gained from greater transparency and improved information: "*economic efficiency, transparency as a means of preventing corruption; and the importance of information in the analysis, articulation, and acceptance of policy choices*" (WORLD BANK, 1992:39). According to the World Bank, to obtain these benefits there should be (see WORLD BANK, 1992:40):

1. Available information about government policies and actions
2. Transparency of major processes of economic policymaking
3. Opportunities for the public to affect policymaking

Again, point number three is regarded as beyond the World Bank's purview (WORLD BANK, 1994:30). Nevertheless, transparency and information implies that bureaucracies have to remove the walls which they build around themselves, that policy processes should be more visible and that there is a free press, which informs the public and stimulates an open debate on public policies (WORLD BANK, 1994:30). **Unhindered access to relevant information and transparent policymaking** are the main criteria for this dimension of good governance.

The areas of action analysed so far are the basis of the World Bank's work on governance. Building on the Bank's experiences, Mr. Wolfensohn proposed in 1999 a new Comprehensive Development Framework (WOLFENSOHN, 1999). Before presenting the World Bank's criteria of good governance, I will examine in which way this new framework deals with the issue of governance.

Governance plays a prominent role in the new Comprehensive Development Framework. The first three structural elements, "*Good and Clean Government*", "*an effective legal and justice system*" and "*a well-organized and supervised financial system*" (WOLFENSOHN, 1999:10ff.), are in line with the earlier work of the World Bank in the field of governance. Wolfensohn's proposal lies inside the existing field of governance. However he sets some new accents. He adds the structural component of "*a social safety net and social programs*" which should make provision "*for the elderly, the disadvantaged and disabled, for children, for the those men and women unable to find work, and those affected by natural disasters and the aftermath of war*" (WOLFENSOHN, 1999:10ff.) Social programs are described as a very difficult undertaking, which are however crucial to the long-term pace and stability of any country. The Comprehensive Development Framework also embraces human (education, health, population issues), physical (water and sewerage, energy, Infrastructure, sustainable development, environment, and cultural issues) and specific strategic (rural, urban, private sector, and national strategies) elements, which are widening the working field of the World Bank. Although most of these elements are also related to the issue of governance, I will focus in this paper on the core governance issues.

1) **Good and Clean Government**

To receive "*an educated and well-organized government*", Wolfensohn demands for "*capacity building, an open legislative and transparent regulatory system, properly trained and remunerated officials and an absolute commitment to clean government*" (WOLFENSOHN, 1999:10). Central to this aspect is the fighting of corruption on all levels. Where there is corruption, there can't be a good and clean government. This structural element conforms with the former aspects of public sector management, accountability, information and transparency (see WORLD BANK, 1992 and 1994).

2) **An Effective Legal and Justice System**

This governance component seems to be coming from the World Bank's concern about the rule of law (see WORLD BANK, 1992:28ff. and 1994:22ff.). No equitable development is said to be possible without comprehensive laws which protect human and property rights, and an effective and impartial judicial system (WOLFENSOHN, 1999:10f.).

3) **A Well-Organised and Supervised Financial System**

Referring to experiences from Asia and other continents, Mr. Wolfensohn stresses the importance of a well organised audited and supervised financial system. Such a system for banks, financial institutions and capital markets would require the following essentials: *"Information and transparency, adequately trained practitioners and supervisors, and internationally acceptable accounting and auditing standards"* (WOLFENSOHN, 1999:11).

There seems to be an overlap with the older governance dimensions, financial management and information and transparency (see WORLD BANK, 1992 and 1994). Some of the requirements also resemble the governance work on standards and codes of the IMF as shown later.

4) **A Social Safety Net and Social Programs**

The issue of social services has already been addressed in the World Bank's governance discussion under the heading of human rights (WORLD BANK, 1994). However, until recently, it played only a minor role because of its political dimension. Trying to enlarge the Bank's mandate, Wolfensohn introduced the structural component of a social safety net as a 'new' important issue in the World Bank's works (WOLFENSOHN, 1999:11f.). Therefore the demand for social programs is very carefully formulated and a wide range of possible provisions, like informal arrangements or tribal support, is mentioned. However, this component is seen as very important to soften the negative effects of the development process - like large-scale unemployment after privatisation - and to strengthen the social ties of the society.

The World Bank's area of governance might have grown over time, but there is still a **consistent governance conception**. The World Bank's publications consist of many catchwords, which embrace many issues of good governance. Also, the World Bank often makes a step forward and addresses some controversial topics such as human rights or military expenditures. But then the Bank steps back again and declares that this aspect of good governance is beyond its mandate. Out of these reasons, it is very hard to extract meaningful criteria.

Comparing the four areas of action in the paper "Governance and Development" from the beginning of the World Bank's work on governance (WORLD BANK, 1992) and the governance components from the new Comprehensive Development Framework, governance from the perspective of the World Bank deals with **public sector management, accountability and financial management, legal framework for development, transparency and information**. The areas of focus might have changed; the concept still remains valid. Therefore it is possible to point out some issues which can be declared as the World Bank's criteria for good governance.

TABLE 2: WORLD BANK GOOD GOVERNANCE CRITERIA

Good Governance Categories	Good Governance Criteria
Public Sector Management	Lean state Privatisation / Reform of public enterprises Reasonable military expenditures
Accountability and Financial Management	Decentralisation of government Financial management Fighting of corruption
Legal Framework for Development	A set of rules known in advance Rules that are actually in force Ensuring application of the rules Conflicts resolution through binding decisions of an independent judicial body Substantive rule of law (human rights) Social security net
Transparency and Information	Unhindered access to relevant information Transparent policymaking

(Source: own presentation)

3.2. THE INTERNATIONAL MONETARY FUND

As one of the Bretton Woods Institutions, the International Monetary Fund is concerned about the macro-economic stability, external viability and orderly economic growth in its member countries. The Fund's "main financial role consists of providing temporary credits to members experiencing balance-of-payments difficulties" (UN, 1998:57). Low-income countries can receive concessional funding through the Enhanced Structural Adjustment Facility (ESAF).

The IMF started focussing on the issue of governance at a time when good governance was already a key issue and the Fund was confronted with a couple of corruption incidents in Kenya and Cambodia²⁸. Like the World Bank, the IMF's work on governance is limited by its purely economic mandate. Poor governance is only addressed "*when it has a significant, current or potential impact on macroeconomic performance in the short and medium term and on the government's credibility in pursuing economic policies*" (OP DE BEKE, 2000). The importance of good governance is acknowledged by the IMF. However, because of its economic mandate and focus on macro-economic issues, the Fund's area of action in the field of governance is very narrow.

3.2.1. DEFINITION

Reflecting upon the "*significance of good governance for economic efficiency and growth*" (IMF, 1997a), the IMF started to openly address the issue of governance in the mid 90's. Probably to circumvent the problem of creating a purely economic definition consistent with the IMF's mandate, there is **no definition of governance** in the Fund's publications. Instead of defining they described their activities to promote good governance.

In 1996, the Interim Committee, which advises the 24-member Executive Board, highlights in its declaration 'Partnership for Sustainable Global Growth'²⁹ the importance of "*promoting good governance in all its aspects, including ensuring the rule of law, improving the efficiency and accountability of the public sector, and tackling corruption, as essential elements of a framework within which economies can prosper*" (IMF, 1996). This was the first formal mandate for the staff of the IMF to address the issue of **good governance**. The declaration was followed by a controversial internal discussion because most of the developing countries were fearful that the Fund was going to adopt political conditionality and interfere with national sovereignty. The outcome of this lively discussion was the Guidance Note on Governance³⁰, which, by emphasising the importance of governance, outlined the IMF's limits in the field of governance. The following five points mark the **boundaries** of the Fund's involvement in governance (see OP DE BEKE, 2000):

1. First and foremost, national authorities are responsible for governance issues
2. The IMF is only concerned about the economic aspects of governance
3. The nature of the political regime or the interests of other member countries should have no influence on the IMF's judgement

²⁸ This information was obtained from one of the Expert Interviews. See the appendix for further information.

²⁹ The document can be found on the internet at <http://www.imf.org/external/np/sec/pr/1996/pr9649.htm>

³⁰ The IMF's Guidance Note on Governance can be found on the internet at <http://www.imf.org/external/pubs/ft/exrp/govern/govindex.htm>

4. The IMF should not interfere in a country's domestic or political policies
5. Poor governance performance is only addressed when it has significant macro-economic implications

Concentrating solely on macro implications and strictly limiting its area of action, the IMF's governance approach is very narrow. It occurs as if the fashionable term 'governance' was just used to address some governance issues like corruption which were already on the Fund's agenda and needed justification.

3.2.2. CRITERIA

Michel Camdessus, the former IMF Managing Director, described the Fund's governance approach as concentrating "*on those aspects of good governance that are most closely related to [...] surveillance over macroeconomic policies - namely, the transparency of government accounts, the effectiveness of public resource management, and the stability and transparency of the economic and regulatory environment for private sector activity*"³¹. (IMF, 1997a). The Statement of Mr. Camdessus can be summarised under two categories: **Public Resource Management** and **Transparency&Stability**. Referring to Mr. Camdessus, I will use these two categories to classify the IMF's governance criteria.

To improve the **effectiveness of public resource management** the IMF pays attention to institutional ("*treasury, central bank, public enterprises, civil service, and the official statistics function*" (IMF, 1997a)) and market reforms as well as to regulatory and legal areas. Deficiencies such as "*(i) the lack of well-defined and transparent accounting and regulatory standards; (ii) inadequate disclosure requirements and (iii) complex ties between government, financial institutions, and corporations*" (OP DE BEKE, 2000) are regarded as undermining the effectiveness of public resource and market management. From this perspective, good governance would comprise (see OP DE BEKE, 2000):

- The dismantling of state-sponsored monopolies and cartels
- The privatisation of state enterprises
- The strengthening of competition laws
- Improved corporate disclosure requirements

³¹ Extract from Mr. Camdessus' address to the United Nations Economic and Social Council on July 2, 1997.

Other criteria for good governance related to the effectiveness of public resource management are:

- Qualified Civil Service (IMF, 1997b: paragraph 18)
- Clear budget preparation and approval procedures (IMF, 1997b: paragraph six)
- Understandable tax system without many exemptions (OP DE BEKE, 2000)
- Minimum number of non-tariff barriers to foreign trade (OP DE BEKE, 2000)

An enabling environment for private sector activities, which are seen as the driving force for economic growth, requires a high degree of **transparency and stability**. Transparency features prominently in the IMF's governance publications. In general, greater transparency is expected to increase "*government accountability, thereby strengthening credibility and public understanding of macroeconomic policies and choices, which in turn facilitates their implementation and ensures their sustainability*" (OP DE BEKE, 2000).

Referring to the recent Asian crisis, the IMF emphasises the need for an improved "*architecture of the international financial system to ensure a more efficient operation of markets*" (OP DE BEKE, 2000). To handle fiscal, financial and monetary crisis, the Fund started an initiative to improve statistical reporting by member countries, especially by emerging market countries. The IMF developed codes of conducts and standards in three areas (see OP DE BEKE, 2000):

1. Data dissemination
2. Fiscal transparency, involving budget preparation, execution, and reporting
3. Transparency in monetary and financial policies, covering monetary and exchange rate policies, reserves management, and financial sector restructuring.

Countries can voluntarily subscribe to these codes of conducts. If they do, they have to fulfil certain standards and provide information about their data and data dissemination practices³². Inside IMF, this is called a 'German approach'³³, because nobody is directing, instead the IMF puts out norms and hopes that they will be adopted on a voluntary basis.

Central to the category of transparency is the IMF's concern about **corruption**. In the Guidance Note, corruption is defined as "*the abuse of public office for private gain*" (IMF, 1997b). The aim is to create "*systems that limit the scope for ad hoc decision making, for rent seeking, and for undesirable preferential treatment of individuals or organizations*" (IMF, 1997a). Such systems would comprise (see IMF, 1997b: paragraph two):

³² Information about the IMF's work on data dissemination can be found in the internet at <http://dsbb.imf.org>

³³ This information was obtained by the personal interviews at the IMF. For details see the appendix.

- Liberalised exchange, trade and price systems
- No direct credit allocation
- Transparency in financial transaction in the government budget, central bank, and the public sector

The IMF addresses almost the same aspects of governance as the World Bank. Also, the Fund focuses more on the macroeconomic dimension. Both approaches can be regarded as complimentary. The World Bank addresses the microeconomic aspects of governance, the Fund the macroeconomic aspects. However the Fund's approach on good governance seems to be narrower as it concentrates only on the aspects of public resource management and transparency and stability. The identified criteria of good governance are summarised in the following table:

TABLE 3: IMF GOOD GOVERNANCE CRITERIA

Good Governance Categories	Good Governance Criteria
Public Resource Management	<ul style="list-style-type: none"> The dismantling of state-sponsored monopolies and cartels The privatisation of state enterprises The strengthening of competition laws Improved corporate disclosure requirements Qualified civil service Clear budget preparation and approval procedures Understandable tax system without many exemptions Minimum number of non-tariff barriers to foreign trade
Transparency and Stability	<ul style="list-style-type: none"> Data dissemination Fiscal transparency, involving budget preparation, execution, and reporting Transparency in monetary and financial policies, covering monetary and exchange rate policies, reserves management, and financial sector restructuring Transparency in financial transaction in the government budget, central bank, and the public sector Liberalised exchange, trade and price systems No direct credit allocation

(Source: own presentation)

3.3. THE UNITED NATIONS DEVELOPMENT PROGRAM

Co-ordinating most of the technical assistance of the UN systems, the United Nations Development Program, which was established in 1965, is the **largest multilateral provider of grants** in the world today (UN, 1998). The mission of the UNDP is "*to promote sustainable human development*" (UNDP, 1997b:11). Sustainable human development means "*development that not only generates economic growth but distributes its benefits equitably, that regenerates the environment rather than destroys it and that empowers men and women rather than marginalises them*" (UNDP, 1998b:1). As development does not occur in a political and social vacuum, the UNDP tries to fulfil its mission by promoting good governance.

The UNDP regards itself as always having been working in the field of governance. In fact, the discussion about governance in the early 90s had an enormous influence on the UNDP. There have been several publications and conferences covering the issue of governance. Responding to the demands of member countries, the UNDP established the Management Development and Governance Division³⁴ in 1995 (UNDP, 1998b:3). Governance is a very important issue in the work of the UNDP. Around fifty percent of the UNDP's budget is spent on governance³⁵.

3.3.1. DEFINITION

In contrast to the World Bank or the IMF, the UNDP does not attempt to distinguish political and economic dimensions of governance. The UNDP even explicitly addresses the economic, political, administrative and social dimension of governance. **Governance** is defined as "*the exercise of political, economic, [social]*³⁶ *and administrative authority to manage a country's affairs at all levels. It comprises the mechanisms, processes and institutions through which citizens and groups articulate their interests, exercise their legal rights, meet their obligations and mediate their differences*" (UNDP, 1997b:2f.). This is a very broad view of governance.

The definition mentions four dimensions of governance. Decision-making processes that affect the national economy and its relationships with other economic entities are meant with the term **economic** governance. Decision-making processes to formulate policy are addressed

³⁴ More information on the Management Development and Governance Division can be found on the internet at http://magnet.undp.org/about_us/Mdgdbr.htm The division sponsors the Website of MAGNET - the Management and Governance Network (<http://magnet.undp.org>)

³⁵ Information was given by Mr. Benomar (see appendix). In 1995 a third of UNDP's resources were allocated for governance (UNDP, 1997b:11).

³⁶ According to my first interview partner at UNDP, Ms. Kamal, the aspect of social governance has been added to the definition later.

by the **political** dimensions of governance. Both dimensions focus on the outcome and effects of decision-making. **Administrative** Governance comprises the "*system of policy implementation*" (UNDP, 1997b:3). The fourth dimension, **social** governance was added later and means policies to expand the choices for all people in society.

The UNDP especially emphasises that governance does not only include the **state**. The **private sector** and the **civil society** are also critical for sustaining human development. According to the UNDP, the state's task is to create a conducive political and legal environment and to serve the needs of its people. The private sector, covering private enterprises and the informal sector in the market place, generates jobs and incomes and influences policies. The civil society, which consists of individuals and groups, is on the one side dependent upon the other two sectors (laws, jobs,...), on the other side civil society facilitates political and social interaction (see UNDP, 1997b:5ff.). All three entities play an important role in achieving sustainable human development.

The UNDP does not provide a definition of **good governance**, but a description: "*Good Governance is, among other things, participatory, transparent and accountable. It is also effective and equitable. And it promotes the rule of law. Good Governance ensures that political, social and economic priorities are based on broad consensus in society and that the voices of the poorest and the most vulnerable are heard in decision-making over the allocation of development resources*" (UNDP, 1997b:3). A system of good governance would promote, support and sustain human development.

This description includes almost all issues that are associated with good governance. Taking a broad view on governance and not trying to black out some aspects of governance, the UNDP's approach is the most comprehensive of all the four international organisations. However, the UNDP's approach might be too broad. Mentioning everything does not bring much enlightenment. Every UNDP staff member can pick out its preferred aspect of governance, but it is not clear what the UNDP's work on governance stands for.

3.3.2. CRITERIA

The UNDP's elusive concept of governance makes it impossible to extract 'the' criteria of good governance. There is a long list of good governance publications focusing on different aspects and an even longer list of UNDP good governance projects. Referring to some of the main UNDP policy documents on governance, I will try to trace which aspects are the most commonly addressed ones by the UNDP. Most of the aspects refer to the core area of governance. However, neither does the UNDP hesitate to address political issues. For

example, the UNDP also demands under the label 'responsiveness of the government' free and fair elections. Its governance approach is quite large and also covers issues of the associated political area of governance.

The publication 'Reconceptualising Governance' also complains about the **elusiveness** of the characteristics of a good system of governance in general and offers the following seven criteria: "*legitimacy, freedom of association, participation and freedom of the media, fair and established legal frameworks that are enforced impartially, bureaucratic accountability and transparency, freely available and valid information, effective and efficient public sector management, and cooperation between governments and civil society organisations*" (UNDP, 1997c:19).

A slightly different list of criteria is offered by the publication 'Governance for sustainable human development' (UNDP, 1997b). According to this brochure, an ideal state would comprise all of the following nine core characteristics of good governance (UNDP, 1997b:4f.):

- Participation (everybody can participate directly or indirectly in decision-making)
- Rule of law (fair legal framework, impartial justice and obedience of human rights)
- Transparency (free information about and access to processes and institutions)
- Responsiveness (interests of all stakeholders are taken into account)
- Consensus orientation (for policies and processes)
- Equity (everybody has the opportunities to improve or maintain its well-being)
- Effectiveness and efficiency (of resource management and output meets needs)
- Accountability (every entity of the society is accountable to the public)
- Strategic vision (long-term perspective on good governance and human development)

These core characteristics are regarded as interrelated and mutually reinforcing. Again, they cover a very wide range of issues and they do not offer standards against which they can be measured.

To finish the enumeration of good governance criteria, I would also like to have a look at the practical work of UNDP. Key concerns of UNDP's governance support programs are for example, "*free and fair elections; freedom of association and participation; independent judiciary; bureaucratic accountability; freedom of information; effective and efficient public sector management; decentralization of decision-making and resource management; government interaction with organisations of civil society*"³⁷. Publications referring to lessons

³⁷ This information comes from the UNDP Website 'Achievements in Governance'. The site is accessible at <http://www.undp.org/info/gover.htm>

learned in the field of governance - like the 'UNDP Poverty Report 2000'³⁸ (UNDP, 2000:Ch.5) or internal classification guidelines (UNDP, 1998a:19) - offer a similar collection of governance projects.

To structure this **broad list of characteristics and criteria**, I now introduce the categories of legitimacy, competency and responsiveness. Aspects of governance which improve in the first place the legitimacy of an institution (government, public administration) will be subsumed under the category of **legitimacy**. Other aspects improving the **competence** or **responsiveness** of an institution will be categorised under the particular label respectively. Thus, the following criteria of governance can be identified:

TABLE 4: UNDP GOOD GOVERNANCE CRITERIA

Good Governance Categories	Good Governance Criteria
Legitimacy	Freedom of association and participation Participation and freedom of the media Fair and established legal framework (rule of law) Bureaucratic accountability and transparency Freely available and valid information
Competency	Effective and efficient public sector management Strategic vision Decentralisation of decision-making and resource management
Responsiveness	Interaction between governments and civil society organisations Consensus orientation Equity Free and fair elections (participation)

(Source: own presentation)

The categories legitimacy and competency obviously belong to the **core area of governance**. The addressed criteria like bureaucratic accountability and transparency or effective and efficient public sector management correspond to the World Bank's criteria. However, some criteria like 'freedom of association and participation' or the criteria of the category responsiveness have a clear political aspect. They already touch the **associated political area of governance**.

³⁸ The Poverty Report can be found on the internet at <http://www.undp.org/poverty/report/main/main.html>

3.4. THE DEVELOPMENT ASSISTANCE COMMITTEE OF THE OECD

In 1961, twenty countries set up the Organisation for Economic Co-operation and Development (OECD). Its purpose, as written down in Article 1 of the Convention, is to promote policies designed to achieve the highest sustainable economic growth and employment, and a rising standard of living for the population (see OECD, 1971:13). 29 countries³⁹ are members of the OECD⁴⁰ today. They are all committed to the principles of the market economy, pluralist democracy, and respect for human rights. The major developed countries of the OECD⁴¹ and the Commission of the European Union are members of the **Development Assistance Committee**. This Committee functions as a **foreign assistance co-ordinating group**. One of its goals is "*to augment the flow of financial resources to the less-developed countries and to increase its effectiveness*" (OECD, 1971:16). To achieve this purpose, the DAC reviews the foreign development assistance of its members, sets up co-ordinating working groups, and publishes guidelines on different topics.

As an organisation representing various bilateral donors, the DAC openly asks for political progress in developing countries. The Committee agrees on the core dimensions of governance as formulated by the World Bank. Yet, without being constrained by a non-political statute, the DAC members also point out the "*vital connection between open, democratic and accountable systems of governance and respect for human rights, and the ability to achieve sustained economic and social development*" (OECD, 1994:7). Therefore, the OECD not only includes the straight forward issues of controlling corruption (OECD, 1994:18) and reducing military expenditures (OECD, 1994:19) as criteria for good governance, it also links good governance to the issues of **participatory development**, **human rights** and **democratisation**. Thomas Fuster includes these three interlinked aspects in the 'political associative area of governance' ("*politischer Assoziationsbereich*" FUSTER, 1997:98).

3.4.1. DEFINITION

For its definition of governance the Development Assistance Committee refers to the World Bank definition. **Governance** is described as "*the use of political authority and exercise of control in a society in relation to the management of its resources for social and economic*

³⁹ These countries are: Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Spain, Sweden, Switzerland, Turkey, United Kingdom and United States.

⁴⁰ More information about the OECD can be found at <http://www.oecd.org/about>

⁴¹ The following countries are members of the DAC: Australia, Austria, Belgium, Netherlands, Norway, Portugal, Sweden, Switzerland, United Kingdom and United States.

development" (OECD, 1994:14). Like the World Bank, the Committee distinguishes three aspects of governance: the form of the political regime; the process by which authority is exercised; and the capacity of government to formulate and implement policies (compare Chapter 3.1.1. on the definitions of the World Bank). However, as the bilateral pendant to the World Bank, the OECD is able to address all of these three aspects.

Although, the term is widely used in DAC publications (e.g. OECD, 1994:14; OECD, 1996: 19), there is no definition of **good governance**. Nevertheless, the OECD offers relatively clear conditions for good governance which will be presented in the next sub-chapter.

3.4.2. CRITERIA

The Development Assistance Committee of the OECD identifies the following four important dimensions of governance:

- Rule of law (OECD, 1994:14)
- Public sector management (OECD, 1994:15)
- Controlling corruption (OECD, 1994:18)
- Reducing military expenditures (OECD, 1994:19)

The first two dimensions clearly corresponded to the governance categories of the World Bank. In contrast to the Bank, the DAC explicitly mentions the "*protection of human rights*" (OECD, 1994:14) as the main purpose of the legal system. The fundamental requirements of such a system are almost the same, like an independent court system or equality before the law (OECD, 1994:14). The OECD also demands that the **rule of law** includes the existence of "*full constitutional rights to investigate and supervise the exercise of executive and administrative powers*" (OECD, 1994:14).

The dimension **public sector management** appears slightly as a general label under which various aspects of governance are addressed. The DAC lists the following aspects under the heading of public sector management (see OECD, 1994:16):

- Systems of accountability and information (OECD, 1994:16, No.38)
- Realistic salaries and benefits for government employees (OECD, 1994:16, No.41)
- Independent audit systems (OECD, 1994:16, No.42)
- Decentralisation (OECD, 1994:16, No.43)
- Legal Framework (OECD, 1994:16, No.44)
- Active institutions and interest groups outside the government (OECD, 1994:17, No.45)

From the perspective of the OECD, corruption works against good governance, undermines the credibility of democratic institutions, and has a negative effect on the economy (OECD, 1994: 18, No.50). Therefore the DAC members agree that corruption has to be addressed at all levels of government and business. **Fighting corruption** is now also a key concern of the World Bank. If there was earlier reluctance to include this issue in the discussion on good governance, tackling corruption belongs now clearly to the core area of governance.

There is also a consensus between the two organisations that the scarce public resources should not be sacrificed for **excessive military expenditures**. Thomas Fuster allocates this aspect in his book to the political associative area of governance, which is not addressed by the World Bank (FUSTER, 1997:98). The World Bank hesitated for a long time to address this sensible high politics issue because it feared the criticism of sovereign developing states. However, the core area of good governance has widened over time. Nowadays, the need to reduce excessive military expenditures is also sometimes expressed by the World Bank. Therefore, I will also allocate this issue to the core area of governance.

In accordance with the arrangement of Thomas Fuster, I consider the following aspects, addressed by the DAC, as elements of the **associated political area of good governance**:

- Participatory Development (OECD, 1994:9)
- Democratisation (OECD, 1994:12)
- Respect for Human Rights (OECD, 1994:21)

All three elements are seen as interlinked with the issue of good governance. Only a positive interaction between them promotes sustainable development. The DAC considers these issues as fundamental and describes them as "*central concerns in the allocation and design of development assistance*" (OECD, 1994:7).

Participatory development is defined as "*a process by which people take an active and influential hand in shaping decisions that affect their lives*" (OECD, 1994:9) This involves the 'empowerment' of people to generate and influence development as well as the 'ownership' of development activities by the affected community. Everybody should have the opportunity to participate in the decision-making process on various levels. The DAC members also agree on the importance of decentralisation to promote participation (OECD, 1994:10).

Democratisation allows the participation of the people in political life. The OECD acknowledges that countries in transition towards democracy do not show the same characteristics as mature countries. However, the existence of the following basic democratic principles is expected (OECD, 1994:12):

- Existence of a participatory process
- Government governs with the consent of the governed
- Voice of the people influences the government's behaviour
- Possibility to replace the government peacefully

As a consequence, **periodic free and fair elections** are seen as one essential feature of a functioning democracy (OECD, 1994:12, No.24). This claim demonstrates once more that the DAC's approach on governance is the broadest. The World Bank and the IMF are very concerned about not addressing obviously political issues. The form of the political regime is not considered in their governance approach. The OECD, as an organisation of developed states, does not have to pay attention to the distinction between political and non-political aspects of governance. Demanding free and fair elections goes far beyond the limits of the core area of governance set by the World Bank.

The respect for **human rights** is the third element of the political associative area of governance. This element is based on the principles and standards proclaimed in the UN Charter, the International Bill of Human Rights, and various other UN Conventions (OECD, 1994:21, No.66). These international declarations either condemn human rights abuses such as slavery, torture and discrimination against women, or they promote the protection of special groups such as children, refugees and trade unions (OECD, 1994:21). Therefore the Development Assistance Committee states, "*DAC Members expect developing country governments to share a common commitment to securing the human rights of all human beings, regardless of gender, ethnic identity, religion, race or socio-economic status*" (OECD, 1994:22, No.68). The respect for human rights including fundamental freedoms is seen as interdependent and mutually reinforcing with democracy and social development. For example, the discrimination against women results in the loss of women's development potential and increases the level of fertility, morbidity and mortality (OECD, 1994,22: No.70).

Participatory development, democratisation and human rights are considered as basic values in their own right by the OECD. In addressing these issues the OECD clearly promotes its own normative ideas and values. The promotion of these goals is also theoretically based on the literature on democratic peace (see Chapter II: Theoretical Background).

Referring to the work of Thomas Fuster, I assign the different criteria of the Development Assistance Committee to two different categories. The demand for the rule of law, public sector management, controlling corruption and reducing military expenditures is covered by the **core area of governance**. However, the DAC associates three further elements with the issue of good governance. To achieve sustainable development, developing countries also

have to respect human rights and promote participatory development and democratisation. This extension of the core area of governance reflects the common position of the bilateral donors organised in the DAC (FUSTER, 1997:151). Multilateral donors like the World Bank or the IMF are not able to address such highly political issues because they are accountable to all of its member states. Therefore I allocate these three elements to the **associated political area of governance**.

The following table distinguishes between the core and associated political area of governance as seen by the Development Assistance Committee:

TABLE 5: DAC GOOD GOVERNANCE CRITERIA

Good Governance Categories	Good Governance Criteria
<i>Core area of governance</i>	
Rule of Law	Protection of human rights Independent court system Equality before the law Supervision of the exercise of administrative powers
Public Sector Management	Systems of accountability and information Realistic salaries and benefits for government employees Independent audit systems Decentralisation Legal framework Active institutions and interest groups outside the government
Controlling Corruption	Fighting corruption on all levels
Military Expenditures	Reducing excessive military expenditures
<i>Associated political area of governance</i>	
Participatory Development	Public participation on decision-making Empowerment of people Ownership of development activities by the community Decentralisation
Democratisation	Existence of a participatory process Government governs with the consent of the governed Voice of the people influences the government's behaviour Possibility to replace peacefully the government Periodic free and fair elections
Respect for Human Rights	No human rights abuses No discrimination of certain groups and minorities

(Source: own presentation)

3.5. CORE AND ASSOCIATED AREAS OF GOVERNANCE

Comparing the different approaches, it becomes obvious that many criteria do overlap. The four organisations may use different terms, but they all address the need for an **efficient public service** and a **solid legal basis** (rule of law). Further important prerequisites for sustainable development are **public access to information** (transparency & information) and the **accountability of governance activities**. Thomas Fuster describes these four categories as the core area of good governance (FUSTER,1997:92f.). This categorisation has some shortcomings, for example the IMF does not explicitly address the issue of a legal framework. However, the distinction between a core area and an associated political area is a helpful instrument to draw a line between the non-political consensus criteria and the political criteria as primarily promoted by the UNDP and the DAC.

The **World Bank** and the **IMF** limit their governance activities to the **core area** of good governance. Their approaches are very similar, but, in accordance with their general division of labour, the IMF addresses more macro-economic issues. The **UNDP** and the **DAC** also advocate for the core governance criteria. Yet they go further and also ask for a **change in the political sphere** of the developing countries. As an organisation subordinated to the General Assembly of the United Nations, the UNDP has to work together with all member states. Therefore, it is interesting to see that the UNDP is on the one side able to address issues like free and fair elections, on the other side it is doubtful if this governance rhetoric has a real impact on the day to day work of the UNDP. Being obliged to co-operate with all UN member states, good governance can not be used as a condition for development assistance by the UNDP. The Development Assistance Committee has extended the area of governance by associating the issues of participatory development, democratisation, and respect for human rights. Bilateral donors often formulate political conditions of good governance (e.g. BMZ, 1998:29ff.). As stated above, there are disagreements in the literature about the importance of good governance for bilateral development assistance.

The core area of governance does not address issues related to the form of the regime. However, over time the smallest common denominator of good governance has grown. Nowadays, the core does not consist solely of economic and administrative aspects of governance, like public sector management. **Reducing excessive military expenditures** and **controlling corruption** now belongs to the core as well. At least three of the analysed organisations⁴² regard both issues as important elements of good governance. The following table attempts to summarise the different criteria. It is distinguished between criteria related to the core and the associated political area of governance:

⁴² Only the UNDP does not mention those two aspects in its publications on good governance.

TABLE 6: CORE AND ASSOCIATED AREAS OF GOVERNANCE

Good Governance Categories	Good Governance Criteria	Institution
<i>Core area of governance</i>		
Public Sector Management	Lean State	World Bank
	Privatisation of public enterprises	World Bank, IMF
	Qualified civil service	IMF, UNDP, DAC
	Clear budget preparation procedures	IMF
	Tax system without many exemptions	IMF
	No non-tariff barriers to foreign trade	IMF
	Reasonable Military Expenditures	WB, DAC, IMF
Accountability and Financial Management	Decentralisation of government	WB, UNDP, DAC
	Financial management	World Bank
	Systems of accountability	DAC, UNDP
	Transparency in financial transactions	IMF
Rule of Law	Functioning and fair legal framework	WB, UNDP, DAC
	Independent judicial body	World Bank, DAC
	Substantive rule of law (human rights)	World Bank, DAC
Transparency and Information	Unhindered access to information	World Bank, DAC
	Transparent policymaking	World Bank
	Data dissemination	IMF
	Fiscal and financial transparency	IMF
	Liberalised trade and price system	IMF
	Freely available and valid information	UNDP
	Supervision of the administration	DAC
	Controlling corruption on all levels	WB, IMF, DAC
<i>Associated political area of governance</i>		
Participatory Development	Public participation	DAC, UNDP
	Empowerment & Ownership	DAC
	Freedom of participation	UNDP
Democratisation	Free and fair elections	DAC, UNDP
	Existence of a participatory process	DAC
	Consensus orientation	UNDP
	Democratic system	DAC
	Active opposition to the government	DAC
Respect for Human Rights	No human rights abuses	DAC, (W. Bank)
	No discrimination	DAC
	Equity	UNDP

(Source: own presentation)

This chapter has outlined the different definitions of, and criteria for, good governance of four international organisations. Evidently, their specific perspective has an impact on their governance approach. Nevertheless, all four organisations agree on a core set of governance criteria. More political dimensions of good governance, called the associated political area, are addressed by the UNDP and the DAC.

This study relies on the distinction of a core area and an associated area of governance. If not otherwise stated, good governance means the core area. It will be analysed if a country, which fulfils the criteria of the core area of good governance⁴³, receives more credit lending by the World Bank. The impact of the associated political area will be tested by a separate hypothesis (see Chapter V). Before the hypotheses will be formulated, I shall describe the lending activities of the World Bank.

CHAPTER IV: LENDING ACTIVITIES OF THE WORLD BANK

The previous chapter discussed the different definitions of, and criteria for, good governance by four multilateral organisations. This issue-centred presentation of specific governance concepts is now followed by a discussion of the World Bank's credit lending activities. First I will focus on the structure and functioning of the two main institutions of the World Bank Group, the International Bank for Reconstruction and Development (IBRD), and the International Development Association (IDA). Afterwards the development of credit lending over time and its distribution will be presented.

The central purpose of the World Bank is to **promote economic and social progress** in developing member countries. The goals of poverty reduction and the improvement of living standards are not just pursued by lending funds. The World Bank Group also gives policy advice, technical assistance and knowledge-sharing services to its client countries. The Bank provides lending assistance to developing countries if adequate capital from other sources is not available on reasonable terms. The intention of the loans is multifaceted. They help to develop agriculture, expand industry, modernise the infrastructure, support structural adjustment, and improve education and health.

⁴³ Whereas the core area of governance is almost equal to the World Bank's governance approach.

The World Bank Group consists of five closely related institutions⁴⁴. The **IBRD** and the **IDA** are the two institutions which lend credits to member Governments. They are legally and financial distinct from each other, but share the same staff, and the supported projects have to meet the same standards. Therefore I will analyse the common lending activities of the IBRD and the IDA.

The other three institutions of the Group aim more towards the private sector. The **International Finance Corporation** (IFC) provides capital to commercial enterprises investing in developing states. The **Multilateral Investment Guarantee Agency** (MIGA) offers insurance against non-commercial risks for foreign investors in developing countries. The **Centre for Settlement of Investment Disputes** (ICSID) helps to settle disputes between foreign investors and their host countries.

Established in 1945, the **International Bank for Reconstruction and Development** (IBRD) offers loans, guarantees and technical assistance to middle-income countries and creditworthy poorer countries. The IBRD is owned by its member countries, all of which are also members of the International Monetary Fund (IMF). Every member contributes according to its quota to the capital of the IBRD and the IMF⁴⁵. The quota reflects the country's relative economic strength in the world economy. The purposes of the IBRD are to assist in the reconstruction and development of territories by facilitating the investment of capital, to promote private foreign investment and long-term balanced growth of international trade⁴⁶.

The typical **lending terms** of the IBRD are 15-20 years loans including 3-5 years grace. The interest rates cover the IBRD borrowing costs plus a spread. In 1999, \$22.2 billion for 131 new operations in 39 countries were lent at an interest rate of 7% p.a.⁴⁷. Since its foundation, the IBRD has lent \$338.5 billion to its member countries. It is not the objective of the IBRD to maximise profit, however it has made a net income every year since 1948. Its source of funds are paid-in capital, borrowing on the capital markets of the world, repayments on loans and earnings.

The **International Development Association** (IDA) was founded in 1960. Membership and voting power is organised in the same manner as for the IBRD. Its main differences from the IBRD are the lending terms and eligibility criteria. The IDA is the World Bank's main instrument to fight poverty⁴⁸. It provides soft credits on much more favourable terms than IBRD loans to the lowest income countries. Only the poorest countries and those with a lack

⁴⁴ Descriptions of the structure and work of the World Bank Group can be found, for example, at MILLER-ADAMS, 1999; RAFFER / SINGER, 1996:46ff.; KOLL, 1988 or LAAR, 1980.

⁴⁵ The Voting Power of each country is also linked to this quota, reflecting its relative economic strength.

⁴⁶ See Articles of Agreement, Article I at <http://www.worldbank.org/html/extdr/backgrd/ibrd/art1.htm>

⁴⁷ Figures are taken from <http://www.worldbank.org/html/extpb/annrep/group.htm>

⁴⁸ See Articles of Agreement, Article I at <http://www.worldbank.org/ida/idaart02.htm>

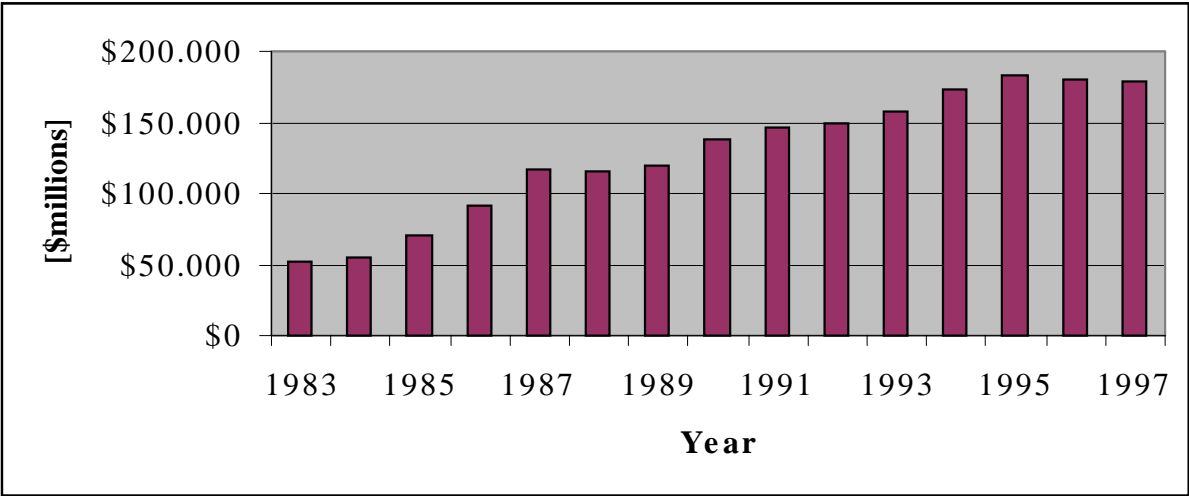
of credit-worthiness are eligible for IDA credits. In 1997, the eligibility cut-off was set at \$925 GNP per capita⁴⁹.

The **lending terms** for eligible countries are very attractive. Besides non-lending services, they can obtain basically interest-free loans with a service charge of 0.75%, which are called 'credits'. Those credits have 35-40 year maturities with a 10-year grace period. The financial resources of the IDA depend mainly on contributions from wealthier member countries, though some developing member countries also contribute. Until 1999, the cumulative lending rose to \$116 billion. In 1999, \$6.8 billion was lent to 145 operations in 53 countries.

The two institutions, **IBRD and IDA**, are legally and financial distinct. However, they share the same staff, and its projects must meet the same high standards. Therefore, it can be assumed that the criterion of good governance should have an equal impact on the lending activities of both institutions. Also, the obtained data for the dependent variable - credit lending by the World Bank - displays the IBRD and the IDA lending together. Nevertheless, I will control whether the eligibility to the IBRD or the IDA funds has an impact on the importance of good governance.

On 30 June 1999, the cumulative lending of the IBRD and the IDA reached \$454.5 billion. The volume of IBRD loans and IDA credits has increased almost constantly. Analysing the period from 1983 to 1997, it can be seen that the lending volume started in 1983 at a level of \$52.5 million. The maximum was reached in 1995 when \$183.0 million was transferred to developing countries. In 1997, the last time point of this period, \$178.3 million were given away.

GRAPH 2: Total IBRD loans and IDA credits (1983 - 1997)

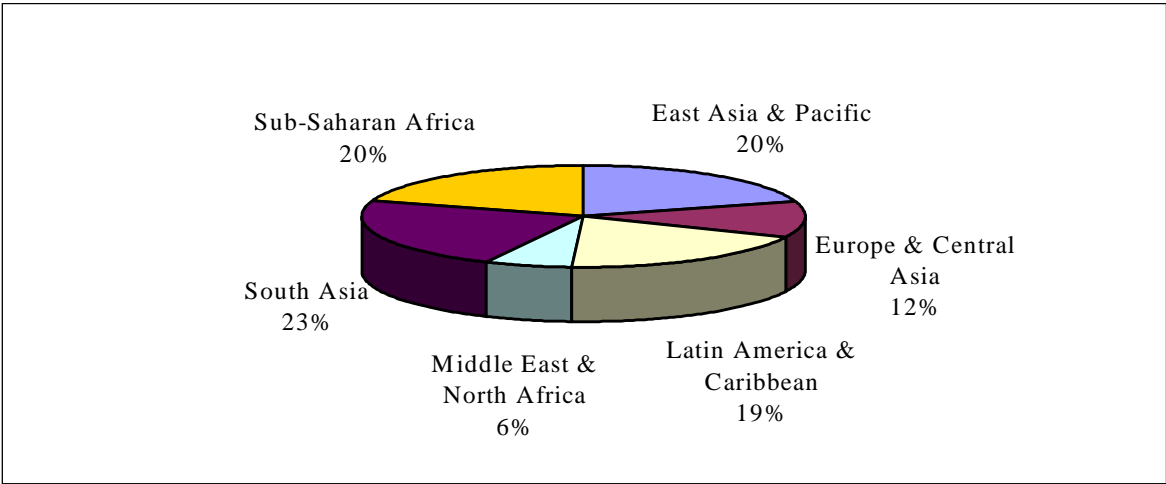


(Source: World Development Indicators 1999; own presentation)

⁴⁹ All figures are taken from <http://www.worldbank.org/html/extpb/annrep/group.htm>

The regional distribution of the IBRD loans and IDA credits is almost even. The following table presents the distribution in 1997. South Asia was the main target region of the Bank's lending activities. Sub-Saharan Africa, East Asia & Pacific and Latin America & the Caribbean each received around 20 percent. All four regions were able to attract an almost equal share. Twelve percent of IBRD loans and IDA credits went to states in Europe and Central Asia. Only six percent of the lending volume went to the Middle East and North Africa. Without further examining the regional distribution, it can be stated that there is almost an even distribution, although there is a suspicion that countries in the Middle East and North Africa receive less lending.⁵⁰

GRAPH 3: Regional distribution of IBRD loans and IDA credits (1997)



(Source: World Development Indicators 1999; own presentation)

The purpose of this chapter was to present some basic information on the structure and lending activities of the World Bank. Readers more interested in the functioning of the World Bank Group and its lending policies should refer to the specific literature (e.g. MOSLEY / HARRIGAN / TOYE, 1995:3ff.; WORLD BANK,1989c:5ff.). The dependent variable will be described in more detail in Chapter VI.

⁵⁰ There are several publications exploring the lending policy of the World Bank during various periods. See, for example, PRATT, 1989:55; HÜRN, 1980 or BURNELL, 1997:165.

CHAPTER V: HYPOTHESIS-BUILDING

This chapter connects the two previous chapters. Chapter III described the rhetoric of multilateral organisations on the issue of good governance. Chapter IV illustrated the credit lending activities of the World Bank. The goal of this study is to test whether the multilateral rhetoric of good governance has been applied to the IBRD loans and IDA credits allocation. The main purpose is not to explore the reasoning of good governance approaches, but to find out whether they are put into practice.

The hypotheses developed in this chapter will be empirically tested for three time periods. As will be outlined in Chapter VII, I expect different results for the sign and significance of the independent variables. For example, it is expected that good governance criteria did not determine the World Bank's credit allocation in the first period from 1983 until 1987 because the discussion on this issue did not start until the early 90s. Instead, it is expected that during the time of the Cold War other issues, like UN-voting behaviour, played a much more important role⁵¹.

To test different possible factors of the World Bank's lending activities, hypotheses for the Bank's credit allocation will be developed in this chapter. Variations over time will be assessed in Chapter VII. First, I will formulate hypotheses stating a relation between the **status** and the **improvement of good governance** in a country and the received volume of credits. It will be distinguished between the fulfilment of the criteria of the **core area** or the **associated political area** of good governance. The underlying assumption is that every country eligible to IBRD or IDA funds has an interest in receiving as much lending from the World Bank as possible.

Referring to the **recipient need model** in the scientific literature on the allocation of official development assistance, the next hypothesis investigates if countries with a very poor record on human development receive more loans and credits by the World Bank.

Different **donor interests** will be tested in the following hypotheses. First, I will analyse if the Bank favours poor countries with higher economic growth. Such a behaviour could be motivated by the demand for success stories. Then, the relevance of the economic ties of a potential recipient country will be tested. Next, it will be examined if developing countries with a history as a colony receive more lending by the World Bank. To influence the voting behaviour in the UN System, it is possible that the countries of the Non-Alignment Movement received more funding through the World Bank.

⁵¹ A change of factors over time, particularly after the end of the Cold War, is anticipated or shown by several authors. See, for example SCHRAEDER / HOOK / TAYLOR, 1998:322 or ZANGER, 2000.

Some researchers link donor motivations to **grand theories** (for example SCHRAEDER / HOOK / TAYLOR, 1998; TISCH AND WALLACE, 1994). Liberal and realist theories are useful to highlight particular aspects of donor interests, but they are often one-sided in that they only address those aspects which fit into their thinking and neglect other aspects. Analysing the credit allocation of a multilateral organisation, this study does not explicitly build on grand theories. However, whenever appropriate, I will refer to the particular theories. The aim of this study is to explore the importance of good governance for the World Bank's credit allocation and to test for alternative donor interest and recipient need explanations. The remainder of this chapter presents all the different hypotheses and their argumentative and theoretical backgrounds.

5.1. GOOD GOVERNANCE

If the World Bank takes its claim on the importance of good governance seriously, there should be an observable effect of governance performance on the lending decisions of the Bank. To test for the relevance of the good governance rhetoric, the main hypothesis states that countries with a **high and improving performance at the core area of good governance**, receive more lending. The core area of governance equals the World Bank's approach as outlined in Chapter III. It consists of four criteria: public sector management, rule of law, accountability & financial management, and transparency & information.

The theoretical reasoning for the main hypothesis has been presented in Chapter II. Donors introducing good governance conditions for development assistance rely on neo-institutional arguments. The right institutional framework is a fundamental requirement for the successful implementation of development projects (see KAUFMANN / KRAAY / ZOIDO-LOBATÓN, 1999b). It is not reasonable to implement programs if the administrative system is not capable or willing to fulfil its obligations in a professional manner.

The World Bank's purpose is to promote sustainable economic and social development. To pursue its goals the Bank has to invest carefully its scarce resources. Therefore, credits should be allocated to 'good governed', but poor countries. All countries eligible for one of the two funds are in need of low-rate credits. Beside the idea of '**good investments**', it is also possible that countries with an improvement in its good governance performance receive more lending as a kind of **incentive** to continue this development. The following hypothesis combines both, the strategy of 'good investments' and the incentive strategy of the World Bank:

Hypothesis 1: Status of Good Governance

H₁: *The higher the level and the improvement of a country's fulfilment of the World Bank's good governance criteria, the more lending will be received from the Bank.*

A country's fulfilment of the criteria comprises the status of good governance as well as its improvements to achieve good governance. That means, a) countries with a higher level of good governance receive more lending from the World Bank and b) countries with a higher improvement in good governance receive more lending than countries with the same level of good governance but a smaller improvement or even decrease in good governance.

Out of technical reasons which are explained in Chapter 6.3.2., I have excluded the following core criteria for good governance. The **reduction of excessive military spending** and its effect on World Bank lending should be assessed with the second hypothesis. Under the heading of good governance, the Bank encourages countries with a very high military potential to reduce their military spending. Therefore I hypothesise:

Hypothesis 2: Reduction of Excessive Military Spending

H₂: *The more a country reduces its excessive military spending, the more lending by will be received from the Bank.*

Although discussed later, I would like to point out that the **adverse relationship** might be plausible for the first period covering the Cold War. Developing countries with a high military potential or improving their potential, might have been in the focus of the World Bank's work out of world security reasons⁵² (see SCHRAEDER / HOOK / TAYLOR, 1998:304).

The World Bank's limitation to the core area of good governance is based on its non-political statute. Nevertheless, the Bank's staff managed to widen its area of action. Issues which were considered as far beyond the Bank's mandate only a few years ago, are now openly addressed by the Bank. Such a development could have been observed for the issue of corruption or military expenditures. Both are now considered as elements of the core area of good governance. If the history of the World Bank's work on good governance is analysed, it can be observed that the Bank's staff always tried to enlarge its area of action. They followed the strategy of two steps forward and one step back. This strategy allowed them to enlarge the core concept of good governance. Outside this core concept are still issues such as respect for human rights or democracy.

The Bank explicitly excluded the **form of the political regime** as an addressable good governance criteria when it began its work on good governance. By doing so, the Bank was

⁵² The realist reasoning for this relationship is outlined below.

able to turn down critics who claimed that the Bank was addressing political issues and therefore going beyond its mandate. Referring to the continuous enlargement of the Bank's governance concept, it might be possible that the staff also implicitly applies the form of the political regime as a criterion of good governance. In correspondence to the first hypothesis, it could be the case that countries are rewarded for their **status of and improvements towards democracy**. Then, democracy and democratisation in a country should have an impact on the credit allocation of the World Bank. To test for the impact of the associated political area of good governance on the Bank's lending activities the following hypothesis is stated:

Hypothesis 3: Democracy / Democratisation

H₃: *The more democratic the political structures in a country and the more a country democratises its political structures, the more lending will be received from the Bank.*

The enhancement of international peace and security is often mentioned as the main reason for the aid conditionality of democracy and/or democratisation (see BURNELL, 1997:63ff.). Indeed, it is argued in the literature on democratic peace that war is less likely to occur between two democratic countries than in other dyads (see for example, RUSSETT, 1993). The promotion of democratic structures in the recipient countries diminishes the potential threat for the whole region (see also ZANGER, 2000 and MEERNIK / KRUEGER / POE, 1998).

These three hypotheses rely on the distinction of a core area and an associated area of governance. The first two hypotheses test for the influence of the core area of good governance as promoted by the World Bank. The third one analyses if the associated political area, which is officially beyond the Bank's mandate, also influences the lending activities of the World Bank. All three focus on the status of each area of governance as well as improvements following a 'reward argumentation'.

5.2. RECIPIENT NEED

According to recipient need models, the allocation and amount of aid is oriented at the need of the recipients. The aim is to reduce poverty and improve the standards of living in the recipient country. The donor is moved by altruistic motives. There is a moral obligation of the rich countries to help the poor (WHITE, 1974). If the World Bank's distribution of credits is motivated by the recipient needs, than it would be expected that the **poorest countries in the world receive the highest amount of credits**. This relation is stated in the following hypothesis:

Hypothesis 4: Recipient Need

H₄: *The poorer a society, the more lending will be received from the Bank.*

This hypothesis is based on the recipient need model as applied by several previous studies (see MCKINLAY / LITTLE, 1977; MAIZELS / NISSANKE, 1984; FLEMMING, 1985; MEERNIK / KRUEGER / POE, 1998; SCHRAEDER / HOOK / TAYLOR 1998 and ZANGER, 2000). These studies do not agree on the impact of recipient needs on the allocation of development aid⁵³. The theoretical foundation of this model is the "*idealist paradigm*" (SCHRAEDER / HOOK / TAYLOR, 1998:298). Referring to altruistic motives, humanitarian needs are seen as the most important criteria for development aid programs (see LUMSDAINE, 1997).

5.3. DONOR INTERESTS

The donor interest model presents the opposing perspective on development assistance. According to this model, development assistance is not altruistic, but is an **instrument of the donor to pursue its own strategic and economic interests**. Pearson and Payaslian argue that development assistance is not only about helping poor people, it is also "*intertwined with domestic and external political considerations and commercial interests*" (PEARSON / PAYASLIAN, 1999:381).

Analysing the credit allocation of the World Bank, a multilateral organisation, poses a difficult question to the donor interest model: **Who or what is the World Bank?** There are several possible answers. First, the multilateral organisation is founded, governed and financed by sovereign nation states. As the voting power depends on the financial contribution, not every state has the same influence on the World Bank's decision-making. France, the United Kingdom, USA, Japan and Germany, called the "Big Five", possess almost fifty percent of the shares⁵⁴ of the IBRD and the IDA (KOLL, 1988:34). This voting power allows them to pursue their own strategic and economic interests through the World Bank Group⁵⁵. Therefore, it could be that the World Bank's interest is congruent to the foreign interests of its most powerful member countries. A second answer to the question of the ownership of the Bank is that the staff are able to pursue their own interests. Their common interest is a safe job and related to this a highly legitimated World Bank.

⁵³ Depending on the model specification, there is statistical evidence for strong (FLEMMING, 1985 and MAIZELS AND NISSANKE, 1984), moderate (SCHRAEDER / HOOK / TAYLOR, 1989 and ZANGER, 2000) or even no influence (FREY / SCHNEIDER 1986 and WECK-HANNEMANN / SCHNEIDER, 1988).

⁵⁴ Every member state possess 250 votes plus one additional vote per share (100.000 US\$) of the capital stock of the particular bank or programme. For further details see World Bank, 1989a: Art.V,3 and Art.II.

⁵⁵ This argument is put forward by several authors. See, for example BURNELL, 1997:165ff..

The following hypothesis assumes that the World Bank's staff is in the driver's seat and decides about the credit allocation. If we further assume that the staff are able to identify and pursue their rational common interest, the following argumentation can be presented: The common interest of the staff is to secure their jobs and attract support by their member states. A high **legitimisation of the World Bank** can be achieved if it is successful in pursuing its goals of sustainable social and economic development. Therefore, it is desirable that countries which have received lending by the World Bank show economic growth. As a result, it would be reasonable to prefer **poor countries** which have already demonstrated their **ability to achieve economic growth**. This assumption was first formulated by Frey and Schneider. They showed that "*prestige*" considerations had an influence on the World Bank credit allocation between 1972 and 1981 (FREY / SCHNEIDER, 1986:229). Relying on this 'success stories' argumentation, the following hypothesis can be formulated:

Hypothesis 5: Staff's interest

H₅: *The stronger the economic growth and the poorer a country the more lending by will be received from the Bank.*

The following hypotheses build on the assumption that the interests of the member countries shape the World Bank's donor interests. In fact, several authors state that political pressure influences the World Bank lending policy (see BURNELL, 1997:169; MOSLEY / HARRIGAN / TOYE, 1995 or GIBBON, 1992). The pursuit of donor interests by development assistance can be explained by neo-realist theories. To survive in the international "*self-help system*" (Waltz, 1979:118), states attempt to maximise their power and influence. A way to achieve this goal is the distribution of foreign aid to weak states to increase their dependency (see SCHRAEDER / HOOK / TAYLOR, 1998:297ff.). Then, - as adherents of the realist paradigm assume - strategic interests of nation-states and not altruism are the driving force for the allocation of development assistance (see, for example, EBERSTADT, 1988). The classical realist approach focuses solely on military security interests. The strategic importance and attitude of a recipient country determine the amount of foreign assistance⁵⁶. Neo-realist scholars stress the at least equal importance of economic potential, which also determines the military effectiveness of a state (GILPIN, 1987). Then, economic interests of donor states - like trade relations - should affect the World Bank's lending policy. All the following hypotheses are rooted in the neo-realist school.

Previous literature especially states the importance of economic interests for the allocation of development assistance (ALESINA / DOLLAR, 1998; MAIZELS / NISSANKE, 1984; MCKINLAY / LITTLE, 1977). From this perspective, World Bank credits could be used to **promote trade**

⁵⁶ If the classical realist perspective dominates the World Bank lending policy, the 'adverse relationship' of hypothesis 2 should be observed - as described above.

between its member countries. Countries with stronger economic potential receive more credits⁵⁷. Economic potential will be measured by GNP per capita and the share of trade (imports plus exports) on GDP. There are only weak economic ties between developing countries. Therefore, I do not extract the economic relations between each developing country and the 'Big Five'.

Hypothesis 6: Economic potential

H₆: *The stronger the economic potential of a country, the more lending will be received from the Bank.*

Previous studies showed that the history of a country as a former colony has an important influence on its ability to attract development assistance. The preferential treatment of former colonies has been observed primarily for bilateral relations (e.g. Zanger, 2000; SCHRAEDER / HOOK / TAYLOR, 1998; BURNELL, 1997; FREY / SCHNEIDER, 1986). There are two plausible arguments as to why the impact of colonial history should be tested for multilateral lending as well. Firstly, **former colonial powers** are able to promote the development of their former colonies through the World Bank's lending activities. Secondly, the former colonies themselves might use their connections and use their **access channels** to the former colonial power to lobby for more lending. To obtain more information than a simple distinction between former colonies and non-colonies, I formulate the following hypothesis:

Hypothesis 7: Former colonies

H₇: *The shorter the length of independence, the more lending will be received from the Bank.*

Zanger showed that sometimes aid is used as a "'carrot' in order to influence the UN voting behaviour of those countries whose positions are not obvious" (ZANGER, 1999:37). Non-aligned countries have often demonstrated a high ability to attract development assistance (see also FLEMMING, 1985). Especially during the Cold War, they were able to use their "advantage of non-commitment" (FREY, 1984:88) to trade in their political support against development aid⁵⁸. Referring to the classification of Kim and Russett (KIM / RUSSETT, 1996), I hypothesise:

Hypothesis 8: Non-Alignment Movement

H₈: *Members of the Non-Alignment Movement receive more lending from the World Bank.*

⁵⁷ Hypothesis 6 can also be based on a neo-Marxist perspective: Economic interests dominate aid policies to exploit underdeveloped countries and to enhance the power of the elite. See, for example, WOOD, 1986 or HAYTER, 1985.

⁵⁸ Frey presents an explanation based on game theory (FREY, 1984:89).

Donor interest models describe development assistance as an instrument of the donor to pursue its own interests. For the World Bank, it is hard to determine who is the donor. The previous three hypotheses referred to the staff of the Bank, the 'Big Five', or more generally to 'the member countries'. The next sub-chapter contains two hypotheses arguing that two other donors could have the ability to influence the World Bank's credit allocation.

5.4. CONGRUENCE

It is often argued that America (USA), as the largest shareholder of the World Bank Group, is able to influence the World Bank's credit allocation according to its own interests (e.g. GWIN, 1994:1; SHUE, 1996; EBERSTADT, 1988:39ff.; LAAR, 1980). Beside its neo-realist foundation, this argument can also be related to the theory of **hegemonic stability**. According to this theory, a hegemon (USA) creates international regimes (World Bank) to provide public goods (multilateral credits to developing countries) out of self-interest (see, for example, KINDLEBERGER, 1986; KEOHANE 1984:31ff. or GILPIN, 1987).

The following hypothesis states that if the World Bank pursues the interests of the hegemonic power, a congruence between US ODA and the Bank's credit lending should be observable. The opposite argument considers development assistance as a public good with **substitution effects**. If aid is a public good, then a potential donor would allocate less aid to countries which have already been the recipient of World Bank's development assistance. However, empirical testing showed that the idea of development assistance as a public good can be rejected. Instead, there is a strong argument for the abuse of foreign aid as an instrument for political ends (e.g. ZANGER, 1999; FREY, 1984).

Beside the hegemonic influence of the US on the World Bank's activities, there are also alternative explanations why a positive relationship between the distribution of US official development assistance (ODA) and the Bank's credit allocation should be observable. Lumsdaine, for example, points out that if aid is based on moralist thinking and therefore channelled to the poorest countries, then there is a high coherence of the aid allocation of different donors (LUMSDAINE, 1997). Secondly, it can be argued that "*it is easier for donors to justify aid to developing countries that receive aid also from other sources*" (ZANGER, 1999:40). This means that to legitimate its credit allocation, the World Bank focuses on the same countries as other donors, especially on the allocation of ODA of powerful member countries like the US. Relying on all three arguments, I formulate the following hypothesis:

Hypothesis 9: Hegemonic Power

H₉: *The more official development assistance a country receives from the United States, the more lending it receives from the World Bank.*

The last hypothesis tests whether the credit allocation of the **IMF** has an effect on the lending activities of the World Bank. Both organisations work very closely together. The IMF is responsible for macro-economic stabilisation, whereas the World Bank is more concerned about the micro-economic aspects of development⁵⁹. Wolfensohn describes the two functions as "*breathing in and breathing out*" (WOLFENSOHN, 1999:2). Their activities are interrelated and need co-ordination. Therefore, it is expected that IMF and World Bank lending are related to each other. Bird argues that throughout the 80s and 90s the responsibilities of both organisations have come to overlap more and more. As a reaction, the two agencies sought "*to achieve greater co-operation and collaboration and, through this, consistency*" (BIRD, 1995:49). Therefore, I hypothesise:

Hypothesis 10: IMF

H₁₀: *The more credits a country receives from the International Monetary Fund, the more lending it receives from the World Bank.*

5.5. CONTROL VARIABLES

Apart from the different motivations of credit lending as laid down in the hypotheses, it is necessary to include certain control variables: the size of the recipient population and the type of funding.

Several studies outlined that smaller countries receive more aid per capita than larger countries (see, for example, ZANGER, 1999; GRILLI / RIESS, 1992; ISENMANN, 1976; HENDERSON, 1971 and DAVENPORT, 1969). They argue that small countries are preferred because positive results of aid are more easily and quickly visible in such countries. As a result, it can be expected that small countries receive more lending per capita.

Hypothesis 11: Small Countries

H₁₁: *The smaller the population of a country, the more lending it receives from the World Bank.*

⁵⁹ A detailed description of the World Bank / IMF relationship can be found at MOSLEY, HARRIGAN, TOYE, 1995.

The last control variable distinguishes between the type of funding. According to its gross national product (GNP) per capita each country is eligible for either IBRD loans or IDA credits. As described in Chapter IV, both types of lending are attractive. However, it is more favourable to receive IDA credits. Although, IBRD and IDA are legally distinct, they share the same staff and use the same criteria for the decision-making of the allocation of its lending activities. Therefore, it should be expected that the same factors determine the lending activities of both organisations. Almost equal results for both types of funding present the study of Frey and Schneider (FREY / SCHNEIDER, 1986). Nevertheless, there are several reasons why the impact of the type of funding should be controlled. For example, it might be possible to introduce tighter conditions of good governance if the lending terms are more favourable. Also, the IDA fund is smaller than the amount of money available for IBRD loans⁶⁰. The scarcity of IDA credits might also decrease the amount of lending. Therefore, I hypothesise:

Hypothesis 12: Type of fund

H₁₂: *Countries receiving lending from the International Bank for Reconstruction and Development, receive more lending than countries funded only by the International Development Association.*

Some studies advise to include the **previous allocation of World Bank lending** as a control variable for two reasons. First, the Bank lends money to promote development. To achieve this goal, continuous support is necessary. A sharp reduction of lending would question previous lending and decrease the possibility of obtaining the desired effects. Even if a recipient country does not show the desired effects, the hope for a positive change and the 'shadow of previous investments' might be the motivation for further lending. The second reason was delivered by two studies of Weck-Hannemann and Schneider. They argued that the inertia of the administration leads to continuous lending (WECK-HANNEMANN / SCHNEIDER, 1998 and 1989). However, I did not include such a hypothesis since previous spending has been proved to be a good estimate for actual spending, but it does not deliver any insights into the underlying reason.

The following chapter elaborates on how these hypotheses on the World Bank's lending activities are quantified so that an empirical test can be conducted.

⁶⁰ IBRD lending in 1999 was \$22.2 billion, whereas IDA lending was only \$6.8 billion.

CHAPTER VI: OPERATIONALISATION

Following the presentation of the hypotheses, I shall now describe the quantification of the different variables. This chapter consists of five parts. First, the reasons for the selection of the cases, and the three time periods will be explained. Then, the quantification of the two dependent variables will be presented. Thirdly, I address the issue of how to measure good governance. This third part includes a sub-chapter on the construction of two indicators for good governance by applying factor analysis. The operationalisation of the alternative independent variables is discussed in part four. Finally, I outline the measurement of the control variables. A summary of the definitions of the variables can be found in appendix C.

6.1. CASE AND TIME PERIOD SELECTION

This study investigates the determinants of the World Bank lending activities. Focussing on **IBRD loans and IDA credits**, there are two main restrictions for the eligibility of countries to these funds. Firstly, only **member countries** of the International Bank for Reconstruction and Development (IBRD) or International Development Association (IDA) can apply for borrowing. Secondly, only poor countries are **eligible** for funding. For funding, poverty is measured in average annual per capita income. In 1999, the average annual per capita income of a country should be less than \$5445 to apply for IBRD loans. For IDA credits, the borderline lies at an average annual per capita income of \$895. Only a few countries are eligible to both types of lending⁶¹. These two criteria define the population of countries eligible to IBRD and IDA funding. Relying on three different time periods, the number of eligible countries varies between 121 (1983-1987) and 138 (1993-1997). All eligible countries in the different time periods are presented in appendix E.

For the empirical analysis I have excluded six countries⁶² with a population of less than 150.000 inhabitants. There are two reasons for the exclusion. Firstly, very small countries seem to lack the resources and knowledge of how to apply for these funds. Secondly, if a small country is nevertheless able to get a major project funded by the World Bank, then this project pushes the state up to the top ten of the per capita receivers of World Bank funding. Therefore, when ranking countries by their share of total World Bank lending per capita, small countries are predominantly situated at both ends of the list (see appendix F). For example, Sao Tome and Principe, a small islands state with less than 150.000 inhabitants,

⁶¹ More information on the country eligibility for borrowing from the World Bank can be found at <http://www.worldbank.org/html/extdr/about/eligibility.htm>

⁶² These countries are: Dominica, Grenada, Sao Tome and Principe, St. Kitts and Nevis, St. Vincent and the Grenadines and Tonga (see also appendix E).

received in the first period (1983-1987) on average only \$7,79 per capita. In the other two periods, the country is one of the top ten receivers, obtaining \$197,75 (1988-1992) and even \$387,63 per capita.

The cross-section analysis tests the hypotheses for three time periods. All variables are averaged over the specific period in order to eliminate short term variations⁶³. The **first period** covers the years from 1983 to 1987. Good governance was not yet on the agenda of the World Bank. Therefore, it is assumed that good governance variables do not show a significant effect on the Bank's lending policy. Instead the effects of the bipolar world system on World Bank lending should be observable for this time period. This cross-section contains the data for 115 countries.

The **second period** covers the time of severe and world wide political transformation. Between 1988 and 1992 the end of the Cold War also created a totally new situation for the World Bank. Many states of the former Eastern block⁶⁴ joined the World Bank group and became eligible for borrowing. Because of the political turmoil of this period, I expect very mixed results of the empirical analysis for the 128 cases. The discussion on good governance has started during this time period, however there might be some time lag until these criteria have been put into force.

The **last period** from 1993 to 1997 should show a significant influence of good governance criteria on the Bank's lending to the included 132 countries. The same as in other studies (e.g. MEERNIK / KRUEGER / POE, 1998; ZANGER, 1999), I assume that, in comparison to the first period, an effect of the end of the Cold War should be identifiable. Good Governance and the recipient needs should play a more important role in this time period.

6.2. THE DEPENDENT VARIABLES

The cross-section analysis is not only conducted for three different time periods, two dependent variables are also tested by this study. The first dependent variable DVIP(period) is the average percentage a country receives from the total World Bank lending (IBRD loans and IDA credits) in a certain period per one million inhabitants. Using shares of the total budget allows to block out changes in the value of the US\$ over time⁶⁵. The division by the

⁶³ Almost all studies in this field use averages for the dependent variable (see, for example, SCHRAEDER / HOOK / TAYLOR, 1998 or ZANGER, 2000).

⁶⁴ For a list of the states, please refer to appendix E.

⁶⁵ Other studies use only aggregated volumes of ODA per capita or GNP (see, for example, SCHRAEDER / HOOK / TAYLOR, 1998:302 or WECK-HANNEMANN, 1988:8).

population of a country in millions is necessary to control for the effect of the size of a country (see also ZANGER, 1999 or Weck-Hannemann, 1988:8). Nevertheless, population size is used as a control variable because previous studies showed that small countries received more lending per capita.

The first dependent variable is included in the model to explain the **distribution** of the World Bank's lending to developing countries. The second dependent variable is utilised to analyse the **changes** in the Bank's credit allocation. If, for example, the introduction of good governance criteria has had an effect on the World Bank's work, than a country's performance in fulfilling these criteria should explain the changes of credit lending at least in the third time period. Therefore the second dependent variable DV2C(period) is quantified as the average annual change of World Bank lending per capita in period t (see appendix C). To my knowledge, there is no other empirical analysis applying changes in development assistance as dependent variable.

A further distinction between IDA credits and IBRD loans would have been desirable. Unfortunately, I was not able to obtain the data for the analysed periods. As outlined above, the lending criteria for both organisations are the same. Therefore, as shown by Frey and Schneider (1986), the lending should show the same patterns. I have included the dummy variable FIBR(period) to control for the effect of the type (IBRD or IDA) of funding.

6.3. GOOD GOVERNANCE INDICATORS

The core area of good governance circumscises a) an efficient public administration (public sector management); b) a solid legal framework (rule of law); c) public access to information (transparency & information) and d) the accountability of governance activities (accountability and financial management). As summarised in table six (Chapter III), the literature presents plenty of good governance criteria. However, it is very hard to quantify issues such as transparent policy-making or bureaucratic accountability. The collection of governance related data has also just begun. Although there is now a broad agreement on the importance of fighting corruption. There is no sufficient time series on corruption. Unfortunately, world-wide surveys comparing corruption in different countries only started in the mid 90's⁶⁶. Also, the World Bank Institute constructed new indicators to measure the quality of governance (KAUFMANN / KRAAY / ZOIDO-LOBATÓN, 1999a and b). However, as

⁶⁶ Transparency International and its widely cited perception index on corruption began its work in 1995. The first large international survey on corruption dates from 1997. For more information refer to LAMBSDORFF, 1999 or look at <http://www.transparency.de>

these indicators are based on data from 1997/98, they do not permit comparisons over a period of time. Therefore I have to rely on indicators which were originally not constructed for the measuring of good governance.

The following sub-chapter describes the construction of two good governance indicators measuring the core area of good governance. They represent governance input and output measures and were constructed by applying a factor analysis of six variables assessing process and performance measures of good governance. The reduction of excessive military spending will be measured by a separate indicator as described in the second sub-chapter. The associated political area of good governance will be captured by a democracy score. Its construction will be described in sub-chapter 6.3.3.. All four governance indicators are weighted by their change in a certain period⁶⁷. The following table summarises the applied governance indicators:

TABLE 7: INDICATORS OF GOOD GOVERNANCE

Good Governance Categories	Variables
<i>Core area of governance</i>	
Public Sector Management Accountability and Financial Management Rule of Law Transparency and Information	Governance Indicator: Public Goods Governance Indicator: Administration
Reasonable Military Expenditures	Military personnel (% of total labour force)
<i>Associated political area of governance</i>	
Participatory Development Democratisation Respect for Human Rights	Democracy Score

(Source: own presentation)

6.3.1. MEASURING THE CORE AREA OF GOOD GOVERNANCE

The four analysed multilateral organisations offer a wide range of criteria for good governance. However, the quantification of the criteria is a difficult undertaking, because of the lack of appropriate indicators. Since there are no direct measures of the dimensions of governance, proxy variables have to be used for the analysis⁶⁸. To measure the core area of good governance performances of countries for the three time periods, I relied on six available

⁶⁷ The weighting procedure is described in the footnote of Appendix C and in the succeeding sub-chapter.

⁶⁸ The methodological problems of quantifying governance are discussed in DETHIER, 1999:37ff..

variables. The good governance indicators were constructed by applying factor analysis. This sub-chapter first describes the underlying indicators. Then, I briefly explain the applied method of factor analysis. The application of this method allowed to extract two factors related to two sets of the underlying governance indicators. The first set contains variables measuring the provision of public goods and civil liberties, whereas the second set is related to administrative issues. The description of the two constructed governance indicators can be found at the end of this sub-chapter.

Facing the problems of quantifying governance, I rely on six variables⁶⁹ which can be categorised as process measures and performance measures. **Process measures** describe the arrangements that are generally thought to lead towards good performance. **Performance measures** describe outputs of government that are widely valued (compare REID / MANNING / KNACK, 2000).

To measure government performance, I included variables measuring the provision of public goods like education, sanitation, and communication infrastructure as a major task of government performance (compare DETHIER, 1999:3). Investments in human capital are seen as crucial for sustainable development (see, for example, GUNDLACH, 1994). Therefore total **public spending on education** (% of GNP) is used to evaluate government performance. **Access to safe water** (% of population) captures the government success to provide safe hygienic conditions and sufficient drinking water. Until the late 90's, the **provision of communication infrastructure** in developing countries was a task of the government. The number of telephone mainlines per 1.000 people captures the governments efforts in the provision of this public good.

Governance issues related to the rule of law are measured by the **civil liberties** survey conducted by Freedom House⁷⁰. In contrast to the political rights survey, civil liberties do not ask about the political regime of a country. Instead they measure the freedom of expression and belief, association and organisational rights, rule of law, human rights and economic and personal autonomy rights. Therefore, I argue that civil liberties are a reliable and valid indicator of various aspects of good governance. They are rated on a seven-category scale, "1" represents the most free and "7" the least free (see definition at appendix H).

Referring to the IMF's demand of a liberalised trade and price system, I also included "**taxes on international trade**" as a proxy of good governance. Low tariff barriers are important to promote trade and economic growth. I consider a low share of taxes on the current revenue (see definition at appendix H) not only as a government output, but also as an administrative

⁶⁹ The six variables and their definitions can be found in appendix H.

⁷⁰ Information on the civil liberties survey can be found at <http://www.freedomhouse.org/survey99/method/>

and political decision on supporting free trade. Therefore I regard this variable as a performance and process measure.

The last underlying variable measures the share of **wages and salaries of the public service** on total state expenditures. I assume that poor governed countries have a tendency towards a oversized administration. Under-qualified public servants and nepotism go together with relatively high budget spending on wages and salaries (see DETHIER, 1999:37 and SCHIAVO-CAMPO / DE TOMMASO, 1997a and b). I am aware that process measures cannot be used to compare between countries without a significant judgement involved. Again, all the variables used are considered as proxies for different aspects of the core area of good governance.

The objective of the statistical technique factor analysis "*is to represent a set of variables in terms of a smaller number of hypothetical variables*" (KIM / MUELLER, 1978:9). The analysis examines the correlation between a certain number of variables and evaluates whether the observed interrelationship can be explained by the existence of a small number of factors. Factor analysis is an approach which helps to reduce data (BORTZ, 1999:497), to generate hypotheses (BORTZ, 1999:498) and to explore the dimensions of complex issues (BORTZ, 1999:498). I am using factor analysis as an exploratory method. Starting with the six variables described above, I apply this method to find out how they are correlated and whether the data can be reduced to a minimum number of underlying factors⁷¹.

The basic steps of a factor analysis are (see KIM / MUELLER, 1978:46):

1. Data collection and preparation of the relevant correlation matrix
2. The extraction of the initial factors
3. The rotation to a terminal solution and interpretation
4. Construction of factor scales and their use in further analysis

The collected data has been described above, the correlation matrix can be found in appendix I. Applying the maximum likelihood method as proposed by Kim and Mueller (see KIM / MUELLER, 1978:48), two factors could be extracted. This factor solution was rotated by applying the Direct Oblimin method (see KIM / MUELLER, 1978:50). The objective of such a rotation is to simplify the solution. The degree of fit between the data and the factor structure remains the same. The terminal solutions for all three time periods are also presented in appendix I.

As an example, I shall present the results of the factor analysis for the last period. The first four variables are highly related with factor one. Civil liberties are negatively related because

⁷¹ Further explanations of the utilised method can be found for example at BORTZ, 1999:45ff.; DUNTEMANN, 1989; McDONALD, 1985; ÜBERLA, 1968 AND KIM / MUELLER, 1978.

of the quantification (see appendix H). That means, provision of public goods and civil liberties are positively correlated with the same underlying factor. The last two variables only show a spurious correlation with factor one. They show instead a high factor loading for factor two. A factor loading is equivalent to the correlation between a factor and a variable where only a single common factor is involved, or in the case where multiple common factors are orthogonal to each other (see KIM / MUELLER, 1978:21). Factor one seems to represent the governance dimension of providing public goods and securing civil liberties whereas factor two seems to be more related to administrative issues. The results of the other two periods are very similar.

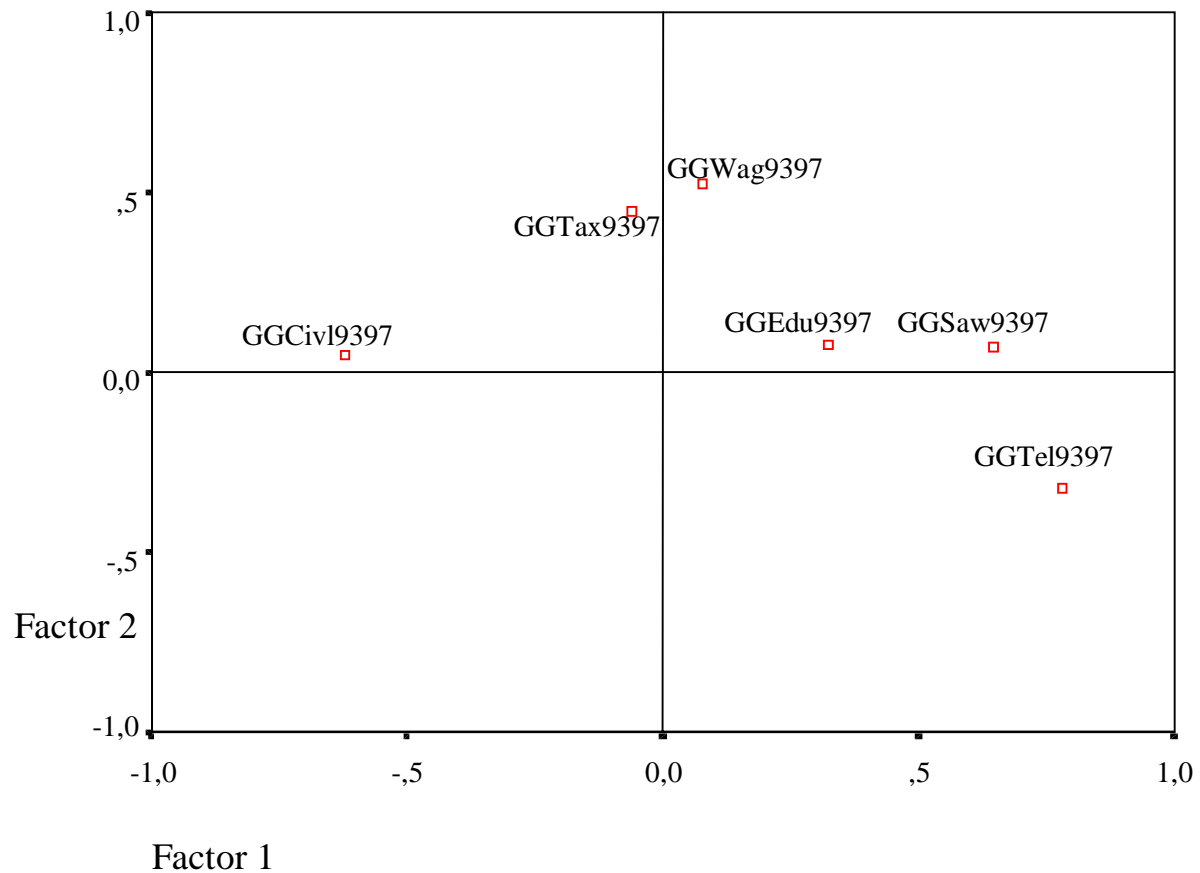
TABLE 8: FACTOR LOADINGS 1993-1997:

<i>Variables</i>	<i>Factor loading</i>	
	1	2
Factor	1	2
Good governance Civil Liberties 1993-1997	-,626	9,805E-02
Good governance Telephone Mainlines per 1000 1993-1997	,804	-,383
Good governance Safe Water Access (%) 1993-1997	,641	1,911E-02
Good governance Education Expenses (%) 1993-1997	,316	5,065E-02
Good governance Taxes on Trade 1993-1997	-9,784E-02	,455
Good governance Wages %State Expenses 1993-1997	3,658E-02	,516

Extraction-method: Maximum-Likelihood; rotation-method: Oblimin with Kaiser-normalisation.

The following diagram for the same period visualises the interrelationship between the six variables and the two extracted factors. The horizontal dimension represents factor one. The variables measuring the provision of public goods and civil liberties are grouped very close to this dimension. Only the variable for the provision of telephone mainlines is negatively correlated with the second factor. The share of wages and taxes on trade are situated on a positive score and close to the vertical scale representing factor two.

GRAPH 4: FACTOR LOADINGS 1993-1997



Using a SPSS software package, I constructed two factor scales which are used as governance indicators in the further analysis. Also, the factor analysis delivered comprehensive and clear results which allowed to reduce the variables from six to two, we have to keep in mind that the new governance indicators are just crude proxies for what is called the core area of good governance⁷². The first governance indicator is related to factor one. Covering the first four variables, it refers to the provision of public goods and civil liberties. The higher its value, the better the governance output. The second indicator refers to the quality of the administration. The higher its value, the poorer the administrative process.

As it is hypothesised that not only the status of, but also the change towards good governance, has a significant impact, all governance variables are transformed and weighted according to their improvement from one period (t-1) to the next period (t)⁷³. The weighting decreases the

⁷² Problems by using factor scales are discussed for example in KIM / MUELLER, 1978:50ff.

⁷³ The weight factors are calculated for every period by dividing the change of the indicator from one period to the other by 2,5 (higher value than the maximum value of the negative change) and adding one. This calculation transforms negative changes to values between 0 and 1. No change is equal to 1. Positive changes are transformed to values bigger than 1. The same transformation has been done for the values of the governance indicator itself to obtain only positive values.

value of good governance for countries with a negative change of good governance in comparison to the period t-1. For countries without changes in its good governance performance, the weighting factor is equal to one. Countries improving the good governance performance get a slightly higher value for their governance performance. The transformed variables correspond best to the theoretical derived governance hypotheses. The variables include now information on the status and change of good governance⁷⁴. The weighted governance indicator measuring the provision of public goods and civil liberties is called "Public Goods Change" PGC(period). The transformed good governance indicator for the efficiency of the public administration is called "Administration Change" ADMC(period). The descriptive statistics of all variables used for the empirical analysis are presented in appendix J.

6.3.2. MEASURING THE REDUCTION OF EXCESSIVE MILITARY SPENDING

The good governance aspect of reducing excessive military spending is now addressed by many multilateral organisations. Yet I have not included this issue in the factor analysis for the core area of governance for three reasons. Firstly, the aspect of military expenditures was added later to the core area. This analysis however covers three different time periods. Despite other governance aspects, reducing military spending should only show an effect on the World Bank's lending policy in the last period. Secondly, the available data on the **percentage of military personnel** correlates only slightly with the governance indicators mentioned above. A reduction of variables including the percentage of military personnel by factor analysis to only two factors would not have been possible. A third factor would have been necessary. Thirdly, strategic aspects were said to be an important determinant of aid allocation during the Cold War. A separate variable for the military potential of a country is needed to check this assumption for the first period. Therefore, I have decided to examine the effect of military spending separately.

The second new governance issue of the core area is **fighting corruption**. Therefore, I would have liked to include data on corruption in this analysis. Unfortunately, as mentioned above, there is no data on the level of corruption for the analysed population and time period available. Later studies, when appropriate data is available, have to fill up this shortcoming.

The data set for military spending of developing countries has many missings⁷⁵. Therefore I rely on the data of military personnel as a percentage of total labour force (see appendix C).

⁷⁴ The disadvantage of the transformation is a loss of information because change and status are now considered together. Therefore the chosen procedure might be not optimal. However, alternative models with separate variables for status and change of good governance did not deliver better results.

⁷⁵ See, for example, data collection by SIPRI at <http://www.sipri.org>

This data set includes more information for the examined countries and was also used for similar studies (see SCHRAEDER / HOOK / TAYLOR, 1998:304). As armies of developing states are usually not high-tech equipped and military personnel is the biggest cost factor, both indicators seem to measure the same: the **military potential** of a country. To measure the reduction of excessive military spending, this variable is also weighted by its changes. This time, due to more available information, I was able to compute the total changes within each period. As the variable "percentage of military personnel" includes only positive values, it was possible to multiply this value with the negative (decrease of military personnel) or positive (increase of military personnel) value for change. The weighting slightly increases the values for countries with an increase in the share of the military personnel and slightly decreases the values for countries with a decrease in the share of the military personnel. The calculated variable is called "Military Change" MILC(period). The smaller its value, the higher the reduction of excessive military personnel (spending). According to the hypothesis, I expect that high values for MILC(period) show a negative effect on World Bank lending.

6.3.3. MEASURING THE ASSOCIATED POLITICAL AREA OF GOOD GOVERNANCE

As described in Chapter III, the associated political area of good governance is mainly concerned about participatory development, democratisation, and respect for human rights. Donors addressing the associated political area focus primarily on basic democratic structures which are ensuring a minimal level of political participation. The quantification of democracy, as done in the **Polity 98 data set**, corresponds to this understanding of good governance. The data set⁷⁶, concentrates on the competitiveness and regulation of political participation, the competitiveness and openness of executive recruitment, and the constraints on chief executive.

The utilised Polity 98 data set contains two different scales to quantify⁷⁷ democracy and autocracy characteristics of a regime. Both scales vary between 0 and +10, with +10 as the highest value for democracy or autocracy. The coding categories and construction method of the democracy and autocracy scores can be found in appendix G. To obtain a single continuum, I subtracted the autocracy scores from the democracy scores. The obtained data ranges from "*positive ten for states that are purely democratic to negative ten for those which are purely autocratic*" (JAGGERS / GURR, 1995:437). This procedure is widely used in the literature as the obtained continuum and is a more reliable measure of democracy than the two scales taken separately. (see GLEDITSCH / WARD, 1997 and ZANGER, 1999:52 and 2000).

⁷⁶ The data can be found at <http://www.k-gleditsch.socsci.gla.ac.uk/Polity.html>

⁷⁷ The codebook of the Polity 98 data set can be found at <http://www.bsos.umd.edu/cidcm/polity/>

Similar to the core governance measures, I weighted the static democracy-autocracy scores according to their democratisation efforts. Again, I computed the average yearly change in the continuum for a specific period and transformed⁷⁸ it into a positive weighting factor. The calculated factor varies between "0" and "1" for negative change (change away from democracy and towards autocracy). Countries with no change are multiplied by the factor "1". The factor for positive change (change away from autocracy and towards democracy) is bigger than "1". For an even effect of this weighting factor, the democracy scores also had to be transformed⁷⁹ into positive values (in such a way that the former value for zero was transformed into the value one). The new variable is obtained by multiplying the democracy score and the change factor. This variable for the associated political area of good governance is called "democracy change" DEMC(period). Values higher than "1" signal positive democracy scores weighted by its change and vice versa.

6.4. ALTERNATIVE INDEPENDENT VARIABLES

Alternative Explanations for the allocation of World Bank credits have been categorised under "recipient needs", "donor interests", and "congruence". The quantification of the corresponding indicators to these three categories will now be outlined⁸⁰.

Recipient needs are operationalised with two different measures, namely **life expectancy** at birth in years and **GNP per capita**⁸¹. Both indicators are taken from the World Development Indicators 1999 (World Bank, 2000). Due to skewed distribution, the natural log of GNP per capita was taken. The chosen variables are widely used to measure human development and poverty. For the interpretation of the results, it must be paid attention to the fact that the provision of public goods like safe water should be linked to life expectancy⁸².

To capture the various possible donor's interests, I am relying on four indicators. The first donor interest hypothesis states that the World Bank is interested in funding poor countries with the strongest potential for development. Bruno Frey and Friedrich Schneider call this the **deserts-model**: "*Those countries get most credits from the World Bank which deserve them most*" (FREY / SCHNEIDER, 1986:227). Van de Laar points out that although the Bank focuses on developing countries, "*creditworthiness [is] a pre-condition for Bank lending*" (Laar, 1980:52). Therefore, I assume that countries with positive GNP growth and at the same time a

⁷⁸ The transformation procedure is: change in democracy of every country in period t divided by four plus one.

⁷⁹ The democracy-autocracy scores have been divided by eleven and added by one to obtain positive values.

⁸⁰ The full definitions of all variables are presented in appendix C.

⁸¹ These variables are widely applied to measure humanitarian needs. See, for example, SCHRAEDER / HOOK / TAYLOR, 1998:303 or ZANGER, 2000.

⁸² As stated in appendix K, the correlation between both variables is 0,675.

small GNP per capita receive more aid from the World Bank than other countries. The variable "**World Bank Interest**" WBI(period) was constructed by multiplying GNP growth with the fraction of GNP per capita plus one (see appendix C). According to the hypothesis, high values of WBI(period) should be related to high lending.

Economic interests are captured by the variable "**Trade**" LTRA(period). It is the sum of exports from and imports to the particular recipient country measured as a share of gross domestic product. Most of the previous literature included this variable in its analysis (see, for example, FREY / SCHNEIDER, 1986:244). The natural log was taken for this variable, due to skewed distribution. As a second measure, GNP per capita, as already introduced as a measurement of recipient needs, can be used. A high GNP per capita can be interpreted as high economic strength and potential of a country. In contrast to the recipient need model, high values for GNP per capita should be related to Bank lending. Both measured were applied by Schraeder et al. to show a significant influence of economic interests (SCHRAEDER / HOOK / TAYLOR, 1998:304).

Many empirical analyses showed that the status as a former colony has an impact on aid allocation (FREY / SCHNEIDER, 1986:229; WECK-HANNEMANN, 1988:14 and ZANGER, 2000). Instead of the widely used dummy variable, I constructed a measure for the **length of independence** of a country. The variable INDEPTI counts the number of years of colonial independence of a receiving country since 1800. The smaller the number of independent years, the stronger the link between former colony and colonial power⁸³ is presumed.

As a fourth indicator of donor interests, I utilised a dummy variable to account for **members of the Non-Alignment movement** (NAM). In accordance to the study of Zanger, I coded the members of the Non-Alignment movement with "1" and all other countries as "0" (see Zanger, 1999:53). This classification is based on the study of Kim and Russett in 1996. They analysed voting alignments of the UN General Assembly and created various clusters for the periods 1983-1985 and 1991-1993. I assigned the cluster for the period 1983-1985 to my first period ranging from 1983 to 1987. The second cluster was arranged to the following two periods. Although my last period from 1993 to 1997 only covers one year of this cluster, I included the cluster to control for changes in World Bank spending to the former members of the Non-Alignment movement. After the end of the Cold War, the hypothesised advantage of non-aligned countries should have vanished (see also Flemming, 1985).

The next two hypotheses were summarised under the heading "congruence". The first variable LUSA(period) is the natural logarithm of the average **official development assistance of the USA** to a particular country in million US Dollar in period t. The data was obtained from the

⁸³ All colonial relationships between 1800 and 2000 (based on the Fischer Weltalmanach, 2000) are included.

statistical compendium of the OECD (OECD, 2000). To test for the **congruence with IMF** credits, the variable LIMF(period) is used. It denotes the average share of a country of total repurchase obligations to the IMF for all uses of IMF resources in period t. Again, the natural log was taken for the statistical analysis.

6.5. CONTROL VARIABLES

The multivariate regression analysis also includes two control variables: the **population size** of the recipient country and a dummy variable controlling for the **type of funding**. The first control variable LPOP(period) is the natural logarithm of the average size of the population of a country in millions. It is often used in this type of empirical analysis (see, for example, WECK-HANNEMANN, 1988:8 or ZANGER, 2000). Secondly, I utilised a dummy variable to account for the type of funding. If a country was eligible for funding from the International Bank for Reconstruction and Development⁸⁴ in period t, then it is coded as "1". Countries coded with "0" were eligible for funding by the International Development Association. The data for both variables is based on the World Development Indicators (WORLD BANK, 2000).

After the outline of the case and time period selection and the quantification of the variables, I will now turn to the empirical analysis.

CHAPTER VII: STATISTICAL ANALYSIS

Before an empirical analysis of the hypotheses that have been developed earlier, I will first present some basic descriptive statistics. The purpose of descriptive statistics is to describe data with the help of graphs, tables and summarising values (see BORTZ, 1989, 25). Appendix J contains tables with descriptive statistics on all dependent and independent variables. The tables were computed for all three periods and present the number of cases, the minimum, maximum and mean value, and the standard deviation for each variable.

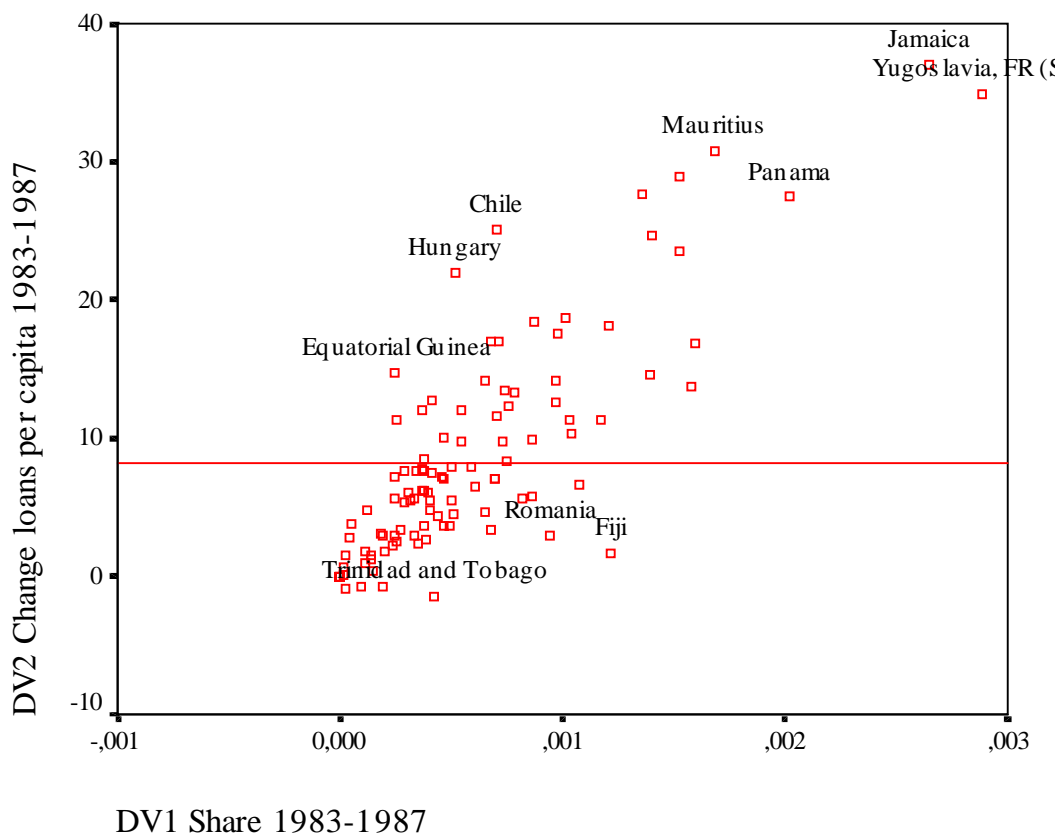
⁸⁴ Eligibility is based on the average annual per capita income of a country. In 1999, the limits were \$5445 for IBRD and \$895 for IDA funding.

7.1. DESCRIPTIVE STATISTICS

The following graphs plot the two dependent variables against each other. The first dependent variable, the share of World Bank lending per one million inhabitants, is situated on the x-axis. The change of World Bank lending per capita within a period is presented at the y-axis. The horizontal line represents the mean of the second dependent variable (change). Countries above this line were able to increase its borrowing over-averagely. These graphs illustrate which countries received the highest share of World Bank lending and improved their position for each period. The "rank list" of recipient countries is presented in appendix F.

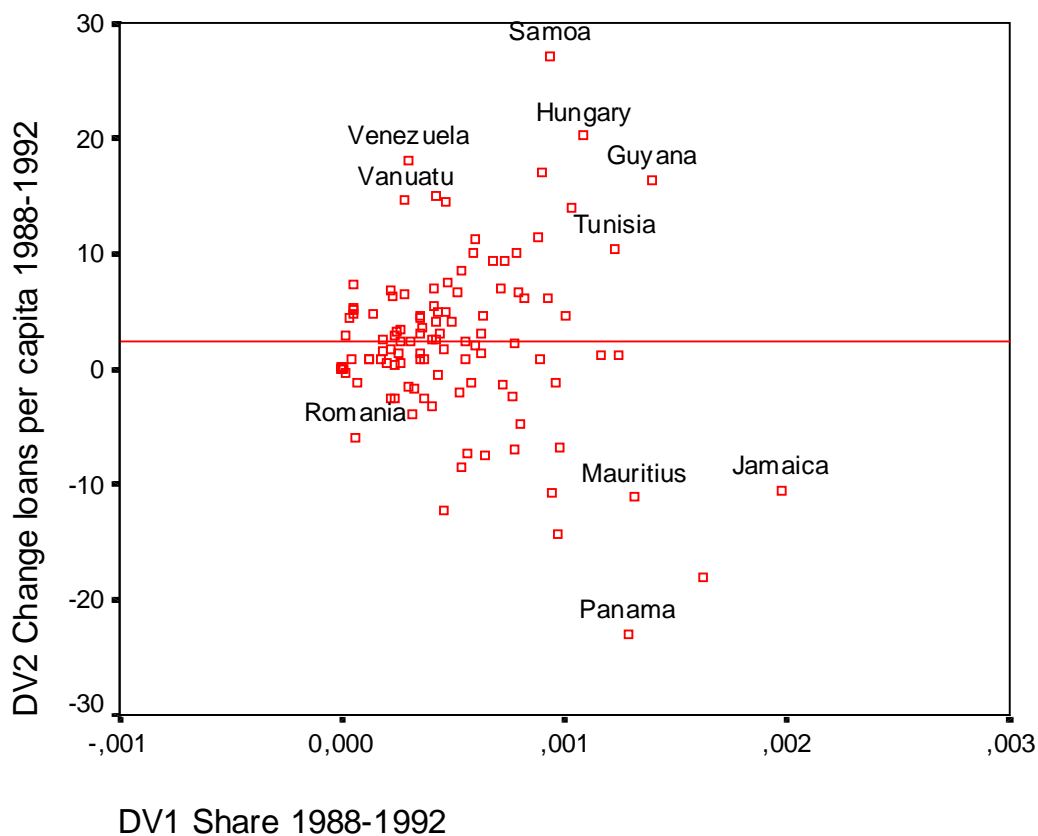
The graph for the first period from 1983 to 1987 shows that countries with a high share of World Bank lending like Jamaica or Yugoslavia were able to increase their borrowing. Jamaica for example could improve its borrowing on average by US\$ 37. Countries with the smallest share (see appendix F) were not very successful in increasing their part. However, some middle range receiving countries like Equatorial Guinea, Hungary and Chile, were able to attract more credits.

GRAPH 5: DEPENDENT VARIABLES 1983-1987



The relationship between receiving a big share of World Bank lending and improving its rank position is not that obvious in the second period. From 1988 to 1992, we can observe two groups of high receiving countries. Jamaica, Mauritius and Panama had to bear severe reductions (up to minus US\$ 23). Others, like Guyana, Tunisia, Hungary and Samoa were able to increase their shares (up to US\$ 27). These variations might be partly explicable by the population size. Small countries like Samoa, Vanuatu and Guyana can make big "jumps" if they are able to get a project funded by the World Bank. The least receiving countries are almost all scattered around the mean of the second dependent variable. They seem to experience in average minor changes in their amount of borrowing.

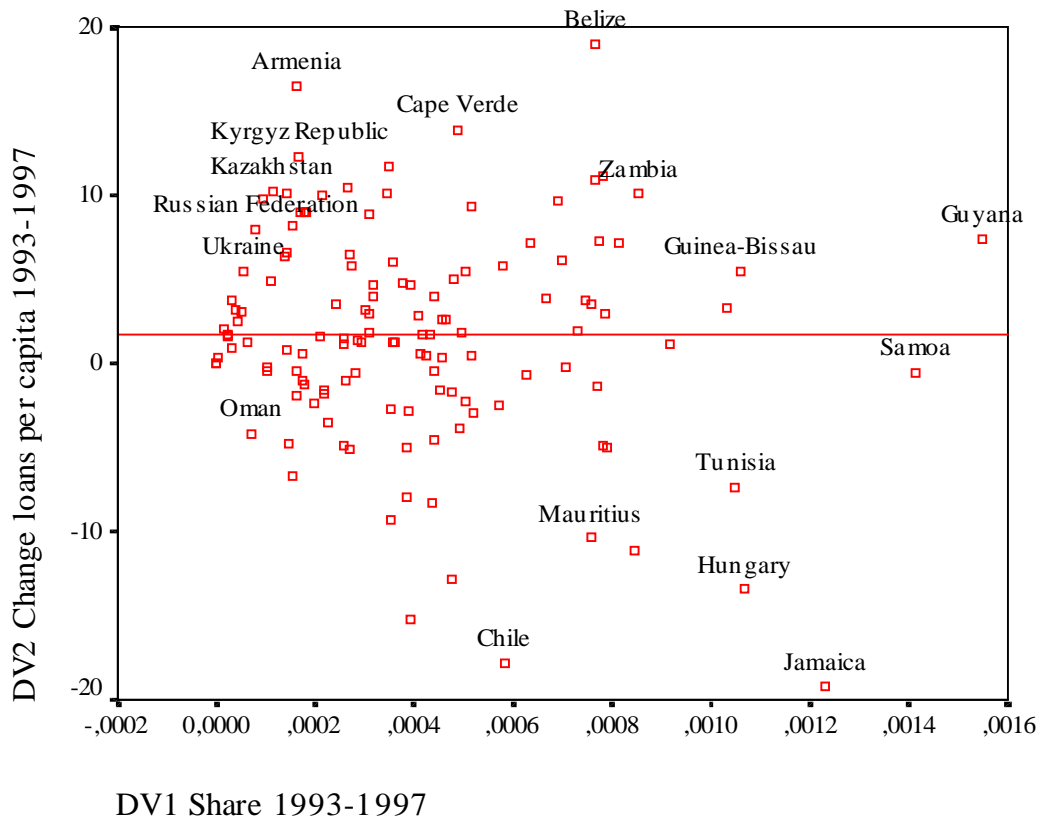
GRAPH 6: DEPENDENT VARIABLES 1988-1992



The last analysed period from 1993 to 1997 also shows interesting patterns. Firstly, the shares of World Bank lending have become more equal. The standard deviation and the maximum value (0,00155%) are the smallest of the three periods. Many of the top receivers (Jamaica, Samoa, Hungary) experienced a decrease of per capita lending in this period. However, in general there is no relationship between the size of the share and the per capita change observable. Then, there is a group of countries with a small but increasing share of World Bank lending. This group consists of new members from the former Soviet Republic. Armenia, Kyrgyz Republic, Kazakhstan, Russian Federation and Ukraine could increase their

borrowing over time. As in the other periods, small countries like Belize and Guyana take extreme positions in the two dimensions.

GRAPH 7: DEPENDENT VARIABLES 1993-1997



Comparing all three periods, we can observe a change in World Bank lending over time. During the Cold War time from 1983 to 1987, there seems to be a clear distinction between top receivers which are able to increase their credit frame and a majority of countries with a small share and little change per capita. This last group can also be found in the graph for the second period. However, the group of top receivers has split. Some encountered a sharp decrease in per capita lending. Others of the top receiving group and middle positioned countries were able to attract more lending during this period of severe political transition. Effects of the end of the Cold War can also be seen in the last period. First and foremost, the new members of the former Eastern block receive small but increasing funding by the Bank. The overall lending pattern has become more equally distributed. Also, some of the top receivers experience a sharp decrease of lending. This description refers to three cross-sections. For a more detailed analyses of the data, the annual changes should be evaluated over a longer period of time. Due to restrictions of time and volume such a task can not be fulfilled in this paper.

7.2. EXPECTED RESULTS

As mentioned in Chapter III, I expect different results for the testing of the hypotheses for the three time periods. It is assumed that the transformation of the international system had several effects on the work of the World Bank. The expected results, outlined in the following text, are awaited for the analysis of both dependent variables. Table nine summarises all anticipated effects.

The start of the discussion about good governance can be regarded as a reaction of the World Bank staff to the new global situation. The end of the bipolar system allowed the Bank to introduce good governance as a prerequisite for funding. Therefore, I expect that the government performance of states played no, or only a minor role, during the first analysed period. During the second period, good governance performance and improvement should show at least a slight positive effect on credit lending. The fulfilment of the World Bank's governance criteria should be a significant and strong determinant in the models for the last period.

In the case of the World Bank, good governance is related to its core area. The type of regime - according to the Bank's mandate - should play no role for lending decisions at any time. Therefore, the described effects of good governance performance on World Bank funding should only be observable for the first three independent variables: provision of public goods (PGC), administrative efficiency (ADMC), and reduction of excessive military spending (MILC)⁸⁵.

Due to the dominance of security interests, it might be that for the first period a significant positive relationship between military potential and credit lending can be observed. After the end of the Cold War, the contrary relationship should have been in place. Then, countries that reduced its military budget should be able to attain more World Bank credits.

The degree of democracy and democratisation should not effect the World Bank's decision-making at any time. Therefore, I expect that the democracy scores have no significant effect on all three periods. However, it might be that the Bank's credit allocation is nevertheless affected by the democracy performance of a state. A positive effect should then be observable for the two last periods.

⁸⁵ Due to the quantification, negative signs are expected for the variables ADMC and MILC for the last two periods.

TABLE 9: EXPECTED SIGNS

Period:		1983-1987	1988-1992	1993-1997
Variable	Abbreviation	Expected Sign	Expected Sign	Expected Sign
<i>Public Goods Change</i>	<i>PGC</i>	n.s.	+	++
<i>Administration Change</i>	<i>ADMC</i>	n.s.	-	--
<i>Military Change</i>	<i>MILC</i>	+	-	-
<i>Democracy Change</i>	<i>DEMC</i>	n.s.	n.s. (+)	n.s. (+)
<i>Life Expectancy at birth</i>	<i>NLIE</i>	-	-	-
<i>GNP per capita (ln)</i>	<i>LGNP</i>	-(+)	-(+)	-(+)
<i>World Bank Interest</i>	<i>WBI</i>	+	+	+
<i>Trade (ln)</i>	<i>LTRA</i>	+	+	+
<i>Independence (years)</i>	<i>INDEPTI</i>	-	-	-
<i>Non-alignment movement</i>	<i>NAM</i>	++	+	+
<i>ODA USA (ln)</i>	<i>LUSA</i>	+	+	+
<i>Use of IMF credits (ln)</i>	<i>LIMF</i>	+	+	+
<i>Population (ln)</i>	<i>LPOP</i>	-	-	-
<i>Funded by IBRD</i>	<i>FIBR</i>	+(n.s.)	+(n.s.)	+(n.s.)

(Source: own presentation)

If the World Bank's lending policy is explicable by the recipient needs model, then life expectancy (NLIE) and GNP per capita (LGNP) should show a significantly negative effect for all three periods. The shorter the life expectancy at birth and the smaller the gross national product, the higher the amount of funding.

The following donor interest variables are expected to show the same sign for all three periods. The variable 'World Bank Interest' should have a significantly positive effect on the Bank's credit allocation. If economic interests have an impact on the decision-making of the World Bank, then trade as percentage of GDP and GNP per capita should have a positive effect on the amount of credit lending. The hypothesis about the influence of the colonial heritage of some countries suggests a negative sign for the coefficient of the variable INDEPTI. The assumed strategic advantage in credit negotiations of non-aligned countries should have had a bigger impact during the Cold War. Therefore, a positive but decreasing influence is expected over time for the three periods. If the distribution of US official development aid and IMF credits is congruent to the credit allocation of the World Bank, then a positive sign should be computed for all three periods⁸⁶.

⁸⁶ I am aware that the size of the budget of the two organisations could also have an important effect on the credit allocation. However, I assume that a sufficient budget is available for both types of funding.

The control variable for the population size of a country should show a negative sign for all periods. Previous research found out that small countries receive relatively more aid than bigger states. If the criteria for funding are really the same for the IBRD and IDA, then the dummy variable should have no significant effect. However, as formulated in hypothesis twelve, it might be that countries founded by the IBRD are able to attract more funding. If this is true, then the coefficient of the dummy variable should have a positive sign.

7.3. BIVARIATE ANALYSIS

To get a first impression of the interrelationship between the particular independent variables and the dependent variables, I have undertaken a bivariate analysis. A bivariate regression presents "how changes in levels of a single independent variable are related to change in a dependent variable" (HOOVER / DONOVAN, 1995:119). The following two tables present the results of simple linear regressions for each independent variable with the two dependent variables DP1S (share of World Bank lending) and DP2C(change of World Bank lending).

TABLE 10: BIVARIATE ANALYSIS (SHARE OF WORLD BANK LENDING)

Period	1983-1987			1988-1992 ^a			1993-1997 ^b		
Variable	R ² -adj.	Stand. Coeff.	t-value	R ² .adj.	Stand. Coeff.	t-value	R ² -adj.	Stand. Coeff.	t-value
PGC	0,053	0,249	2,717***	0,001	-0,095	-1,051	-0,005	0,050	0,568
ADMC	-0,009	-0,008	-0,086	0,032	0,201	2,262**	0,025	0,181	2,094**
MILC	0,006	0,127	1,243	0,027	-0,194	-1,915*	0,004	0,111	1,196
DEMC	0,033	0,207	2,122**	-0,009	0,018	0,192	0,021	0,170	1,889*
NLIE	0,044	0,229	2,478**	-0,008	-0,004	-0,040	0,005	-0,112	-1,285
LGNP	0,063	0,270	2,730***	0,033	0,204	2,217**	0,063	0,266	3,029***
WBI	-0,002	-0,091	-0,886	0,045	0,232	2,497**	0,061	0,262	2,96***
LTRA	0,146	0,393	4,333****	0,031	0,197	2,179**	-0,001	0,087	0,963
INDEPTI	-0,007	-0,041	-0,430	0,071	-0,280	-3,209***	0,158	-0,405	-4,997****
NAM	0,065	0,270	2,973***	0,064	0,269	3,079***	0,050	0,240	2,796***
LUSA	-0,011	0,027	0,242	-0,010	-0,017	-0,173	0,025	-0,185	-1,922*
LIMF	0,035	0,216	2,014**	0,001	0,108	1,060	-0,002	-0,089	-0,902
LPOP	0,016	-0,158	-1,695*	0,041	-0,220	-2,489**	0,092	-0,314	-3,759****
FIBR	0,041	0,225	2,250**	0,010	0,138	1,480	0,027	0,186	2,077**

Dependent variable: DVIS(period)

* $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$; **** $p < 0.001$

The good governance indicators show quite unexpected results. The provision of **public goods** had a significantly positive effect in the first period where a non-significant result was expected. The following two periods present only non-significant and even negative results. An almost identical pattern can be found for the second dependent variable (see table 11). **Administration efficiency** shows - as hypothesised - a non-significant effect for the period 1983-1987. For the other two periods the factor has a significant, but positive effect. For example, in the period 1988-1992, a one standard deviation unit change in ADMC is associated with a 0.201 standard deviation unit change of the dependent variable DV1S. The bivariate analysis for ADMC and the second dependent variable, the change of World Bank lending, shows the anticipated effects. The signs for all three periods are negative and a significant relationship can be found for the last period. This might indicate that administrative good governance does not yet influence the total World Bank lending, but there is a change towards more good governance orientated lending policy. During the Cold War a high military potential seems to attract World Bank credits (significant result in table 11). In the next period, the opposite relationship can be observed. Disarmament efforts were rewarded. However, rewards for the **reduction of excessive military spending** were only given for a very short period of time after the end of the Cold War. The last period and the bivariate analysis for the change of World Bank lending (DV2C) show a non-significant, but positive effect. Although officially not considered by the Bank, countries with a **democratic record** received more lending during all three periods. The first and third periods even present significant relationships. The analysis of the second dependent variable (DV2C) indicates that after the Cold War the gap between democratic and non-democratic countries decreased. The bivariate assessment of the importance of good governance on World Bank lending offers very mixed results. Therefore, a special sub-chapter discusses the influence of good governance criteria on the Bank's lending policy (see Chapter 7.5.).

Neither can the **recipient needs model** be confirmed by this first analysis, although from 1988 to 1997 the standardised coefficients for life expectancy show the expected negative signs (only significant result for second period and change of World Bank lending). The first period displays the opposite result: a high **life expectancy** is significantly related to a bigger share of and change towards more World Bank lending. This contradiction to the recipient needs model is supported by the second independent variable **GNP per capita** (LGNP). For all three periods a high GNP per capita is related to more lending. All coefficients are positive and often highly significant. In table 10, the adjusted coefficient of multiple determination, R^2 , for LGNP is - in comparison to the other independent variables - relatively high. This means that a relatively high percentage of the variation in the share of World Bank lending can be explained by the variation in the independent variable GNP per capita. As I pointed out earlier, a positive effect of GNP per capita might indicate that **economic interests** influence the work of the World Bank. Therefore, I jump now to the other variable measuring the

influence of economic donor interests: **trade** (LTRA). The more a country is trading, the more it is successful in receiving loans and credits. Almost all⁸⁷ coefficients expose a positive and often significant relationship. Economic interests seem to be most important in the first period. For both variables (LGNP and LTRA) a very strong and significant relation can be observed. These first results support hypothesis six, that strong economic ties favour World Bank lending.

The hypothesis about the **World Bank's staff interests** is also supported by the results for the last two periods. Their standardised coefficients are strongly positive (0,232 and 0,262) and significant on the 5% level. Also, the adjusted R² is relatively high (0,045 and 0,061). However, for the first period a negative, but non-significant result, is displayed. Also, the standardised coefficients for the bivariate analysis of the second dependent variable (change of World Bank lending) are slightly negative, but not significant. Nevertheless, the bivariate analysis indicates an influence of the staff's interests on the Bank's credit distribution after the end of the Cold War.

The **length of independence** also seems to be related to the amount of lending. In table 10, all coefficients are - as expected - negative. That means, countries with a long history as a colony are able to attract more lending. The results are highly significant for the last two periods. From 1993 to 1997 a one standard deviation change of the variable INDEPTI is associated with -0,405 standard deviation change in the share of World Bank lending. This variable also has an adjusted R² of 0,158. The coefficients (table 10 and 11) for the first period are also negative, but not significant. The only contradictory result for this variable is a positive (yet very small and insignificant) sign for the last period in table 11.

The results for the variable **non-alignment movement** also correspond in general to the hypothesised relations. Members of the non-alignment movement were able to obtain a higher share of World Bank lending. During the Cold War this effect was higher (0,270) than in the pursuing periods (0,269 and 0,240). In table 10, all standardised coefficients are strongly positive, and highly significant (1% level). The adjusted R² varies between 0,050 and 0,065. Only for the bivariate analysis of the change of lending can we observe a negative sign for the last two periods. This might support the expectation that the advantage of non-alignment has decreased after the end of the Cold War.

The various donor interest models are quite well supported by the results of the bivariate analysis. This is not the case for the 'congruence' hypotheses. A non-significant positive relationship is displayed only in the first period. There is no **congruence of US ODA** and

⁸⁷ Only the coefficient in period two for the second dependent variable (change) is negative, but very small and insignificant.

World Bank lending for the time after the Cold War. The negative coefficient of the last period is significant on the 10% level. R²-adjusted is very small for all time periods. In table 11, the negative standardised coefficient is significant on the 1% level. I conclude that in the first period a weak congruence might be observable. After the breakdown of the bipolar world system, there is no statistical evidence for congruence. Instead, World Bank lending might have become a substitute for US ODA. Almost the same results are received for the variable '**use of IMF credits**'. For both models in the first period, a significant relationship between the allocation of IMF and World Bank credits is observed. However, there is no clear indication for congruence in the succeeding two periods. The coefficients in both models are small and insignificant. The related adjusted R² is also very small. Summarised, there might be congruence between IMF and World Bank in the first period. After the end of the Cold War, both organisations seemed to have pursued different strategies in the allocation of their credits.

TABLE 11: BIVARIATE ANALYSIS (CHANGE OF WORLD BANK LENDING)

Period	1983-1987			1988-1992 ^a			1993-1997 ^b		
	R ² -adj.	Stand. Coeff.	t-value	R ² .adj.	Stand. Coeff.	t-value	R ² -adj.	Stand. Coeff.	t-value
PGC	0,078	0,279	3,075***	0,010	-0,136	-1,457	-0,007	-0,033	-0,369
ADMC	-0,009	-0,001	-0,010	-0,009	-0,017	-0,182	0,018	-0,161	-1,841*
MILC	0,027	0,193	1,909*	-0,010	0,012	0,117	0,004	0,112	1,209
DEMC	0,018	0,166	1,694*	0,006	-0,124	-1,257	-0,007	-0,036	-0,390
NLIE	0,034	0,207	2,231**	0,035	-0,210	-2,268**	0,003	-0,105	-1,190
LGNP	0,044	0,233	2,338**	-0,007	0,050	0,508	-0,008	0,002	0,018
WBI	-0,010	-0,026	-0,248	-0,009	-0,024	-2,39	0,008	-0,126	-1,383
LTRA	0,092	0,318	3,405***	-0,009	-0,017	-0,177	-0,008	0,006	0,063
INDEPTI	-0,007	-0,045	-0,474	0,056	-0,253	-2,757***	-0,004	0,064	0,718
NAM	0,027	0,189	2,035**	-0,006	-0,049	-0,524	0,033	-0,201	-2,327**
LUSA	-0,012	-0,015	-0,138	0,090	-0,316	-3,141***	0,014	0,154	1,586
LIMF	0,063	0,273	2,584**	-0,010	0,028	0,269	-0,009	0,025	0,249
LPOP	0,019	-0,167	-1,792*	0,016	-0,157	-1,688*	0,010	-0,133	-1,514
FIBR	0,020	0,174	1,725*	-0,009	-0,016	-0,165	-0,006	-0,047	-0,514

Dependent variable: DV2C(period)

* $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$; **** $p < 0.001$

An unambiguous result is presented by the bivariate analysis of the control variable **size of population** (LPOP). There is significant evidence that smaller countries receive more credits by the Bank for all three periods and both dependent variables. The standardised coefficients

in the first model (table 10) vary between -0,158 and -0,314. The significance level lies between 10% (1st period) and 0,1% (3rd period). The increasing coefficients and significance might indicate that the advantage of small countries increases over time. The bivariate analysis of the change of World Bank lending (DV2C) shows a similar picture. The coefficients are negative and significant beside the last period. This indicates that small countries are able to get a higher share per capita of World Bank lending as well as a higher increase of lending than countries with a big population.

The last analysed independent variable investigates the effect of the **type of funding**. The interpretation of the positive signs for all coefficient in table 10 is that countries funded by the IBRD receive more lending. The results of the first and third period are significant on the 5% level. This supports hypothesis twelve. Only the findings in table 11, let us assume that the type of funding does not effect the change in World Bank lending between 1988 and 1997.

In summary, the bivariate analysis delivered the following results: All four governance indicators present very mixed results. The confirmation of the good governance hypotheses - as developed in Chapter V - is very limited. Also, the recipient needs model is not supported by the bivariate analysis. Instead, several results point to the importance of donor interests. Economic ties, World Bank staff interests, and colonial history show some statistical significant relationship to World Bank lending. The empirical analysis also supports the theoretical positive, but decreasing, effect of membership of the non-alignment movement. Both 'congruence' hypotheses have to be rejected at least for the time after the end of the Cold War. The contrary effect - development assistance as a public good with free-riding donors - might be plausible. Finally, the control variables indicate that small countries are favoured and that funding by the IBRD is associated with higher credits in some periods.

The purpose of the bivariate analysis is to get a first impression of the relationships. Because of the very mixed results, I shall now discuss some specification problems and test for some basic assumptions of multivariate regression analysis. Afterwards, the results of the revised multivariate analysis will be presented. At the end of this chapter, the importance of good governance for World Bank lending shall be assessed in particular.

7.4. MULTIVARIATE ANALYSIS

Simple linear regression assumes that changes in the dependent variable are attributed to variations in only a single dependent variable. Yet, the model presented in Chapter V suggests that more than one factor simultaneously affects the dependent variables. Therefore, I rely on multiple linear regression analysis, "*a method for measuring the effects of several factors concurrently*" (SCHROEDER / SJOQUIST / STEPHAN, 1986: 29). This is the appropriate technique for my research question because it "*isolates the effect of a single independent variable while controlling for (or holding constant) the effects of other independent variables*" (HOOVER / DONOVAN, 1995:121). With multiple regression the effects of several independent factors can be analysed at the same time.

However, multiple linear regression analysis is based on a number of important assumptions like accurate measurement of the variables, independence of variables or the normal distribution of the error term. The following sub-chapter tests these assumptions and deals with the problems which arise from the violation of the assumptions. The findings are used to revise the multivariate model.

7.4.1. ASSUMPTIONS

The testing of hypotheses with the help of regression analyses is based on the following assumptions⁸⁸ (see SCHROEDER / SJOQUIST / STEPHAN, 1986: 66):

- 1) The correct equation is used
- 2) The variables are measured accurately
- 3) The independent variables are independent of each other
- 4) The data constitute a random sample
- 5) The assumptions for the error term are met

Violations of these assumptions create several problems in the multivariate analysis of the data. In the following, I describe the assumptions and discuss whether they are met in my analysis. If necessary, modifications on the model are undertaken.

A **correct equation** includes all proper variables as independent variables, and the proper functional form is used. All independent variables in my model are based on previous research, the World Bank's own publications, personal interviews, and theoretical arguments

⁸⁸ For a slightly different enumeration see BERRY / FELDMAN, 1985:10.

as outlined above. Therefore, I think that no important variable has been left out of the equation. As well as omitting a relevant variable, the inclusion of irrelevant variables can cause "*a loss in precision of the estimated coefficients on the relevant variables*" (SCHROEDER / SJOQUIST / STEPHAN, 1986: 68). To circumvent this possible pitfall, I compute the multivariate regression two times. The first model includes all independent variables. The second model will be constructed by **stepwise regression**. Relying on the F-probability, I start with the 'best' independent variable from the simple linear regression in the previous sub-chapter. The second independent variable which enhances the model most is then added. This procedure is continued until no sufficient enhancement can be obtained⁸⁹.

Another possible **specification error** is the improper **functional form** of the relationship. The used regression model assumes a linear and additive relationship between the independent variables and the dependent variable. Relying on my theoretical arguments outlined in Chapter V on the hypotheses-building, I think that my model is properly constructed⁹⁰. Alternative non-linear and non-additive models might be possible as well, but will not be considered in this study, because of time and space constraints.

Accurate measurement, as stated in the second assumption, might be a severe problem of this study. One major source of **measurement errors**⁹¹ might be the fact that there are no reliable good governance indicators. Therefore, I had to construct my own aggregated index (as described in Chapter 6.3.) relying on **proxy variables**. However, the degree of approximation influences "*the estimated impact of the variable of actual interest*" (SCHROEDER / SJOQUIST / STEPHAN, 1986: 70ff.). Unfortunately, there are no other variables available. I have tried to include the most valid and reliable indicators⁹². More precise measurements might be possible later, when sufficient data on governance has been collected. For this study, we have to accept the problems arising from using proxies⁹³. Another measurement problem is that some variables might contain **non-random missings**. For example, if a country is not able or willing to publish the life expectancy of its population, then poor governance might be one reason. Therefore, a **selection bias** might influence the results of the analysis (see SCHROEDER / SJOQUIST / STEPHAN, 1986: 71).

The third assumption refers to the problem of **multicollinearity**. Socio-economic variables like GNP, trade, and population size are often interrelated. Then multivariate regression analysis is "*incapable of sorting out the independent effects of each on the dependent*

⁸⁹ The stepwise regression is conducted according to SCHROEDER / SJOQUIST / STEPHAN, 1986: 69.

⁹⁰ My decisions on the model specification is based on BERRY / FELDMAN, 1985: 53ff.

⁹¹ For a discussion of this topic refer, for example, to BERRY / FELDMAN, 1985: 26ff.

⁹² The used variables might violate the assumption of validity. I do not expect problems of reliability. For definitions and further explanations please refer to SCHNELL / HILL / ESSER, 1995: 141ff.

⁹³ For example, the provision of public goods does not measure solely governance performance, but probably also the wealth of a nation.

variable" (SCHROEDER / SJOQUIST / STEPHAN, 1986: 72), and might state some variables as not significant⁹⁴. **Correlation matrices** between variables provide a first and fast check on their interrelationship. Appendix K contains the correlation matrices for the three periods. Most of the correlations are very low. Only the variables for population size and GNP per capita are highly negatively related. Unfortunately, multicollinearity can occur even without strong correlations between variable pairs. Therefore I also examined the matrix of correlations between the estimated coefficients and received a similar result. To deal with multicollinearity, I will exclude the variable population size for the stepwise regression.

The fourth assumption concerns the issue of selection bias as described above. However, there is something special about this study. In general, statistical procedures use samples to make inferences about the population. In the case of this study, I analyse the **population** of all states who are eligible for World Bank funding. Yet, I will handle the cases like a sample out of two reasons. Firstly, due to missing data, not all countries are included in the analysis. Secondly, from a hypothetical point of view, I estimate the determinants of lending to all possible eligible states by using a sample of states which are currently eligible.

The last assumption demands that the "*residual error term is 'well-behaved'*" (SCHROEDER / SJOQUIST / STEPHAN, 1986: 66) For multiple regression analysis the following assumptions about the **error term** ϵ have to be fulfilled (see ANDERSON / SWEENEY / WILLIAMS, 1996: 591ff. and 611 or BERRY / FELDMAN, 1985: 73):

- 1) The mean of the error term equals zero: $E(\epsilon) = 0$
- 2) The variance of the error term remains constant with x: homoscedasticity
- 3) The values of the error term are independent: no autocorrelation
- 4) The error term is normally distributed.

According to Berry and Feldman, the problems of heteroscedasticity and autocorrelation are the most 'pernicious' (see Berry / Feldman, 1985: 73). **Heteroscedasticity** refers to a situation where the error term does not have constant variance. **Autocorrelation** means that the residual error terms from different observations are correlated. Both can be caused by several factors and have the effect that the standard errors of the coefficients are not correctly estimated (see SCHROEDER / SJOQUIST / STEPHAN, 1986: 75ff.).

A **residual analysis** helps to determine whether these assumptions are valid. Such an analysis is conducted by plotting standardised residuals against predicted values. This residual plot should show randomly scattered points within a horizontal band. The plots are presented in

⁹⁴ More information on the effects of multicollinearity can be found at SCHROEDER / SJOQUIST / STEPHAN, 1986: 71f.)

appendix L. The variables have been transformed where necessary. Most of the plots show satisfactory results. A further analysis of possible assumption violations and resulting transformations of the model are beyond the scope of this study and should be the subject of subsequent research.

7.4.2. INFLUENCE ANALYSIS

Outliers⁹⁵ - observations where the value of the standardised residual is less than -2 or greater than +2 - may have a strong influence on regression results. To determine if observations with a high leverage⁹⁶ have an influence on the estimated regression analysis, I have used **Cook's distance measure**. Cook's Distance statistic is an influence analysis. It measures influence on the model as a whole by using the leverage and the residual of observation *i* (see ANDERSON / SWEENEY / WILLIAMS, 1996: 615). Cases with a value of Cook's D bigger than one are influential on the whole model. A size-adjusted external cut-off for unusual influential cases is $4/n$. Appendix M presents an index plot of Cook's D values as proposed by Rainer Schnell (SCHNELL, 1994: 224ff.). Identified **influential outliers**⁹⁷ have been excluded from the multivariate analysis. It is beyond the scope of this study to discuss the nature of these outliers in more detail, although they probably provide interesting material for case studies.

7.4.3. OLS-REGRESSIONS

To analyse the impact of the independent variables on World Bank lending to developing countries, I utilise an ordinary least squares (OLS) regression⁹⁸. As already described above, the multivariate analysis is conducted for three cross-sections⁹⁹, and two different dependent variables. If not otherwise stated, all variables are calculated as averages.

In the following, I discuss the results for each dependent variable in turn. Firstly, the findings obtained from analysing the **share of World Bank lending** (DV1S) are presented. Then the determinants of the **change of World Bank lending** in a period are outlined. The results of the three cross-sections are always presented in different columns of one table. As mentioned above, two models will be presented every time. The first model includes all independent variables, the second model was calculated by **stepwise regression**. At each step the

⁹⁵ This classification of an outlier originates from ANDERSON / SWEENEY / WILLIAMS, 1996: 613.

⁹⁶ Leverage H is the potential for influence resulting from unusual X values. As a rule of thumb, high leverage exists if $h_i > 3$ (number of independent variables + 1) / number of observations.

⁹⁷ Influential outliers are named in the particular table presented below.

⁹⁸ A time series analysis does not seem to be appropriate, because there are not enough time points.

⁹⁹ The three time periods are 1983-1987, 1988-1992, 1993-1997.

independent variable with the smallest F-probability is added to the equation. Variables in the equation are excluded if their F-probability becomes too big. The stepwise regression is concluded if no independent variable is left over for in- or exclusion.

Further, all tables display **standardised coefficients**. Non-standardised coefficients would be hard to compare because they are measured in different units. Therefore the units are expressed in terms of standard deviation units¹⁰⁰. The resulting standardised coefficients, also referred to as **beta coefficients**, "*measure the change in the dependent variable (measured in standard deviations) that results from a one-standard-deviation change in the independent variable*" (SCHROEDER / SJOQUIST / STEPHAN, 1986: 32).

Table twelve presents the results of the analysis of the share of total World Bank lending for three cross-sections. The excluded influential outliers are mentioned in the footnote to the table. No coefficients were calculated for the variable "non-alignment movement" (NAM) because of a lack of variation in the independent variable. Also the independent variable "population size" was excluded because of multicollinearity.

The overall explanatory power of the three models are relatively high, with the adjusted R² ranging from 56,0% (1983-1987) to 59,5% (1993-1997). R², the coefficient of determination, measures "*the proportion of the variation in a dependent variable explained by changes in two or more independent variables*" (HOOVER / DONOVAN, 1995: 124). To adjust the coefficient of determination for the number of independent variables¹⁰¹, the adjusted R² was calculated¹⁰². The F statistic, which indicates the fit of the whole model, is statistically highly significant for all three cross-sections.

The same as the bivariate analysis, the multivariate analysis does not support the hypotheses on good governance. The **provision of public goods** has only a significant positive effect in the first period where no effect was expected. For the periods covering the time when the discussion on good governance had already started, no significant influence can be observed. From 1988 to 1992 even a negative sign was received. Neither did **Administrative efficiency** also did not play the awaited role. There is only a negative sign for the first period, also all results in table twelve are insignificant. Only the stepwise regression presents a significant and positive result for the second period. A one-standard-deviation change in the variable ADMC is associated with a 0,179 standard deviation unit change in the share of World Bank lending. The findings for both governance indicators let us assume that good governance is not associated with a higher share of World Bank lending. However, both indicators are

¹⁰⁰ For explanations please refer to HOOVER / DONOVAN, 1995: 123.

¹⁰¹ Including additional variables never decreases the value of R² and normally increases it.

¹⁰² Adjusted R² = ((N-1)R² - k) / (N-k-1), where N is the number of observations and k is the number of independent variables in the regression equation (see SCHROEDER / SJOQUIST / STEPHAN, 1986: 33ff.).

aggregated indicators relying on proxy variables. Therefore, I will examine the influence of good governance more precisely by using the underlying variables in the next sub-chapter.

TABLE 12: RESULTS OF OLS REGRESSION: DVIS (SHARE OF TOTAL WORLD BANK LENDING)

Period	1983-1987 ^a			1988-1992 ^b		1993-1997 ^c	
Variable	Expected Sign	Stand. Coeff.	t-value	Stand. Coeff.	t-value	Stand. Coeff.	t-value
Constant		(-0,012)	-1,763	(-0,000)	-0,752	(-0,000)	1,508
PGC	n.s./ + / ++	0,340**	2,457	-0,132	-1,066	0,050	0,344
ADMC	n.s./ - / --	-0,109	-0,964	0,159	1,813	0,085	0,783
MILC	+ / - / -	-0,151	-1,535	-0,199**	-2,065	0,085	0,970
DEMC	n.s./(+)/(+)	0,121	0,856	0,120	0,914	0,160	1,531
NLIE	- / - / -	0,094	0,566	-0,048	-0,387	-0,195	-1,378
LGNP	- / - / -	0,354	1,588	0,675****	4,006	0,778****	5,178
WBI	+ / + / +	0,084	0,752	0,034	0,317	0,165	1,405
LTRA	+ / + / +	0,310*	1,811	0,151	0,958	-0,123	-1,039
INDEPTI	- / - / -	-0,083	-0,646	-0,253*	-1,805	-0,459***	-2,912
NAM ^d	++ / + / +			0,321***	2,902	0,230	1,354
LUSA	+ / + / +	-0,102	-0,744	0,078	0,793	0,015	0,149
LIMF	+ / + / +	0,195	1,410	0,524****	4,676	0,256**	2,138
FIBR	(+)/(+)/(+)	-0,199	-1,331	0,034	0,273	-0,160	-1,291
		R ² : 0,659		R ² : 0,681		R ² : 0,674	
		R ² -adj.: 0,560		R ² -adj.: 0,592		R ² -adj.: 0,595	
		F-value: 6,613		F-value: 7,710		F-value: 8,576	
		Probability: 0,000		Probability: 0,000		Probability: 0,000	
		N: 54		N: 61		N: 68	

* $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$; **** $p < 0.001$

^a Excluded influential outliers according to Cook's D: Jordan, Panama and Vietnam.

^b Excluded influential outliers according to Cook's D: Gabon, Hungary, Jamaica, Trinidad and Tobago, and Uruguay.

^c Excluded influential outliers according to Cook's D: Armenia, Gabon, Guyana, Hungary, Jamaica, Jordan, South Africa and Uruguay.

^d Variable has been excluded for period 1983-1987 because of lack of variation.

The reduction of **excessive military spending** only has a significant effect in the second period. A one standard deviation change of the variable MILC is associated with a -0,199 standard deviation change in the share of World Bank lending. When the bipolar system broke down, the World Bank supported disarmament efforts made by developing countries. However, such a relationship is not any more observed for the next period. The third period even states a positive (non-significant) relationship between military potential and share of total lending. Also, surprisingly, the coefficient has a negative sign for the Cold War period where a positive sign was expected.

The coefficients for the independent variable '**Democracy / Democratisation**' show the expected effect. All beta coefficients are positive but not significant. Yet, the stepwise regression in table 13 displays a positive and on the 5% level significant result. Despite the rhetoric of the World Bank, a democratic regime form has at least a slightly positive effect on the amount of World Bank lending.

Recipient needs also seem to play a subordinated role. **Life expectancy** is - as expected - negatively related to World Bank lending in the last two periods. However, the coefficient is slightly positive in the first period. All beta coefficients are small (varying between -0,195 and 0,094) and not significant. Again, the stepwise regression presents a significant positive relationship (5% level) for the first period. A one standard deviation unit change in the variable NLIE is associated with a 0,251 standard deviation unit change of the share of World Bank lending. Neither does the variable measuring **income per capita** provide statistical arguments that poor countries receive more aid. On the contrary, countries with a higher GNP per capita receive more lending. All standardised coefficients are positive, comparatively high, and highly significant (0,1% significance level) for the last two periods. This result is backed up by the stepwise regression. Income per capita has a high influence. Between 1993 and 1997 a one standard deviation unit change in logged GNP per capita is associated with a 0,778 standard deviation unit change in share of World Bank lending. Instead of recipient needs, **economic interests** seem to be the major determinants of the Bank's lending policy. This interpretation is partly supported by the findings for the independent variable **trade** (LTRA). Stepwise regression presents a significant and positive effect of trade on World Bank lending. Only for the last period has a non-significant negative sign been obtained.

Similar to the bivariate analysis, the other donor interests hypotheses are partly supported by the multivariate analysis. The coefficients for the **World Bank interests** are not significant, but all - as hypothesised - positive. Countries with economic growth and a low per capita income are favoured by the Bank. Former colonies also benefit over-average from World Bank lending. The **length of independence** is negatively related to the share of total lending for all three periods. For the last two periods the coefficients are also significant. In the last period the beta coefficient has the value of -0,459 and is significant on the 1% level. Countries with a long colonial history are more successful in attracting loans.

The dummy variable for membership of the **non-alignment movement** could only be applied for the last two periods because of a lack of variation. In both analysed periods, the standardised coefficient is positive and significant on the 1% level in the second period. The beta coefficients are relatively large and vary between 0,230 and 0,321. Non-aligned countries seem to be - as hypothesised - more successful in receiving loans and credits from the World Bank.

The results for the congruence hypothesis on **US official development assistance** are not significant. In comparison to the bivariate analysis, all signs have changed. There seems to be no robust result. The coefficients and t-values are very small. Also, the variable was excluded in the stepwise regression. Therefore, I argue that the hypothesis on congruence to US ODA can be rejected. There is no significant relationship between the amount of US official development assistance and World Bank lending.

However, the analysis of the second **congruence hypothesis** delivers meaningful results. All standardised coefficients are positive and quite large. In the second and third period the findings are significant on the 0,1% (1988-1992) and 0,5% (1993-1997) level. For example, a one standard deviation unit change in the **share of IMF credit usage** is related to a 0,524 standard deviation unit change of the dependent variable. There seems to be statistical evidence for congruence between IMF and World Bank lending. However, this analysis does not tell us the reasons for this congruence. It might be that one of the institutions is following the other, or both are co-ordinating their lending activities, or that both institutions apply the same conditions for lending.

To avoid multicollinearity, the control variable **population size** has been excluded from the presented analysis. However, other regressions which are not displayed here showed the same results as the bivariate analysis. Population size has a significant negative impact on the share of World Bank lending in all three time periods. Small countries have more success in receiving loans and credits from the World Bank than highly populated states.

As assumed, the **type of funding** does not show a significant effect on the share of lending. Compared to the bivariate analysis, the signs have changed for the first and third period. This means that countries founded by the International Development Association receive more lending. However not all coefficients are significant. Also, this control variable is not included in the stepwise regression. Therefore, I argue that there is no difference in the amount of lending by both World Bank organisations, IBRD and IDA.

The multivariate analysis of the share of total World Bank lending shows that good governance plays only an inferior role. Only the reduction of excessive military spending is a significant determinant for the period from 1988 to 1992. Recipient needs are also unimportant for the lending activities of the Bank. Instead, donor interests seem to have a significant impact. High per capita income, strong trade relations, a history as a colony, and membership of the non-alignment are, especially after the end of the Cold War, related to high World Bank lending. There is only weak evidence for the World Bank interest hypothesis. There is high congruence with IMF lending, but no relationship to the allocation of US aid.

The size of the population negatively effects the share of lending whereas, the type of funding has no significant impact on the share of total lending.

TABLE 13: RESULTS OF STEPWISE REGRESSION: DVIS (SHARE OF TOTAL WORLD BANK LENDING)

Period	1983-1987 ^a			1988-1992 ^b		1993-1997 ^c	
Variable	Expected Sign	Stand. Coeff.	t-value	Stand. Coeff.	t-value	Stand. Coeff.	t-value
Constant		(-0,000)	-4,438	(-0,001)	-3,579	(-0,000)	-0,066
PGC	n.s./ + / ++	0,337**	2,688				
ADMC	n.s./ - / --			0,179**	2,029		
MILC	+ / - / -						
DEMC	n.s./(+)/(+)					0,224**	2,478
NLIE	- / - / -	0,251**	2,073				
LGNP	- / - / -			0,479***	3,472	0,438*****	4,981
WBI	+ / + / +						
LTRA	+ / + / +	0,419*****	4,346	0,331**	2,675		
INDEPTI	- / - / -					-0,575*****	-4,690
NAM ^d	++ / + / +			0,372*****	4,342	0,350***	3,043
LUSA	+ / + / +						
LIMF	+ / + / +			0,444*****	4,419		
FIBR	(+)/(+)/(+)						
		R ² : 0,578		R ² : 0,617		R ² : 0,595	
		R ² -adj.: 0,553		R ² -adj.: 0,582		R ² -adj.: 0,569	
		F-value: 22,832		F-value: 17,725		F-value: 23,115	
		Probability: 0,000		Probability: 0,000		Probability: 0,000	
		N: 54		N: 61		N: 68	

* $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$; ***** $p < 0.001$

^a Excluded influential outliers according to Cook's D: Jordan, Panama and Vietnam.

^b Excluded influential outliers according to Cook's D: Gabon, Hungary, Jamaica, Trinidad and Tobago, and Uruguay.

^c Excluded influential outliers according to Cook's D: Armenia, Gabon, Guyana, Hungary, Jamaica, Jordan, South Africa, and Uruguay.

^d Variable has been excluded for period 1983-1987 because of lack of variation.

In general, the stepwise regression confirms the summarised results for the multivariate analysis in table twelve. Between 57,8% and 61,7% of the variation in the dependent variable can be explained by variations in the independent variables included in the stepwise analysis. The fit of the whole model has been maximised, the F-values are highly significant.

In the first period (1983-1987) three variables, the provision of public goods (PGC), the life expectancy (NLIE) and trade (LTRA) explain almost 58% of the variation in the share of World Bank lending. All coefficients are positive and significant. Countries with a high provision of public goods, a high life expectancy, and high economic potential receive more

lending from the Bank than other countries. This is quite an astonishing result. Primarily, countries which have already shown some efforts in their development received funding. The findings for the other two periods put even more weight on the importance of donor interests. Recipient needs and good governance criteria are unimportant. Instead, countries with high GNP per capita, strong trade relations, colonial history, and a belonging to the group of non-aligned countries are favoured by the Bank.

Astonishingly, in the second period, the variable for administrative efficiency is significant on the 5% level, but it shows the wrong sign. In the third period, the variable 'Democracy / Democratisation' is also significant on the 5% level. States receive per one standard deviation unit improvement 0,224 standard deviation units more of World Bank funding. This contradicts the official statements of the World Bank that the form of the political regime is not of concern for the Bank's activities.

The next table presents the results for the multivariate analysis on the determinants of the change of total World Bank lending during one period. In general, I expect the same signs as for the share of total lending. The rationale for the second dependent variable is that the changes during one period tell us more about policy changes in the World Bank. It might be the case that countries are able to attract funding on a certain level and fundamental changes (an up- or downward move to another level) are very rare. Then new criteria, like new good governance conditions, might not be strong enough to change the overall patterns, but they should be able to account for the changes during a shorter period of five years.

The percentage of the explained variation in the dependent variable is lower than for the first dependent variable. But still, the adjusted R^2 varies between 0,195 (1993-1997) and 0,651 (1983-1987). Also, the significance of the overall models are very high. Only the associated statistics for the third period are comparably low. Therefore, I included the variable 'population size' in the stepwise regression for the third period and excluded GNP per capita as an independent variable. Relying on five independent variables, the adjusted R^2 for the stepwise regression in the last period achieves 0,364.

The results are similar to the regressions for the first dependent variable, although more signs show the expected direction. Good Governance still plays an inferior role. The coefficients for administrative efficiency and military potential show the predicted signs, but are not statistically significant. The variable for the associated political area of governance also shows the expected signs, but is only significant on the 10% level in the second period. Recipient needs seem to play a more prominent role in this analysis. Low life expectancy is associated with an increase of World Bank lending per capita in a period. Similar to the first analysis, donor interests variables have also explanatory power. High GNP per capita and strong trading

activities influence in several periods the allocation of credits. Both congruence variables present significant results. IMF and World Bank lending are associated with each other, whereas the analysis of US ODA delivers mixed results. The analysis of the control variables shows that small states and countries funded by the International Development Association were more successful in increasing their average funding in a period.

TABLE 14: RESULTS OF OLS REGRESSION: DV2C (CHANGE OF TOTAL WORLD BANK LENDING)

Period	1983-1987 ^a			1988-1992 ^b		1993-1997 ^c	
Variable	Expected Sign	Stand. Coeff.	t-value	Stand. Coeff.	t-value	Stand. Coeff.	t-value
Constant		(-11,464)	-1,083	(18,377)	2,063	(13,468)	1,869
PGC	n.s./ + / ++	0,481***	3,312	-0,231	-1,398	-0,154	-0,733
ADMC	n.s./ - / --	-0,036	-0,318	-0,157	-1,351	-0,150	-1,003
MILC	+ / - / -	0,298**	2,683	-0,008	-0,072	-0,135	-1,118
DEMC	n.s./(+)/(+)	0,164	1,161	0,321*	1,831	0,058	0,438
NLIE	- / - / -	-0,074	-0,445	-0,311*	-1,909	-0,562***	-2,806
LGNP	- / - / -	0,350	1,561	0,385*	1,761	0,446**	2,214
WBI	+ / + / +	0,139	1,272	0,009	0,067	0,075	0,443
LTRA	+ / + / +	0,295*	1,702	-0,025	-0,138	0,154	0,939
INDEPTI	- / - / -	-0,102	-0,765	-0,130	-0,731	0,292	1,406
NAM ^d	++ / + / +			0,151	0,969	-0,320	-1,373
LUSA	+ / + / +	-0,128	-0,930	-0,275**	-2,160	0,257*	1,930
LIMF	+ / + / +	0,343**	2,467	0,544****	3,747	0,274*	1,734
FIBR	(+)/(+)/(+)	-0,382**	-2,465	-0,362**	-2,158	-0,084	-0,466
		R ² : 0,651		R ² : 0,451		R ² : 0,344	
		R ² -adj.: 0,552		R ² -adj.: 0,302		R ² -adj.: 0,195	
		F-value: 6,541		F-value: 3,029		F-value: 2,304	
		Probability: 0,000		Probability: 0,003		Probability: 0,016	
		N: 55		N: 62		N: 71	

* $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$; **** $p < 0.001$

^a Excluded influential outliers according to Cook's D: Panama and Vietnam.

^b Excluded influential outliers according to Cook's D: Guyana, Jordan, Panama, and Uruguay.

^c Excluded influential outliers according to Cook's D: Armenia, Cambodia, Hungary, Jamaica, and Uruguay.

^d Variable has been excluded for period 1983-1987 because of lack of variation.

The results for the **provision of public goods** are as surprising as in the first model. The variable PGC is highly significant (1% level) in the first period. A high provision of public goods was beneficial for funding when the discussion on good governance had not started. The coefficients for the following two periods are neither significant nor do they present a positive sign. These findings contradict the expectations that the impact of this good governance aspect was non significant for the first period, and shows an increasing positive influence after the start of the good governance discussion.

The other governance variables in table 14 show the hypothesised signs, but are mostly insignificant. **Administrative inefficiency** has a negative impact on the change of per capita lending from the World Bank in all three periods. The value of the beta coefficient in the first period is only -0,036, but -0,157 and - 0,150 in the second and third period. That means the influence has increased. However, not all coefficients are significant. Only with the stepwise regression, does the variable ADMC show a significant negative effect in the third period.

The analysis of the impact of **military potential** shows the expected differences between the Cold War and Post Cold War periods. From 1983 to 1987 countries with a high share and/or high increase of military personnel were able to attract more funding from the World Bank. The beta coefficient is positive and significant on the 5% level. One possible interpretation of this result might be that the Bank's lending was strongly motivated by security strategies. Those strategies changed with the end of the bipolar system. Now, it was rational to support countries to reduce their excessive military spending out of security reasons. Hence, the coefficients for the following two periods are negative. However, the variable is no more significant.

The influence of the **core area of good governance** on World Bank lending is not very clear. Administrative efficiency and military potential show the expected relationship, but no significant influence. The provision of public goods has an unexpectedly significant impact in the first period and does not support the hypotheses for any period.

The findings for the **associated political area** of good governance show the expected signs. High **democracy** scores are related to more lending. Nevertheless, the coefficient is only significant on the 10% level for the second period. In stepwise regression, the variable has not been included. There might not be sufficient statistical evidence for an impact of the associated political area on the change of World Bank lending, but the constant results in all models indicate that democratic states might be favoured by the Bank.

Recipient needs measured by **life expectancy** have the expected significant influence on the last two periods. In the first period the coefficient is also negative but not significant. The beta coefficients for the next two periods are -0,311 (1988-1992), significant on the 10% level, and -0,562 (1993-1997), significant on the 1% level. Recipient needs might not influence the overall pattern of lending as presented in table 12, but the changes during a period show that poverty has an impact on the lending activities.

A contradictory interpretation will be obtained if the second poverty measurement, **GNP per capita**, is analysed. All standardised coefficients are positive and significant for the last two periods. However, GNP per capita is not only a widely used measurement for poverty, but

also for economic strength. Therefore, this result might be interpreted not in the way that recipient needs are unimportant, but that economic interests are also very influential. This might explain why for example in the third period, a one standard deviation unit increase in logged GNP per capita is associated with a 0,446 standard deviation unit change in the delta of per capital lending for a country.

The importance of economic interests is also tested with the variable **trade**. Here, the results are not that evident. The right signs are presented only in the first and third period. The coefficient of the second period is against the prediction negative. Trade relations seem to be important in the first period where the beta coefficient (0,295) is not only positive, but also significant on the 10% level. The significance level increases to 1% in the stepwise regression.

The results for the variable **World Bank interest** are similar to the first model in table 12. All signs are, as predicted, positive. Economic growth together with a low GNP per capita seems to favour an increase of World Bank lending. However, the coefficients are quite small and never significant. Also, none of the two stepwise regressions includes the variable. The robustness of the signs supports the hypothesis on the staff's donor interests, but the explanatory power of the variable is very small - too small to state a significant impact on the Bank's lending activities.

The remaining two donor interests variables also do not show any statistical significant results. The **length of independence** is negatively related to the change of funding in the first two periods. In the third period the sign changes. Countries with a longer history of independence are able to increase its funding between 1993 and 1997 more than newly independent states. Still, all coefficients are statistically insignificant and the results for the share of total lending (table 12) states a significant advantage for former colonies for the third period.

Mixed results are also obtained from the analysis of the impact of the membership of the **non-alignment movement**. The variable was excluded from the first period because of a lack of variation. The relatively large size of this group might also account for the insignificant results for the other two periods. The coefficient for the period from 1988 to 1992 is positive like the coefficients in the first model (table 12). This supports the thesis on the advantage of non-aligned countries. However, the sign changes and a negative coefficient is obtained for the third period. The variable even becomes significant on the 5% level with stepwise regression (see table 15 below). This might indicate that the advantage of non-alignment diminishes after the end of the Cold War.

The analysis of the influence of **US official aid** on the change of World Bank lending also delivers interesting results. The coefficient for the first period is, similar to the first model, negative and non-significant. The same, but now significant relationship (5% level) is obtained for the second period. A one standard deviation unit change of USA ODA is associated with a -0,275 standard deviation unit decrease of World Bank lending per capita. The Bank seems to follow a different allocation policy than the United States. However, the next period shows a positive and significant (10% level) coefficient. States which receive more development aid from the US are also more successful in receiving lending from the World Bank. From my point of view, these findings are not very exciting because the analysis of the share of World Bank lending already showed that there is no congruence between both donors.

A much more interesting question is whether also the second dependent variable states a congruent relationship between the credit allocation of the IMF and the World Bank. **IMF lending** shows for all three periods a positive and significant impact on the change of World Bank lending. For example, during 1988 to 1992, a one standard deviation unit change in the natural log of the share of IMF credit usage is associated with a 0,544 standard deviation unit increase of Bank lending per capita (significance level 1%). These results support the findings of the multivariate analysis of the first dependent variable. Indeed, IMF and World Bank lending show patterns of congruency. But again, this result does not tell us why congruency can be observed.

As in the multivariate analysis before, the control variable **population size** had to be excluded because of multicollinearity. Alternative multivariate models including this variable showed a robust significant negative impact on the second dependent variable. Small countries are more successful at increasing the amount of lending per capita in a period.

The results for the second control variable, the **type of funding**, are a little surprising. During the first two periods, countries funded by the IDA were able to increase the amount of credits per capita more than states funded by the IBRD. Both coefficients are negative and significant on the 5% level. The standardised coefficient in the third period is also negative, but not significant. There might be several reasons for this result which can not be unveiled by multivariate analysis. One likely reason might be that the IDA budget has grown faster than the IBRD one. To fully understand this results, a further exploration of this control variable is needed. However, such an undertaking remains for further research and can not be done by this study.

As already summarised above, the multivariate analysis of the second dependent variable, the average change of World Bank lending per capita in a period, generally supports the findings

of the first multivariate analysis presented in table 12. The variables for both areas of good governance show the expected signs (except the variable PGC), but there is not enough statistical evidence to confirm the specific hypotheses. Instead recipient needs as well as economic interests seem to be good explanations for the change of World Bank lending, whereas the findings for colonial history and belonging to the non-alignment movement are, compared to the first model, not more that obvious. As before, the statistical output let us assume that there is congruence with IMF credit lending. The control variables indicate that small countries and states, which are funded by IDA, were in average more successful in increasing their per capita funding.

The adjusted R^2 for the **stepwise regression** is lower than for the ordinary least squares regression including all independent variables. Only the model for the third period could be improved by including the variable population size instead of GNP per capita. The values for the adjusted R^2 vary between 0,498 (1983-1987) and 0,283 (1988-1992). The F-values are maximised by stepwise regression. Therefore, the fit of the whole model is highly significant.

Three variables are included in the stepwise regression for the **first period**. The variables 'provision of public goods', 'trade', and 'IMF credit usage' are highly significant and show the expected signs. The congruence with the allocation of **IMF credits** can be observed for all three periods. This is one of the most obvious results of this study. However, succeeding research is needed to analyse the degree and type of co-ordination between those two organisations. The statistically significant result for the **provision of public goods** in the first period is surprising. In the 80's, good governance was not an openly addressed concern of the World Bank. The provision of public goods is not only a measure for good governance, but also for the level of development of a country. Therefore, it might be that, during the first period, the World Bank favoured countries with a better record in development efforts. This argument is supported by the significance of trade relations. States with strong **economic potential** profit more from Bank funding.

The explained variation of the stepwise regression for the **second period** is low, the adjusted R^2 is only 0,283. As already described, the usage of **IMF credits** is strongly associated with the funding by the World Bank. Interestingly, a significant negative beta coefficient is displayed for the variable **USA ODA**. The more a state is supported by US development aid between 1988 and 1992, the less the country was able to increase its average World Bank lending per capita. This might point to the public good characteristic of World Bank lending for the United States. Finally, the significant result for **life expectancy** in the second period indicates once more¹⁰³ the increasing importance of recipient needs after the end of the Cold War.

¹⁰³ Compare for example with the findings in table twelve.

TABLE 15: RESULTS OF STEPWISE REGRESSION: DV2C (CHANGE OF TOTAL LENDING)

Period	1983-1987 ^a			1988-1992 ^b		1993-1997 ^c	
Variable	Expected Sign	Stand. Coeff.	t-value	Stand. Coeff.	t-value	Stand. Coeff.	t-value
Constant		(-12,578)	-2,320	(19,492)	4,226	(19,664)	5,955
PGC	n.s./ + / ++	0,464****	4,265				
ADMC	n.s./ - / --					-0,200*	-1,819
MILC	+ / - / -						
DEMC	n.s./(+)/(+)						
NLIE	- / - / -			-0,274**	-2,421		
LGNP	- / - / -						
WBI	+ / + / +						
LTRA	+ / + / +	0,378***	3,277				
INDEPTI	- / - / -						
NAM ^d	++ / + / +					-0,224**	-2,023
LUSA	+ / + / +			-0,289**	-2,580	0,371***	3,536
LIMF	+ / + / +	0,296**	2,679	0,501*****	4,430	0,359**	2,662
LPOP ^e	- / - / -					-0,689*****	-4,958
FIBR	(+)/(+)/(+)						
		R ² : 0,526		R ² : 0,318		R ² : 0,409	
		R ² -adj.: 0,498		R ² -adj.: 0,283		R ² -adj.: 0,364	
		F-value: 18,885		F-value: 9,035		F-value: 9,009	
		Probability: 0,000		Probability: 0,000		Probability: 0,000	
		N: 55		N: 62		N: 71	

* $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$; **** $p < 0.001$

^a Excluded influential outliers according to Cook's D: Panama and Vietnam.

^b Excluded influential outliers according to Cook's D: Guyana, Jordan, Panama and Uruguay.

^c Excluded influential outliers according to Cook's D: Armenia, Cambodia, Hungary, Jamaica, and Uruguay.

^d Variable has been excluded for period 1983-1987 because of lack of variation.

^e Variable has been included instead of variable LGNP.

The findings for the **third period** by stepwise regression present the only statistically significant evidence that a state's performance in the core area of good governance influences the lending activities of the World Bank. The higher the level and the improvement of a country's **administrative efficiency**, the more lending does it receives by the Bank. The advantage of non-alignment seems to have vanished a few years after the end of the bipolar system. The former members of the **non-alignment movement** are now less able to increase their per capita funding. Both congruence hypotheses show the expected results. The sign for **US ODA** has changed again and is now positive and significant on the 1% level. Also, a one standard deviation unit change of the share of **IMF credits** is associated with a 0,359 standard deviation change of per capita lending by the World Bank. This regression also presents

another evidence for the negative effect of **population size** on lending. Small countries receive more credits per capita than bigger states. The standardised coefficient of the variable **GNP per capita**, excluded from this regression, showed for alternative stepwise calculations a significant positive effect. In accordance with previous findings, I conclude that improved economic performance favours lending by the World Bank.

The conclusion for the analysis of the determinants of World Bank lending will be presented in the final Chapter VIII. Before, I will further explore the importance of good governance criteria for the work of the Bank. The multivariate analysis rarely delivered statistically significant evidence for its influence. Therefore, a multivariate analysis based on the underlying variables of the constructed governance indicators is conducted in the following sub-chapter.

7.5. THE IMPORTANCE OF GOOD GOVERNANCE

Relying on the results of the previous regression, there is little evidence for a significant impact of good governance on the World Bank's lending activities. This contradicts the rhetoric emphasis on good governance of the World Bank, and the theoretical arguments for the importance of good governance for sustainable development. A possible shortcoming of the presented multivariate analyses might be the use of two aggregated indices for the core area of governance. To further explore the importance of good governance criteria for the credit allocation of the Bank, additional models including the six underlying variables (see Chapter 6.3.1. and appendix G) were calculated. Models including all variables were statistically unsatisfactory because of a too small N. Instead, multivariate regressions for all governance indicators were computed.

The expected signs can be derived from the expectations for the two aggregated indicators 'Provision of public goods' and 'Administrative Efficiency' (see Chapter 7.2.). None of the governance indicators should be significant in the first period¹⁰⁴. After the end of the Cold War and the start of the discussion on the importance of good governance, the variables should have a significant and increasing impact on the Bank's work. Increasing civil liberties, higher public spending on education, an increasing number of telephone mainlines, and high percentage of population with access to safe water, as well as low taxes on international trade, and relatively low public spending for wages and salaries, indicate a good governance

¹⁰⁴ A positive sign for the variable MILC is expected, because it also measures the strategic importance of a country.

performance and should be associated with a high share of World Bank lending. If this is the case, than the coefficients in the multivariate analysis should present the following signs:

TABLE 16: EXPECTED SIGNS FOR GOVERNANCE CRITERIA

Period:		1983-1987	1988-1992	1993-1997
Variable	Abbreviation	Expected Sign	Expected Sign	Expected Sign
Civil liberties	GGCIVL	n.s.	-	--
Spending on Education	GGEDU	n.s.	+	++
Telephone lines	GGTEL	n.s.	+	++
Taxes on international trade	GTAX	n.s.	-	--
Share of Wages	GWAG	n.s.	-	--
Safe Water Access	GSAW	n.s.	+	++
Military Change	MILC	+	-	-
Democracy Change	DEMC	n.s.	n.s. (+)	n.s. (+)

(Source: own presentation)

The results for the multivariate regression for each period and both dependent variables can be found in appendix N. The adjusted R^2 of these models is very low and varies between 0,183 (DV2C1993-1997) and 0,268 (DV2C1983-1987). The fit of the whole model is also not as good as for the previous models. The probability of the F-value varies between 0,012 and 0,183. Therefore, the findings of these regressions have to be interpreted very carefully.

Analysing the impact of good governance criteria on the distribution of the **first dependent variable** (share of World Bank lending), only the coefficients for civil liberties, spending on education, and access to safe water bear the awaited signs. The beta coefficient for civil liberties $(-0,676)^{105}$ is significant on the 5% level in the third period. All other variables present mixed results and change the sign from one period to another. Only the variable for taxes on international trade shows an unexpectedly positive sign for all three periods (not significant result).

The analysis of the **second dependent variable** (change of World Bank lending) does not provide better results. No consistent signs can be found for any variable. However, some coefficients are significant and show the predicted sign, like 'civil liberties' (1983-1987, 10% level), 'telephone mainlines' (1993-1997, 10% level), 'share of wages' (1988-1992, 1% level) and 'access to safe water' (1983-1987, 1% level). Overall, no consistent pattern can be found for the multivariate regressions for the change of World Bank lending.

¹⁰⁵ Negative sign because of the quantification ("1" most free, "7" least free). See also appendix G.

Altogether, there is no robust statistical evidence for an impact of good governance on the World Bank's lending activities. Governance specialists might not be surprised by this finding. Critics of the World Bank claim that good governance was put on the agenda to divert from the failure of the structural adjustment programs. Instead of admitting its own mistake, the Bank blamed the client governments and their bad performance (see GEORGE / SABELLI, 1995:131ff.; CAUFIELD, 1996 or PAYER, 1989:79ff.). From the perspective of its critics, the statistical findings might not be astonishing. Despite the rhetoric emphasis of high rank World Bank officers and the firm theoretical foundations of the governance approach, the fulfilment of certain governance criteria is not a superior criteria for credit lending. This impression was also confirmed by the **personal interviews** conducted in Washington D.C..

One of the interview partners admitted that governance standards are not applied equally by the World Bank. Governance performance might be an important issue for the credit negotiations with countries like Haiti, Philippines or Kenya. But geo-political judgements are often more important. Governance is said to play a role for co-operation between the Bank and countries which have already reached a certain level of good governance or where there is hope of achieving better governance.

Regarding the statistical results and the personal statements, it might be concluded that indeed **good governance does not play an important role for the overall allocation of credits and loans by the World Bank**. Nevertheless, good governance is not only a rhetorical construct to justify certain decisions. Other factors, presented in this analysis under the label of 'donor interests' and 'recipient needs', are more relevant. Geo-political important countries, like Russia or China, and very poor countries like Botswana receive assistance from the World Bank without an assessment of their governance performance. Only the co-operation with certain countries is influenced by governance aspects. Further research has to identify the countries where governance criteria play a role in the negotiations with and credit decisions of the World Bank. So far, it can only be stated that good governance - in contradiction to the official statements and publications - does not influence the lending activities of the Bank in general.

The unsatisfactory results of the regressions might also be partly due to the poor quality of the used variables. **Better indicators** for governance performance have to be collected. The efforts of the World Bank Institute to construct governance indicators might be the first step in such a direction. However, to derive meaningful results, data sets for all relevant states and longer time periods have to be constructed.

CHAPTER VIII: CONCLUSION

This study consists of two parts. Chapter II and III present the rhetoric of multilateral organisations on good governance. The succeeding chapters build on this presentation and analyse empirically the impact of governance criteria on the allocation of World Bank lending. As there is a lack of studies which systematically explore the different governance concepts and test for its relevance in multilateral development assistance, this research contributes to the ongoing governance discussion by filling this gap.

In the **first part** of this study, the definitions and criteria of good governance of the World Bank, the International Monetary Fund (IMF), the United Nations Development Program (UNDP) and the Development Assistance Committee (DAC) of the OECD are outlined and discussed. The findings are based on the study of relevant publications and several expert interviews. All four organisations agree on a **core area of good governance** (FUSTER, 1997: 92) which solely addresses economic and administrative aspects of governance. This core area equals the World Bank's governance approach and consists of four governance aspects:

- Efficient public sector management
- Rule of law
- Transparency & information
- Accountability & financial management.

Besides this core set of governance criteria, an **associated area of governance** is identified as well. It embraces **political aspects** of governance, like participatory development, democratisation, and respect for human rights. The World Bank and the IMF do not address these governance aspects related to the form of the political regime, because of its non-political mandate. Nevertheless, they succeeded in enlarging the core area of governance by addressing issues like the reduction of excessive military spending and the control of corruption. Both issues were formerly seen as related to the associated political area of governance.

The **second part** of this study explores the importance of good governance as a lending criterion of the World Bank. Covering three five-years-periods from 1983 to 1997 and two dependent variables¹⁰⁶, it analyses several possible determinants for the allocation of World Bank lending. The aim of this research is to find out whether developing countries whose performance was in accordance with the World Bank's governance concept were rewarded

¹⁰⁶ The share and change of World Bank lending (DV1S and DV2C).

with more lending. However, the empirical results show a different picture than the official statements of donors.

At best, good governance plays a **subordinated role** for the allocation of World Bank lending. Poor governance often had no negative effect on the nature and extent of Bank support for the country. Probably, the issue of good governance is only relevant for the co-operation with a minority of countries - that is geo-political and economical unimportant countries which have already shown some progress in governance performance, or which offer perspectives for governance improvement.

In general, no statistical evidence was found for an impact of good governance. Only shortly after the end of the Cold War were countries which reduced their excessive **military personnel** rewarded by the Bank. The variable 'Democracy / Democratisation' - measuring the associated political area of governance - displays the expected signs and some statistically significant results for the time after the end of the bipolar system. This might indicate that although denied by the World Bank, the **political dimension of governance** influences the Bank's decision making on the allocation of credits.

This study did not only test hypotheses on the influence of good governance criteria. Three alternative explanations, recipient needs, donor interests and congruence to other donors, were also evaluated:

Some evidence for the relevance of **recipient needs** was found in the analysis of the second dependent variable, the change of World Bank per capita lending during a period. Low life expectancy and an increase of lending often go together. However, the second indicator of recipient needs, Gross National Product per capita, contradicts this finding. High GNP per capita has a positive effect on World Bank lending. According to the recipient need hypothesis, the opposite effect should have been observed.

However, this finding points to the importance of donor and especially **economic interests**. Not only high income per capita, but also trade favours lending from the World Bank Group. There is high statistical support for hypothesis six which describes a relationship between strong economic potential and borrowing from the World Bank. Statistical support was also found for other factors which are derived from the **donor interests model**. The length of dependence from colonial powers and the membership of the non-alignment movement have a positive impact on Bank lending. The coefficients for the World Bank interest hypothesis constantly show the expected signs, but are never significant in the multivariate analysis. Therefore, there is only weak support for the claim that poor countries with high economic growth benefit over-average from World Bank credits and loans.

The analysis of the two **congruence hypotheses** shows that there is no significant congruence between the allocation of US official development assistance and World Bank credits. Also, there is only weak support for the opposite relationship: the existence of substitution effects. Instead, there is a quite good correspondence between the share of IMF credit usage and the allocation of World Bank loans. If this result is due to the close co-operation of both organisations or due to other factors, can not be unveiled by this study. The exploration of the relationship of the allocation patterns is kept for future research.

As previous research has shown, population size of recipient countries has a negative effect on lending. Small countries seem to have an advantage in acquiring funding through the World Bank. The results for the second **control variable** were mixed. As claimed by the World Bank, there seems to be in general no difference between the funding through the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). However, the analysis of the second dependent variable gave some hints that developing countries, handled by the IDA, increased slightly more its lending volume.

The **answer to the leading question** about the importance of good governance as a lending criterion of World Bank lending is a 'NO' with a question mark in brackets. Good governance aspects do not influence the World Bank's decision-making about credit allocation in general. However, for some countries, governance performance might be an issue on the agenda of World Bank credit negotiations. I also gained this impression from several personal interviews.

The appearance of the governance discussion is closely linked with the **end of the bipolar system**. Therefore, it was assumed that the importance of several factors differs for the pre- and post-cold war phase. The most obvious change in the World Bank lending policy can be observed in the strong support for demilitarising countries in the late 80s and early 90s. The standardised coefficients of several variables also in- or decrease over time. For example, the negative impact of life expectancy and the positive impact of income per capita increases steadily (see table 14). Both stepwise regressions also display a growing influence of recipient needs and economic interests, whereas trade relations seem to be slightly more important during the cold war phase. After the breakdown of the Berlin Wall, colonial ties also became more important for the credit allocation of the World Bank. On the other hand, variables like World Bank interest and IMF credit usage show no variation between those two phases.

As mentioned several times before, the findings of this study have to be interpreted very carefully. Although the assumptions for the multivariate analysis have been tested, different **shortcomings** might have diminished the quality of the results. First and foremost, the quality

of the data measuring good governance is very poor. At this point, future research should begin by collecting relevant data and constructing governance indices. At a later point, when more and better data is available, time series methods might be applied to add further insights to the question about the factors of World Bank lending. Continuing research should also discuss alternative specifications of the model. the inclusion of further economic variables to the equation or the modelling of non-linear relationships should, for example, be considered.

Despite these points of criticism on the present study, this assessment of the concept of good governance and its influence on the World Bank's lending activities **contributed** to the enhancement of the governance discussion in several ways: a) different definitions and criteria of four multilateral organisation were systematically presented, discussed and categorised. Then, b) a quantification for the core and associated area of governance was proposed. Finally, c) the constructed governance indicators were used to evaluate - as a kind of case study - their influence on the World Bank's lending activities.

These three contributions offer opportunities for **future research**. Firstly, the governance concepts of other donors should be explored. Besides other multilateral donors, especially bilateral donors and non-state actors might use different approaches. An evaluation of these approaches might initiate a more enhanced governance model. Secondly, more reliable and valid governance indicators have to be developed. Finally, this study only focuses on the World Bank. Future research might analyse whether other donors like non-governmental organisations take good governance criteria more seriously.

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APPENDICES

APPENDIX A: LIST OF INTERVIEW PARTNERS

The following experts on governance issues of their international organisation have been interviewed:

No.: 1	Date: Monday, May 1, 2000	10 a.m.
Organization:	International Monetary Fund	
Name:	Mr. Anton Op de Beke	
Position:	Senior Economist, Policy Development and Review Department (PDR)	
No.: 2	Date: Monday, May 1, 2000	11.30 a.m.
Organization:	International Monetary Fund	
Name:	Mr. Frank Engels	
Position:	Economist, Policy Development and Review Department (PDR)	
No.: 3	Date: Monday, May 1, 2000	2.15 p.m.
Organization:	World Bank	
Name:	Mr. Jack Titsworth	
Position:	Advisor, Poverty Reduction and Economic Management Network	
No.: 4	Date: Tuesday, May 2, 2000	10.00 a.m.
Organization:	United Nations Development Program	
Name:	Ms. Samina Kamal	
Position:	Advisor, Management Development and Governance Division	
No.: 5	Date: Thursday, May 4, 2000	11.00 a.m.
Organization:	United Nations Development Program	
Name:	Mr. Jamal Benomar	
Position:	Senior Advisor, Governance and Conflict Prevention, Emergency Response Division	

APPENDIX B: QUESTIONNAIRE

The following questionnaire was used as a type of road map to conduct the interviews with the governance experts. The particular answers are not published and remain with the author of this study.

Introductory Remarks:

Thank you very much for the opportunity to talk to you. My name is Jan Engels and I am writing my Master-Thesis on Good Governance. I am interested in the different definitions and indicators of good governance of multilateral organizations as UNDP, IMF, World Bank and the OECD.

1. Does your organization have a common internal definition of Governance?
2. Does your organization have a common internal definition of Good Governance?
3. Which dimensions/aspects of Good Governance has your organization identified?
4. Which criteria have to be fulfilled before your organization can speak of good governance?
5. How does your organization operationalise these criteria?
6. Is Good Governance a prerequisite/condition for co-operation for your organization?
7. Does your organization evaluate the status of good governance for its partner countries?
8. How do you co-operate with "badly governed" countries?
9. How does your definitions differ from other international organizations (UNDP, IMF, World Bank, OECD)?

APPENDIX C: DEFINITION OF VARIABLES

<i>Variable</i>	<i>Abbreviation</i>	<i>Definition</i> ¹⁰⁷
Share of World Bank lending	DV1P(period) ¹⁰⁸	Share of total World Bank lending (IBRD + IDA) per one million inhabitants of a country
Change in World Bank lending	DV2C(period)	Change of World Bank lending (IBRD + IDA) per capita in period t.
<i>Good Governance (Change):</i>		
Public Goods Change	PGC(period)	Transformed factor values received from factor analysis (see Appendix G and H) multiplied by the transformed difference of period t minus period t-1 ¹⁰⁹ .
Administration Change	ADMC(period)	Transformed factor values received from factor analysis (see Appendix G and H) multiplied by the transformed difference of period t minus period t-1 ¹¹⁰ .
Military Change	MILC(period)	Military personnel (% of total labor force) multiplied by its average change during period t. Military personnel refers to active-duty military personnel, including paramilitary forces if those forces resemble regular units in their organization, equipment, training, or mission. Labor force comprises all people who meet the International Labour Organisation's definition of the economically active population.
Democracy Change	DEMC(period)	Transformed democracy scores (see Appendix F) multiplied by transformed average change of democracy scores in period t ¹¹¹ .
<i>Recipient Need:</i>		
GNP per capita	LGNP(period)	Natural log of GNP per capita. GNP per capita is gross national product divided by midyear population. The gross national product was converted to international dollars using purchasing power parity rates. An international dollar has the same purchasing power over GNP as the U.S. dollar in the United States. Data are in current international dollars.
Life Expectancy	NLIE(period)	Life expectancy at birth, total (years), indicates the number of years a newborn infant would live if prevailing patterns of mortality at the time of its birth were to stay the same throughout its life.

¹⁰⁷ Appendix E states all the countries for which the variables were collected.

¹⁰⁸ (period) means that the variable was computed for each of the three periods (1983-87; 1988-92, 1993-97).

¹⁰⁹ The particular transformed value is equal to the value divided by 2,5 (higher value than the positive value of the minimum value) plus one. The rationale for this calculation is to transform negative scores / changes to values between 0 and 1. "0" is transformed to "1". Positive values are transformed to values bigger than 1.

¹¹⁰ The same procedure as for the transformation described in the footnote above was conducted.

¹¹¹ The original democracy scores (ds) were divided by 11 plus one. The change values (cv) were divided by 4 plus one. Transformed values = (ds/11+1) * (cv/4+1).

<i>Variable</i>	<i>Abbreviation</i>	<i>Definition</i> ¹⁰⁷
<i>Donor Interest:</i>		
World Bank Interest	WBI(period)	GNP growth * (1/GNP per capita + 1). GNP growth (annual %) at market prices based on constant 1995 U.S. dollars. GNP is the sum of gross value added by all resident producers plus any taxes (less subsidies) that are not included in the valuation of output plus net receipts of primary income (employee compensation and property income) from nonresident sources.
Trade (%GNP)	LTRA(period)	Trade (% of GDP) is the sum of exports and imports of goods and services measured as a share of gross domestic product. Natural log was taken.
GNP per capita	LGNP(period)	Natural log of gross national product per capita. See above at recipient need.
Length of Independence	INDEPTI	Number of years of colonial independence of a country since 1800.
Non-Alignment Country	NAM(period)	Dummy Variable for membership of the Non-Alignment Movement as stated in Kim /Russett, 1996:639 and 643. Two periods: 1983-1985 and 1991-1993. "1" coded for members of the Non-Alignment Movement, "0" coded for all the other countries.
<i>Congruence:</i>		
ODA from USA	LUSA(period)	Official Development Assistance of the USA to a country in million US Dollar as natural log.
IMF credits	LIMF(period)	Natural log of share of total usage of IMF credit for period t. Use of IMF credit denotes repurchase obligations to the IMF for all uses of IMF resources (excluding those resulting from drawings on the reserve tranche). These obligations, shown for the end of the year specified, comprise purchases outstanding under the credit tranches, including enlarged access resources, and all special facilities (the buffer stock, compensatory financing, extended fund, and oil facilities), trust fund loans, and operations under the structural adjustment and enhanced structural adjustment facilities. Data are in current U.S. dollars.
<i>Control Variables:</i>		
Recipient Population	LPOP(period)	Size of Population of a country in millions. Natural logarithm was taken.
IBRD Funding (Dummy)	FIBR(period)	Dummy Variable for funding by the IBRD. Countries with an average annual per capita income of \$5445 (and therefore eligible for IBRD funding) are coded as "1". Countries coded with "0" had an average annual per capita income of \$895 or less and were therefore eligible for IDA funding.

APPENDIX D: HYPOTHESISED RELATIONSHIP AND SOURCE

<i>Model</i>	<i>Variable</i>	<i>Hypothesised Relationship</i>	<i>Source</i>
<i>Dependent Variables</i>	• Share of World Bank lending per capita (mill)		World Bank, WDI
	• Change in World Bank lending per capita		World Bank, WDI
<i>Independent Variables:</i>			
<i>Good Governance (Improvement)</i>	• Public Goods Change	n.s. / + / ++	Factor Analysis
	• Administration Change	n.s. / - / --	Factor Analysis
	• Military Change	+ / - / -	World Bank, WDI
	• Democracy Change	n.s. / n.s.(+) / n.s.(+)	Polity98
<i>Recipient Needs</i>	• GNP per capita	- / - / -	World Bank, WDI
	• Life Expectancy	- / - / -	World Bank, WDI
<i>Donor Interests</i>	• World Bank interest	+ / + / +	World Bank, WDI
	• Trade (%GNP)	+ / + / +	World Bank, WDI
	• GNP per capita	+ / + / +	World Bank, WDI
	• Length of Independence	- / - / -	Fischer, 2000
	• Non-Alignment Country	++ / + / +	Kim et al., 1996
<i>Congruence</i>	• ODA from USA	+ / + / +	OECD, 2000
	• IMF credits	+ / + / +	World Bank, WDI
<i>Control Variables</i>	• Recipient Population	- / - / -	World Bank, WDI
	• IBRD Funding (Dummy)	+ / + / +	World Bank, WDI

APPENDIX E: ELIGIBLE COUNTRIES FOR WORLD BANK FUNDING

This table presents all countries which were eligible for IBRD loans or IDA credits in the following time periods:

<i>Time Period:</i>	<i>Eligible Countries:</i>			
1983-1997: 121 eligible countries:	Albania	Dominican Rep.	Maldives	Slovak Republic
	Algeria	Ecuador	Mali	Slovenia
	Angola	Egypt, Arab Rep.	Malta	Solomon Islands
	Argentina	El Salvador	Mauritania	Somalia
	Bangladesh	Equatorial Guinea	Mauritius	South Africa
	Barbados	Ethiopia	Mexico	Sri Lanka
	Belize	Fiji	Mongolia	St. Kitts and Nevis*
	Benin	Gabon	Morocco	St. Lucia
	Bhutan	Gambia, The	Mozambique	St. Vincent and the Grenadines*
	Bolivia	Ghana	Myanmar	Sudan
	Botswana	Grenada*	Nepal	Swaziland
	Brazil	Guatemala	Nicaragua	Syrian Arab Republic
	Bulgaria	Guinea	Niger	Tanzania
	Burkina Faso	Guinea-Bissau	Nigeria	Thailand
	Burundi	Guyana	Oman	Togo
	Cambodia	Haiti	Pakistan	Tonga*
	Cameroon	Honduras	Panama	Trinidad and Tobago
	Cape Verde	Hungary	Papua New Guinea	Tunisia
	Central African Rep	India	Paraguay	Turkey
	Chad	Indonesia	Peru	Uganda
	Chile	Iran, Islamic Rep.	Philippines	Uruguay
	China	Jamaica	Poland	Vanuatu
	Colombia	Kenya	Romania	Venezuela
	Comoros	Korea, Rep.	Russian Federation	Vietnam
	Congo, Dem. Rep.	Lao PDR	Rwanda	Yemen, Rep.
	Congo, Rep.	Lebanon	Samoa	Yugoslavia, FR
	Costa Rica	Lesotho	Sao Tome and Principe*	Zambia
	Cote d'Ivoire	Liberia	Senegal	Zimbabwe
	Czech Republic	Madagascar	Seychelles*	
	Djibouti	Malawi	Sierra Leone	
	Dominica*	Malaysia		
1988-1997: 12 additional countries	Armenia	Georgia	Latvia	Tajikistan
	Belarus	Kazakhstan	Lithuania	Ukraine
	Estonia	Kyrgyz Republic	Moldova	Uzbekistan
1992-1997: 5 additional countries	Azerbaijan	Eritrea	Macedonia, FYR	Turkmenistan
	Croatia			

* These countries have been excluded for the analysis, because of a population of under 150,000 inhabitants.

APPENDIX F: RANK LIST OF RECEIVING COUNTRIES

1983-1987					
<i>Top Ten Receiver</i>		<i>Last Ten Receiver</i>		<i>No funding</i>	
<i>Country</i>	<i>Loans per capita</i>	<i>Country</i>	<i>Loans per capita</i>	<i>Country</i>	
Yugoslavia, FR	233,53	Cape Verde	9,86	Albania	Russian
Jamaica	214,43	Lao PDR	8,89	Angola	Federation
Panama	163,69	Chad	8,82	Bulgaria	Slovak Republic
Mauritius	135,91	Sao Tome and Principe	7,79	Cambodia	Slovenia
Botswana	129,35	Iran, Islamic Rep.	7,42	Czech	South Africa
Guyana	127,41	Bhutan	4,19	Republic	St. Kitts and
Costa Rica	123,64	Vanuatu	3,40	Malta	Nevis
Barbados	123,10	Venezuela	2,31	Mongolia	St. Lucia
Cote d'Ivoire	113,65	Mozambique	1,81	Poland	Tonga
Honduras	112,41	China	1,09		Vietnam
1988-1992					
<i>Top Ten Receiver</i>		<i>Last Ten Receiver</i>		<i>No funding</i>	
<i>Country</i>	<i>Loans per capita</i>	<i>Country</i>	<i>Loans per capita</i>	<i>Country</i>	
Jamaica	270,70	Poland	6,37	Armenia	Malta
Yugoslavia, FR	222,94	China	5,18	Belarus	Moldova
Sao Tome and Principe	197,75	Bulgaria	4,86	Cambodia	Russian
Guyana	191,46	St. Kitts and Nevis	3,81	Georgia	Federation
Mauritius	179,96	Mongolia	2,48	Kazakhstan	Slovenia
Panama	176,00	Iran, Islamic Rep.	2,25	Kyrgyz	South Africa
Jordan	170,70	Vietnam	0,88	Republic	Tajikistan
Tunisia	167,45	Estonia	0,70	Latvia	Ukraine
Cote d'Ivoire	159,62	Albania	0,12	Lithuania	Uzbekistan
Hungary	148,86	Angola	0,12		
1993-1997					
<i>Top Ten Receiver</i>		<i>Last Ten Receiver</i>		<i>No funding</i>	
<i>Country</i>	<i>Loans per capita</i>	<i>Country</i>	<i>Loans per capita</i>	<i>Country</i>	
Sao Tome and Principe	387,63	Belarus	8,93	South Africa	
Guyana	274,58	Angola	7,23	Malta	
Samoa	250,76	Cambodia	6,89		
Jamaica	218,04	Eritrea	6,86		
Hungary	189,53	Azerbaijan	5,60		
Guinea-Bissau	188,33	Iran, Islamic Rep.	5,34		
Tunisia	186,01	Uzbekistan	4,11		
Jordan	183,39	Vietnam	3,92		
Cote d'Ivoire	162,72	Tajikistan	2,76		
Dominica	161,92	Turkmenistan	0,46		

Source: World Bank, WDI

APPENDIX G: CONSTRUCTION OF DEMOCRACY SCORE

The used Democracy Score was constructed by subtracting for each country the Autocracy Scores from the Democracy Scores from the Polity 98 data set. The following table presents the construction of the Democracy & Autocracy Indicators in Polity 98.

<i>Authority Coding</i>	<i>Democracy Score</i>	<i>Autocracy Score</i>
Competitiveness of Political Participation		
(a) Competitive	3	0
(b) Transitional	2	0
(c) Factional	1	0
(d) Restricted	0	1
(e) Suppressed	0	2
Regulation of Political Participation		
(a) Factional/Restricted	0	1
(b) Restricted	0	2
Competitiveness of Executive Recruitment		
(a) Election	2	0
(b) Transitional	1	0
(c) Selection	0	2
Openness of Executive Recruitment		
(a) Election	1	0
(b) Dual: Hereditary/Election	1	0
(c) Dual: Hereditary/Designation	0	1
(d) Close	0	1
Constraints on Chief Executive		
(a) Executive Parity or Subordination	4	0
(b) Intermediate Category 1	3	0
(c) Substantial Limitations	2	0
(d) Intermediate Category 2	1	1
(e) Slight to Moderate Limitations	0	2
(f) Intermediate Category 3	0	3
(g) Unlimited Power of Executive	0	4

Source: Jagers and Gurr, 1995:472, presentation by Zanger, 1999

APPENDIX H: GOOD GOVERNANCE VARIABLES

<i>Variable</i>	<i>Abbreviation</i>	<i>Definition</i> ¹¹²	<i>Source</i>
Civil liberties	GGCivl	Civil liberties include the freedoms to develop views, institutions, and personal autonomy apart from the state ¹¹³ . Countries are rated on a seven-category scale. "1" represents the most free and "7" the least free.	Freedom House
<i>Public Good:</i> Education Expenses	GGEdu	Public spending on education, total (% of GNP). Public expenditure on education (total) is the percentage of GNP accounted for by public spending on public education plus subsidies to private education at the primary, secondary, and tertiary levels.	World Bank, WDI
<i>Public Good:</i> Telephone mainlines	GGTel	Telephone mainlines (per 1,000 people) telephone lines connecting a customer's equipment to the public switched telephone network. Data are presented per 1,000 people for the entire country.	World Bank, WDI
<i>Public Good:</i> Safe Water Access	GGSw	Safe water (% of population with access). Access to safe water is the share of the population with reasonable access to an adequate amount of safe water (including treated surface water and untreated but uncontaminated water, such as from springs, sanitary wells, and protected boreholes). In urban areas the source may be a public fountain or standpost located not more than 200 meters away. In rural areas the definition implies that members of the household do not have to spend a disproportionate part of the day fetching water. An adequate amount of water is that needed to satisfy metabolic, hygienic, and domestic requirements, usually about 20 liters of safe water a person per day. The definition of safe water has changed over time.	World Bank, WDI
Taxes on trade	GGTax	Taxes on international trade (% of current revenue) include import duties, export duties, profits of export or import monopolies, exchange profits, and exchange taxes. Current revenue includes all revenue from taxes and nonrepayable receipts (other than grants) from the sale of land, intangible assets, government stocks, or fixed capital assets, or from capital transfers from nongovernmental sources. It also includes fines, fees, recoveries, inheritance taxes, and nonrecurrent levies on capital. Data are shown for central government only.	World Bank, WDI
Share of Wages	GGWag	Wages and salaries (% of total expenditure) consist of all payments in cash, but not in kind, to employees in return for services rendered, before deduction of withholding taxes and employees' contributions to social security and pension funds. Data are shown for central government only.	World Bank, WDI

¹¹² Appendix E states all the countries for which the variables were collected.

¹¹³ Find the Civil Liberties Checklist used by Freedom House at <http://www.freedomhouse.org/survey99/method>

APPENDIX I: FACTOR ANALYSIS

The following tables present first the correlation matrix of the underlying variables for all three time periods. The structure matrix shows the interrelationship between the variables and the two extracted factors.

Correlation Matrix (Period 1983-1987):

	<i>GGCivl8387</i>	<i>GGTel8387</i>	<i>GGsaw8387</i>	<i>GGedu8387</i>	<i>GGTax8387</i>	<i>GGWag8387</i>
<i>GGCivl8387</i>	1,000	-0,236	-0,316	-0,071	-0,129	-0,132
<i>GGTel8387</i>	-0,236	1,000	0,535	0,145	-0,163	0,003
<i>GGsaw8387</i>	-0,316	0,535	1,000	0,375	-0,146	0,040
<i>GGedu8387</i>	-0,071	0,145	0,375	1,000	0,042	0,102
<i>GGTax8387</i>	-0,129	-0,163	-0,146	0,042	1,000	0,300
<i>GGWag8387</i>	-0,132	0,003	0,040	0,102	0,300	1,000

Correlation Matrix (Period 1988-1992):

	<i>GGCivl8892</i>	<i>GGTel8892</i>	<i>GGsaw8892</i>	<i>GGedu8892</i>	<i>GGTax8892</i>	<i>GGWag8892</i>
<i>GGCivl8892</i>	1,000	-0,464	-0,385	-0,097	-0,051	-0,014
<i>GGTel8892</i>	-0,464	1,000	0,372	0,224	-0,215	-0,152
<i>GGsaw8892</i>	-0,385	0,372	1,000	0,298	-0,052	-0,082
<i>GGedu8892</i>	-0,097	0,224	0,298	1,000	0,009	-0,018
<i>GGTax8892</i>	-0,051	-0,215	-0,052	0,009	1,000	0,199
<i>GGWag8892</i>	-0,014	-0,152	-0,082	-0,018	0,199	1,000

Correlation Matrix (Period 1983-1987):

	<i>GGCivl9397</i>	<i>GGTel9397</i>	<i>GGsaw9397</i>	<i>GGedu9397</i>	<i>GGTax9397</i>	<i>GGWag9397</i>
<i>GGCivl9397</i>	1,000	-0,526	-0,391	-0,172	0,047	0,017
<i>GGTel9397</i>	-0,526	1,000	0,490	0,223	-0,225	-0,135
<i>GGsaw9397</i>	-0,391	0,490	1,000	0,250	-0,062	0,070
<i>GGedu9397</i>	-0,172	0,223	0,250	1,000	0,003	0,028
<i>GGTax9397</i>	0,047	-0,225	-0,062	0,003	1,000	0,236
<i>GGWag9397</i>	0,017	-0,135	0,070	0,028	0,236	1,000

Structure matrix 1983-1987:

<i>Good governance Indicator</i>	<i>Abbreviation</i>	<i>Factor loading</i>	
Factor		1	2
GoGo Civil Liberties 1983-1987	GGCivl8387	-0,347	-0,211
GoGo Telephon Mainlines per 1000 1983-1987	GGTel8387	0,524	-0,111
GoGo Safe Water Access (%) 1983-1987	GGsaw8387	0,981	-3,38E-02
GoGo Education Expenses (%) 1983-1987	GGedu8387	0,391	0,116
GoGo Taxes on Trade 1983-1987	GGTax8387	-4,54E-02	0,776
GoGo Wages %State Expenses 1983-1987	GGWag8387	9,41E-02	0,402

Extraction-method: Maximum-Likelihood.

Rotation-method: Oblimin with Kaiser-Normalisation.

Structure matrix 1988-1992:

<i>Good governance Indicator</i>	<i>Abbreviation</i>	<i>Factor loading</i>	
Factor		1	2
GoGo Civil Liberties 1988-1992	GGCivl8892	-0,68	-3,80E-02
GoGo Telephon Mainlines per 1000 1988-1992	GGTel8892	0,723	-0,388
GoGo Safe Water Access (%) 1988-1992	GGsaw8892	0,557	-0,105
GoGo Education Expenses (%) 1988-1992	GGedu8892	0,287	-6,42E-02
GoGo Taxes on Trade 1988-1992	GGTax8892	-7,41E-02	,607
GoGo Wages %State Expenses 1988-1992	GGWag8892	-8,76E-02	0,343

Extraction-method: Maximum-Likelihood.

Rotation-method: Oblimin with Kaiser-Normalisation.

Structure matrix 1993-1997:

<i>Good governance Indicator</i>	<i>Abbreviation</i>	<i>Factor loading</i>	
Factor		1	2
GoGo Civil Liberties 1993-1997	GGCivl9397	-0,626	9,81E-02
GoGo Telephon Mainlines per 1000 1993-1997	GGTel9397	0,804	-0,383
GoGo Safe Water Access (%) 1993-1997	GGsaw9397	0,641	1,91E-02
GoGo Education Expenses (%) 1993-1997	GGedu9397	0,316	5,07E-02
GoGo Taxes on Trade 1993-1997	GGTax9397	-9,78E-02	0,455
GoGo Wages %State Expenses 1993-1997	GGWag9397	3,66E-02	0,516

Extraction-method: Maximum-Likelihood.

Rotation-method: Oblimin with Kaiser-Normalisation.

APPENDIX J: DESCRIPTIVE STATISTICS**Period 1983-1987:**

	<i>N</i>	<i>Minimum</i>	<i>Maximum</i>	<i>Mean</i>	<i>Standard Deviation</i>
PGC8387	131	0,149	1,818	0,973	0,381
ADMC8387	131	0,174	2,039	0,982	0,329
MILC8387	96	-5,298	8,043	-0,016	1,147
DEMC8387	106	0,077	2,473	0,757	0,634
NLIE8387	130	37,000	75,000	60,643	9,846
LGNP8387	110	-0,240	10,215	5,665	2,031
WBI8387	100	-5,063	26,752	3,123	3,825
LTRA8387	107	2,560	5,058	3,984	0,588
INDEPTI	129	19,000	200,000	113,357	78,389
NAM8385	130	0,000	1,000	0,715	0,453
LUSA8387	84	-3,741	3,312	-0,999	1,604
LIMF8387	85	-9,443	-2,137	-5,799	1,860
LPOP8387	131	-2,043	6,959	1,788	1,714
FIBR8387	110	0,000	1,000	0,273	0,447
DV1P8387	114	0,000	0,003	0,001	0,001
DV2C8387	114	-1,472	37,060	8,138	8,158

Period 1988-1992:

	<i>N</i>	<i>Minimum</i>	<i>Maximum</i>	<i>Mean</i>	<i>Standard Deviation</i>
PGC8892	131	0,108	3,052	1,001	0,540
ADMC8892	131	0,014	2,275	1,012	0,400
MILC8892	96	-44,983	1,505	-0,625	4,633
DEMC8892	121	0,077	3,102	1,200	0,734
NLIE8892	131	34,500	75,500	61,285	10,275
LGNP8892	122	0,257	10,497	5,798	1,988
WBI8892	117	-39,106	15,173	1,711	6,515
LTRA8892	125	1,776	5,195	4,131	0,582
INDEPTI	129	19,000	200,000	113,357	78,389
NAM9193	130	0,000	1,000	0,677	0,469
LUSA8892	102	-5,183	3,374	-1,343	1,568
LIMF8892	97	-11,400	-1,812	-6,089	2,096

	<i>N</i>	<i>Minimum</i>	<i>Maximum</i>	<i>Mean</i>	<i>Standard Deviation</i>
LPOP8892	131	-1,914	7,034	1,894	1,712
FIBR8892	122	0,000	1,000	0,279	0,450
DV1P8892	124	0,000	0,002	0,000	0,000
DV2C8892	114	-23,031	27,157	2,329	7,289

Period 1993-1997:

	<i>N</i>	<i>Minimum</i>	<i>Maximum</i>	<i>Mean</i>	<i>Standard Deviation</i>
PGC9397	131	0,270	2,727	0,974	0,394
ADMC9397	131	0,146	2,555	1,008	0,408
MILC9397	117	-13,134	2,505	-0,143	1,329
DEMC9397	122	0,125	2,873	1,202	0,667
NLIE9397	131	37,000	77,000	62,240	10,418
LGNP9397	122	0,466	10,522	5,784	1,985
WBI9397	121	-14,052	15,488	2,863	4,667
LTRA9397	123	1,133	5,271	4,244	0,577
INDEPTI	129	19,000	200,000	113,357	78,389
NAM9193	130	0,000	1,000	0,677	0,469
LUSA9397	106	-4,656	2,816	-1,187	1,466
LIMF9397	103	-10,276	-1,773	-5,891	1,554
LPOP9397	131	-1,858	7,093	1,988	1,709
FIBR9397	122	0,000	1,000	0,270	0,446
DV1P9397	131	0,000	0,002	0,000	0,000
DV2C9397	130	-19,249	18,952	1,675	6,434

APPENDIX K: CORRELATION MATRIX OF THE INDEPENDENT VARIABLES

Period 1983-1987:

N = 57

	PGC8387	ADMC8387	MILC8387	DEMC8387	NLIE8387	LGNP8387	WBI8387
PGC8387	1,000						
ADMC8387	0,036	1,000					
MILC8387	0,272	0,137	1,000				
DEMC8387	0,301	0,034	-0,137	1,000			
NLIE8387	0,675	-0,170	0,135	0,493	1,000		
LGNP8387	0,385	0,239	0,099	0,047	0,213	1,000	
WBI8387	0,015	0,124	0,066	0,122	0,171	-0,292	1,000
LTRA8387	0,346	0,183	0,116	-0,115	0,189	0,791	-0,081
INDEPTI	0,187	-0,143	0,244	0,451	0,444	0,022	0,104
NAM8385	-0,171	0,091	-0,060	0,114	-0,254	0,001	-0,034
LUSA8387	0,116	-0,156	0,015	0,452	0,251	-0,358	0,174
LIMF8387	0,179	-0,224	-0,081	0,382	0,378	-0,446	0,213
LPOP8387	-0,165	-0,340	-0,051	0,106	0,083	-0,925	0,369
FIBR8387	0,505	0,397	0,245	-0,010	0,280	0,692	-0,023

	LTRA8387	INDEPTI	NAM8385	LUSA8387	LIMF8387	LPOP8387	FIBR8387
LTRA8387	1,000						
INDEPTI	-0,156	1,000					
NAM8385	-0,026	-0,110	1,000				
LUSA8387	-0,246	0,390	0,208	1,000			
LIMF8387	-0,326	0,165	0,002	0,533	1,000		
LPOP8387	-0,742	0,142	-0,041	0,467	0,624	1,000	
FIBR8387	0,635	-0,001	-0,163	-0,300	-0,289	-0,614	1,000

Period 1988-1992:

N= 65

	PGC8892	ADMC8892	MILC8892	DEMC8892	NLIE8892	LGNP8892	WBI8892
PGC8892	1,000						
ADMC8892	-0,174	1,000					
MILC8892	0,114	-0,010	1,000				
DEMC8892	0,587	-0,137	0,063	1,000			
NLIE8892	0,361	-0,170	-0,131	0,558	1,000		
LGNP8892	0,219	-0,051	-0,107	0,196	0,300	1,000	
WBI8892	0,233	0,116	0,060	-0,060	-0,092	-0,208	1,000
LTRA8892	0,036	0,029	-0,233	0,093	0,325	0,696	-0,045
INDEPTI	0,254	-0,221	-0,190	0,569	0,536	0,125	-0,214
NAM9193	0,077	0,260	-0,062	-0,306	-0,244	-0,126	0,505
LUSA8892	0,032	-0,004	-0,078	0,150	0,142	-0,360	-0,059
LIMF8892	0,251	-0,221	0,020	0,178	0,244	-0,381	0,125
LPOP8892	-0,036	-0,070	0,088	0,006	0,066	-0,895	0,216
FIBR8892	0,269	0,034	0,061	0,157	0,281	0,683	0,097

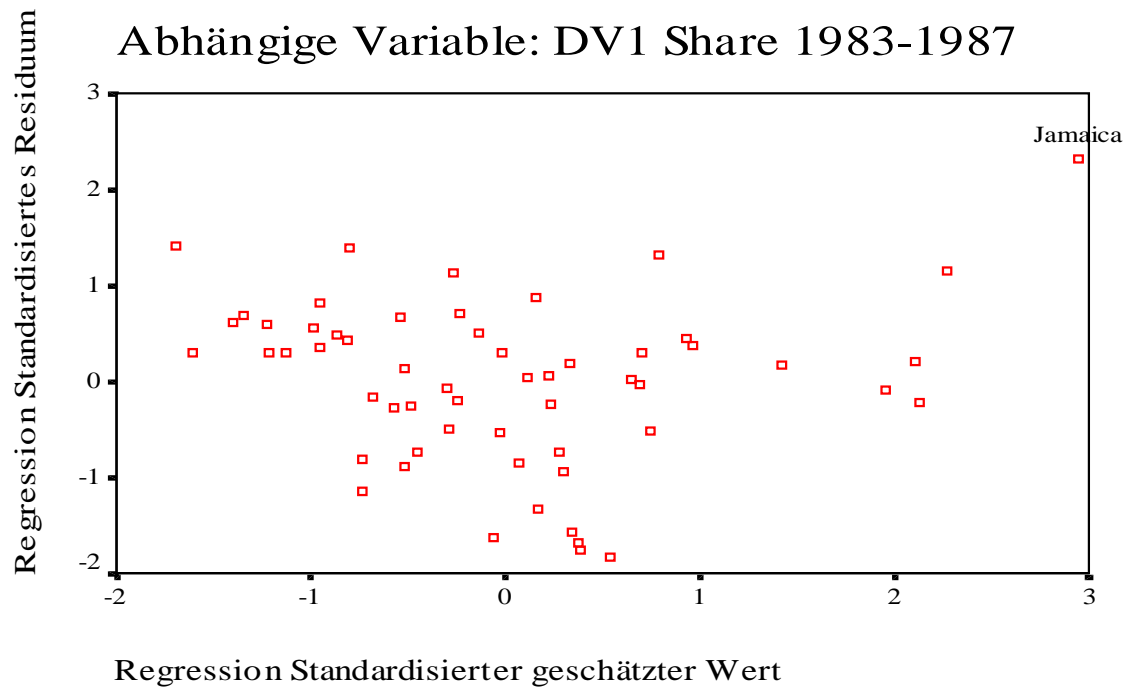
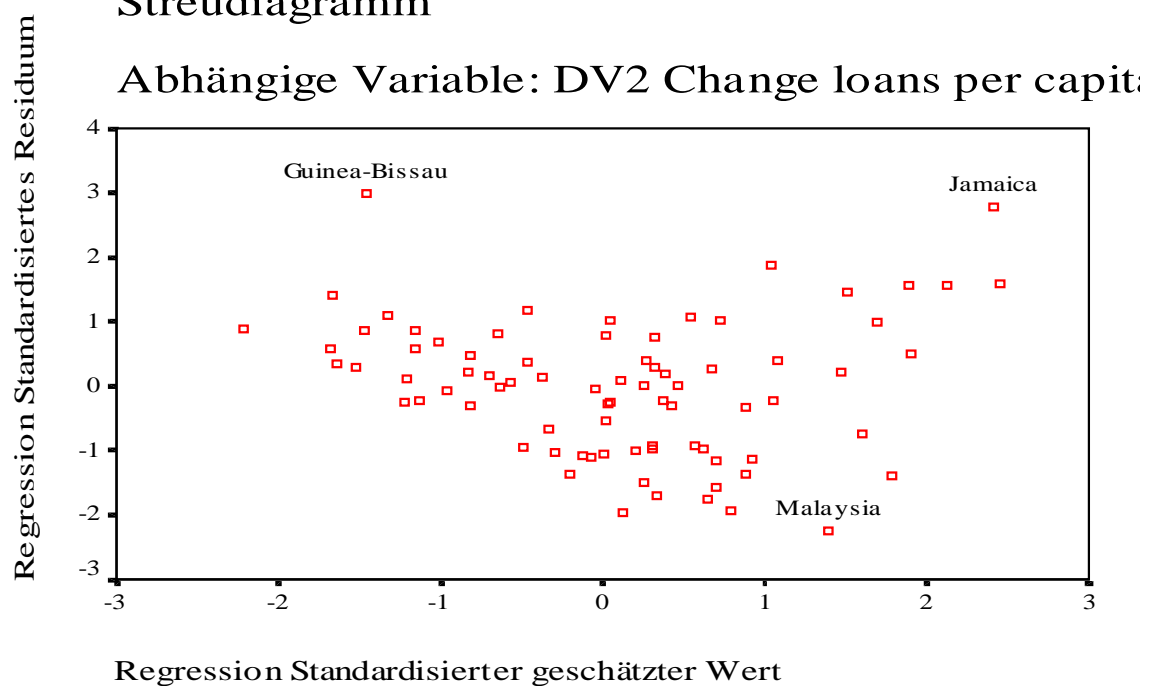
	LTRA8892	INDEPTI	NAM9193	LUSA8892	LIMF8892	LPOP8892	FIBR8892
LTRA8892	1,000						
INDEPTI	-0,099	1,000					
NAM9193	0,037	-0,396	1,000				
LUSA8892	-0,195	0,285	0,064	1,000			
LIMF8892	-0,230	0,078	-0,006	0,175	1,000		
LPOP8892	-0,638	0,094	0,003	0,413	0,586	1,000	
FIBR8892	0,591	-0,119	0,076	-0,362	-0,211	-0,612	1,000

Period 1993-1997:

N = 76

	PGC9397	ADMC9397	MILC9397	DEMC9397	NLIE9397	LGNP9397	WBI9397
PGC9397	1,000						
ADMC9397	-0,153	1,000					
MILC9397	0,024	0,211	1,000				
DEMC9397	0,359	-0,182	-0,098	1,000			
NLIE9397	0,524	-0,334	0,000	0,299	1,000		
LGNP9397	0,526	-0,167	0,001	0,073	0,345	1,000	
WBI9397	-0,071	0,132	-0,052	0,197	-0,097	-0,078	1,000
LTRA9397	0,376	-0,019	0,074	-0,033	0,377	0,627	-0,179
INDEPTI	0,436	-0,418	0,026	0,266	0,718	0,318	-0,320
NAM9193	-0,507	0,489	0,055	-0,027	-0,508	-0,303	0,537
LUSA9397	-0,307	0,046	0,101	0,116	-0,084	-0,430	0,041
LIMF9397	0,070	-0,094	0,023	0,169	0,193	-0,473	0,014
LPOP9397	-0,202	0,005	-0,016	0,089	0,063	-0,858	0,078
FIBR9397	0,549	-0,228	-0,166	0,183	0,272	0,698	0,060

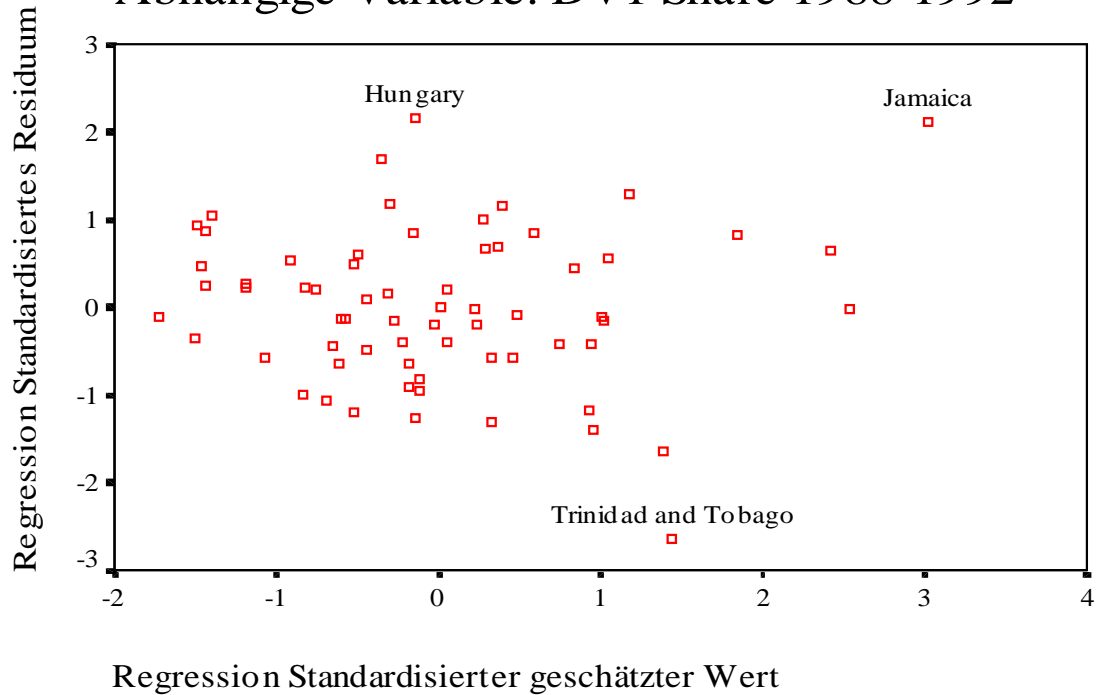
	LTRA9397	INDEPTI	NAM9193	LUSA9397	LIMF9397	LPOP9397	FIBR9397
LTRA9397	1,000						
INDEPTI	0,265	1,000					
NAM9193	-0,300	-0,640	1,000				
LUSA9397	-0,314	0,032	0,192	1,000			
LIMF9397	-0,250	-0,040	0,026	0,268	1,000		
LPOP9397	-0,551	-0,059	0,089	0,370	0,699	1,000	
FIBR9397	0,489	0,158	-0,226	-0,494	-0,293	-0,540	1,000

APPENDIX L: RESIDUAL PLOTSResidual plot: DV1S1983-1987**Streudiagramm****Abhängige Variable: DV1 Share 1983-1987**Residual plot: DV2C1983-1987**Streudiagramm****Abhängige Variable: DV2 Change loans per capita**

Residual plot: DV1S1988-1992

Streudiagramm

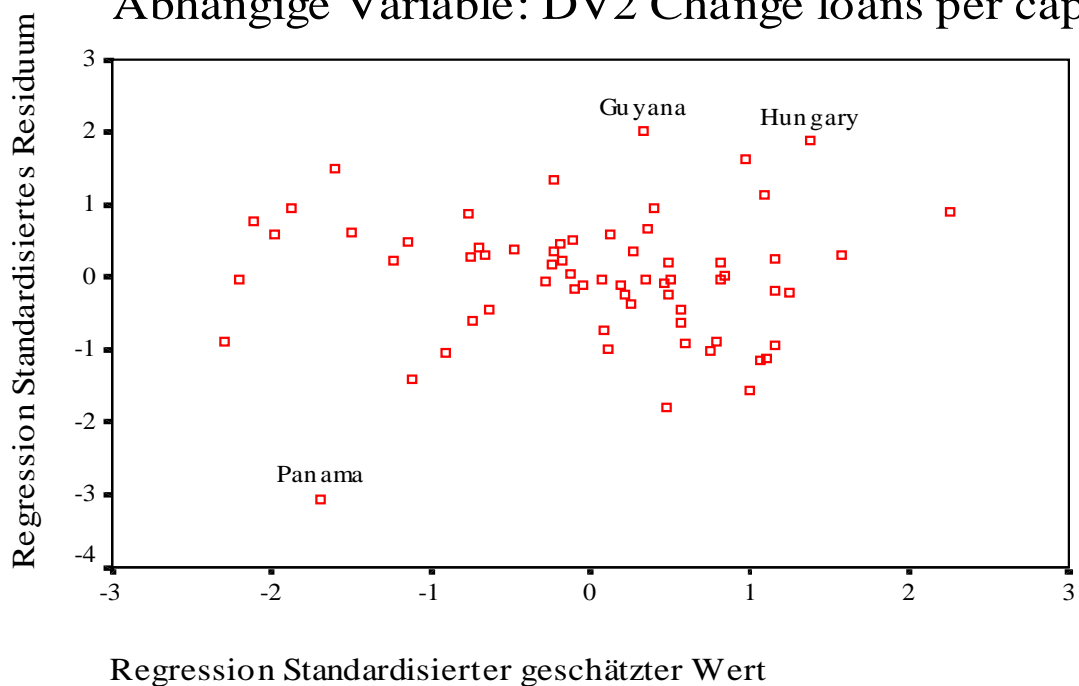
Abhängige Variable: DV1 Share 1988-1992



Residual plot: DV2C1988-1992

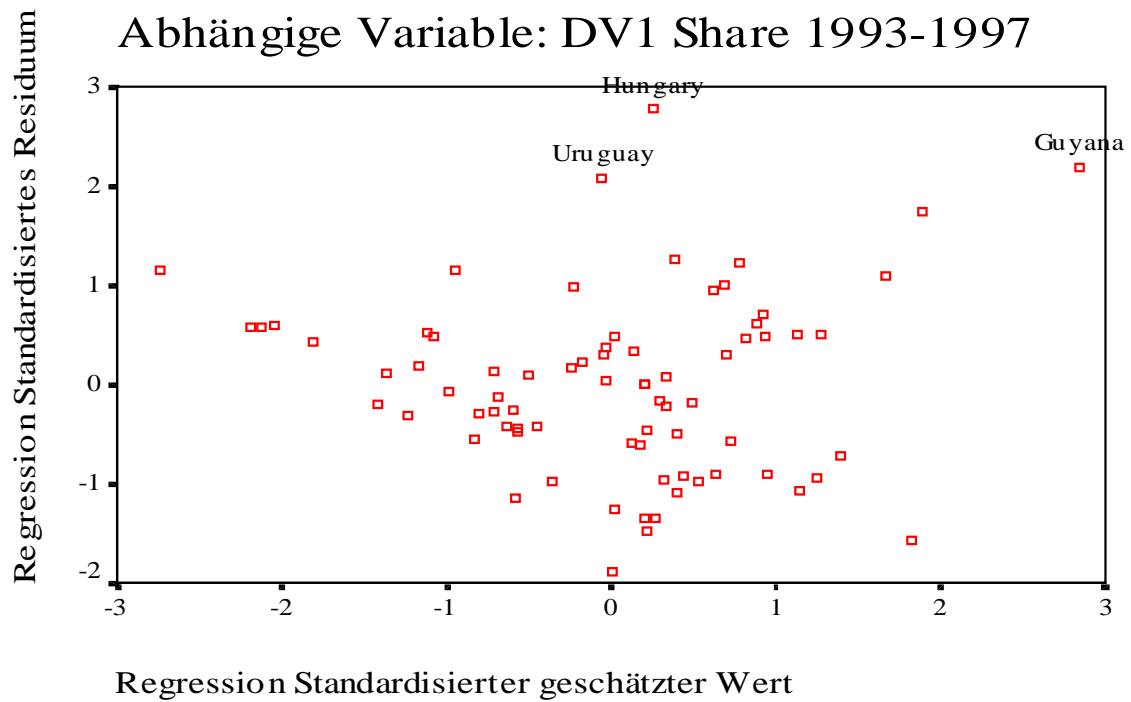
Streudiagramm

Abhängige Variable: DV2 Change loans per capita



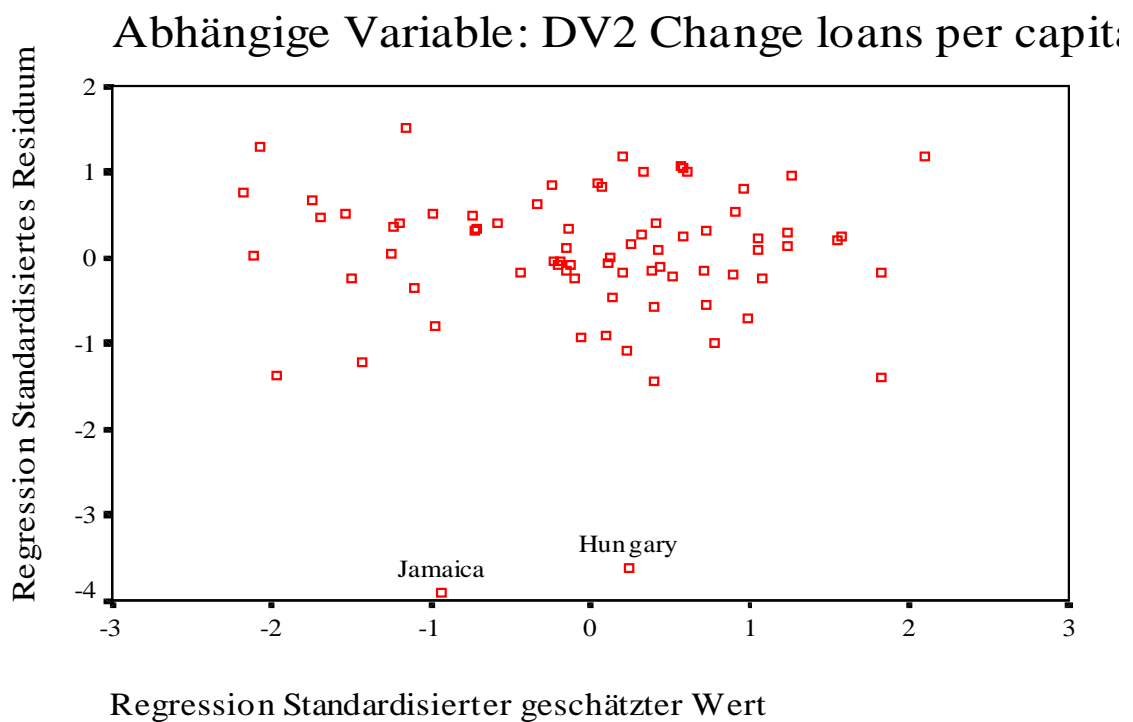
Residual plot: DV1S1993-1997

Streudiagramm



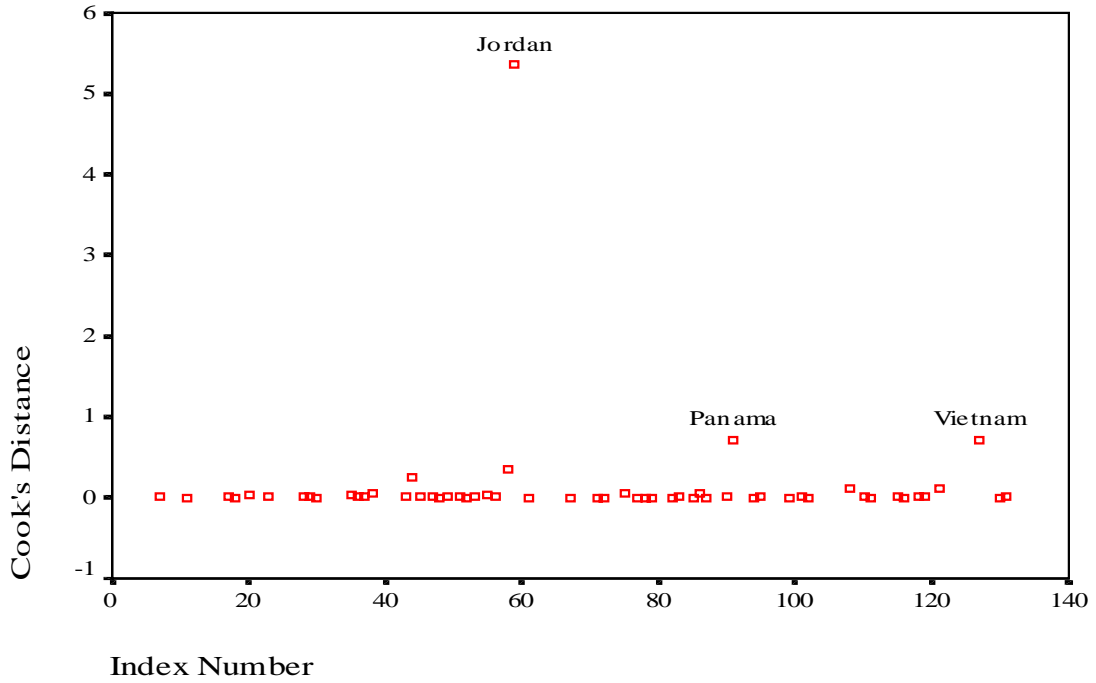
Residual plot: DV2C1993-1997

Streudiagramm

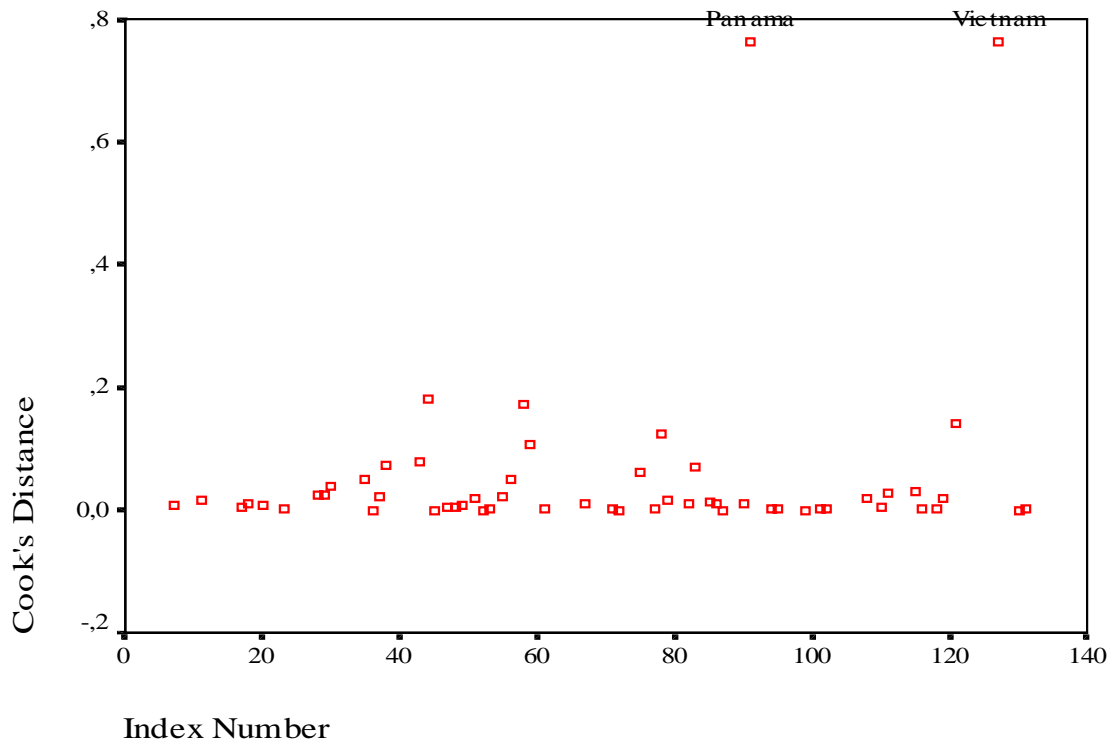


APPENDIX M: COOK'S DISTANCE MEASUREMENT

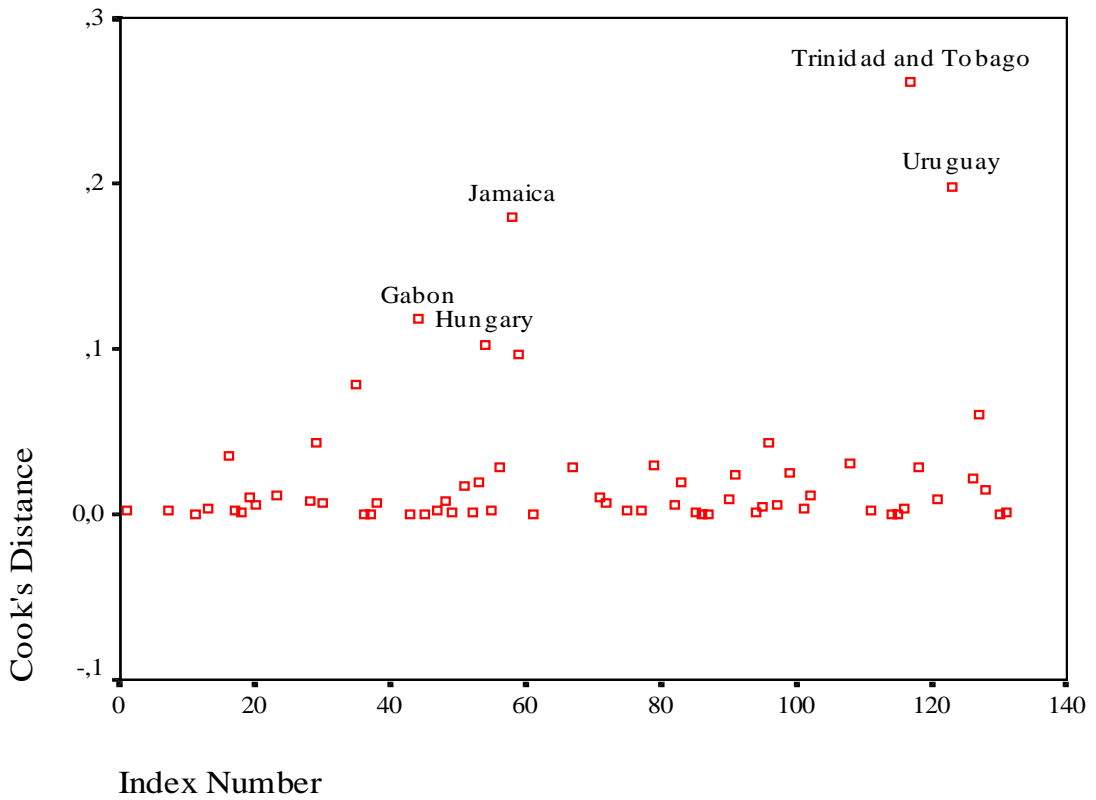
Cook's Distance: DV1S1983-1987



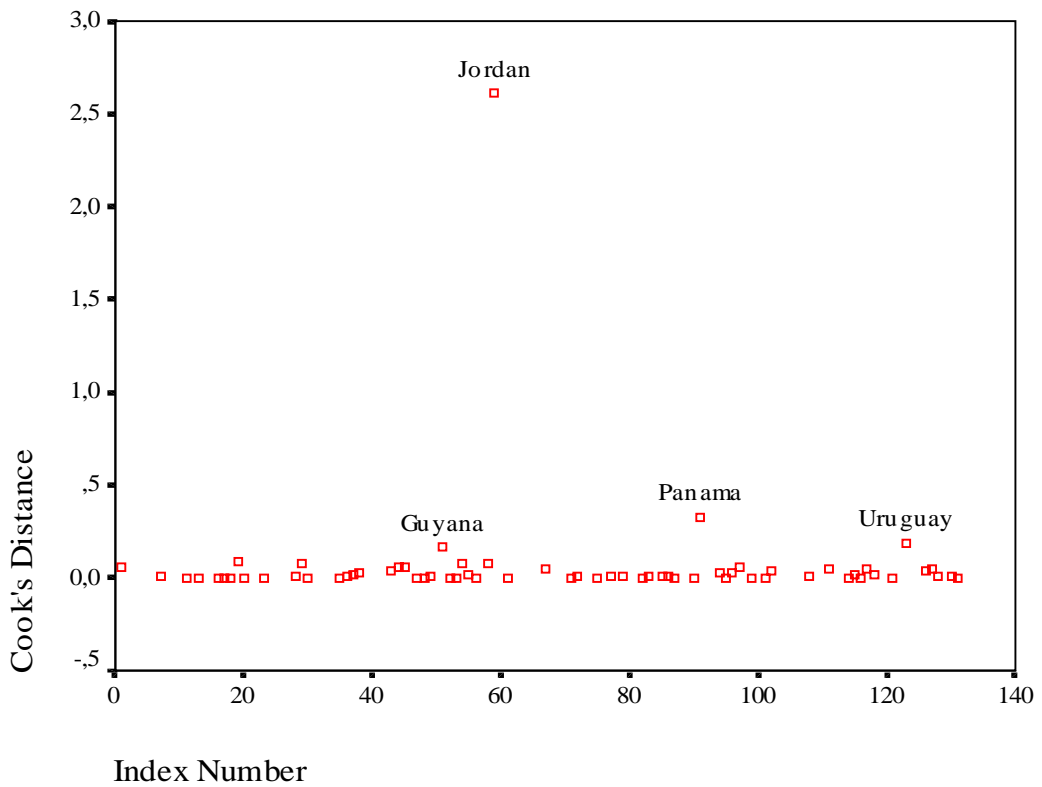
Cook's Distance: DV2C1983-1987:



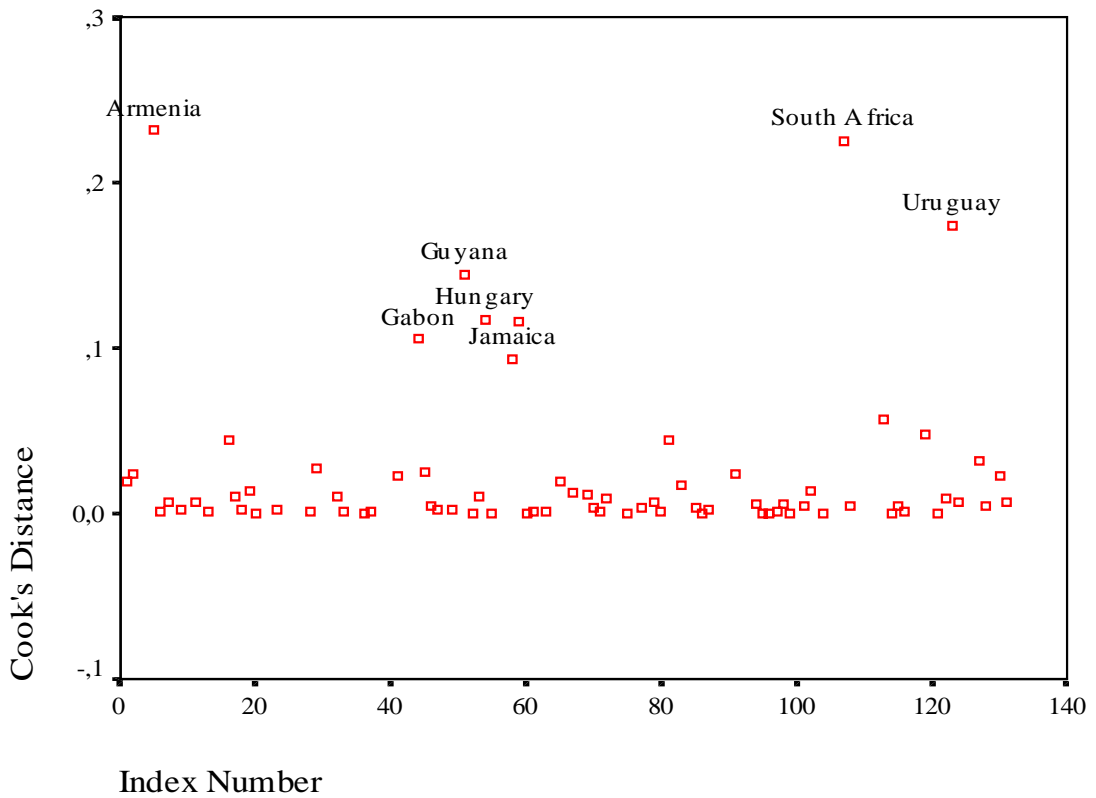
Cook's Distance DV1S1988-1992



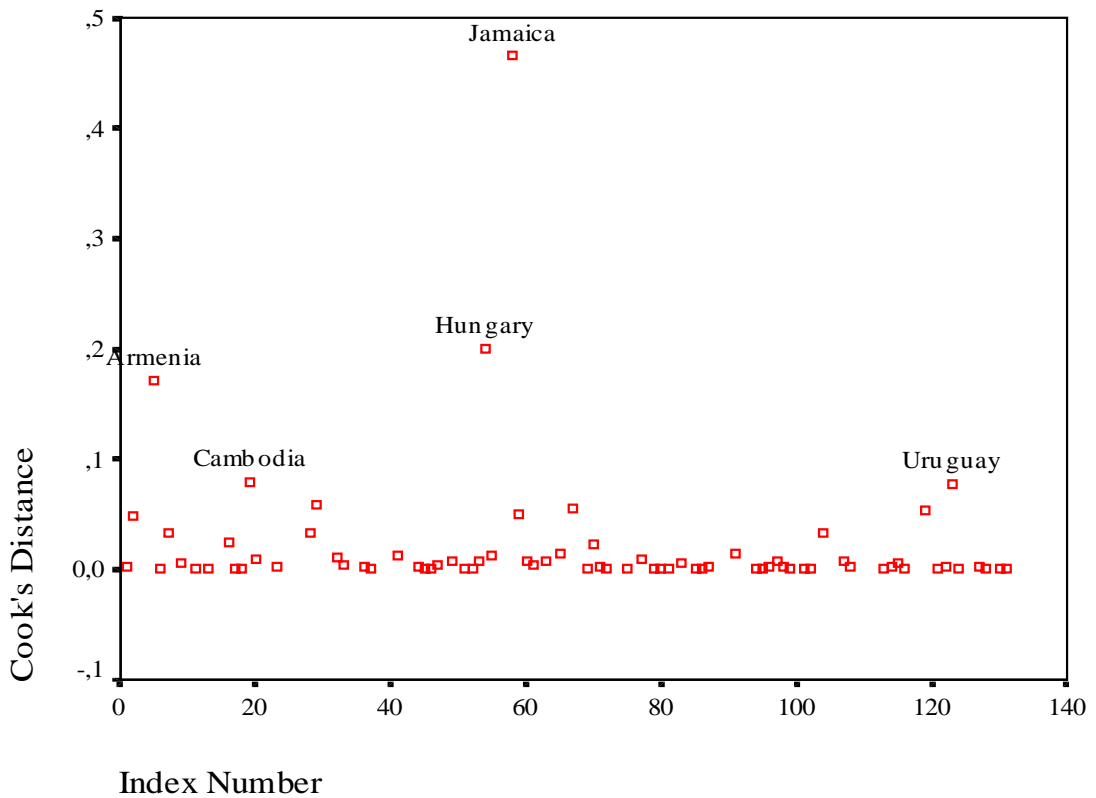
Cook's Distance: DV2C1988-1992



Cook's Distance: DV1S1993-1997



Cook's Distance: DV2C1992-1997:



APPENDIX N: MULTIVARIATE ANALYSIS: GOVERNANCE INDICATORS

OLS REGRESSION: GOOD GOVERNANCE (SHARE OF TOTAL WORLD BANK LENDING)

Period		1983-1987		1988-1992		1993-1997	
Variable	Expected Sign	Stand. Coeff.	t-value	Stand. Coeff.	t-value	Stand. Coeff.	t-value
Constant		(-0,000)	-0,151	(0,000)	1,128	(0,001)	2,613
GGCIVL	n.s./ - / -	-0,063	-0,237	-0,354	-1,369	-0,676**	-2,596
GGEDU	n.s./ + / +	0,208	1,265	0,098	0,583	0,145	0,939
GGTEL	n.s./ + / +	-0,011	-0,059	0,066	0,369	-0,127	-0,648
GTAX	n.s./ - / -	0,067	0,413	0,084	0,546	0,178	1,109
GWAG	n.s./ - / -	0,053	0,334	0,163	1,106	-0,047	-0,289
GSAW	n.s./ + / +	0,479*	2,031	0,008	0,036	0,050	0,303
MILC	+ / - / -	-0,007	-0,042	-0,253	-1,656	0,150	0,924
DEMC	n.s./(+)/(+)	-0,068	-0,262	0,091	0,359	-0,540**	-2,234
		R ² : 0,335 R ² -adj.: 0,183 F-value: 2,206 Probability: 0,051 N: 44		R ² : 0,318 R ² -adj.: 0,167 F-value: 2,100 Probability: 0,062 N: 45		R ² : 0,270 R ² -adj.: 0,108 F-value: 1,668 Probability: 0,140 N: 45	

* $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$; **** $p < 0.001$

OLS REGRESSION: GOOD GOVERNANCE (CHANGE OF TOTAL WORLD BANK LENDING)

Period		1983-1987		1988-1992		1993-1997	
Variable	Expected Sign	Stand. Coeff.	t-value	Stand. Coeff.	t-value	Stand. Coeff.	t-value
Constant		(3,927)	0,318	(38,116)	3,247	(1,271)	0,105
GGCIVL	n.s./ - / -	-0,179	-0,713	-0,479*	-1,886	0,328	1,245
GGEDU	n.s./ + / +	0,040	0,260	-0,189	-1,144	-0,016	-0,102
GGTEL	n.s./ + / +	-0,083	-0,452	-0,223	-1,263	0,357*	1,807
GTAX	n.s./ - / -	0,057	0,371	-0,178	-1,180	0,151	0,932
GWAG	n.s./ - / -	0,113	-0,078	-0,432***	-2,985	-0,155	-0,952
GSAW	n.s./ + / +	0,619***	2,775	-0,065	-0,310	-0,416**	-2,469
MILC	+ / - / -	0,140	0,930	-0,169	-1,126	-0,011	-0,069
DEMC	n.s./(+)/(+)	-0,194	-0,785	-0,658**	-2,661	0,084	0,344
		R ² : 0,404 R ² -adj.: 0,268 F-value: 2,970 Probability: 0,012 N: 44		R ² : 0,345 R ² -adj.: 0,199 F-value: 2,367 Probability: 0,037 N: 45		R ² : 0,253 R ² -adj.: 0,087 F-value: 1,526 Probability: 0,183 N: 45	

* $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$; **** $p < 0.001$