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With a little help from my friends: Global electioneering and World Bank lending☆

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ABSTRACT

This paper investigates how World Bank lending responds to upcoming elections in borrowing countries. We find that investment project loans disburse faster when countries are aligned with the United States in the UN. Moreover, disbursement accelerates in the run-up to competitive executive elections if the government is geopolitically aligned with the U.S. but decelerates if the government is not. These disbursement patterns are consistent with global electioneering that serves U.S. foreign policy interests but jeopardizes the development effectiveness of multilateral lending.

> "What would you do if I sang out of tune/would you stand up and walk out on me?" John Lennon and Paul McCartney

1. Introduction

Foreign aid has attracted substantial attention in the last decade. While critics abound, even supporters push for major reforms. Much of bilateral aid is seen as driven by donor geopolitical and commercial interests. These non-developmental motives can undermine the economic impact of aid because resources are less likely to be allocated to areas with highest economic return and recipient governments face distorted incentives. Recent research highlights the geopolitics of U.S. bilateral aid in particular. For example, Kuziemko and Werker (2006) find that U.S. bilateral aid to developing countries increases dramatically when they serve on the United Nations Security Council (UNSC), a pattern the authors equate to bribery by the U.S. to secure international support on key foreign policy issues. Faye and Niehaus (2012) provide evidence that the U.S., along with a handful of other large donors, increases bilateral aid to friendly incumbent governments that face elections. This suggests global electioneering—an attempt by the U.S. to influence foreign elections to keep friendly governments in power. These practices might not be surprising given that the lead U.S. aid agency, USAID, is subordinate to the State Department.

International financial institutions (IFIs) purport to be above such politics. Their charters mandate policies and lending driven by need and economic efficiency criteria. Recognizing the advantages of apolitical decision-making, aid reform proposals routinely call for a greater share of aid resources to be redirected through these institutions. Yet there is accumulating evidence that narrow interests of major shareholders – especially U.S. interests – shape IFI behavior. Empirical research on World Bank lending finds that countries gain privileged access to loans when they are more important to the U.S., whether measuring importance by UN voting alignment (Kilby, 2009) or UNSC membership (Dreher et al., 2009; Vreeland and Dreher, 2014).

This paper focuses on global electioneering, investigating whether World Bank lending reflects U.S. interests in the reelection of U.S.-friendly governments. Of all the political dimensions of aid, electioneering is the most intrusive as it impinges on the fundamental function of the domestic political system: the selection of the government. Thus, whether IFIs engage in electioneering is critical to assessing their degree of politicization.

We apply a difference-in-difference approach to explore whether World Bank lending responds differentially to competitive executive

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elections in countries aligned with the U.S. on United Nations General Assembly (UNGA) votes. From a practical viewpoint, World Bank data have several advantages over the country-year data typically available for aid flows (Dreher and Vaubel, 2004; Faye and Niehaus, 2012). Project-level World Bank data can distinguish between types of aid that are useful for electioneering and types that are not. Timing information – critical for determining if aid is provided in the run-up to an election rather than far earlier or even after the election (Faye and Niehaus, 2012, Appendix) – is precise. For each project, we have the date of the initial loan commitment as well as month-by-month data on subsequent disbursements. Paired with vote-by-vote UNGA data and election dates, World Bank project data enable us to construct variables that match much more precisely the timing implied by theory.

World Bank lending can improve an incumbent's reelection prospects via its announcement value and by expanding government resources. Such announcements can signal to the electorate the "quality" of the incumbent government, i.e., World Bank support of the government and its policies as well as the government's ability to deliver resources. This holds even if there is insufficient time prior to an election for the additional resources to impact voters. However, World Bank project preparation procedures may make quick approval of new loans prior to elections logistically impractical.[1] In contrast, disbursement of an existing loan may be easier to influence in a short period of time. This may not generate publicity but could expand government resources directly (through loan disbursement) as well as indirectly (through improved access to private capital, bilateral aid and multilateral aid from other sources, especially if receiving the disbursements signals compliance with loan conditions).[2]

The World Bank provides both investment project loans and program loans (i.e., general budget support but with policy reform conditions). These differ significantly in terms of publicity and disbursement profiles and so are not interchangeable for electioneering purposes. Investment loan approval may have some announcement value, but disbursement ramps up slowly so that approval of a new investment project is unlikely to provide significant additional resources within the time frame relevant for an election.[3] In contrast, program loans are both high profile and quick-disbursing.[4] Yet program loans are often controversial because of the neoliberal policies underpinning them and perceptions of foreign imperialism. As Schneider (2013, 485) points out, "the very existence of a program could signal economic incompetence to the electorate." In addition, disbursement may be tied to contractionary policies unlikely to benefit the incumbent (though enforcement of conditionality has a mixed record; e.g., Mosley et al., 1995; Kilby, 2009). To account for these different channels and loan categories, we present separate analyses of disbursements by loan type (investment projects v. program loans). After examining disbursement of existing loans, we investigate whether electioneering also influences loan commitments for new projects.

We find evidence of electioneering correlated with U.S. geopolitical interests for World Bank investment loan disbursements but not for program loan disbursements or new loan commitments. We first examine disbursement speed, which we define in terms of the number of months until 25% of the project commitment amount is disbursed. This is a convenient benchmark – most projects reach it, and do so relatively quickly – but we also check our results with 50% and 75% thresholds.[5] The data show that disbursement speed for investment loans increases with the recipient government's geopolitical alignment with the U.S. Furthermore, periods before a competitive executive election reveal a strong differential effect: disbursement accelerates for governments aligned with the U.S. and decelerates for governments not aligned with the U.S. As an illustration, consider the impact of elections with low and high U.S. alignment. On average, World Bank investment projects take 36 months to reach 25% disbursed. If alignment with the U.S. is one standard deviation above the mean, the predicted time to reach 25% disbursed is 33.5 months with no impending election and 30.5 months with an impending election, a decrease (acceleration) of 3 months. However, if alignment with the U.S. is one standard deviation below the mean, the predicted time to reach 25% disbursed is 40.8 months with no impending election and 42.2 months with an impending election, an increase (slowing) of 1.4 months. At the country level, these results imply that the difference between aligned and non-aligned governments in the run-up period of one year prior to an election is an additional disbursed amount of $29.1 million.[6]

As part of our robustness analysis, we consider whether a different process could drive our results, e.g., governments that seek to take credit for aid flows prior to elections (Jablonski, 2014; Cruz and Schneider, forthcoming) finding receptive World Bank staff, either because of good relations with the U.S. or unrelated (but correlated) characteristics. Under this scenario, the response to elections should be asymmetric. All incumbent governments want more/faster loan disbursement in the run-up to a competitive election; favored governments are able to get it while out-of-favor governments just get normal disbursement. This contrasts with the electioneering scenario where out-of-favor governments get less than normal levels of disbursement in the run up to an election (symmetric response). The robustness analysis finds not only a pre-election disbursement acceleration for pro-U.S. governments but also a pre-election disbursement deceleration for anti-U.S. governments, a symmetric response consistent with a U.S. electioneering interpretation of the resource channel.

We do not find empirical support for U.S. use of the announcement channel. There is no evidence of an increase in new commitments in advance of elections, either in general or for governments aligned with the U.S. There is, however, a direct link between new commitments and geopolitical alignment with the U.S., a result that mirrors those in earlier studies (Andersen et al., 2006; Dreher et al., 2009; Vreeland and Dreher, 2014). One potential explanation for the absence of an election effect is the significant amount of time it takes the World Bank to prepare a new project (Kilby, 2013b). As a result, electioneering via generating new projects may be logistically impractical.

Loan disbursement, the focus of our study, is a central supervision function overseen by the World Bank team task leader (TTL) during project implementation. Rather than disbursing as a lump sum (as with recent development policy loans), investment project loans typically disburse gradually over several years of implementation. The World Bank allows for a number of different procedures, including reimbursement of eligible expenditures, direct payment to third parties (contractors, suppliers, consultants), and advances to borrower accounts, typically at the central bank or at a commercial bank. The advance method also has lower immediate documentation requirements; there is a ceiling on advances but it is adjustable at the discretion of the TTL

1 See Kilby (2013b) for a detailed analysis of the political economy of World Bank project preparation. There is evidence that U.S. pressure can accelerate the preparation process but even so the process takes over a year for the typical project.

2 Disbursement of World Bank loans provides resources to politicians through various mechanisms, including "losses" to corruption which are estimated at, e.g., 30% in Indonesia (Perlez, 2003; Pincus and Winters, 2002, 127) and 30–40% in Nigeria (Berkman, 2008, 78).

3 Of 5115 World Bank investment project loans approved between January 1984 and December 2012, only 458 (9%) reached 25% disbursement within a year of approval; the median time to reach 25% disbursement was 34 months. Just 262 investment project loans (5%) reached 50% disbursement within a year of approval; the median time to reach 50% disbursement was 49 months.

4 Of 1052 World Bank program loans approved between January 1984 and December 2012, 953 (91%) reached 25% disbursement within a year of approval; the median time to reach 25% disbursement was 4 months. Seven hundred and fifty-nine (72%) reached 50% disbursement within a year of approval; the median time to reach 50% disbursement was 5 months.

5 The fewer the months to reach 25% disbursed, the greater the disbursement speed (akin to the time to cover a quarter mile for a car). In most cases changing the threshold to 50% or 75% has little impact on results (in terms of sign, significance, or magnitude of coefficient estimates). Below we note the few cases where differences arise.

6 Computation based on: 1) an average of 12 active projects during an election; 2) an average total commitment of $88.7 million for investment projects; and 3) disbursement speed regression results.