Hitotsubashi Journal of Arts and Sciences 30 (1989) 9-50. © The Hitotsubashi Academy

THE WORLD BANK UNDER R. McNAMARA AND A. W. CLAUSEN (3) —GEOGRAPHICAL ALLOCATION OF BANK RESOURCES*—

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I. *A Formula-based Model*

The Articles of Agreement of the IBRD and of the IDA, and the Bank's many official reports, such as *Annual Reports*, define a number of criteria for the allocating of Bank resources among developing countries. The lending criteria are expected to be different between IBRD lending and the allocation of IDA credits, considering the different conditions of IBRD loans and IDA credits. Creditworthiness is often stressed in IBRD lending while poverty level is usually emphasized in IDA allocation. However, there are many criteria common to both. This chapter will, first, describe the important criteria in the Bank's allocations of resources among countries. Second, it will discuss the problems of those criteria, and third, present hypotheses on the patterns of resource allocations when the Bank allocates its resources according to these official criteria. Finally, this chapter will test the hypotheses in an empirical analysis using a correlation analysis and a multiple regression analysis.

Lending Criteria of the Bank

1. Creditworthiness

The Articles of Agreement of the IBRD state that "in making or guaranteeing a loan, the Bank shall pay due regard to the prospects that the borrowers, and if the borrower is not a member, that the guarantor, will be in position to meet its obligations under the loan; and the Bank shall act prudently in the interests both of the particular member in whose territories the project is located and of the members as a whole" (Article III, Section 4[v]). Borrowers of IBRD loans are required to be creditworthy for the amount of loans The Bank staff is mainly concerned with the probability of the occurrence of a balance of payments problem, and with the likelihood of a default led by the balance of payments problem in creditworthiness analysis.

* I wish to thank Mr. Ronald Siani for his editing for the English. Thanks are also due to Ms. Yoko Kamijo for her assistance. The articles titled "The World Bank under R. McNamara and A. W. Clausen (1) (2)" were published in *Hitotsubashi Jouranl of Law and Politics*, Vol. 17, 1989.

The Bank staff members utilize both quantitative and qualitative methods in creditworthiness analysis, and they examine the borrowing countries' creditworthiness by short-term analysis as well as by long-term analysis.[1] In short term analysis, the Bank staff quantitatively examines potential balance of payment problems, adaptability, debt burden and so on, using a number of indicators.[2] The Bank staff also qualitatively assesses the country's economic management ability and other relevant country-specific factors. In long term analysis, the Bank staff members assess such factors as: (1) economic growth, structure and development policies, (2) saving, investment, and the productivity of investments, (3) government revenue and expenditure policies, and (4) level and terms of external borrowing. The Bank staff's emphasis on creditworthiness is likely to affect the Bank's lending behavior so that: The more creditworthy a country is, the more resources are allocated by the IBRD.

Creditworthiness may operate as a necessary condition; that is, the relationship between the level of creditworthiness and the amount of Bank loans is not proportional, but a certain level of creditworthiness is required for the Bank's borrowers as a threshold of eligibility. It suggests the necessity of the empirical analyses of non-linear relationship as well as linear relationship between variables measuring creditworthiness and the Bank's lending amount.

The Bank has no specific formula for measuring creditworthiness of countries. It is unavoidable that creditworthiness assessment involves a subjective judgment in the selection of indicators, in the way of synthesizing quantitative and qualitative assessments, and in combining short-term analysis with long-term analysis. Although the Bank has made efforts to improve creditworthiness assessment, the Bank staff recognizes that the Bank needs a more objective basis of determining a country's creditworthiness.

In addition, a weakness in creditworthiness assessment lies in the reliability of the data. A Bank staff member in a regional department argues that "perhaps the major area for improvement in creditworthiness analysis today is not in the methodology, but rather in the data base."[3]

Contrasting to the importance of creditworthiness in IBRD lending, only a limited creditworthiness is required for IDA credits; that is, the Bank allocates IDA credits to the countries which are unable to access IBRD loans.

2. Market-ineligibility

The Articles of Agreement of the IBRD state, "the Bank is satisfied that in the prevailing market conditions the borrower would be unable otherwise to obtain the loan under conditions which in the opinion of the Bank are reasonable for the borrower" (III-4-ii). The Articles of Agreement of the IDA state, "the Association shall not provide financing

[1] Statement to the author by a staff member of the World Bank in 1983.

[2] Potential balance of payments is measured by the domestic inflation rate, money supply growth rate, real exchange rate index (SDR, US$). Indicators of adaptability are reserves to imports ratio, IMF credit/quota ratio, per capita GNP, essential imports/total imports ratio. Indicators of debt burden are debt service ratio, debt to export ratio, and debt to GNP ratio. Portfolio shares and Bank exposures in countries' debt service and debt outstanding are also used.

[3] Stephen D. Eccles et al., "Panel Discussion: Managing and Assessing Developing-Country Risk," in Stephen H. Goodman, ed., *Financing and Risk in Developing Countries* (New York: Praeger, 1978), chapter 14.

if, in its opinion, such financing is available from private sources on terms which are reasonable for the recipient or could be provided by a loan of the type made by the Bank" (V-1-c). Both Articles define the role of the World Bank as a "lender of last resort," therefore market ineligibility is required for a borrower. Assuming that a country's market eligibility is measured by the volume of commercial loans, we would expect the Bank, involving the IBRD and the IDA, to lend to countries as follows: The less commercial loans a developing country receives, the more resources the World Bank allocates to that country.

The Bank's role as a "lender of last resort" is often criticized as a fallacy. For example, Le Prestre states, "the picture of the Bank as a 'lender of last resort' has actually become a certain fiction in the seventies as the organization is competing with many other development agencies for financing a limited number of projects. This provision was mainly designed to accommodate the limited amount of funds that the organization had at its disposal."[4] Hurni also argues that the Bank as a "lender of last resort" became a fiction in the 1970s because of the growth of new development funds.[5]

As their arguments suggest, it became difficult for the Bank to work as a lender of last resort. First, any increase in the Bank's resources is likely to cause severe competition between the Bank and other multilateral and bilateral aid agencies, and it may lead the Bank to increase its lending to market-eligible countries.

Second, the developing countries could easily get access to loans by commercial banks which sought borrowers of abundant oil-money being deposited in the 1970s. Developing countries preferred commercial bank loans to publicly guaranteed loans in spite of their more stringent conditions, before debt-issues became a serious problem in the 1980s, because they could be obtained faster and with fewer administrative complications and appraisal procedures than in the case of Bank loans.[6] In addition, the Bank disburses its funds step by step as the project is carried out.

Thus, severe competition between the Bank and other lenders in the 1970s was likely to cause the Bank to behave as follows: The more resources the Bank has for lending, the more the World Bank would disproportionately allocate resources to market-eligible countries; that is, the less it works as a "lender of last resort."

3. Economic Viability

Both the IBRD and the IDA emphasize that Bank-financed projects should be economically efficient. However, preparing efficient and feasible project plans is not an easy task for the least developed countries. As a result, the emphasis of this criterion would lead to a concentration of Bank resources in the countries that have such ability, although those countries often have access to market-conditioned loans. The Bank staff began to assist identification and preparation of project plans for developing countries which lack this ability, but it is still the case that economically viable project plans can be found more

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[4] Le Prestre, "The Ecology of the World Bank: Uncertainty Management and Enviornmental Policy," (Ph.D. dissertation, Indiana University, 1982), pp. 92–93.

[5] Bettina S. Hurni, *The Lending Policy of the World Bank in the 1970s* (Boulder: Westview Press, 1980), p. 106. Le Prestre and Hurni broaden the concept of "lender of last resort" into one that is related to ODA although the Articles of Agreement dispute this role of the World Bank with respect to private loans or investments.

[6] *Ibid.*, p. 106.

easily in middle-income countries than in low-income countries. For example, counter-funding is an important factor which determines the probability of project success, because the World Bank does not finance the entire cost of a project. Therefore, a low-income country could not afford to undertake many projects even if more Bank resources were available. Thus, the criterion of economically viable projects would be expected to cause an increase in IBRD's lending to relatively higher income developing countries. This criterion, therefore, contradicts the criterion of market ineligibility.

Assuming that other official aid agencies, either bilateral or multilateral, and commercial banks also tend to lend most of their resources to middle-income countries, it is hypothesized that: The more aid or loans a developing country receives from other agencies, the more the World Bank will also allocate its resources to that country ('bandwagon effect' of resource allocation).

4. Economic Performance

The Bank staff examines the borrowing governments' performance on poverty-alleviation, and evaluates the borrowers' efforts and their ability to manage operations for economic development efficiently.

An official Bank report argues that the economic performance of a country is measured both by quantitative indices such as saving rate, and growth rate of GNP, and by qualitative factors such as administrative or economic management. The Bank staff particularly emphasizes the speed and the direction of the changes in performance as well as the level of performance.[7]

The Bank staff also stresses the importance of economic performance as a criterion in the allocation of IDA funds. However, it is often pointed out that the performance criterion contradicts poverty level, which is another important criterion of IDA allocation; that is, there is a tendency for poorer countries to demonstrate poorer performance. As a result, the IDA allocates its resources to the poor countries which demonstrate efforts to improve their major economic policies as the Bank advises. A Bank report cited the following as countries which failed to receive loans from the Bank by reason of poor performance, despite their being eligible by other criteria: Haiti, Uganda, Guinea, Equatorial Guinea, and Central Africa.[8] In addition, the IDA could not avoid terminating its loan disbursement and other activities in Afghanistan and Chad as a result of political instability and internal conflict in those countries.

A large subjective element is included in the judgment, however. The Bank staff is cautious and endeavors to improve indicators, for example, applying different ones to African countries from those used for other countries. Even so, agreement on the rating of performance is very difficult to reach even within the Bank itself.[9]

5. Poverty Level

IDA funds are reserved for those countries which are not creditworthy for IBRD loans and are unable to access market-conditioned loans. Because there is a close relationship

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[7] The World Bank, *IDA in Retrospect* (New York: Oxford University Press, 1982), pp. 23–24.

[8] *Ibid.*, p. 24.

[9] Statement to the author by staff members of the World Bank in 1983.

between creditworthiness, market ineligibility and income levels, the countries which are not creditworthy and are ineligible for private sources tend also to be low-income countries. GNP per capita or per capita income is often used as an indication of poverty level. This indicator is objective and easily accessed, and it is well institutionalized in practice; that is, the Board of Executive Directors set the ceiling of per capita income eligible for IDA credits as below $250 in 1964.[10] The ceiling was raised to $300 in 1968, $520 in 1975, and $730 in 1980.

The criteria of per capita income led to a concrete allocation policy for a certain percentage of IDA resources to be provided for sub-Saharan countries and special consideration to be given to lending to the least developed countries. This criterion, furthermore, introduced the graduation policy: A country in which the per capita income is beyond the ceiling has to "graduate" from being an IDA country. It becomes an IBRD country after becoming a blend country, which receives both IBRD loans and IDA credits to compensate for the insufficiency of concessional IDA resources. The "graduation" policy is necessarily led by the Bank's role as a "lender of last resort," and therefore it is applied not only in IDA allocation but also in IBRD lending. If the World Bank has allocated its recources according to the "graduation" policy, then we would expect that the amount lent to those countries approaching the 'trigger-level' benchmark would decrease.

There are, in practice, several revisions in applying these guidelines. First, oil exporting countries are ineligible for IDA credit because of these countries' high creditworthiness in spite of the per capita income figures being below the guidelines. For example, Nigeria was dealt with as a blend country after fiscal year 1965 and Indonesia was graduated from IDA borrower status in fiscal year 1980. Second, a ceiling is applied to populous countries, such as India and China, to prevent the concentration of concessional funds in these countries. These populous countries are dealt with as blend countries.

The IBRD made loans to a number of developed countries in its early years, and most of these countries had graduated from the IBRD in the 1960s. In addition, higher income borrowers graduated from the Bank in the 1970s; these countries are: New Zealand, Iceland, Venezuela, Finland, Israel, Singapore, Ireland, Spain, Greece, Trinidad and Tobago.

Developing countries are unwilling to graduate from IBRD borrower status because they want to keep plural sources of external funds, however. So, compared with the "graduation" of IDA borrowers, "graduation" of IBRD borrowers has not been a smooth operation. As a result, in fiscal year 1982, the United States strongly pressured the Board of Executive Ditectors to reaffirm and ensure the "graduation" policy, which contributes to prevent further increases in Bank funds. The Board reconfirmed it and decided to apply it as follows: "Graduation will normally occur within five years after a country reaches the per capita gross national product (GNP) benchmark of $2,650 at 1980 prices."[11] Executive Directors approved that the phase-out period might be longer in case of the deterioration of the economic situation, but they decided to review the composition of the lending programs of those countries approaching the 'trigger-level' benchmark.

Despite the debate being over and despite the reaffirmation of the "graduation" policy

[10] Chile, Colombia, Ecuador and Nicaragua were recognized as exceptional cases at that time because these four countries had already received credits from the IDA.

[11] The World Bank, *Annual Report* (1982), p. 35.

TABLE 1. IBRD BORROWERS WHOSE GNP PER CAPITA ARE APPROACHING THE TRIGGER-LEVEL OF US$2,650 AT 1980 PRICES

Country	Per capita GNP	Country	Per capita GNP
Oman*	6,700	Hungary**	2,100
Barbados*	4,300	Brazil	2,050
Bahamas*	3,980	Algeria	1,870
Cyprus*	3,350	Costa Rica	1,730
Uruguay	2,810	Panama	1,730
Seychelles*	2,670	Malaysia	1,620
Yugoslavia	2,620	South Korea	1,520
Argentina	2,390		
Portugal	2,370		
Romania	2,340		
Chile	2,150		
Mexico	2,090		

Source: The World Bank, *World Development Report* (1982).
* Data source: OECD, *Geographical Distribution of Financial Flows to Developing Countries* (1982/1985).
** Data source: The World Bank, *World Development Report* (1983).

by the Board of Executive Directors, it is quite doubtful that the Bank can carry out the "graduation" policy smoothly; that is, some of those countries which are approaching the 'trigger-level' bench mark are, at present, suffering from serious debt problems (Table 1). The longer-term loans by the Bank as well as the short-term loans made by the IMF came to be emphasized for the resolution of debt problems, particularly after 1985 when U.S. Secretary of Treasury James Baker proposed his plan for the solving of debt issues. Therefore, Bank lending to debt-countries is expected to be strengthened even if those countries are approaching the trigger-level measured by per capita GNP. As a result, Romania was the only country to graduate from the status of IBRD borrower in the 1980s.

In addition, the Bank's decision to begin lending to Hungary in fiscal year 1983 aroused suspicion as to whether the Bank was sincerely willing to undertake the "graduation" policy, because the per capita GNP of Hungary was US$2,100 in 1981, which was close to the benchmark of $2,650 at 1980 prices. As a result, Hungary's request for IBRD loans in 1983 caused a controversy among the Executive Directors. Hungary's purpose was to get access to private resources and to participate in international competitive bidding in the Western developed countries. In other words, the World Bank was expected to work as a window to the Western financial community.[12]

There also exist several cases in which commercial banks would not lend to projects in underdeveloped areas of a country in which the GNP/cap at national level was approaching the trigger-level. The north-east area development project in Brazil is such an example.[13] Several people, furthermore, criticize the rigorous implementation of the policy from different perspectives. For example, M. Lahnstein, State Secretary of West Germany, argues that "a too hasty graduation" might diminish the Bank's credit.[14] In fact, most of the

[12] Statement to the author by a staff member of the World Bank in 1983.
[13] Statement to the author by a staff member of the World Bank in 1983.
[14] Manfred Lahnstein, "Financing the Bank" in Edward R. Fried and Henry D. Owen, eds., *The Future Role of the World Bank* (Washington, D.C.: The Brookings Institution, 1982), pp. 57–58.

Bank's borrowers would be low-income developing countries if many of the middle-income countries were to graduate from the IBRD.

These problems in applying the "graduation" policy suggest that a trigger-level measured by GNP/cap is a criterion for "graduation." but the substantial criteria for "graduation" is whether the lending by the Bank as a last resort is still required.

The Allocation of Bank Resources among Developing Countries

This section gives an overview of the characteristic patterns of the geographical allocation of Bank resources for and within every region beginning with the period of 1955–59.

1. Asia

The Bank has concentrated its resources to the Asian region. The IBRD has allocated about one third of its total resources to the Asian region in all periods except 1965–69 and 1970–74. The IDA has greatly concentrated its funding to countries in the Asian region; it has allocated more than 50 percent of its total lending to the Asian region since it was established in 1960. This concentration of Bank resources in Asia is a result of the existence of four large recipients—India, Pakistan, Bangladesh, in the past Japan, and recently China.

India, Pakistan, and Bangladesh after its independence have been the largest IDA recipients, and the combined total share of IDA credits received by these countries occupied 73 percent in 1960–64, 62 percent in 1965–69, 47 percent in 1970–74, 54 percent in 1975–79, and 50 percent in 1980–84. The IDA concentrated more than half of its funds in these countries until the period of 1980–84, although this share has decreased gradually. The concentration of IDA resources in these few countries can be understood when the population of these countries is taken into consideration. In fact, IDA credits allocated to these countries in 1980–84 are small on a per capita basis (Table 2).

TABLE 2. IBRD LOANS PER CAPITA AND IDA CREDITS PER CAPITA BY COUNTRY FOR THE PERIOD 1980–84 (CURRENT US DOLLARS)

IBRD		IDA	
1. Jamaica	155.7	Yemen (People's)	53.4
2. Panama	151.1	Togo	45.7
3. Tunisia	118.2	Malawi	38.5
4. Cote d'Ivoire	96.9	Benin	36.8
5. Jordan	88.5	Senegal	34.4
6. Paraguay	85.2	Uganda	34.3
7. Yugoslavia	84.3	Liberia	33.1
8. Turkey	75.5	Sri Lanka	32.8
9. Uruguay	73.5	Congo	30.6
10. South Korea	73.1	Yemen (Arab)	30.3
Reference: Asian countries			
India	7.6	Bangladesh	19.3
Pakistan	4.1	Pakistan	11.1
China	1.2	India	8.4
		China	0.7

Source: The World Bank, *Annual Report* and *World Development Report* (various issues).

After People's Republic of China became a member of the World Bank in 1980, the Bank was required to obtain extra finance to lend to China, if it was not to decrease the amounts lent to other countries. IDA's sixth replenishment, which covered its finances for fiscal period 1981–83, was not designed to include an allocation to China. Thus, the Bank decided to lend China one $100 million IBRD loan and one $100 million IDA credit in fiscal year 1981, but these amounts were much lower than those estimated in the Bank's formal lending criteria. In addition, the Bank has handled China as a blend country, although China's GNP per capita was $290 in 1980, far below the IDA borrower trigger level. China received 2.4 percent of total IBRD loans and 4.3 percent of IDA credits in the period of 1980–84. The Bank increased its lending to China to six percent of total IBRD loans and 15 percent of total IDA credits in 1985–88, which caused a rapid decrease in the share of IDA credits allocated to India, Pakistan, and Bangladesh to 34 percent in this period.

2. Latin America and the Caribbean

The Bank's lending to Latin American and the Caribbean countries has suffered from two problems. First, many Latin American and the Caribbean countries have experienced military coup d'etats since the 1960s. This resulted in political instability, thereby damaging the creditworthiness of the countries. In addition, since the 1970s, the U.S. Congress began to criticize Bank lending to these authoritarian regimes for their suppression of human rights. The Carter administration instructed the U.S. Executive Directors on the Board of the Bank to oppose or abstain from voting for loans for Argentina, Uruguay, Chile, Paraguay, El Salvador, and Guatemala.

Second, countries such as Barbados, Bahamas, Uruguay, Argentina, Chile, Mexico, and Brazil have either passed, or are approaching the 'trigger-level' which makes them ineligible for IBRD funds. However, many countries in this area suffer from serious debt problems. The countries whose debt service as a percentage of exports of goods and services was beyond 30 percent in 1985 were: Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, and Uruguay. Thus, the World Bank has rather intensified its commitment to this region by providing structural adjustment loans and sector adjustment loans instead of examining the probability of the "graduation" of these countries. The Bank apparently gave priority to Latin American debt countries in the allocation of sector adjustment loans. The amount of sector adjustment loans received by Latin America and the Caribbean countries accounted for more than one-third of the total sector adjustment loans issued in the period of 1979–87 (Table 3).[15] This implies that the Bank examines the "graduation" of countries from the status of IBRD borrower by considering not only the poverty level, as measured by GNP per capita, but also the debt situation and market-ineligibility.

Brazil received 3.8 percent in 1955–59, but none in 1960–64 when it was thought politically unstable under the administration of the Labor Party. Under the military regime from 1964, Brazil succeeded in increasing its IBRD loans to 7.3 percent in 1965–69, and to about 10 percent in all periods since 1970–74. Brazil's case shows that the World Bank's lending behavior is explicitly affected by the political events. Mexico has received 7 percent or more since 1960–64.

[15] David Bock and Constantine Michalopoulos, "The Emerging Role of the Bank in Heavily Indebted Countries," *Finance and Development*, Vol. 23, No. 3, 1986, pp. 22–25.

TABLE 3. ADJUSTMENT LOANS TO LATIN AMERICA AND THE CARIBBEAN (CURRENT US$ MILLION)

	SALs (FY 1980–87)	Sector adjustment loans (FY 1979–87)
Argentina	—	850
Bolivia	50	102
Brazil	—	1,155
Chile	500	—
Costa Rica	80	25
Dominica	3	—
Ecuador	—	100
Guyana	22	—
Jamaica	191	159
Mexico	—	850
Panama	160	—
Uruguay	80	60
Total	1,087 (18.4%)*	3,301 (35.1%)
Grand Total	5,897	9403

Source: The World Bank, *Lending for Adjustment: An Update* (*World Bank News*, May 1988).
* The figures in parentheses are the percentage of structural or sector adjustment loans received by Latin America and the Caribbean countries in relation to the total of all structural or sector adjustment loans.

The Bank intensified its commitment to Brazil and Mexico in the 1980s, particularly after fiscal year 1983 when the debt crisis in Mexico emerged. It issued two sector adjustment loans to Mexico and Brazil respectively, which amounted to $2 billion, or 21 percent of the total sector adjustment loans, between fiscal years 1983 and 1987.

Bank lending to Argentina in the 1970s provides a contrast to its lending policy toward Brazil or Mexico. The amounts of IBRD loans for Argentina decreased to around two percent in the 1970s from between 3.5 and 4 percent in the 1960s. Two political changes in the 1970s, the return of Juan D. Peron in 1973 and the military coup d'etat in 1976, may have caused the decrease in Bank lending to Argentina, while the Falkland conflict in 1982 negatively affected the Bank's commitment to this country. However, as the Bank stressed lending for the resolution of debt problems, it made two sector adjustment loans for Argentina, amounting to $850 million in fiscal tears 1986 and 1987. As a result, the share of IBRD loans for Argentina increased from 1.6 percent in 1980–84 to 4.3 percent in 1985–88.

Bank lending to Chile has also been affected by domestic and external political factors as well as by debt issues. The Bank successively provided IBRD loans to Chile up to fiscal year 1971, but issued no loans to Chile in fiscal years 1972 and 1973 when the Allende government tried to implement a radical economic policy, causing the decline of private investment and a worsening of the balance of payment. The Bank began to provide IBRD loans to Chile under Pinochet who staged a coup in September 1973. However, the Bank stopped lending to Chile between fiscal 1978 and 1979, probably in response to the Carter Administration's opposition to Bank lending to governments which suppressed human rights. In the 1980s, the Bank again increased its lending to Chile, particularly using structural adjustment loans for the resolution of debt issues in that country.

3. Europe, Middle East, and North Africa (EMENA)

As IBRD reconstruction loans decreased in the 1960s, EMENA's share also decreased from 31 percent in 1955–59 to 11 percent in 1960–64. However, owing to the expansion of the IBRD's commitments to Iran and Turkey and to Eastern European countries, this region's share of IBRD loans increased between 20 percent and 30 percent since the latter half of the 1960s.

The IBRD began to lend to Yugoslavia in 1949, and IBRD loans to Yugoslavia amounted to 3.8 percent of the total lending volume in the first half of the 1960s. From then and until fiscal years 1980–84, the IBRD has continued to lend about three or four percent of its total lending volume to Yugoslavia. It is often argued that the strong Bank commitment to Yugoslavia was a result of Yugoslavia's departure from the Soviet bloc in the 1960s, and the Bank commitment, in turn, greatly helped Yugoslavia to become diplomatically independent from the Soviet bloc. It is quite difficult to verify the validity of this argument, but the World Bank has utilized this argument to defend its commitment to countries which are labeled 'socialist' by critics from the U.S. Congress. Bank lending to Yugoslavia declined considerably to 1.3 percent in 1985–88 because Yugoslavia adopted new banking regulations in 1986 which strictly controlled foreign borrowing.

Romania joined the World Bank and began borrowing procedures with the IBRD in 1973. However, Romania's request for IBRD loans was the cause of much controversy because Romania refused to provide relevant data for an economic analysis and creditworthiness analysis.[16] The Bank's lending to Romania without precise scrutiny of Romania's economy was apparently a violation of the Bank's lending procedures. However, at that time, Romania was seeking independence from the Soviet bloc, and therefore needed external assistance from the World Bank. Thus McNamara made a political decision to lend to Romania in 1973. Since then, Romania has continued to receive IBRD loans; its share in total IBRD loans amounted to 4 percent in 1975–79 from 0.6 in 1970–74. Romania graduated from the status of IBRD borrower after it received the last IBRD loan in fiscal year 1982.

Another socialist country, Hungary, also entered the World Bank in fiscal year 1982, despite its GNP per capita being $2,100 in 1981, which is close to the trigger level of IBRD graduation. Therefore, Hungary's application for Bank membership caused a controversy on the Board of Executive Directors. Hungary also suffered from its worsening debt situation. In fact, Hungary's debt service ratio reached 18.5 percent in 1983. Thus, the Board approved the entrance of Hungary to the Bank. Poland joined the World Bank in June 1986, and the Soviet Union also pronounced its desire to become a member of the World Bank in 1986. The World Bank has worked and will play a role as a channel to link the Western economy with East European countries and the Soviet Union.

Debt problems in this region have become as serious as those of Latin American countries. Egypt and Morocco have higher ratios of external debt in relation to GNP than Mexico and Argentina, while Turkey, Jordan, and Tunisia have higher ratios than Brazil. Therefore, the Bank has intensified its commitment to these countries. The Bank provided five SALs for Turkey between fiscal years 1980–84 and three sector adjustment loans be-

[16] Aart van de Laar, *The World Bank and the Poor* (Boston: Martinus Nijhoff Publishing, 1980), p. 40.

tween fiscal years 1985 and 1987. As a result, the share of IBRD loans received by Turkey increased to about 7 percent in the 1980s, the highest figure in this region. Morocco is another country to which the Bank increased its lending. The Bank made five sector adjustment loans for Morocco during fiscal years 1984–87. The share of IBRD loans for Morocco reached three percent in 1985–88.

4. Africa

The Bank has established several facilities or funds for the least developed countries, including many sub-Saharan countries, and made efforts for the expansion of its lending to sub-Saharan countries. First, IDA was established to promote concessional resource transfer to the least developing countries, which are ineligible for IBRD loans. Only four African countries, Tanzania, Ethiopia, Nigeria, and Swaziland, received IDA credits in the period of 1960–64, but, since then, Africa's share of IDA credits steadily increased to 25 percent of the total in 1975–79.

Second, in the fall of 1979, the Board members from African countries requested that the Bank took "a special program of action to deal with the severe and complex economic problems facing the sub-Saharan African countries."[17] The World Bank, in 1981, responded by issuing a report, titled *Accelerated Development in Sub-Saharan Africa: An Agenda for Action*, and the Bank management proposed to give priority to Africa in the allocation of IDA and IBRD resources.[18] Under the program to accelerate Bank lending to African countries, the African countries' share of IBRD loans and IDA credits actually increased. The African countries' share of IDA credits increased rapidly from 27 percent in fiscal year 1981 to 36 percent in fiscal year 1985 and reached almost 50 percent in fiscal year 1988. However, there is a wide variation in lending volume among African countires, increasing or decreasing, dependent upon the situation of individual countries.

Third, the Special Facility for sub-Saharan Africa was established on July 1, 1985. The Facility was funded with direct contributions from donors and resources for special joint financing. Total resources available for the Special Facility was $1.99 billion in fiscal year 1988. It was designed to provide quick-disbursing assistance to IDA-eligible countries in sub-Saharan Africa. The credits provided by the Special Facility were made on IDA terms and the credits were mainly used to support structural and sector adjustment, as well as economic-rehabilitation programs. Most of the credits were co-financed with the IDA. Commitments of African Facility Credits and special joint financing totaled $1.86 billion as of the end of fiscal year 1988.

Nigeria was one of the few IBRD borrowers among African countries in 1955–59 when it received 1.1 percent of the total IBRD lending volume. Nigeria's share of IBRD loans steadily increased to 2.7 percent in 1965–69, after its graduation from IDA borrower status due to an oil surplus. After its share of IBRD increased to 3.5 percent in 1970–74, it decreased to 1.8 percent in 1975–79; the Bank considered Nigeria to be approaching the point of graduation from IBRD borrower status. However, Nigeria suffered from a sharp economic decline caused by continuing instability in world oil prices in the 1980s, which resulted

[17] The World Bank, *Annual Report* (1984), p. 49.

[18] *Ibid.*, p. 49. The Bank issued follow-up reports. *Sub-Saharan Africa: Progress Report on Development Prospects and Programs* (1983) and *Toward Sustained Development in Sub-Saharan Africa: A Joint Program of Action* (1984).

in a severe debt problem, as shown in its high debt service ratio to exports of goods and services (32 percent in 1985). Therefore, the Bank provided the first sector adjustment loans for Nigeria in fiscal year 1984. It provided the second sector adjustment loan in 1987 because the Bank highly evaluated Nigeria's efforts toward structural adjustment.[19]

Owing to the Bank's policy of expanding lending to sub-Saharan Africa and the establishment of a Special Facility for sub-Saharan Africa, many countries enjoyed an increase in their share of IDA credits in fiscal years 1985–88. Among these countries, the strengthening of the Bank's commitment to Ghana after 1983 was striking. In the 1970s, Ghana pursued a policy of limiting imports through the use of highly protectionist trade and non-trade barriers and by overwhelmingly favoring the state enterprises. However, Ghana experienced an economic decline, high inflation and growing external imbalances. This was partly caused by external factors such as the two oil crises, the sharp rise in world interest rates, and the unstable primary commodity prices in the early 1980s, but the Bank's staff members emphasized Ghana's protectionism economic policy in the 1970s as another main cause.[20] Thus, the newly installed Government launched an economic recovery program in 1983 and sought support from the IMF and the Bank. The IMF provided a stand-by arrangement in mid-1983, which was followed by two additional stand-by arrangements. The Bank also made one structural adjustment loan and five sector adjustment loans for Ghana between fiscal years 1983 and 1987. As a result, Ghana increased its share of IDA credits from 1.7 percent in 1980–84 to 4.2 percent in 1985–88.

Quantitative Analysis

Correlation analysis and multiple regression analysis were applied to discover the most important criteria in the allocation of Bank funds. Four variables, the cumulative volume of total Bank funds, the cumulative amount of IBRD loans, the cumulative amount of IDA credits, and the ratio of total Bank loans a country received to that country's GDP, in the period of 1980–84, were used as dependent variables.

1. Correlation Analysis

Table 4 shows the correlation coefficients between the volumes of IBRD loans, IDA credits, total Bank loans of borrowers, and the factors which are indices of the Bank's official lending criteria.[21]

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[19] The World Bank, *Annual Report* (1987), p. 83.

[20] Sheetal K. Chand and Reinold van Til, "Ghana: Toward Successful Stabilization and Recovery," *Finance and Development*, Vol. 25, No. 1, 1988, p. 22.

[21] Technical notes are as follows. Inflation: Average annual rate of inflation (%) 1970–81; Reserves: Gross international reserves; Borrowings: Commitments of public borrowing 1981; Debt/GNP: External public debt outstanding and disbursed as percentage of GNP 1981; Debt service/GNP: Debt service as percentage of GNP 1981; GDP: GDP 1981; Domestic investment: Average annual growth rate (%) of gross domestic investment 1970–81; Export: Merchandise exports 1981; External capital flow: Gross inflow, public and publicly guaranteed medium- and long-term loans; External capital flow (net): Public and publicly guaranteed medium- and long-term loans (net inflow) 1981; ODA by DAC: Bilateral ODA commitment amount by DAC countries; GNP per capita: GNP per capita (dollars) 1981; Delta GNP per capita: Average annual growth (%) of GNP per capita 1960–81; Delta GDP: Average annual growth rate (%) of GDP 1970–81; Literacy: Adult literacy rate (%) 1980; Number of Physicians: Population per pnysician 1980. Data source

TABLE 4. CORRELATION COEFFICIENTS WITH THE AMOUNTS OF IBRD LOANS, IDA CREDITS, AND TOTAL LOANS

	TOTAL (IBRD+IDA)	IBRD	IDA
Creditworthiness			
Short-term			
Inflation	0.080	0.157	0.226
Reserves	0.601	0.655	−0.198
Borrowings	0.621	0.792	−0.144
Debt/GNP	−0.274	−0.305	0.059
Debt service/GNP	−0.096	−0.038	−0.250
Long-term			
GDP	0.719	0.809	−0.142
Domestic Investment	0.094	0.161	0.062
Export	0.527	0.697	−0.153
Market Ineligibility			
External Capital Flow	0.524	0.694	−0.010
External (NET)	0.509	0.667	−0.008
ODA by DAC	0.608	0.473	0.383
Performance			
on economic management			
Delta Per capita GNP	0.168	0.352	−0.149
Inflation	0.080	0.157	0.226
Delta GDP	0.216	0.336	−0.056
on poverty			
Literacy	0.113	0.253	−0.085
♯ of Physicians	−0.236	−0.302	0.145
Poverty			
Per capita GNP	0.002	0.127	−0.570

The factors used to measure creditworthiness are closely related to the allocation of the Bank's total funds among countries. The indices of short-term creditworthiness, such as gross international reserves (0.601), and commitment of public borrowings (0.621) show high coefficients. In addition, GDP (0.719) and export (0.527), both of which are indices of long-term creditworthiness and of economic size, also demonstrate a close relationship with IBRD's resource allocation. These results indicate that the more creditworthy and the bigger in economic size a country is, the more the Bank allocates in loans to that country.

Among the indices of market ineligibility, external capital flow, that is, the flow of public and publicly guaranteed external capital, showed a high correlation coefficient (0.524).

is The World Bank, *World Development Report* (1983) and OECD, *Geographical Distribution of Fianncial Flows to Less Developed Countries.*

The following 40 countries were used: Ethiopia, Mali, Malawi, Zaire, Uganda, Burundi, Upper Volta, Rwanda, Tanzania, Haiti, Sri Lanka, Benin, Central Africa, Sierra Leone, Niger, Sudan, Togo, Kenya, Senegal, Mauritania, Yemen Arab Republic, Liberia, Indonesia, Bolivia, Honduras, Zambia, Egypt, El Salvador, Thailand, the Philippines, Papua New Guinea, Morocco, Nigeria, Peru, Ecuador, Jamaica, the Cote d'Ivoire, Dominica, Colombia, Tunisia. For the analysis of IBRD loans and total loan amounts, the following 17 were used in addition to those 40 countries: India, Bangladesh, Costa Rica, Turkey, Syria, Paraguay, Malaysia, Panama, Algeria, Brazil, Mexico, Portugal, Argentina, Yugoslavia, Uruguay, Singapore, and Trinidad and Tobago.

The factors measuring economic performance did not present high correlation coefficients, however. This may be a result of the inappropriateness of indices for measuring economic performance, because performance cannot be easily measured by a single variable. The Bank staff, in practice, utilizes judgmental data on economic performance.[22]

The correlation pattern between IBRD loans and national characteristics is very similar to that between Bank total loan amounts and national characteristics. The same variables show higher correlation scores with IBRD loan amounts; for example, GDP (0.809), Borrowings (0.792), External capital flows (0.694), and Reserves (0.655). Considering that IBRD funds are three or four times more abundant than IDA funds, the factors affecting the allocation of IBRD loans determine the allocation of Bank total funds.

Four populous and poor countries, India, Bangladesh, China, and Pakistan, occupied 54.5 percent of the total IDA credits in the period of 1980–84. It shows that per capita GNP and population worked as important factors to determine the amounts of IDA credits to countries.

The two largest recipients of IDA credits, India and Bangladesh, were excluded from the samples of correlation analysis. This was done in order to avoid the possibility that characteristics of these two countries may determine the statistical result, due to the fact that they occupy 44.6 percent of the total IDA credits in 1980–1984.

The correlation of GNP per capita with the volume of IDA's credit shows the highest score (−0.570). Negative coefficients suggest that the poorer a country is, the more volume it receives in IDA credits. The poverty level works as the most important criterion for IDA's resource allocation.

The volume of bilateral ODA by DAC countries also has a relatively strong relationship with the volume of IDA credits (0.383), but the relationship is positive. This indicates that the more a country receive ODA from DAC countries, the more the IDA allocates its funds to that country. That is, the "bandwagon" effect was found in IDA's resource allocation. However, the relationship between IDA's country allocation and private investment flow was weak. The IDA works as a "lender of last resort," lending to parties ineligible to borrow from private sources.

The factors related to creditworthiness did not show high correlation coefficients, which contrasted to the cases of Bank total lending and of IBRD loans. This result is understandable because the IDA allocates its funds to the countries which are not creditworthy enough to receive IBRD loans. The factors which are indices of performance also show no strong relationship with the allocation of IDA funds among countries, partly because of the inappropriateness of the indices of performance used in the analysis.

Non-linear relationships between total Bank funds, IBRD loans, IDA credits, and the national factors were examined using various forms of variables such as squares, but no strong relationship between them was found.

2. Multiple Regression Analysis

Statistical significance of GDP in Equation (1), first, indicates that as a whole, the larger the scale of national economy a country has, the more the Bank allocates IBRD and

[22] Statement to the author by a staff member of the World Bank in 1983.

TABLE 5. MULTIPLE REGRESSION RESULTS

			R^2	Adjusted R^2	SER	N
(1)	TOTAL=	−292.4 + 0.016 GDP +0.152 RESERVES (129.9)* (0.003) (0.062) + 2.627 ODA (0.368)	0.755	0.744	796.9	69
(2)	IBRD=	−150.4 + 0.015 GDP +0.127 RESERVES (94.5) (0.002) (0.045) +1.223 ODA (0.268)	0.768	0.757	579.6	69
(3)	TOTAL/GDP=	62.912− 0.165 PGNP+0.640 ODA/GDP (12.444) (0.066) (0.170)	0.442	0.423	37.2	61
(4)	IDA=	284.3 − 3.581 PGNP+0.343 ODA (49.9) (0.815) (0.086)	0.441	0.414	158.0	47
(5)	TOTAL=	−159.3 + 1.049 GDP +0.406 ODA (106.5) (0.439) (0.114) +78.683 MILITARY (44.179)	0.677	0.620	147.9	21
(6)	TOTAL=	316.5 + 1.392 GDP +0.421 ODA (172.1) (0.474) (0.111) −48.338 BUSINESS (25.794)	0.682	0.626	146.7	21
(7)	TOTAL=	−269.538+21.022 GDP +0.136 RESERVES (149.047) (4.119) (0.072) + 2.557 ODA −0.098 EXPORTS TO U.S. (0.402) (0.067)	0.753	0.735	850.5	62
(8)	TOTAL=	−225.826+29.532 GDP +2.633 ODA (141.100) (3.512) (0.384) − 0.201 IMPORTS FROM U.S. (0.070)	0.763	0.751	825.7	62
(9)	TOTAL/GDP=	63.818− 0.194 PGNP+0.391 ODA/GDP (11.925) (0.060) (0.162) −39.622 IMPORTS FROM U.S./TOTAL IMPORTS (29.165) + 0.053 TOTAL IMPORTS/GDP (0.014)	0.569	0.539	33.0	62

* Standard error of coefficient.
SER=standard error of the regression.
D.W.=Durbin-Watson statistic.
TOTAL=total Bank Loans committed during 1980–84 by country.
GDP=a country's GDP in 1981.
ODA=bilateral ODA received by a country from DAC countries in 1981.
RESERVES=a country's gross international reserves.
IBRD=the volume of IBRD loans a country receives.
TOTAL/GDP=the ratio of the amount of total Bank loans a country receives to GDP.
PGNP=per capita GNP of a country.
ODA/GDP=the ratio of the volume of ODA by DAC countries a country receives to GDP.
IDA=the volume of IDA credits a country reveices.
MILITARY=the level of military-civilian conflict.
BUSINESS=the level of restrictions on business.
EXPORTS TO U.S.=a country's total exports to the U.S.
IMPORTS FROM U.S.=a country's total imports from the U.S.
IMPORTS FROM U.S./TOTAL IMPORTS=the ratio of a country's imports from the U.S. to total imports.
TOTAL IMPORTS/GDP=the ratio of a country's total imports to GDP.

IDA funds to it (Table 5).[23] GDP is, of course, used not only to measure the scale of national economy but to judge long term creditworthiness. This explains why the Bank concentrates its resources on upper middle-income countries and populous countries. Second, as found in the correlation analysis, creditworthiness measured by gross international reserves strongly influence the allocation of the Bank's total resources. Third, the positive coefficient of the volume of bilateral ODA by DAC countries indicates that the more bilateral aid a developing country receives, the more the World Bank also allocates its resources to that country. The result of multiple regression analysis also found the "bandwagon" effect present in the allocation of the Bank's total resources.

Residuals of Equation (1) suggest that such countries as Malaysia, Algeria, Mexico, Portugal, Argentina, Chile and Greece received much less of the Bank's resources than estimated from the equation. All of these countries are upper middle-income countries in which GNP per capita is more than $1,800 in 1981, and which will graduate from the IBRD in the near future, thus explaining the under-allocation of Bank resources. However, the Cote d'Ivoire, Colombia, Turkey, Panama, Brazil, and Yugoslavia are over-allocated countries, although these over-allocated countries are also middle-income countries with relatively high per capita GNP. Serious debt problems are commonly found in most countries of the two groups.

The difference between the two groups seems to be partly explained by the difference in the amount of Bank policy-based program loans. The Cote d'Ivoire, Yugoslavia, Turkey, Panama, and Brazil received SALs or sector adjustment loans between fiscal years 1980–1984 while under-allocated countries such as Argentina, Portugal, Algeria, and Malaysia received neither SALs nor sector adjustment loans during this period. However, the Bank allocated SALs to Chile in fiscal 1986 and 1987, and it provided sector adjustment loans to Argentina in fiscal year 1986 and fiscal 1987. In fiscal year 1987, the Bank also provided a sector adjustment loan to Mexico, which had once received it in fiscal year 1983. Therefore, the under-allocated situation in these three countries improved after fiscal year 1986.

Regarding low-income countries, the Bank over-allocated its resources to India in comparison with the estimated amount based on Equation (1). This is explained by the population of India. The residuals show the under-allocation of Bank resources to Tanzania, Pakistan, and Egypt. All of these countries, including India, are dealt as blend countries; that is, those countries received both non-concessional IBRD loans and concessional IDA credits. Therefore, it should be judged whether the Bank over- or under-allocated its funds qualitatively as well as quantitatively after the allocation of concessional IDA funds to these countries are examined.

The adjusted R^2 of Equation (1) suggests that the country allocation of the Bank's total resources is relatively determined by the official lending criteria. However, the R^2 of the

[23] The following 69 countries were used: Bangladesh, Ethiopia, Nepal, Burma, Mali, Malawi, Zair, Uganda, Burundi, Upper Volta, Rwanda, India, Somalia, Tanzania, Haiti, Sri Lanka, Benin, Central African Republic, Sierra Leone, Niger, Pakistan, Sudan, Togo, Ghana, Kenya, Senegal, Mauritania, Yemen Arab Republic, People's Democratic Republic of Yemen, Liberia, Indonesia, Lesotho, Bolivia, Honduras, Zambia, Egypt, El Salvador, Thailand, The Philippines, Papua New Guinea, Morocco, Nigeria, Zimbabwe, Cameroon, People's Pepublic of Congo, Guatemala, Peru, Ecuador, Jamaica, The Cote d'Ivoire, Dominica Republic, Colombia, Tunisia, Costa Rica, Turkey, Syria, Jordan, Paraguay, Malaysia, Panama, Algeria, Brazil, Mexico, Portugal, Argentina, Chile, Yugoslavia, Uruguay, Greece.

model still remains to be improved, which also implies that Bank's lending is also influenced not only by official criteria but the other factors as well.

Equation (2), using the GDP, gross international reserves, amd bilateral ODA as independent variables, was able to explain the amount of IBRD loans given to the countries well. The independent variables in Equation (2) are common to Equation (1). It again supports the idea that the rule of IBRD allocation dominates the allocation of Bank resources as a whole because of IBRD's abundant resource amount.

When the ratio of the Bank's total loan amounts a country received to GDP of that country during fiscal period 1980–84 was used as a dependent variable, Equation (3) was produced.[24] First, the negative coefficient of GNP per capita indicates that the lower a country's GNP per capita, the more the Bank allocates its resources to that country; that is, when the borrowing countries' economic size is taken into consideration, the Bank works as a lender of last resort. Second, the positive coefficient of the ratio of bilateral ODA amounts to GDP again suggest the existence of the "bandwagon" effect.

The coefficient of GNP per capita in Equation (4) indicates that the poverty level of a country has a positive effect on the allocation of IDA funds among countries.[25] The poorer a country is, the more IDA credits it receives. The positive coefficient of the variable of ODA by DAC countries indicates that the allocation of IDA funds has a "bandwagon" effect on the allocation of ODA by DAC countries. In sum, the Bank did not work as a lender of last resort concerning the relationship with bilateral aid agencies.

Residuals of Equation (4) shows the following as over-allocated countries: Sudan, Pakistan, Sri Lanka, China, and Uganda. The over allocation of IDA funds to China and Pakistan is easily explained by the fact that these are populous countries. Pakistan was seen as one of the countries in which the Bank's total loans were under-allocated during 1980–84, but this equation clarified that Pakistan received more than the estimated amount of concessional IDA credits. Both Uganda and Sri Lanka were among the largest recipients of IDA credits per capita in 1980–84. Sri Lanka's performance on improving its poverty level was highly evaluated by the World Bank, and it seems to explain over-allocation of IDA funds to this country.[26]

Sudan began an ambitious development program in the early 1970s, sustained by the availability of external funds. The World Bank also assisted Sudan's program greatly, so that Sudan has become one of the major IDA recipients in Africa since 1970–74. However, Sudan's economy was poor, resulting from a number of factors such as the conflict in the South and the unfavorable external economy. As a result, the government of Sudan

[24] The following countries were excluded from the samples used in Equation (1): Upper Volta, Somalia, Niger, Mauritania, Yemen Arab Republic, Lesotho, Guatemala, and Colombia.

[25] Countries whose GNP per capita is less than US$1200 were used in the analysis of the allocation of IDA funds, considering that the current GNP per capita ceiling for IDA eligibility was $730 at 1980 prices, and that a few countries still manage to receive IDA credits as blend countries even if their GNP per capita is beyond this criterion. In addition, Bangladesh and India were excluded from the samples for the same reasons concerning the correlation analysis. The samples used in the analysis are: Ethiopia, Nepal, Burma, Mali, Malawi, Zair, Uganda, Burundi, Upper Volta, Rwanda, Somalia, Tanzania, China, Haiti, Sri Lanka, Benin, Central Africa, Sierra Leone, Niger, Pakistan, Sudan, Togo, Ghana, Kenya, Senegal, Mauritania, Yemen Arab Republic, PDR of Yemen, Liberia, Indonesia, Bolivia, Honduras, Zambia, Egypt, El Salvador, Thailand, The Philippines, Papua New Guinea, Morocco, Zimbabwe, Cameroon, Congo, Guatemala, Peru, and Ecuador.

[26] Statement to the author by a staff member of the World Bank in 1983.

was faced with economic crisis and debt problems in the early 1980s. The World Bank also recognized its having overestimated Sudan's management capability and ability to get other funds besides Bank funds needed for the implementation of projects, of which the Bank covers a part of total costs in the 1970s. However, the Bank actively engaged in lending, rather than decreasing its loans to that country. Since the late 1970s, the government of Sudan has cooperated with the Bank as well as the IMF to deal with its economic crisis and debt problems.[27]

The under-allocation of IDA credits to Indonesia is explained by the Bank's decision to treat this country as a blend country because of its rich oil resources. The Philippines, Thailand, and El Salvador are dealt with as IBRD countries, while Congo, Cameroon, and Papua New Guinea still receive concessional IDA credits as blend countries although their GNP per capita is higher than those of the former three countries. Egypt is also dealt with as an IBRD country after it received the last IDA credit in fiscal year 1981. Thus, these countries appeared to receive an under-allocation of IDA funds. However, the GDP of the Philippines, Thailand, and Egypt are much higher than those of the Congo, Cameroon, and Papua New Guinea. It suggests that not only GNP per capita, but also the absolute economic size measured by the GDP, affects the allocation of IDA funds.

The Central African Republic, Somalia, and Ethiopia are the low-income countries that received less in Bank loans than was estimated. The performance on management, poverty, and the impact on policies of the Central African Republic and Somalia are lowly evaluated by the Bank staff members, which resulted in less IDA funds than expected.[28]

Ethiopia has been one of the largest IDA countries, and IDA funds are one of the most important external funds for the Ethiopian government; Ethiopia depends on IDA funds for more than five percent of its investment.[29] The Bank issued on IDA credit in fiscal year 1975 because of the revolution in Ethiopia and no loans during the fiscal period 1979–80 because of it's conflict with Somalia, however. The under-allocation of IDA credit to Ethiopia during 1980–84 is due to this conflict. However, the Bank maintained its policy to assist the economic development of Ethiopia actively and continued to provide IDA credits after fiscal year 1981.

In sum, the results of the correlation analysis and of the multiple regression analyses suggest that the Bank allocates its IBRD resources and IDA funds based on different rules. The Bank allocates its IBRD resources mainly based on the economic size measured by the GDP and the external funds measured by bilateral ODA from DAC countries. The Bank emphasized GNP per capita as a criterion for the allocation of IDA funds because low-income countries are targets for the IDA. The allocation rule of IBRD funds dominates the allocation of Bank resources as a whole because IBRD funds are much larger than IDA funds. Second, the availability of external funds affects the allocation of funds in both the IBRD and IDA. However, the Bank tends to allocate more funds, either IBRD loans or IDA credits, to the countries which receive more bilateral ODA from DAC countries. The "bandwagon" effect was found in both cases. The Bank did not work as a lender of

[27] Just Faaland, "Economic Disarray and Dependence: The Case of the Sudan" in Kjell J. Havnevik, ed., *The IMF and the World Bank in Africa* (Uppsala: Scandinavian Institute of African Studies, 1987), pp. 117–126.

[28] Statement to the author by a staff member of the World Bank in 1983.

[29] The World Bank, *IDA in Retrospect*, p. 11.

last resort concerning the relationship with bilateral aid agencies. Third, the Bank's lending to countries is explained by the officially stated criteria, but the R^2 of equations have still room to be improved. It suggests that the allocation of Bank resources among countries is influenced by other factors than those officially stated.

II. *Political Risk Model*

The IBRD's Articles of Agreement state that "the Bank and its officers shall not interfere in the political affairs of any member; nor shall they be influenced in their decisions by the political character of the member or members concerned. Only economic considerations shall be relevant to their decisions, and these considerations shall be weighed impartially" (IV-10). The IDA's Articles of Agreement also contain similar clauses (Article V, Section 6). Non-interference in the political affairs of borrowing countries is a principle in Bank lending.

This principle has been challenged by external actors, for example, the U.S. government. It has also been questioned by the internal Bank staff, who recognizes the fact that the political affairs of borrowing countries strongly affect the implementation of projects financed by the Bank. Frequent coup d'etats or revolutions have directly damaged the Bank's projects while expropriation such as nationalization of foreign enterprises has injured business environment, thereby disturbing the promotion of private activity, which is one of the main objectives of the Bank. However, the Bank has dealt with these problems within the framework of non-interference in the politics of borrowing countries. Political instability was regarded as a problem of creditworthiness, and expropriation was examined as a problem of appropriateness of compensation.

Many economic issues have been politicized, and the separation between politics and economics has generally become difficult since the 1970s, however. In addition, the changes in Bank lending policy has made the application of non-interference in politics more difficult. First, the Bank has strengthened policy-based program lending in the 1980s, and in addition, has openly discussed the problems of management in the development process. It advises borrowers on their macro-economic policy through policy dialogue with the borrowing governments. It has also provided technical assistance to strengthen borrowers' administrative ability. The administrative matters, on which the Bank advises, are often politically controversial, but the Bank staff argues that its interference is limited to the administrative factors related to economic policy.

Second, since private lenders increased their lending to developing countries as a result of extra-liquidity in the 1970s, they had expected the World Bank to function as a guarantor for non-commercial risk. The Bank, under President A. W. Clausen, responded by expanding the co-financing of external sources, particularly of private sources, and by estalishing the Multilateral Investment Guarantee Agency (MIGA).

Of the two factors which increased the importance of political affairs in borrowing countries for Bank lending, private lenders' expectations toward the Bank and the Bank's response will be investigated more in detail, and the Bank's policy-based lending will be examined in chapter four. In addition, the effect of these political factors of borrowing countries on the geographical allocation of Bank resources will be quantitatively examined.

The World Bank as a Guarantor of Political Risk

The worsening of debt problems in Latin American and other middle-income countries, and the urgent economic situation in sub-Saharan Africa in the 1980s increased the demand for Bank resources for the resolution of these problems. Capital increases of the IBRD and of the IDA are ways to expand the Bank's ability to provide finance and other services directly, but these appeared unlikely to be approved smoothly, although the Bank was able to increase IBRD capital in fiscal year 1988. Therefore, the Bank stresses not only the increase in its own resources but its catalytic role in increasing flows of official development assistance, export credits, commercial-bank lending, and direct private investment.

Viewing the Bank as a catalyst is not a new idea.[30] In fact, the Articles of Agreement of the IBRD define one of the Bank's purposes as "to promote private foreign investments by means of guarantees or participations in loans and other investments made by private investors" (I-ii). When it was established in 1944, the World Bank was expected to work as a catalyst in promoting private foreign investment.

Since then, however, the substance of the catalyst has gradually changed. At the beginning of its history, the Bank's role as a catalyst was thought to be consistent with its role as a "lender of last resort." That is, the Bank lends to infrastructure-related projects in developing countries, which are expected to stimulate further private foreign investment.

When private investors were faced with the problems of nationalization or other forms of expropriation, they expected the Bank to play a role in resolving the problem. Thus, the Bank established the International Center for Settlement of Investment Disputes to provide facilities for conciliation and arbitration of investment disputes in October 1966.

As private lending to developing countries increased, and the debt problems of the developing countries became very serious, particularly in the latter half of the 1970s, private corporations increased their expectations of the World Bank to work as a political and non-commercial risk insurance for private corporations.

Responding to these expectations and based on its own wish to expand finances for lending, the Bank stressed the co-financing policy. Co-financing is defined as "any arrangement whereby funds from the World Bank are associated with funds provided by other sources outside the borrowing country in the financing of a particular project."[31]

The World Bank offers the following two advantages to these co-financers:

(1) The Bank's project plans are regarded as well-conceived and appraised. In addition, it has closely supervised project implementation. As a result, the World Bank has never experienced the trouble of default or rescheduling of its projects. It is also a fact that borrowers have always tried to avoid default or rescheduling of Bank loans because such trouble would be likely to damage decisively the creditworthiness of the borrowing country. Therefore, lenders can reduce the probability of these risks in co-financing. The presence of the World Bank as a partner works as a form of insurance for co-financers.

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[30] The World Bank has undertaken a study called "the Future Role of the Bank," where the Bank's catalytic role is stressed during the period from latter half of the 1980s into the 1990s. The World Bank *Annual Report* (1985), p. 48.

[31] The World Bank, *Co-financing* (1980), (The World Bamk: Washington, D.C., 1980), pp. 1–2.

(2) The World Bank fulfills a role as an important information source on sound investment opportunities as well as the policies and prospects of the developing countries. In fact, the World Bank has invested much money and staff in the economic analysis of developing countries and in sectoral studies.[32]

Borrowers also find several advantages in the Bank's co-financing. First, borrowers can access sources of funding other than Bank funds more easily through co-financing. Second, co-financing contributes to improvements in the conditions of loans; that is, co-financing is likely to bring about a lengthening of maturities and grace periods for commercial loans.[33]

The U.S. government intensified its expectations regarding the Bank's co-financing policy after 1985 when it proposed the Baker plan, which emphasized not only a financial retrenchment policy but a growth-oriented adjustment policy for the resolution of debt problems in developing countries. The U.S., therefore insisted on the need for a great expansion in lending by private banks as well as international organizations. The Bank's co-financing policy was expected to serve for this purpose.

The Pattern of World Bank Co-financing

The World Bank has been very active in promoting co-financing; in cumulative terms during 1974–83, the Bank has committed loans for 2,325 projects which cost $275 billion. Of these 2,325 projects, 806 were co-financed by one or several of the three types of co-financers. In dollar terms, of the $275 billion, more than half was co-financed by co-financers. The Bank itself has provided $33 billion for co-financed projects, which corresponds to 35 percent of the overall costs.

The Bank's co-financing partners are classified into three groups: (a) official sources, which include governments, their agencies, and multilateral financial institutions; (b) export credit institutions, which are directly associated with financing the procurement of certain goods and services from a particular country; and (c) private financial institutions, which consist primarily of commercial banks.

The private lenders' co-financing pattern contrasted with that of official lenders. Such lenders steadily increased the amount they co-financed with the Bank's projects both in absolute terms and proportionally until fiscal year 1982 (Table 6). In particular, the lenders drastically increased the amount they financed to 1,778 million US dollars in fiscal year 1980, which was more than three times the 514 million US dollars that was financed in fiscal year 1979. The private lenders had financed more than one-third of the total co-financed costs in 1981 and 1982. Their co-financing amount, proportionally and in real figures, decreased rapidly to about half that of the previous year in fiscal year 1983, however. Since then, the private lenders have been unable to increase greatly either the amount or the proportion of their co-financing costs. These figures indicate that the Bank, under President Clausen, had begun to stress the expansion of co-financing with the private lenders and

[32] 30 million dollars, 4.5 percent of the total administrative budget, was spent on economics and research units in fiscal year 1985. Additionally, studies on the policies and prospects of developing countries are undertaken in many other departments and units of the World Bank.

[33] The World Bank, *Co-financing* (1980), p. 10.

TABLE 6. WORLD BANK CO-FINANCING OPERATIONS BY SOURCE OF CO-FINANCING (CURRENT US$ MILLION)

	By Source of Co-financing						No of Projects Co-financed and Amounts from All Sources	
	Official		Export Credit		Private			
FY	No	Amount	No	Amount	No	Amount	No	Amount
1974	44	788.8(53.9%)	11	589.5(40.3%)	2	84.7(5.8%)	48	1,463.0(100.0%)
1975	48	923.3(47.6%)	9	962.0(49.6%)	1	55.0(2.8%)	53	1,940.3(100(0%)
1976	61	1,079.7(47.9%)	16	902.9(40.0%)	5	272.5(12.1%)	73	2,255.1(100.0%)
1977	72	1,550.7(64.4%)	9	197.5(8.2%)	9	660.0(27.4%)	81	2,408.2(100.0%)
1978	71	1,761.6(71.3%)	15	539.3(21.8%)	8	169.9(6.9%)	81	2,470.8(100.0%)
1979	88	1,979.9(62.8%)	16	659.2(20.9%)	13	513.9(16.3%)	109	3,153.0(100.0%)
1980	70	2,483.8(38.0%)	23	2,276.3(34.8%)	20	1,777.9(27.2%)	92	6,538.0(100.0%)
1981	68	1,623.0(43.8%)	8	737.1(19.9%)	12	1,344.5(36.3%)	76	3,704.6(100.0%)
1982	80	2,250.7(34.9%)	26	1,985.2(30.8%)	18	2.215.6(34.3%)	105	6,451.5(100.0%)
1983	80	1,750.2(30.8%)	17	2,924.2(51.4%)	12	1,016.0(17.9%)	88	5,690.4(100.0%)
1984	83	1,978.7(49.1%)	16	942.8(23.4%)	11	1.106.6(27,5%)	97	4,028.1(100.0%)
1985	89	2,635.0(52.4%)	20	1,321.2(26.3%)	12	1,068.0(21.3%)	107	5,024.2(100.0%)
1986	103	2,638.8(68.8%)	13	426.6(11.1%)	5	769.1(20.1%)	116	3,834.5(100.0%)
1987	100	2,697.0(51.5%)	15	2,006.1(38.3%)	5	533.8(10.2%)	110	5.236.9(100.0%)
1988	85	3,233.0(48.8%)	13	2,435.9(36.8%)	7	952.1(14.4%)	96	6,621.0(100.0%)
Total	682	16,191.7(44.9%)	150	11,773.2(32.6%)	100	8,110.0(22.5%)	806	36,074.9(100.0%)

Source: Calculated from The World Bank, *Co-financing* (1983), Table 2, and *Annual Reports*.

temporarily succeeded in doing so. However, Mexico's efforts to seek a rescheduling of its debts in 1982 caused private lenders to hesitate to lend to developing countries. As a result, the Bank has failed to expand co-financing with private lenders after fiscal year 1982, which explains in part why the Baker plan did not succeed. Conversely, the proportion of overall project costs financed by official bilateral lenders to total co-financed project costs increased to approximately more than 50 percent since fiscal year 1984.

The co-financing pattern by groups based on the income of borrowing countries clarifies that the Bank's co-financing with private sources is largely concentrated in the higher-middle income countries. Even in co-financing with the World Bank, a commercial bank loan is basically arranged on commercial terms, although the co-financing policy brings about favorable loan conditions in comparison with normal terms. Therefore, most of the poorer developing countries are not able to gain access to this source of financing. Private sources co-financed 9.6 percent of the total project costs for higher middle-income countries, whose GNP per capita were more than $1,391, but they spent only 0.5 percent of the total project costs for the poorest countries, whose GNP per capita was less than $410. These trends indicate that the Bank's strengthening of co-financing policy under President Clausen is of greatest benefit to higher-middle incoem countries.

Official agencies have stressed the co-financing of projects for the poorest countries; official lenders spent 22 percent of the total costs of co-financing projects between 1974 and 1983 on countries whose GNP per capita was less than $410 million at 1981 prices, but they provided only 4 percent for co-financed projects to countries whose GNP per capita was above $1,391. The proportion of co-financing volume by official lenders to the total costs of co-financed projects decreases as the borrowing countries' GNP per capita becomes higher. The proportion of the Bank's total contributing amount in co-financing projects also decreases as GNP per capita of the developing countries increase. The official lenders and the Bank share a lending policy which stress lending to poorer countries, which explains why a "bandwagon" effect between the Bank's lending behavior and official bilateral agencies' aid allocation was found in the quantitative analysis of the formula-based model. The expansion of co-financing with official lenders therefore is likely to increase the Bank's lending to poorer countries.

More than half of the co-financing with private sources was from Japan (29 percent) and the United States (24 percent) during 1974–83, and the future expansion of co-financing with private sources greatly depends on an increase in co-financing with Japanese and American banks.[34]

The World Bank has designed a new way to attract private sources for Bank co-financing. In the traditional arrangement for co-financing with commercial banks, the World Bank and commercial banks make separate loan agreements with borrowing countries. Commercial banks negotiate directly with borrowers, and loans are made on market terms. The commercial banks' loans are linked to the Bank's loan through an optional cross default clause, and with a memorandum of agreement signed by the Bank and the agent for the commercial banks.[35] In January 1983, the Board of Executive Directors approved direct World Bank participation in commercial loans to provide longer maturities of loans made by commercial banks. In spite of the Bank's efforts, private lenders were reluctant to co-finance Bank projects/programs in developing countries.

On the other hand, A. W. Clausen energetically endeavored to establish an affiliate which provides insurance for non-commercial risk within the World Bank. This resulted in the agreement to establish the Multilateral Investment Guarantee Agency (MIGA) in October 1985. The international convention establishing the MIGA took effect in April 1988. The objective of MIGA is to guarantee eligible foreign investments against losses resulting from non-mcomercial risk, which are often regarded as "creeping expropriation."

Empirical Analysis

The expansion of policy based lending, the stress of co-financing with private corporations and the establishment of the MIGA has, most likely, introduced a political risk analysis into the World Bank's creditworthiness assessment.[36] The Bank's concern about political risk is different from that of commercial banks in that the Bank has not actively had risk of default or rescheduling, however. The Bank is sensitive to political risk not because of the danger of default or rescheduling but because politically risky events or situations damage the implementation of projects financed by the Bank, disturb the reform of economic policy as the Bank advises, and prevent the flow of private resources to developing

[34] The importance of the Japanese capital market to Bank co-financing seems to be explained by fact that the position of the Vice-President of co-financing in the Bank has been occupied by Japanese staff members.

[35] The World Bank, *Annual Report* (1983), p. 38.

[36] Regarding the measurement of political risks by private corporations, see Stephen Kobrin, et al., "The Assessment and Evaluation of Non-economic Environments by American Firms: A Preliminary Report," *Journal of International Business Studies*, Spring/Summer 1980, pp. 32–47.

countries. Thus, the political risks which the Bank staff is concerned with are summarized as follows: First, a drastic political incident is usually regarded as a political risk. The revolution in Ethiopia and the civil war in Chad are included as recent examples. The Bank's report also pointed out the break-up of Pakistan as another example of political events that endanger the Bank's projects.[37] The Bank staff also pays attention to ethnic fragmentation and social safety nets.

Second, the Bank staff sees various business restrictions on foreign capital imposed by the developing countries as a political risk, because it may decrease the effect of Bank projects over the promotion of foreign private investments. Arbitrary judicial systems are also checked because they are a risk for investors.[38] Commercial banks and private investors are also very sensitive to both political instability and business restriction which are often regarded as "creeping expropriation." The World Bank is expected to behave as follows: The less politically stable and the more restrictive to private business a country is, the less volume the Bank lends to the country.

This study will utilize the country risk data published in *Institutional Investor* and the political risk data presented by William Coplin and Michael O'Leary.[39] *Institutional Investor*'s rating is derived from questionnaires to 50 world-wide banks and interviews with 40 bankers. Coplin and O'Leary measured seven factors which contribute to the ratings of political risk: political instability, restrictions on business, economic nationalism, military civil conflict, austerity programs, factionalism, and internal conflict. Three or four specialists from each country rated the scores, which range from A to D- for these seven factors.

Of course, some aspects of the methods of measurement are questionable; for example, the objectivity of the ratings, and the appropriateness of comparison of ratings between countries. In addition, *Institutional Investor*'s data covers more than 55 developing countries while Coplin and O'Leary's data covered only 35 countries, including a few developed or non-borrowing countries. Therefore, the number of samples used in quantitative analyses decreased furthermore. Even so, Coplin and O'Leary's data are useful in this analysis because they cover many facets of political risks.

Correlation analysis and multiple-regression analysis were used to examine the relationship between the Bank's lending amount and *Institutional Investor*'s rating of country risk or Coplin and O'Leary's rating of political risk of the borrowing countries.[40] Only

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[37] *IDA in Retrospect*, p. 64.

[38] Statement to the author by a Bank staff member in 1983.

[39] *Institutional Investor*, "Rating Country Risk," September 1979, pp. 243–246, and William Coplin and Michael O'Leary, *Political Risks in Thirty-Five Countries 1983* (London: Euromoney Publications, 1983).

[40] 35 countries in Coplin and O'Leary's data include Sweden, France, Canada, Taiwan, Singapore, Italy, Belgium, Saudi Arabia, Venezuela, Spain, South Africa, Israel, Greece, but these countries were excluded from the samples in the correlation analysis because they are not Bank borrowing countries. Thus, the following twenty-two countries were used as samples in the analysis of correlation between Coplin and O'-Leary's Political Risk Rating and Bank lending amount: Argentina, Bolivia, Brazil, Chile, China, Colombia, Costa Rica, India, Indonesia, Iran, South Korea, Mexico, Nigeria, Pakistan, the Philippines, Portugal, Peru, Thailand, Turkey, Yugoslavia, Zaire, and Zambia.

In addition to the above twenty-two countries, the following 33 countries were utilized as samples in the correlation analysis of *Institutional Investor's* rating and Bank lending: Algeria, Ecuador, Egypt, Iraq, the Cote d'Ivoire, Jamaica, Kenya, Malaysia, Morocco, Panama, Paraguay, Zimbabwe, Romania, Senegal, Seychelles, Sierra Leone, Sudan, Syria, Tanzania, Hungary, Jordan, Lebanon, Liberia, Nicaragua, Oman, the Congo, Cyprus, Dominica, Ethiopia, Gabon, Tunisia, Uganda, and Uruguay.

TABLE 7. CORRELATION COEFFICIENTS

Institutional Investor's Rating	0.368
W. Coplin and O'Leary's Rating	
Political instability	−0.279
Restri ctions on business	−0.251
Economic nationalism	−0.034
Military-civilian conflict	0.461
Austerity programs	0.674
Factionalism	0.136
Internal conflict	0.153

the combined total loan amounts, including both IBRD loans and IDA credits received by a country during 1980–84, were used because the number of samples used in the analysis of IDA credit amount was so few.

Institutional Investor's rating has a relatively strong relationship with Bank lending amount; the correlation coefficient is 0.368 (Table 7). *Institutional Investor*'s rating is a general country risk rating rather than a political risk rating; therefore, the correlation coefficient indicates the strong relationship between creditworthiness of borrowers and Bank lending amount.[41]

The multiple-regression analysis was applied to measure precisely the effect of the level of country/political risk factor on the Bank's lending behavior, controlling the effect of the GDP and the amount of bilateral ODA provided by DAC countries. When the country risk or political risk variables were added to Equation (1) used in the analysis of the formula-based model, the following two equations were produced. Equation (5), using the level of military-civilian conflict, was not necessarily satisfactory, but it nevertheless suggests that the less the military-civilian conflict, the more funds the Bank provides.[42] *Institutional Investor*'s rating did not present statistically significant output.

Residuals of Equation (5) show that India and Brazil are examples of over-funded countries, and Colombia, South Korea, Nigeria, Turkey, and Yugoslavia are examples of countries more over-allocated countries than estimated. Most of these countries, except Nigeria, are found to be over-funded countries even in Equation (1) of the formula-based model. Nigeria's creditworthiness, indebted to its rich oil resources, is highly evaluated by the Bank staff. However, considering the instability of the military-civilian relationship in Nigeria, it can be said that the Bank has provided too many loans to Nigeria.[43] Bolivia is another country which was more over-allocated than estimated; Equation (5) suggests that the Bank should not provide loans to Bolivia, considering the very high risk of military-civilian conflict.[44] However, these findings, conversely, suggest that in practice,

[41] The correlation coefficient between *Institutional Investor*'s rating and international reserves is 0.669.

[42] Samples of the multiple regression analysis using Coplin and O'Leary's data comprise twenty-one countries, excluding Iran from the 22 countries used in the correlation analysis; GDP data for Iran at the beginning of the 1980s is unavailable. The number of samples employed in the multiple regression analysis using *Ini stitutional Investor*'s rating totals 45, excluding the following countries due to a lack of data: Iran, Iraq, Romania, Seychelles, Hungary, Lebanon, Liberia, Oman, Cyprus and Gabon.

[43] Coplin and O'Leary rated the risk of military-civilian conflict in Nigeria as the second highest among five ranks.

[44] The risk of military-civilian conflict in Bolivia in Coplin and O'Leary's data book is rated as the highest among the five ranks.

when issuing loans, the Bank staff did not take into consideration the high risk of military-civilian conflict in these countries.

The lending amount to Argentina and Chile are well estimated in Equation (5) of the political risk model, although both countries are treated as under-allocated in Equation (1), calculated by GDP, international reserves, and bilateral ODA from DAC countries. In other words, political instability of both countries, measured by military-civilian conflict, explain why Argentina and Chile received less loans than estimated in the formula-based model.

The statistically satisfactory result of Equation (6) shows that the Bank has been very sensitive to the borrowing countries' policy toward foreign investment, and the positive coefficient of the variable in the level of restrictions on business implies taht the more restrictions on business, the less the Bank allocates its resources.

In comparison with the residuals in Equation (5), Equation (6) well estimated Bank lending to Costa Rica which is seen as a under-allocated country in Equation (5). Coplin and O'Leary rated Costa Rica's military-civilian conflict as the lowest in the four grades, but rated its restrictions on business as seventh from the highest. Costa Rica's stringent restrictions on bunsiess explain why the Bank allocated less resources to that country, given its relatively high GDP, financial reserves, ODA, and the stable relationship between the military and civilian sectors.

South Korea is another country estimated well in Equation (6), although it is regarded as an over-allocated country in Equation (5). The level of military-civilian conflict in South Korea is rated the second highest among the four ranks, but its policy concerning business is seen as quite open; therefore it is rated fourth for openness. Contrary to the case of Costa Rica, the Bank allocates more funds to South Korea because of its open policy toward foreign investments, in spite of the unstable relationship between the military and civilians.

In sum, political risk factors could explain the cases which are seen as over- or under-allocated countries based on the formula based model. Political instability measured by military-civilian conflict and business restrictiontinfluenced the Bank staff's lending. This indicates that the World Bank sees not only the politically risky events which disturb the smooth implementation of Bank projects directly, but also the borrowers' restrictive policies toward foreign investment, as an important political risk for the Bank, because those policies decreased the effects of Bank projects on the promotion of private foreign investment.

III. *U.S. Pressure Model*

The World Bank employs a weighted voting system, unlike other UN agencies which use the "one-nation one-vote" system. Therefore, the World Bank is often regarded as being dominated by wealthy nations, particularly the United States.[45] However, being a strong power does not necessarily guarantee that a country will be able to exercise a strong influence over the Bank's decisions. In fact, these decisions are often made by consensus,

[45] Teresa Hayter, *Aid as Imperialism* (Harmondworth: Penguin Books, 1971), p. 32, and Edward R. Fried and Henry D. Owen, *The Future Role of the World Bank* (Washington, D.C.: The Brookings Institution, 1982), pp. 3–4.

and the opportinities available for the U.S. to use its voting power are few in number.

On the other hand, U.S. financial contributions to the Bank have decreased, and the United States' voting power has also declined. Accordingly, many feel that the U.S. control over the Bank has decreased. However, when we speak of a decline in U.S. power, this does not necessarily imply a decrease in U.S. ability to influence the lending policy of the World Bank. We need, therefore, to distinguish between "power source" and "influence" in the decision-making process.

In this section, we will, first, examine the source of the power and privileges enjoyed by the United States in the Bank. Secondly, we will investigate the objectives of U.S. policy toward the World Bank, focusing on those of the U.S. Congress and the executive branch. Thirdly, this section will examine the influence of the United States over the geographical allocation of Bank funds, by analyzing the voting behavior of the Board of Executive Directors of the Bank, and by analyzing the relationship between the amount of loans made by the Bank to countries and the U.S. trade/aid relationship with those countries.

Sources of U.S. Power in the World Bank

The United States has historically enjoyed several privileges in the World Bank. First, it has the greatest voting power on the Board of Governors and on the Board of Executive Directors. These two Boards comprise the main decision-making bodies of the Bank. Although its share of IBRD subscribed capital fell from 30.3 percent in fiscal year 1960 to 19.6 percent in fiscal year 1988 and its share of the IDA subscription fell from 42.3 percent in 1961–64 to 25.0 percent of the eighth replenishment in 1988–90, the U.S. still maintains the greatest voting power: 18.7 percent in the IBRD and 18.1 percent in the IDA in fiscal year 1988. Moreover, the U.S. succeeded in retainingtits veto power on the Board by amending the Articles of Agreement to increase to 85 percent the majority of the total voting power required for further amending of the Articles even though its voting power has steadily declined.

Secondly, the replenishment of the IDA subscription does not become effective until member states pledge to pay a total of more than 80 percent of the total subscription, and the United States has always contributed more than a quarter of this amount. The U.S. has a substantial 'financial veto' in the IDA.[46]

Thirdly, the headquarters of the World Bank is located in the United States because the Articles of Agreement of the IBRD state that "the principal office of the Bank shall be located in the territory of the member holding the greatest number of shares" (V-9-a). This location is advantageous to the United States government, giving it easy access to the World Bank.

Fourth, all presidents of the World Bank have been U.S. citizens. There has been an informal agreement since the World Bank and the IMF were established, that the Bank's president be a U.S. citizen and the IMF's Managing Director come from a European country. The first president of the World Bank, Eugene Meyer in 1946, was the head of an investment banking company (Eugene Meyer and Company) before World War II. John McCloy,

[46] Ironically, this caused many problems during the IDA replenishment process.

1947–49, was a member of a law firm and counsel to the Chase National Bank; Eugene Black, 1949–62, was a vice president of the Chase National Bank of New York; George Woods, 1963–68, was chairman of the Board of the First Boston Corporation, Robert McNamara, 1968–81, was president of Ford Motors and U.S. Secretary of Defense, A. W. Clausen, 1981–1986, was president of the Bank of America, and Barber Conable, 1986– , was a U.S. Congressman prior to his appointment as Bank President. All of the presidents of the World Bank have been from the banking community, or have been strongly supported by the U.S. Government.

Finally, a large proportion of the Bank's staff is American. American professional staff members accounted for 64 percent of the Bank's staff in fiscal year 1950, and although the proportion of American staff to the total professional staff is decreasing, even in fiscal year 1981, the number of Americans totaled 673, or 24 percent of the total of 2,757 professional staff members.[47] Moreover, of 140 management personnel, including the President, Vice Presidents, Directors, and Assistant and Deputy Directors, 39 were Americans, corresponding to 28 percent of the total, in fiscal year 1981. Finally, American staff members are heavily represented in all major units of the World Bank.[48]

American Expectations of the World Bank

1. The Attitudes of the U.S. Congress

Both liberals and conservatives have been highly concerned with the Bank's lending policy. Conservatives in Congress have been very critical of multilateralism in general, since the 1970s. Therefore, they have been critical not only of the U.N., but also the World Bank, despite the many privileges enjoyed by the United States in the Bank.

Changes in the World Bank, particularly the Bank's qualitative reorientation for social-sectoral programs under Robert McNamara between 1968–81, also brought down criticism by conservatives.[49] The conservatives' first point of criticism stems from the fact that they consider the Bank's social projects to be essentially welfare programs, and therefore outside of the Bank's proper role. Conservatives, who prefer small government, argue that a welfare policy is not the responsibility of a public entity, either borrowing governments or the World Bank. In addition, they claim that most of the Bank's poverty-alleviation projects do not satisfy criteria for cost-benefir estimates, and are therefore, "give-aways." In fact, social projects possibly do not satisfy traditional, that is economic or financial, criteria for cost-benefit evaluation.

Secondly, extremists criticize the Bank's goal of poverty-alleviation as a socialistic undertaking. This second criticism stems from their opposition to Bank projects which support state planning efforts in particular countries or nationalization policies of the borrowing government. They also criticize Bank lending to state-owned enterprises.

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[47] Aart van de Laar, *op. cit.*, p. 94 and data transformed from a Bank document. The recent data are unavailable.

[48] The United States General Accounting Office, Comptroller General, *American Employment Generally Favorable at International Financial Institutions* (Washington, D.C.: Government Printing Office, 1982), p. 7.

[49] Robert Ayres, "Breaking the Bank," *Foreign Policy*, No. 43, 1981, pp. 104–120.

The third criticism of conservatives is that the Bank's procurement of U.S. goods and services has been too low. They conclude that the benefits U.S. firms have obtained in procuring these items via Bank projects were unfavorably lower than the level of U.S. contribution to IBRD capital subscriptions and to IDA replenishments. Thus, they claim that the U.S. contribution to the IDA should be tied to U.S. procurement, even though this form of "tied-contribution" is forbidden by the Articles of Agreement. In summation, as T. Hayter argues, conservatives demand that the multilateral agencies serve the interests of the U.S., particularly U.S. security goals, and furthermore, conservatives regard the World Bank as an ineffective agency for the expression of American foreign policy.[50]

Liberals in Congress also criticize Bank lending to authoritarian governments from a human rights point of view. In the past, they often demanded that the executive branch stop providing multilateral and bilateral aid to such countries as Chile under Pinochet and the Philippines under Marcos. Their pressure on the executive branch resulted in frequent opposition of the U.S. to Bank loan proposals on the Board of Executive Directors for reasons of human rights violations by borrowing governments, which will be examined in detail later.

2. The U.S. Executive Branch

In 1982, the U.S. Treasury Department, under the Reagan Administration, presented a report which evaluated the policies and operations of the multilateral development banks (MDBs).[51] The Treasury Department argued that the MDBs should be evaluated, first, on the cost-effectiveness of their contribution to the economic growth and stability of developing countries, and second, that the MDBs should play an effective role when private lenders would not, or could not, guarantee loans. Third, the U.S. Treasury Department emphasized the particular importance of MDBs' assistance to poorer countries.

Insisting that these three points are major criteria in evaluating MDBs, the U.S. Treasury Department expects the following from the World Bank:[52]

(1) With regard to the relationship with American bilateral aid programs, the U.S. Treasury Department expects the World Bank to serve as a useful complement to bilateral programs.

(2) With regard to the relationship with private activity, the Treasury Department insists that World Bank lending should not compete with or displace private activity. In addition, the Treasury Department expects the Bank to provide teh infusion of capital and substantial technical assistance and policy advice which American private capital could not sufficiently provide. In other words, the U.S. Treasury Department expects the Bank to work as a "lender of last resort" in complementary fashion to American bilateral programs and private lenders.

(3) The Treasury Department, unlike the conservatives in Congress, approves Bank emphasis on poverty-alleviation programs and argues that the World Bank should make efforts to reach the poor. The Bank's poverty-alleviation program is a supplement to private lender programs.

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[50] T. Hayter, *op. cit.*, p. 32.

[51] The United States Treasury Department, *United States Participation in the Multilateral Development Banks in the 1980's*.

[52] *Ibid.*, pp. 47–65.

(4) The Treasury Department, however, is very critical of the growth of the Bank's lending volume; insisting that the World Bank should emphasize loan quality rather than loan quantity. Therefore, the Treasury Department claims that the World Bank should effectively undertake a 'graduation' policy to reserve scarce Bank resources for the poorest countries and to avoid additional enormous contributions to the IBRD or for IDA replenishment.

The Report of the Treasury Department concludes that the Bank's activities have satisfied these American expectations. The Treasury Department argues that, first, Bank projects are generally well prepared and well supervised, and Bank lending terms are generally appropriate. The Treasury Department is satisfied with the efficient management of the World Bank. Second, the Treasury Department considers that the World Bank has the ability to provide appropriate advice on policy reforms to the developing countries. The Bank is more suitable to do this work than private lenders or bilateral aid agencies, and the Treasury Department evaluates highly the appropriateness and the effectiveness of the Bank's pursuit of practical policy reform. Third, the Treasury Department evaluates Bank lending for poverty-alleviation projects as well-balanced in terms of equity and growth. Bank rates of return in education, health, and other poverty-alleviation projects generally match those of more traditional projects, although the estimation of the rate of return in such projects is more difficult to determine. However, the Treasury Department was dissatisfied with the Bank's efforts to change its emphasis from loan quantity to loan quality, and with the unsteady implementation of the Bank's "graduation" policy. The executive branch, represented by the Treasury Department, has supported the World Bank and evaluated its activities positively, but present U.S. policy does not call for an increase in burden-sharing at this time.

In 1985, then U.S. Treasury Secretary James A. Baker proposed a plan for the resolution of debt problems at the annual meeting of the Boards of Governors (IMF and World Bank) held in Seoul. He insisted on the expansion of the Bank's medium and long-term adjustment loans as well as short-term IMF credits, for the resolution of serious debt issues of developing countries. The U.S. was in a dilemma; that is, the resolution of debt problems using multilateral agencies would apparently serve not only the interests of debt countries but the interests of private American banks. However, the Bank would have to expand its funds for that purpose, which would require increases in American contributions to the Bank's capital fund. Thus, the U.S. finally approved a drastic increase in the IBRD authorized capital from $80 billion in fiscal year 1980 to $171 in fiscal year 1988, and it decided not to contribute the level of funds required to maintain the existing percentage of U.S. subscriptions to total IBRD capital stock. As a result, the U.S. voting power on the IBRD decreased to 18.7 percent in fiscal 1988. However, the U.S. approved this capital increase, contingent on acceptance of the amendment of the IBRD Articles of Agreement to increase to 85 percent the majority of the total voting power required for further amending of the Articles. The U.S. succeeded in maintaining its veto power in spite of the decrease in its voting power.

The U.S. Congress and the Treasury Department have different attitudes toward the Bank's poverty-alleviation program, its lending to state-owned enterprises and military regimes, and its procurement of U.S. goods and services. Both the conservatives and liberals seek direct benefits for the United States, and both are more ideological than the

Treasury Department. Conservatives in Congress and the Treasury Department are very sensitive to the issue of whether the Bank complements or competes with private lenders, however.

Measurement of the Influence of the U.S. over the Outcome of the Bank's Resource Allocation

1. U.S. Votes on the Board of Executive Directors

Anticipation of American opposition on the part of the Bank's staff may deter them from preparing project plans or from presenting a plan to the Board of Executive Directors. The United States, in fact, succeeded in removing loan proposals from the Bank's formal agenda in the early years; for example, in 1946, U.S. opposition to a reconstruction loan for Czechoslovakia led to that nation's suspension from membership in the World Bank. The Bank staff also decided against presenting a loan proposal for Poland's coal industry to the Board of Executive Directors because the United States voiced its opposition to the proposal in 1948.[53]

As the power of the United States has declined, it has had no other choice but to oppose loan proposals during negotiations on the Board of Executive Directors, however. It is often said that decisions of the Board of Governors and the Board of the Executive Directors are rarely made as the result of formal voting. In fact, it is unusual for a country to vote against a loan proposal when it is presented at a meeting of the Board of Executive Directors. The only exception, however, is the United States, which has frequently voted against decisions of the Bank's staff proposals, since the 1970s.[54]

The number of loans the U.S. opposed or abstained from voting on has increased greatly since fiscal year 1975 (Table 8). During fiscal year 1972–1974, the United States opposed or abstained from voting on proposals for IBRD loans or IDA credits usually only once, and at most three times a year. In fiscal year 1975, the United States opposed or abstained nine times on 68 proposals for IDA credits, which constituted 13 percent of the total, and voted against or abstained five times on 122 IBRD loan proposals. This tendency was continued until fiscal year 1986, the latest year for which data is available.

According to the official statement, the reasons for U.S. opposision or abstention at the Board of Executive Director can be classified into the following:[55] (1) Cost-effectiveness, (2)

[53] Bank President John J. McCloy wanted to make a loan to Poland in fiscal year 1948, but by mid-1948, it became clear to him that the U.S. government would instruct its Executive Director to vote against the loan if it were presented to the Board of Executive Directors. Thus, McCloy decided against presenting the proposal to the Board. Mason and Asher, *op. cit.*, p. 86.

[54] The voting record of the Board of Executive Directors is not open to the public, but the U.S. voting record since fiscal year 1972 has been publicized in U.S. National Advisory Council on International Monetary and Financial Policies, *International Finance* (Annual Report to the President and to the Congress for Fiscal Year) (Washington, D.C.: U.S. Government Printing Office).

[55] The Annual Report of the U.S. National Advisory Council listed the official reasons for the negative U.S. votes. Lars Schoultz's article was referred to in classifying the reasons. Lars Schoultz, "Politics, Economics, and U.S. Participation in Multilateral Development Banks," *International Organization*, Vol. 36, No. 3, 1982, pp. 537–574.

TABLE 8. THE NUMBER OF AMERICAN NEGATIVE VOTES FOR LOAN PROPOSALS PRESENT AT THE BOARD OF EXECUTIVE DIRECTORS

	Fiscal Year														
	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86
IBRD															
♯ of loans approved	72	73	105	122	141	161	137	142	144	140	150	136	129	131	131
♯ of loans U.S. opposed or abstained	2	3	1	5	2	2	7	2	8	7	8	6	7	4	9
IDA															
♯ of loans approved	68	75	69	68	73	67	99	105	103	106	97	107	106	105	97
♯ of loans U.S. opposed or astained	1	1	0	9	10	14	6	6	3	5	3	8	6	10	4
Total															
♯ of loans approved	140	148	174	190	214	228	236	247	247	246	247	243	235	236	228
♯ of loans U.S. opposed or abstained	3	4	1	14	12	16	13	8	11	12	11	14	13	14	13

Note: Joint IBRD/IDA operations are counted only once as IBRD operations.
Source: United States National Advisory Council on International Monetary and Financial Policies, *International Finance* (Annual Report to the President and to the Congress).

Inappropriate macroeconomic policies (3) Desire to protect private capital, (4) Non-Proliferation Treaty, an (5) Human Rights.

1) Cost-effectiveness

The U.S. used cost effectiveness as the reason for its negative votes only between 1974 and 1976 under Gerald Ford. The United Stafes abstained on five loan proposals in fiscal year 1975, all of which were for Nigeria, giving as a reason the lack of need for capital transfer. Nigeria had already moved up from its previous IDA borrower status, in effect since fiscal year 1965 because of its rich oil resources, and in spite of its low GNP per capita. However, the United States claimed that Nigeria had access to private sources, therefore the U.S. insisted that Nigeria no longer qualified for IBRD borrower status.

All of the five loan proposals to Nigeria were finally approved, and the United States failed to achieve its objective. However, the World Bank temporarily terminated its commitment to Nigeria in the following fiscal year of 1976, although it has been continuously committed to Nigeria every year since then. The Bank staff may have been concerned about a revival of American opposition to the loan proposal for Nigeria, causing them to refrain from presenting a loan proposal to Nigeria in fiscal year 1976. The United States' abstention may have also affected Bank lending behavior in the following year, although this can only be inferred.

The Bank continued to provide IBRD loans to Nigeria until fiscal year 1988, however, because the GNP per capita of Nigeria, $800 in 1985, was still low, far below the criteria established to qualify a country as an IBRD loan recipient. The negative votes by the U.S. had a short-term influence, but not a long-term one.

The United States also opposed or abstained from voting on five loan proposals between fiscal years 1975 and 1976, insisting that there were cost overruns or high costs contained in the project proposals. This voting behavior reflected the preferences of the United States executive branch, which emphasized the efficient management of Bank projects.

Thirdly, the United States abstained from voting on the IDA's proposal for an agricultural loan for raising tobacco in Tanzania in September 1976, giving as its reason the inefficient use of resources. On this case, L. Schoultz argued that the United States abstained on the proposal for an IDA credit for the Tanzania tobacco industry in order to protect its own tobacco industry because most of the production was destined for export.[56] Inefficient use of resources was simply a pretext to protect the interests of U.S. exporters.

2) Inappropriate macroeconomic policies

The U.S. has opposed or abstained from voting for loan proposals, particularly after 1982, giving as its reason inappropriate macroeconomic policies. During this same period the Bank began to emphasize policy-based program lending where the appropriateness of macroeconomic policies in borrowing countries is very important. First, the U.S. abstained from voting for two IDA credits for Ghana and one credit for Tanzania in 1983, raising suspicion about the appropriateness of macroeconomic policies in these countries. Second, the Executive Directors began to discuss conditions regarding individual adjustment loans. The United States voted negatively against an IBRD loan for the Philippines and IDA credits for India, Burma, and Guyana, claiming as its rationale inadequate sector reform conditionality between 1984 and 1986. Third, the United States also abstained from voting for an IBRD loan for Mexico in 1985, because of the negative real interest rates and budget subsidies involved.

The United States sometimes used the inappropriateness of macroeconomic policies only as a pretext for its opposition to loan proposals, however. Considering the political conflict between the United States and Nicaragua since the establishment of the Sandinista government in 1979, the United States is thought to have voted against an IBRD loan proposal to Nicaragua in 1982 for political reasons rather than for the officially stated reasons.

3) Protect private capital

The United States voted negatively to protect private capital mainly for the following three reasons: inappropriate expropriation, potential displacement of foreign private capital, and problems in tariffs and trade policy issues.

Since the passage of an amendment in 1972, United States Executive Directors have been instructed to vote negatively on Bank loan proposals for governments which have expropriated the property of American transnational corporations without compensation.[57] Thus, the United States opposed or abstained on seventeen proposals, twelve of which were for Ethiopia, between 1972 and 1985, because of that country's expropriation policy.

Expropriation involves a number of political considerations, but the World Bank regards expropriation as a purely economic problem. Since the 1960s, the World Bank has consistently refrained from lending to those countries that have expropriated property without prompt compensation. For example, the Allende government of Chile also raised the problem of expropriation without compensation in 1970–71. The United States was unwilling to approve any Bank loan to Chile, and the Bank staff members did not present any loan proposals for Chile to the Board of Executive Directors until fiscal year 1974. Both

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[56] Lars Schoultz, *op. cit.*, pp. 551–552.
[57] PL86-565, Section 12. *Ibid.*, pp. 554–555.

the United States and the World Bank have shared the attitude that the Bank does not have to lend to those countries which have expropriated foreign investment without prompt compensation.

The United States voted against the proposals for Bank loans to Iraq in 1972 and 1973, Syria in 1973, Peru in 1973, and the People's Democratic Congo in 1976. The United States also opposed all Bank loan proposals for Ethiopia presented at the Board of Executive Directors between 1981 and 1985. All of those Bank loan proposals were approved by the Board of Executive Directors, however. The U.S. and the World Bank did not always share the same opinion as to what constitutes expropriation.

America voting behavior to protect the interests of private firms shifted from its concern regarding expropriation to the competitiveness of the Bank's lending behavior with private firms in the energy sector, in the 1980s, as nationalization of property of foreign corporations had decreased since the 1970s. The United States opposed or abstained on fourteen Bank staff proposals, all of which were energy projects between 1982 and 1984 giving as its reasons the potential displacement of foreign private capital. Although the Bank began to expand lending for energy projects, particularly for oil development in fiscal year 1977, the developed countries, particularly the United States, have been very critical of the Bank's lending on energy because private investors are ready to invest in profitable energy projects. Therefore, the United States opposed Bank lending on energy for the reason of "potential displacement of foreign private capital." Along with the decrease in petroleum prices after 1984, the amount of Bank loans for energy-related projects also decreased greatly after ficsal year 1986, however. Therefore, the United States did not vote negatively on loan proposals for energy projects in 1985 and 1986, while it abstained from voting for a loan proposal for iron ore mining in 1985 for this reason.

The United States voted against, or abstained on, five loan proposals citing tariffs, trade policy issues or other reasons. Lars Schoultz explained that the true objective of American opposition to these proposals lay in the protection of American exporters. For example, the United States opposed the IBRD's loan for agriculture (palm oil) to Malaysia in 1978 in order to protect American producers. American palm oil producers had been very sensitive to the Bank's support for their Asian competitors and palm oil protectionist feelings ran very strongly in the U.S. Congress. Lobbyists representing American oilseed producers presented two resolutions, which requested that the World Bank not provide new loans for palm oil production and to re-examine its agricultural lending policy. Although these resolutions were rejected by a narrow margin of 210 to 198 by Congress in 1976, the controversy continued into the following year, and the Carter administration finally "agreed to order the U.S. executive directors to vote against loans for the three specified commodities in fiscal year 1978."[58] The United States opposed an IBRD loan proposal for a palm oil project in Malaysia, citing as a reason the "no institution building role for the IBRD" in 1986.[59] This voting behavior can also be viewed as an attempt to protect American oilseed producers, however.

The U.S. abstained from voting for an IBRD loan and an IDA credit for an industrial credit project in China in March of 1986. This project was designed to assist the growth

[58] *Ibid.*, pp. 552–553.
[59] The United States National Advisory Council, *International Finance* (1986), p. 40.

of many state and collective enterprises, primarily the textile industry, and to boost exports. The U.S. feared that this would cause a conflict with the bilateral quota agreements negotiated with China, and resulted in the negative vote by the U.S.

In 1973 the United States abstained on a Bank loan proposal for corn and tobacco production in Zambia because the increase in the production of corn and tobacco would lead to a surplus in the world market. This stance mirrored America's opposition to the Bank loan proposal for the Tanzanian tobacco industry in 1976; the official reason given at the time being "inefficient use of resources."

4) Non-Proliferation Treaty

The United States has been critical of India's negative attitude toward the Nuclear Non-proliferation Treaty. The U.S. Executive Director at the World Bank was required by the Long amendment to the Foreign Assistance Appropriation Act for 1975, to vote against loans to any country that developed a nuclear explosive device without being a party to the Non-Proliferation Treaty. This amendment, enacted by the U.S. Congress in 1974, was apparently directed at India.[60] As a result, the U.S. voted against IDA lending to India in 1972, and against all of the twenty seven loan proposals for India presented to the Board between 1974 and 1977.

America's voting behavior explicitly violates the Bank's Articles of Agreements which forbid Bank interference in the political affairs of member states. Moreover, India was one of the large recipients of American ODA in this period.[61] That is, Bank lending to India complemented American aid policy, therefore the U.S. executive branch seemed to be in favor of these loans, despite the requirements of the Long amendment. Thus, the U.S. executive branch itself seemed to be most satisfied with the approval of the Bank's loan proposals to India on the Board of Executive Directors, despite official American opposition.

5) Human Rights

American voting behavior regarding Bank lending to those countries which suppress human rights has typically been a reflection of the particular administration in power at the time. The Ford administration first faced controversy over the approval of IBRD's loan proposal to the copper industry of Chile under the Pinochet Administration on the Board of Executive Directors in the World Bank in 1976; the World Bank again proposed lending to Chile under Pinochet in 1976, despite the Pinochet administration's well-publicized violations of human rights. Thus, nine of the twenty Executive Directors voted against the IBRD's loan proposal, European countries abstained, but the United States voted in favor of the loan.[62]

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[60] By P.L. 93-373, the U.S. Governors or Executive Directors in the IDA are required to oppose any use of IDA funds for the benefit of any country which possesses nuclear explosive devices but has not signed the Treaty on the Non-Proliferation of Nuclear Weapons. The U.S. National Advisory Council, *International Finance* (1977), p. 124.

[61] India was the largest recipient of bilateral ODA from the U.S., receiving 14 percent of total U.S. bilateral ODA in 1970-71. However, India rapidly decreased its share to 1.3 percent, becoming the thirteenth largest aid recipient, in 1975.

[62] L. Schoultz, *op. cit.*, p. 560.

The liberals in Congress criticized the American government's approval of the loan, and were opposed to two other IBRD loan proposals for Chile. However, the Treasury Department decided not to press for a vote on loan proposals involving the issue of human rights. The conflict between the liberals in Congress and U.S. executive branch escalated so that the World Bank postponed the schedule for the formal vote. The Ford administration sought to reach a compromise with its critics; however, no compromise between the Ford administration and Congress was possible, and the Ford administration voted for the two loan proposals for Chile.[63]

The Carter administration set up a new decision-making system, comprising the State Department's Bureau of Human Rights and Humanitarian Affairs, the Treasury Department, and the Deputy Secretary of State to discuss the problems and determine the proper voting behavior for the American Executive Directors at the World Bank. The decisions of the committee were made on a case by case basis.

Thirty nine proposals for 13 countries were opposed by the U.S. for the reason of suppression of human rights during Carter's term in office. The U.S. Executive Directors opposed or abstained from voting for loans for the following countries: The People's Democratic Republic of Yemen (seven times), Argentina (seven times), Uruguay (five times), Afghanistan (three times), Chile (three times), Ethiopia (three times), Benin (twice), South Korea (twice), Paraguay (twice), the Philippines (twice), El Salvador (once), Guatemala (once), and Laos (once).

These thirteen countries can be classified into the following three groups. Six of these thirteen countries are Latin American: Argentina, Chile, El Salvador, Guatemala, Paraguay, and Uruguay. The United States did not oppose all Bank loan proposals to these countries because of the Carter administration's decision to treat loan proposals for human rights violators on a case by case basis.

The second group consists of countries against which the United States is ideologically opposed: Afghanistan, since the revolution of 1978; Ethiopia, since the revolution of 1974; and the Yemen P.D.R. The United States once opposed a loan proposal for Afghanistan for cost overrun reasons in 1976, but after the revolution of 1978, the United States opposed Bank loan proposals for Afghanistan twice in June of 1979, for human rights violations. The real objection of the United States was obviously to the Soviet's control of the Afghanistan government. It should also be noted that the IDA proposal for Vietnam for irrigation systemstin 1978 and its proposal for Laos for agriculture projects in 1977 were opposed by the President of the United States who issued a "Predisential directive."

The third group consists of those countries with which the United States has strong political and economic relations, such as the Philippines and South Korea. The Carter administration instructed U.S. Executive Directors to abstain twice in regard to Korea in December 1980 and twice against the Philippines in April and May of 1978. Considering the long reign of the Chun Doo Hwan administration in Korea and the Marcos administration in the Philippines, it seems quite strange that the U.S. voted negatively in regard to these countries only a few times. It seems that the Carter administration preferred to avoid negative votes against these two countries.[64]

The Reagan administration charged that the Carter administration's human rights

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[63] *Ibid.*, p. 560.

policy with regards to the World Bank was unrealistic; The Reagan administration instructed U.S. Executive Directors to approve Bank loan proposals for Latin American countries, Argentina, Chile, Paraguay, and Uruguay in 1981, insisting that the human rights situation had improved in these four countries. As a matter of fact, the U.S. Executive Directors supported Bank loan proposals to Latin American countries, the exceptions being an IBRD loan to Paraguay in April of 1981, and an IBRD loan to Chile in March 1985.

The Reagan administration, however, also continued to vote against or abstain from voting on lending proposals to such ideologically-opposed countries as Laos, Syria, and in particular, the People's Democratic Republic of Yemen. The Reagan administration abstained from voting eleven times for loan proposals for the Democratic Republic of Yemen between 1981 and 1985. Moreover, the Reagan administration abstained from voting for three loan proposals for Ethiopia for what it called human rights violations in 1986, as the Carter administration did, although it opposed all of the eleven loan proposals for Ethiopia between 1981 and 1985 because of the expropriation of foreign assets. This suggests that teh Reagan administration maintained its previous opposition to Bank lending to Ethiopia, and merely changed the reasons between 1981 and 1985 from those given during the Carter years.

6) The Effects of American Voting Behavior

The United States enjoys the strongest voting power in the Bank. Its voting power was, however, 25 percent in fiscal year 1970, and about 20 percent in fiscal year 1985 on the Boards of the Executive Directors of both the IBRD and the IDA. Therefore, it has been apparent that the United States would fail in its attempt to vote down loan proposals without the active support of other Executive Directors.[65] However, other countries are very critical of opposition to the loan proposals prepared by the Bank staff, during Board negotiation. They viewed American voting behavior as too narrow-minded to protect American interests. As a result, the United States never succeeded in rejecting any loan proposals by its votes on the Board of Executive Directors. In addition, America's interference in human rights or in political matters in proposed borrowing countries such as NPT is said to politicize the World Bank, a hindrance to efficient management of the Bank. Although the U.S. is critical of the "politicization" of specialized UN agencies such as UNESCO or ILO, the U.S. itself is criticized for having just such an effect on the World Bank.

In spite of these drawbacks, the United States voted against, or frequently abstained from voting, in order to achieve two prime objectives. The first objective was to inform the Bank staff of American concern regarding loans under review. The second was to influence future plans of the Bank regarding similar lending projects. Simply stated, the U.S. executive branch attempted to influence Bank lending indirectly through its voting behavior on the Board of Executive Directors.[66] The temporary suspension of a Bank

[64] The analysis using the political risk model clarified that the World Bank made loans to these two countries in consideration of these countries' open policy toward foreign investment, and in spite of the high degree of political instability highly related to the violation of human rights.

[65] "Except as otherwise specifically provided, all matters before the Bank shall be decided by a majority of the votes cast" (IBRD Artile V-3-b).

[66] Schoultz argued that the U.S. might vote negatively in order to send a message of its concern to the World Bank and the borrowers rather than to reject loan proposals. L. Schoultz, *op. cit.*, p. 565.

loan for Nigeria in fiscal year 1976 was an example of successful U.S. action of this type. Negative U.S. votes might affect the pattern of Bank lending to countries to reflect American interests, a subject which will be examined.

Negative American voting on the Board may have also been a ruse of sorts, based more on domestic political issues and Congressional relations than on policies of the Bank. For example, the U.S. Executive Directors have often had to vote against, or abstain, on loan proposals to satisfy liberals in Congress who were critical Bank projects in countries where human rights violations occurred. The U.S. executive branch has also had to placate conservatives, who oppose Bank projects for countries opposed to the U.S. for ideological reasons. In addition, when powerful constituents, like the U.S. tobacco industry become interested in particular Bank projects, such as the loan for the tobacco industry in Tanzania, the U.S. executive branch is forced to placate Congressmen representing tobacco-growing districts. With these objectives in mind, the U.S. executive branch may be more concerned with establishing a "proper" voting record rather than with the outcome of the vote itself.

2. Bank Lending, U.S. Aid, and Trade with the U.S.

The relationship between Bank lending patterns and U.S. bilateral aid allocation patterns and the relationship between Banking lending patterns and U.S. trade partners should be analyzed to examine whether U.S. voting behavior affects the pattern of Bank lending to countries in compliance with U.S. desires. These problems will be examined using a simple comparison of major borrowers of Bank loans and major recipients of U.S. aid and major U.S. trade partners in developing countries, as well as by applying correlation analysis and multiple regression analysis to clarify the effects of the relationship of a particular country with the U.S. on Bank lending behavior.

Table 9 shows that many of the major recipients of U.S. bilateral ODA and major U.S. export partners are at the same time major recipients of Bank loans. For example, Egypt, which received more than ten percent of the total U.S. ODA in 1982–83, was also one of the major recipients of both IBRD loans (3.1 percent) and IDA credits (2.4 percent) in 1981–85. Turkey, the second largest recipient of U.S. ODA in 1982–83, was the fourth largest recipient of IBRD loans in 1981–85. Bangladesh, Sudan, India, and Pakistan are also major recipients of U.S. ODA, while these four countries shared more than half (53 percent) of the total IDA credits between 1981–85. These findings suggest that Bank lending behavior works as a complement to U.S. aid allocation.

Moreover, many of the major U.S. export partners are also found to be major recipients of IBRD loans; Mexico, the largest export partner of the U.S. among Bank borrowing countries, received 7.0 percent of the total IBRD lending amount in 1980–84, and is ranked as the third largest recipient. Brazil, which is also a major export partner of the U.S., was the largest recipient of IBRD loans (10.7 percent) in this period. South Korea and China are major trade partners of the U.S., as well as major recipients of IBRD loans. In other words, the Bank tends to allocate IBRD loans mainly to those countries which are major trade partners of the U.S., and in this the Bank can be regarded as serving American interests.

The strength of a country's economic relationship with the U.S. was measured by such variables as the volume of imports from the U.S., the proportion of imports from the U.S. to total imports, exports to the U.S., the proportion of export to the U.S. to total exports, bilateral ODA from the U.S., and the proportion of bilateral ODA from U.S. to total bi-

TABLE 9. MAJOR RECIPIENTS OF U.S. BILATERAL ODA, U.S. EXPORT PARTNERS, AND MAJOR RECIPIENTS OF IBRD AND IDA FINANCES (PERCENT OF THE TOTAL)

U.S. ODA (1982-83)		U.S. Exports (1981)		IBRD (1981-85)		IDA (1981-85)	
Egypt	11.3	Mexico	7.6	Brazil	10.7	India	34.2
Turkey	3.6	South Korea	2.2	India	10.5	Bangladesh	10.4
El Salvador	2.3	Brazil	1.6	Mexico	7.0	Pakistan	5.6
Bangladesh	2.3	China	1.5	Turkey	6.9	China	4.3
Sudan	1.7	Argentina	0.9	South Korea	5.7	Sudan	3.1
India	1.6	Egypt	0.9	Colombia	3.8	Uganda	2.6
Pakistan	1.5	Philippines	0.8	Yugoslavia	3.8	Egypt	2.4
Costa Rica	1.4	Colombia	0.8	Egypt	3.1	Kenya	2.4
Indonesia	1.4	India	0.7	Nigeria	3.0	Tanzania	2.1
Jamaica	1.3	Nigeria	0.7	China	2.4	Zaire	1.9

Source: OECD, *Twenty Five Years of Development Cooperation: A Review* (1985), Table 12, p. 314, IMF, *Direction of Trade*, and World Bank, *Annual Reports.*

TABLE 10. CORRELATION MATRIX BETWEEN BANK LENDING IN 1980–84 AND U.S. TRADE/AID

	TOTAL	IBRD	IDA	TOTAL/GDP
Imports from the U.S.	0.394	0.528	−0.130	−0.273
Imports from the U.S./Imports from all countries	0.055	0.152	−0.288	−0.305
Exports to the U.S.	0.429	0.601	−0.169	−0.337
Exports to the U.S./Exports to all countries	−0.027	0.033	−0.306	−0.201
Bilateral ODA from the U.S.	0.268	0.224	0.208	0.057
Bilateral ODA from the U.S./ODA from DAC	−0.071	−0.084	−0.083	−0.014

lateral ODA from DAC countries (Table 10).[67] The following forms of Bank loan amounts were used: The amounts of IBRD loans, the amounts of IDA credits, the combined total of IBRD loans and IDA credits, and the proportion of total amounts of IBRD loans and IDA credits to GDP controlling the effects of economic size on Bank lending amount. Fifty countries were used as samples in correlation analysis, with the amounts of IDA credits as a dependent variable. Sixty two recipients were utilized in correlation analysis where the remaining three dependent variables were used.

Exports to the U.S. and imports from the U.S. showed quite high correlation coefficients, of 0.429 and 0.394 respectively, with the Bank's total lending amount. These outputs indicate that Bank loans are distributed more frequently to those countries which have stronger trade relationships with the U.S.; a tendency previously observed. The relationship with

[67] Data source are: IMF, *Direction of Trade* for the variables related to U.S. trade and OECD, *Geographical Distribution of Financial Flows to Less Developed Countries* for the variables related to ODA. The commitment amounts to ODA are used in the analysis.

Samples used in correlation analysis are the following 62 countries: Bangladesh, Ethiopia, Nepal, Burma, Mali, Malawi, Zaire, Uganda, Burundi, Rwanda, India, Tanzania, Haiti, Sri Lanka, Benin, Central African Republic, Sierra Leone, Pakistan, Sudan, Togo, Ghana, Kenya, Senegal, Yemen Arab Republic, Liberia, Indonesia, Bolivia, Honduras, Zambia, Egypt, El Salvador, Thailand, The Philippines, Papua New Guinea, Morocco, Nigeria, Zimbabuwe, Cameroon, Congo, Peru, Ecuador, Jamaica, Ivory Coast, Dominica, Tunisia, Costa Rica, Turkey, Syria, Jordan, Paraguay, South Korea, Malaysia, Panama, Algeria, Brazil, Mexico, Portugal, Argentina, Chile, Yugoslavia, Uruguay, and Greece (Order in Per capita GNP in 1983).

the proportional scores of exports or imports with the U.S. is not strong, however. The correlation pattern using IBRD lending amount, as a dependent variable, showed a more evident pattern; IBRD lending amount correlates highly with both the amount of a country's exports to the U.S. (0.601) and with the amount of a country's imports from the U.S. (0.528). These findings indicate that the IBRD and the Bank as a whole prefer to lend to those countries which have stronger trade relationships with the United States.

On the other hand, in the case of allocation of IDA credits, the proportion of exports to the U.S. to total exports showed −0.306 and the proportion of imports from the U.S. to the total amounts of imports showed −0.288. However, contrary to the result of the analysis of IBRD loans, the coefficients were negative in the case of allocation of IDA credits; that is, the weaker a country's trade relationship with U.S., the more credits it received from the IDA. The allocation of IDA credits does not serve U.S. interests directly, but this is because major recipients of IDA funds are among the poorest countries, with which the U.S. has no strong trade relationships.

The correlation coefficient of the absolute volume of ODA from the U.S. with the total amount of Bank loans a country receives was 0.268. The coefficients of absolute volumes of ODA from the U.S. also showed a coefficient of 0.224 in regard to the amount of IBRD loans, and 0.208 with amount of IDA credits. These correlation coefficients are not very high, but they seem to indicate that the pattern of Bank lending is similar to the pattern of U.S. aid allocation.

When the proportion of total Bank loans to GDP in a country was used as the dependent variable it showed relatively high correlation coefficients both with the absolute and proportional volumes of the trade with the U.S.; the coefficient of imports from the U.S. was −0.273, that of exports to the U.S. was −0.337, and that of the proportion of imports from the U.S. was −0.305. All of these coefficients are negative, which suggest that the weaker a country's trade relationship with the U.S., the higher the importance of the Bank's loan for the national economy. In other words, the Bank's role is greater in a country which has a weaker trade relationship with the U.S.

The effects of the strength of the relationship of a country with the U.S. on Bank lending was examined using multiple regression analysis, by adding the six U.S.-related variables to Equation (1), which was presented in the analysis of the formula-based model. Both exports to the U.S. and imports from the U.S. show a negative coefficient in Equation (7) and Equation (8). The output may seem to contradict the findings of the correlation analysis, where both of these variables have a positive relationships with the combined total lending of IBRD loans and IDA credits. However, the high correlation between GDP and exports to the U.S. or imports from U.S. explains this case (0.736 and 0.763 respectively); that is, the Bank as a whole tends to prefer lending to countries with larger GDPs, most of which have strong trade relationships with the United States. Therefore, in bivariate correlation analysis, both exports to the U.S. and imports from the U.S. show positive relationships with IBRD and total Bank lending amounts. However, the results of two regression analyses indicate that the effects of imports from the U.S. and of exports to the U.S. are negative when taking into consideration the effects of GDP, gross international reserves, and the amount of bilateral ODA from DAC countries. Strong trade ties with the United States are not the reason for the Bank's allocation of greater resources. Rather, they have a negative effect on Bank lending policy if other conditions are equal.

Trade-related variables were added to Equation (3) where the proportion of the Bank's total lending volume to GDP was used as a dependent variable (Equation (9)). However, the proportion of imports from the U.S. to total imports did not show a statistically satisfactory result. Neither did that variable present a statistically significant outcome when IDA funds were used as a dependent variable.

In summation, the Bank's lending policy serves the interests of the United States so long as the Bank tends to allocate its resources to countries which have strong trade relationships with the United States. Major U.S. trade partners are major Bank borrowers. This does not imply that the U.S. xercises a strong influence over the Bank's lending behavior, however. Rather, the size of a country's economy, measured by GDP, determines both the amount lent by the Bank and the amount of trade with the U.S. As a result, the trade relationship with the U.S. appears to affect Bank's lending behavior. Therefore, if we control for the effect of GDP on Bank lending, then the trade relationship with the U.S. does not affect total Bank lending and IDA lending.

IV. *Conclusion*

Three models of geographical allocation were presented. A formula-based model hypothesized that the Bank staff allocates its resources based on the official lending criteria, such as creditworthiness, market-ineligibility, economic viability, economic performance, and poverty level. Among various criteria, creditworthiness, measured by gross international reserves, and the size of the national economy, measured by GDP, have a strong effect on the Bank's lending to countries. The Bank tends to allocate more resources to the countries which receive more bilateral ODA from DAC countries, however. A "bandwagon" effect was found between the Bank's lending and the allocation of biletaral ODA, which suggests that the World Bank does not behave as a lender of last resort in its relationship with bilateral aid agencies.

The poverty level measured by GNP per capita affects the allocation of IDA funds. It also determines the allocation of total Bank funds, including IBRD and IDA funds when the ratio of Bank lending amount to GDP in each country was used as a dependent variable. Conisdering that most of the poor countries lack access to commercial banks' loans, then, the World Bank is found to work as a lender of last resort in its relationship with commercial banks.

The Bank lending behavior is also affected by political factors of the recipient countries, that is, the political instability measured by military-civilian conflict and business restrictions. A few countries which are not well explained by the formula based model are well estimated by the political risk model. It indicates the complementary relationship between these two models.

The formula-based model and the political risk model well explained the resource allocation among countries, but the R^2 of the equations in the multiple regression analyses are still to be improved. This is partly due to the method used to test hypotheses presented in the models. The Bank staff members who are responsible for calculating normative loan amounts use quantitative formulas, but they also use qualitative data in addition to quantitative data. In addition, the method of using a single equation to estimate Bank lending amounts to countries is inappropriate to the actual process of Bank decision making. Normative lending amounts for each recipient are calculated by the responsible department staff, and the normative figures are revised through negotiations with Bank staff members in regional departments and with loan officers.[68] Thus, the lending amounts may be totally different from the preliminary normative amounts.

Major recipients of Bank loans tend to have a strong trade relationship with the U.S. Therefore, the Bank's lending behavior serves U.S. interests very much. However, the result of a multiple regression analysis clarified that the strong relationship with the U.S. is not the source of a great deal of lending. As the U.S. has a stronger trade relationship with middle-income countries. the Bank also tends to allocate more of its resources to those countries. As a result, a disguised strong correlation was found between Bank lending and the U.S. trade pattern.

The U.S. Congress, both liberals and conservatives, have been critical of the Bank's lending. The U.S. Executive Director cast votes against loan proposals on the Board of the Executive Directors, although the executive branch is generally favorable for the World Bank. The U.S. never succeeded to reject loan proposals presented by the Bank staff, however. In the past, the U.S. was able to prevent the Bank staff from preparing project plans or presenting loan proposals, but now, the U.S. is only able to oppose loan proposals by negative voting on the Board owing to the decline of its influence over the Bank staff. However, whether the U.S. sincerely tries to reject loan proposals on the Board is also questionable, because it is apparent that the U.S. is unable to reject loan proposals by its isolated voting. U.S. negative voting seems to be a domestic act aimed at appeasing the U.S. Congress.

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[68] Statement to the author by a staff member of the World Bank in 1983.