Do Domestic Politics Shape U.S. Influence in the World Bank?

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Abstract:

This paper investigates whether U.S. presidential administrations choose to exert more influence over international financial institutions when they have less control over bilateral aid because of a divided U.S. government. Reexamining four empirical studies of the World Bank, we demonstrate that findings of U.S. influence are driven by the years in which the U.S. government was divided. This provides a richer picture of when and why the U.S. exerts influence in multilateral settings and an alternate explanation to persistent questions about the role of international organizations in the international political economy.

Keywords: World Bank; divided government; geopolitics of aid

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Contents

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1. Introduction

Over the last ten years, a sizeable empirical literature on foreign aid has established that the U.S. uses both bilateral aid and influence in international financial institutions (IFIs) to pursue its foreign policy objectives. The parallels between bilateral and multilateral aid in serving U.S. interests are particularly clear regarding non-permanent United Nations Security Council (UNSC) membership (Kuziemko and Werker 2006; Dreher *et al.* 2009A,B) and political aid cycles (Faye and Niehaus 2012; Kersting and Kilby 2016).

But what factors influence the U.S. choice between bilateral and multilateral aid? Following Milner and Tingley (2015), we explore the role of U.S. domestic politics and investigate whether the choice between bilateral and multilateral aid depends on the U.S. administration's relations with the Congress. When relations are particularly contentious, we expect that bilateral aid is less available as a foreign policy tool and so the U.S. administration will increase pressure on international organizations to deliver resources in support of U.S. administration goals. We test the hypothesis that previous evidence of U.S. influence in IFIs is largely driven by periods of divided U.S. government. This test is conducted via large N analysis of World Bank operations, using measures of division in the U.S. government, World Bank outcome variables (principally commitments, disbursements, and project ratings), and borrowing countries' geopolitical importance to the U.S.

The evidence supports the hypothesis that previous findings of U.S. influence over the World Bank are largely driven by periods of divided U.S. government. Evidence of selective enforcement of World Bank loan conditionality in favor of U.S. friends from Kilby (2009) is driven by years with a divided U.S. government and not by those occasions where the President can work with a Congress of his own party. The pattern repeats in the analysis of U.S. informal influence over World Bank lending more broadly reported in Kilby (2013A). We also observe the bias in project ratings by the World Bank's Independent Evaluation Group (IEG) in favor of countries holding non-permanent seats in the UNSC uncovered by Kilby and Michaelowa (2016) but only for those years with a divided U.S. government. Finally, electioneering in support of U.S.-friendly incumbents via faster disbursement of World Bank loans in the run-up to borrowing country elections reported in Kersting and Kilby (2016) is also driven largely by periods of divided U.S. government. This repeated pattern suggests that the exercise of influence in IFIs—when IFI activities substitute for bilateral aid—is a function of domestic politics.

The next section of this paper reviews some of the existing literature on the domestic politics and geopolitics of bilateral and multilateral aid. We pay special attention to the relationship between the president and Congress as far as it impacts the allocation of foreign aid. The section concludes with a review of the papers on U.S. influence over the World Bank on which we draw for our empirical analysis. Section 3 lays out our research methodology, which builds on the aforementioned studies and adds the dimension of divided government. Section 4 presents our estimation results and Section 5 concludes.

2. Literature Review

Two parallel literatures have developed, one exploring how U.S. bilateral aid promotes U.S. national interests, another how lending by IFIs promotes U.S. national interests. In some cases, the parallels are very direct. For example, Kuziemko and Werker (2006) demonstrate that U.S. bilateral aid to developing countries increases dramatically when these countries serve as non-permanent members of the UNSC—and decreases just as dramatically when their UNSC terms end. Dreher et al. (2009A) likewise document a jump in the number of World Bank loans approved for countries serving as non-permanent UNSC members that subsides when the country's term ends. Dreher et al. (2009B) finds similar pattern at the IMF, with higher IMF program participation rates while countries hold a non-permanent UNSC seat. (See also Vreeland and Dreher (2014).) Another example is the parallel between Faye and Niehaus (2012) on the one hand and Kersting and Kilby (2016) and Hlavac (2013) on the other. Faye and Niehaus find a pre-election increase in bilateral aid to incumbent governments that are friendly with the donor and a pre-election decrease in bilateral aid to incumbent governments that are not friendly with the donor. Kersting and Kilby find the same pre-election pattern for World Bank investment loan disbursements to incumbent governments that are friendly with U.S. Hlavac documents a similar pattern for UNICEF. In short, there is ample evidence that the U.S. uses its influence in IFIs to pursue some of the same foreign policy objectives that it pursues via bilateral aid.

This paper sits at the intersection of these two literatures, examining how U.S. decision-makers determine which instrument—bilateral aid or multilateral aid—to select to pursue foreign policy goals like those identified above. We build on Milner and Tingley (2015) who present an empirical analysis of how U.S. presidents pick between foreign policy instruments (policy substitution). Their core argument is that the use of some instruments is more constrained than others based on relations between the administration and Congress and on the level of distributional consequences. The result may be a suboptimal policy mix where domestic politics rather than foreign policy goals drive the choice of policy instrument. Our topic—the choice between bilateral and multilateral aid—is an interesting example of this same phenomenon not explored by Milner and Tingley.

Our hypothesis requires that Congress does in fact constrain a president's foreign policy agenda, including the allocation of foreign aid, at least sometimes. This assumption somewhat conflicts with the idea that the president is given a free hand in foreign affairs as opposed to domestic affairs by Congress, a view articulated in the "two presidencies" thesis by Wildavsky (1975). Recent work by Canes-Wrone et al. (2008) outlines three main elements leading to an advantage of the president over members of Congress regarding foreign policy: a first-mover advantage, superior information and stronger electoral incentives. However, we claim that all three of these reasons for Congress to defer to the President are weaker in the case of foreign aid.

First, the first-mover advantage relates to quick responses to international crises and emergencies whereas foreign aid initiatives are often slow-moving budgetary items and thus subject to negotiations (a point that is also made by Caddel 2013).

Second regarding the informational advantage, Canes-Wrone et al. (2008, 4) write that the president knows more about "the relevant players in different regions of the globe, about the strategic consequences of different policies, about the status of ongoing diplomatic negotiations and about the effects of covert operations." This is contrasted to domestic affairs, where members of Congress are more knowledgeable in general and may turn to interest groups for independent assessments. But this latter option is also available to them in the case of international aid allocation since there is a large number of interest groups with access to high quality information, operations in recipient countries and a strong willingness to communicate their preferences to legislators. So if the "two presidencies" thesis requires Congress to have lower confidence in their information and consequently cede more power to the executive, it would seem that it does not apply as strongly to foreign aid allocation decisions. In addition, Canes-Wrone et al. note that Congress would hand over power less readily for foreign policy initiatives with a domestic policy component. Most foreign aid proposals do have a clear domestic impact (for example, food aid that matters to agricultural states and agribusiness or infrastructure aid that matters to states with significant employment shares in heavy industry).

Third, the 'electoral incentives' argument builds on the fact that presidents will be remembered for their foreign policy legacy, while members of Congress will not. As a result, the president is more invested in foreign policy and gets his way more often than in domestic affairs. It is not clear that this asymmetry is significant if we focus exclusively on foreign aid. The executive may see particular foreign assistance proposals as complementary to a broader foreign policy agenda. However, if the domestic impact (both in terms of the cost to tax-payers and the benefits for specific constituencies and lobbying groups) of the proposals is sufficiently large, members of Congress will be highly interested in the outcome as well.

Being viewed as the congressperson who secured the most contracts for their district (or, conversely, who stood fast against "money down a foreign rat hole") is also a strong legacy incentive.

Overall, we conclude that the arguments for the "two presidencies" view are much weaker in the case of direct foreign assistance. For that reason, the climate of cooperation between Congress and the executive is likely to influence which channels the administration employs when pursuing its interests through the allocation of foreign aid.

Caddel (2013) studies the interaction between Congress and the president that precedes the determination of both the type (political, development, humanitarian, or security) and destination of U.S. foreign assistance. He describes the details of the process as follows: First, foreign aid appropriations are voted on either as stand-alone bills, continuing resolutions or as parts of larger omnibus bills.[1] At this level, the description of the allocations is general, with most guidance coming from the manager's reports that accompany the bill. Those are created by the responsible committees from the House of Representatives and the Senate.[2] The final allocations are determined only in the so-called "653 process," which is the last round of negotiation between the executive branch and Congress.[3]

In his empirical analysis, Caddel finds that Congress is primarily concerned with the domestic impact on particular districts and industries, leading members of Congress to have strong preferences regarding the type of aid and the specific programs that get funded (e.g. food aid provided by U.S. farmers). In contrast, the president is mostly concerned with security and thus redirects aid toward countries of strategic importance. Caddel reports data showing that especially funds for *political* aid requested by the president tend to be re-directed by Congress, which supports our hypothesis that alternative channels, such as influencing World Bank loans, are more attractive when the bargaining power of the administration is relatively low.

The U.S. Treasury Department, a branch of the administration, coordinates U.S. engagement with the World Bank. Although Congress does exert considerable influence over the World Bank via the power of

[1] The last foreign assistance authorization bill passed was in 1985 so that the authorization process has become less central for shaping U.S. development assistance.

[2] Tarnoff and Lawson (2011, 29) describe: "In the Senate, the Committee on Foreign Relations, and in the House, the Committee on Foreign Affairs, have primary jurisdiction over bilateral development assistance, ESF [Economic Support Fund] and other economic security assistance, military assistance, and international organizations. Food aid,
primarily the responsibility of the Agriculture Committees in both bodies, is shared with the Foreign Affairs Committee in the House. U.S. contributions to multilateral development banks are within the jurisdiction of the Senate Foreign Relations Committee and the House Financial Services Committee."

[3] From Caddel (2013, 12): "Section 653 of the Foreign Assistance Act of 1963 [sic] requires that, after finalization of the appropriations bill, the executive branch submit to Congress a detailed plan for the allocation of appropriated foreign aid. In other words, the president must revise the original foreign assistance request to fit within the amounts legislated by Congress and resubmit the request. The 653 allocation must reflect the administration's plan for foreign assistance within the broad outlines legislated in the appropriations bill and the more specific guidance provided by the accompanying committee reports."

the purse—especially during triennial replenishments of the International Development Association (IDA) and, less frequently, when the International Bank for Reconstruction and Development (IBRD) requires a capital increase—Congress has little real control over day-to-day World Bank decisions such as loan commitments and disbursements (Gwin 1997). One example of this is the ineffectiveness of certain congressional mandates. In some areas—such as approval of projects to produce commodities (e.g., palm oil and steel) that compete against U.S. producers—Congress requires the U.S. World Bank Executive Director (ED) to vote "No" and, since 2003, Congress has required Treasury to report U.S. ED votes to verify compliance. However, the U.S. vote share (at around 16%) is not large enough to veto projects. Drawing on the above database, Strand and Zappile (2015, 225) find that "items not supported by the U.S. [ED's vote] are routinely approved."

This is part of a larger pattern. Gwin (1997) argues that exerting U.S. influence in the World Bank requires instead working behind the scenes (pressuring World Bank management, making deals with other shareholders, etc.), something the U.S. administration can do much more effectively than the U.S. Congress. In addition, because such influence flows through informal channels, the Congress cannot readily observe administration actions. Thus, at least in the short run, the U.S. administration can use multilateral loans as an instrument of foreign policy without consent from Congress. Strand and Zappile (2015) find some support for this in U.S. ED voting records for the IBRD that suggest U.S. bilateral aid and U.S. support for multilateral lending are substitutes.

In contrast, Daugirdas (2013) argues that Congressional influence has been underestimated since executive branch agencies want to avoid incurring the wrath of Congress (with consequences in subsequent budget cycles). She presents evidence that these agencies go beyond the letter of the law in terms of implementing Congressional mandates, for example when casting votes in the World Bank and that, while Congressional opinions do not influence the approval of World Bank projects brought to a vote, they can influence which projects are brought to a vote.

While Congressional relations no doubt play an important role in agency decisions, they are not always determinative. Daugirdas (2013, 530) identifies cases where increased multilateral lending to human rights abusers effectively negated Congressional attempts to reduce aid to these regimes, and she points to subsequent Congressional attempts "to limit the executive branch's ability to circumvent Congress's preferences by turning to multilateral institutions to distribute resources." This notion that international organizations (and specifically the World Bank) provide the administration with a path around the Congress is also voiced by Abbott and Snidal (1998, 18) and lies at the heart of our analysis.

Our paper draws directly on four previous empirical studies on the political economy of the World Bank. The first paper (chronologically) is Kilby (2009) which explores the political economy of World Bank conditionality. It examines disbursements for countries with active World Bank adjustment loans (Structural Adjustment Loans (SALs) and Development Policy Lending operations (DPLs)), including inflation and devaluation as proxies for macroeconomic performance and hence compliance with conditionality. The analysis finds that when these countries are "US friends" (i.e., have made concessions to the U.S. in UN General Assembly (UNGA) voting) loan disbursement depends less on macroeconomic performance than when countries are not "US friends." This pattern suggests selective enforcement based on a country's relationship with the U.S. Thus, the paper provides an alternate explanation for the failure of conditionality.

Kilby (2013A) examines U.S. informal influence in the World Bank. Looking at overall lending, disbursement is faster (i.e., more likely and larger) when countries have good relations with the U.S. as measured by concessions in UNGA voting or U.S. military aid flows. The key equations control for prior loan commitments and thus reflect only post-loan approval decisions. Since the donor country executive directors have no formal role in such decisions, these results reflect U.S. informal influence in the World Bank.

Kilby and Michaelowa (2016) explore the political economy of project ratings by the World Bank's Independent Evaluation Group (IEG). World Bank Operations staff rates each completed project; IEG re-examines and re-rates 25% of these projects. Controlling for the initial rating, Kilby and Michaelowa find that IEG ratings are higher for projects when the borrowing country was a non-permanent member of the UNSC at the time of the IEG rating. Given Kuziemko and Werker's (2006) study linking U.S. bilateral aid to non-permanent UNSC membership, this apparent bias in IEG rating might be the result of U.S. pressure.

Finally, Kersting and Kilby (2016) explore the speed of World Bank loan disbursement in the context of competitive executive elections in the borrowing countries. Using newly available monthly data on disbursements, this paper finds faster investment project loan disbursement in the run-up to a competitive executive election as compared to other times. However, this pattern only holds for incumbent governments that are aligned with the U.S. in UNGA voting. For incumbent governments that vote against the U.S. in the UNGA, investment project loan disbursement is slower in the run-up to a competitive executive election as compared to other times. This pattern is consistent with U.S. influence over World Bank lending that helps keep allies in office and opponents out of office.

3. Research Design

The U.S. administration's choice between bilateral aid and multilateral aid as a foreign policy tool should depend on the relative cost of these two options. Ceteris paribus, when an uncooperative Congress makes bilateral aid difficult to use ("expensive"), the administration should more often select the multilateral route. One factor impacting the administration's ability to use bilateral aid is division within the U.S. government since the president will have a harder time winning the consent of a divided or oppositional Congress. We thus expect to find more evidence of U.S. influence over World Bank decision making during divided U.S. governments than otherwise.

To investigate this, we revisit the four studies of U.S. influence in the World Bank listed above. We take a very simple approach, partitioning the data into observations where the U.S. government was divided and observations where it was not (i.e., the administration and both chambers of the Congress were all controlled by the same party).[4] Then we re-estimate the preferred specification separately on both samples. Based on the arguments above, we expect stronger U.S. interest effects (i.e., larger point estimates, higher levels of statistical significance) when the U.S. government is divided. As compared to using a pooled sample and a specification that interacts a divided U.S. government dummy with the key explanatory variables, splitting the sample avoids the complexities of interpreting triple interaction terms.[5]

However, the data structure in Kersting and Kilby (2016) does not allow a simple division along these lines. In that paper, some data reflect averages over time so that the measure of divided U.S. government is no longer a binary variable but rather a continuous variable, ranging between zero and one. To avoid arbitrarily splitting the sample at some value of the divided U.S. government variable, we instead estimate just one equation on the entire sample but include interaction terms.

For simplicity, the studies we re-examine are ones where: 1) we were authors or co-authors; 2) the geopolitical indicator is not U.S. bilateral aid (to avoid endogeneity concerns); 3) timing is clear so that divided U.S. government can be defined appropriately; and 4) the study examines the World Bank. Following these criteria, we re-examine the studies outlined in the literature review above: Kilby (2009, 2013A), Michaelowa and Kilby (2016), and Kersting and Kilby (2016). We do not re-examine Kilby

[4] There is a plethora of alternative approaches. More sophisticated measures we experimented with include the measure of strength of the president's party suggested by Hughes and Carlson (2015), the ratio of the number of failed bills to the number of total bills and various measures of polarization and/or ideological distance based on Poole and Rosenthal's NOMINATE scores (see Poole and Rosenthal 1997). The results using these more complicated measures are similar but less clear, leading us to prefer the simplest option. We also get similar results using a variable based on the number of articles in the New York Times and the Washington Post about conflict and deadlock in Congress.

[5] We make the weaker claim that the results of previous research are driven primarily by years with divided U.S. government, not the stronger claim that there is no U.S. influence in years of undivided government or that U.S. influence is significantly stronger in years of divided U.S. government than in years of undivided U.S. government. Theory does not imply the former (i.e., there still could be influence, just not as much, in years with undivided U.S. government) and the latter might not hold despite an undivided point estimate very near zero simply because of a large standard error. The strength of our analysis comes instead from the consistency of findings across the four studies.

(2013B) or Kilby (2015) on World Bank project preparation since the duration of preparation is not known (so that defining the divided U.S. government variable is difficult). An overview of the scope and main characteristics of the chosen studies is provided in Table 1.

Table 1: An overview of the replicated studies

	Kilby (2009)	**Kilby (2013A)**	**Kilby & Michaelowa (2016)**	**Kersting & Kilby (2016)**
Unit of observation	Country-year	Country-year	Project	Project
Time span covered	1984-2005	1984-2007	1979-2012	1984-2012
# Divided	875	2067/1946	961	NA
# Undivided	223	719/670	539	NA
Variable of interest	Inflation and exchange rate interacted with *US friend*	*diffUS*	*UNSC@PPAR (Project Performance assessment report)*	*CEE*, *CEE* interacted with *UN Alignment (CEE=Competitive Executive Election)*
Identification of informal influence via	*US friend=1* if concessions were made	Difference in alignment with the U.S. between important and unimportant votes	UNSC membership	Alignment of voting with the U.S. in UNGA

Interested readers should refer to the original studies for details including descriptive statistics and robustness of results. Here, we focus exclusively on the role of periods of divided U.S. government in the exercise of influence.

4. Results

We first present results for studies where the simple approach—re-estimating in subsamples with divided and undivided U.S. governments—is feasible. For these studies, which use annual data, we lag divided government by one year to allow time for influence to translate into action. We then turn to the re-estimation of Kersting and Kilby with interaction terms for the divided government variable. The discussion below focuses on the key political economy variables (results for which are highlighted in the tables); for a complete discussion of aggregate results including control variables, see the relevant original study.

4.1 The Political Economy of World Bank Conditionality

Table 2 presents results for the political economy of World Bank conditionality, building on Kilby (2009). Column 1 replicates results from the preferred specification in that paper (Table 3, Column 3). The unit of

observation is the country-year. The sample covers countries with active World Bank structural adjustment loans or development policy loans and runs from 1984 to 2005. The dependent variable is the log of annual disbursements in constant 2005 USD. The specification controls for the (log) size of the loan portfolio from which disbursements come (*World Bank commitments*) and the calendar year to allow for trends and includes country fixed effects. Reported *t*-statistics are based on country-clustered standard errors.

The specification includes two widely available macroeconomic indicators to gauge compliance with typical structural adjustment conditions. *Inflation* is the annual increase in consumer prices; lower values should be closely correlated with the conservative fiscal and monetary policy typically set out in adjustment loan conditionality. Because inflation responds to policy changes (that the World Bank can observe) only with a lag, the contemporaneous value of *Inflation* is included. *% Δ exchange rate* is based on the official exchange rate (local currency units per dollar) so that positive values capture devaluation of the local currency that was a frequent policy condition in adjustment lending. Exchange rate changes happen exceedingly quickly so *% Δ exchange rate* enters with a one year lag on the assumption that it could drive disbursements over the subsequent year.

The geopolitical variable, *US friend*, captures concessions to the U.S. in UNGA voting and can best be understood in the context of a vote buying model. Following Andersen et al. (2006), the variable is constructed by looking at the difference between how a country votes on measures designated as important by the U.S. State Department and how it votes on all other measures (which Andersen et al. argue reflects the country's ideal point in the UNGA voting space). On each set of votes, Kilby (2009) calculates the degree of alignment with U.S. voting then takes the difference between these alignments (important minus other), defining this difference as *diffUS*. Positive values of *diffUS* indicate concessions to the U.S. position on votes the U.S. cared about. For ease of interpretation in this setting (i.e., interaction terms), the analysis uses a dichotomous version of this variable, *US friend*, which equals to 1 if *diffUS*>0 (concessions were made). *US friend* is lagged one year because UNGA votes occur toward the end of the year so that we would expect their impact in the following year. The specification includes interaction terms between *US friend* and both *Inflation* and *% Δ exchange rate* to test for selective enforcement of conditionality.

Table 2: The political economy of World Bank conditionality

	(1)	(2)	(3)
World Bank commitments	0.985***	0.994***	0.938***
	(9.95)	(8.64)	(5.92)
US friend$_{t-1}$	0.0199	0.00177	-0.106
	(0.30)	(0.03)	(-0.39)
Inflation	-0.716***	-0.805***	2.769
	(-2.83)	(-3.35)	(0.89)
× *US friend*$_{t-1}$	0.707***	0.794***	-2.442
	(2.83)	(3.35)	(-0.81)
% Δ *exchange rate*$_{t-1}$	0.131***	0.158***	-0.306
	(6.26)	(6.97)	(-0.85)
× *US friend*$_{t-1}$	-0.133***	-0.162***	0.324
	(-5.78)	(-6.66)	(0.92)
Year	0.00202	-0.00551	0.0359***
	(0.48)	(-1.09)	(3.57)
Observations	1098	875	223

Notes: *t*-statistics in parentheses based on country-clustered standard errors. All specifications include country fixed effects. * p<0.1, ** p<0.05, *** p<0.01
Estimation method is OLS. Dependent variable is the log of disbursed funds in millions of USD.
(1) Full sample (Table 3, Column 3 in Kilby (2009))
(2) Divided government in U.S.
(3) Undivided government in U.S.

Column 1 replicates the results from Column 3 of Table 3 in Kilby (2009), identifying a pattern consistent with selective enforcement of conditionality. Higher inflation is associated with lower disbursement for countries that are not U.S. friends but there is no apparent relationship between inflation and disbursement for U.S. friends. Likewise, devaluation is linked to higher disbursement but only for countries that are not U.S. friends. In short, there is evidence of macroeconomic conditionality for countries that have not made voting concessions to the U.S. but there is no evidence of such conditionality for countries that have.

Column 2 limits the sample to years when the U.S. government was divided (again, lagged by one year to allow time for influence to turn into action). The results for the key macroeconomic variables and interaction terms are largely unchanged except for a slight increase in the magnitude of point estimates and *t*-statistics. We still see statistically significant effects consistent with enforcement of conditionality for non-U.S. friends and no evidence of conditionality enforcement for U.S. friends. These results are in sharp contrast to those in Column 3 where all these coefficient estimates change sign and cease to be statistically distinguishable from zero. The sample size for Column 3 is substantially smaller (223) so loss of significance might not be that telling but the change in point estimates is. The evidence strongly

indicates that the U.S. influence identified in the overall sample is driven by years with divided U.S. government.

4.2 Informal Influence in the World Bank

Tables 3 and 4 present results for informal U.S. influence in the World Bank, building on Kilby (2013A). That paper explores the link between U.S. geopolitical interests and World Bank disbursements conditional on prior loan commitments. Because the World Bank's Executive Board involvement in project-level allocation decisions ends at project approval, any U.S. influence over subsequent loan disbursement decisions (whether to disburse and, if so, how much) would have to be through informal channels. The paper presents a two part model, first estimating a selection equation (positive disbursement versus zero disbursement) and then a conditional allocation equation (the disbursement amount for cases with positive disbursements).

Table 3, Column 1 replicates results from the preferred selection equation specification from that paper (Table 2, Column 2). The unit of observation is the country-year. The sample covers all country-years with active World Bank projects (i.e., years where the country has investment project loans and/or program loans that have been approved but have not yet closed and are thus eligible for disbursement of funds) between 1984 and 2007. In the selection equation, the dependent variable is dichotomous, equaling one if the country received any World Bank disbursements from its active projects that year. The specification controls for the size, age and composition of the country's active loan portfolio as well as population, income, degree of democratization and conflict. The specification also includes regional and year dummies while the reported *z*-statistics are based on country-clustered standard errors.

Table 3: Informal influence on World Bank disbursement selection

	(1)	(2)	(3)
ln Original Commitments	0.491**	0.414**	0.644**
	(6.70)	(5.30)	(5.69)
Age	0.692**	0.610**	0.911**
	(5.00)	(3.68)	(3.20)
Age^2	-0.0815**	-0.0714**	-0.110**
	(-5.13)	(-3.91)	(-3.43)
SAL count	0.146	0.143	0.175
	(1.64)	(1.36)	(1.38)
Project count	-0.00888	0.0106	-0.0368**
	(-1.16)	(0.59)	(-2.93)
TA count	0.314**	0.389**	0.269*
	(3.29)	(3.47)	(1.95)
Blend	0.263	0.193	0.242
	(1.37)	(0.65)	(0.62)
ln Population	-0.291**	-0.286**	-0.313**
	(-3.64)	(-3.70)	(-2.69)
ln GDP per capita	-0.262**	-0.285**	-0.172
	(-2.13)	(-2.08)	(-0.85)
Freedom House	0.101	0.129	0.0650
	(0.83)	(0.95)	(0.32)
Polity	-0.0428	-0.0372	-0.0618
	(-1.40)	(-1.07)	(-1.17)
War	-0.0959	-0.0411	-0.490
	(-0.36)	(-0.14)	(-1.01)
diffUS	1.802**	2.252**	0.174
	(2.93)	(3.45)	(0.17)
Observations	2826	2067	719

Notes: *z*-statistics in parentheses based on country-clustered standard errors. All specifications include unreported year and region dummies. * p<0.1, ** p<0.05, *** p<0.01
Estimation method is Probit. Dependent variable equals one if country received positive disbursements in the given year.
(1) Full sample (Table 2, Column 2 in Kilby (2013A))
(2) Divided government in U.S.
(3) Undivided government in U.S.

The variable used to capture U.S. geopolitical interests in this analysis is *diffUS*, the difference between alignment on U.S. important UNGA votes and on other votes defined above (again lagged by one year because UNGA votes happen late in the year). Column 1 shows that, using the full sample, countries are more likely to receive disbursements when they make concessions to the U.S. on important UNGA votes. Column 2 limits the sample to years when the U.S. government was divided (again, lagged by one year). The coefficient estimate for *diffUS* increases slightly as does its z-statistic. Conversely, the coefficient estimate in Column 3 (for the sub-sample when the U.S. government was not divided) shrinks by an order

of magnitude and is far from significant. Again, the smaller sample size for Column 3 might account for the reduced significance but the dramatic drop in the point estimate clearly shows that overall the results are driven almost exclusively by years in which the U.S. government was divided.[6]

Table 4: Informal influence on World Bank disbursement allocation

	(1)	(2)	(3)
ln Original Commitments	0.970**	0.901**	1.156**
	(26.46)	(21.76)	(10.71)
Age	0.0461	0.128*	-0.372*
	(0.76)	(1.93)	(-1.93)
Age^2	-0.0115*	-0.0207**	0.0398*
	(-1.67)	(-2.78)	(1.77)
SAL count	0.0254**	0.0286**	0.0101
	(2.37)	(2.34)	(0.37)
Project count	-0.00430	-0.00400	-0.0116
	(-1.30)	(-1.08)	(-1.12)
TA count	-0.00948	0.00212	-0.0264
	(-0.82)	(0.14)	(-1.14)
Blend	0.0286	0.0303	0.0271
	(0.44)	(0.42)	(0.15)
ln Population	0.147	-0.238	0.438
	(0.58)	(-0.77)	(0.64)
ln GDP per capita	-0.104	-0.192	0.0144
	(-0.98)	(-1.55)	(0.04)
Freedom House	0.0788**	0.0610*	0.163*
	(2.69)	(1.89)	(1.81)
Polity	-0.0188**	-0.0218**	-0.0203
	(-2.63)	(-2.74)	(-0.98)
War	-0.122	-0.202**	0.244
	(-1.53)	(-2.36)	(1.00)
diffUS	0.483**	0.511**	0.257
	(3.06)	(3.01)	(0.53)
Observations	2616	1946	670

Notes: *t*-statistics in parentheses based on country-clustered standard errors. All specifications include country fixed effects and year dummies. * p<0.1, ** p<0.05, *** p<0.01
Estimation method is OLS. Dependent variable is log of disbursements in millions of USD. Sample limited to cases with positive disbursements.
(1) Full sample (Table 3, Column 2 in Kilby (2013A))
(2) Divided government in U.S.
(3) Undivided government in U.S.

Table 4 turns to the disbursement allocation equation for the sample with positive disbursements. The dependent variable is the log of disbursements in millions of USD. Otherwise, the specification mirrors that of the selection equation except that it includes country fixed effects rather than regional dummies (since estimation is now by least squares). Column 1 replicates Table 3, Column 2 in Kilby (2013A). As

[6] Note also that the changes in other coefficient estimates/significance are markedly less dramatic.

in the selection equation, *diffUS* enters with a positive, significant coefficient estimate, indicating that when countries make concessions to the U.S. on important UNGA votes they receive larger disbursements from the World Bank, ceteris paribus. Thus when countries make concessions to the U.S., they are both more likely to receive World Bank disbursements and, if they do, receive larger disbursements.

Column 2 again limits the sample to years where the U.S. government was divided (lagged one year). Limiting the sample this way increases the coefficient slightly and it remains statistically significant. Column 3 presents estimates based on the remaining observations. Again, the coefficient estimate for the non-divided government years is smaller (though the effect is not as dramatic as with the previous table) and not statistically significant. In short, we again have evidence that the exercise of U.S. influence over World Bank lending is more pronounced during years with a divided U.S. government.

4.3 The political economy of IEG ratings

Table 5 presents results exploring the political economy of IEG project ratings. Column 1 replicates results from the preferred specification in Kilby and Michaelowa (2016) (Table 1, Column 3). The unit of observation is the project. The sample covers completed IBRD and IDA projects audited by the World Bank's Independent Evaluation Group between 1979 and 2012, 1500 projects from 120 different countries. The dependent variable is the project outcome rating reported in IEG's Project Performance Assessment Report (PPAR). The PPAR rating is on a 6-point scale, ranging from 1 (highly unsatisfactory) to 6 (high satisfactory). The specification includes a set of dummy variables to control for the initial rating done by World Bank Operations staff, namely the Team Task Leader in charge of supervising the project's implementation. That rating, part of the Implementation Completion Report (ICR), should account for factors that influence project performance up through the end of implementation. The key political economy variable is a dummy reflecting non-permanent membership on the UNSC at the time IEG issued its PPAR rating (*UNSC@PPAR*). Non-permanent UNSC membership is well suited to capturing rapid changes in geopolitical importance because UN rules require countries to rotate off the council after a single 2 year term. The specification also includes dummies reflecting non-permanent membership on the UNSC at the time of the initial ICR rating (*UNSC@ICR*) and at project approval (*UNSC@approval*). If the geopolitical story is correct, UNSC membership in these earlier periods should have no link to IEG's updating of project ratings.

Table 5: The political economy of IEG ratings

	(1)	(2)	(3)
*ICR*2 (*Unsatisfactory*)	0.464	0.0594	0.898**
	(1.01)	(0.07)	(3.21)
*ICR*3 (*Moderately Unsatisfactory*)	1.137*	1.033	1.208***
	(2.41)	(1.22)	(3.93)
*ICR*4 (*Moderately Satisfactory*)	2.034***	1.733*	2.280***
	(4.44)	(2.07)	(8.14)
*ICR*5 (*Satisfactory*)	2.575***	2.221**	2.898***
	(5.72)	(2.68)	(11.56)
*ICR*6 (*Highly Satisfactory*)	3.533***	3.107***	3.998***
	(7.82)	(3.74)	(13.43)
UNSC@PPAR	0.223***	0.294**	0.0632
	(3.53)	(3.25)	(0.53)
UNSC@ICR	-0.0602	0.0394	-0.121
	(-0.60)	(0.33)	(-0.96)
UNSC@approval	-0.0454	-0.0956	0.0830
	(-0.84)	(-1.21)	(0.86)
Observations	1500	961	539

Notes: *t*-statistics in parentheses based on country-clustered standard errors. * p<0.1, ** p<0.05, *** p<0.01
Estimation method is OLS. Dependent variable is IEG project rating on a 1 (Very Unsatisfactory) to 6 (Very Satisfactory) scale.
(1) Full sample (Table 1, Column 3 in Kilby and Michaelowa (2016))
(2) Divided government in U.S.
(3) Undivided government in U.S.

Column 1 uses the full sample and replicates the results from Column 3 of Table 1 in Kilby and Michaelowa (2016). The positive and significant coefficient estimate on *UNSC@PPAR* is consistent with updated ratings biased in favor of countries that temporarily hold a geopolitically important position. The insignificance of *UNSC@ICR* and *UNSC@approval* is consistent with this story, providing something of a placebo test. As before, Column 2 limits the sample to years where the U.S. government was divided (thereby reducing the availability of bilateral tools available to the administration).[7] The estimated coefficient on *UNSC@PPAR* increases somewhat in magnitude and remains statistically significant while the estimated coefficients for *UNSC@ICR* and *UNSC@approval* remain insignificant. In contrast, the coefficient estimate for *UNSC@PPAR* for years where the U.S. government was not divided (Column 3) is much smaller and far from statistically significant. Again, the evidence suggests that the geopolitical effects uncovered in Kilby and Michaelowa are driven almost entirely by years where the U.S. government was divided.

[7] "Year" is defined as the year the PPAR rating was released (lagged by 1 as before) so that it matches with the timing of the *UNSC@PPAR* variable.

4.4 Global electioneering and World Bank lending

The final part of our analysis follows the disbursement speed section in Kersting and Kilby (2016). In our original work we show that governments more aligned with the U.S. in terms of voting in the UNGA tend to see disbursements of their existing investment loans from the World Bank accelerate in the run-up to an election. In contrast, governments that more often vote against the U.S. position experience a deceleration of loan disbursement before an election. The specification we estimate here is identical to our previous work and given by:

$$\#\,months_{ijls} = \beta_1 UN_{ij} + \beta_2 CEE_{ij} + \delta\, UN_{ij}{\times}CEE_{ij} + \beta_3 X_i + \beta_4 Z_{ij} + \gamma_j + \gamma_l + \gamma_s + \varepsilon_{ijls} \quad (1)$$

The speed of disbursement of project i in country j is measured by the number of months it takes until a project has disbursed at least 25% of its total committed amount (akin to measuring speed by recording how many seconds a car takes to cover a quarter mile in drag racing); other variables are averaged over this period. UN_{ij} is the UN voting alignment of country j with the U.S. over the previous 12 month window, then averaged over the period from approval to 25% disbursed for project i. (Here we abbreviate $UN\ Alignment$ as UN to shorten the equation.) CEE is initially a monthly indicator variable that takes on the value of 1 if a competitive executive election is scheduled to be held within the next 12 months. When averaged over the months from project approval until 25% disbursement is reached, CEE_{ij} becomes continuous and can be interpreted as the proximity of pending elections, if any. The larger is CEE_{ij}, the larger the share of the observed project months that coincide with the run-up to an election. The vector X contains project-specific, time varying variables while the vector Z represents country-level controls. The specification also includes dummies for loan type (l) and sector board codes (s) to control for unobservable differences among the various internal World Bank loan products and divisions.[8]

The main hypothesis test in Kersting and Kilby (2016) is based on the coefficient δ for the interaction term $UN_{ij}{\times}CEE_{ij}$. A negative value for δ indicates faster disbursement in the run-up to a competitive executive election for governments aligned with the U.S.

Because the averaging implicit in this specification transforms our $Divided$ variable from a dummy (in a particular year) to a continuous variable (the percent of the project implementation period during a divided U.S. government), we utilize an interactive specification rather than splitting the sample at some arbitrary value. To parallel the previous split sample approach as closely as possible, we also define $Undivided_i = 1 - Divided_i$ and include both interactions:

[8] See Kersting and Kilby (2016) for details.

$$\#\, months_{ijls} = \beta_0 Divided_i +$$

$$\beta_{1D} UN_{ij} \times Divided_i + + \beta_{2D} CEE_{ij} \times Divided_i + \delta_D UN_{ij} \times CEE_{ij} \times Divided_i +$$

$$\beta_{1U} UN_{ij} \times Undivided_i + \beta_{2U} CEE_{ij} \times Undivided_i + \delta_U UN_{ij} \times CEE_{ij} \times Undivided_i +$$

$$\beta_3 X_i + \beta_4 Z_{ij} + \gamma_j + \gamma_l + \gamma_s + \varepsilon_{ijls} \quad (2)$$

The higher the value of $Divided$, the greater the overlap between the relevant time interval of the project with periods when the U.S. government was divided.[9]

Table 6 presents results. Column 1 replicates Table 2, Column 2 in Kersting and Kilby (2016) and mirrors the specification in Equation (1). Column 2 adds the divided government variable and Column 3 also adds the divided and undivided interactions terms (the specification in Equation (2)).[10]

[9] The sample mean for $Divided$ is 0.70. There are 294 observations with a value of 0 and 2,172 observations with value of 1; the remainder of the distribution is approximately normal with a conditional mean at 0.54.

[10] Note that the specification includes fixed effect and so cannot also include the un-interacted $Undivided$ variable since $Divided_i + Undivided_i \equiv 1$.

Table 6: Speed of WB loan disbursement and U.S. politics

	(1)	(2)	(3)
UN Alignment	-23.06***	-18.50**	
	(-3.02)	(-2.52)	
CEE	16.92**	13.64*	
	(2.28)	(1.92)	
× *UN Alignment*	-44.40***	-38.19***	
	(-3.16)	(-2.83)	
Divided		-8.775***	-2.336
		(-7.19)	(-0.46)
× *UN Alignment*			-22.76**
			(-2.53)
× *CEE*			29.53***
			(2.70)
× *CEE* × *UN Alignment*			-64.44***
			(-3.28)
Undivided			
× *UN Alignment*			-4.703
			(-0.55)
× *CEE*			-3.247
			(-0.32)
× *CEE* × *UN Alignment*			-10.55
			(-0.44)
Approval Period	-0.254***	-0.264***	-0.270***
	(-7.25)	(-7.78)	(-7.75)
IDA	-0.193	-0.134	-0.121
	(-0.13)	(-0.09)	(-0.08)
Project Size	-1.228**	-1.323**	-1.400**
	(-2.18)	(-2.38)	(-2.53)
Inflation	-13.99***	-14.92***	-16.61***
	(-2.74)	(-2.91)	(-3.11)
GDP	21.29***	21.19***	21.92***
	(4.16)	(4.25)	(4.33)
Population	62.28***	62.08***	64.24***
	(4.79)	(4.92)	(5.06)
Countries	126	126	126
Observations	5115	5115	5115

t-statistics in parentheses based on country-clustered standard errors. Estimation method is OLS. Dependent variable is # months to 25% disbursed for investment projects. All specifications include unreported country fixed effects as well as lending instrument type and sector dummies. *UN Alignment* is voting coincidence with the U.S. on UNGA votes designated as important by the U.S. State Department over the previous 12 months. *CEE* indicates a competitive executive election within the next 12 months. Inflation is % Δ GDP deflator/(100 + % Δ GDP deflator). *GDP* is the log of PPP GDP in 2005 dollars. *Population* is the log of population. *Divided* is share of months when U.S. government was divided; *Undivided* = 1 – *Divided*. ***<0.01 **<0.05 *<0.1

The results in Column 1 demonstrate three key points from Kersting and Kilby (2016). First, the negative and significant coefficient on *UN Alignment* indicates that World Bank investment projects disburse more

quickly (fewer months to reach 25% disbursed) when countries are more aligned with the U.S. Second, the positive and significant coefficient on *CEE* indicates that World Bank investment projects disburse more slowly in the run-up to a competitive executive election than when there is no approaching election (more months to reach 25% disbursed)—if incumbent government support for the U.S. is relatively low. Third, the negative and significant coefficient on the interaction term *CEE* × *UN Alignment* indicates that World Bank investment projects disburse more quickly in the run-up to a competitive executive election than when there is no approaching election (fewer months to reach 25% disbursed)—if incumbent government support for the U.S. is relatively high. All these effects are both statistically and economically significant.

Column 2 adds the divided government variable, which enters with a negative and significant coefficient. This indicates faster World Bank investment project loan disbursement in years with divided U.S. government (even after controlling for the project approval date). Column 3 unpacks this effect, interacting both $Divided$ (the share of months with divided U.S. government) and $Undivided$ (the share of months with undivided U.S. government) with $UN\ Alignment$, CEE and their product.

Two things are apparent from Column (3). First, the divided U.S. government effect of Column (2) is fully accounted for by the alignment and electoral effects during these periods (i.e., the uninteracted $Divided$ term is no longer significant). Second, the overall alignment and electoral effects uncovered in Kersting and Kilby are driven by years with a divided U.S. government. The coefficient estimates for these variables interacted with $Divided$ are similar (or larger in absolute value) to their uninteracted counterparts in Column 1 and all are statistically significant. By contrast, the coefficient estimates for the variables interacted with $Undivided$ are much closer to zero and far from statistically significant.

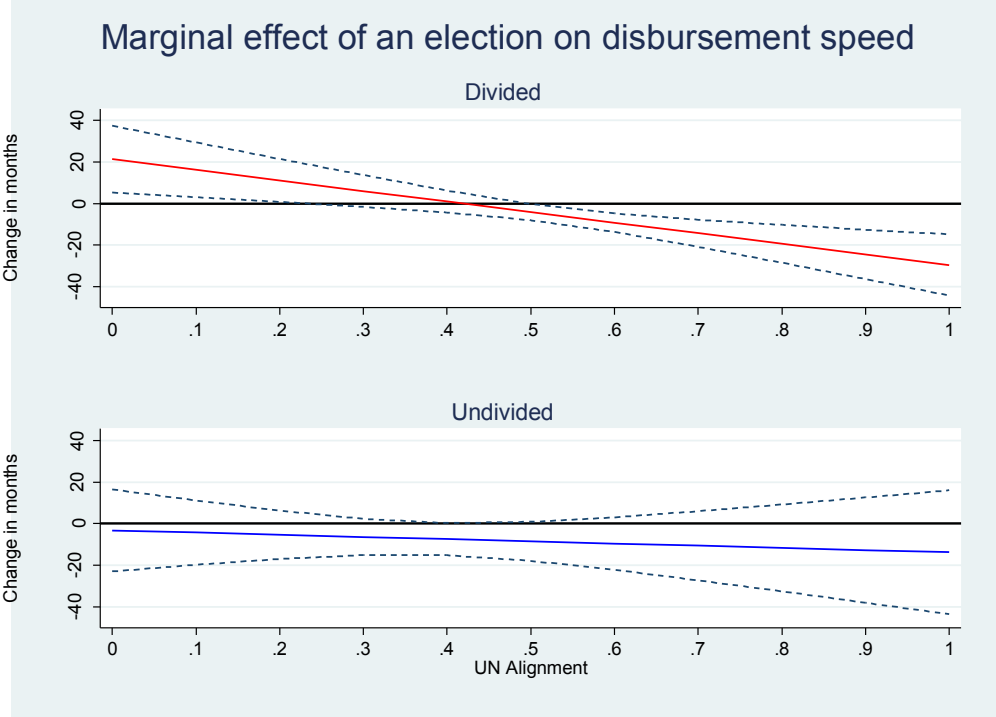

Figure 1

Figure 1 illustrates these different conditional marginal effects under two scenarios, divided v. undivided U.S. government. The top panel shows marginal effects when $Divided = 0.75$, the mean value for the subsample where $Divided > 0$; the bottom panel repeats the calculations for $Divided = 0$. The divided government graph shows significantly slower disbursement in the run-up to a competitive executive election as compared to other times (more months to reach 25%) for values of $UN\ Alignment$ below 0.22 (about 8% of the relevant sample) and significantly faster disbursement for values of $UN\ Alignment$ above 0.5 (about 37% of the relevant sample). Conversely, the undivided government graph shows no significant election effect for any value of $UN\ Alignment$.

5. Conclusion

In recent years, a range of empirical studies have uncovered evidence that powerful donor countries—especially the United States—exert influence over decision-making and resource flows in international financial institutions. In some settings, there is evidence that donors use bilateral aid and multilateral loans to achieve the same objectives (e.g., Kuziemko and Werker 2006 and Dreher et al. 2009A; Faye and Niehaus 2012 and Kersting and Kilby 2016). However, since donor countries do have bilateral means to accomplish these same ends, it remains an open question why and when they choose instead to use influence over multilateral institutions.

Looking at the U.S., we argue that "why" and "when" are actually the same question. When the presidential administration is less able to secure the cooperation of Congress needed for bilateral action—that is, when the U.S. government is divided—the president can work around Congress by exerting his influence in multilateral organizations to accomplish the same ends. If this is the case, empirical evidence of U.S. influence in multilateral organizations should be stronger during years of divided U.S. government.

We explore this insight by re-examining the empirical findings of four previous studies that found evidence of U.S. influence in the World Bank, ranging from enforcement of conditionality to speed of loan disbursement to project ratings to electioneering. In all these studies, we find a similar pattern, namely statistically and quantitatively stronger results in years with a politically divided U.S. government.

This pattern is interesting for a number of reasons. First, it re-enforces the interpretation of previous empirical patterns as evidence of U.S. influence over World Bank operations and decision-making. Second, it suggests a similar approach for studying the influence of powerful countries in other international organizations, looking beyond the World Bank and—using other measures of executive power—beyond the United States. Third, it provides a tentative explanation for when and why governments opt for bilateral methods or instead exercise influence in a multilateral organization. Finally, the utility of international organizations as an added tool in the arsenal of the country's executive offers alternate answers to questions about the role of multilateral organizations in the global political economy.

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