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Informal influence in the Inter-American Development Bank

Elizabeth Bland
Christopher Kilby

Department of Economics
Villanova School of Business
Villanova University
chkilby@yahoo.com

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Abstract
This paper investigates U.S. informal influence in the Inter-American Development Bank (IDB) by testing whether IDB loans disburse faster when the borrowing country is geopolitically or economically important to the U.S. The methodology is similar to that in earlier work on the World Bank and the Asian Development Bank and relies on the governance structure in which formal donor influence ends with loan approval, i.e., prior to loan disbursement. In contrast to findings for the World Bank and the Asian Development Bank, we do not uncover convincing evidence of consistent U.S. informal influence in the Inter-American Development Bank.

Key words: Donor Influence; Inter-American Development Bank; United States; UN voting.
JEL codes: F35, F53, F55, O19

I. Introduction

In the aftermath of World War II, the World Bank was created to support post-war reconstruction and development. As the focus of the World Bank shifted to promoting economic development in low and middle income countries, regional development banks were founded to pursue similar goals. The Inter-American Development Bank (IDB) opened its doors in 1959, followed by the African and Asian Development Banks in 1964 and 1965. Although promoting economic growth and decreasing poverty are the stated goals of the multilateral development banks (MDBs), the actions of these organizations do not solely reflect these goals; the interests of powerful member states sometimes intrude. Extensive research on the governance and lending practices of the World Bank has revealed how donors influence the process of project selection and implementation and thus compromise the World Bank's autonomy.

Although subject to less public and academic scrutiny, the IDB presents an interesting case because of both its structural similarities and differences vis-à-vis the World Bank. Because the regional development banks were modeled on the World Bank, the IDB and the World Bank share the same basic voting system and financial structure. In addition, each has both a hard window (lending at near market rates) and a soft window (lending far below market rates). Finally, the two institutions are located just blocks apart, a stone's throw from the White House in Washington, DC. Yet the institutions differ in important ways. Concessional lending accounts for a far smaller share of overall lending at the IDB than at the World Bank. Regional borrowers collectively hold the majority of votes in the IDB while developed non-borrowing member countries have a clear majority of votes in the World Bank. In contrast, the U.S. vote share is much higher in the IDB than in the World Bank. Voting procedures and representation rules also differ across the institutions. The IDB president has historically been from a regional

borrowing member while the World Bank president has always been a U.S. citizen. Given these differences, understanding the role of donor influence in the IDB could provide insight into the characteristics that impact MDB independence and, consequently, shape policy reform proposals.

This paper focuses specifically on one aspect of potential donor influence over the IDB, namely informal influence. Scholars studying international organizations have increasingly focused on informal influence in recent years. Stone (2011) argues that less powerful nations favor rule-based decision making (formal influence) to foster a predictable international environment which affords them a modicum of say in day-to-day decision-making. However, to maintain relevance, international institutions must also attract powerful nations and do so by allowing these countries to control institutional decisions via informal channels when they have an overriding interest. Stone traces through the implications of this model of international organizations in the case of the IMF, the WTO, and the EU. Informal influence has also been examined in the case of the World Bank (Kilby, 2009b, 2013) where the U.S. is the most influential member. Kilby (2011a) extends the analysis to the Asian Development Bank where Japan and the U.S. both wield considerable influence. This paper applies a similar analytical framework to the IDB and explores U.S. informal influence in the IDB.

The paper proceeds as follows. Section II provides an overview of the organization and governance structures of the World Bank and IDB. Section III reviews the existing literature on donor influence in international financial institutions. Section IV lays out a framework for analyzing informal influence in the context of a development bank. Section V presents the data. Section VI discusses estimation results. Section VII concludes.

II. Multilateral development banks: The World Bank and the IDB

The World Bank

The World Bank is the largest and oldest of the major multilateral lending institutions, owned by 188 member countries and established in 1944. Its primary units are the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). The IBRD is the World Bank's hard window, set-up at the institution's founding and typically accounting for 60 percent of World Bank lending (World Bank, 2011a). IDA is the soft window, set up as a new branch of the World Bank in 1960 to simultaneously satisfy the demands from less creditworthy developing countries for concessional funding and U.S. distaste for the principal alternative, the Special UN Fund for Economic Development (SUNFED). As a UN specialized agency, SUNFED would have followed the UN's one-country, one-vote governance system (Browne, 1990).

The World Bank's system of governance is quite different. Each member country appoints a representative to the Board of Governors which has ultimate authority over all decisions. Voting is closely proportional to capital subscriptions, i.e., financial contributions. The Board of Governors delegates day-to-day decision making (on issues such as loan approval) to a 25 member Board of Executive Directors. Five shareholders—the U.S., the U.K., France, Germany, and Japan—each appoint their own executive director while the remaining executive directors are elected so that one executive director often represents several countries (World Bank, 2011a). Proportional to its contribution of capital, the U.S. has the most votes of any member, with a 15.84% vote share in the IBRD and 10.53% in IDA as of January 2012 (World Bank, 2012a, 2012b). Since an 85% supermajority in the IBRD is required to modify the Bank's

Articles of Agreement, the U.S. holds veto power over changes to the institution's charter though it cannot veto individual loans.

The IBRD and IDA differ along four major dimensions: who can borrow, the terms of loans, how lending is financed, and the allocation process. The IBRD lends to relatively creditworthy borrowers, primarily middle income countries. IBRD lending terms are near market rates though without a significant risk premium and over a longer term than is available with commercial banks. World Bank loans (indeed all MDB loans) enjoy special status under international law as most senior debt and are general obligations of the borrowing country, not linked to the specific investments they finance. Thus, failure to repay on time is extremely rare because of its dire implications for all other financing and thus for all international trade.

The primary financing mechanism to raise funds for IBRD loans is the sale of World Bank bonds in international financial markets. World Bank bonds enjoy a triple A rating as a result of the institution's track record of meeting its bond obligations, the aforementioned consequences of failing to repay World Bank loans, and the backing of wealthy donor countries. In addition to a small amount of paid-in capital, donors pledge to provide "callable capital" in the unlikely event that the World Bank is not able to meet its bond obligations. Based on its privileged access to capital markets, the IBRD is able to offer attractive interest rates to its developing country borrowers at little cost to the donor country governments. Member countries have periodically increased the capital stock available to the hard window, a process which involves complex negotiations among donor representatives (Babb, 2009, 41).

IDA provides highly concessional loans (referred to as credits) and, more recently, outright grants primarily to poor countries with income below an official threshold set at $1,175 GNI per capita for fiscal year 2012 (World Bank, 2011a). Because of its concessional nature,

IDA financing is not self-sustaining. While income generated in the World Bank's profitable IBRD lending covers World Bank operating expenses and contributes to IDA funding, donors must replenish IDA funds every three years. These triennial replenishments involve politicized negotiations about contribution levels and policy arrangements that allow donors to push their own agendas for IDA, and more broadly for all World Bank operations and policies.

Given the value of receiving IDA credits/grants and the real cost to donors involved in providing these funds, the allocation of IDA resources officially follows a transparent formula based on the World Bank's Country Policy and Institutional Assessment (CPIA) ratings. On paper, this contrasts with less well-defined criteria for allocating IBRD loans across countries. Yet this difference is not always apparent in empirical analyses of World Bank lending; for example, Andersen, Hansen, and Markussen (2006) find that geopolitical factors influence IDA allocations even though such factors do not enter the official criteria.

These differences in who can borrow, on what terms, the mechanism for financing, and the official allocation criteria are the only substantive differences between the IBRD and IDA. The same World Bank staff members identify, prepare, appraise, implement, and evaluate both IBRD and IDA projects and programs using the same procedures and standards. Governance is closely linked across the two branches: IBRD membership is a prerequisite for IDA membership. For countries that are members of both, the same governor serves as their representative in the IBRD and IDA. Executive board membership is the same across the institutions and voting shares are typically similar as well.

The World Bank classifies its loans, credits, and grants as either funding investment projects or development policy operations. Investment operations include infrastructure-related projects and, more recently, social development and institutional reforms to strengthen the

private sector. Investment loans disburse gradually as expenses are incurred, typically over a five to seven year period (Kraay, 2010). Development policy operations (formerly termed structural adjustment programs) are aimed at supporting the implementation of medium term policy reforms for borrowers facing financing problems, domestic or external. This type of funding is disbursed in large tranches, the release of which is designed to be contingent upon reaching reform goals. Historically, three tranche, three year operations were the norm but single tranche operations are now typical.

The Inter-American Development Bank

The Inter-American Development Bank, like other regional development banks, was modeled after the World Bank and therefore shares many of its structural characteristics. The IDB was created in 1959 in response to U.S. concerns that Latin America was susceptible to the spread of communism (after then-Vice President Nixon's disastrous tour of the region). In line with this concern, the IDB initially focused on social programs and poverty reduction. In the 1970s, it shifted to more World Bank-style infrastructure projects (Babb, 2009, 27). The IDB has 48 member nations, including 26 borrowing countries. The U.S. is the largest single shareholder with 30.01% of the votes but the borrowing members together have majority control with 50.02% of the votes. Membership was initially restricted to regional governments but since 1976 nonregional donors have been admitted. The nonregional vote share has grown to 15.98% and currently 3 of the 14 members of the Board of Executive Directors are from countries outside the western hemisphere (IDB, 2011).

The IDB, like the World Bank, includes both a hard and a soft lending window. Ordinary Capital Resource (OCR) loans are the equivalent of IBRD loans and the Fund for Special Operations (FSO) loans are the equivalent IDA credits. The IDB is unique among the

development banks in that the U.S. holds formal veto power over individual loans from the soft window by virtue of its vote share (Babb, 2009, 28). However, only about 5% of IDB lending occurs through the soft window (Birdsall, 2003, 18). The larger, more developed IDB borrowers have successfully resisted the transfer of net income from the hard window to the soft window, which Birdsall (2003, 19) explains limits the degree to which non-borrowers can promote their own agendas. As with World Bank loans, IDB loans include conditions intended to ensure they are used effectively. However relative to World Bank borrowers, IDB borrowers generally have more control over the details of conditions and thus IDB loans more closely reflect borrower needs (Birdsall, 2003, 21).

Since 1999, the IDB has grouped borrowers into two categories based on their 1997 GNP per capita; about 65% of lending volume is devoted to lower income countries (Group I), and 35% to middle income countries (Group II). As in the World Bank, the IDB is led by a Board of Governors, one governor appointed by each member country with voting power linked to the country's contribution to the IDB's ordinary capital stock (IDB, 2011). The president of the IDB is appointed by the Board of Governors and historically has been a citizen of a borrowing country, not a U.S. citizen nominated by the United States as in the World Bank. The U.S. does, however, appoint a U.S. citizen as vice president.

Reforms during the Reagan and George H.W. Bush administrations made the IDB more responsive to U.S. policy initiatives (Babb, 2009, 143). The IDB has historically given borrowing members a more substantial voice than has the World Bank, which led to disputes over control between the IDB and the U.S. during the Reagan presidency (Babb, 2009, 28). During negotiations over restructuring conditions, the U.S. used its financing of the IDB as leverage, threatening to divert its funds to the World Bank. Under George H.W. Bush, a deal

was reached that dropped a U.S. demand for a 65% supermajority for loan approval (which would have enabled the U.S., in alliance with another member, to block OCR loans) in exchange for allowing individual executive directors to delay loans. The IDB also agreed to a major shift toward policy-based lending in exchange for substantial increase in resources from donors (Babb, 2009, 143).

Despite the role of U.S. interests in these reforms, as well as general similarities between the IDB and the World Bank, the IDB is often seen as having more borrower-centric governance than the World Bank. Birdsall (2003) looks at the issue of representation in MDBs, explaining the benefits of greater representation by the poorest countries and the poor within those countries within international financial institutions. The IDB has not suffered the same loss of legitimacy as the World Bank in recent years and is seen as more "politically savvy" due to its hiring of staff from outside the bureaucracy in borrowing countries (Birdsall, 2003, 22).

III. Donor influence

Much of bilateral aid is transparently motivated by donor political and strategic considerations. Alesina and Dollar (2000) show that past colonial ties and voting patterns in the UN are better able to explain the geographic distribution of bilateral aid than are characteristics like the level of democracy, political institutions, or economic policy of recipients. Partly due to the influence of donor interests, bilateral aid may not be very successful at promoting economic growth and poverty reduction (Alesina and Dollar, 2000; Kilby and Dreher, 2010). Also citing political relationships as the most important determinants of bilateral aid flows, Radelet (2006) finds no simple relationship between aid and economic growth.

Theoretically, multilateral lending's greater independence from the political objectives of individual governments should be an advantage compared to bilateral aid. According to Rodrik (1995), while information provision—not lending—is the main benefit of multilateral institutions, their lending function gives them the incentive to provide accurate information, a public good. Because of this incentive alignment, independent multilateral lenders are better able to provide credible signals about recipient country policy quality to potential private foreign lenders and investors. Rodrik also cites advantages of independent multilaterals in implementing conditionality. Despite the theoretical advantages of lending by independent multilaterals he outlines, Rodrik finds no statistical evidence that actual multilateral lending catalyzes private flows or signals future development potential, two conditions that would justify multilateral institutions as lenders.

There is also considerable evidence that international financial institutions are not in fact independent from member governments and political interests. In the case of the IMF, Thacker (1999) finds that movement toward the U.S. within a defined international political space such as UN voting can significantly increase a country's chance of receiving an IMF loan. Andersen, Harr, and Tarp (2006) reach a similar conclusion using a formal model of vote buying which introduces a bliss point to represent a country's ideal political position in UN voting. In this setting, concessions to the U.S. can be measured by movements from the country's ideal point toward the U.S. position on UN votes the U.S. deems important. These studies and others (e.g., Dreher *et al*., 2009b) illustrate the U.S.'s ability to use the allocation of IMF funds to reward politically friendly countries or punish those who do not vote with the U.S. on important UN resolutions. The U.S. and other donors also exert influence over conditionality in IMF lending. Dreher and Jensen (2007) and Dreher *et al*. (2010) find that U.S. allies, countries voting with the

U.S. in the UN General Assembly, and countries with transitory geopolitical importance because they hold a non-permanent UN Security Council (UNSC) seat had fewer conditions on their IMF loans. Stone (2004) focuses on IMF projects in Africa and concludes that countries favored by important donors face less rigorous enforcement of conditions.

Similar evidence of donor influence can be seen in World Bank lending. Dreher *et al.* (2009a) find a significant relationship between UNSC temporary membership and the number of World Bank loans a country receives, indicating that the interests of UNSC permanent members (most notably, the U.S.) have substantial influence over who receives World Bank funding. Paralleling results for IMF conditionality, Kilby (2009a) finds evidence suggesting that lax enforcement of World Bank structural adjustment conditions is linked with UN voting alignment, reflecting U.S. or G7 influence. Kilby (2013) provides evidence of informal U.S. influence in the World Bank after loan approval which is comparable to the level of combined formal and informal donor influence up through loan approval. Loans are more likely to disburse (selection) and disburse quickly (allocation) in countries that make concessions to the U.S. on UN votes deemed important by the U.S. State Department.

Regional multilateral aid institutions, such as the Asian Development Bank, the African Development Bank, and the Inter-American Development Bank, have received less attention from researchers so the extent and sources of donor influence are not as well known. Kilby (2006) looks at donor influence in the Asian Development Bank (ADB). For the ADB, the estimated effects of Japanese and U.S. interest variables on selection of recipient countries are stronger than those of humanitarian variables. Furthermore, donor interests more heavily affect the allocation of resources after selection in the ADB than in the World Bank. Focusing on donor influence over the rate of ADB loan disbursement, Kilby (2011a) finds that the U.S. and

especially Japan exert much of their influence on ADB disbursements through informal channels.

Also studying the ADB, Lim and Vreeland (2011) find that, for ADB borrowers, temporary membership on the UNSC by a developing country substantially increases the country's share of ADB lending during the period the country holds the UNSC seat. A more pronounced increase is found for countries serving at the same time as Japan. These results suggest that donors influence the allocation of ADB loans in an attempt to buy votes on the UNSC. There are, as yet, no published empirical studies of the political economy of IDB lending, the focus of this paper.

IV. Analytical framework for informal influence

This section develops a framework for empirical analysis parallel to that in studies of informal influence in the World Bank (Kilby, 2013) and the Asian Development Bank (Kilby, 2011a). Availability of IDB project data (specifically, the project completion dates) is not as good as for the World Bank but better than for the ADB. Where project data are incomplete, reasonable assumptions allow us to proceed without serious worry; similar solutions with ADB data proved innocuous in past research (Kilby, 2011a). We start with a general framework for modeling the rate of disbursement then revise it to account for data limitations. The end result is an empirical specification that links the log size of the IDB active loan portfolio in the borrowing country to the log of IDB loan disbursements to the country.

As a starting point, we model the IDB's allocation of funds at the project/program level. By far the most powerful IDB member, the U.S. potentially can influence IDB fund allocation decisions in two distinct phases of the project cycle: up to loan approval (preparation/approval)

and after approval (implementation). Through loan approval, the U.S. may expedite identification, preparation, and appraisal (Kilby, 2011b) or inflate loan size as a reward to favored countries. Alternatively, the U.S. may delay preparation or lobby for smaller loans to mete out punishment. Prior to implementation, these tactics (positive or negative) can operate via formal channels (i.e., the board approval process) or informal channels (pressure on management and staff outside of the formal deliberation and voting process). However, after loan approval the board's official oversight of individual projects ends so that U.S. influence, if any, must operate indirectly exclusively through pressure on management and staff. This purely informal influence (following Stone's (2011) sense of informal–outside the predefined rules governing the institution) may take the form of pressure on upper management to encourage IDB project managers to discount factors that normally slow disbursement, e.g., red flags indicating corruption, delays in counterpart funding, questions of environmental impact, displacement, resettlement, etc. Negative pressure (in the case of countries currently at odds with the U.S.) is also possible, this time taking the form of management signaling staff to slow or suspend disbursement. In both cases, influence during project implementation (after Board approval) operates only through informal channels as the Board has no direct role in overseeing individual on-going projects. To get at informal influence more directly, we focus on this post-approval disbursement process.

We formalize this discussion by modeling the rate of actual disbursement relative to planned disbursement. Let j index all IDB-funded projects (across all recipient countries i and time periods t). At loan approval, the IDB commits c_{ij} to country i for project j.[1] While the loan is "active" (post-approval but pre-closing), the IDB disburses a variable amount d_{ijt} to country i

[1]Although subscript i is redundant given that j indexes all projects (across all countries and time periods), it is helpful for tracking other variables.

for project j in year t. Let A_{it} be the set of active projects in recipient country i during year t. If $j \notin A_{it}$ (project j is not active in country i in year t), $d_{ijt} = 0$; if $j \in A_{it}$ (project j is active in country i in year t), $d_{ijt} \geq 0$.

Actual disbursements (d_{ijt}) will differ from planned disbursements (d^*_{ijt}) if project implementation does not follow the scenario laid out in the Loan Proposal. Sometimes such changes are the result of pressure on staff to modify disbursement. In general, plans for disbursement are based on the size of the loan (commitment amount), characteristics of the project/program financed by the loan, and characteristics of the borrowing country or government. We account for this by modeling the ratio of actual to planned disbursements as a function of these variables:

$$d_{ijt}/d^*_{ijt} = f(\boldsymbol{X}_{ijt}, \boldsymbol{DI}_{it}, \varepsilon_{ijt}) \quad (1)$$

where $\boldsymbol{X}_{ijt}$ is a vector of project/program characteristics and country/government variables that influence the disbursement rate, $\boldsymbol{DI}_{it}$ is a vector of variables capturing U.S. interests in recipient country i, and ε_{ijt} is a stochastic element. We define $\boldsymbol{DI}$ with higher values indicating more intense positive U.S. interest. One useful functional form is:

$$d_{ijt}/d^*_{ijt} = e^{(\boldsymbol{\beta_1 X_{ijt}} + \boldsymbol{\beta_2 DI_{it}} + \varepsilon_{ijt})} \quad (2)$$

Taking logs and rearranging gives

$$lnd_{ijt} = lnd^*_{ijt} + \boldsymbol{\beta_1 X}_{ijt} + \boldsymbol{\beta_2 DI}_{it} + \varepsilon_{ijt} \quad (3)$$

The hypothesis that the U.S. influences the speed of disbursement corresponds to $\boldsymbol{\beta_2} > \boldsymbol{0}$ while the alternative hypothesis that the U.S. does not influence disbursement rates implies $\boldsymbol{\beta_2} = \boldsymbol{0}$. Because d^*_{ijt} absorbs the impact of any U.S. influence up to Board approval of the loan, $\boldsymbol{\beta_2}$ reflects only post-approval U.S. influence (if any) which is purely informal.

Limitations in the available data prevent direct estimation of Equation (3). First, although some Loan Proposals include a schedule of planned disbursements (d^*_{ijt}), those data are not systematically available. To work around this, we rely on project level commitment data (c_{ij}) from the IDB's online Project Database. Recall that c_{ij} is the IDB commitment (loan) amount for project j in country i in whatever year the project was approved. With planned disbursements based on the project type and "age" (years since the project was approved), c_{ij} is proportional to d^*_{ijt} once we control for project type (e.g., with a sector dummy variable) and age. Once project type and age are included in the set of control variables (as part of $\boldsymbol{X}_{ijt}$), we can write[2]:

$$lnd_{ijt} = lnc_{ij} + \boldsymbol{\beta}_1 \boldsymbol{X}_{ijt} + \boldsymbol{\beta}_2 \boldsymbol{DI}_{it} + \varepsilon_{ijt} \tag{4}$$

Next we need to account for the fact that data on actual disbursements are given at the country level ($d_{it} = \sum_{j \in A_{it}} d_{ijt}$), not the project level (d_{ijt}). Indeed, few project-level factors ($\boldsymbol{X}_{ijt}$) are available. We therefore shift to country-level analysis, summing over all active projects in country i in year t (i.e., summing over $j \in A_{it}$):

$$ln\, d_{it} = ln\, c_{it} + \boldsymbol{\beta}_1 \boldsymbol{X}_{it} + \boldsymbol{\beta}_2 \boldsymbol{DI}_{it} + \varepsilon_{it} \tag{5}$$

Note that although c_{it} measures commitments, it is not simply the total of loans made to country i in year t. Rather it reflects the value of the portfolio of all active IDB loans to country i, i.e., the sum of IDB commitments to country i for all projects still active in year t:

$$c_{it} = \sum_{j \in A_{it}} c_{ij} \tag{6}$$

To distinguish the portfolio of active loans (which may have been approval over the course of several years) from the subset of loans approved in year t, we refer to c_{it} as *Original Commitments*. The key point is that c_{it} reflects total available funds from which current disbursements could be drawn.

[2] If d^*_{ijt} is proportional to c_{ij}, then lnd^*_{ijt} is equal to lnc_{ij} plus a constant that can be incorporated into $\boldsymbol{\beta}_1 \boldsymbol{X}_{ijt}$.

Having switched to a country level analysis, $\boldsymbol{X}_{it}$ now represents a vector of technical (rather than political) country characteristics that may influence the speed of disbursement. As suggested above, it also includes variables describing the loan portfolio of country *i* in year *t* including *Age*, the quantity-weighted "age" of the active loan portfolio. Denoting this Age_{it},

$$Age_{it} = \frac{\sum_{j \in A_{it}} \sum_{s=0}^{8} (s+1) c_{ij(t-s)}}{\sum_{j \in A_{it}} \sum_{s=0}^{8} c_{ij(t-s)}} \tag{7}$$

where $c_{ij(t-s)}$ are new IDB commitments to country *i* for project *j* in period $t-s$, i.e., the loans for projects/programs approved in year $t-s$ that are still active. The range of *s* in the summation omits very old projects that are likely to be inactive even if not formally closed. Using $s+1$ rather than *s* as project age gives non-zero weight to current commitments in this weighted average.

A final data limitation is that coverage of project completion dates in IDB Projects Database is imperfect; older entries do not indicate when the loan closed (the formal end of disbursement). We need these closing dates to construct the *Original Commitments* and *Age* variables. In cases where the closing date is missing, we assume IDB disbursements extend over 8 years, the typical disbursement period when data are available.[3]

V. Data

The data used in this analysis are described in Table 1. Variables include aid flows from the IDB and bilateral donors, recipient country economic and political factors, UN voting alignments, UNSC temporary membership, U.S. military aid, and trade flows. The unit of

[3] We also considered limiting the sample to cases where the closing date is available. However, with this restricted sample, the estimated coefficient on lnc_{it} is significantly less than 1 (contradicting our model) while estimations based on the full sample consistently fail to reject the hypothesis that the coefficient on lnc_{it} is unity (consistent with our model). This suggests that a significant selection bias exists in the restricted sample and we opt to use the full data set to avoid this. Other results also differ if we use the restricted rather than full sample.

observation is recipient country/year. The sample runs from 1984 to 2008; these limits are determined by data availability. Table 1 displays the descriptive statistics for the estimation sample (615 observations for 26 countries).[4]

The IDB data for commitments and related project information come from the IDB website's project database.[5] Disbursement data (IDB loans, US economic aid, and Like-minded donor economic aid) are from the OECD Development Assistance Committee (OECD Development Cooperation Directorate, 2006-2009). GDP and population data are from the World Development Indicators (World Bank, 2011b) with missing values imputed from the Penn World Tables (Heston et al., 2002, 2006). Conflict data are drawn from Gleditsch *et al.* (2002). U.S. military aid data are from the U.S. Agency for International Development's *Greenbook* (USAID, 2009). UNSC membership data are from the UN website (United Nations, 2010). Trade data are from the IMF Direction of Trade Statistics (IMF, 2009).[6]

UN voting data are drawn from several sources. Data on regular session roll call votes for resolutions that passed come from Voeten and Merdzanovic (2009) and are described in Voeten (2004). Classification of votes as important to the U.S. reflects the U.S. State Department annual report to Congress (U.S. State Department, 1984-2010). In addition to the votes covered in Voeten and Merdzanovic, the State Department's report also provides data for votes on defeated amendments, language of proposed amendments, emergency session measures, etc. For these votes, all information is from State Department reports.

[Table 1 about here]

[4] We omit only one observation for which there is data, Venezuela 1996, which appears to be an outlier.
[5] We also received data directly from Viviane Azevedo of the IDB's research group.
[6] We do not include additional variables describing the government since the specifications reported below include government fixed effects.

Table 1 lists descriptive statistics for country-years with positive IDB disbursements.[7] The average amount is $198.9 million, with a maximum of $2.9 billion (Brazil 1999). Original commitments (*Original Commitments*) averaged $1.474 billion with a maximum of $14.7 billion (Brazil 1999). The portfolio-weighted age of projects (*Age*) was 4.5 years, in the middle of the theoretical range of 1 to 9 years. The dummy variable *Blend* equals 1 if a country has original commitments from both the FSO and OCR funding sources.

The remaining variables describe country characteristics and the interests of the U.S. in the borrowing country. *Population* averages 19 million people, with a maximum of 192 million people in Brazil in 2008 and a minimum of 222,000 in Belize in 1996. *GDP per capita*, measured in chained 2000 PPP dollars, ranges from $1,015 in Haiti in 2004 to $25,301 in Barbados in 2007, with an average of $7,027. *War* is a dummy variable indicating whether a country is involved in a major conflict, defined as resulting in the death of at least 1000 people per year.

The variable *diffUSA* is the difference between a recipient's alignment with the U.S. on important UN votes and its alignment with the U.S. on other UN votes, as calculated in Kilby (2011a). The calculation of alignment closely follows Thacker (1999) and Dreher and Jensen (2007). For each UN vote, a country scores 1 if it follows the U.S., 0.5 if it abstains or is absent when the U.S. votes or vice versa, and 0 if it votes against the U.S. A country's alignment is its mean score for the year in the relevant category of votes (important or other). Values are lagged one year since UN votes primarily take place in the last quarter of the year. On average, recipient countries have a *diffUSA* value of 0.24 with a range from −0.17 (Nicaragua 1984) to

[7] Only 33 observations do not have positive disbursements so there is little gained by incorporating these cases (e.g., via selection, two part, or Tobit models). In addition, doing so would limit the use of fixed effects due to inconsistency in some nonlinear settings.

0.66 (Uruguay 1985). As argued in Andersen, Harr, and Tarp (2006), *diffUSA* captures deviation from the government's ideal point in the voting space toward the U.S. position on measures that matter to the U.S. and thus reflects concessions to the U.S.

US military aid is a dummy variable equal to 1 if the borrower receives significant military aid from the U.S., defined as more than $500,000 worth of assistance.[8] If the U.S. provides significant military aid to a country, presumably it has a geopolitical interest in the country which could affect IDB disbursement if the U.S. exerts informal influence within the IDB. Slightly more than half the observations in the sample are cases with significant U.S. military aid.

As another measure of geopolitical interests of donors, we include bilateral economic aid disbursements from the U.S. (*US economic aid*). Bilateral aid disbursements from the "like-minded" donors Canada, Denmark, the Netherlands, Norway, and Sweden (*LM economic aid*), known as relatively humanitarian donors, are also included. The average level of *US economic aid* is $98.7 million, with a maximum of $4.9 billion in Panama in 1999 (reflecting the handover of the Canal Zone). The group mean of economic aid for the like-minded donors averaged $8.9 million, with a maximum of $200 million to Mexico in 2007.

To measure donor commercial interests in the region, we include U.S. and world trade (exports to and imports from the borrowing country). *US trade* averages $9.9 billion, with a maximum of $349.4 billion in Mexico in 2007. *World trade* averaged $21.6 billion, with a maximum of $505 billion also with Mexico in 2007. Finally, following Kaja and Werker (2010), we construct a dummy variable, *IDBEB*, equal to one if the country held a seat or an alternate

[8] We use a dummy variable rather than the log of the level of military aid to avoid numerous "log of zero" problems.

seat on the IDB Board of Executive Directors in either period *t* or *t*-1. Based on information in IDB annual reports, *IDBEB* averages 0.65 in the sample.

VI. Estimation results

Table 2 displays results for an allocation equation estimated with year dummies and government fixed effects.[9] Government fixed effects allow for time-invariant, government specific factors that influence the level of IDB disbursement. This means that estimation results must be interpreted as reflecting only the time series (within-government) component of any effect, i.e., how deviations from government-specific means in the explanatory variables correlate with deviations from government-specific means in the dependent variable. While this can complicate interpretation, it has the advantage of greatly reducing the scope for omitted variable bias.[10] In addition, the reported t-statistics are based on government-clustered standard errors. The specifications reported include *Original Commitments*, *Population*, *GDP per capita*, *US economic aid*, *LM economic aid*, *US trade*, and *World trade* in log terms.[11]

[Table 2 about here]

Column 1 of Table 2 is a baseline without political economy variables. The first four variables are commitment portfolio controls; with these included, other coefficient estimates can be interpreted as impacting the rate of disbursement as in equation (5) above. In accordance with

[9] We use data from the Polity IV Project (2009) and Cheibub *et al*. (2010) to generate government fixed effects. Our approach includes a separate fixed effect for each government that differs substantially from its predecessor, i.e., when the government changes and the country's *Polity* score changes by more than 3 points.

[10] For a full discussion of why this is particularly important in a model using UN important votes, see Kilby (2011a) or Kilby (2013).

[11] The estimation sample includes 60 observations with no economic aid from the U.S. and one observation with no economic aid from any of the like-minded donors. To avoid log of zero, we add a trivial amount ($10,000) to each value of US ec*onomic aid* and *LM economic aid* prior to taking logs. Results are not sensitive to how we deal with this (e.g., instead dropping these observations).

equation (5), the estimated coefficient on *Original Commitments* is not significantly different from one (p=0.6733).[12] The two other variables, *Age* and Age^2, which reflect the average loan age in the country's active loan portfolio, are also significant. The positive coefficient on *Age* combined with the negative coefficient on Age^2 indicates a peak disbursement rate at 4.4 years. The dummy variable *Blend,* which indicates that the country has both OCR and FSO funding, is insignificant throughout. The country characteristics—*Population*, *GDP per capita*, and *War*—are insignificant factors when we include either government fixed effects or *Original Commitments*.

Column 2 of Table 2 adds the first donor interest variable, *diffUSA*. This captures voting concessions made by the recipient country government to the U.S. position, i.e., the extent to which the recipient country government deviates from its ideal position toward the U.S. position on votes the U.S. State Department designates as important. The estimated coefficient on *diffUSA* is small, negative, and not statistically significant. That is, alignment with the U.S. in the UN does not appear to be a factor in the rate of disbursement. As we would expect given this result, the coefficient estimates on the portfolio and country variables are hardly affected.[13]

Column 3 of Table 2 introduces instead bilateral aid as the political economy measure. In addition to *US military aid* and *US economic aid*, Column 3 also includes *LM economic aid* (bilateral disbursements from the like-minded donors) to control for additional humanitarian factors that might drive both IDB lending and U.S. aid flows.[14] All the coefficient estimates are

[12] Results for *Original Commitments* are similar across all specifications with the estimated coefficient ranging from 0.890 to 1.153 (most often very close to 1) and *p-values* for the test of H_0: β=1 consistently above 0.5.

[13] If we include alignment on important and other votes as separate variables (rather than their difference, *diffUSA*), both estimated coefficients are negative and not statistically significant.

[14] See Fleck and Kilby (2006) for a discussion of why like-minded donor aid and world trade should be included as control variables.

small and none approaches statistical significance. The story repeats in Column 4 when we introduce world trade and U.S. trade to see if there is a differential effect reflecting U.S. commercial interests. The trade variables are neither individually nor jointly significant; this also holds without fixed effects and clustering. The political economy variable in Column 5 is *UNSC*, a variable indicating nonpermanent membership in the UN Security Council. Again, this political economy variable which reflects U.S. interests in other contexts (Kuziemko and Werker, 2006; Dreher *et al*., 2009a) is not significant in this estimation. This result is robust to different lag specifications.

Column 6 explores a related but distinct issue: does IDB Executive Board membership come with better access to IDB funds? The positive and significant coefficient on *IDBEB* suggests that, as at the World Bank, it does. The rate of disbursement is significantly higher for governments while they occupy a seat (or an alternate's seat) on the IDB Board than when they do not. As Kaja and Werker (2010) point out, this is a corporate governance issue rather than a question of U.S. influence.

Column 7 of Table 2 includes all the political economy variables simultaneously. Results are as before: Of the political economy variables, only IDB board membership has a significant impact on the rate of disbursement. The U.S. interest variables are individually and jointly insignificant (p=0.5817).

[Table 3 about here]

Given the powerful position the U.S. holds in the IDB, the lack of evidence of informal influence over loan disbursement may seem puzzling. To examine the issue more closely, we explore whether the exercise of influence has changed over time. Table 3 presents results from splitting the 1984-2008 sample roughly in half. Column 1 replicates the last column of Table 2

over the 1984 to 1995 period and Column 2 reports estimates of the same specification over the 1996 to 2008 period.

Two differences stand out when the data are split this way. First, though not the focus of this paper, the impact of war in slowing IDB disbursement nearly triples between the periods so that the estimated coefficient on the war dummy becomes statistically significant in the second period. Concurrently, the prevalence of war declined from 6.5% in the earlier period to 1.2% in the later period. Second, we see the opposite effect with *US military aid*. During the earlier period, when governments received substantial U.S. military aid, they also experienced significantly faster disbursement of IDB funds. By the second period the link between the two variables had become much smaller and was no longer statistically significant. This era also saw an increased spread of U.S. military assistance (from 47% with significant U.S. military aid in the first period to 57% in the second period). There are a couple of interpretations of this pattern. First, with more conflicts and less U.S. military assistance available, receiving substantial U.S. military aid may have been a better signal of strong alliance with the U.S. in the earlier period. Second, the exercise of U.S. influence in the IDB may have changed over time.

[Table 4 about here]

While splitting the sample in half has statistical advantages, it ignores the obvious structural change in geopolitics with the end of the Cold War. Table 4 addresses this by instead using the periods 1984-1991 and 1992-2008. Comparing Tables 3 and 4 reveals two interesting features. First, the pattern with respect to U.S. military aid is substantially weakened, suggesting that the role of military aid changed only slowly following the end of the Cold War. Second, there is some evidence that the role of U.S. economic aid changed with the end of the Cold War. During the Cold War, there is a negative (though insignificant) link between U.S. economic aid

and the IDB disbursement rate; with the end of the Cold War, this reverses to a marginally significant, positive link. In contrast, the role of IDB board membership appears relatively stable over time though it only reaches statistical significance when we consider the entire period.

[Table 5 about here]

Despite some variation across periods, the analysis uncovers scant evidence of informal U.S. influence in the IDB. In Table 5, we take a different approach, comparing informal-only to overall U.S. influence by estimating both the disbursement rate equation that includes commitment portfolio variables (Column 1) and a disbursement level equation that excludes commitment portfolio variables (Column 2). Column 1 simple repeats the relevant values reported in Column 7 of Table 2. In this setting, any evidence of donor influence must reflect post-approval, informal influence. Column 2 presents the determinants of the (log) level of disbursements because it omits original commitments and the other portfolio variables from the list of control variables. In this setting, the estimated coefficients reflect the impact of donor interests on the overall level of disbursements, i.e., both influence over how much the IDB lends (formal and informal influence up through loan approval) and influence over how quickly these loans disburse (informal influence after loan approval). Both specifications include all the other variables listed in Table 2, Column 7 as well as government fixed effects and year dummies.

As we saw before, IDB Executive Board membership is the only political economy variable that is statistically significant in the disbursement rate equation (Column 1). Column 2, in-line with capturing both pre- and post-approval influence, uncovers numerous significant factors. Voting alignment in the UN (*diffUSA*) enters with a positive and significant coefficient estimate; an increase of 1 standard deviation from the mean corresponds to a 16.3% increase in predicted disbursements (about $11.5 million). The estimated coefficient on U.S. military aid is

also positive and significant with 28% ($20 million) higher predicted disbursements when a government receives significant U.S. military aid. The differential effect of trade with the U.S. is also positive and significant. One percent higher U.S. trade corresponds to about half a percent higher disbursements and one standard deviation higher U.S. trade corresponds to 125% ($90 million) higher predicated IDB disbursements. If we look at all these variables at once, the combined effect is large, a $152 million or 250% increase in IDB disbursements.

IDB Board membership is only marginally significant in Column (2) with a point estimate indicating 24% higher disbursements when a government holds an Executive Board seat. However, this could reflect measurement problems related to timing (i.e., the optimal lag on *IDBEB*); disbursement can accelerate immediately while increases in the underlying commitments take longer.

VII. Conclusion

This paper focuses on the speed of IDB loan disbursement, i.e., disbursements controlling for prior commitments. This is an appealing way to assess U.S. informal influence over the IDB because disbursement decisions are nominally the purview of staff rather than the Executive Directors. IDB governance gives Executive Directors a clear role in deciding the level of commitments (i.e., voting on proposed loans). In contrast, because disbursement decisions happen during the subsequent implementation phase when there is no formal role for Executive Directors, donors who nonetheless have influence must exercise that influence through informal channels. Research on the IMF, the World Bank, and the Asian Development Bank has uncovered convincing evidence of such informal influence by the G7, especially the U.S. (in all three cases) and Japan (in the case of the ADB).

While this paper does turn up convincing evidence that membership on the Inter-American Development Bank's Executive Board accelerates the disbursement of loans to the board member's country, evidence of U.S. informal influence is much less convincing. Intuitively, this may seem surprising since the U.S. holds a much stronger formal position in the IDB than in the other institutions. The U.S. vote share is 30%, roughly double the share it has in any of the other institutions. The U.S. has certain formal veto powers it lacks in other settings and other major donors clearly acknowledge the overriding interest of the U.S. in Latin America. Confirming this, we find ample empirical evidence of U.S. influence in specifications that allow for formal influence. It is only in specifications which focus exclusively on informal influence that we find scant evidence of U.S. influence.

In fact, this pattern is fully consistent with Stone's (2011) central theme in *Controlling Institutions*. Stone argues that informal influence is a mechanism to ensure the participation of powerful states in international organizations, allowing powerful states to circumvent the limits of formal control in cases they deem critical. It follows that the greater the formal control of the powerful state, the less that state needs to resort to informal control. Thus, the greater degree of U.S. formal influence in the IDB means the U.S. has less reason to resort to informal methods.

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Table 1 – Descriptive Statistics

Variable	Mean	StDev	Min	Max	Description
IDB disbursements	198.9	350.4	0.03	2,899	Inter-American Development Bank disbursements (millions USD)
Original commitments	1,474	2,051	2.06	14,746	Sum of commitments for active projects (millions USD)
Age	4.541	1.13	1	8.621	Average loan ages weighted by amounts
Blend	0.6602	0.474	0	1	Dummy for country with FSO and OCR Original Commitments
Population	19.05	35.68	0.222	192	Population in millions
GDP per capita	7,027	4,699	1,015	25,301	PPP GDP per capita (chained 2000 $)
War	0.0374	0.1899	0	1	Dummy indicating on-going major conflict (>1000 dead)
diffUSA	0.2418	0.1399	-0.1695	0.6595	Concessions to US on UN votes important to US
US military aid	0.522	0.4999	0	1	Receives significant US military aid (>$500,000)
US economic aid	98.72	249.6	0	4,856	US economic aid disbursements (millions USD, lagged 1 year)
LM economic aid	8.934	13.87	0	200.5	Like-minded donors aid disbursements (average, millions USD, lagged 1 year)
US trade	9,866	35,141	3.8	349,430	US trade with country in millions (lagged 1 year)
World trade	21,633	52,254	431	505,039	World trade with country in millions (lagged 1 year)
UNSC	0.07805	0.2685	0	1	UN Security Council member (lagged 1 year)
IDBEB	0.6455	0.4787	0	1	IDB Board membership (either of previous two years)

615 observations

Table 2 – Disbursement Rate

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Dependent Variable: *log of IDB disbursements*						
Original commitments	1.045**	1.046**	1.041**	1.056**	1.046**	1.031**	1.045**
	(9.71)	(9.66)	(10.02)	(10.29)	(9.74)	(9.92)	(11.29)
Age	1.261**	1.261**	1.254**	1.333**	1.250**	1.284**	1.337**
	(3.09)	(3.09)	(3.05)	(3.38)	(3.06)	(3.12)	(3.29)
Age^2	-0.143**	-0.143**	-0.143**	-0.151**	-0.142**	-0.146**	-0.153**
	(-3.59)	(-3.59)	(-3.54)	(-3.93)	(-3.54)	(-3.61)	(-3.79)
Blend	0.141	0.142	0.130	0.147	0.153	0.124	0.129
	(0.94)	(0.93)	(0.87)	(0.94)	(1.01)	(0.82)	(0.84)
Population	-0.211	-0.211	-0.447	-0.0136	-0.175	-0.288	-0.340
	(-0.23)	(-0.23)	(-0.51)	(-0.01)	(-0.21)	(-0.32)	(-0.34)
GDP per capita	0.422	0.422	0.316	0.552	0.506	0.340	0.435
	(0.70)	(0.70)	(0.52)	(0.76)	(0.80)	(0.59)	(0.58)
War	-0.0144	-0.0144	-0.0115	0.0167	0.00117	-0.0648	-0.0150
	(-0.08)	(-0.08)	(-0.07)	(0.10)	(0.01)	(-0.43)	(-0.10)
diffUSA		-0.0233					-0.142
		(-0.07)					(-0.38)
US military aid			0.112				0.109
			(1.11)				(1.07)
US economic aid			-0.00366				-0.000308
			(-0.20)				(-0.02)
LM economic aid			0.0416				0.0475
			(0.85)				(0.99)
US trade				-0.274			-0.255
				(-1.58)			(-1.43)
World trade				0.259			0.252
				(0.69)			(0.63)
UNSC					-0.169		-0.142
					(-0.90)		(-0.76)
IDBEB						0.204**	0.194**
						(2.46)	(2.37)
Observations	615	615	615	615	615	615	615

t statistics based on government clustered standard errors in parentheses; * p<.1, ** p<.05
All specifications include year dummies and government fixed effects.

Table 3 – Disbursement Rate, Early v. Late Periods

	(1)	(2)
	Dependent Variable: *log of IDB disbursements*	
Original commitments	0.871**	0.954**
	(3.09)	(9.80)
Age	2.482**	0.538**
	(4.39)	(3.67)
Age^2	-0.272**	-0.0704**
	(-4.28)	(-4.94)
Blend	0.407	0.137
	(1.41)	(1.15)
Population	2.017	-0.342
	(0.75)	(-0.33)
GDP per capita	-0.0915	0.275
	(-0.06)	(0.31)
War	-0.140	-0.384**
	(-0.47)	(-5.34)
diffUSA	-0.537	0.772
	(-0.90)	(1.31)
US military aid	0.425**	0.0630
	(2.18)	(0.56)
US economic aid	-0.00261	-0.00136
	(-0.09)	(-0.08)
LM economic aid	0.0804	0.0282
	(0.79)	(0.74)
US trade	-0.366*	0.216
	(-1.77)	(0.70)
World trade	0.353	0.154
	(0.41)	(0.39)
UNSC	-0.270	0.0668
	(-0.92)	(0.67)
IDBEB	0.247	0.117
	(1.24)	(1.48)
Observations	292	323
Years	1984-1995	1996-2008

t statistics based on government clustered standard errors in parentheses; * p<.1, ** p<.05
All specifications include year dummies and government fixed effects.

Table 4 – Disbursement Rate, Cold War v. Post-Cold War

	(1)	(2)
	Dependent Variable:	*log of IDB disbursements*
Original commitments	1.087**	1.054**
	(3.55)	(14.04)
Age	2.815**	0.453**
	(5.68)	(2.68)
Age^2	-0.280**	-0.0670**
	(-5.03)	(-3.89)
Blend	0.0136	0.191
	(0.05)	(0.84)
Population	-1.121	-1.235**
	(-0.37)	(-2.83)
GDP per capita	-1.030	0.326
	(-0.47)	(0.70)
War	-0.119	-0.179
	(-0.27)	(-1.07)
diffUSA	-0.495	0.233
	(-0.72)	(0.43)
US military aid	0.317	0.0469
	(1.29)	(0.48)
US economic aid	-0.0644	0.0370*
	(-1.48)	(1.74)
LM economic aid	0.0680	0.0587
	(0.49)	(1.23)
US trade	-0.250	0.217
	(-1.18)	(0.74)
World trade	-0.0344	-0.0376
	(-0.04)	(-0.09)
UNSC	-0.300	-0.0278
	(-0.90)	(-0.29)
IDBEB	0.148	0.114*
	(0.68)	(1.76)
Observations	192	423
Years	1984-1991	1992-2008

t statistics based on government clustered standard errors in parentheses; * p<.1, ** p<.05
All specifications include year dummies and government fixed effects.

Table 5 -- Comparison

	(1)	(2)
	Dependent Variable:	*log of IDB disbursements*
diffUSA	-0.142	1.081**
	(-0.38)	(2.66)
US military aid	0.109	0.279**
	(1.07)	(2.10)
US economic aid	-0.000310	-0.0324
	(-0.02)	(-0.98)
US trade	-0.255	0.478**
	(-1.43)	(2.07)
UNSC	-0.142	-0.223
	(-0.76)	(-0.87)
IDBEB	0.194**	0.239*
	(2.37)	(1.72)
Observations	615	615

t statistics based on government clustered standard errors in parentheses; * p<.1, ** p<.05
All specifications also include *Population*, *GDP per capita*, *War*, *LM economic aid*, *World trade*, year dummies, and government fixed effects.
(1) Includes commitment portfolio variables (same as Table 2, Column 7)
(2) Excludes commitment portfolio variables