# Private Politics in World Bank Lending

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# 1 Introduction

Facing each other across 17th Street in Washington, DC, the World Bank and the International Monetary Fund have pursued functionally distinct but overlapping agendas, have sometimes clashed, and have often been perceived to compete for clients and resources. Although they share a common membership and formal governance structure, their informal governance procedures, internal norms and organizational cultures are strikingly different. Both organizations have become more transparent in recent years, but the opening began earlier and has gone further in the Bank. World Bank policies have become more permeable to the influence of transnational actors, including multinational firms. The career prospects of World Bank staff have become linked to publicly accessible evaluations of lending projects. An unintended consequence of this drive for accountability is the emergence of a pattern of *private politics* in the World Bank, in which staff collude with multinational corporations to influence project evaluations and disbursement of funds.

This conclusion may seem puzzling in view of the conventional wisdom about foreign direct investment. Foreign investment is a strategy used by high-productivity firms, which can afford to pay the fixed costs of locating abroad, and which have intangible assets to protect, and therefore prefer to invest rather than contract at arm's length (Helpman, Melitz and Yeaple, 2004). From this perspective, MNCs are valuable partners for the World Bank because the firms that engage in FDI have technology, organizational skills and other intangible assets that give them high productivity. Their presence should provide permissive conditions that foster better outcomes and should directly improve the performance of World Bank projects when they are actively involved. In some cases, the presence of foreign investors may even be a necessary condition for success: projects that improve infrastructure, for example, may be judged to be successful only if they encourage FDI. In this view, MNCs are allies in economic development: they should promote project performance, and they should not be particularly tempted to collude with government or lobby on behalf of governments that fail to perform, because they have interests aligned with those of the Bank.

From a political-economy perspective, the missing factor in this argument is firms' political activity. A large multinational firm is a potent political actor both in the host country, where it invests, and in the home country, where it has its headquarters, and it is able to engage in effective lobbying activities in both jurisdictions. When it makes a foreign investment, it looks down the game tree and anticipates the consequences of the political power that it will wield as a high-capacity organization with specific assets at risk. In some cases, these investments only make sense because of the opportunity to obtain rents, either because MNCs are well positioned to take advantage of market imperfections or because they anticipate that entry will give them the leverage to obtain rents through political activity. Firms investing with these motives may not be allies of the World Bank. Indeed, if their investment objective is to obtain rents by influencing the World Bank, their investments may be predicated on the ability to

subvert the Bank's intentions. This perspective would not expect MNCs to improve project performance, but would expect them to collude with bank staff on project evaluation and lobby for disbursements of financing that may improve their own bottom lines.

From this perspective, the contrast between the Bank and the Fund is driven by the Bank's greater attractiveness as a political target for multinational firms, and the Fund's greater attractiveness to powerful state principals. Individual IMF decisions can rescue or topple member governments, so powerful states have strong incentives to maintain close control over decision making (Stone, 2011). In contrast, while aggregate Bank lending is substantial, the implementation of most Bank projects involves lower political stakes, so the cost of devolving control over implementation to private agents is lower. From the perspective of firms, interests in IMF programs are diffuse, and rarely tangible enough to justify political activity. In contrast, firms have concentrated and substantial interests in particular World Bank projects.

New project-level data that are more comprehensive and more detailed than were previously available allow us to investigate the politics of project evaluation and implementation. We have coded all Implementation Completion and Results (ICR) reports for IDA and IBRD projects from 1994 through 2013 for project evaluations, sectoral composition, objectives, and implementation. We find no evidence that foreign investment improves the performance of Bank projects. However, we do find evidence that investments by International Fortune 500 multinational corporations headquartered in the United States are associated with increases in evaluation bias for Bank projects —the difference between official Bank evaluations and an index of the underlying data on which such evaluations are based —and with increases in disbursement ratios for loans conditional on evaluations and performance. We interpret this as evidence of collusion with Bank staff to influence evaluation and lobbying for disbursements that are not justified by project performance. This interpretation is corroborated by further tests using an alternative measure that more precisely defines MNC motives: World Bank records of project contractors, which are available for a subset of projects beginning in 2000.

In contrast, we find no evidence of patterns of informal influence at the project level consistent with the kind of geopolitical motives that have been found in studies of the IMF and the Bank that have focused on country-level outcomes. We find no effects of informal influence measured in terms of UNGA voting, UNSC temporary membership, US aid, US trade, or WB Executive Board membership. However, we find that only investments by MNCs headquartered in the United States and Japan are associated with distortions of project evaluations and loan disbursements, which suggests that the influence of private actors depends on access to policy networks that allow the leading states in the international system to exert privileged informal influence.

## 2 The Political Economy of Project Evaluation

Three chains of delegation provide access points for multinational corporations that seek to influence the World Bank. First, internal to the Bank is the delegation chain from the organization to its staff, which is based on the Bank's staff evaluation system, which for project managers heavily depends on the evaluations that their projects receive. World Bank lending policy therefore depends on the criteria used for project evaluation. The Bank, furthermore, is the agent of its member states, which exert formal control through their Executive Directors and informal control through pressure on the Bank's management. Consequently, states can control bank policy, albeit imperfectly, by reforming the Bank's criteria for project evaluation, and they can make exceptions to that policy by lobbying Bank executives. Because of its unique role in the Bank's governance structure, the United States is the key principal. A third chain of delegation is within the governance structures of the major member states, which are democracies and therefore readily penetrable to determined interest groups. The most significant changes in Bank policy began as lobbying campaigns by interest groups and NGOs, which almost always focused their efforts on mobilizing support in the U.S. Congress. Similarly, exceptions to Bank policies, which are of more interest to particular MNCs than the general contours of policy, most frequently originate in lobbying of the U.S. government.

The World Bank has two major lending agencies, the International Bank for Reconstruction and Development (IBRD) and the International Development Agency (IDA), and this institutional complexity provides a window into informal influence at the Bank. Unlike the revolving capital of the IBRD, the concessional lending and grant making activities of the IDA are not designed to be self-sustaining, and are replenished through contributions that are the subject of multilateral negotiations every three years. The tenth IDA replenishment (1992-95) was the target of an unprecedented surge of activism on the part of NGOs and business groups, with lobbyists weighing in for and against full replenishment and making a wide range of reform proposals. The result was a curtailment of IDA funding in the early 1990s, which substantially constrained Bank activities and provided an impetus to internal reform. The mechanism by which this outcome was reached, however, underlined the key role played by shareholder states. The critics of replenishment prevailed over their opponents because they were influential within the United States, the leading World Bank shareholder, which was able to exercise decisive influence by refusing to agree to full replenishment (Pallas, 2013). In 1993 an effective campaign of NGO lobbying of the US government led the IDA replenishment to be linked explicitly to creation of a new Inspection Panel, which was empowered to hear complaints from private actors whose interests were damaged when the Bank failed to follow its procedures for consulting stakeholders (Weaver, 2008; Clegg, 2013, p.52; p.111).

Restraining IDA replenishment in the early 1990s accorded with other U.S. objectives for World Bank reform. Treasury was interested in tying IDA funding more explicitly to the evidence for results, and used the leverage afforded by replenishment to push through a reform

that conditioned IDA funding on the World Bank's Country Policy and Institutional Assessment (CPIA) scores. These scores, which until recently were confidential, were used by Bank staff to keep track of the country-by-country record of average implementation of Bank projects, and were created by an intensive and very expensive inter-departmental review process. The CPIA scores include a measure of governance compiled by the Bank, and this measure is associated with increased lending through the IDA, but not through the IBRD (Winters, 2010). Until this reform, Executive Directors had been able to use informal influence to divert IDA resources to their own countries, and formalizing the distribution criteria closed this loophole (Morrison, 2013). In contrast, IBRD lending procedures were not affected by the reforms to the IDA that took place during the tenth replenishment, and are not formally tied to CPIA scores. Governments that appoint Executive Directors continue to be able to divert IBRD resources to their own countries (Kaja and Werker, 2010; Morrison, 2013).

The key instrument used by states and non-governmental actors to influence the behavior of the World Bank is reform of the criteria used to evaluate World Bank project outcomes. Project evaluations are critical to staff performance reviews and promotions, so altering the evaluation criteria redirects staff effort into new activities. The Bank has been the target of several effective campaigns by NGOs to reform its policies (Keck and Sikkink, 1998; O'Brien et al., 2000). Successive campaigns have led to changes in the Bank's Operational Manual covering involuntary resettlement (1980), indigenous peoples (1982), poverty reduction (1993) and gender issues (1994), and each of these criteria has been incorporated into the process of project evaluation (Clegg, 2013, p.110). In each case, however, the mechanism of influence for societal actors appeared to flow through national governments. For example, the World Bank adopted an environmental mandate under the McNamara presidency, but made little progress for many years in improving environmental outcomes because no environmental criteria were included in project evaluations. Environmental interest groups publicized this failure in the 1980s and successfully lobbied for far-reaching changes in the Bank‘s policies for monitoring the environmental impact of its projects. The turning point appears to have been the successful effort to lobby the U.S. government, which in turn used its position on the Executive Board and its informal influence with the management of the Bank to promote reform (Nielson and Tierney, 2003).

One illustration of the importance of project evaluations to the careers of project managers, or Task Team Leaders (TTLs), is that the Bank finds it difficult to find qualified staff who are willing to work in countries where project outcomes are unlikely to be favorable.(Independent Evaluation Group, 2006, p.54) The World Bank Independent Evaluation Group (IEG) evaluation *Engaging with Fragile States* reported that country directors tended to neglect fragile states, where evaluation outcomes were not expected to be impressive, and concentrated their efforts on countries that appeared to be more promising (Independent Evaluation Group, 2006, p.57). In its response to the evaluation, Bank management concurred with the IEG diagnosis,

specifically repeating that incentives created by the process of staff evaluation made it difficult for the Bank to respond adequately to crises in fragile states (Independent Evaluation Group, 2006, p.57).

The sensitivity of project evaluations generates incentives to present project outcomes in the most positive possible light. Consequently, a key part of the incentive scheme is provided by the Independent Evaluation Group (IEG), formerly the Operations Evaluation Department (OED) established in 1973, which audits every project implementation and completion report (ICR). The ICRs are self-assessments prepared by the TTLs and their staff, and the IEG evaluation disagrees with the ICR in approximately 20 percent of the cases, and almost always downgrades the evaluation when it disagrees. In addition, it rates 10 to 15 percent of ICRs as "unsatisfactory."[1] A standard IEG review is a desk review based on the project documents and the ICR; in about one-third of the projects, the IEG also performs a Project Performance Assessment Report (PPAR), which is a more detailed evaluation that involves sending IEG personnel into the field to investigate outcomes.[2] The ever-present incentive to shade the truth in a favorable direction when preparing the ICR is balanced by the risk of receiving a downgrade or an unsatisfactory rating for the ICR, which is professionally embarrassing and weighs heavily in staff performance evaluations.

The seriousness with which IEG evaluations are taken is indicated by the response of the staff whose projects receive negative assessments, particularly when there is a "disconnect" between the ICR evaluation and the IEG evaluation. The IEG review process always concludes with an interview with the final TTL on the project. Some TTLs who anticipate negative evaluations bring a manager or even a Vice President along to the interview in an effort to intimidate the evaluator, but in that case the IEG matches the delegation at the corresponding level.[3] In the IEG view, Bank personnel evaluations are focused excessively on the Overall Outcome indicator, because staff have less direct control over this than over Bank Performance, another indicator in the report that is not weighted as highly.[4] In addition, the outcome of a project may be

[1]The IEG takes the view that the burden of proof is on the project team to prove that it achieved results, and if the evidence is insufficient, it frequently rates the ICR as unsatisfactory in addition to downgrading the project outcome. Interview with Soniya Carvalho, IEG Lead Evaluation Officer, Dec. 18, 2014.

[2]Standard IEG evaluations start with the Loan Agreement, which sets out the objectives that the borrowing country agreed to, the Project Appraisal Document, which provides a detailed description of the project, and the ICR. There are roughly 100 evaluators working in the IEG at any point in time, many of whom have expertise in particular areas of Bank lending. Each evaluation is revised by a second evaluator, whose function is to pushes the first evaluator to demonstrate that the evaluation is based on solid evidence, and there is a third level of review by the Lead Evaluation Officer.

[3]At the time of the interview, the TTL is not provided with information about what the final evaluation rating will be. "This is not a bargaining session." The IEG defends its reputation by resisting efforts to browbeat it into softening its evaluations. It is common, however, for the IEG to revise its evaluations or reword certain conclusions if the TTL is able to provide evidence that the evaluation is incorrect. Interview with Soniya Carvalho, Dec. 18, 2014.

[4]Bank staff evaluation is based on the Overall Performance Evaluation (OPE) system, which has nine criteria (formerly ten), including 5 technical ratings based on skills and 4 behavioral ratings. For TTLs, the evaluations are heavily based on the Overall Outcome evaluations of their projects. The OPE evaluations are performed annually in the spring, and are used as the basis for the subsequent Salary Review Increase (SRI) rating, which

attributable to missteps made by previous TTLs. This is driven by the "3-5-7" model: after three years, the Bank encourages its staff members to start looking for a new position; after five, managers start to actively encourage subordinates to move on; after seven, staff are required to move to a different position. Projects often have longer timelines, so the TTL responsible for project design is likely to have retired or been promoted by the time the evaluation is completed, leaving the credit or blame to his or her successor. Nevertheless, push-back on IEG evaluations almost always focuses on the Overall Outcome appraisal, which reflects the fact that this is the headline number that matters the most for staff evaluation.

Multinational corporations are generally uninterested in influencing the broad patterns of Bank policy, but may be intensely interested in making particular exceptions to these policies that affect their own profits. This can occur for two reasons. First, the majority of World Bank projects are performed in part or in whole by firms working on contracts, and many of these are affiliates of major multinational firms. In these cases, the parent firm has a financial interest in seeing that the affiliate is paid for its services, and disbursement of funds may be delayed or canceled if the project is regarded as unsuccessful. All else equal, the TTL shares the firm's preference for full disbursement because this contributes to the Overall Outcome rating, but conditional on the project not fully achieving its objectives, the TTL can limit the damage by reducing disbursement.[5] To the extent that multinational firms are able to bring effective pressure on the Bank to fully disburse the loans from which their affiliates benefit, this creates an additional incentive for project managers to exaggerate the extent to which project objectives were fulfilled in order to justify the high disbursement rate. It could also be the case that firms perceive a direct interest in their projects achieving high evaluations so that they will be rewarded with future contracts, but this incentive is tenuous, because it is not clear that the procedure by which the World Bank awards contracts actually rewards contractor performance. Bank procedures, furthermore, make it extremely difficult for a lasting pattern of collusion to arise between contractors and project managers.[6]

A second motivation for firms to prefer exceptions to Bank policies that applies more broadly

is a single score ranging from 2 (probation) to 5 (outstanding) that is used to determine annual raises, with 3.3 the minimum rating for promotion.

[5]The Overall Outcome variable includes three sub-variables. (1) Efficacy captures the degree to which the project objectives were achieved. (2) Efficiency is a matter of "bang for the buck" (how well the money disbursed corresponds to the achievement of objectives); delays in disbursement; and attribution of the achieved results to Bank lending. (3) Relevance is an evaluation of the objectives of the project and whether they were consistent with the World Bank's Country Assistance Strategy for the borrowing country. Thus, for example, a project with high efficacy will receive a higher evaluation if it disburses fully without delays, but a project with low efficacy will receive a higher evaluation if it does not disburse fully.

[6]The procedure for awarding contracts is handled by the Procurement Department, and there is understood to be a firewall between contract bidding and project administration, so TTLs are not able to influence the choice of contractors. One consequence of this is that it is difficult for the Bank to reward or punish contractors, since TTLs are not consulted and systematic data on contractor performance is not maintained. While project managers administer similar projects in various countries, and multinational contractors do the same, it is rare for a TTL to repeatedly interact with a particular contractor, and such a pattern would raise suspicion in an institution that is highly sensitive to the appearance of impropriety.

than the straightforward pecuniary interest of contractors is related to the Bank's strategy of maintaining a reputation for enforcing conditionality. As already noted, project managers are incentivized to withhold disbursements of loans when their objectives are not accomplished, and this generally means that borrower governments have failed to implement the necessary conditions. Within the context of the project concerned, suspending funding generally makes progress less likely rather than more, since World Bank financing is critical to carrying out the project's objectives and failure to comply with conditions is often due to weak government capacity. Nevertheless, the Bank accepts the worsened outcome in the project at hand as a necessary trade-off to maintain its reputation for enforcement. From the firm's perspective, however, this trade-off looks very different. A multinational firm with investments in the borrowing country may be counting on a particular World Bank project to provide infrastructure that is essential to its business strategy—roads, public utilities, harbor improvements, and so forth—and may object to suspending the funding because of non-compliance with Bank policies related to displaced populations or environmental damage. The firm does not internalize the damage to the Bank's reputation from waiving conditionality, and it has a concentrated interest in the completion of the project. Consequently, although the firm is not a direct recipient of any of the funds, it nevertheless has an incentive to lobby for full disbursement. In this case, the firm clearly has no interest in the outcome of the project evaluation, but its lobbying may nevertheless create additional incentives for the project manager to exaggerate the degree to which objectives have been achieved in order to justify the high level of disbursement.

Multinational firms, particularly those based in the United States, are well-placed to lobby the Bank to disburse funds because complying with their preferences is the path of least resistance at each stage in the chain of delegation. Lobbying can be as costless as a telephone call to the Congressional office of the headquarters' district, which could be placed by a mid-level executive and answered by an intern. The Congressional office, likely without the Member's knowledge, routinely passes on such requests to the U.S. Treasury, because that is what good constituent service requires. From the Congressman's perspective, complying is costless and not complying could be costly. Treasury, for its part, likely takes a broader perspective on the costs and benefits of meddling in the operations of international financial institutions, but the cost of a bit more disbursement on one project in the World Bank's portfolio is likely to seem insignificant compared to the potential of losing a vote on an appropriations bill, so Treasury routinely complies with a request from a Congressional office. When the request arrives at the Bank, likely in the form of an inquiry from the U.S. Executive Director's office, or perhaps a direct contact from a Treasury official to the director of the relevant Department, it again seems wiser to comply than to object. The United States is the Bank's leading shareholder, and it does no one's career any good to be involved in a controversy with U.S. officials. Lobbying is effective because the chain of delegation ensures that there is no one holding the door shut.

The observable implications of this argument are that multinational corporations, particu-

larly those based in the United States, should secure disbursements that are not justified by the achievement of project objectives of World Bank loans from which they are poised to benefit, either because they are contractors on those loans, or because they have invested in the borrowing country and stand to benefit from completion of the project. In addition, although firms' interests in project evaluations are weak when they exist at all, the same pattern should be observed in project evaluations because Bank performance evaluations create incentives for project managers to align evaluations with disbursements. Testing these expectations requires linking particular U.S. multinationals to borrowing countries and to loan projects. A further expectation is that these patterns should vary in intensity depending on the institutional setting within the World Bank: IBRD loans should show a stronger pattern of excess disbursements than IDA credits, because IDA is more constrained by rules, but IDA credits should show a stronger pattern of evaluation bias than IBRD loans, because the incentive to align evaluations with disbursements is stronger. Furthermore, if we have correctly identified the mechanisms driving these results, it should be the case that the involvement of MNC contractors has stronger effects when their role in the project involves management.

Little is currently known about the degree of business influence over the implementation and evaluation of Bank projects, so this paper explores new territory. These final stages of the Bank funding cycle are the most promising areas of Bank activity for identifying such effects, however. Whereas the politics of project approval have high stakes for recipient countries and for the Bank's principals, because the aggregate amount of funds committed in Bank projects is large —the World Bank is the largest source of official development financing —the implementation of most individual projects has much lower stakes for member states. The reduced stakes at the end of the project cycle open up room for private political activity to exert influence. Meanwhile, individual firms have only weak interests in the aggregate amounts of funding committed to particular countries, but their interests may be powerfully engaged in the disbursement of funds related to particular projects from which they expect to benefit. Consequently, the incentives to lobby and collude with recipient governments are maximized in the project-by-project process of evaluation and disbursement.

IMF lending does not provide opportunities for a similar differentiation between the politics of lending and the politics of implementation. The IMF typically has only one program active in a particular country, so there are no small-scale, differentiated projects that could be of lesser concern to country authorities than the program as a whole. Similarly, while IMF conditions cover a wide range of economic activities, disbursements are not disaggregated in a way that would create incentives for firms to lobby on narrow grounds. The quantitative evidence about the Fund indicates that a similar pattern obtains across all stages of the IMF project cycle, including lending decisions, the design of conditionality, and the enforcement of conditionality: countries important to the leading shareholders, and particularly to the United States, obtain larger loans with less stringent conditions and are subject to less rigorous enforcement. In

short, geopolitics prevails throughout the project cycle. Several studies link IMF lending to UN voting patterns (Thacker, 1999; Oatley and Yackee, 2004; Barro and Lee, 2005; Andersen, Harr and Tarp, 2006). Others find effects of the exposure of U.S. banks to particular borrowing countries on lending (Broz and Hawes, 2006; Copelovitch, 2010; Stone, 2011). The design of conditionality is likewise affected by a range of variables that capture U.S. geopolitical interests, including UN voting patterns, alliance portfolios, foreign aid, foreign trade and U.S. bank exposure (Stone, 2008, 2011; Dreher and Vaubel, 2004). Finally, the implementation and enforcement of conditionality depends on the same measures of U.S. geopolitical interests (Stone, 2002, 2008, 2011).

Table 1: Theoretical Expectations

| | Lending | Evaluation/ Implementation |
|---|---|---|
| IMF | Geopolitics | Geopolitics |
| World Bank | Geopolitics | Private Politics |

Consistent with this expectation, the politics of project approval in the Bank appear to be very similar to those in the Fund. Dreher, Sturm and Vreeland (2009*a*) find that temporary membership in the UN Security Council increases access to World Bank loans. This parallels the finding of Kuziemko and Werker (2006) that U.S. foreign aid temporarily increases when a country becomes a member of the Security Council, and returns to its prior level when the country's term ends.

The logic of our argument implies that the most favorable conditions for private politics arise in the Bank, rather than in the Fund, and in project evaluation and implementation, rather than in project approval or design. In contrast to loan approval, the scope for broad foreign policy concerns to influence the process of evaluation and implementation of World Bank projects should be limited. Indeed, our empirical results find no significant evidence of such influences.

# 3 Data

## 3.1 World Bank ICR Report Data

The unit of analysis used throughout the paper is 'World Bank project', and all project-related information has been coded for this study from the World Bank's 'Implementation Completion and Results' (ICR) reports, which can be accessed via the Bank's website. A team of research assistants coded reports on 4206 projects issued from October 1994 through September 2013, with project approval years ranging from 1981 to 2011. The length of the reports varies in the range of twenty to two-hundred pages, and the level of detail depends on factors such as how many sectors were involved in the project and how many specific objectives

the project stated. These reports represent an extraordinarily rich depository of information about the diversity of projects that the Bank supports, their specific objectives, and the Bank's assessment of the implementation of these objectives. Descriptive statistics for the variables used in the paper can be found in Table 2.[7] The data include many more variables, some of which we have used for exploratory data analysis, and others which could be used in future research to study diverse questions regarding World Bank lending, e.g., the sectoral breakdown of World Bank projects. Several recent studies have made use of meta-data drawn from these reports by the Bank, including official project evaluations, but this study breaks new ground by creating an independent assessment of the underlying performance data, which allows us to draw conclusions about the Bank's evaluation procedures.[8]

Our approach to measuring evaluation bias is to compare the headline Outcome rating in the ICR to an index of the underlying data from the ICR on which it is based. For each project, each individual objective was scored according to the Bank evaluation team‘s assessment of the degree to which project goals had been achieved. Each project objective was assigned a value from 0 to 4, where 0 represents no progress (or deterioration) and 4 indicates that the objective was completely achieved (or over-achieved, which occurred in some cases).[9] In some cases, evaluating an objective was straightforward. For instance, one goal in an education-related project may be to "increase Primary School Enrollment in Calcutta (India) from 25% to 30%," with the outcome stating that it was increased to 29%, leading to a 'performance rating' of 3. In other cases, quantitative metrics of objective completion were unavailable, such as when the stated goal was to "spread awareness of the importance of polio vaccination in rural Punjab (Pakistan)." For such cases, the discussion of the achieved outcome was read carefully to determine success. "Marginal progress made," for instance, would be coded as 1 in this case, whereas "significant change in awareness" would be coded as 3. The arithmetic mean of these objective-level ratings is our overall project-level variable, *Performance*.

An important limitation of the data, which will be a concern for all subsequent work that uses World Bank evaluations, is that the World Bank does not maintain consistent evaluation procedures over time. The Bank seeks to continuously improve its procedures and responds to the demands of its principals in real time. As a result, the objectives of lending programs change, the relative weights assigned to them shift, and the information collected to assess project implementation changes. This means that the most recent reports are more informative than the older ones. Fortunately, even the older reports are sufficiently rich that careful reading

[7] Due to different data availability and year coverage for the independent variables of primary interest, the results discussed in subsequent sections vary somewhat in terms of the subset of World Bank projects included in each regression, as we discuss below. Consequently, Table 2 provides descriptive statistics for the universe of World Bank projects we have coded, while Tables 11 and 12 in Appendix A provide similar tables for the two relevant subsets.

[8] Denizer, Kaufmann and Kraay 2013.

[9] 1 indicates that up to 1/3 of the objective was achieved; 2 that between 1/3 and 2/3 of the objective was fulfilled; 3 that more than 2/3 of the goal was accomplished but less than 100%.

makes it possible to compile comparable codings for our variables, but different levels of detail lead to unavoidable heterogeneity in our measure of performance. We identify four distinct formats of ICR reports, and all of our analyses use fixed effects to control for these regimes.

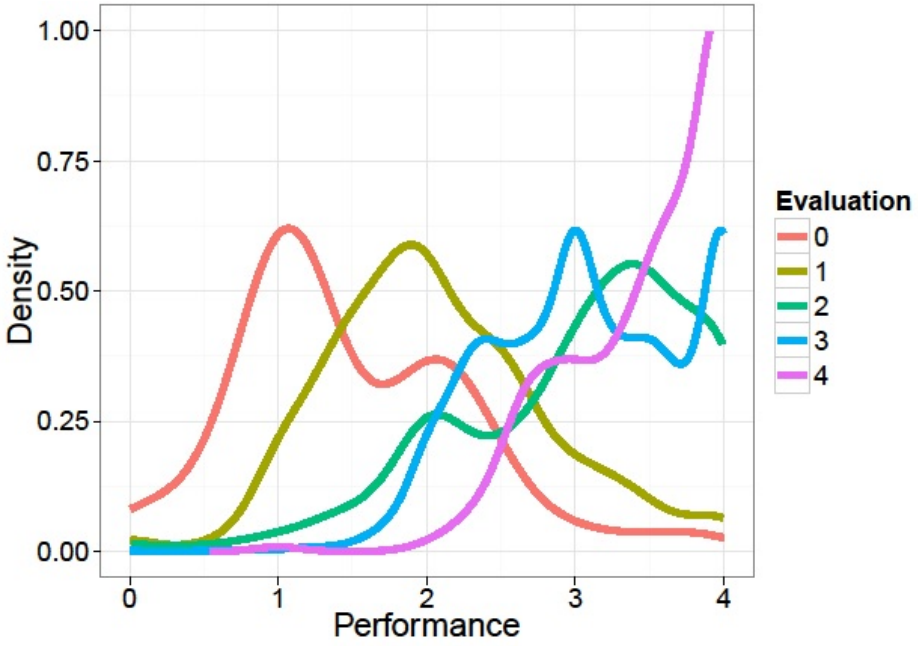


Figure 1: Performance & Evaluation

In contrast to the complexity of measuring performance, *Evaluation* is taken directly from the ICR Reports and is the evaluation team's summary rating of the project's performance. This variable is marked in the reports as one of 6 categories, which are converted to a 1 to 6 ordinal scale.[10] We construct the variable *Evaluation Bias* as the difference between the World Bank's evaluation of the project and the Performance variable calculated from the project's actual objectives, after rescaling Evaluation to make the two measures comparable.[11] As Table 2 indicates, the average evaluation bias is negative and close to zero, which indicates that our scales are comparable and our coding of performance is not excessively conservative.[12] Figure 1, which shows the relationship between these two variables by plotting the density of the rescaled values of *Evaluation* for each level of *Performance* in the data, suggests that comparing the two

[10]The 6 categories and their numerical ranking are as follows: Highly Satisfactory (6), Satisfactory (5), Moderately Satisfactory (4), Moderately Unsatisfactory (3), Unsatisfactory (2), Highly Unsatisfactory (1).

[11]In order to meaningfully translate the World Bank's Evaluation variable to a 0 to 4 scale, for comparison purposes, the following correspondence was used: Highly Satisfactory was coded as 4, Satisfactory as 3, Moderately Satisfactory & Moderately Unsatisfactory as 2, Unsatisfactory as 1 and Highly Unsatisfactory as 0. This rescaling makes the Performance and Evaluation variables comparable in terms of their scales and content. Then, $Evaluation\ Bias = World\ Bank\ Evaluation - Project\ Performance$.

[12]There are 4083 projects for which it was possible to code both Evaluation and Performance. In 1137 cases evaluation bias is positive (indicating that the World Bank Evaluation is higher than our index of the underlying data measuring objective performance), in 2479 the bias is negative (the Bank's Evaluation is lower than our index) and in 467 the bias is zero (the Bank's Evaluation and our performance index take the same value.

variables is reasonable.

## 3.2 Independent Variables

Table 2: Descriptive Statistics

| Variable | Median | Mean | St. Dev. | Min | Max |
|---|---|---|---|---|---|
| Polity$_{t-1}$ | 6 | 3.166 | 5.877 | −10 | 10 |
| log (Population$_{t-1}$) | 16.9 | 17.038 | 1.967 | 10.701 | 21.024 |
| log (GDP per capita$_{t-1}$) | 7.97 | 7.951 | 0.959 | 5.276 | 10.273 |
| Control of Corruption | 2.33 | 2.415 | 0.811 | 0.000 | 5.000 |
| US Fortune 500 | 0.047 | 0.444 | 0.860 | 0 | 4.261 |
| Report Type 4 | 0 | 0.381 | 0.486 | 0 | 1 |
| Report Type 3 | 0 | 0.199 | 0.399 | 0 | 1 |
| Report Type 2 | 0 | 0.092 | 0.289 | 0 | 1 |
| Report Type 1 | 0 | 0.328 | 0.469 | 0 | 1 |
| IBRD | 0 | 0.326 | 0.469 | 0 | 1 |
| IDA | 1 | 0.528 | 0.500 | 0 | 1 |
| Approval Year | 1999 | 1999 | 4.960 | 1981 | 2012 |
| Closing Year | 2004 | 2003 | 5.431 | 1,990 | 2,015 |
| # active projects | 15 | 23.178 | 24.392 | 1 | 122 |
| Project Size per capita (in $) | 1.99 | 5.407 | 11.689 | 0.004 | 193.688 |
| Project Size Total (in million $) | 32.75 | 77.68 | 138.53 | 0.499 | 2525 |
| Disbursement Proportion | 0.993 | 0.895 | 0.188 | 0 | 1 |
| Evaluation | 5 | 4 | 1.140 | 1 | 6 |
| Performance | 3 | 3.018 | 0.807 | 0 | 4 |
| Evaluation Bias | −0.43 | −0.408 | 0.865 | −3.750 | 3.000 |
| MNC Contractor | 0 | 0.107 | 0.309 | 0 | 1 |

We measure the involvement of multinational corporations (MNCs) in two ways. The first is a country-level measure of U.S. foreign direct investment by Fortune 500 firms. We are theoretically interested in strategic investments by major multinational firms rather than in flows of FDI, per se, and we are interested in the national origins of these firms. These interests make other publicly available data sources inappropriate for our purposes. Instead, we relied on data on mergers and acquisitions activity from SDC Platinum, which we merged with data from the Fortune 500 International list, expanded to include all firms that fell into the top 500 during any year in the last two decades. Because of extensive missing values for the value of transactions, we use a count of transactions to construct our index. We calculate the percentage of total U.S. Fortune 500 mergers and acquisitions in each country in the dataset in each year and use a five-year moving average of this variable in the regressions. The highest percentage of US Fortune 500 investment that occurs in the dataset is 4.26%, in India. We use the same data to generate similar variables for Fortune 500 investment from Germany, Japan, France and the

United Kingdom, and we compare the effects.

A second variable, which captures large firms' strategic interest in particular World Bank projects, relies on the World Bank's Contract Awards Database. *MNC Contractor* is a project-level dummy variable indicating whether a US-owned Fortune 500 firm was directly involved in a World Bank project. The World Bank provides information on contracts signed after July 1, 2000.[13] This dataset includes 2387 projects, of which 1796 projects have ICR reports available. Using the dataset that was constructed from SDC Platinum and the Fortune 500 International list, we matched all World Bank contractors that were either US-owned Fortune 500 firms, or were acquired by, or merged with, those firms. Thus, for any project which had such a contractor, *MNC Contractor* takes on a value of 1 to indicate that a large MNC had a direct interest in the project. In the sample of projects used for the final regressions presented in this paper, about 13% involved at least one MNC contractor. There are only a handful of projects where more than one US-owned Fortune 500 firm is involved as a contractor, with no more than three different firms for a single project.

This second variable is a more direct measure of investors' strategic interest in World Bank projects because it requires their involvement as contractors. Consequently, it allows us to draw stronger conclusions about the motivations of the firms involved. However, this specificity also limits the range of mechanisms by which foreign investors can exert influence to the direct pecuniary interest of project contractors. Fortune 500 firms that invest in developing countries may develop vested interests in World Bank projects for a wide range of reasons that do not involve performing contract work. Thus, the two alternative measures of MNC interest are complementary.

# 4 Empirical Analysis

We first present estimated effects of MNC involvement on evaluation and performance, and then move on to models of disbursements. All models are OLS regressions and use World Bank projects as the unit of analysis.

## 4.1 Evaluation and Performance

Investments by U.S. multinationals may improve performance, if these firms function as the Bank's allies in promoting development. They may also retard performance, if these firms function as interest groups that are interested in colluding with government to obtain rents and prevent effective monitoring by the Bank. In addition, performance may be affected by country-level factors such as administrative capacity (proxied by GDP per capita) and the level of corruption. It may also depend on the relative importance of the project, which we measure in two ways: the size of the project per capita and the total number of projects a country

[13]The World Bank's Contract Awards data can be accessed here: http://go.worldbank.org/GM7GBOVGS0.

has active in a year. Table 3 presents results from regressions using two different dependent variables, performance and evaluation bias.

Table 3: Performance and Evaluation

| | **Performance** | **Eval. Bias** | | |
|---|---|---|---|---|
| | **Model 1** | **Model 2a** | **Model 2b** | **Model 2c** |
| | No FE | No FE | No FE | Country FE |
| Evaluation | 0.343*** | | | |
| | (0.013) | | | |
| Performance | | −0.467*** | | −0.485*** |
| | | (0.021) | | (0.022) |
| US Fortune 500 | −0.013 | 0.048** | 0.042* | 0.038 |
| | (0.021) | (0.022) | (0.025) | (0.058) |
| $\text{Polity}_{t-1}$ | −0.002 | −0.002 | −0.0003 | −0.002 |
| | (0.003) | (0.003) | (0.003) | (0.008) |
| Control of Corruption | −0.002 | 0.056** | 0.041 | 0.021 |
| | (0.021) | (0.022) | (0.025) | (0.032) |
| $\text{Log(GDP per capita)}_{t-1}$ | 0.080*** | 0.027 | −0.032 | −0.111 |
| | (0.019) | (0.021) | (0.023) | (0.189) |
| # active projects | 0.002** | 0.001 | −0.0005 | −0.001 |
| | (0.001) | (0.001) | (0.001) | (0.002) |
| Project Size per capita | 0.001 | 0.004 | 0.002 | 0.002 |
| | (0.002) | (0.002) | (0.003) | (0.003) |
| IBRD | −0.047 | −0.099*** | −0.041 | −0.094** |
| | (0.036) | (0.038) | (0.043) | (0.041) |
| Report Year | −0.013* | 0.012 | 0.015* | 0.007 |
| | (0.007) | (0.008) | (0.009) | (0.010) |
| Report Type 4 | 0.819*** | −0.536*** | −0.901*** | −0.516*** |
| | (0.059) | (0.065) | (0.071) | (0.069) |
| Report Type 3 | 0.651*** | −0.317*** | −0.629*** | −0.309*** |
| | (0.039) | (0.044) | (0.046) | (0.045) |
| Report Type 2 | 0.376*** | −0.205*** | −0.382*** | −0.216*** |
| | (0.046) | (0.050) | (0.055) | (0.051) |
| N | 1918 | 1918 | 1918 | 1918 |
| Adj. R-squared | 0.379 | 0.329 | 0.156 | 0.432 |

***p < .01; **p < .05; *p < .1

Model 1 uses *Performance* as the dependent variable, which is the objective-by-objective index of project completion that we compiled from ICRs. Unsurprisingly, the World Bank's evaluation of the project is positively and significantly associated with this measure of project performance. Since this is a post-treatment variable, we replicated the results without controlling for evaluations, and the other results were consistent in this specification. GDP per

capita is positively associated with performance, as expected. Surprisingly, the levels of control of corruption (ICRG) and democracy (Polity) in the country do not seem to be significantly related to performance.

Our main quantity of interest is the effect of US Fortune 500, the five-year moving average of the share of the recipient country in mergers and acquisitions by major U.S. multinationals. The coefficient is insignificant and in any case negative, providing no evidence to support the hypothesis that the presence of foreign investors promotes the implementation of World Bank projects. This result is consistent for a variety of specifications, including those that do not control for project evaluations and those that use country fixed effects. This negative result clarifies the interpretation of the results that follow about evaluation bias. A number of other specifications tested for effects of measures of U.S. interests on project performance—they might undermine performance, for example, if they reduced the credibility of monitoring and enforcement—and found no such effects.[14] The number of active projects in a country has a positive and significant association with performance, but the coefficient is small, so the evidence for a reputation effect to incentivize performance is weak.

*Evaluation Bias,* which measures the difference between *Evaluation* and *Performance,* is the dependent variable in all specifications of Model 2. The main quantity of interest is again the effect of US Fortune 500, which has a positive and significant coefficient: evaluation bias is highest in countries with substantial foreign investments by MNCs. This rejects a key expectation of the view that international firms help to monitor the performance of Bank projects. To the contrary, this is consistent with the interpretation that multinational firms collude with Bank staff to frustrate monitoring of projects. The results of Model 1 help to clarify the interpretation of this result, because they indicate that the level of U.S. investment does not affect objective project performance—thus, it cannot be the case that the evaluation gap rises when MNCs are present, for example, because performance falls. Rather, the effect of investment is to increase evaluation bias by boosting the World Bank's evaluation of the project conditional on objective performance. Furthermore, this result holds when we control for performance, and in fact becomes stronger.

[14]US interest measured using US bilateral aid and using the similarity of voting profiles between the US and project-recipient governments in the United Nations General Assembly (both using all votes and using only important votes) is also insignificant for this dependent variable. These other ways of conceptualizing US interest are discussed in more detail in the subsequent section.

Table 4: Performance and Evaluation

| | **Performance** | **Eval. Bias** | | |
|---|---|---|---|---|
| | **Model 3** | **Model 4a** | **Model 4b** | **Model 4c** |
| | No FE | No FE | No FE | Country FE |
| Evaluation | 0.402*** | | | |
| | (0.018) | | | |
| Performance | | −0.522*** | | −0.547*** |
| | | (0.023) | | (0.024) |
| MNC Contractor | −0.094 | 0.106* | 0.131** | 0.096* |
| | (0.058) | (0.055) | (0.066) | (0.057) |
| $\text{Polity}_{t-1}$ | −0.002 | −0.002 | −0.00002 | 0.024* |
| | (0.003) | (0.003) | (0.004) | (0.014) |
| Control of Corruption | 0.015 | 0.019 | −0.002 | −0.022 |
| | (0.029) | (0.028) | (0.033) | (0.042) |
| $\text{Log(GDP per capita)}_{t-1}$ | 0.077*** | 0.042* | −0.031 | 0.513** |
| | (0.025) | (0.024) | (0.029) | (0.219) |
| $\text{Log(Population)}_{t-1}$ | −0.002 | 0.038*** | 0.023* | 0.841 |
| | (0.012) | (0.012) | (0.014) | (0.622) |
| Project Size per capita | −0.007 | 0.014*** | 0.013** | 0.011** |
| | (0.005) | (0.005) | (0.005) | (0.005) |
| IBRD | −0.087* | −0.076* | 0.017 | −0.011 |
| | (0.048) | (0.046) | (0.054) | (0.052) |
| Closing Year | 0.013 | −0.035*** | −0.032*** | −0.069*** |
| | (0.010) | (0.010) | (0.012) | (0.017) |
| Report Type 4 | 0.777*** | −0.449*** | −0.844*** | −0.474*** |
| | (0.072) | (0.071) | (0.082) | (0.074) |
| Report Type 3 | 0.698*** | −0.374*** | −0.723*** | −0.374*** |
| | (0.058) | (0.058) | (0.067) | (0.060) |
| Report Type 2 | 0.409*** | −0.270*** | −0.458*** | −0.266*** |
| | (0.068) | (0.066) | (0.078) | (0.067) |
| N | 1282 | 1282 | 1282 | 1282 |
| Adj. R-squared | 0.378 | 0.446 | 0.215 | 0.596 |

***p < .01; **p < .05; *p < .1

It is possible to probe further into the motivations of MNCs to intervene in the implementation of World Bank projects by examining the pattern of MNC involvement as World Bank contractors. The regressions that follow use a restricted sample, because data on contractors on World Bank projects are available only beginning in 2000. The expectation is a positive association between evaluation bias and the presence of a US-owned Fortune 500 firm as a project contractor, because contractors have an incentive to influence the evaluation of their projects.

Models 3 and 4 in Table 4 indicate strong support for this mechanism. The specifications for these models are similar to those used for the previous set of results, and although the

data coverage and the definition of the key independent variable are different, the results are encouragingly similar. As before, having an MNC involved in a particular project does not objectively increase the project's performance (Model 3), whereas the coefficient is positive and significant for all specifications of Model 4, where the dependent variable measures evaluation bias. The size of the coefficient varies slightly with the specification, but the result also holds when controlling for country fixed effects, indicating that it is not the case that the results are driven by a spurious correlation with time-invariant factors that vary at the country level.

The coefficient on *MNC Contractor* is not large, but it is substantively meaningful when compared with other relevant independent variables. Consider the coefficient on *Polity* in Model 4c, which has a standard deviation of approximately 6. If a country's score were to jump by six points, a dramatic political transformation that did not actually occur during the lifetime of any of our projects, the total effect on the dependent variable would be 0.14. Using an MNC as a contractor on the project instead has two-thirds of that effect.

## 4.2 Disbursement

Firms have incentives to lobby for disbursement if they stand to benefit from project completion or seek to collect payment for their services. On the other hand, controlling disbursements is the Bank's primary tool to incentivize compliance by borrowing countries, so undermining this incentive scheme has far-reaching consequences. The expectation is that US Fortune 500 investment will increase disbursement, while controlling for project performance. Controlling for performance allows us to interpret positive effects as disbursements that were not justified by the implementation of program conditions or accomplishment of project objectives. Furthermore, we expect this effect to be strongest in the case of important projects because they are most likely to be of interest to MNCs, so the specifications include an interaction term between US Fortune 500 and project size per capita, and this interaction effect is expected to be positive.[15]

Table 5 presents results of two models of disbursement, with and without country fixed effects. The main results are consistent, except that the country-level control variables lose significance once fixed effects are included. As expected, project performance is significantly associated with higher disbursement rates.

Investment by U.S. multinational firms has an effect that is robustly significant and sub-

[15]The FDI data do not allow us to link firms to interest in particular projects, but interacting our quantity of interest with project size per capita allows us to weight less heavily projects that are small or that occur in large countries, and are therefore less likely to affect the average foreign investor. The purpose of some projects underwent major changes in mid-course, which sometimes also led to significant increases in disbursement without a revision in the official commitment amount. Consequently, the disbursement proportion is sometimes artificially very high, with a maximum of 1113 (for a variable with 0 to 1 scale, if disbursement does not exceed commitment). To avoid the risk of such outliers skewing the results, all cases where disbursement percentage is greater than 1 have been rescaled to equal 1. Retaining the outliers at their original values yields results stronger than those presented.

Table 5: Project Disbursement

| | **Disbursement proportion** | |
|---|---|---|
| | **Model 5a** | **Model 5b** |
| | No FE | Country FE |
| Performance | 0.101*** | 0.101*** |
| | (0.007) | (0.007) |
| Eval. Bias | 0.083*** | 0.081*** |
| | (0.006) | (0.007) |
| US Fortune 500 | 0.029*** | 0.012 |
| | (0.007) | (0.016) |
| Project Size per capita | −0.001 | −0.001 |
| | (0.001) | (0.001) |
| US Fortune*ProjSize | 0.005*** | 0.005** |
| | (0.002) | (0.002) |
| $\text{Polity}_{t-1}$ | −0.001 | 0.002 |
| | (0.001) | (0.002) |
| Control of Corruption | 0.001 | 0.013 |
| | (0.006) | (0.009) |
| $\text{Log(GDP per capita)}_{t-1}$ | −0.031*** | 0.006 |
| | (0.006) | (0.056) |
| $\text{Log(Population)}_{t-1}$ | −0.037*** | 0.074 |
| | (0.005) | (0.129) |
| # active projects | 0.001*** | 0.001 |
| | (0.0003) | (0.001) |
| IBRD | −0.011 | −0.003 |
| | (0.011) | (0.012) |
| Report Year | 0.005** | 0.001 |
| | (0.002) | (0.004) |
| Report Type 4 | 0.065*** | 0.058*** |
| | (0.019) | (0.020) |
| Report Type 3 | −0.019 | −0.017 |
| | (0.013) | (0.013) |
| Report Type 2 | −0.020 | −0.015 |
| | (0.014) | (0.015) |
| N | 1775 | 1775 |
| Adj. R-squared | 0.191 | 0.959 |

***p < .01; **p < .05; *p < .1

stantively strong. The model without fixed effects demonstrates the strongest effects, because a substantial amount of the variation in multinational investment is cross-sectional variation among countries. In that model, the effect of the presence of multinational firms that is one standard deviation above the mean on a project of average size is to increase disbursement by 7.3%. This is equivalent to more than 90% of the effect of increasing performance by a standard deviation. In terms of the evaluation scale, the effect is three-quarters as strong as moving an evaluation from "Unsatisfactory" to "Moderately Satisfactory."

These results continue to be significant when country-level fixed effects are included in the model, although they are weaker because these estimates rely only on over-time variation within countries.[16] US Fortune 500 is not significant in the table as a base term in the equation with fixed effects, but that reflects the effect of multinational investment on projects that approach $0 per capita. Therefore, to analyze the effect of US investment, Figure 2 plots the composite coefficient for US Fortune 500 along with its 95% confidence interval, taking into account the interaction with project size.

The x-axis covers most of the range of project size per capita contained in the data.[17] The dotted lines, representing the 95% confidence interval, indicate that US investment is significantly associated with the disbursement rate for projects larger than approximately $5.15 per capita. This is below the mean project size, and more than a quarter of the projects in the dataset are larger (see Table 2 for more details). All else equal, a one unit (i.e., one percent) increase in US investment for a $15 per capita project is associated with an 8% increase in disbursement. These substantive effects are weaker than those reported above—in the model without fixed effects, U.S. Fortune 500 has an effect of similar size for projects one-third as large—because they ignore covariation across countries. However, the fact that the effect of investment is statistically significant and substantively meaningful even in a specification that controls for country effects is important because it rules out a number of interpretations of our results. It cannot be the case, for example, that effects that we attribute to investment are really caused by fixed country-specific characteristics that happen to be correlated with investment, such as variations in size, climate, resource endowments, colonial histories or geography. In order for confounds to affect our analysis, it is necessary that they vary over time in a way that is correlated with the over-time variation in investment within countries. This is possible, of course, but it is a much more complicated hypothesis.

The predicted effects of the model are somewhat abstract, so it may be useful to consider how its predictions relate to a substantive example drawn from the data.[18] The 'Yacyretá

[16]The results are also robust to inclusion of sectoral fixed effects. The World Bank classifications identify 12 sectors, and each project is associated with one or more. The coefficients for Education, Power, and Water & Sanitation sectors are significantly and positively associated with higher disbursements, but this does not affect the coefficient magnitudes or significance for our investment variable or the interaction term between investment and project size. Using interaction terms for sectors, the effects of investment conditional on these sectors is not distinguishable from the effect of investment on projects associated with other sectors.

[17]There are 42 observations larger than $50 per capita.

[18]The examples discussed here and in subsequent sections are not meant to be representative of the sample; we

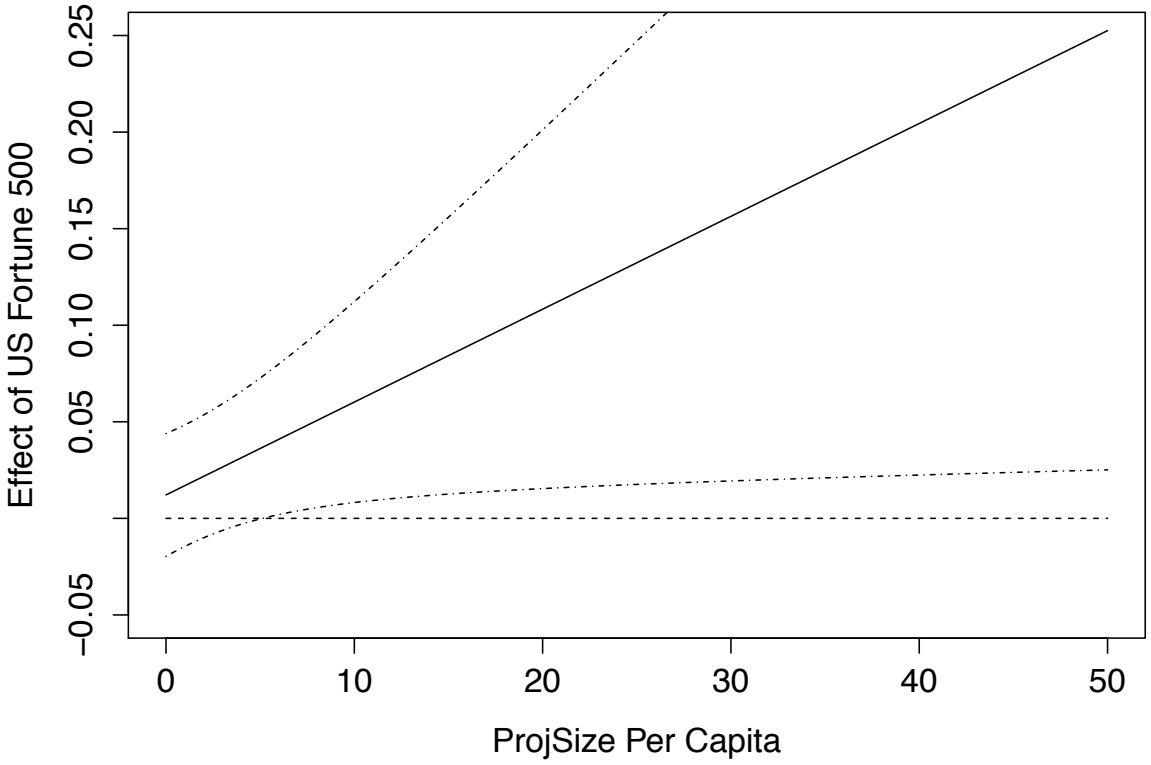


Figure 2: Marginal Effect of US Fortune 500 on Disbursement

Hydroelectric Project II' was active in Argentina from 1992 to 2000 and had a total project commitment of $300 million. The Yacyretá Dam is a joint venture between Argentina and Paraguay negotiated in 1973, according to which the project was to be fully financed by Argentina. Both the World Bank and the Inter-American Development Bank (IADB) provided funds for parts of the project at various points in time. This particular World Bank project was launched in 1992, and its focus was constructing the dam and financing programs for infrastructure relocation, population resettlement and environmental impact mitigation. The World Bank evaluated the project's outcome as "Unsatisfactory," yet the financing for the project was fully disbursed.

Yacyretá means "land of the Moon" in Guaraní, a description that referred to an island that was flooded to fill the basin that feeds the turbines.[19] The project was shadowed by ecological and human-rights protests from the outset. The original construction plan called for a height of 83 meters above sea level, but construction was stopped at 76 meters to avoid displacing an additional 80,000 inhabitants. As a result, the facility achieved only 60 percent of the originally planned generating capacity of 3200 MW. The project was plagued by cost overruns and allegations of corruption, and was called by former Argentine President Carlos Menem a "monument of corruption." Officials of the Entidad Binacional Yacyretá, which administers the facility, have been convicted of embezzlement and insider trading, and the EBY has been charged with violations of human rights by the Inter-American Court of Human Rights. The ICR report indicates that project evaluation was unsatisfactory because the components of the project pertaining to providing efficient supply of energy and ameliorating the project's environmental and social impacts were not accomplished. The only component that was fully achieved was the increase in private capital participation in EBY. Furthermore, the report states that the net present value and economic rate of return calculated at the project's closing were lower than had been expected.

Particularly interesting for the purposes of this paper is that the dam's conception, planning, design and construction were managed by MWH Global, which is a US Fortune 500 corporation. MWH involvement is not discussed in the ICR report itself (and the project predates the available data from the Contract Awards Database), but the company's website provides a summary of the Yacyretá Hydroelectric Project that outlines its role. This appears to be a case where a project's performance did not justify the project's high rate of disbursement, but a prominent U.S. multinational corporation had a stake in the funds being fully disbursed.

use quantitative analysis to draw inferences about general trends, and illustrative cases to explore the plausibility of our interpretations of those trends. Indeed, these cases were chosen because they were likely to exhibit the mechanism that we hypothesize to explain the broader pattern. In this section, the example from Argentina is informative because US Fortune 500 investment and project size per capita were substantial at the time that the project was being implemented. Thus, this case's discussion should not be treated as an independent test of the argument we advance, but as an illustration of the mechanisms proposed in earlier sections of the paper.

[19] The Guaraní were the indigenous people whose repression in the 1750s was depicted in the 1986 film *The Mission,* starring De Niro and Irons.

Our estimates attribute 11.6% of the disbursement for this project to the influence of U.S. multinational investment.

Table 6: Project Disbursement

| | **Disbursement proportion** | |
|---|---|---|
| | **Model 6a** | **Model 6b** |
| | No FE | Country FE |
| Performance | 0.081*** | 0.077*** |
| | (0.007) | (0.008) |
| Eval. Bias | 0.065*** | 0.060*** |
| | (0.008) | (0.008) |
| MNC Contractor | 0.030** | 0.026* |
| | (0.015) | (0.015) |
| Project Size per capita | 0.001 | −0.0003 |
| | (0.001) | (0.001) |
| $\text{Polity}_{t-1}$ | −0.001 | 0.004 |
| | (0.001) | (0.004) |
| Control of Corruption | 0.012 | 0.012 |
| | (0.008) | (0.011) |
| $\text{Log(GDP per capita)}_{t-1}$ | −0.025*** | 0.001 |
| | (0.007) | (0.061) |
| $\text{Log(Population)}_{t-1}$ | −0.010*** | −0.048 |
| | (0.003) | (0.178) |
| IBRD | −0.013 | −0.009 |
| | (0.013) | (0.014) |
| Report Year | 0.016*** | 0.015*** |
| | (0.003) | (0.005) |
| Report Type 4 | 0.028 | 0.017 |
| | (0.020) | (0.021) |
| Report Type 3 | 0.019 | 0.011 |
| | (0.016) | (0.017) |
| Report Type 2 | 0.002 | 0.001 |
| | (0.019) | (0.019) |
| N | 1168 | 1168 |
| Adj. R-squared | 0.182 | 0.969 |

***p < .01; **p < .05; *p < .1

Estimating the effect of having an affiliate of a US Fortune 500 firm serve as a contractor on a specific project identifies a narrower motivation for firms to exert influence over disbursements. Table 6 presents results from models that replace US Fortune 500 with MNC Contractor. No interaction term with project size is included because a proxy for firm interest is unnecessary once we restrict our attention to firms that are directly involved as contractors. Although MNC

Contractor is available for only a subset of the data, the results are similar in terms of their substantive and statistical significance, and this is particularly true of the coefficient of interest.

*MNC Contractor* is significantly associated with higher disbursement rates, even when we control for the underlying data on project performance. In addition, we find that a unit of evaluation bias has approximately 80% of the effect of a unit of actual project performance, and our previous results indicated that MNC Contractor was associated with evaluation bias, so these results underestimate the effect of MNC influence on disbursement.[20] The coefficient is virtually unchanged when controlling for country fixed effects, which rules out a number of explanations for our results based on spurious correlations and omitted variables.[21] Substantively, holding everything else constant, having an MNC involved as a contractor on a project is associated with a 3% increase in the disbursement rate. While that may not seem very high, that is almost half the substantive effect of increasing project performance by one standard deviation (0.8 units on our four-point performance scale). To put this in context, the average project achieves at least two-thirds of each individual objective, so in order to increase performance by 0.8 from that baseline the project managers would need to fully implement 80% of the objectives. In that context, it appears that the substantive impact of having a US-owned Fortune 500 contractor involved with a project is quite large.

An example of MNC contractor involvement that illustrates this mechanism is the Kerala State Transport Project, a $336 million project active from 2002 to 2010. Kerala is a south-western coastal state in India, and the objective of the project was to improve the quality of highways that cover 4,000 kilometers. Approximately 30,000 families had to be relocated and rehabilitated as part of this project, and this caused multiple delays. The closing date was extended four times due to slow performance by contractors and delays in compensating the affected families. The mid-term review for the project termed it "Unsatisfactory" because of these delays in implementation and relocation, and even after it was completed, the project received an evaluation of 2 (on a 4 point scale), indicating that the problems had not been overcome by the end. Despite such ratings, the project budget was fully disbursed. The largest contract on the project, worth almost $20 million, was held by an engineering firm which was an affiliate of the US multinational General Electric. It is impossible to determine whether the U.S.-owned firm's interest influenced the outcome, but the project's performance does not appear to justify the high disbursement rate.

[20] Running Model 6b without *Evaluation Bias* increases the coefficient on *MNC Contractor* to 0.03 and makes it significant at the 5% level.

[21] We also ran the models with year fixed effects as well as with both country and year fixed effects; the significance and substantive effects of the variables of interest do not change in any meaningful way.

Table 7: MWH Contracts

| projID | Country | Title | Approval | Closing | Commitment | Disb.% | Evaluation | MWH Contract |
|---|---|---|---|---|---|---|---|---|
| P004030 | Cambodia | Road Rehabilitation | 1999 | 2006 | 32.3 | 107% | 2 | 1.3 |
| P042927 | Vietnam | Mekong Transport and Flood Protection | 2000 | 2011 | 87.9 | 100% | 2 | 0.3 |
| P043933 | China | Sichuan Urban Environment | 1999 | 2007 | 102.0 | 44% | 2 | 4.1 |
| P051859 | China | Liao River Basin | 2001 | 2008 | 100.0 | 92% | 3 | 2.3 |
| P056424 | China | Tongbai Pumped Storage | 1999 | 2007 | 197.5 | 100% | 3 | 0.2 |
| P057602 | Yemen | Urban Water Supply and Sanitation | 2002 | 2010 | 84.7 | 104% | 2 | 8.9 |
| P057933 | China | Tai Basin Urban Environment | 2004 | 2010 | 57.5 | 100% | 2 | 0.9 |
| P060221 | Brazil | Fortaleza Metropolitan Transport | 2001 | 2010 | 22.4 | 155% | 2 | 2.0 |
| P065973 | Laos | Agricultural Development | 2001 | 2008 | 13.1 | 123% | 2 | 3.5 |
| P066955 | China | Zhejiang Urban Environment | 2004 | 2011 | 133.0 | 100% | 3 | 3.8 |
| P068858 | Bulgaria | Wetlands Restoration & Pollution Reduction | 2002 | 2008 | 7.5 | 100% | 3 | 0.8 |
| P074042 | Lebanon | Ba'albeck Water and Wastewater | 2002 | 2012 | 43.5 | 101% | 1 | 0.6 |
| P075730 | China | Hunan Urban Development | 2004 | 2012 | 172.0 | 100% | 2 | 2.5 |

Note: *Commitment* and *MWH Contract* are in million USD.

It is also instructive to further investigate MWH Global in its role as a contractor on World Bank projects. There are thirteen such projects in our dataset beginning in 2000, as summarized in Table 7.[22] MWH served as a general contractor, with a share of the contract for each project ranging from $300,000 to $8.9 million, on a portfolio of projects totaling $1.05 billion. Eleven of these thirteen projects were fully disbursed or expanded, for an average disbursement rate of 102%. However, the evaluation of these projects was unimpressive, averaging an unsatisfactory 2.23 (on a 4 point scale). Even the project with the worst performance, a water treatment project in Lebanon that received the worst possible evaluation, was fully disbursed. MWH earned a total of $31 million in contracting fees from the World Bank for supervising this series of unsuccessful projects.

In order to probe more deeply into the mechanism that links MNC Contractors to excess disbursements and evaluation bias, we use data on types of contracts to isolate the contractors that are most likely to have incentives to lobby for disbursement. The World Bank's Contracts Database codes over 30 'procurement types' and assigns a type to each contract. Our expectation is that when MNCs are engaged as general contractors on construction projects or when they are directly involved with implementing or running projects on the ground, they will have financial interest in the disbursement schedule because their contracts involve bearing some residual responsibility for project completion. In other cases, they may be fully paid regardless of the outcome of the project. Consequently, contracts involving residual responsibilities, which we aggregated in a 'management' category, are likely to be associated with higher disbursement and evaluation bias. As Table 8 shows, we find support for this expectation. MNC contractors with management responsibilities exert a statistically significant effect that is three times the average effect of MNC contractors on disbursements and four times the average effect on evaluation bias. This indicates that our results are largely driven by the minority of MNC contractors that have the strongest incentives to lobby in the way our theory predicts.[23]

Table 8: Contractors & Procurement Types

| | Avg. Effect | Management |
|---|---|---|
| Disbursement | 0.026* (0.015) | 0.092** (0.046) |
| Evaluation Bias | 0.096* (0.057) | 0.427** (0.171) |

***p < .01; **p < .05; *p < .1

**Note:** Standard Errors in parentheses; Country FE included.

[22] Since the World Bank's Contract Awards Database only covers a subset of the projects for which ICR reports are available, the Yacyretá project does not feature in this subset of the data.

[23] Each model includes 5 dummy variables, one for each type of procurement, with the variable coded 1 if the project includes a contract for a U.S.-owned Fortune 500 firm of the given type, and 0 otherwise. Since, together, these 5 categories account for all projects with MNC involvement of the relevant type, the *MNC Contractor* variable is dropped from these regressions. Control variables are not presented in the table, but are not significantly different from the previous specification.

The fact that we find similar results using different samples and different measures of MNC interest is reassuring. Indeed, the low correlation between *US Fortune 500* and *MNC Contractor* (r= 0.10) reflects the fact that the two variables measure different concepts—the presence of major US multinational firms in a particular country, as opposed to the involvement of such a firm as a contractor on a particular World Bank project. Nevertheless, the results suggest that each captures an important dimension of MNC influence over the World Bank.

## 4.3 Discrimination among lending instruments

Having established a relationship between the presence of US investment and both increased disbursement of Bank projects and higher evaluation bias, we now delve deeper into these findings by questioning whether these effects are conditional on the institutional form of the lender. We posit that the mechanism that links MNC interests to disbursements and evaluations is informal influence, and the effectiveness of such lobbying activity ought to depend on the institutional context. As we argued above, the IDA has been more strongly affected than the IBRD by efforts to reform lending to reward past performance. Consequently, we expect IDA disbursements to be less responsive to MNC interests than IBRD disbursements (Winters, 2010; Morrison, 2013). On the other hand, the greater emphasis placed on evaluation results in the IDA increases the incentive for MNCs to lobby for more favorable evaluations, so we expect IDA project evaluations to be more responsive than IBRD project evaluations to MNC interests.

We split the sample into IDA and IBRD projects in order to investigate these hypotheses.[24] Table 9 below summarizes the main results of interest. Each row summarizes the estimates for the quantity of interest from a separate regression. The results for *MNC Contractor* have the same specifications as Models 6a and 4a, respectively, whereas those for *US Fortune 500* are the same as Models 5a and 3a, respectively. The results for the control variables are omitted to save space; they are substantially the same as those reported earlier.[25]

As Table 9 indicates, both *MNC Contractor* and *US Fortune 500* are positively and significantly associated with disbursement in IBRD projects, but the estimated effects are much weaker and insignificant in IDA projects. On the other hand, having a U.S.-owned Fortune 500 firm as a contractor on a specific IDA project has a significant effect on increasing evaluation bias for the project, and the coefficient is larger than it was in the pooled analysis reported above; the effects are weaker and insignificant in IBRD projects. These results fit our expec-

[24]Some projects receive financing from both agencies. These blended projects, of which there are 150 in our dataset, are excluded in order to provide a clean test for the mechanisms being suggested here, but including them does not affect the results. Similarly, the 700 or so projects where neither the IDA nor the IBRD is involved are also excluded; these projects are either funded by the Global Environment Facility (GEF) or are part of the Bank's Special Trust Fund for West Bank & Gaza, for which money comes directly from donor countries rather than from the World Bank's two main lending instruments.

[25]The interaction of *US Fortune 500* and *Project Size per capita* is excluded in this set of results, but the results shown here hold qualitatively for the entire range of *Project Size per capita* when the interaction term is included.

Table 9: Investment & Lending Instruments

| | IDA | IBRD |
|---|---|---|
| Disbursement | MNC Contractor: 0.01 (0.02)<br>US Fortune 500: 0.01 (0.01) | MNC Contractor: 0.04** (0.02)<br>US Fortune 500: 0.03*** (0.01) |
| Evaluation Bias | MNC Contractor: 0.16* (0.09)<br>US Fortune 500: 0.04 (0.04) | MNC Contractor: 0.07 (0.07)<br>US Fortune 500: 0.04 (0.03) |

***p < .01; **p < .05; *p < .1

**Note:** Standard Errors reported in parentheses. No fixed effects.

tations: the IDA is less responsive to MNC interests than the IBRD, presumably because its procedures tie disbursement more rigidly to performance. By the same token, however, IDA projects provide stronger incentives for MNCs to exert influence to secure better evaluations.

A striking illustration of evaluation bias in IDA projects with U.S. multinational contractors is the Irrigation Sector Project in Nepal from 1997 to 2004. The project was intended to increase productivity and sustainability of irrigation systems in various districts by installing tubewells and hydrometric structures and establishing meteorology stations. The results were far from satisfactory. The ICR report evaluated the project's sustainability as "unlikely." The project scores a 2 on our *Performance* variable, which summarizes the evaluation team's point-by-point ratings of the degree to which project objectives had been implemented. Nevertheless, the overall rating of the project in this report is "Satisfactory," which indicates high *Evaluation Bias*. One of the contractors on this $103 million project was Caterpillar, Inc., which is a U.S. Global Fortune 500 firm, and is one of the leading manufacturers of construction and industrial equipment. Caterpillar was a supplier of mechanical equipment for this project. The inference of evaluation bias is corroborated in this case by the IEG Project Performance Assessment Report (PPAR). For this project, the IEG found the outcome of the project to be "Moderately Unsatisfactory," which is two rankings below the ICR assessment. The report characterizes both the Bank's and Borrower's performances as moderately unsatisfactory. The project's closing was delayed several times because its objectives had not been met in a timely fashion, project design was flawed, and the Bank should have given more attention to monitoring and evaluation (PPAR No. 4438, N.d., p.xi). In short, the IEG agrees with our conclusion that this IDA project, in which a major U.S. multinational played a key role, was an example of evaluation bias.

## 5 Discrimination among Alternative Theories

We conduct three additional tests in order to further narrow the possible interpretations of our findings. First, we conduct a simple placebo test to isolate the effects of strategic

investment decisions by major multinationals from the background conditions that promote FDI. If some unmeasured variable that is associated both with FDI and with favorable outcomes on World Bank projects accounts for our results, it should be possible to replicate our findings by substituting aggregate FDI for our measures of MNC involvement. We do this, using data for FDI flows and stocks, and cannot reject the null of no effects. This suggests that it is the involvement of major MNCs per se, and not simply FDI, that produces the effects we find. The results are in the online appendix. Second, we seek to distinguish the mechanism of private politics from the mechanism of geopolitics. It could be the case that the presence of U.S. multinationals serves as a proxy for broader U.S. interests in recipient countries, and it might be these interests rather than those of business that are finding expression in World Bank lending (Krasner, 1978; Gilpin, 1975). If this is the case, other measures of U.S. geopolitical interests that are associated with IMF lending behavior should have similar effects in the case of the Bank, and similar effects to those we have found of the presence of multinationals. Third, we seek to pin down the mechanism of influence by asking whether access to U.S. policymakers is a necessary condition for the effect to obtain. It could be the case that the presence of U.S. multinationals influences Bank behavior for other reasons besides overt political behavior. For example, the Bank could shape its policies in order to encourage multinational investments. If this is the case, investments by firms based in other advanced industrialized countries should have effects similar to those of investments by U.S. firms. In contrast, if country of origin affects firms' ability to exert influence over Bank policy, this indicates a political interpretation, because influence is conditional on access to a national policy network in the Bank.

## 5.1 Geopolitical Interests

Table 10 presents the estimated effects on disbursements of five measures of U.S. geopolitical interest, first on all World Bank projects, and then broken down into IDA and IBRD projects.[26] The five geopolitical variables are added to Model 5a one at a time in place of US Fortune 500.[27] These models do not include country fixed effects. Since most of the variation in the geopolitical variables is cross-sectional, models without fixed effects represent a tougher test of our hypothesis of no effect. The results are substantially similar with country fixed effects, with one exception noted below. Control variable estimates are repressed to save space, but are not meaningfully different from those presented above.

The *Executive Director* dummy variable indicates whether the project-recipient country held a seat on the World Bank's Executive Board of Directors during the project implementation

[26] We present only results for disbursements, because the literature contains findings about the effect of geopolitics on World Bank and IMF lending, but not on evaluation bias. We replicated these equations using evaluation bias as the dependent variable, however, and found substantially similar results. The only significant coefficient was for all UN votes in IBRD projects, with a coefficient of 0.22 (0.11).

[27] The interaction term with project size is dropped for simplicity of presentation. Including interaction terms between the geopolitical variables and project size per capita and calculating the composite effects does not change the interpretation of these results.

Table 10: Disbursement - Geopolitical Interests & Lending Instruments

| Variables | Pooled | IDA | IBRD |
|---|---|---|---|
| US Aid$_{t-1}$ (in billion USD) | -0.01(0.08) | 0.09 (0.13) | -0.006 (0.11) |
| All UN Votes$_{t-1}$ | 0.02 (0.02) | -0.01 (0.04) | 0.00 (0.03) |
| Important UN Votes$_{t-1}$ | 0.001 (0.01) | -0.01 (0.02) | 0.01 (0.02) |
| UNSC Membership | 0.01 (0.01) | 0.03 (0.07) | 0.018 (0.014) |
| Executive Director | 0.01 (0.01) | -0.001 (0.02) | 0.01 (0.02) |

$^{***}p < .01$; $^{**}p < .05$; $^{*}p < .1$

**Note:** Standard Errors in parentheses. No fixed effects.

period. Previous literature on the World Bank has found that Executive Directors are able to secure more loans from the IBRD for their countries, so we might expect this influence to apply to increased disbursements as well (Kaja and Werker, 2010; Morrison, 2013). However, we do not find evidence for such an effect in our data.

The other four variables are specific measures of U.S. geopolitical interest in the project recipient. We consider whether countries that receive higher levels of U.S. aid (lagged) are also more likely to receive larger disbursement percentages on their projects from the Bank. This does not appear to be the case. Next, we measure U.S. interest in terms of the (lagged) UN Voting affinity S-score between the United States and each project-recipient country. *Important UN Votes* calculates the S-score based only on those votes that the U.S. State Department has identified in its annual report to the U.S. Congress to be important to U.S. foreign policy, whereas *All UN Votes* includes all votes in the United Nations General Assembly. Again, we do not find that voting patterns in the UNGA, whether on all votes or just the important ones, affect the disbursement proportion of World Bank projects.[28] This is in contrast to Kilby (2009, 2013), which find substantial effects of similarity with the United States in important votes in the UNGA on World Bank loan disbursements.[29] Lastly, Dreher, Sturm and Vreeland (2009*a*,*b*) and Vreeland and Dreher (2014) have found effects of temporary membership on the United

[28]The variable for all UN votes has a marginally significant association of 0.07 (0.04) with disbursements in the pooled regression with fixed effects. The fixed effects estimator relies on over-time variation within countries, so this is similar to Thacker's finding that movements in UNGA voting closer to the U.S. position, but not levels, were associated with IMF lending (Thacker, 1999). We do not emphasize this result because it is only marginally significant.

[29]To compare our findings with Kilby's directly, we also constructed a 'U.S. Friend' dummy variable based on the coding of Kilby's measure. We do not find significant effects on the dummy variable, using our project-level data, or after aggregating our disbursement variable to the Country_Year unit of analysis to make it more comparable. This difference may, in part, be due to a differently specified dependent variable in Kilby (2009), i.e., disbursement in USD, rather than disbursement proportion. Kilby's results may therefore be driven by large, policy-based loans, which are more similar to IMF programs than the typical projects in our data set. Similarly, he finds voting with the U.S. to play an important part in explaining disbursement only when interacted with inflation and changes in exchange rates, variables which are not relevant to the analysis here.

Nations Security Council on loan commitments from both the World Bank and the IMF. We find no similar effect for loan disbursements. None of these findings should be taken to contradict the rather impressive accumulation of empirical papers that demonstrate geopolitical influences in World Bank lending; instead, they should be taken to qualify those findings in a significant respect. Unlike in the IMF, where decisions at all stages of the lending cycle are fraught with high politics, geopolitics appears to influence World Bank lending only at the project approval stage. The complex and detailed business of implementing and evaluating a wide range of heterogeneous projects remains political, but the interests that are of primary importance there are those of firms rather than of states.

Together, the consistently negative results in this section reinforce our interpretation that it is not geopolitical interests that are, in fact, driving the earlier results. Nor is it the case that investment by U.S. multinational corporations is simply a proxy for broad U.S. strategic interests. In models that include US Fortune 500 together with the measures of geopolitical interests, investment by U.S. multinationals continues to have robust effects, while the geopolitical variables are insignificant.[30] Rather, it appears that something peculiar to the presence of major U.S. multinational firms exerts influence over the process of World Bank lending.

## 5.2 Other Investors

Next we consider the possibility that the presence of U.S. multinational firms is generically equivalent to the presence of similar firms from other countries. Table 11 presents results from the same specifications as before, but substitutes measures of investments by Fortune 500 companies from four other countries: the United Kingdom (UK), Germany, France and Japan. Most of these alternative measures of multinational presence are not significantly related to disbursement. However, the interaction term between Japan Fortune 500 and Project Size per capita is significant (Model 9d), and plotting the effect of Japanese investment against the relevant range of project sizes shows that the coefficient is positive and becomes significant for projects larger than about 12 dollars per capita, which occurs in about a tenth of the projects in our dataset. This effect of Japanese investment is quite similar to the effect of U.S. investment. Like the United States, Japan enjoys a privileged position in the World Bank as the second largest shareholder. Furthermore, there is some evidence that Japan compensates for its junior role by working harder to promote the interests of its firms, since Japan has a tradition of using its development aid to promote foreign investment (Lipscy forthcoming). Japanese investment does not appear to be significantly related to evaluation bias, however. The one

[30] In an alternative specification of Model 5b that controls for the four U.S. geopolitical variables, *US Fortune 500* is significant at the 5% level. In a specification that additionally controls for Executive Director, significance drops, but *US Fortune 500* is still significant at the 10% level for projects bigger than about $8 per capita. The magnitude of the effect increases in that specification, however, and the reduced significance is driven by an increase in the standard errors. This makes us confident that the significant results excluding Executive Director are not driven by omitted variable bias.

other exception to the pattern of U.S. exceptionalism is that UK Fortune 500 investment, like US Fortune 500, is associated with the level of evaluation bias, as indicated by Model 10a in Table 11. This is not, however, reflected in an effect of the UK investment portfolio on disbursement rates. Taken together, these results are less consistent and impressive than the effects of U.S. investment, and there is no evidence of an effect of German or French investment.

Similarly, we replicate our analysis of MNCs contractors but focus on firms that are headquartered in the UK, Germany, France or Japan. Table 12 presents summarized results from these four models (each column represents a different regression); control variables have been omitted from the table to save space but do not change substantially from previous models. As the table demonstrates, the same trend emerges for MNC contractors as for investments: among the firms headquartered outside the United States, only Japanese MNC Contractors are associated with higher disbursement (Model 11d).[31] British, German and French contractors had no appreciable effects on disbursement, in spite of the fact that French contractors appear more frequently in the World Bank Contracts Database than those of any other country. As before, none of the other countries' MNC Contractors had a significant impact on evaluation bias.

These results strongly suggest that U.S. multinationals are not generically similar to those from other countries. Rather, it appears that investments originating from different host countries have different effects. This narrows the interpretation of our findings considerably. Country of origin explains patterns of preferential access to policy networks in the Bank, including the uniquely powerful policy network controlled by the U.S. government. It is difficult to explain why firms from different countries should enjoy different levels of access to World Bank officials if this is not because these firms exert their influence by first influencing arms of their home governments.

We conclude from this exercise that the range of interpretations that we can put on our results has considerably narrowed. Measures of U.S. interests other than multinational investments do not seem to explain patterns of World Bank lending, so the effect of multinational presence is unlikely to be a proxy for geopolitical interests. Rather, it represents the effects of private politics that firms pursue on their own behalf. Further, the investments of other countries do not have comparable effects. This seems to rule out non-political interpretations. Otherwise, if not for the fact that they enjoy privileged access to the U.S. policy network, why should U.S. firms enjoy privileged access to the Bank? The results support the interpretation that major multinational firms collude with government in the developing world to circumvent

[31] We also broke down Japanese MNC Contractors by procurement type, similar to Models 7 & 8 presented in an earlier section for US MNC Contractors. 'Equipment' emerges as the only significant category for Japanese MNC contracts.

Table 11: Other Major Investors

| | Disbursement percentage | | | |
|---|---|---|---|---|
| | **Model 9a** | **Model 9b** | **Model 9c** | **Model 9d** |
| UK Fortune 500 | −0.007 | | | |
| | (0.014) | | | |
| Germany Fortune 500 | | 0.004 | | |
| | | (0.016) | | |
| France Fortune 500 | | | 0.020 | |
| | | | (0.013) | |
| Japan Fortune 500 | | | | −0.030 |
| | | | | (0.020) |
| Project Size per capita | −0.0004 | 0.001 | −0.0003 | −0.0003 |
| | (0.001) | (0.001) | (0.001) | (0.001) |
| UK Fortune 500*Projsize | 0.004 | | | |
| | (0.003) | | | |
| Germany Fortune 500*Projsize | | −0.002 | | |
| | | (0.002) | | |
| France Fortune 500*Projsize | | | 0.002 | |
| | | | (0.001) | |
| Japan Fortune 500*Projsize | | | | 0.010*** |
| | | | | (0.004) |
| N | 1775 | 1775 | 1775 | 1775 |
| Adj. R-squared | 0.958 | 0.958 | 0.959 | 0.959 |
| | **Evaluation Bias** | | | |
| | **Model 10a** | **Model 10b** | **Model 10c** | **Model 10d** |
| UK Fortune 500 | 0.053** | | | |
| | (0.026) | | | |
| Germany Fortune 500 | | 0.031 | | |
| | | (0.026) | | |
| France Fortune 500 | | | 0.024 | |
| | | | (0.029) | |
| Japan Fortune 500 | | | | 0.043 |
| | | | | (0.035) |
| N | 1918 | 1918 | 1918 | 1918 |
| Adj. R-squared | 0.156 | 0.155 | 0.155 | 0.155 |

***p < .01; **p < .05; *p < .1
Models 13a to 13d have the same specification as Model 5b.
Models 14a to 14d have the same specification as Model 2c.

Table 12: Other MNC Contractors

| | Disbursement proportion | | | |
|---|---|---|---|---|
| | **Model 11a** | **Model 11b** | **Model 11c** | **Model 11d** |
| UK MNC Contractor | −0.028 | | | |
| | (0.052) | | | |
| Germany MNC Contractor | | −0.028 | | |
| | | (0.030) | | |
| France MNC Contractor | | | 0.001 | |
| | | | (0.017) | |
| Japan MNC Contractor | | | | 0.037** |
| | | | | (0.018) |
| N | 1168 | 1168 | 1168 | 1168 |
| Adj. R-squared | 0.969 | 0.969 | 0.969 | 0.969 |
| | **Eval. Bias** | | | |
| | **Model 12a** | **Model 12b** | **Model 12c** | **Model 12d** |
| UK MNC Contractor | 0.171 | | | |
| | (0.190) | | | |
| Germany MNC Contractor | | 0.061 | | |
| | | (0.106) | | |
| France MNC Contractor | | | 0.004 | |
| | | | (0.061) | |
| Japan MNC Contractor | | | | 0.027 |
| | | | | (0.064) |
| N | 1282 | 1282 | 1282 | 1282 |
| Adj. R-squared | 0.596 | 0.596 | 0.595 | 0.596 |

***p < .01; **p < .05; *p < .1
Models 15a to 15d have the same specification as Model 6b.
Models 16a to 16d have the same specification as Model 4c.

the monitoring of World Bank project performance and lobby on behalf of loan disbursements that are unjustifiable in terms of the achievement of project objectives.

### 5.3 IEG Evaluations

A further robustness check makes use of the IEG's Outcome rating for each project. The IEG audits every ICR report in order to identify and deter exaggerated performance claims, and to the extent that this is effective, using IEG ratings rather than ICR ratings should attenuate the effects of evaluation bias that we observe. In addition, if IEG ratings more accurately reflect performance, controlling for them should improve our measurement of excess disbursements. The IEG ranks each project on the same six-point scale and using the same methodology as the ICR reports.[32] We construct two alternative measures of evaluation bias. First, we substitute the IEG's Outcome variable for the ICR Report's *Evaluation* measure, use the difference between this and our *Performance* variable as an alternative measure of evaluation bias—measuring the bias that remains after the IEG audit, rather than the bias contained in the original report—and use this to replicate the results reported above. Our coefficients of interest do not substantially change when using this alternative measure of evaluation bias. Both measures of U.S. multinational firms' interest in World Bank projects are significant at the same levels as before, and the coefficient sizes do not change meaningfully. This implies that the IEG's Outcome ratings do not effectively screen out the biases we find in the original ICR reports. Although the IEG downgrades about one-fifth of ICRs, the two sets of ratings are essentially equivalent for our purposes. The complete results from these specifications can be found in the Appendix.

It still could be the case, however, that the IEG rating contains important information about performance beyond what is included in the ICR report, in which case we should control for this when estimating models of excess disbursement. In order to consider this possibility, we calculate a second alternative version of evaluation bias, which is calculated as the difference between the ICR Outcome and the IEG Outcome for each project, and substitute *IEG_Outcome* for *Performance* in all the main regression specifications. Replicating our earlier analyses, we find that our main results about disbursement still hold in this specification, i.e., *US Fortune 500* and *MNC_Contractor* are each still significantly associated with increased disbursements when controlling for *IEG_Outcome* and *EvalBias_IEG*. Consistent with our finding above that IEG ratings do not screen out the biases in ICR ratings, however, these measures of investment lose significance in the specifications with evaluation bias as the dependent variable. This confirms that there is not much difference between ICR and IEG project outcome measures, at least with respect to the biases introduced by the activities of multinationals. The full regression results are included in the Appendix.

[32] To make the IEG outcomes comparable to our *Performance* variable's range from 0 to 4, we use the same mapping as we did for the ICR reports, as explained in earlier sections.

Incorporating the IEG's evaluations into our analyses provides additional confidence in our findings, because these results indicate that our findings are not dependent on our coding of *Performance* or on our reliance on ICR reports. Further, these additional results suggest that the IEG is not effective in screening out the biases that we identify that are related to lobbying by multinational firms.

# 6 Conclusions

The World Bank is different in important respects from its sister institution, the IMF, which subjects the implementation of World Bank projects to a different pattern of informal governance. The World Bank has heeded calls to open up to the influence of international society to a much greater degree than the Fund, and this has made its decisions vulnerable to the influence of multinational corporations. We provide evidence that countries that receive direct investments from U.S. Fortune 500 companies exhibit greater degrees of evaluation bias at the project level and receive disbursements of greater proportions of committed funds conditional on evaluations and project performance. In addition, we find the same patterns using a more specific measure of firm motivations, the participation of their affiliates in particular Bank projects as contractors. In other words, investment by major U.S. multinationals is associated with collusion to bias the evaluation of World Bank programs and with lobbying to make disbursements that are not justified by project outcomes. In contrast, we find no evidence that the participation or presence of multinationals has any influence on the most objective measures of project outcomes. MNCs do not appear to be systematically allied with the Bank in promoting development, but they appear to interfere with its evaluation and enforcement efforts.

We find little evidence of geopolitical influences on project evaluation or disbursement. We tested for a wide range of hypotheses drawn from the literature, seeking any evidence of effects of proxies for U.S. interests that have been shown to affect IMF lending, conditionality, or enforcement of conditionality, or World Bank lending. We found scant evidence to support these hypotheses in the case of the evaluation and disbursement phase of World Bank projects. We attribute this striking difference from the findings of previous studies to the special features of World Bank projects, which, while very important in the aggregate, tend to be small scale in particular cases. These individual projects are not highly important in terms of international politics, but they may be highly salient to particular firms.

These findings should not be interpreted to mean, however, that U.S. informal influence is not considerable in the patterns that we see. We find effects on project evaluation and disbursement for investments by U.S. and Japanese multinationals, and little evidence of effects for investments by multinationals from other countries. This suggests the powerful informal policy networks of the the two leading shareholders play a critical role in facilitating the influence of

U.S. and Japanese multinationals. This is consistent with the asymmetric pattern of influence enjoyed by international civil society actors in the World Bank generally: U.S. NGOs have tremendous advantages over similar organizations based in other countries. Furthermore, when it is possible to show that such groups exert influence, it is usually because they have successfully lobbied the U.S. government—the executive branch, the legislative branch, or both—and Treasury has deployed its policy network to translate their political demands into informal influence. In short, the World Bank's major shareholders are not unitary actors, and firms based in those countries are able to capitalize on the informal influence that their states enjoy by virtue of their positions in international policy networks.

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# A Additional Tables

Table 13: Descriptive Statistics (a)

| Variable | Median | Mean | St. Dev. | Min | Max |
|---|---|---|---|---|---|
| $\text{Polity}_{t-1}$ | 6 | 4.003 | 5.609 | −7 | 10 |
| log ($\text{Population}_{t-1}$) | 17.3 | 17.52 | 1.828 | 13.506 | 21.009 |
| log (GDP per $\text{capita}_{t-1}$) | 8.10 | 8.136 | 0.884 | 5.974 | 10.058 |
| Control of Corruption | 2.00 | 2.289 | 0.773 | 0.000 | 5.000 |
| US Fortune 500 | 0.066 | 0.550 | 0.940 | 0.000 | 4.261 |
| Report Type 4 | 0 | 0.300 | 0.458 | 0 | 1 |
| Report Type 3 | 0 | 0.270 | 0.444 | 0 | 1 |
| Report Type 2 | 0 | 0.150 | 0.358 | 0 | 1 |
| Report Type 1 | 0 | 0.280 | 0.449 | 0 | 1 |
| IBRD | 0 | 0.358 | 0.480 | 0 | 1 |
| IDA | 0 | 0.432 | 0.496 | 0 | 1 |
| Approval Year | 1997 | 1,997 | 4.083 | 1987 | 2010 |
| Closing Year | 2004 | 2004 | 3.461 | 1995 | 2011 |
| # active projects | 18 | 26.601 | 24.745 | 1 | 122 |
| Project Size per capita (in $) | 1.537 | 3.638 | 6.760 | 0.004 | 124.73 |
| Disbursement Proportion | 0.965 | 0.868 | 0.203 | 0 | 1 |
| Evaluation | 5 | 4.525 | 1.122 | 1 | 6 |
| Performance | 3.11 | 3.043 | 0.805 | 0.000 | 4.000 |
| Evaluation Bias | −0.358 | −0.358 | 0.829 | −3.750 | 3.000 |

Note: The variables presented in this table are used in Models 1, 2, 5, 7-14.

Table 14: Descriptive Statistics (b)

| Statistic | Median | Mean | St. Dev. | Min | Max |
|---|---|---|---|---|---|
| $\text{Polity}_{t-1}$ | 6 | 3.812 | 5.723 | −7 | 10 |
| log ($\text{Population}_{t-1}$) | 17.3 | 17.552 | 1.914 | 13.525 | 21.019 |
| log (GDP per $\text{capita}_{t-1}$) | 8.21 | 8.200 | 0.868 | 6.004 | 10.058 |
| Control of Corruption | 2 | 2.160 | 0.644 | 0.500 | 5.000 |
| Report Type 4 | 0 | 0.497 | 0.500 | 0 | 1 |
| Report Type 3 | 0 | 0.198 | 0.398 | 0 | 1 |
| Report Type 2 | 0 | 0.117 | 0.322 | 0 | 1 |
| Report Type 1 | 0 | 0.188 | 0.391 | 0 | 1 |
| IBRD | 0 | 0.394 | 0.489 | 0 | 1 |
| IDA | 0 | 0.447 | 0.497 | 0 | 1 |
| Approval Year | 1999 | 1998 | 3.408 | 1989 | 2008 |
| Closing Year | 2006 | 2005 | 3.101 | 1998 | 2013 |
| Project Size per capita (in $) | 1.258 | 2.914 | 4.691 | 0.004 | 57.832 |
| Disbursement Proportion | 0.982 | 0.892 | 0.182 | 0.010 | 1.000 |
| Evaluation | 5 | 4.428 | 1.058 | 1 | 6 |
| Performance | 3.2 | 3.089 | 0.827 | 0.000 | 4.000 |
| Evaluation Bias | −0.571 | −0.491 | 0.832 | −3.750 | 3.000 |
| MNC Contractor | 0 | 0.116 | 0.321 | 0 | 1 |

Note: The variables presented in this table are used in Models 3, 4 and 6.