

***When the World Bank Says Yes:
Determinants of Structural Adjustment Lending¹***

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“Ends”

**Oh, some as soon would throw it all
As throw a part away.
And some will say all sorts of things,
But some mean what they say.
Robert Frost (1874–1963)**

Introduction

The World Bank along with the International Monetary Fund (IMF) play a crucial role in determining how much capital developing countries will receive from external sources. Thus, it is not surprising that there has been much controversy over the lending practices of both of these international financial institutions. Most of the controversy has been centered upon the fairness of the structural adjustment conditions imposed by both institutions upon loan recipient and the effects of the loans on economic development. In recent years, scholars have also focused attention on the selection biases of the IMF. The term “selection bias” refers to the criteria or country characteristics used by the Bank to determine which governments will receive loans and which will not. In this work, the factors that increased or decreased the probability of a country’s government receiving a World Bank structural adjustment loan (SAL) in the twenty-year period from 1981-2000 are identified. The governments of 161 “significant” countries of the world are included in the analysis. This is the first large-n, comparative study of the selection biases of the World Bank. The results have both theoretical and practical importance.

There are at least four different and partly contradictory theoretical perspectives that could be used to describe or explain the selection biases of the World Bank—classical economic theory (Van De Laar (1980), the theory of two-level games in international affairs (Putnam, 1988; Milner, 1997) and the opposing “credible commitments” argument (Leeds 1999; Martin

2000), and dependency theory (Pion-Berlin 1984). These theoretical perspectives and the results of previous empirical research suggest the potential importance of economic, political, conflict proneness, and human rights performance criteria in the World Bank's decisions to award loans. The results provide strong support for expectations generated by classical economic theory, some support for expectations generated by the theory of two-level games, and almost none for those associated with dependency theory and the arguments concerning credible commitments.

Understanding the selection biases of the World Bank is also of crucial practical importance to any estimation of the effects of World Bank loans. Since there are selection biases, simply comparing recipient to non-recipient as some previous research has done (Harrigan and Mosley 1991) will not advance our knowledge of loan impacts because a non-random process generated, which countries became recipients and which countries did not (Achen 1986; Heckman 1988; Przeworski and Vreeland 2000; Vreeland 2002; 2003). This means that in order to isolate the impact of World Bank loans future work needs to “disentangle” (Collier 1991) the selection biases in World Bank loan receipt from the actual impact of the loan itself in addition to controlling for alternative explanations that may impact the dependent variable of interest. Disentangling this process will allow future research to answer the question: All other things being equal, was it the loans or the pre-existing situation that account for the impact attributed to World Bank SALs.

The results of our study indicate that states associated with a higher probability of receiving a World Bank loan during this period were in economic need, had larger populations, were ruled by the military, and had higher levels of government respect for workers' rights. States that had previously received a World Bank loan were less likely to receive another in the short term. In comparison, states associated with a lower probability of receiving a World Bank

loan during this period experienced increased levels of interstate conflict and/or higher levels of domestic conflict. While some previous research on the selection biases of the IMF had found that the IMF preferred to give loans to more authoritarian states, we found no evidence of bias for or against democracies, or regimes that violated the personal integrity rights of their citizens. Finally, we found no evidence that the World Bank favored countries that were allied with the United States or that were more globalized economically.

The paper follows in four sections. The first describes the three theoretical arguments, the second reviews some of the previous findings and generates a number of hypotheses, the third describes our research design, and the fourth discusses our findings and conclusions.

I

Theoretical Arguments

In the aftermath of World War II, the governments of the world created three international financial institutions designed to facilitate economic cooperation: the General Agreement on Tariffs and Trade (GATT), the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD). GATT (which has since evolved into the World Trade Organization) was to work on lowering trade barriers among nations and to prevent trade wars. The IMF was to provide liquidity and to sustain the international payments system (the gold standard that was re-instituted after the War). And the IBRD, known more generally as the World Bank, was primarily to facilitate the reconstruction of war-damaged Europe, and then to reach beyond that to aid in the development of what later became known as the Third World. Today, the World Bank's core mission remains the promotion of economic growth and the eradication of poverty in less developed countries. At the

same time, the Bank has also been involved in a number of "bail-out" packages, that have had the effect of providing liquidity support to countries in crisis. These "bail-out" packages have similar objectives to those of the IMF.

We assume that the governments of all developing countries would like to receive money from the World Bank, because the Bank makes loans at rates of interest and with other repayment terms that are far superior to what can be found on the open market (Van De Laar 1980). Loan recipients also seek the "seal of approval" from the Bank. The leaders of the governments of developing countries know that the US government, the governments of other wealthy countries, and private banks will be less willing to provide grants and loans unless the IMF and World Bank are willing to extend international credit as well (Pion-Berlin 1984; Przeworski and Vreeland 2000).

Which governments receive World Bank loans is decided by the Bank's Board of Directors. The World Bank uses a weighted voting system for determining which loans are approved and which are denied. The weights assigned are roughly in proportion to the share of the Bank's development funds contributed by each of the member governments. For the last 25 years, the United States, Japan, and Germany have accounted for more than half of all funds contributed (Banks and Muller 2002), so it is reasonable to assume that the preferences of their country representatives have dominated the preferences of other members of the Bank's Board of Directors. World Bank representatives protest against any allegations that their lending policies are motivated by political considerations, but the internal decision making process of the World Bank privileges the ideological perspectives of some governments over others, allows for logrolling and vote trading, and in all other respects provides fertile ground for what, in any other context, would be called "politics".

The stated goal of the Bank is to promote economic growth and to reduce poverty in less developed countries (World Bank 1992). Through its public policy statements, the Bank has announced some of its selection biases. The code of practices by which the Bank operates recommends that the Bank give preference to applicants that have a capitalist ideology, have not nationalized private industry without providing fair compensation to the owners, are not able to borrow on the private market, and are creditworthy (Van De Laar, 1980). These criteria created an unabashed bias against making loans to communist countries (though some communist countries including the formerly communist Yugoslavia and Romania did receive them). The publicly stated criteria also are ambiguous enough to provide the Bank's Board of Directors considerable discretion. Terms such as "capitalist ideology" and "creditworthy" must be defined and applied to specific applicants. It is also likely that many governments not able to borrow on the private market also are not creditworthy. The Board must decide how to reconcile these criteria. The Bank provides loans to the poorest countries with the worst credit ratings through the International Development Association and to wealthier countries that have better credit rating through the International Bank for Reconstruction and Development (World Bank 2002). Wealthier countries pay a higher rate of interest and have a shorter loan repayment period.

All structural adjustment loan recipients are required to comply with certain conditions mainly demonstrating their adherence to capitalist ideology. In essence these conditions represent other publicly announced selection biases of the Bank. They are political in the sense that they have been the subjects of contentious debate among scholars, policy makers, and social activists in the United States and abroad. The purpose of these structural adjustment conditions is to encourage recipient governments to put on what Thomas Friedman (2000, 105) calls "the Golden Straightjacket":

“To fit into the Golden Straitjacket a country must either adopt, or be seen as moving toward, the following golden rules: making the private sector the primary engine of its economic growth, maintaining a low rate of inflation and price stability, shrinking the size of its state bureaucracy, maintaining as close to a balanced budget as possible, if not a surplus, eliminating and lowering tariffs on imported goods, removing restrictions on foreign investment, getting rid of quotas and domestic monopolies, increasing exports, privatizing state-owned industries and utilities, deregulating capital markets, making its currency convertible, opening its industries, stock and bond markets to direct foreign ownership and investment, deregulating its economy to promote as much domestic competition as possible, [and] eliminating government corruption, subsidies and kickbacks as much as possible...”¹

While exact measures insisted upon between the World Bank and recipient countries differ on a case by case basis, common steps often cited by critics of the World Bank (Bello et. al 1994; Palast 2003) include reductions of social spending for such things as education, health services, income subsidies, housing, and reductions in public employment.

Classical Economic Theory

Classical economic theory is the basis of the mainstream argument used by the World Bank, IMF, and economically developed countries to justify support for economic stabilization and structural adjustment conditions agreed upon with loan recipient countries. The intention of these programs is to encourage economic growth (Przeworski and Vreeland 2000; Harrigan and Mosley 1991), which the Bank’s Board of Directors equate with economic development. Structural adjustment programs reduce the size and role of government in the economy. A minimalist state produces and encourages the economic growth that will lead to a better society (Rapley 1996, 58).

Limited government empowers individuals by giving them more personal freedom, making it more likely that each individual will realise their potential. The ability to realise one’s

potential, according to this line of reasoning, leads to individual responsibility and self-reliance. Both Classical and neo-classical economic theory advocate limited government with individuals acting in their own self-interest, maximising any opportunities and possible gains. Reduction in the size of the state reduces the opportunity for corruption and releases talented people into the private sector (Rapley 1996, 59). Neo-classical thought also promotes strategies of export-led growth through free trade. Essentially trade is a synonym for growth (Rapley 1996, 59). This suggests that conditions of economic underdevelopment or economic slow-down should increase the probability of both IMF and World Bank loan receipt.

Though economists associated with the IMF and World Bank use classical economic theory to justify structural adjustment policy, others use the same theory to criticise SALs. Their criticisms take many forms including the arguments that the Fund and Bank use a conception of development that is too focused on economic growth, have misdiagnosed the obstacles to development in the less developed countries, have failed to appreciate the value of government interventions into the private economy, and have insisted that structural adjustment reforms be implemented too quickly.

Some argue that the Fund and Bank have been too focused on Gross Domestic Product (GDP) per capita and growth in GDP per capita as the only indicators of development. They suggest this focus is too narrow since economic growth does not necessarily translate into development if the profits from such growth are not spent on health care, education, and infrastructure, improving the situation for most people rather than just a small ruling elite (Stiglitz 1999; Knack and Keefer 1997). Indeed, Joseph Stiglitz formerly chief economist at the World Bank has even argued that the developing countries that are likely to develop the fastest are those that avoid loans from the IMF and World Bank. He notes that China, a country that has

received no help from the IMF or the World Bank, is probably the most successful of the low income countries, both in terms of aggregate economic growth and in terms of poverty reduction. Moreover, unlike Russia, China has avoided a rapid increase in economic inequality (Stiglitz, 2000; 2002).

Some critics also argue that the real obstacles to economic growth in less developed countries have little to do with the size of government or its role in the economy. Among the real obstacles not addressed by SALs, they contend, are the need for land reform, inelasticities in foreign demand for primary products produced in the developing world, and low internal rates of saving in the private sector (Pion-Berlin, 1984). The critics argue that there are no short-term solutions to these problems. Long-term solutions include land reform to raise agricultural output, government investment in infrastructure and capital-creating industries (Moyo, 2001; Pion-Berlin, 1984). In the formerly communist countries, the absence of a well-developed system of private property is also a major obstacle (Stiglitz, 2000).

Critics of the Bank and Fund also contend that the structural adjustment policies of the Bank and Fund impose a shock therapy approach on poorly performing economies, especially in the formerly communist world (Stiglitz 2000). In many cases, they argue, an incremental and adaptive longer-term approach would be more effective (Stiglitz, 2000; Murrell, 1992). In many formerly communist countries major problems have been created because privatization preceded the development of regulatory and corporate governance institutions and even banks (Shliefer and Vishny 1997; Stiglitz and Squire 1998). While classical economic theory provides one rationale for the types of factors the World Bank would take into account in determining SAL loan receipt, other theories, which focus on the ability to countries to negotiate at the

international level may also provide some purchase in understanding the selection biases of the Bank.

Two Level Games: Domestic Politics & Credible Commitments

Two contrasting theories appear in the literature concerning the impact of domestic politics on the abilities of states to co-operate. Putnam's (1988) and Milner's (1997) work on the impacts of both domestic and international politics in international affairs suggests that, unless the Bank adopts a kind of "affirmative action policy" towards democracies, they will be at a disadvantage in their attempts to negotiate loans. Critics of the IMF have also noted its preference for working with authoritarian regimes (Przeworski and Vreeland 2000). However, there is a contrasting theoretical argument suggesting that democracies have an advantage when negotiating international agreements, because their governments can make more credible agreements (Leeds 1999; Martin 2000).

Putnam's theory of two level games and a similar argument put forward by Milner (1997) both provide an explanation for the finding in the literature that the IMF prefers lending to authoritarian regimes (Pion-Berlin 1984; Przeworski and Vreeland 2000; Stiglitz 2002). Putnam (1988) suggests that negotiations between an international agency like the Bank or IMF and the leaders of a nation state can be thought of as a two-level negotiation game. Level I negotiation occurs between the leaders of the Bank or Fund and the leaders of the potential loan recipient country. Level II is played between the country leaders and their citizens. A formal model of this game would be exceedingly complex, since the negotiations at both levels are interdependent.²

At level I, the leaders of the Bank and Fund behave as autonomous, unitary actors in the model. They are hierarchically organized and they express clear preferences. At the risk of

oversimplification, the preferences of the Bank and Fund are that decision makers in recipient country's agree to a set of economic reforms, that these reforms be implemented faithfully, that the economy of the recipient country improve, and that the loans be paid back in a timely fashion (Williamson, 1990). The mix of factors that change the size of win-sets can be both "sweet and sour" according to Putnam. That is domestic opposition may improve ones negotiating ability (Schelling 1960) and so improve the terms of any agreement but domestic opposition also makes it harder to reach any agreement. Domestic opposition might arise as a result of the efforts of domestic interest groups and opposition political parties, electoral cycles, and even institutional arrangements requiring legislative approval of international agreements.

Putnam notes that the prospective inability to have an agreement ratified at the domestic level will reverberate at the international level curtailing the possibility of signing an agreement in the first place. From this perspective Putnam contends that the greater the autonomy of country leaders at level I from influence by their level II constituents, the greater the likelihood of achieving international agreement. At level I, the leaders of authoritarian states can negotiate with greater authority and independence from domestic forces at level II. A bias against democracies in the selection processes of the Bank and Fund is, thus, a predicted outcome of the model. It is the natural result of the rational preferences of both sides of the negotiations at Level I. Democratic leaders prefer not to lose the support of their constituents, and Bank and Fund leaders prefer not to give loans with conditions that may not be met by the loan recipient.

The second contrasting perspective concentrates on the ability of democracies to make credible commitments that inform other players in the international system of their intent with respect to an international agreement. Both Leeds (1999) and Martin (2000) argue that the properties of democratic accountability and institutionalized co-operation afford democracies the

ability to send clear and credible signals concerning their ability to co-operate. These signals increase the probability of co-operation. Martin (2000) makes a strong argument concerning the ability of democracies to implement agreements signed at the international level. The informational properties of democratic regimes in comparison to non-democratic regimes increase the level of certainty players in the international system have about the probability that any signed agreement is implemented in democratic states rather than non-democratic states.

While Martin's (2000) argument is limited to advanced industrialized democracies, research by Dollar and Svensson (2000) suggests that Martin's contentions may be generalizable to less developed democracies as well. They provide convincing evidence that democracies are much more likely to implement the World Bank structural adjustment conditions their governments accept. Martin's (2000) theoretical argument and the Dollar and Svensson findings lead us to expect that democracies generally are more likely to receive World Bank loans, all other things being equal.

While the two perspectives differ in their expectations about the abilities of democracies to co-operate, one expectation that does appear common to both is that any domestic factor or international behavior that make it less likely that the SAL conditions be implemented faithfully would discourage the leaders of the Bank and Fund from concluding an agreement. For example one might expect similar selection biases against any country embroiled in a high level of domestic conflict or engaged in international hostilities, since control of government and the probability for the same government to carry out its obligations are uncertain in such circumstances.

Dependency theory

The most controversial perspective comes from dependency theorists who argue that governments of less developed (peripheral) countries often are forced to depend upon the IMF and the World Bank for external capital (Moyo, 2001).³ They contend that the relationship between countries on the periphery of the world economic system and the international banks is far more coercive than the leaders of the Banks and the Fund are willing to acknowledge. Furthermore, because of the weighted voting systems these institutions employ, the lending policies of both are strongly influenced by the preferences of US leaders and other major contributors to the bank such as Japan and Germany (Parenti 1989). Indeed, the malevolent intent of the leaders of the Bank, the Fund and the major contributors underlies much of this perspective. Core countries use the structure of the international financial system to maintain a core-periphery relationship, since the periphery provides cheap areas of production and helps maintain the profits of companies in the core.

Structural adjustment conditions—especially conditions that increase unemployment and reduce wages-- serve to maximize profits for MNCs operating in recipient countries. However, these policies tend to produce threats to the regime, because they require that decision-makers enact unpopular policies. These policies cause hardships—especially among the poorest citizens, who are most dependent upon social programs. These hardships, in turn, often provoke protests, that may turn violent (Auyero, 2001), and which tend to elicit government repression (Davenport 1995) increasing the level of human rights abuse. Members of the lower class are not only the most direct victims of the new policies, but are also the most common victims of personal integrity rights abuse (Richards, 1999).

From the perspective of dependency theory, therefore, government violations of physical integrity rights in periphery states are encouraged by core states and international institutions like the World Bank and the IMF that do the bidding of the core states (Parenti 1989). Repression is likely to be rewarded with bilateral foreign aid from core states and with loans from the World Bank. Structural adjustment loan programs ensure that the core receives cheap goods and multinational corporations based in core states receive large profits. It is even possible that this arrangement allows elites in recipient countries to receive extra rents at the expense of their own populations (Berkeley 2001)⁴. Dependency theorists see the World Bank as institutions designed to maintain the dependency of less developed countries on core states like the United States. Thus, they would expect both institutions to give more loans to states that were authoritarian (but not communist), that showed little respect for the rights of workers (Myers, 1994; Pion Berlin 1984) and that violated the physical integrity rights of their citizens.

II Previous Research

Studies of the Impact of World Bank SALs

There had been considerable research in the International Political Economy and development literature concerning the economic and human rights consequences of SALs on recipients (Adepoju 1993; Berry 1996; Çağatay 1994; Çağatay and Özler 1995; Chipeta 1993; Commonwealth Secretariat 1989; Cornelius and Weder 1996; Dennis 1992; Dorosh et al. 1996; Due and Gladwin 1991; Elliott 1993; Frasmus and Sahn 1996; Handa and King 1997; Harrigan and Mosley 1991; Kane 1993; Kanji and Jazdowska. 1995; Klak 1996; Konadu-Agyemang 2001; Kreueger et al. 1989; Kreuger and Ruttan 1989; Kreuger and Ruttan 1989a; Lele 1991; Mehra 1991; Mosley, Harrigan, and Toye 1991; Mwanawina, 1993; Palast 2003; Riphenburg

1997; Sadasivam 1997; Sahn 1996; Sahn 1996a; Sahn and Haddad 1991 Skl anes 1993; Sowa 1993; Stein 1992; Stryker and Tuluy 1989; Sukhamte 1989 Tanski 1994; Vuorela 1991). Most present analysis of single country case studies or small-n comparisons. None account for the effects of selection on the observed alleged consequences of the loan.

As explained by Achen (1986), Heckman (1988), Przeworski and Vreeland (2000), and Vreeland (2002; 2003) selection effects must be accounted for when assessing the impact of public policy. Achen (1986) notes that in the arena of public policy the problem is the general absence of randomization in the application of these policies. Collier (1991, 114) nicely summarizes when he notes that one needs to “disentangle” the impacts of the policy from any prior attributes that may also have an impact. The methodological resolution to this conundrum are found in a variety of two stage statistical models that disentangle the impact of a prior situation from the impact of the policy enacted.

How does this apply in our discussion concerning the determinants of World Bank SAL receipt? The first is that there are broad theoretical reasons to believe that certain processes underlay, which countries receive SALs and which do not. Thus, the countries that receive loans are a non-random sample of all possible countries, since there is a selection process at work. Second, if one is interested in assessing the impact of World Bank SALs, then methods that compare countries that did and did not receive loans (e.g. Harrigan and Mosley 1991) or engage in before and after assessments of a particular country (e.g. Sowa 1993) are simply inadequate. All the previous work on World Bank SAL lending ignores these issues of selection and randomization. Thus, we have no way of knowing whether the positive or negative impact attributed to SALs are as a result of World Bank policy or because of the pre-existing situation in the country under examination. It is then critical to determine the process that increases or

reduces the probability of World Bank loan receipt before any research can make substantive claims concerning the impact of World Bank loans on the particular dependent variable of interest.

Moreover, we have evidence in the form of stated Bank policy to believe that the choice of country for receipt of a World Bank SAL is not a random process (World Bank 1992; 2002). If the Bank was random in its choice of loan recipient then the issue would be moot and we could have confidence in the existing studies, which compared recipient and non-recipient countries. As noted above, the code of practices by which the Bank operates recommends that the Bank give preference to applicants that have a capitalist ideology, have not nationalized private industry without providing fair compensation to the owners, are not able to borrow on the private market, and are creditworthy (Van De Laar, 1980).

We argue that there are four categories of issues, which help determine the probability of receiving a World Bank SAL. Considering the paucity of work that specifically investigates the determinants of World Bank lending practices many of our arguments arise out of the literature concerning the World Bank's sister organization the IMF. The first concerns economic issues, the second concerns political issues, the third concerns issues of domestic and international conflict and the fourth concerns issues of human rights.

With the exception of a body of research conducted to estimate the effects of IMF loans on economic growth (Przeworski and Vreeland 2000), the factors that affect which countries the IMF and World Bank decide to make loans to has been ignored by those who have conducted both case studies and small and large-n, comparative studies. The pattern that emerges in the literature review is that if there is discussion at all, pre-existing domestic situations are mentioned in passing as the prelude to a discussion concerning the effects of SAL receipt. The

seemingly obvious connection between pre-existing factors that might affect the subsequent success or failure of these loans is never made and never accounted for.

Modeling the determinants of World Bank SAL lending practices is not only critical for those interested in answering the questions concerning the impacts of World Bank lending but is also important in its own right. It is important to investigate the competing theoretical claims about when we would expect to see the Bank lend, investigating whether the Bank actually lends on the basis of its stated policies, and extending the investigation, as political scientists, to the impacts of politics, human rights, and conflict on the selection biases of the World Bank in its lending policies.

Since both the IMF and the World Bank insist upon the imposition of structural adjustment conditions for loan recipients and since both use a similar weighted voting system for deciding upon loan applications, one would expect that the selection biases of both institutions would be similar. To this extent we build upon some of the insights gained from studies, which examined the IMF and apply them to the World Bank.

Large-N Studies of the Recipients of World Bank Adjustment Loan Programs

Studies of the impacts of SALs assume explicitly that when a government accepts the conditions of a SAL, those conditions are actually implemented by the loan recipient, and those conditions are the cause of the subsequent observed economic performance or human rights practices of the loan recipient. This assumption is tenuous at best according to research conducted by Dollar and Svensson (2000). Using internal records of the World Bank, their research shows, that by the Bank's own criteria, the reform conditions imposed by the Bank were not even implemented in 36% of the 200 loans they examined. They conclude that the likelihood

of implementing Bank-imposed economic reforms is a function of the political and economic characteristics of the country agreeing to implement the reforms—not on factors the World Bank can control such as oversight efforts. Their results suggest that international donors should pay more attention to selecting the right loan recipients rather than on correcting mistakes once “bad loans” are made. Good candidates for receipt of SALs are those with democratic governments, a low degree of ethnic fractionalization, political stability, and chief executives who have recently come to power (Dollar and Svensson 2000, 902).

Frey and Schneider (1986) conducted a study of 60 loan recipients in 1981 and 1982, examining the characteristics of countries most likely to receive the largest loans from the World Bank. One important contribution of their study was that it derived theoretical propositions and tested them empirically for the first time. Among the loan recipients, loans were bigger if the loan recipient showed a high degree of economic need (per capita income was low, the rate of inflation was high, external debt was high, and past economic growth was poor). They received bigger loans from the IBRD if they were politically stable and they had a good “capitalist climate.”

The authors also presented two types of evidence suggesting that dependency theory carried some weight in explaining loan amounts. First, they found that the former colonies of the United Kingdom, France, and the United States received larger loans. Their analysis also indicated that dependence was important because larger loans were made to countries that had relatively large imports from the United Kingdom, France, and the United States, three major contributors to the Bank. The authors suggested that the larger loans were approved by the donor countries, so that the loan recipients could pay for those imports (Frey and Schneider 1986, 242).

Unfortunately studies of the recipients of World Bank loans tell us nothing about selection biases. All donors make two types of decisions, which Cingranelli and Pasquarello (1985) called “gatekeeping” and “level” decisions. The gatekeeping decision determines, which of many possible recipients will receive the grant or loan. Gatekeeping criteria are the equivalent of selection criteria. The level decision determines how large the loan or grant will be. Since the Dollar and Svensson (2000) and Frey and Schneider (1986) only sought to answer questions about World Bank loan recipients, they tell us nothing about the selection biases of the Bank.

Neumeyer’s (2003) quantitative analysis of the distribution of grants and loans by regional multilateral development banks as well as some United Nations agencies included countries whether or not they actually received grants or loans, but did not include an analysis of the gatekeeping decisions or of the distribution of World Bank loans. In the part of the analysis where the aid from all agencies were combined into one dependent variable, Neumeyer found that countries received more aid if they had large populations, were poorer, were more democratic, and were former colonies. He found no relationship between government respect for personal integrity human rights and the amount of aggregate multilateral aid received.

Economic Determinants of Receiving A World Bank SAL

As we have noted already none of the existing literature systematically examines the determinants of World Bank lending practices. Concerning the impact of economics on the probability of receiving a SAL, a number of authors do mention the pre-existing economic situation in loan recipient countries.

With respect to the world-wide economic conditions both the Commonwealth Secretariat (1989, 19-22), Harrigan and Mosley (1991), and Mehra (1991) note the economic slowdown in

the 1970s and early 1980s and their impact in terms of increased debt, deteriorating economic growth, and balance of payments problems, in developing countries in general necessitated the need for major adjustment. With reference to specific regions of the World, in Africa generally (Adepoju 1993, 2; Lele 1991; Sahn 1996, 3; Sahn and Haddad 1991) and also in specific countries: Argentina (Pion-Berlin 1984), Cameroon (Ndongko, 1993 119-121; Subramanian 1996, 62), Ghana (Konadu-Agyemang 2001; Sowa 1993, 8-9), India (Sukhamte 1989) Ivory Coast (Stryker and Tuluy 1989); Jamaica (Handa and King; Klak 1996), Malawi (Chipeta 1993, 105-107; Frausum and Sahn (1996, 311); Niger (Dorosh et al. 1996, 147), Nigeria (Dennis 1992), Peru (Tanski 1994), Sierra Leone (Elliott 1993, 40-42), Senegal (Kane 1993) South Korea (Krueger and Ruttan 1989), Turkey (Çağatay 1994; Krueger and Ruttan 1989a), Tanzania (Vuorela 1991), Zambia (Mwanawina 1993, 69-71), and Zimbabwe (Kanji and Jazdowska 1995, 134-136; Rippenburg 1997, 33-34), all the authors note a litany of economic misery including declining exports, increasing imports, inflation, state control of the economy, government spending outstripping government revenues, decline in the inflow of concessionary capital, deteriorating terms of trade, overvalued currencies, corruption, political instability, poor economic growth, high debt, severe financial imbalances, and unfavorable weather conditions, as situations found in African countries prior to the receipt of structural adjustment loans².

Adepoju (1993, 5) rightly asks the question, how one distinguishes between the impact of structural adjustment and that of broader economic difficulties. This crucial question, however, is given little examination, other than to note that the authors' in Adepoju's edited volume approach the problem by examining the situation pre and post SAL (e.g. Sowa 1993) and that while this might be a "conceptual dilemma...the general trend is apparent-deterioration in the

² Curiously Kanji and Jazdowska (1995) seem to miss the fact that while Zimbabwe did engage in a homegrown structural adjustment program it also received loans in 1982 to deal with the manufacturing sector, a 1992 a

social sectors” (Adepoju 1993, 5). The notion that this is a conceptual dilemma is disingenuous; Achen as far back as 1986 clearly delineated the approach needed when assessing the impact of changes in public policy. The fact that it is not easy does not mean it should not be attempted at all. The work of Adepoju and his colleagues is deficient in at least two areas. The first is that determinants of SAL lending are not systematically accounted for. For example if the Bank is more likely to loan to countries that need international currency or are in economic recession, this is likely to affect the success or otherwise of any subsequent loan. We need to understand the underlying process. The second is not only do the authors need to compare countries, which did and did not receive loans, but they also need to account for selection process in the first place. Are we to believe that the atrocious conditions prior to the loan receipt were entirely unconnected to the apparent negative impact of SALs?

Others attempt to disentangle these impacts through the use of statistical comparison of paired samples, similar countries that did and did not receive loans (Harrigan and Mosley 1991). Harrigan and Mosley (1991, 69) suggest that their results, which concern the effects of World Bank loans “cannot be explained by non-randomness of SAL selection”. However, they do not address the question of why their counterfactual countries, constructed to control for as many macroeconomic differences as possible, did not receive a SAL? More recent work has used simulations to distinguish between the impacts of adjustment and pre-existing factors (Sahn 1996; Subramanian 1996; Dorosh et al 1996 and Frausum and Sahn 1996). While admirable in intention and sophisticated in execution, this work still does not deal with selection processes of the bank; their work then is still bedeviled by issues of selection and non-randomization.

With the exception of a body of research conducted to estimate the effects of IMF loans on economic growth (Przeworski and Vreeland 2000), the factors that affect which countries the

structural adjustment program loan, and another in 1993 before the article was published.

IMF and World Bank decide to make loans to has been ignored by those who have conducted both large and small-n, comparative studies. Systematic biases in the types of countries selected to receive SALs could affect the conclusions concerning the impacts of these loans.

All of the previous large-n, comparative studies, which account for issues of selection have been conducted by scholars operating within the classical economics or critical economics schools, seeking to discover whether acceptance of IMF conditions leads to greater economic growth. Thus, the emphasis has been on economic characteristics of potential loan recipients that make them more or less likely that they will sign an IMF agreement accepting a SAL. According to IMF policies, a balance of payments deficit or a foreign reserves crisis is the prerequisite for signing an IMF agreement (Przeworski and Vreeland 2000). Even so, previous research results have been divided on whether a balance of payments deficit is sufficient to explain whether a government will receive an IMF loan (Goldstein and Montiel, 1986) or not (Przeworski and Vreeland, 2000; Knight and Santaella, 1997; Bird, 1996; Edwards and Santaella, 1993). Przeworski and Vreeland (2000) also conclude that a large balance of payments deficit is not sufficient to explain agreements.

Political Determinants of Receiving World Bank SALs

Economic factors are part of the explanation, but the literature suggests that they do not provide a complete picture. That is governments in about a third of the cases, which received IMF loans with conditionality stipulations in Przeworski and Vreeland's (2000) work did not have balance of payments difficulties. Is there an explanation of why governments would accept IMF conditions when they are not in economic difficulty? There is much work that argues, that the leaders of developing countries have no choice but to go to the IMF for external capital

necessary for development. However, many believe that some governments enter into IMF or World Bank agreements because they want conditions to be imposed (Bjork, 1995; and Dixit, 1996; Edwards and Santaella, 1993; Przeworski and Vreeland, 2000; Putnam, 1988; Remmer, 1986; Stein, 1992; Vaubel, 1986, 1991; Vreeland, 1999). Government leaders may know that some areas of their economy need restructuring to be more efficient and competitive. Yet, reform while possibly necessary and in the long term interests of most people in a particular country may pose significant electoral hazards for leaders, who need to blame the IMF or World Bank for imposing them. In short, politics matters, and may be a key consideration in the determinants of loan receipt. A more controversial version of this argument suggests that not only do political considerations on the part of domestic governments matter, but also that governments seeking loans may restrict the rights of some of their citizens in order to make themselves more attractive to international financial institutions (Pion-Berlin 1984).

In their broad comparative study Przeworski and Vreeland (2000, 394) delineate the determinants of IMF selection biases. They examine the effect of regime type on the probability of a government signing an IMF agreement and find that “the IMF is more likely to sign with dictatorships.” There is also some case study evidence suggesting that the IMF has shown a particular preference for military dictatorships by financially rewarding military governments that overthrew democratically elected administrations (Pion-Berlin, 1984; Meyers, 1998, 186). Discussing the actions of a military government in Argentina led by General Ongania, Pion-Berlin (1984, 116) contends that the Ongania administration engaged in “preemptive coercion” including the banning of unions, freezing of union accounts, and the use of force to break up strikes to convince the IMF that it was worthy of a loan. He contends that Argentina was quickly rewarded by the IMF for these policies. In yet another case, he describes the IMF’s

unwillingness to give loans to the democratically elected government of Isabel Peron. When that government was toppled in a military coup in 1976, he writes that “the international credit came pouring in” including a substantial IMF loan (Pion-Berlin 1984, 118). In comparison, there is some reason to believe that the World Bank in comparison to the IMF may not pay much attention to regime type. Nelson (2000) notes that the World Bank is restricted from becoming involved in political matters. Thus from this perspective the World Bank does not discriminate between democratic and non-democratic regimes and so we would not expect to find a bias with respect to either kind of regime.

The population size of a country is another important political determinant of adjustment lending. The governments of more populous countries are likely to have greater influence over Bank policies. More populous countries, tend to have more influence in the international system, even if they are still developing, China is a good example.

Finally the end of the Cold War also had a significant impact on changing the calculation of decision-makers. There was a strong case for Western-backed development in the former communist countries, which had, in practice, been ineligible for World Bank loans during the Cold War (Van de Laar 1980). The West supported development, we argue, in these newly independent countries to cement both democratic and pro-Western attitudes. Multilateral institutions like the World Bank are key tools to achieving these foreign policy goals of Western states (Tarnoff and Nowels 2001). In addition, after the end of the Cold War, many of the major bilateral foreign aid providers, channelled more of their aid giving to international financial institutions such as the World Bank. Thus, as a result of the end of the Cold War, other things being equal, all countries have a higher probability of receiving loans from international financial institutions.

International and Domestic Conflict Determinants of Receiving World Bank SALs

Again, we break new theoretical ground; no previous study has examined the impact of international and domestic conflict on the selection biases of the World Bank. There is some discussion in the literature that when structural adjustment conditionality is imposed the effect on the recipients of IMF and World Bank loans often leads to increases in domestic conflict (Bello et. al 1994; Pion-Berlin 1984; Przeworski and Vreeland 2000). However, there has been little, if any attention to how conflict proneness domestically or internationally affects the probability of getting a loan from either international financial institution. There is a strong theoretical basis to believe that if the Bank in this case does operate along classical economic lines, they would view both domestic and international conflict as one that reduces the probability of prospective agreements being implemented and existing loans being repaid in a timely and full-some manner. Countries in conflict are a poor investment. If there is domestic unrest, a new government is installed, previous agreements made by the government, including those made with the World Bank, may not be honored. Argentina is a good example where large scale riots led to a revolving door of Presidents, Administrations, most recently during 2001-2002 period, generating and considerable uncertainty about likelihood of IMF loan repayment. Similarly, if a potential recipient is involved in a war with another state, the governments of the warring parties may be conquered and replaced. Once again previous agreements might not be honored by the new regime. Both these situations would lead us to believe that the Bank is less likely to loan to countries involved in domestic or international conflict.

Human Rights Determinants of World Bank SALs

Finally, there is some work, which suggests that the human rights situation in potential recipient countries including both respect for workers rights and personal integrity rights are important determinants of World Bank loan receipt. There are a number of perspectives concerning whether the prospects of receiving structural adjustment packages affect government policies towards labor and personal integrity rights. Klak's (1996) argument with reference to the Caribbean basin in general and Jamaica specifically is that there are indirect incentives for limiting workers rights in order to be more competitive internationally. He notes the establishment of Export Processing Zones, where international corporations are encouraged to invest for export purposes, which have 10-15 year exemptions from taxes and duties. These EPZ's are looked upon favorably by the World Bank (Klak 1996, 358). In an effort to make these EPZ's as competitive as possible Klak notes (1996, 358) that governments' pressure wages and rental rates for industrial space downwards. Thus, labor loses out in order to make countries as attractive as possible to international investors. In comparison, more recent work (Nelson 2000) argues that the Bank has in fact had a long-standing commitment to maintaining rights, which promote economic growth. From this perspective, maintaining workers rights may actually increase the probability of receiving structural adjustment loans if these rights are viewed as beneficial to economic growth.

In comparison to Klak (1996) whose argument concerns the vagaries of the market, Pion-Berlin (1984) makes a more controversial case that the IMF actively seeks out loan recipients willing to be tough, even repressive in the face of domestic protest against the implementation of liberal economic policies. Pion-Berlin (1984) takes a critical approach towards the arguments of those in the classical economic tradition in his longitudinal statistical study of the IMF's

relationship with Argentina from 1955-1980. His main argument is that classical economic theorists are wrong about the obstacles to development in Argentina and other Latin American countries. Despite that fact, Argentina, at various points in its history, has sought IMF loans, promising in return to implement liberal economic policies. Each time it was successful in attracting IMF loans, repression of labor, especially organized labor, which rebelled against the new policies, increased dramatically. Referring to the Frondizi administration in 1958, Pion-Berlin (1984, 115) writes that “the government thought that its use of force to end a railroad strike in November would enhance its chances of gaining IMF credit. Apparently it was right.” Others (Sadasivam 1997, 629) simply accept the notion that the IMF and World Bank have a negative impact exacerbating poverty deprivation and instead focus on the impacts attributed to the World Bank and IMF, in this case the rights of women, without considering the underlying process of how countries arrived at this situation in the first place.

Hypotheses

Relevant theories and previous research suggest several hypotheses concerning biases in the process by which the World Bank select recipients for loans. Those potential biases are reflected in the hypotheses described in Table 1:

(Table 1 About Here)

A number of competing theoretical perspectives provide the same expectations about the conditions under which countries are more likely to receive a SAL. For example, both classical economic theory and dependency theory suggest that countries, which engage in increased international trade will be more likely to receive a SAL, however, the reasoning as we have already noted is very different. There is an over-abundance of theory (Ikenberry 1999) with

multiple theoretical explanations for similar outcomes concerning the impact of democracy, military regimes, and the extent of domestic and international conflict on the probability of SAL receipt. The exploratory nature of this work makes a first cut at testing these propositions. If relationships with multiple theoretical explanations prove significant, the next stage of theory development would be to provide discriminating tests between these competing perspectives (Schultz 1999).

The theoretical perspectives also provide a number of discriminating hypotheses concerning the impact of personal integrity and labor rights, and to a lesser extent the impact of democracy on the probability of SAL receipt. If significant, these hypotheses will provide a stronger basis from which to adjudicate between competing theoretical perspectives.

III Research Design

This study uses a cross-national, annual, time-series data set comprised of all nations of the world having a population of at least 500,000 in 1981. The data span the time period from 1981 to 2000. The World Bank has given SALs to a number of more economically developed countries. During the 1981-2000 period, the World Bank awarded SALs to countries with a GDP per Capita as high as \$15,878. For this reason, the analysis includes all countries in the world, not just less developed countries. As explained below, the dependent variable was dichotomous. Therefore, logit regression using robust standard errors was used to estimate the relative importance of the selection criteria examined.

Dependent Variable

Receipt of a World Bank Structural Adjustment Loan

The World Bank selection variable was coded as “1” for those country-years when a SAL was awarded, “0” for all other country-years. Previous studies of selection criteria employed by the IMF (Przeworski and Vreeland 2000) have used the same dichotomous coding rule. Between 1980 and 2001, the World Bank awarded 448 SALs to countries in our sample. The information from which we generated this variable was obtained through personal correspondence with officials at the World Bank. The variable represents the population of structural adjustment loans for the countries in our data-set (all those with a population of 500,000 or greater in 1981).

Independent Variables

Economic Selection Criteria Examined:

Positive Percentage Change in GDP Per Capita

This measure is the annual percentage change in the GDP per Capita using current U.S. dollars based on purchasing power parity. This variable was obtained from the World Bank 2002 World Development Indicators CD-ROM.

Average Government Foreign Reserves

These are the average of government foreign reserves calculated to reflect monthly imports (Przeworski and Vreeland 2000, 391). This variable measures the need of a government for a loan and it is suggested that governments seek loans when their reserves are low. This variable was obtained from the World Bank 2002 World Development Indicators CD-ROM.

Average Annual Official exchange rate Local Currency Unit per US \$

This is the average annual value of a country's exchange rate in local currency unit per US dollar. Over valued exchange rates make countries less competitive, this variable captures whether the value of an exchange rate leads governments to seek a loan. This variable was obtained from the World Bank 2002 World Development Indicators CD-ROM.

GDP Per Capita

This is measured using current U.S. dollars based on purchasing power parity (PPP). GDP PPP is gross domestic product converted to international dollars using purchasing power parity rates. GDP measures the total output of goods and services generated for use within the domestic territory of a given country. This variable was obtained from the World Bank 2002 World Development Indicators CD-ROM.

Extent of International Trade

We measured extent of international trade as a percentage of GDP. The variable reflects the level of trade within a particular country measured as a percentage of GDP. This variable was obtained from the World Bank 2002 World Development Indicators CD-ROM.

Political Selection Criteria Examined⁵

Alliance with the United States

There is some discussion in the literature e.g. Bello et al. (1994) suggesting that the World Bank is a tool of American foreign policy. A proxy measure for this could be whether the United States has an alliance with a particular country. Since the United States controls a

plurality of the votes in the World Bank needed to approve loan applications; the suggestion is that if the United States does use the World Bank as a tool of American foreign policy that those countries allied with the US will be more likely to receive a SAL than those without a formal alliance. This variable was obtained from the COW Alliance data set and ranges from 0-3 (we inverted the scaling),

0=No alliance with the United States

1=Entente with the United States

2=Neutrality or Non Aggression Pact with the United States

3=Defence Pact with the United States

Military Regime

This variable reflects the regime type of the country in question and comes from the Arthur S. Banks (2002) Cross National Time Series Data Set. It is coded

0= if the regime is civilian

1= if the regime is military or military/civilian, all cases coded as 'other' by Banks were coded as missing in our data set.

Level of Democracy

Following convention the indicator of democracy is the sum of the Autocracy – Democracy variable available from the POLITY IV (2000) data archive. It ranges from –10 Autocracy to +10 Democracy.

Conflict Proneness Selection Criteria Examined:

Level of External Conflict

This variable reflects the extent of interstate conflict in which the country was involved.

The variable is taken from Strand et. al (2002) and is

0=No conflict

1=Minor Armed Conflict: At least 25 battle-related deaths per year and fewer than 1,000 battle-related deaths during the course of the conflict.

2=Intermediate Armed Conflict: At least 25 battle-related deaths per year and an accumulated total of at least 1,000 deaths, but fewer than 1,000 per year.

3= Major Armed Conflict: At least 1,000 battle-related deaths per year.

Level of Domestic Conflict

Our measure of the level of domestic conflict, is the number of riots that occur within a country in a given year. This variable is taken from the Banks (2002) CNTS data-set. A riot is defined as any violent demonstration or clash of more than 100 citizens involving the use of physical force.

Human Rights Selection Criteria Examined:

Level of Respect for Workers' Rights

Information about the level of respect governments around the world provided for important workers' rights was taken from the U.S. State Department's annual *Country Reports on Human Rights Practices*. This report, published since 1974, includes analyses of workers' rights in each country's report. The workers' rights reported on are those that are defined in Section 502(a) of the Trade Act of 1974. These are freedom of association, the effective recognition of the right to collective bargaining, the elimination of all forms of forced or

compulsory labor, the effective abolition of child labor, and acceptable conditions of work with respect to minimum wages, hours of work, and occupational safety and health. This list is much the same as the ILO's list of five core labor rights except that the last element on the list concerning "acceptable conditions of work" is not among the core rights recognized by the ILO and one of the core rights recognized, the elimination of discrimination in respect of employment or occupation, is not included in the State Department analysis. The State Department Report emphasizes the responsibility of all governments to see that all workers should have the right to join a trade union in order to exercise their rights as workers. Workers should have the right to association, the right to bargain collectively, and the freedom from governmental influence. The coding for each country-year is based on a three-point scale.

Workers' rights are:

- (0) Not protected by the government.
- (1) Somewhat protected by the government.
- (2) Protected by the government.
- (3) not mentioned

Coders were instructed to code a particular country for a particular year as zero if that government did not allow workers to form trade unions or prohibited strikes. If a government allowed workers to form trade unions and to use strikes against employers, but the State Department Report mentions other problems with government respect for workers rights such as the abuse of child labor or tolerance of unsafe working conditions, then the country should be coded as a one. If a government ensured that workers had the freedom to form unions and collectively bargain and there was no mention of other problems with government practices towards workers, the country should be coded as a two for that year.

Many governments prevent the police, military, emergency medical personnel and firefighters from forming unions. If other workers can form unions and strike and there are no other problems with government treatment of workers, then the country was coded as two. If the police, military, emergency medical personnel and firefighters are allowed to form unions but are not allowed to strike, this fact also should not be used as evidence of lack of respect for workers rights. This is because international law recognizes the right of governments to prohibit strikes of employees whose work is essential to the public's safety.

The COUNTRY REPORTS were used as the source of information about actual government respect for different workers' rights, because they cover a long period of time, report on almost all countries in the world, and report on government practices protecting or violating a fairly wide range of workers' rights. The Amnesty International reports do not discuss workers' rights. The International Confederation of Free Trade Unions has produced some reports on freedom of association at the workplace and the right to collective bargaining, but the formats of the reports are not consistent, most countries of the world are not included, and they have only been produced since 1995.

Level of Respect for Personal Integrity Rights

The measure of personal integrity rights used in this analysis is the Mokken Scale developed by Cingranelli and Richards (1999a) of four personal integrity rights-- extrajudicial killings, disappearances, political imprisonment, and torture. Torture refers to the purposeful inflicting of extreme pain, whether mental or physical, by government officials or by private individuals at the instigation of government officials. Torture includes the use of physical and other force by police and prison guards that is cruel, inhuman, or degrading. Political

imprisonment refers to the incarceration of people by government officials because of their ideas including religious beliefs, their non-violent religious practices including proselytizing, their speech, their non-violent opposition to government policies or leaders, or their membership in a group including an ethnic or racial group.⁶ Individuals who are imprisoned because they have committed violent acts, regardless of the reasons why they committed those acts, are not considered political prisoners in this analysis.⁷ Extrajudicial killings are killings by government officials without due process of law. They include murders by private groups if instigated by government.⁸ Disappearances refer to unresolved cases in which political motivation appears likely and in which the victims have not been found. Disappearances and killings are closely related practices. Many victims of human rights abuse who are ultimately found to be dead are initially categorized as having been disappeared.

The scoring of our four indicators of government respect for personal integrity is based on information about government respect for these four rights found in both Amnesty International's *Annual Report* and the U.S. State Department's annual *Country Reports on Human Rights Practices*. It has become standard procedure in the systematic study of human rights to check one source of information against another, and in practice, these two sources are regularly checked against each other (Carleton & Stohl 1987; Gibney and Dalton 1996; Poe & Tate 1994; Poe, Tate, and Camp Keith 1999; Stohl, Carleton, and Johnson 1985).

Each of the four indicators of government respect for personal integrity rights was scored using the following three-point scale (where 'N' represents the number of confirmed violations):⁹

- (0) Frequent Violations (N ≥ 50)
- (1) Some Violations (0 < N < 50)
- (2) No Violations (N = 0)

These ordinal categories rest on event-based criteria. A country must have 50 or more confirmed violations of a right to be scored a zero. A score of one represents less than 50 but more than zero confirmed violations. A two denotes no confirmed violations of a right. The personal integrity rights scale is the sum of the scores each country receives each year for the four personal integrity rights variables.

Larger Populations

This variable is the annual logged midyear population of each state. This variable comes from the United States Government Census International Country Database.

Cold War

This variable was constructed after consulting the Political Handbook of the World (Banks and Mueller 2002). We code the Cold War over beginning 1992, since the Soviet Union formally dissolved in December 1991. The variable takes on two values

0=Cold War

1=Post Cold War.

Controlling for Temporal Dependence

Number of Years Since Previous Loan

This variable was generated using the Binary Time Series Cross Section Data Analysis method proposed by Beck Katz and Tucker (1998) to control for temporal dependency, in our case that the receipt of a World Bank SAL changes the subsequent probability of receiving a SAL. The variable counts the number of years since the receipt of each loan to the next. For

example a country that never received a loan would have a continuous count (which begins at 0) in 1980 and ends with the value of 20 in 2000. If the country received a loan in 1985 the count would run from 0-5 and then reset and begin at 0 in 1986 and so on.

Number of Years Since Previous Loan Squared

This variable is the Number of Years Since the Previous Loan Squared. Including both the constituent and the square term enables us to control for linear and non-linear temporal relationships between the receipt of one loan and the receipt of another. These two variables also serve a theoretical function since previous research (Przeworski and Vreeland 2000) find that with respect to the receipt of IMF loans, obtaining one makes you more likely to obtain another.

III Results

Table 3 presents some descriptive statistics for the variables included in the model and table 4 presents the results. Table 4 shows the probability of receiving a World Bank SAL during the period 1981-2000.

(Table 3 About Here)

(Table 4 About Here)

As table 4 shows several of the factors examined increased the probability of SAL loan receipt. In the post-Cold War period countries were also more likely to receive loans. Countries were also more likely to receive loans if their government were military, if they had larger populations, if their government provided greater respect for workers rights and if they had previously received a loan from the world bank. The relationship between previous receipt of a

World Bank loan and the likelihood of receipt of a new loan was curvilinear. Immediately after receiving a loan, governments were less likely to receive another, but as time passed the probability of receiving another loan increased geometrically.

As expected, increased levels of GDP per capita and higher levels of foreign currency reserves reduced the probability of SAL loan receipt. Involvement in conflict whether domestic or international also reduced the probability of SAL loan receipt.

The results also indicate that a number of factors failed to have a statistically significant impact on the probability of loan receipt. Percentage change in GDP per capita, level of exchange rate, extent of international trade, alliance with the United States, the level of democracy, and the level of respect for personal integrity rights had no statistically significant impact on the probability of loan receipt.

Predicted Probabilities

The predicted probabilities for the statistically significant variables of interest are shown in Table 5.

(Table 5 About Here)

The predicted probabilities provide a measure of the magnitude of relationship between the independent and dependent variables of interest. Holding all other variables at their mean or modal value allows us to assess the impact of a change in the value of the independent variable. We chose to describe the impact of changing the variables from their minimum to maximum value.

With respect to economic factors changing the average foreign currency reserves from their minimum to maximum value reduces the probability of SAL loan receipt by .14. In

comparison changing from the lowest to highest GDP per Capita reduces the probability of SAL loan receipt by .29.

Political factors also have an impact. Moving from civilian to military regimes increases the probability of loan receipt by .05. The end of the Cold War also had a similar impact, increasing the probability of loan receipt by .04. The most important relationship appears to be country population size. Moving from the smallest to largest country increased the probability of loan receipt by .33.

The extent of external and domestic conflict also plays an important role. Moving from states with no conflict, to those involved in the highest level of international conflict reduces the probability of loan receipt by almost .10. Countries that are experiencing the highest levels of rioting are less likely to receive a loan by just over .15.

Finally, the extent of respect for workers rights also has an impact on the probability of loan receipt. Moving from a country with no respect for workers rights to those with full respect for workers rights increases the probability of loan receipt by .06.

Figures 1 through 5 graph the predicted probabilities of those factors having the strongest influence on the SAL selection process. Figure 1 shows the change in probability of loan receipt as GDP per Capita changes from its minimum to maximum level for which a country received a loan³. The graph indicates a non-linear relationship between increasing GDP per capita and the probability of SAL receipt. As the level of GDP per capita increases the probability of SAL receipt gently declines. Figure 2 shows the change in probability of loan receipt as the log of population changes from its minimum to maximum value. The graph indicates a steep non-linear relationship between the population size of a country and the probability of SAL receipt. As the log of

³ We chose to graph this than the entire range, which obscures the shape of the relationship under \$15000 dollar level where most of the loans occur. Graphs for the full range are available from the authors.

population increases so does the probability of loan receipt, at an exponential rate. Figure 3 indicates the change in probability of loan receipt as the level of respect for workers rights changes from its minimum to maximum level. The graph indicates a linear relationship between the level of respect for workers rights and the probability of SAL receipt. As the level of respect for workers rights increase so does the probability of SAL receipt. Finally figures 4 and 5 indicate the relationship between increased levels of international and domestic conflict and their impact on the probability of SAL receipt. Both show steep declines in the probability of SAL receipt as the level of conflict moves from its minimum to maximum level.

IV Conclusions

In this work, the factors that increased or decreased the probability of a country's government receiving a World Bank Structural Adjustment Loan (SAL) in the twenty-year period from 1981-2000 were identified. The governments of 161 "significant" countries of the world were included in the analysis. This is the first large-n, comparative study of the selection biases of the World Bank. Four different and partly contradictory theoretical perspectives were advanced that could be used to describe or explain the selection biases of the World Bank—classical economic theory (Van De Laar 1980), the theory of two-level games in international affairs (Putnam 1988; Milner 1997), the logic of credible commitments (Leeds 1999; Martin 2000), and dependency theory (Pion-Berlin 1984). Hypotheses were derived from each of these perspectives and tested.

The results provided substantial support for the idea that the Bank's operational code based on classical economic theory does, indeed, guide loan selection decisions. That code of

practices stipulates that the Bank give loans to countries that are poor, have a capitalist ideology, and are creditworthy. The findings indicated that the poorest countries were more likely to receive SALs from the World Bank than others. This was one of the strongest relationships discovered in the study. The only indicator used to test commitment to capitalism was a measure of involvement in international trade, and it proved to have no relationship to the probability of receiving a loan. It was argued that involvement in domestic or international conflict reduced potential loan recipient's creditworthiness, and both factors also were found to reduce the probability of getting a SAL from the Bank.

One of the most important political questions examined in the paper was whether the selection processes of the Bank were biased against democratic regimes. This question is important for both theoretical and practical reasons. Putnam's theory of two-level games led us to expect that democracies would be less likely to be selected. The idea that democratic regimes can make more credible commitments in international negotiations implied that democracies would be more likely to be selected. Mainstream critics of the bank have argued that the World Bank pays little attention to nurturing democracies, implying that democracies would be neither more or less likely to receive loans from the Bank.

The easiest interpretation of the lack of relationship between degree of democracy and the probability of receiving a loan is that it supports the mainstream critical view. However, the findings do not clearly run against Putnam's argument about the disadvantages democracies face in international negotiations or the argument that democracies make more credible commitments in international negotiations. It is possible that the lack of discrimination against democratic governments is a result of an "affirmative action policy" on the part of the Bank that ensures they are not disadvantaged. Without such a policy, authoritarian governments might have had an

advantage. The finding that military governments were more likely to receive SALs clearly supports the democratic disadvantage argument, these findings also accord with those of Przeworski and Vreeland (2000), who find a bias in the IMF towards military regimes. Military governments are the most unitary of all actors in negotiations at level one, because military governments have complete control over the means of coercion available to the state.

Similarly, the research conducted by Dollar and Svensson (2000) provides convincing evidence that the commitments made by democratic governments to implement economic reforms are much more credible than commitments made by civilian authoritarian or military governments. Our findings simply suggest that the officials of the Bank either have not recognized that fact in the past or have refused to take it into account in the loan selection process. Thus, the findings that democratic governments are no more likely to receive a SAL than authoritarian governments and are less likely to receive one than military governments are also of great practical significance. If the Bank was more biased toward democratic regimes in the loan selection process, there would be fewer cases where reform commitments would not be honored by loan recipients.

The strongest finding to emerge from our study was that countries with larger populations were much more likely to receive SALs from the World Bank. While it is possible to treat population size as a technical control variable, we think that the bias towards large countries is political. More populated countries like India and Indonesia carry greater weight in the international system, and it is likely that preferences towards such countries in the selection process are due to this fact.

Another important finding to emerge from this analysis is that the Bank tends to give SALs to the same set of countries over and over again. One possibility is that this finding reflects

the fact that the Bank continues to work closely with cooperative governments of developing countries. New loans are rewards for good past performance. However, this finding is also consistent with the Dollar and Svensson (2000, 896) finding that, “once a bad loan is made, there is a tendency to put a lot of resources into salvaging it.” Their findings indicate that these tactics are fruitless.

The only theory to receive almost no support from these findings was dependency theory. The “bad motives” arguments of dependency theorists led us to expect that the World Bank would provide a disproportionate share of its loans to governments allied with the United States, governments extensively involved in international trade, authoritarian governments, and governments that did not protect the personal integrity rights of their citizens. None of these hypotheses were confirmed. Those arguments also led us to hypothesize that the World Bank would provide more loans to governments that did not respect the rights of workers, but the opposite proved to be true. The Bank, in contrast with the protestors found in London, Washington D.C, Prague, and Paris is not engaged in a race to the bottom rewarding countries that limit the rights of the workers. To be sure, the finding that the World Bank was more likely to make a loan to a military government than a civilian government does support the “bad motives” contentions of dependency theorists, it is weak support when the other contrary findings are also considered.

Understanding the selection biases of the World Bank is of crucial practical importance to any estimation of the effects of World Bank loans. Since there are selection biases, simply comparing recipient to non-recipient as some previous research has done (Harrigan and Mosley 1991) will not advance our knowledge of loan impacts because a non-random process generated, which countries became recipients and which countries did not (Achen 1986; Heckman 1988;

Przeworski and Vreeland 2000; Vreeland 2002; 2003). This means that in order to isolate the impact of World Bank loans future work needs to “disentangle” (Collier 1991) the selection biases in World Bank loan receipt from the actual impact of the loan itself in addition to controlling for alternative explanations that may impact the dependent variable of interest. Disentangling this process will allow future research to answer the question: All other things being equal, was it the loans or the pre-existing situation that account for the impact attributed to World Bank SALs?

Table 1: Hypotheses

Variables	Probability of Structural Adjustment Loan Receipt		
	Increases	No Relationship	Reduces
Economic			
Positive Percent Change GDP Per Capita			CET*
Larger Foreign Currency Reserves			CET
Lower Exchange Rate Value			CET
Higher GDP Per Capita			CET
Extent of International Trade	CET/ Dependency		
Political			
Alliance With the United States	Dependency		
Higher Levels of Democracy	Democratic Credibility	CET Critics	Two Level Games/ Dependency
Military Regimes	Two Level Games/ Dependency	CET	
Conflict Proneness			
More Domestic Conflict			CET/Two- Level Games
More External Conflict			CET/Two- Level Games
Human Rights			
More Respect for Personal Integrity Rights		CET Critics	Dependency
Higher Levels of Respect for Workers Rights	CET	CET Critics	Dependency

*CET = Classical Economic Theory

Table 2 Operationalization of Variables

Independent Variable	Indicator	Source
Economic		
Positive Percentage Change GDP Per Capita	Percentage Change in GDP Per Capita Current U.S. Dollars based on purchasing power parity	World Bank: WDI
Average Foreign Currency Reserves	Average Government Foreign Reserves to reflect Monthly Imports	World Bank: WDI
Average Exchange Rate Value	Average Annual Official exchange rate Local Currency Unit per US \$	World Bank: WDI
GDP Per Capita	GDP Per Capita Current U.S. Dollars based on purchasing power parity	World Bank: WDI
Extent of International Trade	Trade Percentage of GDP	World Bank: WDI
Political		
Alliance With the United States	Correlates of War Alliance Variable	COW Alliance Data-Set
Level of Democracy	Re-scaled Democracy-Autocracy Measure	POLITY IV
Military Regimes	Type of Regime: Civilian or Military	Banks, Arthur (Annual)
Larger Populations	Logged Midyear Country Population	U.S. Government Census: I.D.B
Cold War	Dichotomous	Banks and Muller (2002)
Conflict Proneness		
Level of External Conflict	Ordinal Level of Interstate Conflict	Strand et. al (2002)
Level of Domestic Conflict	Riots: Any violent demonstration or clash of more than 100 citizens involving the use of physical force.	Banks, Arthur (2002)
Human Rights		
Level of Respect for Human Rights	Index of Killing, Disappearances, Torture & Imprisonment	Cingranelli and Richards (1999a)
Level of Respect for Workers Rights	Ordinal Level Measurement of Respect for Workers Rights 0=Not protected by the government 1= Somewhat protected by the government 2=Protected by the government	
Temporal Dependence		
Number of Years Since Previous SAL	Constructed Using Beck Katz Tucker (1998) BTCS Method	
Number of Years Since Previous SAL Squared	Constructed Using Beck Katz Tucker (1998) BTCS Method	
Dependent Variable		
Receipt of a World Bank Adjustment Loan	Dichotomous	Correspondence with World Bank

Table 3: Descriptive Statistics

	Observations	Mean	Standard Deviation	Min	Max
Economic					
Positive Percentage Change GDP Per Capita	2582	3.201279	6.666614	-64.776	36.00274
Average Foreign Currency Reserves	2594	3.386276	2.855631	0	25
Average Exchange Rate Value GDP Per Capita	2873	896.3387	15276.68	0	625219
Extent of International Trade	2733	6215.629	6828.736	309	50061
	2763	72.37568	46.06729	1	439
Political					
Alliance With the United States	3050	0.703934	0.456595	0	1
Level of Democracy	2902	0.942798	7.616916	-10	10
Military Regimes	2934	0.128834	0.335074	0	1
Larger Populations	3411	16.02106	1.530289	11.88045	20.97348
Cold War	3411	0.511287	0.499946	0	1
Conflict Proneness					
Level of External Conflict	3153	0.085316	0.458303	0	3
Level of Domestic Conflict	3093	0.388296	1.569092	0	26
Human Rights					
Level of Respect for Human Rights	2890	4.727336	2.48757	0	2
Level of Respect for Workers Rights	2655	1.139736	0.8150704	0	2
Temporal Dependence					
Number of Years Since Previous SAL	3225	5.803101	5.928439	0	21
Number of Years Since Previous SAL Squared	3225	68.81147	109.4249	0	441
Dependent Variable					
Receipt of a World Bank Adjustment Loan	3228	0.14653	0.353692	0	1

Table 4: Logistic Regression Results of World Bank Selection Criteria, 1981-2000.

Independent Variable	Probability of Receiving a World Bank SAL 1981-2000	P> z
Economic Variables		
Positive Percent Change GDP Per Capita	-.003 (.011)	.39
Average Foreign Currency Reserves	-.064 (.028)	.01*
Exchange Rate Value	-.0000003 (.0000002)	.08
GDP Per Capita	-.0001 (.00002)	.000***
Extent of International Trade	-.001 (.002)	.31
Political Variables		
Alliance With the United States	.132 (.158)	.20
Level of Democracy	.009 (.013)	.26
Military Regimes	.272 (.059)	.05*
Larger Populations	.271 (.06)	.000***
Cold War	.391 (.153)	.005**
Conflict Proneness Variables		
More Domestic Conflict	-.144 (.050)	.002**
More External Conflict	-.382 (.225)	.045*
Human Rights		
Level of Respect for Personal Integrity Rights	.032 (.035)	.19
Level of Respect for Workers Rights	.237 (.105)	.012*
Controls for Temporal Dependence⁴		
Number of Year Since Previous SAL	-.194 (.047)	.000***
Number of Year Since Previous SAL Squared	.0067 (.003)	.009**
Constant	-5.22 (1.089)	.000***
N	1826	
Pseudo R2	0.13	
Pr. Chi2		.000***

P>|z . 05*, .01**, .001*** One Tailed Test

⁴ We also ran models that included splines to account for any issues of temporal dependence (Beck Katz and Tucker 1998) not accounted for by the existing model. The splines were insignificant, thus we report the model ran without splines.

Table 5: Change in Predicted Probabilities⁵

Independent Variables	Change in Variable Value from Minimum to Maximum
Economic	
Average Foreign Currency Reserves	-0.13
GDP Per Capita	-0.29
Political	
Military Regimes	0.05
Larger Populations	0.34
Cold War	0.04
Conflict Proneness	
Level of External Conflict	-0.10
Level of Domestic Conflict	-0.15
Human Rights	
Level of Respect for Workers Rights	0.06

⁵ Holding all variables at their mean or modal values

Figure 1 Probability of Loan Receipt as GDP Per Capita Changes from Minimum to Maximum (At Which A Loan Was Awarded)

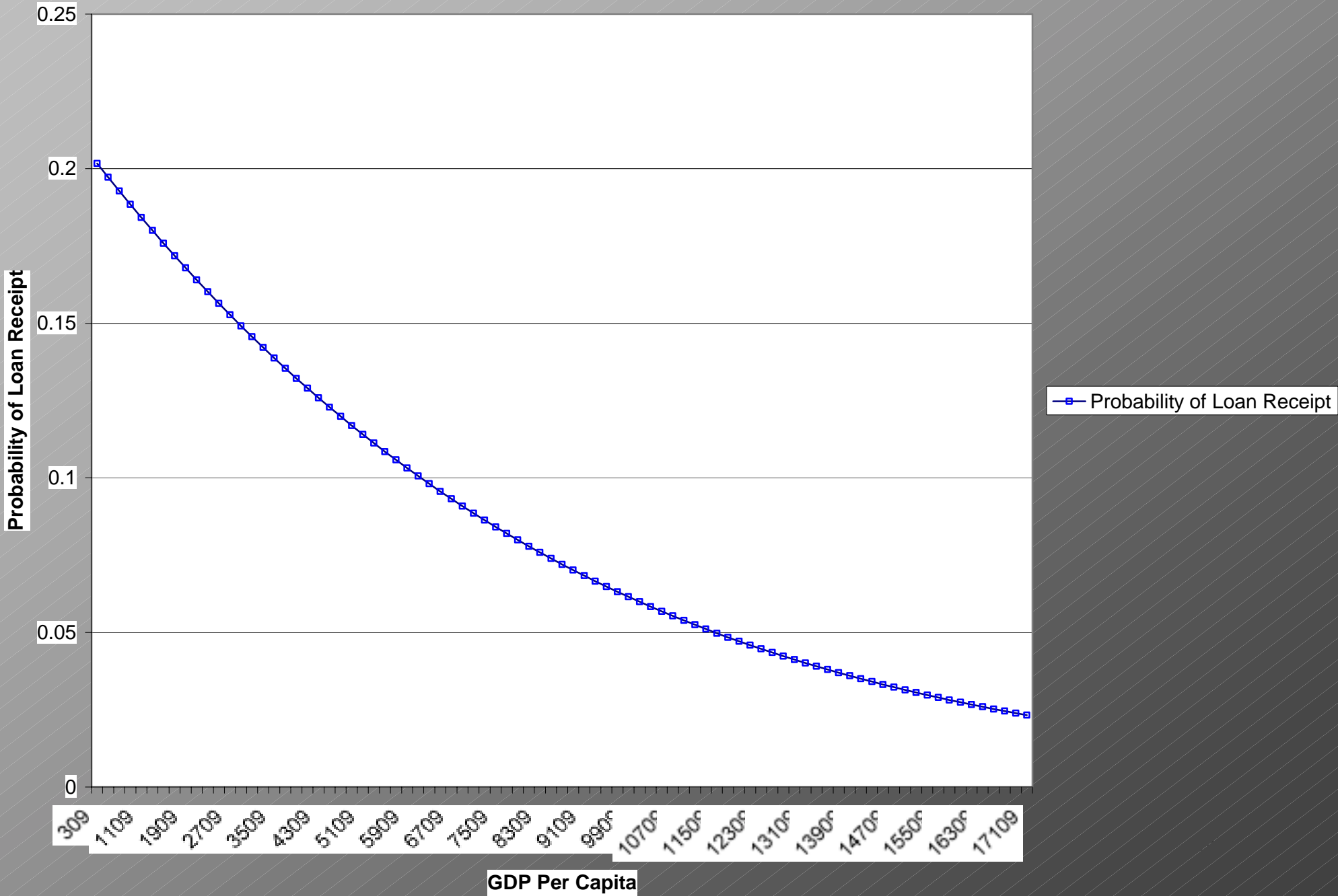


Figure 2 Probability of World Bank Loan Receipt As Log of Population Changes from Minimum to Maximum Value

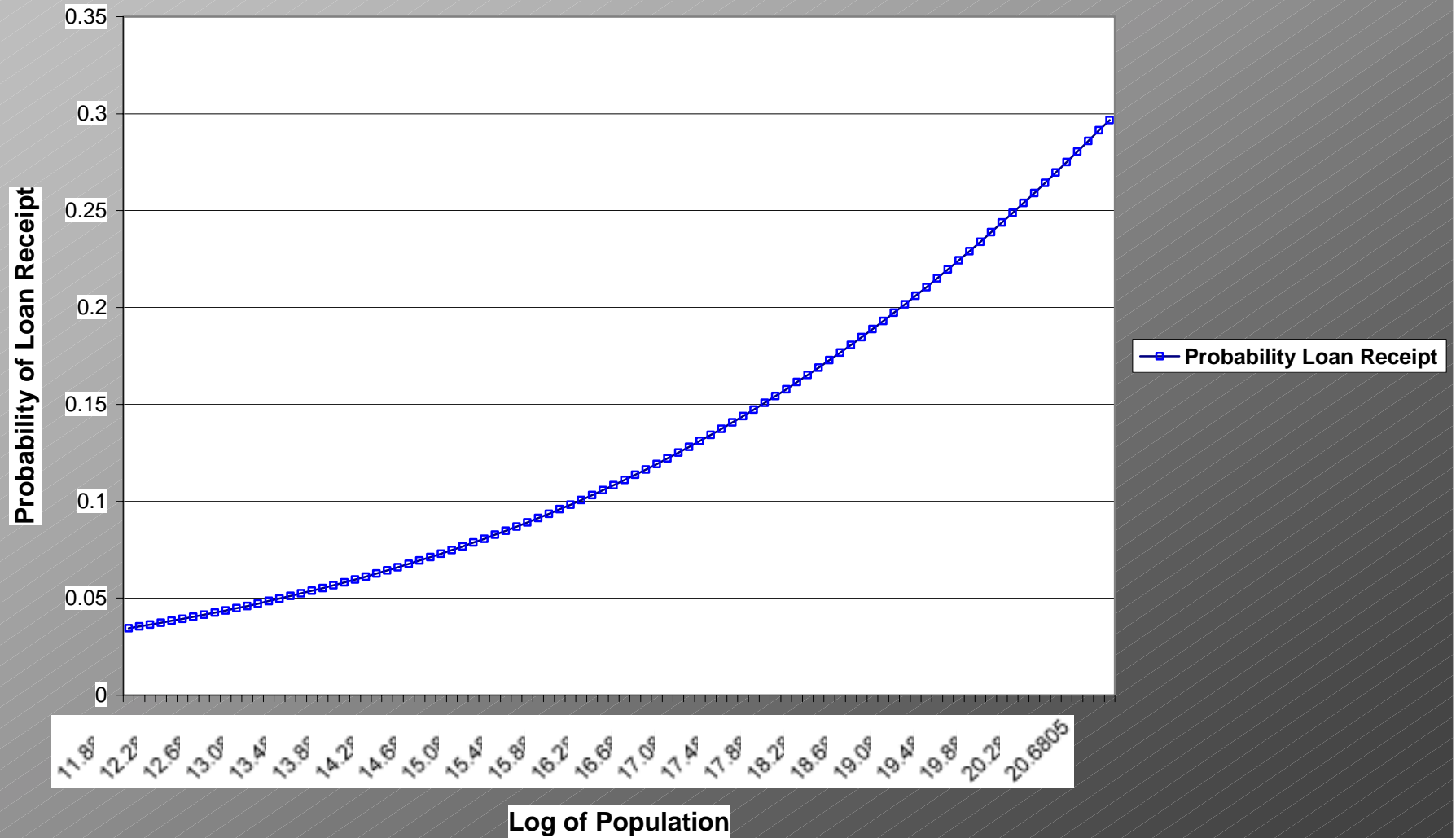


Figure 3 Probability of World Bank Loan Receipt As Level of Respect for Workers Rights Changes from Minimum to Maximum Value

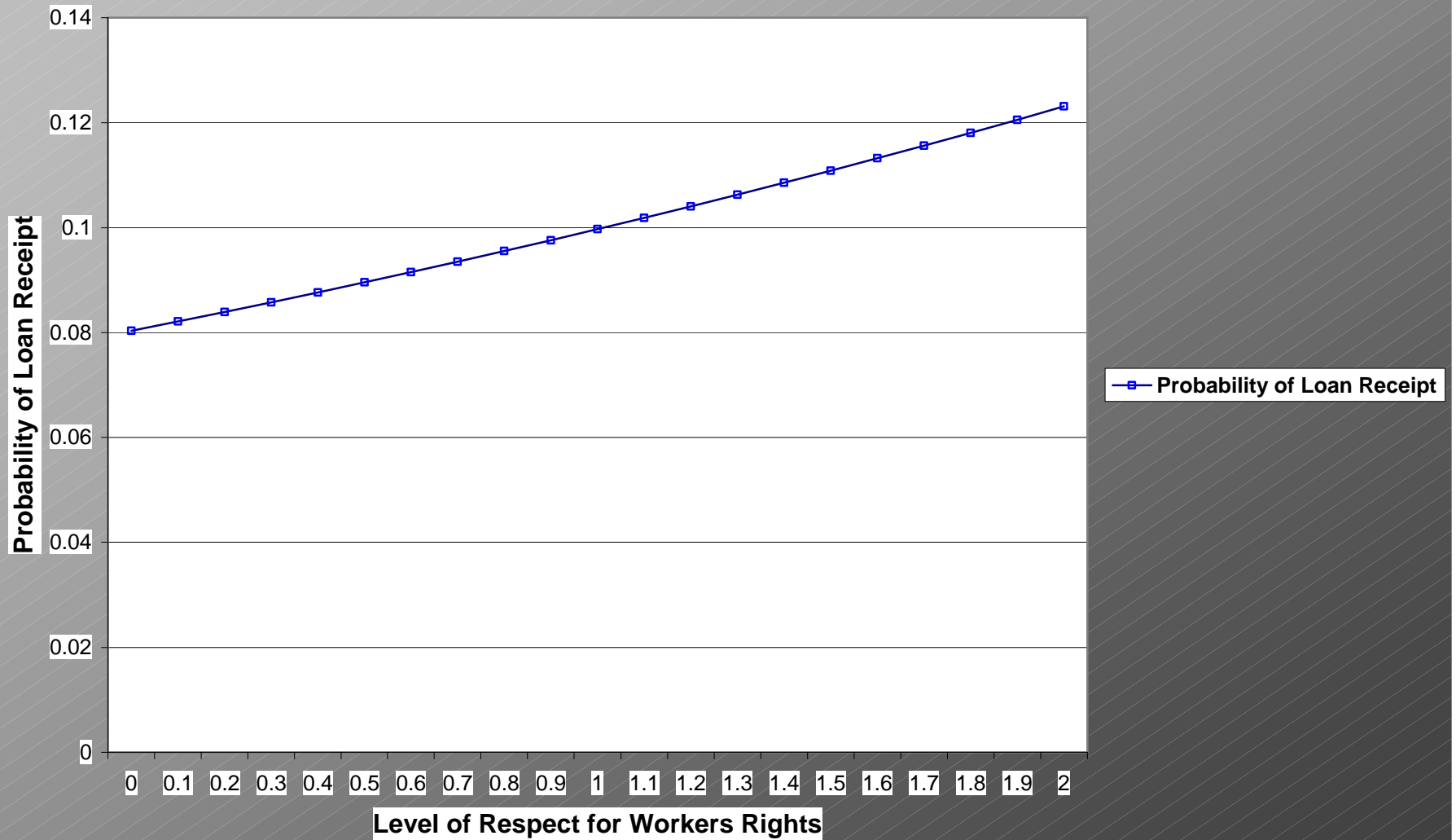


Figure 4 Probability of World Bank Loan Receipt As Level of International Conflict Changes from Minimum to Maximum Value

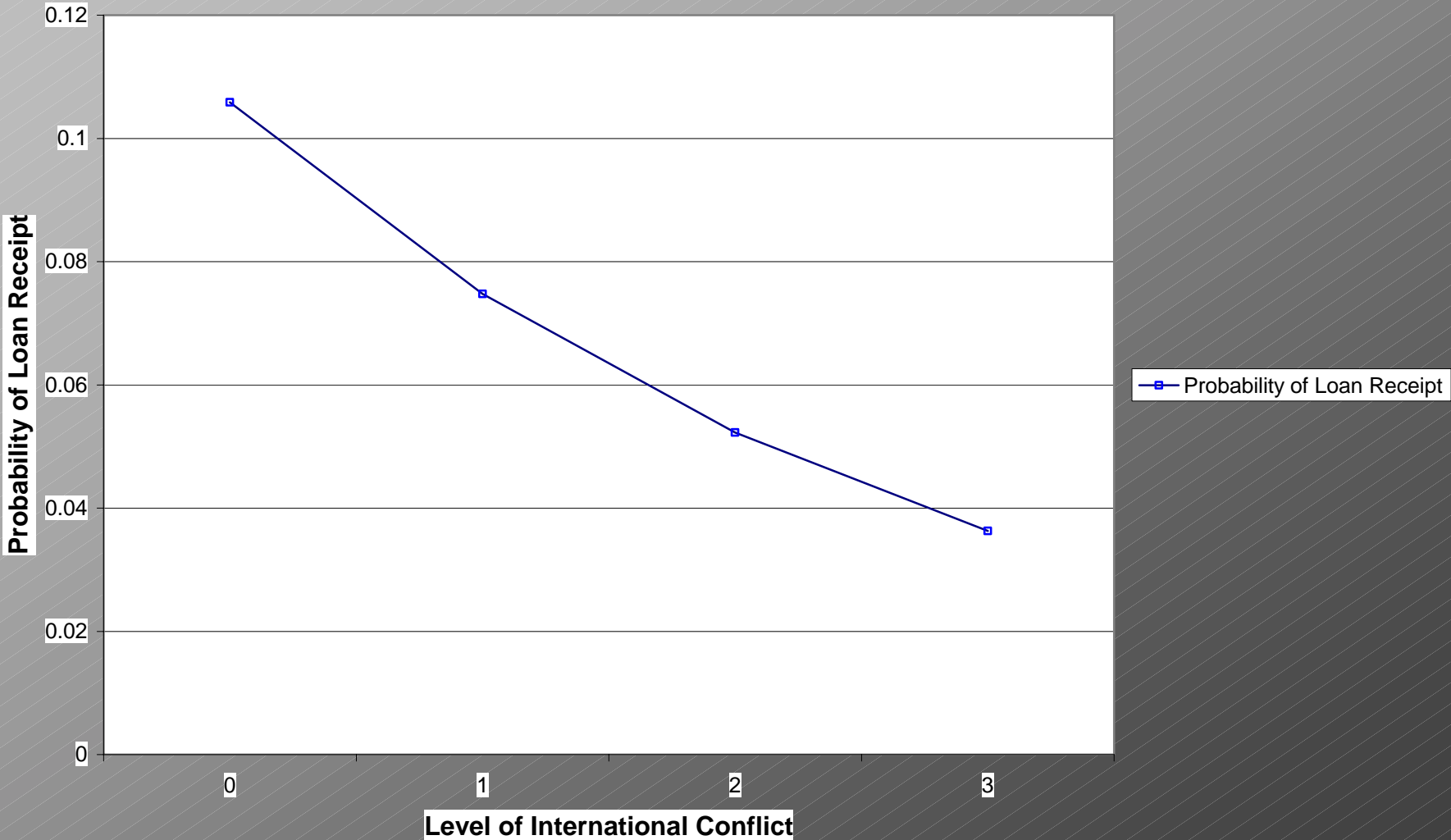
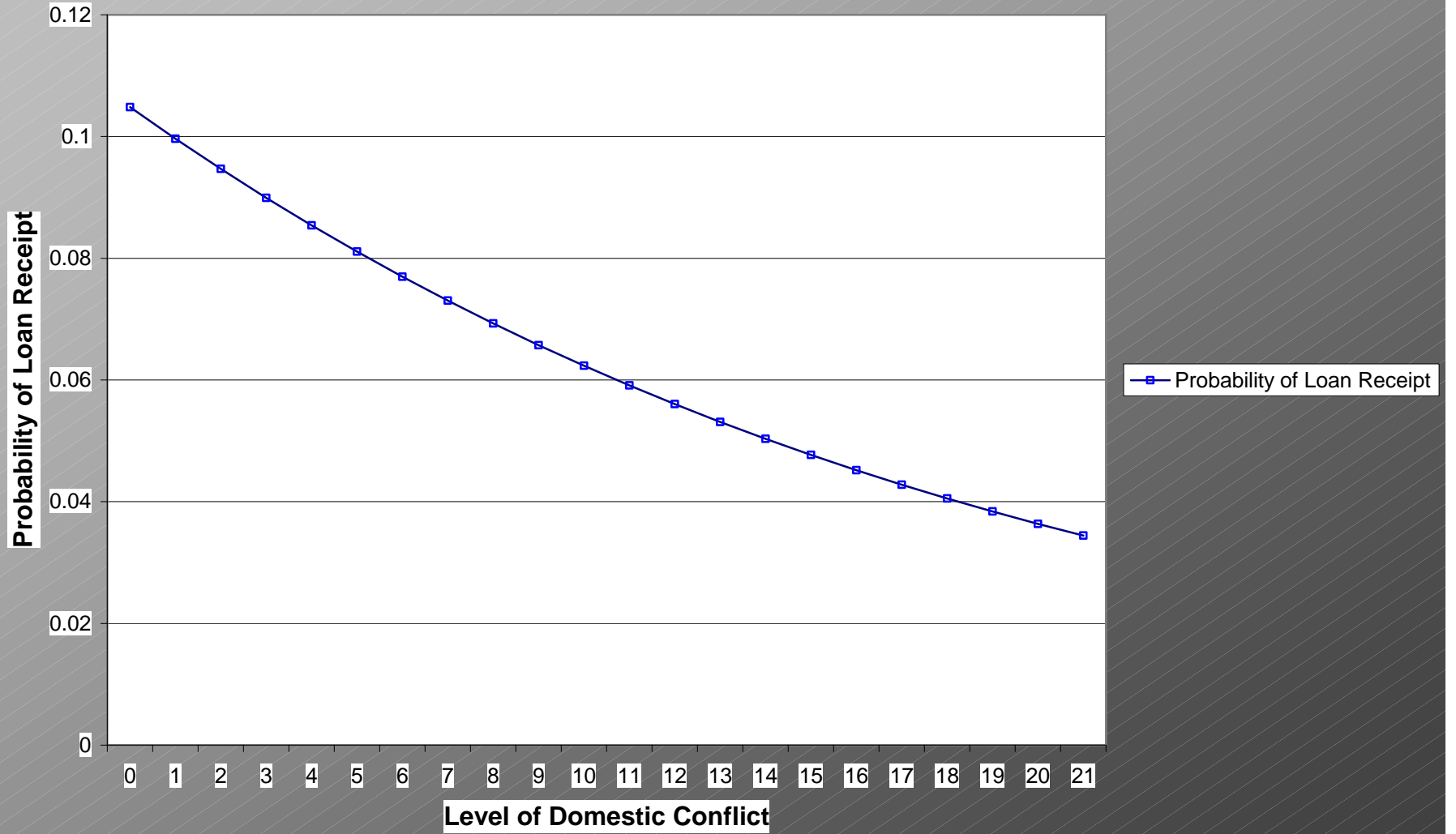


Figure 5 Probability of World Bank Loan Receipt As Level of Domestic Conflict Changes from Minimum to Maximum Value



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¹ The perspective found in the World Bank Structural Adjustment Loan Policy Operational Manual (World Bank 1992) is less elaborate. It notes that: "Success with stabilization usually requires a sustainable mixture of cuts in government spending, reductions in public enterprise losses, tightening of domestic credit, and increases in tax revenues. Central bank losses that result from the provision of credit subsidies to particular sectors, often through the exchange rate or banking system, are frequently an important source of inflationary pressure that need to be eliminated immediately"

² See Milner (1997) for some examples of formal models of these relationships. Vreeland (2001) also uses a number of formal models to generate expectations about countries with which the IMF prefers to sign agreements. His expectations suggest that the IMF prefer to deal with regimes that have fewer veto players.

³ For an excellent review of this literature, see Richards, Gelleny, and Sacko (2001)

⁴ One especially nefarious variant of the dependency perspective is that elites in peripheral countries benefit from the core periphery system. While they may endure some internal threats due to measures that serve to maximize profits for MNCs they are rewarded with informal acquiescence of the international financial community and MNCs through corruptly creaming off inflows of foreign capital for themselves. For example the Mobutu regime in Zimbabwe allegedly shipped foreign aid out to private personal accounts abroad almost as fast as it arrived (Berkley 2001).

⁵ While we have strong theoretical reasoning to believe that Communist countries were much less likely to receive World Bank SALs, limitations on obtaining country year data for each of the communist countries for more than a handful of years is very limiting. Instead descriptive statistics indicate support for our argument. 5.82% of our countries were communist during the entire period. 94.18% of countries were not communist. In comparison, 0.26% of communist countries received SALs in comparison to 14.43 percent of countries that were not communist. As a proportion of each, 4.92 % of communist countries received SALs, where as 18.03 percent of countries that were democratic received SALs. Spearman's rho tests indicate this relationship is negative and significant. The test measures the independence of SAL receipt and whether a country was communist or not. The results significant at the .0002 level indicate that communist countries were significantly less likely to receive SALs.

⁶ Individuals who are imprisoned because they have committed violent acts, regardless of the reasons why they committed those acts, are not political prisoners.

⁷ In this work, we do not distinguish between political prisoners and prisoners of conscience. According to Amnesty International, a prisoner of conscience is a person who has been imprisoned solely because he or she holds opinions that are contrary to the interests of the state. Amnesty International distinguishes between prisoners of conscience and political prisoners. They view the latter as someone who has been imprisoned because of his or her beliefs *and* because he or she advocated violence. The key attribute is that both have been imprisoned for their thoughts and speech, not for committing violent acts. For a more detailed discussion of the Amnesty International position, see Bouandel (1997).

⁸ Extrajudicial killings may result from the deliberate, illegal, and excessive use of lethal force by the police, security forces, or other agents of the state whether against criminal suspects, detainees, prisoners, or others. Extrajudicial killing excludes combat deaths.

⁹ For more on our technique of measuring human rights, see Cingranelli and Richards (1999).