World Bank IDA Grants and Corruption. Why do Corrupt Countries Still Get Grants?

Salvador Lopez, PhD
University of West Georgia

Abstract

Every year, the World Bank provides millions of dollars in grants and loans to developing countries that also happen to be relatively corrupt. This paper analyzes the relationship between levels of corruption, as measured by the Corruption Perception Index (CPI) and four components of the International Development Association (IDA) Resource Allocation Index. The period analyzed is 2012-2018 and yearly regressions as well as panel-data analysis provide evidence that such countries are able to get relatively positive IDA scores through a degree of compliance of macroeconomic management and social inclusion while still failing in areas of accountability and transparency.

JEL Codes: D73, G38, H60
Keywords: World Bank, Transparency, Corruption

Introduction

In previous papers, Lopez (2017a, 2017b) demonstrated that government transparency does not necessarily promote less corruption. On the contrary, too many countries in the world with higher-than-average corruption are ranked favorably in terms of transparency. This paper now concentrates on the World Bank's International Development Association (IDA) index, which is used for allocation of grants to countries in need for assistance. Specifically, it analyzes the relationship between the IDA and, again, the Corruption Perception Index (CPI) using the 2012-2018 period. It purposely uses data starting in 2012 since that is when the CPI started using a method that allows comparison over time.

Literature Review

Researchers for years have debated whether corruption promotes economic growth and efficiency, the "grease the wheels" argument, or it hinders growth and investment, the so-called "sand the wheels" argument. The hypothesis that corruption promotes government efficiency and growth was mainly proposed by Leff (1964), Leys (1965) and Huntington (1968). The argument is that developing or poorer countries with weak institutions may be benefited by corruption since it provides an incentive for slow and inefficient governments to work more efficiently and eventually increase economic growth. On the other hand, Mauro (1995, 1998, 2004), Schleifer and Vishny (1993) and Mo (2001) have led the group of researchers who demonstrated that corruption is negatively related to investment and growth, or that it actually sands the wheels.

The latter hypothesis seems to be more supported by different types of data analysis and it has also found applications in other areas as well. For example, Murphy, Shleifer and Vishny (1991) suggest that countries where talented workers are employed in rent-seeking activities tend to grow slower. North (1990) links economic growth and prosperity with a less corrupt judicial system. Krueger (1974) demonstrates how import restrictions lead to more corruption and vice versa. Along the same lines, Ades and Di Tella (1994) find that the more open a country is to trade, the lower the government corruption tends to be. According to Clements, Hugounenq and Schwartz (1995), more corruption also leads to more government subsidies and over spending in infrastructure projects.

Another important aspect of corruption and growth is its relationship to financial aid received from international institutions like the IMF and The World Bank. Regarding this issue, Okada and Samreth (2012) analyzed the effect of foreign aid on corruption and found that foreign aid generally reduces corruption, and that such reduction is greater in less corrupt countries. Asongu (2012), on the other hand, argues that the main conclusion of Okada and Samreth does not apply to the African countries. He studied fifty-two African countries during the 1996-2010 period and found first, a strong evidence of a positive aid and corruption nexus, and second, that development assistance fuels, not mitigates, corruption. On the other hand, Arvin and Lew (2012) found that more corruption and aid, which tend to be positively related, have a negative marginal effect on happiness.

Results

Chart 1 below illustrates the relationship between CPI and IDA for 2012, the first year in the period 2012-2018 analyzed in this paper. Higher values of CPI indicate less corruption while higher values of IDA indicate more compliance with World Bank requirements to receive grants. In the chart, the dots indicate a combination of CPI and IDA indexes for the countries with available data for both indexes. The vertical and horizontal lines indicate the average values for each index using all countries. For example, the dots show data for 70 countries while the CPI and IDA averages are calculated for 174 and 80 countries respectively.

Chart 1 demonstrates two important results: first, the relationship between CPI and IDA, as expected, is positive. Higher values of CPI (less corruption) are associated with higher values of IDA (more compliance with World-Bank parameters). Second, most countries in the samples have CPI values lower than average (more corrupt) as shown by the dots in the second and third quadrants.

Given the positive relationship between the two indexes, it is expected that most results would be found between quadrants I and III. However, a relatively high number of countries are found in quadrant II indicating higher than average IDA values along with lower than average CPI values. In other words, countries with relatively higher corruption levels are given relatively good evaluations by the World Bank resulting often in grants received by such countries, or governments. This paper identifies those countries and the grants they have received, attempts to explain why they may be able to get relatively good evaluations from the World Bank, and whether the strategy followed by the World Bank has really contributed to lower the level of corruption in those countries.

The pattern displayed in Chart 1 is the same in every year of the period. Table 1 below shows, by quadrant, the combination of CPI and IDA index values for the period 2012-2018. As may be observed, the percent of countries in the second quadrant is relatively high and consistent with values in the mid to high forties in every year of the period, except 2017 when the proportion of countries was a bit higher at fifty two percent. That is not uncommon, but most observations are expected to be in quadrants I and III: higher corruption associated with lower World Bank compliance and vice versa. So, what are those countries in quadrant II, what amount of money have they received and why are they able to get good IDA scores despite their corruption levels? The first two questions are easy to answer using the data. The third question, however, is more challenging but a reasonable attempt is made to find its answer.

Chart 1: CPI and IDA Relationship. Year 2012.

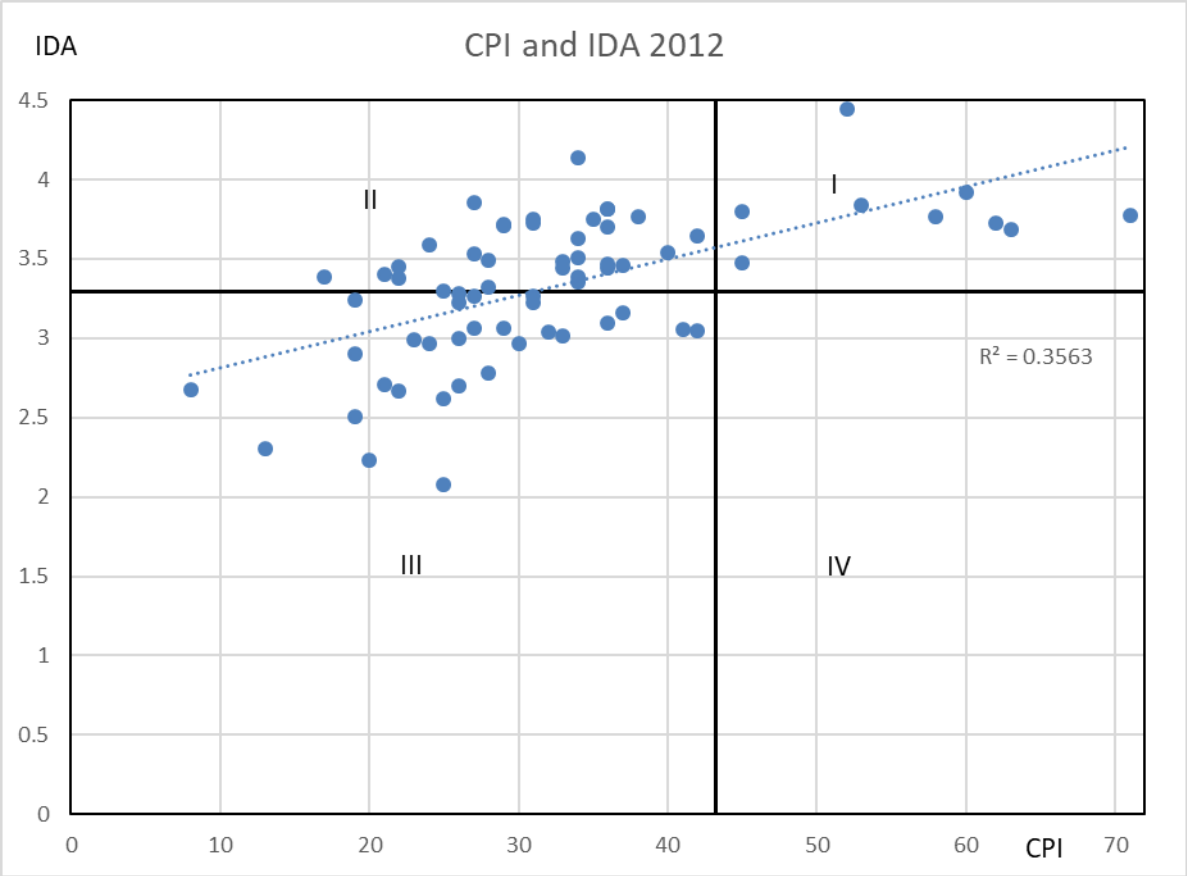

Table 1: Percent distribution of countries by quadrant

			Years				
Quadrant	2012	2013	2014	2015	2016	2017	2018
I	13.04	12.68	12.12	9.52	12.3	11.94	15.38
II	**44.93**	**42.25**	**43.94**	**46.03**	**44.62**	**52.24**	**46.15**
III	42.03	45.07	43.94	44.44	41.54	34.33	35.39
IV	0.00	0.00	0.00	0.00	1.54	1.49	3.08

Table 2 below shows a partial list of countries in the period that have been in quadrant II for at least one year. "NL" means the country was not listed on the quadrant for that year. Next to each country is the grant dollar amount received by the World Bank in millions of dollars per year. Countries in quadrant II received during 2012-2016 a total of $590, $606, $761, $636, and $640 million respectively. That amount increased significantly in 2017 to $1.124 billion even though the number of countries in quadrant II was about the same. An interesting thing is that the World Bank stopped publishing "IDA Grants" and data for year 2018 were not available. However, they do publish loans and grants provided by IDA and the International Bank for Reconstruction and Development (IBRD). Those amounts are much larger and are available at the World Bank.

Table 2: Countries in quadrant II. Grants received (in millions of dollars)

Country	2012	2013	2014	2015	2016	2017
Armenia	0.00	0.00	NL	NL	NL	NL
Bangladesh	NL	NL	-0.19	0.00	0.00	0.00
Benin	40.42	20.80	24.47	19.85	16.22	3.75
Bolivia	0.00	0.00	0.00	0.00	NL	NL
Bosnia & Herzegovina	0.00	0.00	NL	NL	NL	NL
Burkina Faso	155.65	152.72	159.77	131.59	163.08	115.30
Burundi	NL	NL	62.29	NL	NL	NL
Cambodia	23.03	20.99	7.33	1.78	0.00	0.00
Cameroon	NL	NL	NL	NL	NL	0.00
Côte d´Ivoire	NL	NL	NL	80.33	38.84	23.32
Ethiopia	151.78	113.06	23.37	7.08	0.00	156.22
Ghana	NL	NL	NL	NL	NL	31.50
Gambia	30.31	NL	NL	NL	NL	NL
Guinea	NL	NL	NL	NL	NL	40.76
Guyana	0.00	0.00	0.00	0.00	0.00	0.00
Honduras	0.00	0.00	0.00	0.00	0.00	0.00
India	0.00	0.00	NL	NL	NL	NL
Kosovo	9.44	4.45	3.52	0.76	1.76	1.04
Kyrgyzstan	39.87	39.62	23.39	14.17	28.19	18.43
Laos	66.36	53.72	35.39	28.88	35.49	17.80
Lesotho	NL	NL	NL	NL	0.66	1.06
Madagascar	NL	NL	NL	NL	62.33	109.36
Malawi	NL	NL	NL	NL	NL	142.66
Maldives	NL	NL	NL	NL	NL	8.10
Mali	0.42	1.66	14.81	60.36	37.43	57.76
Mauritania	NL	NL	0.86	6.64	50.61	44.63
Moldova	1.60	1.00	0.00	0.00	0.00	0.00
Mongolia	3.16	2.06	NL	-0.06	0.00	0.00
Mozambique	-4.28	0.00	78.96	68.46	57.19	99.80
Nepal	0.00	99.70	111.02	61.37	62.83	34.02
Nicaragua	30.82	27.05	25.38	29.33	34.24	34.02
(other countries)						
Total amount	590	606	761	636	640	1,124

A very important question is why these countries are able to get relatively good IDA scores despite having relatively high levels of corruption. This question may be partially answered by basic correlation coefficients between the components of IDA and the CPI. IDA is calculated from four main indexes, each one of them being also calculated from four other indexes, for a total of sixteen. The four main indexes are Economic Management, Policies for Social Inclusion and Equity, Public Sector Management, and Institutions and Structural Policies. As expected, the correlation between CPI and the four indexes is positive and relatively strong (between 0.32 and 0.78) for all countries. However, that is not the case for the quadrant II countries.

Table 3 below shows the correlation coefficients for the last three years of the period being analyzed. Clearly, these countries are able to get favorable (negative correlation) IDA index values from the Economic Management and Social Inclusion components, but not from the Public Sector and Structural Policies. More specifically, Economic Management includes evaluation in the following areas: Monetary and Exchange Policies, Fiscal Policies, and Debt and Policy Management. Policies for Social Inclusion and Equity includes Gender Equality, Equity of Public Resource use, Building Human Resources, Social Protection and Labor and Policies and Institutions for Environmental Sustainability. In other words, more-corrupt countries have received from the World Bank relatively good IDA scores from some degree of compliance in the areas of Macroeconomic policies and social reforms but not from property rights, budgetary quality, transparency, and business regulations.

Table 3: Correlation coefficients between CPI and the four components of IDA for years 2016, 2017 and 2018. Quadrant II countries only.

Index	**2016**	**2017**	**2018**
Economic management	-0.46	-0.24	-0.30
Social Inclusion/Equity Policies	-0.18	-0.04	-0.05
Public Sector Management and Institutions	0.53	0.62	0.54
Structural Policies	0.13	0.22	0.27

As expected, a linear regression between the CPI (dependent variable) and the four main components of the IDA (independent variables) shows the same negative signs for the coefficients of the two indexes mentioned before. However, the (expected) positive relationship between the CPI and the Structural Policies Index is not significant, leaving just the Public Sector Management and Institutions positively and significantly influencing the CPI. The regression results for individual years during 2015-2018 are shown in Table 4 below.

Table 4: Regression results between CPI and the four components of the IDA for the last four years of the period. P-values are in parentheses.

IDA component	2015	2016	2017	2018
Economic management	-5.87 (0.004)	-4.8 (0.008)	-2.92 (0.10)	-3.49 (0.11)
Policies for Social Inclusion/equity	-8.08 (0.01)	-8.99 (0.01)	-10.36 (0.006)	-5.21 (0.09)
Public sector management and institutions	15.88 (0.0004)	16.87 (0.0001)	21.76 (0.00)	16.03 (0.00)
Structural policies	3.5 (0.19)	1.96 (0.40)	1.51 (0.59)	2.48 (0.58)

Since the data consists of seven years with an average of about thirty countries per year, a panel data analysis was done using Stata. A Hausman test yielded a p-value of 0.13 indicating that the null hypothesis (Random Effects model is consistent) cannot be rejected. Table 5 below shows the panel data results. Again, Economic Management and Social Inclusion coefficients are negative and significant at one and ten percent level. The other two components of the IDA index, public sector and structural policies, have the expected positive coefficients.

Table 5: Panel Data Regression Results for the period 2012-2018 (RE Model).

IDA Component	Coefficient and p-value
Economic Management	-2.45 (0.01)
Social Inclusion/Equity Policies	-1.63 (0.10)
Public Sector Management and Institutions	6.12 (0.00)
Structural Policies	1.8 (0.07)

Finally, while it is difficult to evaluate how The World Bank grants and loans have impacted the levels of corruption of countries, it is important to note how the countries in quadrant II have evolved in terms of corruption or CPI values. Table 5 below shows the list of countries that appeared in quadrant II in every year of the period and their initial and final CPI scores during the period analyzed in this paper. The individual results are mixed with some countries like Laos and Guyana making improvements of eight and nine points while others like Nicaragua and Uganda experiencing falling scores of three and four points. However, the net change in CPI scores is +25 points indicating that corruption overall in these countries has decreased.

Table 5: CPI change for countries found in quadrant II in every year of the 2012-2018 period.

Country	CPI 2012	CPI 2018	Points change
Benin	36	40	+4
Burkina Faso	38	41	+3
Ethiopia	33	34	+1
Guyana	28	37	+9
Honduras	28	29	+1
Kenya	27	27	+0
Kosovo	34	37	+3
Kyrgyzstan	24	29	+5
Laos	21	29	+8
Mali	34	32	-2
Mozambique	31	23	-8
Nicaragua	29	25	-4
Niger	33	34	+1
Nigeria	27	27	+0
Tanzania	35	36	+1
Uganda	29	26	-3
Uzbekistan	17	23	+6
Total			+25

Conclusion

The relationship between corruption (CPI) and development (IDA) is, as expected, positive. Higher values of CPI (less corruption) are associated with higher values of development and vice versa. However, compared to average performance, too many countries (more than forty percent) are consistently assigned relatively high IDA values despite having lower CPI values. Consequently, a high percent of those countries have received millions of dollars in grants from the World Bank. The main reason these countries are able to get relatively high IDA evaluations is that they have improved their performance in the areas of Economic management and Social Inclusion. However, their corruption and lack of transparency remained high, as measured by Transparency International and the World Bank itself. Those results are consistently shown using individual regressions per year being analyzed and an overall panel-data analysis. This confirms previous studies suggesting that some countries in the world with higher-than-average levels of corruption are able to obtain acceptable evaluations in their development and transparency performance thanks to the mixed construction of indexes, which allows them to "balance" their overall scores. Finally, while the countries that consistently appeared in quadrant II (high corruption, high IDA World Bank evaluation) have experienced improvements and declines in their corruption levels (CPI), overall, all countries together have experienced a mild decrease in corruption.

References

Ades, A., & Di Tella, R. (1994). Competition and Corruption. *Institute of Economics and Statistics Discussion Papers* (p. 169). Oxford: University of Oxford.

Arvin, M., & Lew, B. (2012, July-December). Development Aid, Corruption, and the Happiness of Nations: Analysis of 118 Countries over the Years 1996-2009. *Applied Econometrics and International Development*, 69-78.

Asongu, S. (2012). On the Effect of Foreign Aid on Corruption. *Economics Bulletin, 32*(3), 2174-80.

Clemens, B., Hugounenq, R., & Schwartz, G. (1995). Government Subsidies Concepts, International Trends and Reform Options. *IMF Working Papers 95/91*.

Huntington, S. (1968). *Political Order in Changing Societies.* New Haven: Yale University Press.

Krueger, A. (1974). The Political Economy of the Rent-Seeking Society. *American Economic Review, 64*(3), 291-303.

Leff, N. H. (1964). Economic Development Through Bureaucratic Corruption. *American Behavioral Scientist, 8*, 8-14.

Leys, C. (1965). What is the Problem About Corruption? *Journal of Modern African Studies, 3*, 215-230.

Lopez, S. (2017, June). Is Transparency an Effective Way of Reducing Corruption? Evidence Around The World. *International Journal of Economic Perspectives, 11*(2).

Lopez, S. (July, 2017). Does Transparency Promote Less Corruption? Evidence From Around The World. *B>Quest*.

Mauro, P. (1995). Corruption and Growth. *Quarterly Journal of Economics, 10*(3), 681-712.

Mauro, P. (1998). Corruption and The Composition of Government Expenditure. *Journal of Public Economics, 69*, 263-279.

Mauro, P. (2004). The Persistence of Corruption and Slow Economic Growth. *IMF Staff Papers, 51*(1), 1-18.

Mo, P. H. (2001). Corruption and Economic Growth. *Journal of Comparative Economics*(29), 66-79.

Murphy, K., Schleifer, A., & Vishny, R. (1991). Allocation of Talent: Implications for Growth. *Quarterly Journal of Economics, 106*(2), 503-530.

North, D. (1990). *Institutions, Institutional Change and Economic Performance.* New York: Cambridge University Press.

Okada, K., & Samreth, S. (2012). The effect of foregi aid on corruption: A quantile regression approach. *Economics Letters, 115*(2), 240-243.

Peisakhin, L., & Pinto, P. (2010). Is transparency an effective anti-corruption strategy? Evidence from a field experiment in India. *Regulation and Governance, 4*, 261-280.

Shleifer, A., & Vishny, R. (1993). Corruption. *Quarterly Journal of Economics, 109*(3), 599-617.

World Development Indicators. (2012-2018). Retrieved from The World Bank.