Is the World Bank Financing Bad Governance in Developing Countries?

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# Introduction

It is well documented that bad governance and corruption adversely affect economic growth and development (Fayissa and [Nsiah](https://muse.jhu.edu/search?action=search&query=author:Christian%20Nsiah:and&min=1&max=10&t=query_term), 2013; Cooray, 2009, [Seldadyo](https://onlinelibrary.wiley.com/action/doSearch?ContribAuthorStored=Seldadyo%2C+Harry) et al., 2007). In this case, aid to development may be ineffective when the governance is bad in beneficiaries’ countries. Indeed, Countries with bad governance may not use efficiently the aid. However, during the recent decades, as underlined by Kaufmann (2009), aid tends to be more sensitive to supporting policy reform in developing countries. Such policies should improve governance and reduce corruption.

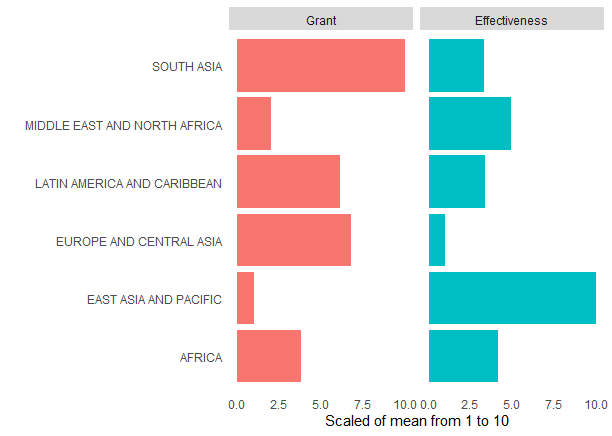
In spite that donors are more sensitive to supporting policy reform, it is possible that some beneficiaries do not improve governance, and do continue to apply ineffective economic policies. If donors, such as the World Bank, continue to grant funds to countries with bad governance, their aid is wasting money. To ensure that aid is effective, the decision to grant fund should account for progress improving governance.

The donors, such as the World Bank, usually monitor and evaluate the result of the projects related to funds they granted to developing countries (REF). If we consider the World Bank which is one of the leading advocator of good governance, does it account for the quality of governance when deciding to grant funds to developing countries? The World Bank has published several indicators related to the quality of governance: voice and accountability; political stability and absence of violence/terrorism; government effectiveness; regulatory quality; rule of law; control of corruption. Considering the World Bank, this paper argues that although it is a leading promoter of governance, it does not account for government effectiveness to grant funds to developing countries.

# Grants that finance ineffectiveness

Most of the countries that receive grants are from Africa (56.63% of the countries), followed by East Asia and Pacific (14.22%). They are the regions where there are more developing countries. That is the reason why they receive grants from the World Bank, to improve their development level and reduce poverty (REF). However, regarding the amount of grants, the **Figure 1** shows that the scaled mean of grant is higher in South Asia, followed by Europe and Central Asia. Thus, whereas most of the countries that receive grants are from Africa, the average amount of grants receive by country is higher for those of the South Asia.

**Figure 1: Average grants provided by the World Bank and average index of government effectiveness**

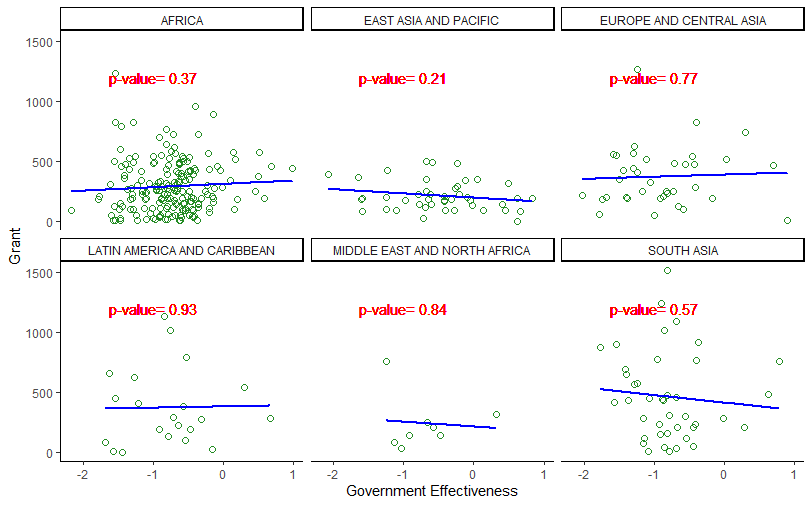


*Source: Graphic realized by the author, with data from the World Bank.*

Regarding the perception of the population about government effectiveness, the average score is higher for countries from East Asia and Pacific, which is the region with the less average of amount of grant. This may suggest that the World Bank provide grant to the least effective governments to help them to apply policies that should improve the level of development of these countries. Nevertheless, when considering the same figure, it is difficult to confirm that the Bank provide grant to the least effective governments. Indeed, South Asia, where the average amount of grant is the highest, does not have the least average index for government effectiveness.

The previous comparison between the average amount of grant the average index for government effectiveness may be difficult because we are using aggregated statistics to compare the two variables. Indeed, some information may be lost or hidden when calculating the mean value for each variable. Let us consider data about all countries instead of calculating the mean.

**Figure 2: Grants receive by developing countries from the World Bank, and their populations' perception of government effectiveness**



*Source: Graphic realized by the author, with data from the World Bank.*

We present a scatter plot of all data about the amount of grant and the index for government effectiveness, but by region. This graphic is showed in **Figure 2**. A linear relation between grant and effectiveness is estimated and plotted (in blue), by region. The figure reveals the same difficulty underlined previously, to identify any relationship between the grants provide by the World Bank and the government effectiveness index. The blue lines are almost flat, suggesting that the World Bank does not account for government effectiveness to provide grant to developing countries.

Considering the correlation between the two variables, by region, the Pearson test p-value is calculated. It is indicated for each region, in **Figure 2**. For the standard 5% threshold, if the p-value is superior to 0.05, we conclude that there is not any significant correlation between the variables. Indeed, this is the case, whatever the region considered. There is sufficient evidence that the World Bank does not account for government effectiveness index to provide grant to developing countries.

# Conclusion

To be effective grants provided by the World Bank need to be conditioned by improvement in government effectiveness. Otherwise, the Bank may waste money, since the grants cannot produce effective result perceived by the populations of the developing countries. In addition, if effectiveness is not monitored as a condition to provide grants, they become a source of funding that keeps most governments of developing countries in the position of inefficiency.

# Bibliography

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