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 (e.g. 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). The index of government effectiveness provided by the World Bank shows that many developing countries are facing weak governance. In this case, aid to development received by these countries may be ineffective. Indeed, Countries with weak 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.

Although 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 provide grants to countries with weak governance, their aid is wasting money. To ensure that aid is effective, the decision to provide grants should account for progress improving governance. Sure, poorer countries do have more need for grants (Lerrick and Meltzer, 2002). However, developing countries cannot continue to receive grants if they do not improve the quality of governance.

The donors, such as the World Bank, usually monitor and evaluate the results of the projects they finance in developing countries. However, the populations of the developing countries perceive that their governments are still ineffective. This fact seems to be incoherent with the behavior of the donors that continue to provide grants to these countries. Considering the Word Bank particularly, which is one of the leading advocator of good governance, does it account for government effectiveness when providing grants to developing countries? The World Bank reveals its consciousness on the importance of good governance when it publishes several indicators related to the quality of governance. These indicators are: voice and accountability, political stability and absence of violence/terrorism, government effectiveness, regulatory quality, rule of law, control of corruption (Kaufmann, 2011). Although advocating for good governance, the World Bank does not account for government effectiveness when providing grants to developing countries.

# Data from the World Bank

Data from the World Bank are used to support the thesis statement of the paper. Two variables are particularly used: amount of grants agreement signed with the Bank, by country, from 2002 to 2015; index of government effectiveness. The latest variable is an aggregate indicator that reflects the perception of the population of each country. Although data about government effectiveness relate to perception, Kaufmann et al. (2011) underline that these data matter because the economic agent based their action on perception, impression and views. Thus, donors, such as the World Bank, should account for the perception of the population about government effectiveness.

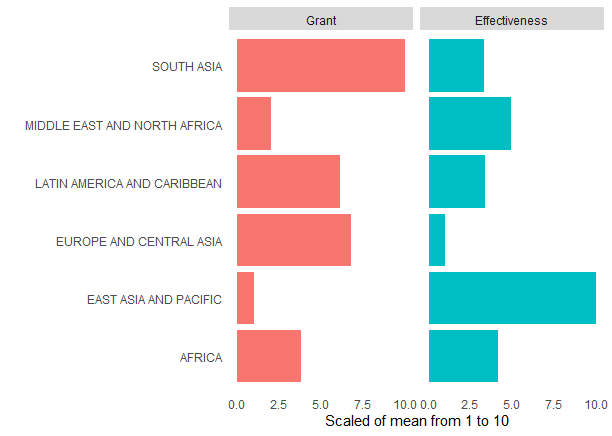
To compare data for both variables mentioned previously, we first calculate their mean by geographic region, and rescale the results to have them from 1 to 10. Having data for both variables with the same scale allow comparisons. To go further and ensure that the relationship with the two variable are not affected by loss of information when calculating their mean, original data about grants and government effectiveness are compared in a scatter plot, and a test of their correlation, by region, is realized.

# 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%)[[1]](#footnote-1). These 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. However, regarding the amount of grants, **Figure 1** shows that the scaled mean of grants 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.

Regarding the perception of the population about government effectiveness, the scaled average index is higher for the countries from East Asia and Pacific, which is the region with the less scaled average of amount of grant. This may suggest that the World Bank provides grants to the least effective governments to help them apply policies that should improve the level of development of their countries. Nevertheless, when considering the same figure (**Figure 1**), it is difficult to confirm that the Bank provides grants to the least effective governments. Indeed, South Asia, where the average amount of grants is the highest, does not have the least average index for government effectiveness. The relationship between the two variables is ambiguous, as shown in **Figure 1**.

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

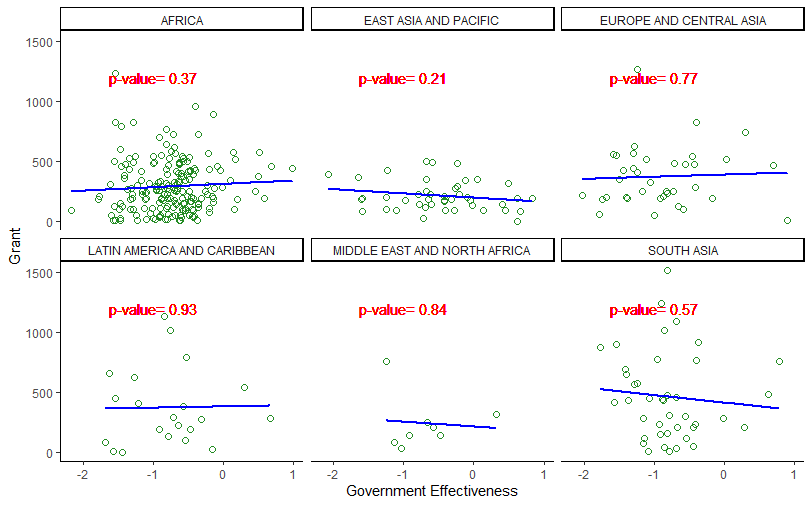


*Source: Graphic realized by the author, with data from the World Bank.*

The previous comparison may be difficult because we are using mean values of the 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** presents a scatter plot of data for the amount of grants and the index of government effectiveness, for 62 countries and 347 grants, but by region. A linear relationship between grants and government effectiveness is estimated and plotted (blue line), by region. **Figure 2** reveals the same difficulty underlined previously identifying any relationship between grants provided by the World Bank and the government effectiveness index. The blue lines are almost flat, regardless of the region considered. This result suggests that the World Bank does not account for government effectiveness when providing grants to developing countries.

**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.*

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, regardless of the region considered. All the p-values are higher than 0.05. Thus, for any region considered, there is not any significant relationship between the amount of grants and the index of government effectiveness. There is sufficient statistical evidence that there is not any significance relationship between the amount of grants provided by the World Bank to developing countries and the index of government effectiveness.

# Conclusion

Although it is the leading advocator of good governance, the World Bank does not account for government effectiveness when providing grants to developing countries. Thus, money is being wasted, financing ineffective governments. To be effective, grants provided by the World Bank need to be conditioned by improvement in government effectiveness. Otherwise, the World Bank may be wastful, since the grants cannot produce effective results perceived by the populations of the developing countries. In addition, if effectiveness is not monitored as a condition to providing grants, these funds can become a source of revenue to keep ineffective and even corrupted governments in confortable situation while poverty may increase as a consequence.

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1. These percentages are calculated by the author, with data from the World Bank. [↑](#footnote-ref-1)