The Political Economy of International Financial Institutions' Lending to Pakistan

Mumtaz Anwar

Hamburg Institute of International Economics (HWWA)
Neuer Jungfernstieg 21, Hamburg 20347 Germany
and
University of the Punjab, Lahore (Pakistan)
Mumtaz.Anwar@hwwa.de

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ABSTRACT

This paper analyzes the determinants of international financial institutions (IFIs)'s lending decisions to Pakistan. At the example of three major IFIs, the World Bank, IMF and ADB, this paper suggests that political economic factors, notably bureaucratic interest of international civil servants and major shareholders' economic interest belong to the most relevant determinants of international lending. Pooled Tobit estimation analysis for the period ever since when these institutions established their lending instruments to developing countries, confirm this hypothesis. Recipients' need is shown to have some relevance as well but not as strong as bureaucratic interest. Further analysis suggests that IDA and ADB lending is more interest oriented than lending by the IBRD and IMF.

Key Words: Foreign aid, International organizations, bureaucracy
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1. Introduction

A growing amount of literature in political economy suggests that International Financial Institutions (IFIs)'s lending to developing countries is not only based on the economic needs and economic policy performance of these countries, but also on the bureaucratic and political interests of these institutions.

Based on both theoretical and empirical investigation, earlier work by Frey and Schneider (1986) and Vaubel (1991, 1996) as well as recent studies by Bird and Rowlands (2001), Easterly (2003a), Michaelowa (2003), Stone (2004), Dreher (2004), Anderson at el. (2004, 2005), Harrigan at el. (2004), Hefeker and Michaelowa (2005), Hefeker (2006) and Barro and Lee (2005) suggest that IFIs´ lending decisions are based on political and institutional factors. In particular, the international bureaucracy and its utility maximizing behavior are generally considered to play a major role. The corresponding line of argument strongly leans on the economic theory of bureaucracy (Niskanen 1994, Wintrobe 1997, Moe 1997, and Borcherding and Besocke 2002). Internal career structures and future prospects of obtaining better positions in their home countrys' governments provide an incentive to the bureaucrats working at IFIs to disburse money to their home countries. It is argued that bureaucrats may also maximize the agency budget in order to obtain (and justify) higher pay and prestige. Among other factors, the major shareholder countries´ economic and political interests and the respective countries´ voting power at these IFIs, are also considered as the major determinants of lending to the developing countries (Fleck and Kilby 2006, Anderson at el. 2004, 2005).

This paper applies the political economic analysis of decision making to the major IFIs' lending to Pakistan. The IFIs most relevant for Pakistan since the 1960 have been the World Bank, the IMF and the Asian Development Bank (ADB). During the second half of the 20th century, these IFIs have provided both financial support and policy advice to Pakistan. In 2002, Pakistan ranked second among the recipients of the International Development Agency (IDA) lending commitments (concessional window of World Bank lending). In addition, during the same year, Pakistan was also the second largest recipient, after India, of ADB loans, with US$ 1.14 billions (20.1% of ADB's total lending). The IMF resumed its lending to Pakistan in 2000, after certain break-downs and suspensions.

The World Bank (2004a) justifies its important financial support to Pakistan by stating that, "it is primarily a reflection of Pakistan's progress in a number of key areas of reform." However, Stone (2004) notes that neither of the lending decisions had anything to do with Pakistan's domestic economic management, which continued to be poor. Furthermore, it has been frequently noted that although Pakistan did not comply with the IMF conditionality and the World Bank targets, new arrangements were still concluded (Hasan 1998, Raman 2000).

At the same time, as observed by Barro and Lee (2002), Pakistan was among the five developing countries which had the highest number of professional staff at the IMF in 1999. There is some evidence that Pakistani nationals working with the IMF or other IFIs obtained top positions in their home government later on.

This creates some doubts about the actual objectives of lending decisions and raises some questions to be further explored: Why did IFIs extend lending to Pakistan? Was IFIs´ lending to Pakistan due to economic need, to previous performance of Pakistan's economy or, could it be explained by bureaucratic interests? Can the decision making process in IFIs be influenced by a higher voting power within these institutions?

In order to answer these and similar questions, we analyze the empirical evidence of World Bank, IMF and ADB lending to Pakistan over time. As far as the World Bank is concerned, we distinguish between the IDA and the International Bank for Reconstruction and Development (IBRD) because the voting power of their shareholder countries at the executive boards is different for the two institutions. Previous empirical studies like Barro and Lee (2005) tested the same line of argument using a cross country analysis for a single institution, namely, the IMF. In this study, the analysis will be carried out across institutions but for a single recipient country. This approach has the advantage that potential differences in the incentive structures of different donor institutions can be examined. Moreover, looking at just one recipient allows us to follow in more detail the development in this particular country, and to reflect econometric analysis in the light of specific national developments.

The study is divided into four parts. Section 2 provides a brief overview of IFIs' lending practices to Pakistan. In section 3, hypotheses about the determinants of political decision making in these IFIs will be presented, and regression results for both the probability of obtaining loans and the size of these loans will be discussed. In this section, we will also

present the results for each donor and compare the differences between them. The conclusions will be presented in section 4.

2. International Financial Institutions' Lending to Pakistan: The evidence

International Financial Institutions (IFIs) have played a major role in providing large amounts of lending to Pakistan in the last fifty years. According to data provided by the OECD's Development Assistance Committee (DAC) on total official flows, a total amount of US$ 28 billion was disbursed to Pakistan from 1960-2002 through multilateral flows. More than 82% of these multilateral official flows came from three major international financial institutions, namely, the World Bank, the Asian Development Bank and the IMF (OECD/DAC 2005).

Among these, the World Bank (IBRD and IDA) was the largest source of multilateral flows to Pakistan, as it provided half of all the resources. Pakistan joined the World Bank in July 1950. Since 1952, according to the World Bank (2004b) Country Brief, the World Bank has approved 85 loans and 125 credits for Pakistan, totaling more than US$14.3 billion. In May 2005, the World Bank announced another package of US$ 4.5 billion to Pakistan for three years, which will enhance its annual lending to Pakistan from about US$ 900 million to US$ 1.5 billion.

The Asian Development Bank was the second largest source of multilateral finance to Pakistan after the World Bank. Since 1968, Pakistan has received more than US$ 12.6 billion in loans from the ADB, making it the second largest borrower after Indonesia. At the end of 2001, the ADB funding to Pakistan increased by 148% from the previous year, to US$ 957 million. In 2002, the country further received more than US$ 1 billion and became the top client of the ADB concessional lending window from the Asian Development Bank fund (ADBf).

The bulk of this lending by the World Bank and the ADB, especially in the last two decades, occurred under various structural adjustment programs, as well as for the support of social action programs of the country. The loans made under the structural adjustment programs were predefined for reforms in the financial sector, tax system, public utilities and public expenditure, in order to reduce trade and budget deficits. However, as Hasan (1998) observes that even though macroeconomic imbalances remained much above the agreed goals and showed little signs of improvements, World Bank lending actually increased in this period. In

addition, a sizable portion of this lending was in the form of relatively quickly disbursed policy lending in contrast to lending for specific projects. Even though projects like the Social Action Program Project I (SAPP-I), launched in 1992 to improve the delivery of social services in primary education, basic health care, family planning and rural water supply, showed disheartening results, financing of the SAPP-II by the IFIs continued in 1996. Foreign donors, under the leadership of the World Bank and Pakistan itself, spent US$ 8 billion on the social action program project but data seems to indicate that the SAPP has failed (Easterly 2003b).

The third multilateral source of finances, the IMF, entered into different agreements with Pakistan after 1988[1]. Since that time Pakistan has been a prolonged user of IMF resources. The lending by the IMF was to provide medium term balance of payment assistance under different facilities, even though, in practice, it served almost the same purposes as those resources provided by the World Bank and ADB.

Pakistan has not experienced smooth relations with the IMF. During the period of 1988-2000, out of a total agreed amount of IMF loans of US$ 4.07 billion, only US$ 2.10 billion (51.5%) was actually disbursed to Pakistan. This was due to poor track records of policy implementation by Pakistan. Nonetheless, old IMF arrangements were continuously followed by new arrangements, and the same unmet conditionalities were repeated over and over again.

As reported by the IMF independent evaluation office (2002), Pakistan may be the classic example to suggest that the decision making process of the IMF since the 1980s has been politically driven to a large extent. It also seems as if personal contacts had played a major role. In fact, at different points of time, talks resumed and arrangements were concluded with the IMF and the World Bank when the governments of Pakistan directly included high level staff from these institutions. Mahbub ul Haq, former Director of the World Bank, was the Finance Minster of Pakistan in 1988, Moeen Qureshi, Senior Vice President of the World Bank was caretaker Prime Minister of Pakistan in 1993 and Shahid Javed Burki, Vice President of the World Bank was Finance Minister of Pakistan in 1994 and 1996. In 1988, 1993 and 1996, this coincided with new lending arrangements.

[1] Pakistan entered into its first agreement with the IMF in 1958, but the agreed amount was not drawn and no further substantial agreement was made until 1988.

It seems that more than mere development or economic considerations drive the major IFIs´ lending to Pakistan and thereby, to a large extent, the overall multilateral lending received by this country. IFIs' lending through structural adjustment programs, sectoral lending and lending for economic reform in the last two decades and before, casts some doubts on the relevance of the officially stated lending policy, which emphasizes economic need and policy performance (merit). Thus, when the IFIs' lending to Pakistan will be examined in more detail in the following section, we will give special attention to the interests of the different actors within these institutions.

3. The political economy of IFIs' lending to Pakistan

It is already widely accepted in the literature that an appropriate model to explain lending decisions should be comprehensive and take into account the potential effect of both donor interest, and recipients need and merit. This section will explain this 'hybrid' type of model, in which multilateral donors' interest can be accounted for by the bureaucratic inertia and political interest of the multilateral organizations. As discussed in section 2, the bureaucratic interest of IFIs could have an influence on lending decisions to Pakistan. Barro and Lee (2005) find some evidence for this hypothesis when analyzing IMF lending to a large set of countries. This type of approach is based on economic models of bureaucracy, in which bureaucrats disburse money in order to maximize their own utility (Easterly 2003a). Moreover, donor governments within IFIs have their own preferences, and IFIs can be used to serve their purpose (Fleck and Kilby 2006, Dreher and Jensen 2004, and Andersen et al. 2005). With this in mind, while considering IFIs' lending to Pakistan, we view IFIs as bureaucratic and political institutions which maximize the utility of their stakeholders, i.e. of bureaucrats and major shareholder countries.

3.1. Determinants of IFIs' lending decisions: some theoretical hypotheses

The motives of lending which directly correspond to the IFIs' openly declared objectives can be described in two different sets of variables. The first determines the needs of recipients, and the second captures their "merits", i.e. their previous effort to establish a sound economic policy environment (Berthélemy 2006, Cline and Sargen 1975).

With respect to economic needs, we should generally consider that, under the given economic conditions, Pakistan falls into the category of a low income country, reaching a per capita gross national income of only US$ 520 in the year 2003 (World Bank 2004b). This is far below the IDA established lending threshold of US$ 865. A large part of the country's population, almost 33%, is facing absolute poverty, as measured on the basis of the national poverty line. Poverty rates fell during the 1980s and early 1990s, but started to rise again towards the end of the decade. In addition, over last few decades, Pakistan's economy has faced many serious economic problems, on both internal and external economic fronts. In these situations and throughout the 1970s and the late 1990s, the country was clearly in need of foreign resources. According to the objectives for distributing loans that were initially defined by multilateral financial institutions, and as taken up by Frey and Schneider (1986) for the World Bank and Barro and Lee (2005) for the IMF, IFIs' lending should be based on the economic needs of a country. Thus Pakistan, should have received more lending from international organizations when it faced particular economic hardship. Thus, we can conclude this in our initial testable hypothesis:

Hypothesis 1: IFIs' lending to Pakistan is positively related to the variation of the country's economic needs.

We now come to the aspect of "merit" which is typically addressed in terms of "good governance". Good governance is a multifaceted concept, and both the economic and the more general political dimension are relevant here. As a first step, let us consider economic governance. According to official development policy lending strategies, the implementation of economic and social policies that promote growth is another basic criterion for IFIs' loan allocation. The World Bank and IMF joint strategy papers stated that development policy lending is normally undertaken only in a country that has an adequate macroeconomic framework in place. Therefore, lending should contain positive incentives, and good performance should be rewarded with more lending from the IFIs (Cline and Sargen 1975, Burniside and Dollar 2000). Although Pakistan is a poor country, the economy showed an impressive economic performance during the 1980s and early 1990s. Conversely, in the 1970s, economic performance was very poor, and it slowed down considerably in the late 1990s, due to imprudent policies, which resulted in a rather inconsistent pattern of growth. These variations should be expected to find their reflection in IFIs' lending. This leads us to formulate our second hypothesis:

Hypothesis 2: IFIs' lending to Pakistan is positively related to an improved performance of the country's economy.

While hypothesis 2 covers economic governance, we now move on to political governance, which constitutes the other merit based criterion for lending by the IFIs. Strong arguments can be made that good (political) governance indirectly influences economic growth and leads to reduced poverty (Rodrik 2003). If this is true, we should expect IFIs to take into account not only economic, but also political governance when making their lending decisions. However, previous studies on IMF and World Bank lending do not find much evidence for a relationship between political governance indicators and lending decisions (Bird and Rowlands 2001, Barro and Lee 2005, and Kilby 2006). Pakistan, which has experienced different types of governments, week political institutions and many periods of low government effectiveness, represents an interesting additional testing ground for whether there has been any effect on IFIs' lending decisions. This leads us to our third hypothesis:

Hypothesis 3: The IFIs' lending to Pakistan is positively related to good political governance.

So far we have only considered the development policy or need and merit oriented motives of IFIs' lending. Let us now turn to the political economic motives of IFIs' lending to Pakistan. We assume that concerning decisions on lending to developing countries, IFIs must be understood as both bureaucratic and political organizations. The bureaucrats working in these institutions can be expected to lobby and try hard to attain decisions and lending in favor of their home economies, so that they can get better positions in their respective home governments later on. Any decision in favor of their country, including higher lending to their country, will add to their own utility (Frey and Schneider 1986, Barro and Lee 2005). Thus, the bureaucrats at multilateral organizations have an incentive to disburse money to their home countries even if their home countries do not comply with previous targets and conditionalities (Mosley et al. 1991, Dreher 2004). As pointed out in section 1, a number of times Pakistan did not comply with IFIs' conditionalities and yet received new funding. Simultaneously, we observe significant change in the representation of Pakistan in the IFIs' major decision making bodies.

According to the political economic literature cited above, it can be assumed that any higher power held by national bureaucrats in international organizations will be used to obtain more

loans for their own country, and ultimately to maximize their own individual utility. This leads us to formulate our fourth hypothesis:

Hypothesis 4: The higher the number and the stronger the bureaucratic power of the Pakistani nationals at the IFIs, the higher will be the probability of Pakistan receiving more and larger loans.

Another political economic motive for resource flows, also related to bureaucratic interest, could be what Birdsall et al. (2003) describe as "defensive lending". The idea is that bad loans with a high probability of default may be followed by new loans so that the latter ensure the repayment of the former. Accordingly, when debt burdens grow, lending may increase. In fact, for the international bureaucracy, avoiding default is very important as it would do harm to their image as a competent decision making body. Moreover, lending to countries, even if they have already accumulated high debt burdens from prior lending, is consistent with the general bureaucratic objective to maximize the overall flow of resources. This resource flow is in turn related to the overall budget of their organization, and thus indirectly to the bureaucrats' pay and prestige (Vaubel 1991).

Birdsall, Claessens and Diwan (2003) show that countries with higher debt, especially towards international organizations, have indeed received larger net transfers than other countries. Based on the data on external debt and resource flows to Pakistan, it appears that its debt stock has grown very rapidly in the last three decades. The IDA total outstanding debt alone grew 5 times over the period from 1983 to 2003 (World Bank 2004). Anecdotal evidence suggests that in 1999, Pakistan was near to default when the IMF resumed its lending. Thus the arguments with respect to defensive lending are summarized by our next hypothesis:

Hypothesis 5: The higher Pakistan's debt to the IFIs, the higher is the probability for new lending and its volume.

Another common perception in political economics of international organizations is that IFIs serve the economic and political interests of their major shareholders (Stone 2004, Fleck and Kilby 2006, and Kilby 2006). Thus, any country that has close economic and political ties with the major shareholders of multilateral organizations, like the US and Japan, will be more

likely to receive loans from the IFIs, and the size of the loans is likely to be larger. The US and Japan can exert pressure on IFIs in different ways, particularly through their executive directors on the board, which have the maximum number of votes. Specifically, at the IMF, some important decisions require more than 85% of the votes. In this case, Japan and the US alone can block the lending decisions. Pakistan passed through different phases of political and economic relations with these countries and particularly with the US due to the imposition of sanctions under the Pressler Amendment at the US senate[2]. We expect that IFIs' lending to Pakistan depends on these variations in the bilateral economic and political relationship with major shareholder countries. We capture this in our final hypothesis:

Hypothesis 6: Closer economic links between Pakistan and the US and/or Japan, or higher political or strategic relevance of Pakistan for these countries will increases Pakistan's chances to obtain more and higher loans from the IFIs.

Overall, along with considerations of the country's need and merit, we retain bureaucratic interests as well as US and Japanese economic interests as potential determinants of IFIs' lending to Pakistan.

3.2 Empirical analysis of IFIs' lending to Pakistan over time

In order to empirically test these hypotheses we adopt the Tobit econometric estimation method, used recently in most aid allocation studies. The advantage of such an approach is that we can take into account the censored nature of gross total official flows from IFIs to Pakistan over time. This method estimates the aid flows in one step and is appropriate if the exogenous variables can be expected to have the same impact on the probability of receiving aid and on the amount of aid allocated thereafter (Gang and Lehman 1990, and Berthélemy and Tichit 2004).

Total official flows gross disbursement relative to the total flows to developing countries (*TOFDev*) and to low-income countries (*TOFLic*) were taken from OECD/DAC (2005) data as the dependent variables, in order to analyze the IFIs' lending decisions to Pakistan. Each institution was considered in the panel, starting from the year in which its lending to developing countries was established. However, data on the IBRD's lending to Pakistan was

[2] The Pressler Amendment at the US Senate in 1985 requested the US President to personally certify that there would be no risk of nuclear arms development in Pakistan, and without this certification, no more aid could be committed to this country.

taken from 1960, since OECD only provides this data from 1960 onwards. Taking the share of total aid shows the importance of lending to Pakistan relative to other developing countries and low-income countries.

Cross-country studies also including middle and higher income countries, such as Trumball and Wall (1994), Fleck and Kilby (2006) and Kilby (2006), only use the shares relative to lending to all developing countries. However, as we only consider Pakistan, which is a low-income country, its lending share among low-income countries could be a relevant alternative indicator. Taking into account both alternatives could be important especially if we assume that there might be predefined overall amounts for specific country groups such as low-income countries. Note, for instance, that only the later are eligible for IDA loans at all.

To examine Pakistan's economic need and merit in relation to IFIs' lending decisions as suggested by hypotheses 1 to 3, we require information on economic variables related to economic need and performance. The most direct indicator of any country's need for international aid flows is per capita GDP. Moreover, other studies on IFIs' lending decisions, like for example Bird and Rowlands (2001) and Frey and Schneider (1986), also suggest to use current account and government budget deficits as indicators of internal and external economic strains. Therefore, to measure the economic needs of Pakistan's economy, we use the data on per capita GDP (*GDPPC*), current account deficit as a percentage of GDP (*CurrentAcDef*), and the overall budget deficit as a percentage of GDP (*BudgetDef*), from the World Development Indicators (World Bank 2004c). For detailed definitions of variables and their sources, see Annex A, Table A1.

To determine the performance of Pakistan's economy, the annual GPD growth rate (*GDPg*) was taken as the indicator variable. Higher GDP growth indicates better economic performance. The data is again taken from the World Bank (2004c). The GDP growth rate as well as all other economic variables for determining the IFIs' lending to Pakistan were used with a one-period lag as fully updated information is generally not available for decision making, even for international institutions.

In order to portray good political governance, previous studies such as Barro and Lee (2005) use the rule of law and democracy. However, Mosley, Harrigan and Toye (1991) argue that political stability, i.e. in particular the frequency of change in government, might be a preferable indicator for political governance. This may be true in particular for early years in

which comprehensive indicators on democracy and the rule of law were not available. The Kaufman, Kraay and Mastruzzi (2005) governance indicators was computed only in 1996, and even the Freedom House index on political rights and civil liberties has only existed since the early 1970s. Thus we follow Mosley, Harrigan and Toye (1991) and try to capture political governance by political instability (*PolInstab*), which allows us to compute the required time series starting from 1960.

More concretely, political instability is measured in terms of changes in government. This means that any change in the Pakistani government which happened in a particular year was assigned a 1, and 0 otherwise. Taking a moving average over five years established an index on a scale from 0 to 1. A value closer to 1 indicates a higher number of government changes, i.e. higher political instability. The data for changes in government was taken from the Polity IV Project (2002).

It would have been interesting for our analysis to have information on the number of Pakistani professional and managerial staff at each institution, in order to check the effect of bureaucratic pressure and lobbying behavior of these bureaucrats on IFIs' lending to Pakistan. Unfortunately, however, there is no such data available from the IFIs, and where it is available, for example from the IMF Diversity Office, it is only for very short periods of time. Thus, alternatively, we used the Pakistani executive director voting power (*Pk_ed_vp*) as a percentage of total voting power of all the executive directors on the board. This data was taken from the annual reports of the World Bank, ADB and IMF (World Bank, ADB and IMF annual report, Various Years). The variable takes into account the Pakistani national executive director, or alternative executive director, representing Pakistan and the group of countries by whom he was elected to the executive board of IFIs. In the case where there was a temporary Pakistani alternative executive director for some years at the IMF, we multiplied his voting power by 0.5, in order to weigh down his position relative to full power. To further explain the bureaucratic interests of IFIs' lending, the information on Pakistani nationals working in top positions, including vice presidents and directors, was gathered from the annual reports of the World Bank, ADB and IMF. The numbers of Pakistani top officials (*Pk_off*) were taken as the percentage of total officers of each institution. Vacant posts were not taken into account while compiling the data.

We consider Pakistan's debt to all multilateral institution as a percentage of total debt (*MultiDt*), in order to test our fifth hypothesis. The variable is used with a one-period lag, considering that the decision making process at IFIs takes some time. The data is taken from Global Development Finance (World Bank 2004d).
Finally, the economic interests that major shareholders of IFIs may have in Pakistan, as a factor of determination of the IFIs' lending to Pakistan (as suggested in Hypothesis 6), is measured by the trade intensity of the US and Japan with Pakistan. Trade intensity of Pakistan with the US (*USTrade*) and Japan (*JPTrade*) is reflected by bilateral trade (exports+imports) between Pakistan and these countries, expressed as a ratio of Pakistan's GDP. The data was taken from the IMF (IMF- Directions of Trade Statistics 2004).

In order to capture the political interests of lending by the IFIs' shareholders, we included various dummy variables, in particular a dummy for 1985, the year in which the Pressler Amendment was passed in the US Senate, and a dummy (*dummy01-02*) for the years 2001 and 2002 to capture the post September 11 effect on aid allocation to Pakistan. We also introduced bilateral aid by major shareholder countries as additional variables.

Table 1 presents the results of our regression analysis. We use both an overall pooled Tobit model and a Tobit model with IFI specific random effects. The latter was also adopted by Berthélemy and Tichit (2004) and Barro and Lee (2005).

Fixed effects cannot be considered as a relevant alternative. They lead to inconsistent estimates because they cannot be estimated based on the total number of observations but only on the (rather limited) number of observations for different points in time within each institution. This creates estimation problems for Probit models as they rely on large sample properties, and consequently for Tobit models as well (for a detailed discussion of this problem, generally referred to as the incidental parameters problem, see Greene 2004). Regressions 1 and 2 show the IFIs' lending to Pakistan relative to other low-income countries (*TOFLic*). The following four regressions present the results of IFIs' lending to Pakistan, relative to all developing countries (*TOFDev*). Between regressions 1 and 2, and 3 and 4, model specifications differ only with respect to the inclusion of random effects for individual IFIs. Regression model 3 is then further enlarged to include trade with the US and Japan (regressions 5 and 6), political instability and a dummy for the September 11 effect (regression 6 only). In addition, regression model 6 was also estimated with random effects,

but as results remained virtually unchanged, this specification was not included in Table 1. All models were also estimated including the additional variables discussed above (US policy dummy for the Pressler Amendment and bilateral aid), but as they did neither turn out to be significant nor change the results in any relevant way, we decided to exclude them from the presentation.

As could be expected, the per capita GDP is significantly negative in all the regressions except regression 6, in which it still shows a negative sign. The estimated coefficient implies that, ceteris paribus, a low per capita GDP in Pakistan will raise the probability for and volume of IFIs' lending to Pakistan. In contrast, the other variables representing the economic need of Pakistan, i.e. current account and budgetary deficits, are not significant in any of the regressions presented in Table 1. All in all, these results provide only partial evidence for Hypothesis 1.

It should be noted, however, that the interpretation of the effect of the current account and budget deficit may be ambiguous. On the one hand, high deficits indicate a strong need for external resources, but on the other hand, they can be the result of bad economic policy. If IFIs react partially in response to need, and partially in response to merit, the overall sign of the coefficients is undetermined, and the coefficient estimate will only be significant if one consideration clearly dominates.

To a certain extent, this ambiguity also arises with respect to the interpretation of the coefficient of GDP growth. However, as we have separately included GDP per capita, the objectives of reacting on need on the one hand, and rewarding good economic performance on the other hand, are more easily separable here.

The estimated coefficient of the annual GDP growth rate shows a negative sign, but does not appear to be significant in any of the regressions. This implies that our data do not give any support to Hypothesis 2 of a positive relationship between the IFIs' lending to Pakistan and the performance of Pakistan's economy. If at all we want to interpret this insignificant coefficient, the negative sign shows that higher growth may reduce rather than increase lending from the IFIs.

Results for good governance represented by political stability in regression 6 do not confirm our initial hypothesis either. While the coefficient is not fully significant (p-value=11%) it shows a positive sign, indicating that if a relationship exists at all, frequent change in the government, and hence more political instability, seems to be rewarded rather than penalized by the IFIs.

In comparison with the need and merit variables, the IFI interest variables and the variables for shareholder interest appear to be more significant in our regression results. The bureaucratic interests measured by the Pakistani executive director voting power at each institution are significant in all but one regression and close to significant, at least at the 10% level, even there. We thus find evidence for a robust link between the power exercised by the bureaucrats and lending to their home countries. The other variable (*Pk_off*) representing the lobbying behavior of Pakistani national bureaucrats at IFIs in support of getting more lending to Pakistan, is not significant in our models presented in Table 1. This might be due to the fact that, as opposed to the political staff, i.e. the executive directors, the administrative staff does not consider their home country's relative position, but simply argue for higher funding for their country, whatever the situation for other countries may be. Nevertheless, clearly, administrative staff is not directly taking the lending decisions, but only indirectly influences decision making through lobbying at the executive board, whenever there is a higher chance of getting decisions in favor of their country. Moreover, the professional staff under their responsibility generally prepares the relevant policy papers and meeting documents and thus they have a certain agenda setting power. As pointed out by Barro and Lee (2005), it is also possible that certain bureaucrats provide insider information to their home countries. Thus, international bureaucrats can play an indirect role in IFI lending to their countries of origin. Unfortunately, as we do not have information on the number of all administrative officers, but only on top officials, the overall effect might be quite imprecisely estimated in our regressions.

Moreover, we observe that Pakistan's debt to multilateral institutions as one of the determinants of lending becomes significant in the first two regressions, with the expected positive sign. This provides some evidence of defensive lending, i.e. of IFIs' attempt to ensure the repayment of their previous loans by awarding new loans. However, this statement should be interpreted with caution, since the variable (*MultiDt*) loses its significance in the

regressions where the lending to Pakistan is taken as a percentage of lending to all developing countries. With this in mind, we have only limited support for our fifth hypothesis.

Regression 5 and 6 results show that Japanese trade is positively and significantly related to IFIs' lending to Pakistan, while this is not the case for US trade. This implies that IFIs' lending to Pakistan is more closely linked with Japanese economic interests than with those of the US. One reason might be that the US has more geopolitical and strategic, rather than economic interests in Pakistan. Anecdotal evidence suggests the relevance, especially of US interests, for the IMF and the World Bank. The data shows that lending to Pakistan by IFIs has jumped after Pakistan's joining the US-led coalition against terrorism after the September 11, 2001 (Calomiris 2000, and Economist 2001). Trying to capture this by a dummy variable taking the value of 1 from 2001 onwards, does, however, not lead to any significant result either. As we will see later, this can be explained by strongly varying reactions of different IFIs in this respect. As already mentioned above, other indicators of bilateral shareholders' political interest, i.e. the dummy for the Pressler Amendment and the volume of bilateral aid, were not found to be significant in any regression specification (additional specifications, not presented here). It should be noted, however, that political interest is extremely difficult to capture, so that insignificance of these results may be related, at least to some extent, to the weak indicators at hand.

Overall, the results are plausible, and support the idea that bureaucratic interests and political variables are at least as important as considerations of recipients needs or merit in determining the IFIs' lending to Pakistan. With the data at hand, Hypothesis 1 on country need considerations finds some support, but it loses its relevance in the full model (specification 6). There is no significant evidence for Hypothesis 2 on a relationship between lending and good economic performance. Hypothesis 3 on country merit, measured in terms of political stability, can be clearly rejected. At the same time, Hypothesis 4 and 5 on the role of bureaucracy finds clear support, and Hypothesis 6 on the economic interests of major shareholders of IFIs finds some positive support for Japan, although the result is less strongly significant than in the case of bureaucratic interests. Thus, IFIs bureaucratic interest and bilateral donor interest appear the most relevant determinants of IFIs' decision making on lending to Pakistan.

Table 1: Regression results for IFIs` Lending to Pakistan

	Regression 1		Regression 2		Regression 3		Regression 4		Regression 5		Regression 6	
	Tobit		Random Effects		Tobit		Random Effects		Tobit		Tobit	
	TOFLic		TOFLic		TOFDev		TOFDev		TOFDev		TOFDev	
	Est.	p-val.	Est.	p-val.	Est.	p-val.	Est.	p-val.	Est.	p-val.	Est.	p-val.
Recipient need												
GDPPC	**-0.16**	0.00	**-0.15**	0.00	**-0.04**	0.03	**-0.03**	0.03	**-0.04**	0.01	-0.02	0.41
CurrentAcDef	1.20	0.14	1.22	0.13	0.27	0.39	0.29	0.29	0.32	0.38	0.22	0.58
BudgetDef	-1.58	0.25	-1.59	0.24	-0.24	0.65	-0.24	0.61	-0.49	0.35	-0.52	0.35
Recipient merit												
GDPg	-0.65	0.49	-0.69	0.46	-0.02	0.96	-0.09	0.78	-0.29	0.45	-0.55	0.18
PolInstab											11.12	0.11
Bureaucratic interest												
Pk_ed_vp	**4.57**	0.00	3.80	0.11	**1.88**	0.00	**0.63**	0.05	**1.91**	0.00	**1.92**	0.00
Pk_off	0.68	0.50	0.44	0.70	-0.11	0.76	*-0.61*	0.08	-0.11	0.77	-0.12	0.73
MultiDt	*0.74*	0.09	*0.75*	0.08	0.16	0.33	0.16	0.29	0.21	0.19	-0.07	0.76
Bilateral donor interest												
USTrade									0.52	0.67	-0.43	0.75
JPTrade									**1.59**	0.03	*1.47*	0.07
dummy01_02											1.66	0.64
constant	**49.98**	0.00	**51.80**	0.00	*11.66*	0.07	**18.72**	0.00	7.64	0.35	10.07	0.23
N	104		104		104		104		104		104	
Censored Obs.	14		14		14		14		14		14	
LR/Wald Chi^2	52.16	0.00	20.22	0.00	47.81	0.00	15.49	0.03	52.62	0.00	55.53	0.00

Notes*: Italic* indicates significance at the 10% level. **Bold** indicates significance at the 5% level. **Bold underlined** indicates significance at the 1% level. For a detailed description of the variables and their sources, see Annex A, Table A1.

3.3 Comparison among IFIs

In the previous section we assumed that all IFIs behave in the same way when lending to Pakistan. However, Willett (2001) pointed out that while there has been an increasing overlap of the activities of the World Bank and IMF over time, there is still a significant difference between the major outputs of these institutions, not to mention the fact that the autonomy of bureaucracies also varies between the organizations. In the case of Pakistan, anecdotal evidence shows differences in institutional lending behavior over time. For example, the ADB continued its lending to Pakistan throughout the 1990s even as the World Bank and IMF disengaged their lending operations due to the US-led sanctions that had been imposed on the country, and had made it difficult for these institutions to gain clearance from their boards. In this section we will empirically test and compare different IFIs and point out the political economic factors behind their different or similar behavior.

In order to analyze the behavior of different IFIs and to test whether parameters for a given IFI differ from those of another IFI, we have constructed new explanatory variables from the variables used in Table 1, regression 6. By multiplying each explanatory variable with the

dummy variable for each institution, we end up with 44 variables specific to each of the four institutions in combination with each of the eleven explanatory variables. These variables are then taken up one by one, with the rest of the explanatory variables from regression 6 unchanged, i.e. assuming constant coefficients as before. All in all, 44 different Tobit estimations were carried out to test the significance of the additional term in each case. The estimated coefficient along with the signs of these institution-specific variables show clear differences between the IFIs concerning their lending to Pakistan. The signs of the coefficients indicate, in which direction the influence of any particular variable on the lending decisions of a specific IFI differs from the influence of the same variable for all IFIs jointly. Table A3 in the appendix presents the results of these regressions, whereas Table 2 clarifies the exposition by presenting an overview of direction and level of significance of the institution-specific variables.

The overall results clearly show two distinct groups of IFIs, in terms of their lending to Pakistan. It appears that the IDA and ADB, the two more concessional lenders, have almost the same lending preferences, whereas the IBRD and IMF constitute a different group, again with strong similarities among each other.

As opposed to what might have been expected, the IMF and the IBRD, who are most frequently under public criticism for their lending practices, can be shown to be by no means less oriented towards recipient need and merit than IDA and ADB. For recipient need, as measured by per capita income, the IMF and the IBRD even seem to be clearly more responsive, as they show a more strongly negative relationship between the recipient's per capita income and lending. These differences are clearly significant throughout.

At the same time, looking at current account and budget deficits, the IDA and ADB seem to react more strongly on need, i.e. they tend to lend relatively more at times of strong deficits (in particular budget deficits, for current account deficits, there is not much evidence of significant differences). As mentioned before, however, it is difficult to interpret the reaction on deficits merely in terms of recipient need. Alternatively, low deficits may be interpreted as an indication of good policy performance, in which case IMF and IBRD lending decisions could be interpreted as merit based.

Similarly, IDA and ADB seem to reward growth more than the IBRD and the IMF do. So far, this has been interpreted as a reaction on promising economic performance, i.e. good (economic) governance. At the same time, good governance in terms of political stability seems to be considered more seriously by the IBRD, while IDA and ADB tend to rather reward political instability. This inconsistency in the reaction on the two different governance indicators may raise doubts about the interpretation of the economic growth variable. In fact, while being an indicator of successful economic policy, high growth rates also imply that a country becomes an increasingly interesting partner for trade and investment. Therefore, support to countries with high growth rates may be in the interest of major bilateral donors represented on the boards of the different international institutions. We will get back to this point below.

Turning to the political economic grounds for lending, the lending record of IDA and ADB, compared to that of the IBRD and IMF, provides more evidence of such motivations. We observe that both IDA and ADB lending to Pakistan is much more strongly related to the Pakistani national bureaucratic power and to the number of Pakistani officers at these institutions than IBRD and IMF lending. Our result that IDA and ADB are more heavily influenced by their respective bureaucracies than the IMF and the IBRD, and that they have been lending money on political economic grounds rather than for development economic reasons, finds further support when we examine the evidence for defensive lending.

There is clearly more evidence for defensive lending from the IDA and the ADB than from the IMF and the IBRD. The former thus appears to use more important parts of their new credits to ensure the repayment of previous ones. Thus bureaucrats use new credits to avoid losing their face by acknowledging their creditor’s default.

And finally, even the influence of the economic interests of their major shareholder countries, the US and Japan, appears to be much stronger at the IDA and the ADB as compared to the IMF and the IBRD. Thus the development of Pakistani trade relationships with these two major stakeholder countries has been more relevant for loans from IDA and ADB. Concerning the political interests of major shareholders, e.g. joining the US-led coalition on war against terror, we observe no such reaction from IBRD, IMF and ADB. The IDA, however, considerably raised its lending to Pakistan. In Table A2, this difference in response to the political objectives of the US as a major shareholder is reflected in the positively

significant coefficient for the IDA interaction term with the post September 11 dummy. This reinforces the evidence for an interest oriented, rather than economic policy oriented lending from IDA.

All in all, the comparison of IFIs' lending decisions to Pakistan portrays two distinct groups, whereby the two less concessional lenders IMF and IBRD seem to be driven more strongly by recipient need and merit considerations than the two other lenders IDA and ADB. Conversely, decisions at the IDA and the ADB seem to be driven more strongly by bureaucratic and stakeholder economic interests.

While this result may be rather unexpected, it could be argued that highly concessional lending is more attractive for recipient countries and therefore induces more active lobbying by national bureaucrats in the respective financing institutions. Moreover, as funds include a significant grant component, major shareholders might consider that they should be allowed to at least use these funds in a way that benefits their own economies. Finally, it could be that the IMF and the IBRD are generally under closer international scrutiny by NGOs and academic researchers. As a regional bank, the ADB does not attract as much attention as an international organization with world-wide membership. And the IDA might escape closer scrutiny due to its focus on low-income countries which might provide some kind of an "immunizing" anti-poverty stamp. Closer international scrutiny obviously induces utility maximizing bureaucrats and shareholder countries to be more careful due to the international renown they have to lose.

However, while these may be plausible arguments, it must of course be kept in mind, that our results are based merely on lending to Pakistan. Similar studies with respect to other borrower countries will be required to assess the robustness of the empirical evidence presented for this particular country-case.

Table 2: Tobit estimated parameters by IFIs

	IMF	IBRD	IDA	ADB
Recipient need				
GDPPC	---	--	++	+++
CurrentAcDef	n.s.	-	n.s.	n.s.
BudgetDef	--	--	++	+++
Recipient merit				
GDPg	---	n.s.	+++	+++
PolInstab	n.s.	--	+	+++
Bureaucratic interest				
Pk_ed_vp	---	--	+	+++
Pk_off	---	--	++	+++
MultiDt	-	--	++	+++
Bilateral donor interest				
USTrade	--	--	+++	+++
JPTrade	---	-	++	+++
dummy01_02	n.s.	--	++	n.s.

Notes: +++ (---) = significant positive (negative) at 1% level; ++ (--) = significant positive (negative) at 5% level; + (-) = significant positive (negative) at 10% level; n.s. = non significant. For detailed description of the variables and their sources, see Annex A, Table A1.

4. Conclusions

This paper analyzes the determinants of IFIs' lending decisions to Pakistan at the example of the World Bank, the IMF and the ADB. While the objective(s) to respond to recipients' need and to reward good economic policy appears to play some role in lending decisions, Tobit regression results reveal that the self interests of the IFIs' bureaucracy may be more relevant. International bureaucrats exert their power at the executive board of each IFIs and favor lending to their respective home economies as well as defensive lending to any country with a serious risk of default. Another set of political economic variables explaining the economic and political interests of the major shareholders of IFIs also turn out to be partially significant. In particular there is some evidence for a relevant role of Japanese economic interests. However, US economic interests can not be shown to play a significant role. Moreover, the available data do not allow us to find any significant influence of bilateral political interests.

At the same time comparison among IFIs shows some interesting outcome. The IBRD and IMF, which find themselves under strict public scrutiny and continuous research interest of economists and political scientists, seems to be more careful to avoid a contradiction between official lending objectives and lending decisions. The available evidence suggests that they react more strongly to changes in recipients' need than those of the two other institutions, IDA and ADB. In turn, the IDA and ADB lending decisions are more responsive to political-economic influences than IBRD and IMF, and it seems that both bureaucratic interests and bilateral donor interests play the most important role there.

All in all, using Tobit estimation technique and various specifications, at the example of the World Bank, IMF and ADB lending to Pakistan, this paper provides evidence for political economic determinants of multilateral lending. It seems that the IFIs move away from their originally defined economic lending objectives. Thus it remains a promising agenda for future research to explore how international donor institutions behave with lending decisions to other countries.

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Annex A:

Table A1: List and sources of variables

Variable	Definition	Source
TOFDev	Total gross official flows disbursed to Pakistan divided by total gross official flows disbursed to all developing countries	International Development Statistics (OECD/DAC 2005)
TOFLic	Total gross official flows disbursed to Pakistan divided by total gross official flows disbursed to low income countries	International Development Statistics (OECD/DAC 2005)
GDPPC	GDP per capita in US$ lagged one period	World Development Indicators (2004)
CurrentAcDef	Current account deficit in % of GDP, lagged one period	World Development Indicators (2004)
BudgetDef	Overall budget deficit in % of GDP, lagged one period	World Development Indicators (2004)
GDPg	GDP growth (annual %) lagged one period	World Development Indicators (2004)
PolInstab	Index developed on 0-1, where 0 means more political stability and 1 stands for higher political instability	Polity IV Project (2002) and authors own calculations
Pk_ed_vp	Pakistani national executive director voting power at each IFIs' executive Board as percentage of total voting power of all executive directors	The World Bank, IMF and Asian Development Bank annual reports (Various Years)
Pk_off	Pakistani national officers as percentage of total officers of each IFI	The World Bank, IMF and Asian Development Bank annual reports (Various Years)
MultiDt	Multilateral debt (% of total debt) lagged one period	Global Development Finance (2004)
USTrade	Sum of US-Pakistan bilateral imports and exports in % of Pakistan' GDP	IMF Directions of Trade Statistics
JPTrade	Sum of Japan-Pakistan bilateral imports and exports in % of Pakistan' GDP	IMF Directions of Trade Statistics
dummy01_02	dummy for the years 2001 and 2002 to capture the post September 11 effect on IFI's lending	

Table A2: Descriptive statistics of variables analyzed

Variable	Obs	Mean	Units	Std. Dev
TOFDev	146	6.61	Share	6.62
TOFLic	146	19.89	Share	20.08
GDPPC	145	299.64	US$	132.89
CurrentAcDef	104	3.25	Percentage	2.08
BudgetDef	113	7.16	Percentage	1.38
GDPg	143	5.36	Percentage	2.42
PolInstab	146	0.24	0 to 1	0.14
Pk_ed_vp	146	2.93	Percentage	2.30
Pk_off	146	3.22	Percentage	2.05
MultiDt	122	26.85	Percentage	10.72
USTrade	141	4.03	Share	1.17
JPTrade	145	2.87	Share	0.97

Table A3: Regression results for Comparison among IFIs

	Regression A1		**Regression A2**		**Regression A3**		**Regression A4**		**Regression A5**		**Regression A6**		**Regression A7**		**Regression A8**	
	Tobit		**Tobit**		**Tobit**		**Tobit**		**Tobit**		**Tobit**		**Tobit**		**Tobit**	
	TOFDev		**TOFDev**		**TOFDev**		**TOFDev**		**TOFDev**		**TOFDev**		**TOFDev**		**TOFDev**	
	Est.	p-val.	Est.	p-val.	Est.	p-val.	Est.	p-val.	Est.	p-val.	Est.	p-val.	Est.	p-val.	Est.	p-val.
GDPPC	-0.01	0.41	-0.02	0.38	-0.01	0.57	-0.02	0.25	-0.02	0.37	-0.02	0.44	-0.02	0.46	-0.02	0.42
CurrentAcDef	0.24	0.54	0.19	0.62	0.19	0.64	0.28	0.46	0.38	0.34	0.09	0.81	0.27	0.50	0.04	0.93
BudgetDef	-0.51	0.33	-0.52	0.33	-0.52	0.34	-0.47	0.36	-0.57	0.34	-0.52	0.34	-0.51	0.35	-0.50	0.36
GDPg	-0.52	0.19	-0.59	0.14	-0.61	0.13	-0.50	0.19	-0.52	0.19	-0.57	0.17	-0.58	0.16	-0.54	0.18
PolInstab	10.58	0.12	*11.72*	0.08	*11.91*	0.09	9.68	0.14	10.72	0.12	*11.41*	0.10	11.38	0.11	10.74	0.12
Pk_ed_vp	**1.76**	0.00	**2.25**	0.00	**1.84**	0.00	0.34	0.46	**1.79**	0.00	**2.07**	0.00	**1.92**	0.00	**1.46**	0.00
Pk_off	0.03	0.93	-0.35	0.34	-0.51	0.20	-0.04	0.91	0.04	0.90	-0.25	0.50	-0.32	0.49	-0.17	0.64
MultiDt	-0.02	0.90	-0.14	0.54	-0.14	0.54	0.05	0.80	-0.02	0.90	-0.10	0.65	-0.10	0.65	-0.04	0.83
USTrade	-0.45	0.73	-0.37	0.78	-0.44	0.74	-0.66	0.60	-0.45	0.73	-0.40	0.76	-0.42	0.75	-0.49	0.71
JPTrade	*1.49*	0.06	**1.48**	0.06	*1.38*	0.09	*1.26*	0.10	*1.49*	0.06	*1.47*	0.07	*1.44*	0.08	*1.40*	0.08
dummy01_02	1.77	0.60	1.50	0.66	1.55	0.66	2.16	0.51	1.77	0.61	1.57	0.65	1.59	0.65	1.77	0.61
constant	8.96	0.27	11.26	0.11	13.11	0.12	10.94	0.17	8.98	0.28	10.81	0.20	11.42	0.19	10.79	0.20
GDPPC_IBRD	**-0.01**	0.02														
GDPPC_IDA			**0.01**	0.00												
GDPPC_IMF					**-0.01**	0.01										
GDPPC_ADB							**0.02**	0.00								
CurrentAcDef_IBRD									*-0.57*	0.08						
CurrentAcDef_IDA											0.44	0.20				
CurrentAcDef_IMF													-0.29	0.47		
CurrentAcDef_ADB															0.78	0.11
N	104		104		104		104		104		104		104		104	
Censored Obs.	14		14		14		14		14		14		14		14	
LR Chi^2	60.59	0.00	62.80	0.00	62.00	0.00	70.94	0.00	58.51	0.00	57.20	0.00	56.06	0.00	58.03	0.00

Notes*: Italic* indicates significance at the 10% level. **Bold** indicates significance at the 5% level. **Bold Underlined** indicates significance at the 1% level. For detailed description of the variables and their sources, see Annex A, Table A1.

Table A3 (continued)

	Regression A9		Regression A10		Regression A11		Regression A12		Regression A13		Regression A14		Regression A15		Regression A16	
	Tobit		Tobit		Tobit		Tobit		Tobit		Tobit		Tobit		Tobit	
	TOFDev		TOFDev		TOFDev		TOFDev		TOFDev		TOFDev		TOFDev		TOFDev	
	Est.	p-val.	Est.	p-val.	Est.	p-val.	Est.	p-val.	Est.	p-val.	Est.	p-val.	Est.	p-val.	Est.	p-val.
GDPPC	-0.02	0.36	-0.01	0.45	-0.01	0.54	-0.01	0.47	-0.18	0.38	-0.01	0.42	-0.01	0.56	-0.01	0.51
CurrentAcDef	0.24	0.54	0.20	0.61	0.20	0.61	0.30	0.41	0.23	0.55	0.20	0.60	0.19	0.61	0.28	0.43
BudgetDef	-0.41	0.44	-0.64	0.24	-0.39	0.47	*-0.84*	0.10	-0.51	0.34	-0.53	0.32	-0.51	0.34	-0.42	0.40
GDPg	-0.51	0.19	-0.59	0.14	-0.62	0.13	-0.51	0.17	-0.44	0.28	*-0.74*	0.07	-0.42	0.29	**-0.98**	0.01
PolInstab	10.56	0.12	*11.67*	0.09	*11.83*	0.09	9.27	0.15	10.75	0.12	*11.66*	0.09	*12.33*	0.07	*9.78*	0.12
Pk_ed_vp	**1.73**	0.00	**2.24**	0.00	**1.87**	0.00	-0.15	0.76	**1.78**	0.00	**2.24**	0.00	**1.91**	0.00	0.27	0.51
Pk_off	0.05	0.87	-0.35	0.35	-0.65	0.13	-0.38	0.27	-0.02	0.95	-0.28	0.44	**-0.90**	0.02	*-0.58*	0.09
MultiDt	-0.01	0.93	-0.13	0.55	-0.17	0.47	0.02	0.89	-0.03	0.86	-0.12	0.59	-0.21	0.34	-0.03	0.86
USTrade	-0.46	0.72	-0.36	0.78	-0.39	0.77	-0.65	0.60	-0.45	0.73	-0.37	0.78	-0.35	0.79	-0.53	0.66
JPTrade	*1.49*	0.06	*1.48*	0.06	*1.36*	0.10	1.14	0.13	*1.48*	0.07	*1.49*	0.06	*1.32*	0.09	1.18	0.11
dummy01_02	1.78	0.60	1.51	0.66	1.55	0.66	2.27	0.48	1.74	0.62	1.50	0.66	1.46	0.67	2.10	0.51
constant	8.85	0.28	11.25	0.17	13.80	0.11	*13.19*	0.09	9.39	0.26	10.83	0.19	**15.33**	0.06	*13.71*	0.08
BudgetDef _IBRD	**-0.39**	0.02														
BudgetDef _IDA			**0.45**	0.01												
BudgetDef _IMF					**-0.48**	0.02										
BudgetDef _ADB							**1.60**	0.00								
GDPg_IBRD									-0.34	0.12						
GDPg_IDA											**0.63**	0.00				
GDPg_IMF													**-0.98**	0.00		
GDPg_ADB															**1.76**	0.00
N	104		104		104		104		104		104		104		104	
Censored Obs.	14		14		14		14		14		14		14		14	
LR Chi^2	60.69	0.00	61.77	0.00	60.69	0.00	74.21	0.00	57.84	0.00	63.06	0.00	67.64	0.00	74.74	0.00

Notes*: Italic* indicates significance at the 10% level. **Bold** indicates significance at the 5% level. **Bold Underlined** indicates significance at the 1% level. For detailed description of the variables and their sources, see Annex A, Table A1.

Table A3 (continued)

	Regression A17		Regression A18		Regression A19		Regression A20		Regression A21		Regression A22		Regression A23		Regression A24	
	Tobit		Tobit		Tobit		Tobit		Tobit		Tobit		Tobit		Tobit	
	TOFDev		TOFDev		TOFDev		TOFDev		TOFDev		TOFDev		TOFDev		TOFDev	
	Est.	p-val.	Est.	p-val.	Est.	p-val.	Est.	p-val.	Est.	p-val.	Est.	p-val.	Est.	p-val.	Est.	p-val.
GDPPC	-0.02	0.36	-0.01	0.43	-0.01	0.44	-0.01	0.40	-0.02	0.36	-0.01	0.43	-0.01	0.67	-0.01	0.48
CurrentAcDef	0.24	0.53	0.20	0.60	0.21	0.60	0.25	0.51	0.26	0.49	0.18	0.64	0.13	0.72	0.26	0.47
BudgetDef	-0.51	0.34	-0.52	0.33	-0.52	0.34	-0.49	0.35	-0.43	0.41	-0.58	0.29	-0.69	0.19	-0.43	0.39
GDPg	-0.52	0.19	-0.57	0.15	-0.57	0.16	-0.52	0.19	-0.47	0.23	-0.61	0.13	*-0.71*	0.07	-0.49	0.20
PolInstab	**13.22**	0.05	9.42	0.18	*12.40*	0.08	5.60	0.42	9.61	0.15	*12.19*	0.08	**13.61**	0.04	9.41	0.15
Pk_ed_vp	**1.76**	0.00	**2.12**	0.00	**1.89**	0.00	**1.05**	0.00	**1.91**	0.00	**2.02**	0.00	**1.96**	0.00	-0.13	0.80
Pk_off	0.02	0.94	-0.27	0.47	-0.27	0.48	-0.08	0.81	-0.01	0.97	-0.24	0.51	**-0.79**	0.04	-0.28	0.41
MultiDt	-0.02	0.89	-0.11	0.62	-0.09	0.67	-0.00	0.99	0.00	0.97	-0.13	0.55	-0.21	0.34	0.02	0.90
USTrade	-0.45	0.73	-0.38	0.77	-0.42	0.75	-0.55	0.67	-0.46	0.72	-0.36	0.78	-0.56	0.66	-0.65	0.61
JPTrade	*1.49*	0.06	*1.48*	0.07	*1.44*	0.08	*1.36*	0.09	*1.26*	0.11	**1.62**	0.05	**1.89**	0.01	*1.28*	0.09
dummy01_02	1.77	0.60	1.56	0.65	1.62	0.65	1.93	0.57	1.99	0.56	1.41	0.69	1.30	0.70	2.20	0.50
constant	8.95	0.27	10.88	0.19	11.28	0.19	10.64	0.19	8.31	0.31	11.43	0.17	*15.29*	0.06	9.46	0.22
PolInstab _IBRD	**-10.05**	0.01														
PolInstab _IDA			*7.89*	0.07												
PolInstab _IMF					-4.83	0.28										
PolInstab _ADB							**17.88**	0.00								
Pk_ed_vp _IBRD									**-1.39**	0.01						
Pk_ed_vp _IDA											*1.51*	0.10				
Pk_ed_vp _IMF													**-2.77**	0.00		
Pk_ed_vp _ADB															**1.95**	0.00
N	104		104		104		104		104		104		104		104	
Censored Obs.	14		14		14		14		14		14		14		14	
LR Chi^2	61.65	0.00	58.84	0.00	56.70	0.00	63.20	0.00	61.73	0.00	58.17	0.00	71.84	0.00	72.68	0.00

Notes*: Italic* indicates significance at the 10% level. **Bold** indicates significance at the 5% level. **Bold Underlined** indicates significance at the 1% level. For detailed description of the variables and their sources, see Annex A, Table A1.

Table A3 (continued)

	Regression A25		Regression A26		Regression A27		Regression A28		Regression A29		Regression A30		Regression A31		Regression A32	
	Tobit		Tobit		Tobit		Tobit		Tobit		Tobit		Tobit		Tobit	
	TOFDev		TOFDev		TOFDev		TOFDev		TOFDev		TOFDev		TOFDev		TOFDev	
	Est.	p-val.	Est.	p-val.	Est.	p-val.	Est.	p-val.	Est.	p-val.	Est.	p-val.	Est.	p-val.	Est.	p-val.
GDPPC	-0.02	0.37	-0.01	0.46	-0.01	0.69	-0.01	0.60	-0.01	0.36	-0.01	0.45	-0.01	0.48	-0.01	0.38
CurrentAcDef	0.26	0.51	0.16	0.67	0.13	0.73	0.30	0.43	0.24	0.53	0.19	0.62	0.19	0.62	0.26	0.50
BudgetDef	-0.50	0.35	-0.55	0.31	-0.50	0.36	-0.38	0.47	-0.51	0.33	-0.52	0.33	-0.52	0.34	-0.49	0.35
GDPg	-0.53	0.18	-0.56	0.16	-0.59	0.14	-0.53	0.17	-0.52	0.19	-0.59	0.14	-0.60	0.15	-0.51	0.19
PolInstab	10.26	0.13	*12.27*	0.07	*13.09*	0.06	9.35	0.16	*10.57*	0.11	*11.66*	0.09	*11.69*	0.10	*10.08*	0.13
Pk_ed_vp	**1.73**	0.00	**2.23**	0.00	**1.85**	0.00	0.68	0.14	**1.77**	0.00	**2.20**	0.00	**1.84**	0.00	**0.79**	0.06
Pk_off	0.06	0.86	-0.38	0.31	-0.19	0.59	**-0.82**	0.04	0.04	0.91	-0.33	0.36	-0.38	0.33	0.01	0.96
MultiDt	-0.03	0.88	-0.13	0.56	-0.18	0.41	-0.02	0.92	0.00	0.99	-0.16	0.48	-0.10	0.66	-0.02	0.91
USTrade	-0.46	0.72	-0.44	0.73	-0.28	0.83	-0.26	0.84	-0.44	0.73	-0.37	0.78	-0.44	0.74	-0.62	0.63
JPTrade	*1.52*	0.06	*1.41*	0.08	1.22	0.13	*1.38*	0.08	**1.50**	0.06	**1.48**	0.06	*1.40*	0.09	*1.33*	0.09
dummy01_02	1.74	0.61	1.58	0.64	1.51	0.66	1.81	0.59	1.77	0.60	1.52	0.66	1.59	0.65	2.03	0.55
constant	9.59	0.24	10.85	0.19	11.12	0.18	8.68	0.28	8.86	0.27	11.24	0.17	12.22	0.15	10.33	0.20
Pk_off_IBRD	**-0.60**	0.04														
Pk_off_IDA			**0.80**	0.01												
Pk_off_IMF					**-1.14**	0.00										
Pk_off_ADB							**1.62**	0.00								
MultiDt_IBRD									**-0.09**	0.01						
MultiDt_IDA											**0.10**	0.01				
MultiDt_IMF													*-0.08*	0.06		
MultiDt_ADB															**0.22**	0.00
N	104		104		104		104		104		104		104		104	
Censored Obs.	14		14		14		14		14		14		14		14	
LR Chi^2	59.43	0.00	61.73	0.00	62.96	0.00	64.50	0.00	61.59	0.00	61.65	0.00	59.17	0.00	66.00	0.00

Notes*: Italic* indicates significance at the 10% level. **Bold** indicates significance at the 5% level. **Bold Underlined** indicates significance at the 1% level. For detailed description of the variables and their sources, see Annex A, Table A1.

Table A3 (continued)

	Regression A33		Regression A34		Regression A35		Regression A36		Regression A37		Regression A38		Regression A39		Regression A40	
	Tobit		Tobit		Tobit		Tobit		Tobit		Tobit		Tobit		Tobit	
	TOFDev		TOFDev		TOFDev		TOFDev		TOFDev		TOFDev		TOFDev		TOFDev	
	Est.	p-val.	Est.	p-val.	Est.	p-val.	Est.	p-val.	Est.	p-val.	Est.	p-val.	Est.	p-val.	Est.	p-val.
GDPPC	-0.01	0.36	-0.02	0.44	-0.01	0.51	-0.01	0.42	-0.01	0.37	-0.01	0.44	-0.01	0.61	-0.01	0.49
CurrentAcDef	0.24	0.54	0.19	0.61	0.19	0.62	0.30	0.42	0.23	0.55	0.20	0.60	0.20	0.60	0.31	0.37
BudgetDef	-0.51	0.34	-0.52	0.32	-0.51	0.34	-0.44	0.38	-0.51	0.34	-0.52	0.33	-0.50	0.35	-0.41	0.39
GDPg	-0.52	0.19	-0.59	0.14	-0.61	0.13	-0.50	0.19	-0.52	0.19	-0.58	0.15	*-0.65*	0.10	-0.51	0.16
PolInstab	10.57	0.12	*11.73*	0.08	*11.86*	0.09	9.36	0.14	10.67	0.12	*11.66*	0.09	*12.31*	0.07	9.19	0.13
Pk_ed_vp	**1.74**	0.00	**2.27**	0.00	**1.84**	0.00	-0.02	0.96	**1.74**	0.00	**2.23**	0.00	**1.93**	0.00	-0.23	0.59
Pk_off	0.02	0.95	-0.34	0.34	-0.54	0.17	-0.18	0.58	0.02	0.95	-0.32	0.38	**-0.99**	0.02	*-0.53*	0.10
MultiDt	-0.02	0.90	-0.13	0.54	-0.14	0.52	0.05	0.80	-0.02	0.89	-0.13	0.56	-0.23	0.30	0.00	0.96
USTrade	-0.25	0.84	-0.61	0.64	-0.22	0.87	-1.41	0.27	-0.46	0.73	-0.36	0.78	-0.33	0.80	-0.61	0.61
JPTrade	*1.49*	0.06	*1.49*	0.06	*1.38*	0.09	1.19	0.11	**1.66**	0.04	1.22	0.13	**1.70**	0.03	0.13	0.86
dummy01_02	1.76	0.60	1.51	0.66	1.60	0.65	2.30	0.48	1.76	0.61	1.53	0.66	1.48	0.66	2.30	0.46
constant	9.02	0.26	11.22	0.17	13.26	0.12	12.00	0.12	9.16	0.27	11.09	0.18	**15.72**	0.06	*13.83*	0.06
USTrade _IBRD	**-0.74**	0.01														
USTrade _IDA			**0.97**	0.00												
USTrade _IMF					**-0.94**	0.01										
USTrade _ADB							**2.82**	0.00								
JPTrade_IBRD									*-0.69*	0.08						
JPTrade_IDA											**0.99**	0.01				
JPTrade_IMF													**-1.67**	0.00		
JPTrade_ADB															**3.88**	0.00
N	104		104		104		104		104		104		104		104	
Censored Obs.	14		14		14		14		14		14		14		14	
LR Chi^2	60.96	0.00	63.88	0.00	62.69	0.00	74.69	0.00	58.47	0.00	61.26	0.00	68.70	0.00	82.90	0.00

Notes*: Italic* indicates significance at the 10% level. **Bold** indicates significance at the 5% level. **Bold Underlined** indicates significance at the 1% level. For detailed description of the variables and their sources, see Annex A, Table A1.

Table A3 (continued)

	Regression A41		Regression A42		Regression A43		Regression A44	
	Tobit		Tobit		Tobit		Tobit	
	TOFDev		TOFDev		TOFDev		TOFDev	
	Est.	p-val.	Est.	p-val.	Est.	p-val.	Est.	p-val.
GDPPC	-0.01	0.42	-0.01	0.39	-0.01	0.41	-0.01	0.41
CurrentAcDef	0.22	0.57	0.22	0.57	0.22	0.58	0.22	0.58
BudgetDef	-0.51	0.34	-0.52	0.33	-0.52	0.34	-0.52	0.35
GDPg	-0.55	0.17	-0.54	0.17	-0.55	0.18	-0.55	0.18
PolInstab	*11.08*	0.10	*11.06*	0.10	11.10	0.11	11.12	0.11
Pk_ed_vp	**1.93**	0.00	**1.97**	0.00	**1.91**	0.00	**1.92**	0.00
Pk_off	-0.19	0.59	-0.08	0.81	-0.10	0.77	-0.12	0.73
MultiDt	-0.08	0.71	-0.06	0.77	-0.06	0.77	-0.07	0.76
USTrade	-0.40	0.76	-0.42	0.75	-0.43	0.75	-0.43	0.75
JPTrade	*1.47*	0.07	*1.49*	0.06	*1.47*	0.07	*1.47*	0.07
dummy01_02	3.78	0.30	-0.83	0.81	2.06	0.58	1.65	0.65
constant	10.31	0.21	9.70	0.23	9.99	0.24	10.07	0.23
dummy01_02_IBRD	**-8.50**	0.04						
dummy01_02_IDA			**9.98**	0.01				
dummy01_02_IMF					-1.54	0.72		
dummy01_02_ADB							0.05	0.99
N	104		104		104		104	
Censored Obs.	14		14		14		14	
LR Chi^2	59.54	0.00	61.08	0.00	55.66	0.00	55.53	0.00

Notes*: Italic* indicates significance at the 10% level. **Bold** indicates significance at the 5% level. **Bold Underlined** indicates significance at the 1% level. For detailed description of the variables and their sources, see Annex A, Table A1.