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The political economy of International Finance Corporation lending

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ABSTRACT

Much of the International Finance Corporation's (IFC) lending benefits private companies from rich countries and supports projects in middle-income countries. Large corporations such as *Lidl* or *Mövenpick* have received its loans for highly profitable investments. This contrasts to some extent with the IFC's official mandate, which is to finance poverty-reducing projects for which private capital is not available on reasonable terms. Investigating a potential driver of this mismatch, we argue that some governments can influence the allocation of IFC loans to the benefit of private companies in their countries. Using new data for more than 3000 IFC projects over the 1995–2015 period we show that (joint) IFC Board membership of countries where borrowing companies are based and of countries where the projects are implemented increases the likelihood that these countries receive IFC loans. This has implications for the debate on leveraging private-sector investments for development.

1. Introduction

In 2010, the World Bank's International Finance Corporation (IFC) approved a multi-million credit to facilitate the renovation of a five-star *Mövenpick* Hotel in Ghana's capital Accra. The project company was a fully owned subsidiary of *Kingdom Hotels Investments*, a global player with operations in 18 countries, and owned by a Saudi Arabian prince.[1] The IFC points out that the project's development impact consists of adding important business infrastructure, creating new jobs, and providing demand for local food and non-food supplies. According to the IFC, the project has been a "great success," obtaining most revenue per room in all Accra.[2]

Being part of the World Bank Group, the IFC's official mandate is to "end extreme poverty and promote shared prosperity."[3] The IFC is the private-sector arm of the World Bank Group[4] and according to its Articles of Agreement is supposed to assist – "particularly in the less developed areas" – in financing development-oriented private sector projects for which "sufficient private capital is not otherwise available on reasonable terms."[5] Given this mandate, the IFC's provision of financial support for a highly profitable luxury hotel seems puzzling. Despite the ongoing global financial crisis at the start of the project, it is hard to imagine that private capital would not have been available to finance the project, or that other, more obviously development-oriented projects could not have been more worthy of the IFC's support.

In this paper, we examine the allocation of IFC loans from a political economy perspective. Decisions about loans are made by the IFC's Board of Directors ("Board"), where both the home countries of companies implementing its projects ("sponsors") and the recipient countries of projects ("recipients") are represented. In a nutshell, we expect IFC lending to be affected by the political interests of the 25 countries that are

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[1] http://ifcext.ifc.org/ifcext/spiwebsite1.nsf/DocsByUNIDForPrint/D8FCCDDFAFCFB6FF852577E5005E6194?opendocument (last accessed December 12, 2016).
[2] http://www.ifc.org/wps/wcm/connect/0a5122004c23a313bf56bfd8bd2c3114/The+Movenpick+Ambassador+Hotel,+Ghana.pdf?MOD=AJPERES (last accessed December 12, 2016).
[3] https://www.ifc.org/wps/wcm/connect/corp_ext_content/ifc_external_corporate_site/about+ifc_new (last accessed December 27, 2018).
[4] The Group's original institution is the International Bank for Reconstruction and Development (IBRD). The Group also features the International Development Association (IDA), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for Settlement of Investment Disputes (ICSID). The IBRD and the IDA are jointly known as the World Bank.
[5] https://www.ifc.org/wps/wcm/connect/corp_ext_content/ifc_external_corporate_site/about+ifc_new/ifc+governance/articles/about+ifc+-+ifc+articles+of+agreement+-+article+i (last accessed December 27, 2018).

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directly represented by an Executive Director in the Board. We expect these – usually rich – members to use their positions of power to influence the IFC in a way that private companies from their countries receive a disproportionate share of IFC lending.

The IFC has 184 member countries that provide the organization's paid-in capital of US$ 2.56 billion.[6] It raises the funds for its lending activities primarily in the international debt markets. Due to its high paid-in capital the IFC has a persistent AAA rating and can borrow at prime conditions. The IFC does not pay dividends to its shareholders and is exempt from corporate taxes. These benefits are to some extent passed on to borrowers, in the form of longer maturing loans or longer grace periods compared to market conditions (Te Velde et al., 2007). The IFC issues a variety of bonds like US dollar benchmark bonds, themed bonds, and local-currency bonds. In addition to bond issuance, the IFC invests its liquid assets to increase its total resources. In 2018, total resources, which consist of paid-in capital, retained earnings net of designations, and total loan-loss reserves, amounted to US$ 24.7 billion.

Over the last decade, the IFC became a major player in development lending. Whereas its commitments were as low as US$ 4 billion in the year 2000, the IFC reached a 2018 portfolio of new commitments amounting to more than US$ 23 billion for a total of 366 private sector projects in 74 recipient countries. Reflecting the rise of public-private cooperation in financing for development more broadly, this upward trend is likely to continue. In 2018, the IFC's shareholders endorsed a US$ 5.5 billion paid-in capital increase that will more than triple the cumulative paid-in capital that the IFC received since its inception. Not least because of this capital increase, the IFC projects that it will more than double its annual commitments and reach US$ 48 billion by 2030 (IFC, 2018).[7] The IFC now accounts for about one third of the World Bank Group's total annual commitments of US$ 67 billion and is becoming an increasingly important institution within the Group. Its former President Jim Yong Kim sees the future of the Group as a broker between private lenders and developing countries, which would substantially strengthen the role of the IFC.[8] According to Ellmers et al. (2010: 8) "private sector finance may even become the new core business of the Bank." In light of these developments understanding the drivers of IFC lending is of vital importance.

While the IFC might broadly follow its mandate in aiming to promote pro-poor growth,[9] we also expect its lending decisions to be influenced by its member countries' own interests. These members, in turn, can plausibly be expected to represent the interests of private companies based in their countries. As in most multilateral organizations, some member countries have more influence on the IFC than others. Building on previous literature on the political economy of multilateral organizations, we expect more influential governments to exploit their formal and informal influence on the organization to use it for their own benefit. As we outline in more detail in Section 2, we have two main hypotheses. First, we expect that governments will use their influence *individually* to secure more IFC loans for their country and for companies from their country. Second, we expect recipient governments and governments from sponsoring countries whose companies obtain the loans to form coalitions and use their *joint* influence to secure more IFC loans that benefit both of their countries.

Our measure of influence is a country's representation on the IFC's Board of Directors, which is in charge of the IFC's day-to-day business.[10] We presume that companies and countries receive more loans from the IFC when their interests are represented on the IFC's Board, i.e., when the government of the recipient country or the government of the company's home country (sponsor) hold one of the 25 seats. In a nutshell, our expectations are that countries with a seat on the IFC Board will a) have a higher likelihood of receiving IFC projects, b) have a higher likelihood that its companies receive an IFC project, c) receive more projects that are implemented by its own companies, as for such projects the benefits to companies and recipient countries accumulate, and d) receive more joint projects with a partner country that also holds a seat on the Board, as sponsor-recipient pairs can cooperate in the Board to jointly influence IFC lending. As we describe in more detail below, we have collected new data for more than 3000 IFC projects over the 1995–2015 period to test these hypotheses.

Our fixed-effects regressions show that representation of a government on the IFC's Board of Directors significantly and substantially increases the likelihood that IFC projects go to its country and to companies based in its country. The probability to receive an IFC loan increases by about one fifth for countries that get a seat on the IFC Board and is not significantly higher in the years directly before or after. This suggests that the observed effects of membership are unlikely to be due to general trends that affect a country's likelihood of receiving a loan and of becoming a member of the Board. We find the effect of holding a seat on the Board to become stronger in cases where a project is implemented by a company from the recipient country and when both recipient *and* sponsor countries hold a seat on the IFC Board. While seats on the Board are not allocated randomly, we consider it unlikely that two countries' joint representation on the Board is driven by unobserved variables that also affect the probability that these two countries collaborate in an IFC project.[11]

The paper extends the literature in three dimensions. First and foremost, we show how governments pursue the interests of private companies from their countries in international fora by influencing how international financial institutions allocate their loans. This has received little attention in the literature on international institutions but becomes increasingly important as these institutions expand their cooperation with the private sector to leverage private financing for achieving

[6] Unless otherwise stated, the figures and background information included in the two subsequent paragraphs are based on the IFC's Annual Report 2018 (IFC, 2018).

[7] In the year 2017, this compares to net disbursements of US$ 147 billion in Western bilateral Official Development Assistance (ODA), US$ 35 billion in aid from the United States, US$ 25 billion from Germany, and US$ 23 billion in (gross commitments of) Chinese development finance. Gross disbursements of selected regional development banks in 2017 in billion US$ amount to 12.8 (Asian Development Bank), 8.8 (Inter-American Development Bank), 6.8 (African Development Bank), 2.0 (Islamic Development Bank), and 0.04 (Nordic Development Fund). See http://www.oecd.org/development/development-aid-stable-in-2017-with-more-sent-to-poorest-countries.htm for bilateral aid from Western donors, http://www.oecd.org/dac/financing-sustainable-development/development-finance-data/multilateral-agencies-outflows.htm for data on multilateral donors, and Dreher et al. (2017) on China. Last accessed January 2, 2019.

[8] See Jim Yong Kim's lecture "Rethinking Development Finance" on 11 April 2017 at the London School of Economics, http://www.lse.ac.uk/website-archive/newsAndMedia/videoAndAudio/channels/publicLecturesAndEvents/player.aspx?id=3802.

[9] IFC loans, like other forms of capital, can contribute to pro-poor growth in a multitude of ways. Feeny and McGillivray (2016) provide a review of the theoretical and empirical literature and the chapters in Besley and Cord (2007) give country examples. For this paper, we are agnostic as to whether the IFC actually achieves this goal, but suspect – based on previous literature (Dreher et al., 2018a) – that the political motives involved in the allocation of aid potentially reduce its effectiveness for growth. While we do not test this in this paper, we discuss it further below.

[10] Throughout the paper we use the term "representation" when we refer to countries that have a national as their Executive Director on the IFC Board. While some member countries have their own Director who only represents a single country, most members form country groups that have one joint Director, who is a national of one of the countries in the group. The Brazilian Director, for instance, currently represents Brazil, Colombia, Dominican Republic, Ecuador, Haiti, Panama, Philippines, Suriname, and Trinidad and Tobago. Of course, the Executive Director for a group is supposed to represent all countries in the group.

[11] We also investigate other determinants of IFC projects and find that these projects tend to go to countries that are richer and whose economies grow faster.

development goals.[12] Second, we look at the joint influence of country coalitions. The previous literature has mostly focused on how individual countries can sway decision-making in international organizations. The particular way in which the IFC operates, however, allows us to test whether countries also collaborate with one another in order to jointly increase their access to multilateral resources. Third, we are the first to investigate the importance of shareholder influence for IFC lending. While there is a substantial literature on shareholder influence on other international organizations,[13] the IFC has not yet been considered – perhaps because it only recently became an important global actor in development cooperation.

More generally, our paper speaks to the recent policy debate on leveraging private funding for development. The rise of the IFC reflects the surge of private financing in development cooperation more broadly. It is an increasingly popular perspective in the global development landscape to consider a key role for public resources in leveraging private sector investments; e.g., by using them for guarantees to reduce investor risk and for risk-sharing via pooling mechanisms like blended loans, syndicated loans and securitization (OECD, 2014). Both the Sustainable Development Goals (SDGs) and the Addis Ababa Action Agenda (AAAA) emphasize this perspective. According to the AAAA, "[a]n important use of international public finance, including ODA, is to catalyse additional resource mobilization from other sources, public and private. […] It can […] be used to unlock additional finance through blended or pooled financing and risk mitigation, notably for infrastructure and other investments that support private sector development" (UN, 2015: 27).

To the extent that the allocation of such funding is shaped by special interests rather than need or expected rates of return, an allocation of private funds that benefits some countries and companies disproportionally might be less effective in promoting development than commonly thought. After all, there is evidence to suggest that political considerations in allocating official aid make the aid less effective in raising growth (Dreher et al., 2018a). The commercial incentives of the political coalitions involved in IFC lending might thus work contrary to the IFC's goal of promoting economic development and poverty reduction.

The next section introduces our hypotheses and provides descriptive evidence. Section 3 explains our empirical strategy and section 4 provides the main results. The final section 5 discusses implications and concludes.

2. Data and hypotheses

2.1. Data on IFC lending

To investigate the allocation of IFC loans we compile a new dataset on IFC lending. For each IFC loan we code its size, the year in which it was approved, the country in which the investment took place ("recipient country"), and the home country of the company that received the loan to implement the project ("sponsor country"). While data on year of loan approval, loan size, and recipient country can be extracted (web scraped) from the World Bank's individual project websites, the sponsor country had to be hand-coded for each individual project. Even though the sponsor company's location is for most projects included in a descriptive text on the website under "Sponsor/Cost/Location" and "Project sponsor and major shareholders of project company," the sponsor company's ultimate home country was not always obvious. For example, the project sheet for the *Mövenpick* project in Ghana mentioned in the introduction shows that the project company is *KHI Ghana Limited*. Only additional online research revealed that this company is a fully owned subsidiary of *Kingdom Hotels Investments (KHI)*, owned by Prince Walid of Saudi Arabia. In order to establish a consistent and meaningful coding rule of a sponsor company's home country, we used the location of the company's headquarters – like Saudi Arabia for *KHI Ghana Limited*. We therefore coded Ghana as the recipient country and Saudi Arabia as the sponsor country. Accordingly, we checked the location of every sponsor company for each project in an individual online research.[14]

In total, we were able to collect data on 3223 IFC loan projects. The total investment sum we capture with these data is US$ 101 billion (all values in constant 2010 dollars). Accordingly, the average loan in our database has a volume of US$ 31 million.

The largest share of loan volumes in our data has been committed to companies from the United States with 7.8 percent of overall commitments and 4.8 percent of all projects over our sample period. In addition to the United States, the other top ten sponsor countries are Brazil, India, Turkey, China, Russia, France, Mexico, the United Kingdom, and Indonesia. Overall, companies from these ten high- and middle-income countries received almost half (49 percent) of the total investment volume in our sample period.[15] The largest recipient country is India, with a share of 8.5 percent of total IFC commitments over the sample period. The remaining top ten recipient countries are Brazil, Russia, Turkey, China, Mexico, Indonesia, Argentina, Colombia, and the Philippines. Appendix A in the Supplementary Material shows the shares of projects and loan volumes committed to the 30 largest sponsor and recipient countries.[16]

The average country that receives an IFC loan in a given year has a GDP per capita of US$ 4388 (median US$ 2916). About 23 percent of these projects were implemented in low-income countries, and 41 percent in lower middle-income countries. The remainder went to upper middle-income countries (33 percent) and high-income countries (2

[12] The two papers that are most closely related to ours are McLean (2017) and Malik and Stone (2017). McLean (2017) finds that recipients of World Bank aid preferentially allocate contracts to domestic companies and to companies from countries from whom they receive more bilateral aid. In contrast to our paper, hers does not speak to the allocation decisions of the World Bank itself. Malik and Stone (2017) provide evidence that IDA and IBRD projects involving Fortune 500 companies receive larger disbursements and better evaluations relative to their performance, compared to other companies. The paper shows that this effect is limited to Fortune 500 companies based in the United States or Japan and, in contrast to our paper, does not provide evidence for an influence of other companies or countries. More broadly, our paper thus also relates to the literature on politically connected firms. This literature typically focusses on individual countries and finds that firms with connections to the country's government receive larger loans (e.g., Khwaja and Mian, 2005).

[13] A number of papers have shown that countries that are allied with or important for an international organization's major shareholders receive more of the organization's loans at more favorable terms (Thacker, 1999; Kuziemko and Werker, 2006; Dreher and Jensen, 2007; Dreher et al., 2009a, 2009b; Vreeland and Dreher, 2014; Dippel, 2015). For the IBRD, the IDA, and the IMF, Kaja and Werker (2010), Morrison (2013), and Malan (2018) have shown that country representation on the Executive Boards of these organizations substantially increases the size of the loans that countries receive from them.

[14] Due to careful hand-coding with individual online research of each sponsor country we consider systematic measurement error to be unlikely. Of course, we cannot rule out that we have misclassified some of the projects in spite of these efforts. We have, however, no reason to assume that the noise that this would introduce would not be random, so that the significances we report below would represent lower bounds.

[15] Note that a substantial number of projects in a specific host country are implemented by a company from the same country (69 percent of the loan size; 67 percent of the projects). However, in 27 percent of the observations with such projects at least one additional project is implemented by a company from another country.

[16] For more details on the IFC's portfolio see Kenny et al. (2018) and the IFC's official response to the article (summarized in Kenny and Ramachandran, 2018). Kenny et al. (2018) provide a descriptive analysis of the IFC's portfolio along several dimensions, such as instruments, sectors, and characteristics of recipient countries. They criticize the IFC for its focus on middle-income countries.

percent). The average sponsor country is richer and has a GDP per capita of US$ 13,796 (median US$ 5150). About 16 percent of these projects were sponsored by companies from countries that the World Bank classified as low-income countries and 31 percent by lower middle-income countries. Companies from upper middle-income countries received 30 percent; high-income countries receive 23 percent. Given that the IFC's overarching mandate is to promote economic development "particularly in the less developed areas" (IFC Articles of Agreement, Article I) the fact that a relatively large share of IFC loans goes to comparably rich countries contrasts to some extent with this mandate. As we argue in the following, one potential explanation for this pattern is that IFC loan allocation is not exclusively driven by the IFC's official mandate but also by the interests of its most powerful shareholders and the companies based in their countries.[17]

2.2. Hypotheses

We expect that governments will use their influence to secure IFC loans that benefit their economies and companies. We also expect them to form coalitions and use their joint influence to further their goals. We discuss those expectations in turn.

We start with the observation that some companies choose IFC loans over alternative funding. This is either because they do not have access to alternative funding or because they consider it inferior. While interest rates on the IFC's loans are comparable to market rates, they come with longer maturities and grace periods, as well as with technical assistance that is underpriced compared to market conditions (Te Velde et al., 2007). Furthermore, companies might expect funding from other sources to be more easily available for projects with IFC support, for example because private creditors rely on the IFC's screening of projects or expect preferential political treatment for these projects in the recipient country.

We expect governments of sponsor and recipient countries to pay attention to the interests of large companies that are based in and/or are active in their countries. Governments of recipient countries are likely to support a loan application to the extent that they are under the impression that the implementation of a project depends on the availability of IFC funding. They might expect positive effects on employment and growth or merely effects on their reputation for being able to attract IFC funding to their country. Lobbying might also play a role. Many companies that receive IFC funding are politically well-connected multinationals that spend substantial resources on entertaining good relations with governments around the world. Our expectations are similar when it comes to governments of sponsor countries. We expect these governments to have an interest in the economic success of "their" companies. These companies typically pay substantial amounts of taxes in their countries, often employ many voters, and have particularly close political connections to the government of their home country. In a nutshell, we expect governments to support IFC loan applications that involve their country as a recipient or as a sponsor either as a result of lobbying or because they perceive these loans to imply benefits for their country.[18]

While we thus assume governments around the world to be in favor of receiving IFC loans for their companies and countries, we expect different countries to have different levels of influence on IFC decisions. The IFC's day-to-day business is overseen by the Board of Directors. The Board consists of the World Bank President and 25 representatives of the IFC's member countries.[19] The six countries with the largest paid-in capital each appoint their own Director.[20] The remaining Directors are elected by groups of countries[21] and have the final say over the vote of the country group they represent.[22] This gives some countries substantially more formal and informal power over the IFC's decisions than others. For example, the United States – by far the IFC's largest shareholder – has its own Director and is in charge of almost 21 percent of the votes. For comparison, Ethiopia, a country with more than 100 million inhabitants, has 0.03 percent of the votes and, along with 21 other countries, is currently represented by the Ugandan Director, who controls the 1.31 percent of the joint voting power of this group of 22 countries.[23]

We follow previous work and use a country's representation on the Board of an international organization as a measure of its influence over the organization.[24] Though formal voting over the IFC's lending decisions is rare and proposals are typically not voted down, Board decisions require a majority of Directors and at least half of the total votes.[25] We expect IFC staff preparing the loans to anticipate which projects will find support in the Board such that loans that favor countries whose interests are directly represented on the Board will be more likely to be put forward. Such "preemptive obedience" by World Bank staff can give rise to political biases even in the absence of any direct major power intervention (Lang and Presbitero, 2018).

In addition to formal power deriving from the voting weight of a country, we also expect informal influence in the IFC's decision-making to matter. The importance of informal channels for international organizations' decision-making has been pointed out by Stone (2011, 2013), Koremenos (2013), and Lang and Presbitero (2018) among others.[26]

[17] We do not claim that this is the only explanation for the fact that many IFC loans go to relatively rich countries. An additional explanation, which we do not test in this paper, could be that the IFC also aims to lend to lower-risk projects in richer countries in order to generate financial returns that can then be used to implicitly cross-subsidize higher-risk projects in poorer countries.

[18] The literature on international organizations pays less attention to the motives and lobbying activities of private companies compared to the direct interests of governments, though there is some evidence of lobbying. In addition to McLean (2017) and Malik and Stone (2017), which we introduced above, Broz and Hawes (2006) focus on banks and show that countries with larger exposure to U.S. banks are more likely to receive IMF programs and larger loans. They attribute this to the banks' influence over U.S. politicians and the politicians' power over the IMF. Broz (2008, 2011) shows that U.S. commercial banks hold some sway over how U.S. congress legislates the IMF.

[19] Formally, the IFC's highest decision-making body is the Board of Governors. The Board of Governors, however, "has delegated all powers to the Executive Directors except those mentioned in the Articles of Agreement. These powers include: Admit and suspend members; Increase or decrease the authorized capital stock; Determine the distribution of the net income of the Bank; Decide appeals from interpretations of the Articles of Agreement by the Executive Directors; Make formal comprehensive arrangements to cooperate with other international organizations; Suspend permanently the operations of the Bank; Increase the number of elected Executive Directors; and Approve amendments to the Articles of Agreement." http://www.worldbank.org/en/about/leadership/governors (last accessed, December 20, 2018).

[20] That is, China, France, Germany, Japan, the United Kingdom, and the United States.

[21] The exception is Saudi Arabia whose vote share is large enough to "elect" its own Director. The Director nominated by Russia represents the votes of only one additional country, Syria.

[22] A member's voting weight is determined by its paid-in capital. More specifically, each share of the IFC's capital stock comes with one vote. In addition, 5.55 percent of the total votes are shared as basic votes by all members equally.

[23] The World Bank Group provides details on the voting weight of IFC Executive Directors at http://pubdocs.worldbank.org/en/371981541106485188/IFCEDsVotingTable.pdf (last accessed December 20, 2018). Vreeland (2011) provides a detailed account of how voting blocs are formed.

[24] These types of political influence have received particular attention for the International Monetary Fund, the International Development Association, and the International Bank for Reconstruction and Development (Kaja and Werker, 2010; Morrison, 2013; Malan, 2018). We expect the same mechanisms to hold for the IFC. The governing structure of the IFC is very much in analogy to that of the IMF, and the other World Bank Group institutions. To the extent that the other institutions of the World Bank Group are receptive to shareholder influence, there is little reason to expect this influence to be absent from IFC lending.

[25] Voting records are not publicly available, so that an analysis at the vote-level is impossible.

[26] Parízek (2017) shows that powerful states are over-represented among the staff of international organizations' secretariats, which facilitates the exercise of informal power over them. Also see Novosad and Werker (2019).

Irrespective of the actual voting power, the mere presence in the Board can increase a government's informal influence by enhancing its access to information about Board discussions and by making the country's voice heard. Furthermore, the boardroom culture created by frequent meetings within the same group of decision-makers can lead to the Directors engaging in logrolling behavior (Kaja and Werker, 2010). The Board is thus likely to be supportive of loans that are in the interest of a specific Director, who in turn supports loans in the interest of other members of the Board.

Power over international organizations is sometimes also measured more indirectly.[27] One widely used proxy for the political influence of a country is its temporary membership on the United Nations Security Council (UNSC). UNSC members have clout with major powers for exactly their two years of temporary membership, given that powerful governments care about UNSC voting of minor powers (Kuziemko and Werker, 2006; Vreeland and Dreher, 2014; Mikulaschek, 2018). Previous research suggests that UNSC members can exploit their temporary leverage to ask the World Bank's major shareholders to support their loan applications (Dreher et al., 2009b, 2018b). Compared to seats on the IFC's Board this proxy for a country's power has advantages as well as drawbacks. Its main benefit is that UNSC membership is restricted to two-year terms, and holding a seat is unrelated to variables that are correlated with need for loans (Dreher et al., 2014). A correlation between the timing of UNSC membership and IFC loans for reasons other than political influence on the IFC is thus unlikely. On the downside, the effects of UNSC membership are more indirect, as it is not temporary members themselves that are in a position to influence the IFC directly. Instead, shareholders of the IFC could sway decisions to approve loans on their behalf. Establishing a robust effect of UNSC membership should thus be more difficult compared to the more direct effect of holding a seat on the Board. Accordingly, we focus on the direct effect of membership on the IFC's Board in our main analysis, but provide evidence on the indirect effects of UNSC membership in Appendix J.

The dyadic nature of our data allows us to test hypotheses beyond the effects of a country's membership alone. Quite naturally, we presume that governments are most supportive of project applications that benefit their country most. About 65 percent of the IFC projects that a country receives are implemented by companies from that same country. In these cases, the benefits that governments might see in IFC projects for companies and recipient countries accumulate. We would thus expect governments to particularly favor such projects.

When it comes to projects implemented by a company from a different country, the recipient government and the sponsor government have incentives to cooperate. To the extent that both of them benefit from an IFC project they further their joint interests by jointly influencing the allocation of IFC loans. When the governments of two countries use their influence in the IFC Board we expect them to be more effective compared to the influence of just one of them. We thus hypothesize membership on the Board of the IFC to result in more projects if these involve other members of the Board as partner. As these projects benefit two members of the Board they are more likely to be approved compared to projects that benefit no or just one particular Board member.

In summary, we expect that countries with a seat on the IFC Board will a) have a higher likelihood of receiving IFC projects and b) have a higher likelihood that its companies receive an IFC project. Furthermore, at its time of membership on the IFC Board, we expect a country to c) receive more projects that are implemented by its own companies, and d) receive more joint projects with a partner country that also holds a seat on the Board.

[27] See Aldenhoff (2007), Kuziemko and Werker (2006), Dreher et al. (2008, 2017), Kaja and Werker (2010), Fratzscher and Reynaud (2011), Vreeland and Dreher (2014), Dippel (2015), Kilby (2011, 2013, 2015), Kersting and Kilby (2016, 2019), Malan (2018), and Lang and Presbitero (2018). For a broader overview of the literature on the political economy of international organizations see Dreher and Lang (2019).

2.3. Descriptive evidence

Our main explanatory variable of interest is a country's membership on the IFC's Board of Directors. We code a binary variable (*Board*) indicating whether or not a country was represented on the Board in a given year relying on information from the World Bank's Annual Reports.

Of the countries without a seat on the IFC Board 31 percent see the start of an IFC loan in a given year.[28] For those with such a seat the likelihood is 39 percent. When examining the countries where sponsor companies are based in we find a larger difference. Governments without a seat in the Board have a 29 percent chance to see the start of an IFC-supported project for a company based in their country. For governments with a seat on the Board this figure is at 58 percent.

While these statistics can be considered a first indication of an association between IFC Board membership and IFC loan allocation, countries on the Board differ from those off the Board in many regards. In Fig. 1 we therefore focus on countries around their time on the Board. We plot the mean number of approved IFC projects for countries that serve on the IFC Board (in the same year *t*), for countries that will serve on the IFC Board within the next four years (*t-4* to *t-1*), and for countries that did serve on the Board in the past four years ($t + 1$ to $t + 4$). As can be seen from the full sample shown in the upper left graph, countries that will serve on the IFC Board in the subsequent four years receive on average fewer than one IFC project per year. As soon as countries start serving on the Board this number jumps to almost two projects per year. After countries leave the Board the number declines again. When looking at the number of projects that a country "sponsors" rather than at the projects a country "receives" the pattern is similar (see upper right graph). As this similarity in the upper graphs might partly be due to the fact that many countries are both sponsor and recipient for a given IFC loan, the figures in the lower panel exclude these countries. They show the same patterns as the upper graphs.

Next, we examine the likelihood that a country pair, consisting of a recipient and a sponsor, jointly receives an IFC loan. As the horizontal line in Fig. 2 shows, the unconditional likelihood that a given country starts a joint IFC project with another country in the sample in a given year is 0.06 percent.[29] The first bar in the figure shows that this likelihood is at 0.03 percent if none of the two countries serves on the Board. It is substantially higher (0.16 percent) if one of the two countries serves on the Board. As the third bar indicates, it is still larger if both recipient and sponsor country are members of the Board: In a given year, 0.59 percent of the sponsor-recipient pairs that are jointly represented on the Board start a joint IFC project.[30]

These patterns are in line with our expectations. They could be due to the ability of countries to influence the IFC's loan allocation in their favor at times they serve on its Board of Directors. As this descriptive way of looking at the data, however, does not allow to examine whether other factors are responsible for this association, we turn to more rigorous regression analyses below.

3. Empirical models

We employ various sets of empirical models to test our hypotheses. We start with a model at the recipient-year level, proceed with regressions at the sponsor-year level and conclude with regressions at the sponsor-recipient-year level.

[28] As in all regressions that follow below, we exclude all countries with permanent representation during the years of our sample.

[29] This figure excludes dyads where projects are impemented by companies from the recipient country in addition to excluding members that always serve on the Board.

[30] Note that this probability is also larger compared to the probability in the years before (0.49%) and after (0.19%) two countries are jointly represented on the Board.

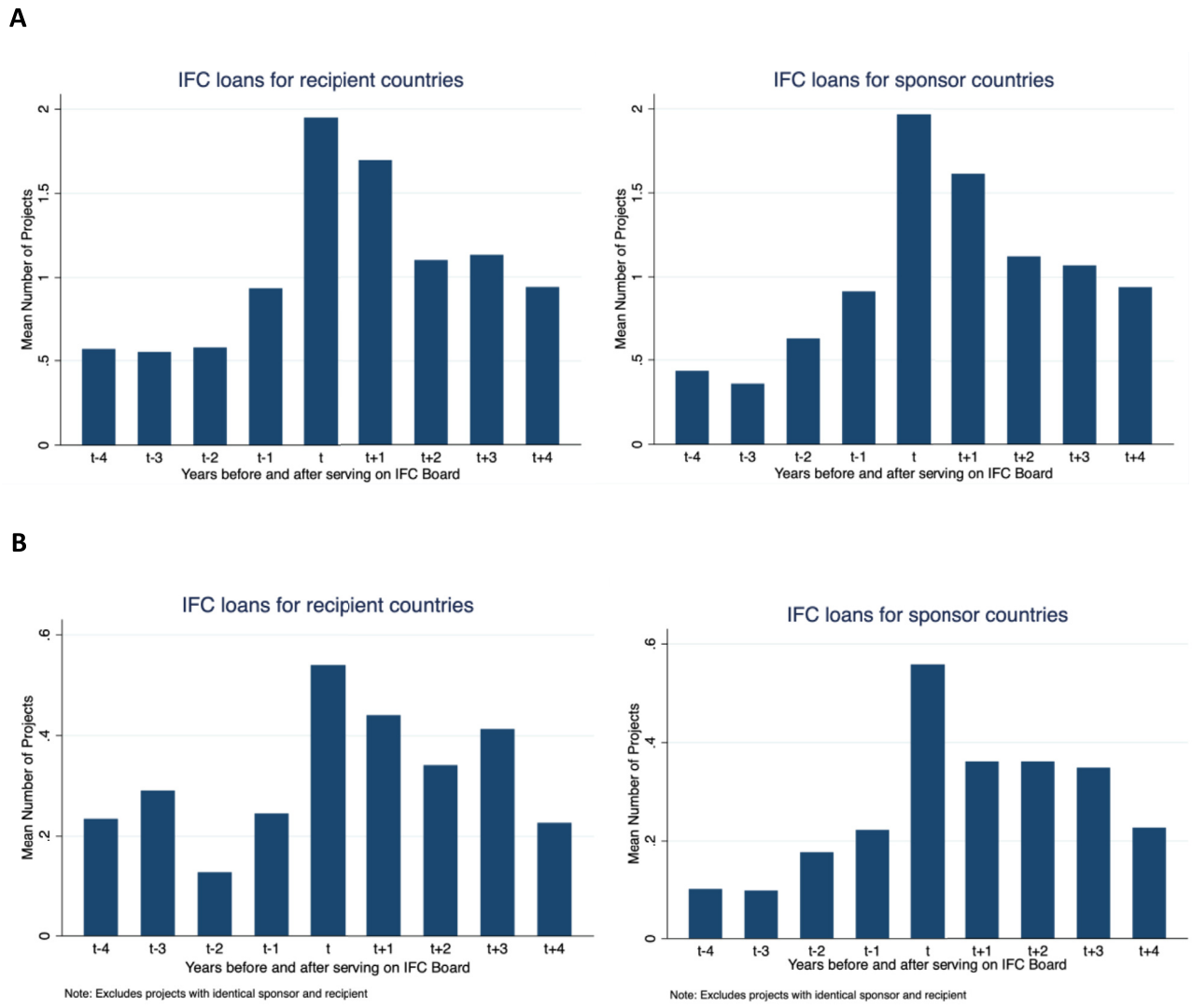

Fig. 1. Number of IFC projects for countries entering and leaving the IFC Board. Panel A: all projects. Panel B: Only projects where recipient is not sponsor.

3.1. Recipient level

Our first set of regressions focuses on recipient countries.[31] We estimate at the recipient-year level:

$$y_{it} = \beta_1 Board_{it} + \boldsymbol{R}'_{it-1}\gamma + \mu_i + \tau_t + \varepsilon_{it} \quad (1)$$

where y_{it} indicates the approval of an IFC loan committed to recipient country i in year t. $Board_{it}$ indicates a country's membership on the Board of the IFC. Permanent members of the Board are excluded from the sample. The vector $\boldsymbol{R}'_{it-1}$ consists of control variables that are all lagged by one year to make sure that the respective values are observed at the time the decision concerning a new IFC loan is made in year t. These covariates include standard measures of human development (*GDP per capita, life expectancy, average years of schooling*), the rate of *GDP growth*,

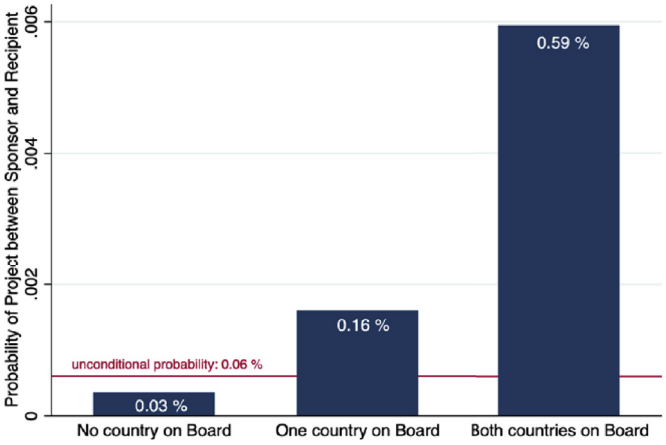

Fig. 2. IFC projects for country pairs.

variables indicating the availability of capital for domestic investments (*domestic private sector credit* and *inward FDI*) and measures of financial resources the country receives from other bilateral and multilateral donors (*ODA received, IBRD loans and IDA credits, IMF programs*). μ_i and τ_t denote recipient- and year-fixed effects; ε_{it} represents the error term. To

[31] We exclude high-income countries from the set of recipient countries, as they are not eligible for IFC financing. However, there are some exceptions of high-income countries receiving projects anyway (2 percent of projects). We keep these high-income countries with at least one project approved in our recipient sample. This makes a total number of 155 potential recipient countries, of which we lose two in the regressions below, due to missing data for our control variables. Appendix D provides a list of all countries included in the sample.

ease interpretation of results estimation is with OLS.[32] Standard errors are clustered at the recipient level.

The inclusion of recipient fixed effects is of particular importance in this setting. Members of the IFC's Board of Directors systematically differ from non-members, on average (Vreeland, 2011). We therefore compare the likelihood of a loan approval at the time the country holds a seat on the Board compared to the likelihood for the same country at other times. This does not fully rule out endogeneity of IFC Board membership, where countries tend to hold positions for protracted periods of time, and thus might be different in other respects as compared to the same country at other times.

Hence, to further increase confidence that membership on the IFC Board of Directors is not driven by time-varying, country-specific variables that are correlated with the start of an IFC loan, we also estimate specifications that include lags and leads of the membership variables. Some countries might be more economically or politically important at certain points in time than at other times. As a consequence, they might be more likely to receive IFC loans and more likely to enter the IFC Board of Directors at the same time. To test whether such time-varying country-specific trends bias our estimates we rely on the following "event-time" specification:

$$y_{it} = \sum_{h} \beta_{1,h} \, Board_{it+h} + \boldsymbol{R}'_{it-1}\gamma + \mu_i + \tau_t + \varepsilon_{it} \tag{2}$$

with h indicating the years *t-2, t-1, t, t + 1, and t + 2*. Any trend in country-specific, time-varying variables that affects the probability that a country enters the Board should also be visible in the years before and after a country holds such a position (see Kaja and Werker, 2010).

3.2. Sponsor level

In a second step, we change perspectives and focus on sponsor countries rather than recipient countries.[33] The model is at the sponsor-year level and mirrors the previous recipient-year model:

$$y_{jt} = \beta_2 Board_{jt} + \boldsymbol{S}'_{jt-1}\gamma + \mu_j + \tau_t + \varepsilon_{jt} \tag{3}$$

The main difference to the recipient-year model is that the dependent variable y_{jt} now indicates whether or not an IFC project was approved in year t for a company whose headquarters is located in country j. A second difference is that the vector of control variables $\boldsymbol{S}'_{jt-1}$ now comprises determinants that are more appropriate covariates of the likelihood of being the sponsor country of an IFC loan. These include the country's *GDP*, its *GDP growth rate*, *outward FDI*, the amount of *credit provided by the domestic banking sector*, and a measure of the country's *control of corruption*. We also estimate the event-time specification at this level of analysis. Again, estimation is with OLS; standard errors are clustered at the sponsor level.

3.3. Dyad level

We then turn to the dyad level for our main regressions. While the above focus on the country-year level indicates whether temporarily influential countries benefit from their positions overall, regressions at the recipient-sponsor-year level allow us to control for more unobserved heterogeneity and facilitate testing which type of projects countries with representation on the Board receive. Specifically, we can also test whether countries are more likely to receive IFC loans that are implemented by companies from their own country or with a partner that is also represented on the Board. We estimate:

$$y_{ijt} = \beta_3 Board_{it} \times Board_{jt} + \theta_{it} + \vartheta_{jt} + \pi_{ij} + \boldsymbol{D}'_{ijt-1}\gamma + \varepsilon_{ijt} \tag{4}$$

The dependent variable y_{ijt} is again binary and indicates the start of an IFC project for recipient country i that is sponsored by a company from sponsor country j in year t. The explanatory variable of interest – an interaction of $Board_{it}$ and $Board_{jt}$ – indicates that recipient and sponsor are both represented at the Board in year t. (Note that this is the case *either* when the sponsor and recipient are two different countries that are both represented on the Board *or* when the company of a country that is represented sponsors a project in the same country. In additional regressions we empirically differentiate between these two cases by interacting $Board_{it} \times Board_{jt}$ with a variable indicating that sponsor and recipient country are identical.) The levels of $Board_{it}$ and $Board_{jt}$ are captured by fixed effects for recipient-years (γ_{it}) and sponsor-years (δ_{jt}). As these fixed effects capture all country-year-specific heterogeneity, they control for any country-year-level variables, including those used for estimating specifications (1)–(3). We expect these fixed effects to capture the most important sources of potential endogeneity. Omitted variables that are potentially correlated with representation on the Board and could introduce a bias – like a country's economic or political importance – vary only at the country-year level and are thus fully absorbed by these fixed effects. Furthermore, while a country is able to influence the timing of its Board membership, its ability to influence the timing of joint membership with another temporary Board member is more limited. To the extent that a country's willingness and ability to become a temporary Board member biases the estimates at the country-year level, this bias should be a much smaller concern at the dyadic level.

Our most conservative regressions also include dyadic sponsor-recipient-fixed effects (π_{ij}). These regressions thus only exploit within-dyad variation and compare a dyad with two countries on the Board to the same dyad when at least one country is not on the Board. In addition, we include a number of control variables ($\boldsymbol{D}'_{ijt-1}$) that vary at the dyad-year level. We control for whether the recipient and the sponsor country shared a common currency and whether both countries were part of the same trade agreement in year t. We also include the amount of foreign aid from the sponsor to the recipient country and a variable indicating whether the two countries had a joint IFC project before.[34] For omitted variables to bias our results, these variables would need to be correlated with the specific timing of recipient country and implementing company representation on the IFC Board.

We also estimate less conservative regressions, excluding dyad fixed effects. These regressions instead include the following dyad-specific variables: binary variables indicating that a project is implemented by a company from the recipient country, whether the sponsor and recipient share a border ("Neighbors"), a common official language or minority language, ethnicity, colonizer, or legal origin. We also include a variable indicating a post-1945 colonial relationship between the two and whether one of the two countries is a current or former hegemon of the other ("Recipient Hegemon" and "Sponsor Hegemon").[35] Finally, we also control for the population-weighted distance and the time difference between them. Estimation is with OLS and standard errors are clustered at the dyad level.

[32] Our results are robust when we estimate regressions with conditional fixed effects logit instead. Note however that in order for the estimates to converge we have to exclude the recipient-times-year and sponsor-times-year fixed effects from the dyadic conditional fixed-effects regressions introduced below.

[33] We include all 184 IFC member countries as potential sponsor countries (of investing companies), but exclude two of them from our regressions due to missing data on the control variables. 163 of these countries actually are "sponsor countries" in our sample period.

[34] The indicators for a common currency and a joint regional trade agreement are taken from Head et al. (2010), data on gross aid disbursements from the OECD (2017). All monetary values are logged constant 2010 US$. See Appendix B for details. Note that for identical recipient and sponsor countries common currency and a joint regional trade agreement are set to 1 while aid is set to 0. Note also that the number of countries is slightly lower compared to the monadic regressions, due to missing data for control variables.

[35] Appendix B shows the definitions and sources for all variables. Appendix C provides descriptive statistics.

Table 1
IFC loans, recipient-level regressions.

	(1)	(2)	(3)	(4)	(5)
GDP per capita (ln)	−0.102***	−0.081***	−0.087***	0.123*	0.121*
	[0.035]	[0.027]	[0.025]	[0.066]	[0.066]
GDP growth	0.007*	0.005*	0.005*	0.003**	0.003**
	[0.004]	[0.003]	[0.003]	[0.001]	[0.001]
Life expectancy	0.009*	0.010**	0.010**	0.004	0.004
	[0.005]	[0.004]	[0.004]	[0.008]	[0.008]
Education	0.009				
	[0.013]				
Domestic private sector Credit (% GDP)	−0.000				
	[0.001]				
Inward FDI (% GDP)	−0.003				
	[0.004]				
ODA received (% GNI)	−0.014***	−0.013***	−0.012***	−0.000	−0.000
	[0.004]	[0.002]	[0.002]	[0.002]	[0.002]
IBRD loans and IDA grants (% GDP)	−0.023	−0.047	−0.079	−0.011	−0.016
	[0.192]	[0.134]	[0.128]	[0.114]	[0.112]
IMF program	0.124***	0.149***	0.148***	0.029	0.028
	[0.037]	[0.031]	[0.029]	[0.019]	[0.019]
Board (t-2)					0.014
					[0.053]
Board (t-1)					0.057
					[0.052]
Board (t)			0.273***	0.055*	0.093**
			[0.054]	[0.029]	[0.047]
Board (t+1)					0.094
					[0.060]
Board (t+2)					0.032
					[0.082]
Country FE	No	No	No	Yes	Yes
Observations	2115	2929	2929	2929	2929
Adjusted R-squared	0.071	0.085	0.110	0.364	0.365

Note: Recipient-level regressions. Dependent variable indicates start of an IFC project for a given recipient-year. Members with permanent representation on the IFC Board are excluded. All control variables are lagged by one year. Standard errors clustered at the recipient-level in parentheses.
Significance levels: *p < 0.1, **p < 0.05, ***p < 0.01.

4. Results

4.1. Evidence on the recipient level

Table 1 reports the results at the recipient-year level. Initially, we estimate regressions without country fixed effects to look at general determinants of country *i* receiving an IFC project in year *t*. We add variables indicating a recipient country's level of economic development, its growth rate, its health level, its education level, its private sector development, whether the country was under an IMF program, and the amount of financing it receives via foreign direct investment, bilateral ODA, and from the IBRD and the IDA.[36] In column 1, we find that countries with a lower GDP, higher health levels, lower bilateral aid inflows, and more IMF programs receive more projects from the IFC. In order to get to a baseline set of control variables, in column 2 we drop the variables that are far from statistically significant at conventional levels, which increases sample size by almost 40 percent.[37] The results remain substantially unaffected. The finding in these two specifications that poorer countries with less access to bilateral aid receive more funding from the IFC is arguably in line with the IFC's mission.

In column 3, we add our explanatory variable of key interest. We find that countries that temporarily serve on the IFC Board are more likely to receive IFC projects. As a next step, we include country fixed effects to control for the possibility that unobserved, time-invariant country characteristics are correlated with both the likelihood of receiving IFC projects and of serving on the IFC Board. Column 4 suggests that this is the case and that the coefficient of interest gets considerably smaller when recipient fixed effects are added. However, IFC Board membership remains statistically significant at the ten percent level. Hence, a given country is more likely to receive an IFC loan when it serves on the Board compared to a year in which it does not serve on the Board. Note further that with the exception of GDP per capita and the growth rate, the control variables turn statistically insignificant when country fixed effects are added; GDP per capita and growth enter with a positive sign, suggesting that a given country is more likely to receive IFC loans in periods in which it is relatively rich and grows faster.

We then turn to the event-time specification. As discussed above, a concern could be that serving temporarily on the IFC Board is correlated with other country-specific, time-varying variables that affect the probability of receiving IFC projects. But any trend in such variables should also be observable immediately before and after the actual period of Board membership. When structural changes make a country more likely to enter influential positions in international fora and this influence is correlated with the number of IFC projects implemented in a country, it is unlikely that this change disappears at the time the country leaves its position. If loans increase at times a country holds a seat on the Board but not thereafter, the increase during membership is arguably the consequence of membership itself, rather than of structural changes more broadly. We thus follow Kaja and Werker (2010) and include binary indicators for the two years before and after a country assumes membership on the IFC Board. As reported in column 5, we find that the

[36] As IBRD and IDA lending could also be influenced by the composition of the Board and thus bias our estimates, we ran additional regressions without the control variable "*IBRD loans and IDA grants (% GDP)*." The results are not affected.

[37] We also estimated regressions with additional control variables for which data coverage is considerably lower. A specification that includes a country's poverty headcount ratio, inequality level, and a measure of political risk reduces sample size to 1290. These regressions, reported in Appendix E, show that IFC projects are more likely to go to countries with lower political risk, more inequality, and *lower* poverty rates. The latter result holds when controlling for country fixed effects and indicates that the IFC's activities are not primarily targeted at countries with a larger fraction of poor people.

Table 2
IFC loans, sponsor-level regressions.

	(1)	(2)	(3)	(4)	(5)
GDP (ln)	0.089***	0.087***	0.082***	0.198***	0.195***
	[0.008]	[0.007]	[0.007]	[0.054]	[0.054]
GDP growth	0.003	0.003	0.003	0.003***	0.003***
	[0.003]	[0.002]	[0.002]	[0.001]	[0.001]
Outward FDI (% GDP)	0.000				
	[0.000]				
Control of Corruption	−0.085***	−0.049***	−0.051***	0.086*	0.084*
	[0.024]	[0.018]	[0.018]	[0.049]	[0.049]
Bank Credit to Private Sector (% GDP)	0.001				
	[0.001]				
Board (t-2)					0.060
					[0.058]
Board (t-1)					0.073
					[0.058]
Board (t)			0.082*	0.060*	0.085**
			[0.043]	[0.031]	[0.042]
Board (t+1)					0.009
					[0.054]
Board (t+2)					−0.011
					[0.071]
Country FE	No	No	No	Yes	Yes
Observations	2606	3166	3166	3165	3165
Adjusted R-squared	0.143	0.151	0.154	0.325	0.325

Note: Sponsor-level regressions. Dependent variable indicates start of an IFC project for company from a given sponsor-year. Members with permanent representation on the IFC Board are excluded. All control variables are lagged by one year. Standard errors clustered at the sponsor-level in parentheses.
Significance levels: *p < 0.1, **p < 0.05, ***p < 0.01.

positive and statistically significant association only emerges for the years in which the country actually served on the Board. For the year after the country served on the Board, the coefficient has the same size – which could be driven by projects that need some time to be approved – but is not statistically significant at conventional levels.

In summary, we take these regressions as evidence that IFC Board membership matters for the allocation of IFC projects. According to our preferred specification, the likelihood of receiving an IFC project is higher by about 9 percentage points in years in which the country has a seat on the IFC Board. Given that about half (47%) of the eligible countries receive IFC projects in an average year, a seat in the Board increases the chance to receive such a project by about one fifth.

4.2. Evidence on the sponsor level

We next turn to the sponsor level. Our binary dependent variable now indicates the start of an IFC project for a company based in country *j* in year *t*. Table 2 proceeds in analogy to Table 1 and initially focuses on general determinants of IFC projects on the sponsor-year level in regressions without sponsor fixed effects. We include variables indicating a country's GDP, the growth rate of GDP, outward foreign direct investment, control of corruption and the amount of bank credit provided to the private sector. Column 1 suggests that a country's GDP is strongly and robustly related to the probability that a company from this country received an IFC project. We also find that IFC projects are more likely to go to companies from countries in which control of corruption is lower. While this could indicate that companies from these countries are more likely to lobby their governments in order to increase their access to IFC funding, we are hesitant to interpret the results this way, because this association switches signs as soon as country fixed effects are added. The latter finding suggests that the IFC increases (decreases) lending to companies of countries that become less (more) corrupt. Under the assumption that projects are more promising in less corrupt environments, this is in line with the IFC's mandate. In column 2, we again present a specification that removes the control variables that are far from statistical significance to increase the sample size for the subsequent regressions.[38]

In column 3, we add our variable of interest and find that companies from countries with seats on the IFC Board are more likely to receive IFC loans. This result remains statistically significant if we add country fixed effects (column 4). When estimating the event-time specification, we again find that the effect is statistically significant in years in which the country serves on the IFC Board, but neither in the years before, nor after (column 5). This increases our confidence that this association is driven by membership itself rather than by unobserved variables correlated with it. In terms of economic significance, the magnitude of the effect is similar to the effect found on the recipient level. According to our preferred specification, the likelihood for a country to have a sponsor company of an IFC project is higher by about 8 percentage points in years in which a given country has a seat on the IFC Board. (This effect size is thus similar to the increase in the likelihood of becoming a sponsor country that is associated with an increase in control of corruption by one standard deviation.) Given that about four out of ten (39%) countries receive an IFC project for their companies in a given year, a seat in the Board increases the chance that these companies get such a project by about a fifth.

4.3. Evidence on the dyad level

The two preceding analyses have looked at the determinants of being a "recipient" country and a "sponsor" country of an IFC loan in isolation. We now bring these perspectives together in dyad-year-level regressions.[39] Here, we focus on the determinants of an IFC loan that is

[38] As in Table 1 we also investigated variables that have a smaller coverage. Appendix F reports these results. They show that countries with a more significant diplomatic network are more likely to receive IFC projects. Conversely, there is no evidence that countries with a larger military are more likely to receive IFC projects.

[39] In a previous version of this paper we tested the influence of project partners at the monadic level as well, using the share of a country's project partners with representation on the Board (Dreher and Richert, 2017). We provide some of these results in Appendix I. We find that IFC projects become more likely with a country's own representation on the Board, as well as at times a higher share of its partners is represented as well.

Table 3
IFC loans, dyad level-regressions.

	(1)	(2)	(3)	(4)	(5)
Sponsor and Recipient on Board (t-2)					0.008
					[0.010]
Sponsor and Recipient on Board (t-1)					0.003
					[0.006]
Sponsor and Recipient on Board (t)	0.029***	0.030***	0.015***	0.008***	0.003*
	[0.007]	[0.007]	[0.004]	[0.002]	[0.001]
Sponsor and Recipient on Board (t+1)					0.009
					[0.007]
Sponsor and Recipient on Board (t+2)					−0.005
					[0.014]
Sponsor is Recipient			0.279***	0.155***	
			[0.022]	[0.014]	
Neighbors			0.003**	0.001**	
			[0.001]	[0.001]	
Common official language			0.002***	0.001***	
			[0.001]	[0.000]	
Common language			−0.000	−0.000	
			[0.001]	[0.000]	
Common colonizer			0.001***	0.001**	
			[0.001]	[0.000]	
Colonial relationship post-1945			−0.010	−0.007**	
			[0.007]	[0.004]	
Geographical distance			−0.000	0.000	
			[0.000]	[0.000]	
Time difference			0.000	−0.000	
			[0.000]	[0.000]	
Hegemon (recipient)			0.006	0.004	
			[0.009]	[0.004]	
Hegemon (sponsor)			0.018***	0.009**	
			[0.006]	[0.003]	
Common legal origin			−0.001***	−0.000***	
			[0.000]	[0.000]	
Regional trade agreement				0.000	−0.001
				[0.000]	[0.001]
Common currency				−0.000	0.001*
				[0.000]	[0.001]
ODA from Sponsor to Recipient (% Sponsor GDP, ln)				2.782	0.304
				[3.343]	[3.810]
Previous Projects				0.048***	−0.008*
				[0.002]	[0.004]
Year FE	Yes	Yes	Yes	Yes	Yes
Recipient*Year FE	No	Yes	Yes	Yes	Yes
Sponsor*Year FE	No	Yes	Yes	Yes	Yes
Dyad FE	No	No	No	No	Yes
Observations	571,914	571,914	544,404	530,403	530,440
Adjusted R-squared	0.004	0.004	0.207	0.300	0.387

Note: Dyad-year-level regressions. Dependent variable indicates start of an IFC project for a given dyad-year. Members with permanent representation on the IFC Board are excluded. Standard errors clustered at the dyad-level in parentheses. Significance levels: *p < 0.1, **p < 0.05, ***p < 0.01.

sponsored by a company in country *j* going to country *i* in year *t* (with either $i = j$ or $i \neq j$). This approach has two advantages. First, we exploit information on both sponsor and recipient simultaneously. Second, the three-dimensional (*ijt*) data structure allows us to estimate more conservative fixed-effects specifications. Most importantly, we can control for country-times-year fixed effects and dyad fixed effects and thereby reduce the probability that endogeneity biases our findings.

In column 1 of Table 3, we begin with an OLS regression that only controls for year fixed effects. The variable indicating that both countries *i* and *j* serve on the IFC Board enters with a positive sign, significant at the one percent level. We then successively add increasingly conservative fixed effects and control variables. Adding the recipient-times-year and sponsor-times-year fixed effects (column 2) does not significantly affect this result. In column 3 we add time-invariant dyad-specific control variables (*contiguity, common official language, any common language, common colonizer*, being in a joint *colonial relationship after 1945*, *geographical distance, time difference*, whether country *i* is country *j*'s *hegemon* or vice-versa, *common legal origin*, and whether country *i* is *identical* to country *j*). In column 4 we also add time-variant dyad-specific control variables (indicating whether the two countries have a *regional trade agreement*, a *common currency*, had a *joint IFC project before*, and amount of *ODA from the sponsor to the recipient*).[40] In these two regressions, the coefficient on joint IFC Board membership is smaller in size than before but stays statistically significant at the one percent level. In column 5, we turn to the most conservative specification and additionally include dyad fixed effects. These regressions not only absorb all country-year specific variation like national economic and political trends but also only compare any given dyad over time. While the coefficient of interest unsurprisingly further decreases in size, it stays statistically significant (at the ten percent level). The only source of variation that could bias the coefficient in column 5 is time-varying dyad-specific heterogeneity that is not captured by the country-times-year fixed effects and the time-varying controls but correlated with both the likelihood of jointly serving on the IFC Board and receiving a joint IFC project. As before, we

[40] The coefficients on these control variables indicate that country dyads are more likely to have joint IFC projects if they have the same language, the same colonizer, if the sponsor is the hegemon of the recipient, and if they had a joint IFC project before. Furthermore, projects are more likely to be implemented by a company from the recipient country than by a company from elsewhere. Common legal origin is negatively associated with joint IFC projects.

Table 4
IFC loans, dyad-level regressions.

	(1)	(2)	(3)	(4)	(5)
Sponsor and Recipient on Board (t-2)					0.006
					[0.005]
Sponsor and Recipient on Board (t-1)					−0.002**
					[0.001]
Sponsor and Recipient on Board (t)	0.005***	0.003***	0.003***	0.002**	0.001
	[0.001]	[0.001]	[0.001]	[0.001]	[0.001]
Sponsor and Recipient on Board (t+1)					−0.002
					[0.001]
Sponsor and Recipient on Board (t+2)					−0.001
					[0.001]
Sponsor is Recipient	0.253***	0.253***	0.253***	0.147***	
	[0.020]	[0.020]	[0.020]	[0.014]	
Sponsor and Recipient on Board (t-2) x Sponsor is Recipient					0.055
					[0.051]
Sponsor and Recipient on Board (t-1) x Sponsor is Recipient					0.074
					[0.056]
Sponsor and Recipient on Board (t) x Sponsor is Recipient	0.310***	0.311***	0.306***	0.163***	0.104**
	[0.071]	[0.070]	[0.070]	[0.045]	[0.043]
Sponsor and Recipient on Board (t+1) x Sponsor is Recipient					0.120**
					[0.057]
Sponsor and Recipient on Board (t+2) x Sponsor is Recipient					0.012
					[0.077]
Year FE	Yes	Yes	Yes	Yes	Yes
Recipient*Year FE	No	Yes	Yes	Yes	Yes
Sponsor*Year FE	No	Yes	Yes	Yes	Yes
Dyad controls	No	No	Yes	Yes	Yes
Time-varying dyad controls	No	No	No	Yes	Yes
Dyad FE	No	No	No	No	Yes
Observations	571,914	571,914	544,404	530,403	530,440
Adjusted R-squared	0.218	0.221	0.225	0.305	0.388

Note: Dyad-year-level regressions. Dependent variable indicates start of an IFC project for a given dyad-year. Members with permanent representation on the IFC Board are excluded. Standard errors clustered at the dyad-level in parentheses. Significance levels: *p < 0.1, **p < 0.05, ***p < 0.01.

assume that such variables should also be correlated with the period shortly before joining and shortly after leaving the IFC Board. This is why we also implement the "event-time" specification here and find a significantly higher likelihood of receiving a joint IFC project only in years in which both countries are Board members and no significant association for the years before and after.

Given that the unconditional chance for an average dyad to receive an IFC project is about 0.2 percent, the estimated effect size suggests that this chance more than doubles for dyads with seats on the Board. Interpreting the economic magnitude of this effect is more intuitive when differentiating between projects that are sponsored by a company from the recipient country and projects sponsored by companies from other countries. Regressions that take this differentiation into account are reported in Table 4.

Since many IFC projects are sponsored by a company from the country in which the project is implemented, we so far have controlled for whether projects in a recipient country are implemented by a domestic company ("Recipient is Sponsor"). What we have not considered so far is whether the effect of IFC Board membership is driven by projects that are implemented by a domestic company or projects where sponsor and recipient differ. This is why in Table 4 we interact the indicator of joint Board membership with the variable indicating projects that are implemented by a domestic company.[41] Other than that, the regressions are the same as in Table 3.

The results in Table 4 suggest that both types of dyads benefit from (joint) Board membership. For dyads where projects are impemented by companies from the recipient country, the coefficients on *Sponsor and Recipient on Board* indicate a positive association with the likelihood of receiving a project that is statistically significant with p-values below 0.015 across all five specifications. As before, the coefficient gets smaller the more conservative the specification is. For dyads consisting of two different countries, the pattern is very similar. This result is statistically significant at the five percent level for the first four specifications but fails to reach statistical significance at conventional levels in the most conservative regression with dyad fixed effects.

Turning to the effect sizes that the two sets of coefficients indicate, it is important to note that the unconditional probability to receive a project is substantially different, depending on which type of dyad is considered. For projects that are sponsored by a domestic company, our preferred specification (5) indicates that Board membership increases the likelihood of receiving such an IFC loan by about 10 percentage points. Given that the unconditional probability in the sample to receive such a loan is about 30 percent, this means that an average country's chance to receive an IFC loan that is sponsored by a domestic company rises by about a third if it gets a seat on the Board. For sponsor-recipient-pairs consisting of two different countries the likelihood of receiving a joint IFC loan increases by about 0.1–0.2 percentage points when both countries serve on the Board. This is again a relatively large effect given the unconditional probability to receive a joint IFC project: For all country pairs where sponsor and recipient differ this probability is about 0.07 percent; it is about 0.17 percent when one country of the pair is represented on the Board.

Overall, our results at the dyadic level are in line with the hypothesis that recipients and sponsors benefit from holding a seat on the Board of the IFC. More specifically, the results suggest that Board members particularly benefit from IFC projects that are both implemented in their country and sponsored by companies from their country. When considering IFC projects that involve two different countries as project partners we find that such country pairs significantly increase their probability to receive a joint project if they both have a seat on the Board.

[41] We also replicated all dyadic regressions while excluding all "Sponsor is Recipient" dyads. Our conclusions remain unchanged by this modification.

4.4. Robustness

We test the robustness of our results along four dimensions. One, we take logged IFC loan size rather than the probability to receive an IFC loan as the dependent variable (Appendix G). Two, we re-estimate the event-time specifications with an additional time lag (Appendix H). Three, we implement an alternative empirical strategy that tests – at the monadic level – whether countries receive more IFC loans if they have a larger share of joint projects with countries that have a seat on the IFC Board (Appendix I). Four, we replace holding a seat on the IFC's Board with temporary membership on the UNSC as an alternative and more indirect measure of political influence (Appendix J).

For the robustness tests we re-estimate our regressions for each of the three levels of analysis (recipient, sponsor, dyad) and find that the coefficients of interest remain statistically significant at conventional levels in all tests, except in the specifications that use temporary membership on the UNSC as a measure of political influence. Here we do not find evidence for a significant association of this variable with the likelihood of receiving or sponsoring an IFC loan at the recipient and sponsor level. At the dyad level, however, we find a statistically significant, positive association.[42] This could suggest that temporary UNSC members have some influence on IFC loan allocation – e.g., via major IFC shareholders that are permanent UNSC members and interested in the votes of temporary members – but their influence is more indirect and thus not robustly visible in the data.

5. Conclusions

In this paper, we argued that private firms receive preferential access to IFC loans when their governments can politically influence the allocation of IFC loans. Governments can exert such influence individually and in coalitions with other governments.

Our results based on data for more than 3000 IFC projects over the 1995–2015 period show that countries and companies more frequently receive IFC projects when their government holds a seat on the IFC's Board of Directors. Given that the probability to receive an IFC loan does not increase in the years directly before or after the government's Board membership, this observed increase in access to IFC loans is likely to be an effect of membership itself and unlikely to be driven by other factors. We also find that countries with a seat on the Board are more likely to attract IFC projects that involve, as sponsor or recipient, another country that is also represented on the Board. This suggests that pairs of countries form alliances to jointly attract IFC projects that benefit the private sector in both countries.

The effect we find is economically substantial. According to our preferred estimations, an average country that gets a seat on the Board increases the chance that one of its firms receives an IFC loan by about a fifth. Pairs of countries that simultaneously have a seat on the Board more than double their chance to receive a joint project as sponsor and recipient. Using average figures of our sample our results suggest that at least 3 percent of the total IFC loan volume in a given year are subject to the political influence of the 25 countries with seats on the Board.[43] This figure should however be considered a lower bound as the estimated effect excludes all time-invariant cross-country variation as well as the political influence of members with permanent seats.

These results provide a possible explanation for the IFC's focus on supporting projects in middle-income countries and companies from high- and middle-income countries, which some observers of IFC lending have criticized (Kenny et al., 2018) and which our analysis confirms. Countries with direct representation on the IFC Board have substantially higher incomes than countries without direct representation. The median GDP per capita for those with a seat is about US$ 23,000; for those without a seat it is about US$ 3000.[44] Their presence on the Board can thus contribute to explaining the large share of the IFC's funding that goes to relatively rich countries and their companies.

Our results speak to the current policy debate on leveraging private funding for development. The 2015 Addis Ababa Action Agenda and Germany's "Compact with Africa" are two of the recent examples for development initiatives highlighting approaches that combine public and private efforts in financing sustainable development. Since our results suggest that the allocation of such funds can be shaped by politically powerful companies and governments, they might be used to finance projects that primarily benefit politically powerful middle-income countries and companies in high- and middle-income countries that implement the projects. Relying on leveraging private financing for development is thus no panacea for circumventing the strong political interests of powerful countries involved in global development cooperation.

The political motives for allocating IFC loans and other official loans for the private sector are potentially consequential. According to the results in Dreher et al. (2018a) political motives in granting foreign aid reduce the effectiveness of aid for promoting economic growth. Hence, the fact that some official lending to the private sector is driven by the interests of powerful companies and rich countries – rather than by the interests of the poor – potentially reduces its effectiveness for reducing poverty. Whether and to what extent the bias we have uncovered in this article indeed reduces the effectiveness of IFC lending is an important question that we leave for future research to address.

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[42] An earlier version of this paper focused on the interaction between sponsor and recipient representation on the UNSC (rather than membership of recipients and sponsors per se) in more detail and offers additional empirical evidence regarding the effect of joint temporary UNSC membership (Dreher and Richert, 2017).

[43] Countries that "sponsored" at least one IFC loan in our sample received on average 75 million US$ per year. Given that the Board has 25 members, the 8-percentage-points increase of the likelihood of belonging to the group of sponsors for each of them would mean that at least 150 million US$ of the loan volume of an average sample year for which we have data (i.e., 3 percent of 4.8 billion US$) are subject to this particular type of political influence.

[44] This holds when we exclude countries with a permanent seat, which have a median GDP per capita of around US$ 40,000. Those with a non-permanent seat have a median GDP per capita of about US$ 12,000 and are thus still substantially richer on average than those without a seat.

Appendix A. Supplementary data

Supplementary data to this article can be found online at https://doi.org/10.1016/j.jdeveco.2019.05.003.

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