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# Not a Bank? The actual influence of liberal governance criteria on loans approved by the World Bank (IBRD and IDA)

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## Abstract

We quantitatively analyzed the relationship between the loans made by the World Bank (WB) and three dimensions of liberalism for which the institution is known as one of the main intellectual supporters: political, legal-institutional and economic. A panel data containing 99 countries for the 1996-2014 time period was built and went through a multivariate factor analysis of 17 governance indicators. The results indicate that loans approved by the WB (ex-ante disbursements) are not correlated with the indicators of political and economic liberalism. We identified correlation with three indicators of legal-institutional liberalism, which echoes the Bank's 2000s updated guidelines of 'country ownership', consistent with its own mandate as a public development multigovernmental organization, and not a 'private' bank.

**Keywords:** World Bank loans; liberalism; factor analysis.

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# Não é um banco? A influência atual dos critérios de governança liberal nos empréstimos aprovados pelo Banco Mundial (BIRD e IDA)

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## Resumo

Analisamos quantitativamente a relação entre os empréstimos concedidos pelo Banco Mundial (WB) e as três dimensões do liberalismo pelas quais a instituição é conhecida como um dos principais apoiadores intelectuais: político, jurídico-institucional e econômico. Foi construído um painel de dados contendo 99 países para o período de 1996 a 2014 que passou por uma análise fatorial multivariada de 17 indicadores de governança. Os resultados indicam que os empréstimos aprovados pelo BM (desembolsos *ex ante*) não estão correlacionados com os indicadores do liberalismo político e econômico. Identificamos correlação com três indicadores do liberalismo institucional-jurídico, que ecoam as diretrizes atualizadas do Banco de 2000 sobre '*country ownership*', consistente com seu mandato como organização de desenvolvimento público, e não um banco 'privado'.

**Palavras-chave:** Empréstimos do Banco Mundial; liberalismo; análise fatorial.

# 1. Introduction

The World Bank (WB) is an organization that occupies a unique and core position in the international system. Over matters of economic and social development, it is one of the main worldwide professional and intellectual reference. Therefore, its doctrines regarding development and impact of its investments were somewhat questioned from the beginning of the 21st century (PEET, 2009; WOODS, 2006; SANTISO, 2001), giving this international organization a questionable role when discussing development and poverty reduction policies through international aid and cooperation. The main belief shared by authors that follow John Ruggie's concept of "embedded liberalism" (1982) is that the Bank has a coercive leaning facing its State-clients when determining conditions for the approval of loans with the intention of forging institutional, political and economic standards with mainly liberal features. The belief would be, then, that the WB is an institution shaped by liberal standards and that, as such, seeks to disseminate these ideals to the State-clients using loan conditionalities as a mean. In this paper, we start with the premise that the WB acts as described above.

However, being the product of multilateral negotiations and, therefore, having States as shareholders and clients, the liberalism of the WB has liberal outlines attenuated by its international treaty mandate characteristic, as well as by the fact that liberal doctrine does not completely ignore the state when the goal is economic and social development. Thus, we can assume that the actions of the WB are based on a public development institution rationale rather than a private bank's one, in other words, even though the political, economic and institutional liberalism compose its structuring axis, the WB may be indifferent to activities of the interventionist state, rather encouraging it.

The purpose of this article is to analyze the relationship between loans approved by the The World Bank Group (in the form of two of its institutions: the International Bank for Reconstruction and Development – IBRD – and the International Development Association – IDA) and the liberalism indicators of ninety-nine State-clients from 1996 to 2014. Our hypothesis is that the countries which institutional, political and economic structures do not fit the liberal criteria have also been covered by WB resources, that is, the WB does not act under plain liberal thinking. In order to reach its goals, this paper is structured as a quantitative research, which seeks the correlation between loans approved by WB in the given years above – dependent variable – with seventeen indicators of liberalism, being these segmented into three categories: economic, political and legal-institutional – independent variables. From these liberal criteria, we present the analytical model and econometric techniques used (factor analysis etc.). We found that only three legal-institutional liberal governance indicators from the State-clients are correlated with *ex-ante* loans approval made by the WB: "Freedom from Corruption" (positive) and a factor composed by "Government Effectiveness and Regulatory Quality" (negative). No political or economic factors showed correlation. As we were also interested in a causal explanation for this, we proposed that the World Bank is not more a bank than a public entity with a public mandate, as other authors cited in this paper had already noted and consistent with the very nature of the institution from its birth in the Bretton Woods conferences.

# 2. General concepts and literature review

## 2.1 Previous studies: variables to lending behavior

A wide range of academic literature on the subject of the Bretton Woods twins and its conditionalities effects over the developing world is available – being the IMF a most scanned institution than the World Bank (BUTKIEWICZ and

YANIKKAYA, 2005). Frey and Schneider (1986) found that the economic needs of the recipients and the political interest of major World Bank shareholders significantly determined the World Bank's allocation of funds between 1972 and 1981. Hernandez (2017, p. 1) concludes that "*(...) by using panel data for 54 African countries over the 1980–2013 period (...) [e]mpirical results indicate that the World Bank delivers loans with significantly fewer conditions to recipient countries which are assisted by China.*"

Dreher, Sturm and Vreeland (2009) have conducted an empirical research using panel data for 157 countries between 1970 and 2004, indicating favorable treatment from the Bank to the United Nations Security Council temporary members (in number of projects, but not equally in loan amounts). There is also signs of a positive correlation between the Bank's lending and countries that import from major donors (FREY and SCHNEIDER, 1986), and also those who help the US policy interests abroad or during UN voting (KILBY, 2009; FLECK and KILBY, 2006). US commercial interest influence geographical distribution of World Bank lending and it varies through different presidential administrations (FLECK and KILBY, 2006). Cases of political-oriented World Bank lending following US interests include: Vietnam in 1977 (post-war suspension); Chile from 1970 to 1973 (suspension during the Allende years); Nicaragua during the 1980s and Iran during the 1980s and 90s (suspension due to rival regimes); Pakistan in 2002 (amount tripled from 2001 due to allegiance against Afghanistan) (ANDERSEN, HANSEN and MARKUSSEN, 2006).

Other important studies have thrown light on the problem of conditionality enforcement (or the lack of it). Kilby (2009) attributes lax enforcement to political factors (alignment or not with the US voting at the UN), banking dilemmas such as donors exerting pressure to lend or "defensive lending" (to make sure that past loans will be paid), and "short-sighted altruism". Andersen, Hansen and Markussen (2006) empirically argued that recipient's political freedom showed positive correlation to increase in lending by the IDA, and trade openness scored negative. Curiously, recipient indebtness prompted the IDA to lend even more, what we highlighted above as "defensive lending".

Weak conditionality enforcement could be a reason to poor results regarding the Bank's mandate: to reduce poverty in the world. Santiso (2001) points that international financial institutions underestimate domestic politics and the poor institutional environments of the poorer countries. Other authors found no clear causation between conditionalities and promised reforms success (MOSLEY, HARRIGAN and TOYE, 1995). Domestic complexity is also something found to be an impairment to the Bank's staff knowledge about economic reforms and what to do about it when designing conditionalities (BRANSON and HANNA, 2000). From ten African countries borrowing from the Bank during the 1980s and 90s, only two showed good economic policy reforms and outcomes (Ghana and Uganda *versus* Ethiopia, Mali, Tanzania, Côte d'Ivoire, Kenya, Zambia, DRC and Nigeria). In this sample, good policies are not the same as liberal democracy and political institutions, but economic soundness (DEVARAJAN, DOLLAR and HOLMGREEN, 2001). Being so, some authors find conditionalities themselves non-credible commitment mechanisms between donors and clients, since the reforms proposed by the earlier would difficultly be undertook freely by developing countries (SANTISO, 2001; KILLICK, 1998). The argument goes further and implies that the Bank will release money anyway, its conditionalities satisfied or not, as what was observed with the Structural Adjustment Loans. There is nearly no 'punishment' alongside *ex-ante* new lending approvals due *ex-post* conditionality non-compliance from the previous credit (KILBY, 2009; KANBUR, 2000; MOSLEY, HARRIGAN and TOYE, 1995; KILLICK, 1995). One of the main reasons for conditionality-bound lending failure, is that the Bank was not truly capable (or willing) to enforce it and recipient countries too (WOODS, 2006).

Some discoveries in the field dealt with a complex arrange of multiple variables: the WB tends to lower its disbursements to countries that fail to devalue their own currency, especially if they are not US friends, and that the American political pressure deflects the Bank's capacity to impose structural adjustment conditionalities (KILBY, 2009); overall aid – not only from the Bretton Woods twins – responds to political interests and colonial ties (especially those attached to France), eclipsing other factors like good policies such as democratization, sound economy and poverty reduction (ANDERSEN, HANSEN and MARKUSSEN, 2006; ALESINA and DOLLAR, 2000); aid has a positive impact on economic growth when the recipient country has a good policy environment; donors reward countries with good policies with higher aid; and donor political interests are sometimes different from the rewards to recipient's good policies (BURNSIDE and DOLLAR, 2000). As much as the geopolitical factor seems suffocating, Burnside and Dollar (2000) found that Bank's aid answers mostly to a set of good policies and economic needs shown by the recipients than bilateral donors.

The literature review shows us that some intervenient (but not simply spurious) variables are found to be strong influencers of WB's loans directions and volumes. Without a doubt, political ties with the US and former colonizers top the rank of explicative variables that make the loans not related with liberal governance criteria compliance by the recipient countries. Other idiosyncratic bank rationales second these findings, which are: controlling for the seventeen liberalism indicators, there is almost no correlation between compliance and disbursements.

As presented below, the only responsiveness comes from legal-institutional liberal criteria related to critical topics of state building and self-governance: Freedom from Corruption and the factorial cluster made up by 'Government Effectiveness' (positive correlation) and 'Regulatory Quality' (negative correlation). It means that, aside of US and other power influences, the loans are made by the WB based on a minimum set of corruption positive control and the need to help countries with poor government effectiveness and regulatory capabilities.

## 2.2 The dimensions of liberalism and the disputed concept of 'governance'

There is not one, but several strands of thought that have received the title "liberal". These strands share central assumptions that begin with individuals as relevant actors, how the interaction between these individuals generates collective decisions and how institutions composed of these individuals interact (KEOHANE, 1990). These interactions constitute the political, economic and legal-institutional environment in which these individuals live and prosper.

The three dimensions of liberalism that categorize the indicators used in the panel data loaded by this paper are part of what the World Bank, the IMF and classical liberal think tanks call "good governance". As the official definition goes (WORLD BANK, 1992, p. 1): "*the manner in which power is exercised in the management of a country's economic and social resources for development*". As Santiso (2001) and Devarajan, Dollar and Holmgreen (2001) explore and bring to light, "good governance" and similar terms such as "sound development management" actually means: modernization and leanness of public sector management, transparency, free trade and finance, education investments, rule of law, and the privatization of state-owned enterprises. Not an exigence on democracy, but usually overlapping it.

The very spirit of the Bretton Woods twins conditionalities, specially the WB's, is composed of this post-Cold War era meaning of governance, as detailed above. According to Killick (1998, p. 6), conditionality is "*a mutual arrangement by which a government takes, or promises to take, certain policy actions, in support of which an international financial* *institution or other agency will provide specified amounts of financial assistance*". The World Bank (2005) used to approach it as to make its resources available to borrowers who present an "adequate" macroeconomic and institutional framework and follows the Bank program implementation plan.

But it came with the following update (WORLD BANK, 2005, p. i):

> The Bank's understanding of conditionality has undergone significant change—from the early emphasis on actions for macroeconomic adjustment and growth, to more recent attention to the different design aspects of conditionality, including those associated with initiatives to enhance country ownership of programs (...) Today the Bank takes a flexible approach to conditionality as evidence of a borrower's commitment to its program, suitably combined with capacity building.

If all this conditionality features is to be taken seriously, the WB's original purpose of not dealing with politics is over and it clearly enters the political arena, as political, institutional and economic liberalism are by no means politically neutral, but try to hide under a "technocratic consensus" that economic liberalism is nothing but commonsense benchmarking (SANTISO, 2001; WILLIAMS and YOUNG, 1994). Today's CAF Regional Director for Latin America and former BID Division Chief criticized (SANTISO, 2001) the idea of "good governance" because it gives a "false sense of political neutrality" to something that originates from a neo-liberal paradigm.

Going further, the concept of "good governance" starts to replace the elements of structural adjustment lending after the Bank's and IMF's failed experiences during the 1980s and 1990s. This process could be interpreted as a rewriting of the Washington consensus. Also, and due the fresh preoccupation with governance, the Bank starts to decentralize its management over its programs in order to foster "country ownership and participation" – another 2000s new piece of doctrine (WOODS, 2006).

Forthwith, from a literary and also WB's perspective, we now proceed to characterize the three dimensions of liberalism that comprehend the seventeen indicators used in our factor analysis.

- **Political liberalism**

It is based on the premise that man is self-responsible for his moral choices and it is up to him to choose the best way to meet his needs. To this end, it is essential to guarantee property rights, and, recently, the recognition that democratic regimes, despite not being ideal, are the possible way to organize life in society.

Bobbio (2005) believes that liberalism carries the modern idea that a man is the only one responsible for his moral choices. The citizens are free to choose the best way to drive their developments and to meet their needs, leading, invariably, to the dismissal of any autocratic government.

Mises (2005) sets the recognition of the value of human cooperation as the core of liberalism. For such cooperation to be possible – and consequently, peace, which for the Austrian scholar is the goal of any political regime – respect for private property is essential. Besides, Mises (2005) considers that the right to private property, though fruitful and enjoyable by the individual, is not only an individual right, but a need of the whole human society, taken collectively. Is in the general public interest that the individual private properties exist, are secured, and produce goods higher than the individual gains.

The weight given to property rights guides all the other dimensions of liberalism, starting with the design of a government regime that respects it. Friedman (1984) brings Humboldt to the 20$^{th}$ century and does not approve the idea of government as a provider of favors or as a lord to be served, but proposes that, for the freemen, government is a mean to their individual goals. The need for State remains since there are liberal proposals even more radical than anything that has been practiced in contemporary history.

- **Legal-institutional liberalism**

Two axes structure liberal thinking on the State. First, the state must present the necessary and enough size to guarantee individual freedoms, public order and property rights. Secondly, it should be guided by Rule of Law and the combat against corruption. During the 1980s, liberalization of public enterprises, interest rates, reduction of subsidies and other institutional changes were part of structural adjustment loans made by the Bank. By the end of the 80s, the social consequences of liberal conditionality were starting to be aimed by the WB's staff, as well as other "new" agenda, like gender equality. The IDA's "Country Assistance Strategy Papers", available since July 1998, showed that 11% of the projects from 1998 to 2002 asked for reform of the judiciary. Attention to corruption and public safety are also highlighted as conditions not present during the 1980s. Other topics such protection of the social sector, education and health also became plus frequent. Reduction of government expenditures maintained its customary relevance (DREHER, 2002).

Is on Rule of Law that most of the liberalism features find floor. Hayek (1994) makes it clear that defending a minimum State in no way goes towards the abolition of it, contrarily, it is an ideal ratio of the size of the State that preserves the order necessary to freedom and to guarantee protection to private property. Entrepreneurs, workers, traders and investors need to rely on a central government that guarantees the fulfillment of contracts (*pacta sunt servanda*) to take on the risks of the markets. The original contribution of liberalism to the science of the State is what Bobbio (2005) indicates as the clear definition of its functions in order to protect individuals from its own power. It means an environment where the whole range of actions of the public authorities is governed by law, and not by personalities.

Conversely, the State governance model proposed by the WB elects the following institutional and political-cultural features as preferable in the country receiving loans intended for development projects and programs: democracy, market economy, decentralized accountability able to include micro and macro scenarios; efficient legal framework, lean and broadly aware by the citizens; and transparency of public administration information (WORLD BANK, 1992).

- **Economic liberalism**

The "liberal free market ideology" in the words of the Federal Reserve's former chairman, Alan Greenspan, "(is) *an expression of the deepest truths about human nature and, as a result, they will ultimately be correct*" (RAMO, 1999, n/p).

The freedom to run exchanges is the basis of economic activity according to liberals. Efficiency in the production of wealth, both for the individual and for society as a whole, is directly derived from the freedom approved to the individuals to make their own choices regarding productive activities. What, like Bobbio (2005), we will call "liberism", is the economic liberalism that seeks to maintain the independence of the private property from the State and from any "popular interest", but not under an anarchic or radically individualistic belief, but with a proposal that such a defense of property is what makes life in society possible. The antagonism as a desirable value was entirely preserved, and it is visible in the conceptions of the Bank about the economy. Mises (2005) is the most intense apologist of liberism, and like his follower, Hayek (1994; BOBBIO, 2005), does not do so by abandoning political liberalism, but by stating that economic freedom is essential and prior to any political freedom

Friedman (1984) defines economic freedom simply as freedom to do bilateral and voluntary transactions without third-party-coercion, and coercion in commercial and financial transactions from the State already represents a menace to political freedom. While writing about an issue dear to developing economies, Mises (2005) claimed that the distribution of land and capital under the banner of social equality consists in an economic error. With the exception of primitive agricultural crop, there are no criteria for the dismantling of a farm or industry to ensure the preservation of its productivity.

Regarding monetary reform, liberals tend to defend the institution of a central bank independent from the executive ruler, but for Friedman (1984) even that would give certain individuals too much power in contrast to the preservation of liberties. Monetary freedom would come then from a general rule for currency stock controlling by the central and other banks, which could not be changed according to the perception of the bureaucrats of the moment, but only by the legislative process. Friedman still advocated a financial liberalism in which credit or tax subsidies to the private sector from the public authorities are condemned. This view may criticize even the World Bank with its mixed funds of public and private shareholders.

Finally, Economic liberalism minds the efficiency of the government, which leads to debates about what should be the State size in relation to the market. In a critical way, but assertive even to liberal readers, Bresser-Pereira (2009) defines the minimum state role as absent from the stimulus of productive investment, technological and scientific endeavors, the welfare state and market and financial regulation – which should be self-regulated.

What the private sector will do with capital and labor and how the government may choose to be an ally or an obstacle to the private economic agents are issues related to economic liberalism.

# 3. Methodology and data

Our analytical model has the loans approved by the WB, from 1996 to 2014, to ninety-nine countries as the dependent variable and the liberalism of these countries as the independent variable.

## 3.1 Variables and databases

*The dependent variable – WB loans:* We created this variable compiling the total amount of loans approved by the IBRD and the IDA to each of the nineteen years between 1996 and 2014 and for each of the ninety-nine State-clients. Since the countries are very different, we compiled the population of each country in each of the nineteen years and split the value of the approved amounts each year in order to eliminate the asymmetry between them, that is, we are considering the loan amount *per capita*. These data were obtained from the WB itself (2016). Below, **Table 1** shows the list of the ninety-country studied ranked by the amount size approved by the WB during the proposed time range:

**Table 1. List of the Ninety-Nine (99) Countries studied in this paper: organized by continent and total disbursement acquired from the WB from 1996 to 2014**

| # | Continent | Country | Total amount approved (US$ mm) |
|---|---|---|---|
| 01 | Asia | India | 52 868,28 |
| 02 | America | Brazil | 36 725,57 |
| 03 | Asia | China | 31 357,30 |
| 04 | America | Mexico | 27 918,59 |
| 05 | Asia | Indonesia | 27 661,58 |
| 06 | Asia | Turkey | 25 606,87 |
| 07 | Asia | Vietnam | 18 706,89 |
| 08 | America | Argentina | 18 646,24 |
| 09 | Asia | Pakistan | 15 854,05 |
| 10 | Asia | Bangladesh | 15 617,45 |
| 11 | America | Colombia | 13 435,48 |
| 12 | Africa | Ethiopia | 11 435,65 |
| 13 | Africa | Nigeria | 11 192,69 |
| 14 | Europe | Poland | 10 623,28 |
| 15 | Europe | Russia | 9 695,80 |
| 16 | Europe | Ukraine | 9 471,63 |
| 17 | Europe | Romania | 8 903,59 |
| 18 | Africa | Egypt | 8 809,15 |
| 19 | Asia | Philippines | 8 094,71 |

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|---|---|---|---|
| 20 | Africa | Tanzania | 7 705,55 |
| 21 | Asia | South Korea | 7 048,00 |
| 22 | Africa | Morocco | 6 677,98 |
| 23 | Africa | Kenya | 5 835,51 |
| 24 | America | Peru | 5 654,94 |
| 25 | Africa | Uganda | 5 653,49 |
| 26 | Africa | Ghana | 5 204,47 |
| 27 | America | Venezuela | 4 660,43 |
| 28 | Asia | Tunisia | 4 228,82 |
| 29 | Africa | Mozambique | 4 174,86 |
| 30 | Asia | Thailand | 4 045,49 |
| 31 | Africa | South Africa | 3 811,00 |
| 32 | Europe | Croatia | 3 770,32 |
| 33 | Asia | Azerbaijan | 3 621,02 |
| 34 | Asia | Sri Lanka | 3 272,03 |
| 35 | America | Uruguay | 2 850,64 |
| 36 | Africa | Burkina Faso | 2 792,13 |
| 37 | Asia | Yemen | 2 758,78 |
| 38 | Asia | Nepal | 2 743,01 |
| 39 | America | Guatemala | 2 633,11 |
| 40 | Africa | Senegal | 2 615,70 |

| | | | |
|---|---|---|---|
| 41 | Africa | Côte d'Ivoire | 2 553,30 |
| 42 | Africa | Madagascar | 2 487,95 |
| 43 | Africa | Mali | 2 270,75 |
| 44 | Asia | Jordan | 2 205,20 |
| 45 | Europe | Bulgaria | 2 160,80 |
| 46 | Europe | Georgia | 2 160,09 |
| 47 | Africa | Rwanda | 2 147,17 |
| 48 | Africa | Malawi | 2 106,20 |
| 49 | Europe | Hungary | 2 073,91 |
| 50 | Africa | Zambia | 1 960,85 |
| 51 | Europe | Armenia | 1 870,73 |
| 52 | Africa | Cameroon | 1 826,83 |
| 53 | America | El Salvador | 1 722,00 |
| 54 | Asia | Lebanon | 1 703,30 |
| 55 | America | Honduras | 1 684,25 |
| 56 | Africa | Niger | 1 674,47 |
| 57 | Europe | Albania | 1 473,41 |
| 58 | America | Dominican Republic | 1 431,03 |
| 59 | America | Panama | 1 429,30 |
| 60 | America | Nicaragua | 1 395,03 |
| 61 | America | Bolivia | 1 376,29 |

| | | | |
|---|---|---|---|
| 62 | Asia | Iran | 1 355,00 |
| 63 | America | Ecuador | 1 333,58 |
| 64 | America | Jamaica | 1 291,00 |
| 65 | Africa | Benin | 1 157,63 |
| 66 | Africa | Algeria | 1 020,33 |
| 67 | America | Haiti | 1 008,16 |
| 68 | Asia | Cambodia | 998,55 |
| 69 | Europe | Moldova | 959,86 |
| 70 | America | Costa Rica | 947,13 |
| 71 | Asia | Laos | 888,33 |
| 72 | Europe | Latvia | 834,31 |
| 73 | Africa | Sierra Leone | 832,47 |
| 74 | Africa | Guinea | 799,70 |
| 75 | Europe | Belarus | 785,11 |
| 76 | Africa | Chad | 776,20 |
| 77 | America | Chile | 760,35 |
| 78 | America | Paraguay | 759,50 |
| 79 | Africa | Mauritania | 738,28 |
| 80 | Asia | Malaysia | 704,00 |
| 81 | Africa | Botswana | 615,06 |
| 82 | Asia | Mongolia | 577,45 |

| | | | |
|---|---|---|---|
| 83 | Africa | Congo, Republic of | 434,47 |
| 84 | Africa | Lesotho | 423,71 |
| 85 | Africa | Cape Verde | 319,50 |
| 86 | Europe | Slovakia | 289,56 |
| 87 | Africa | Zimbabwe | 218,55 |
| 88 | Africa | Gambia | 198,25 |
| 89 | Africa | Djibouti | 191,99 |
| 90 | America | Guiana | 118,55 |
| 91 | Europe | Slovenia | 97,70 |
| 92 | Africa | Gabon | 73,00 |
| 93 | America | Belize | 66,40 |
| 94 | America | Barbados | 50,15 |
| 95 | Africa | Swaziland | 46,90 |
| 96 | Europe | Estonia | 40,30 |
| 97 | America | Trinidad and Tobago | 34,85 |
| 98 | Africa | Namibia | 15,00 |
| 99 | Asia | Cyprus | 0,00 |

Source: Projects and Operations, The World Bank. Available at: <http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/0,,menuPK:51563~pagePK:95873~piPK:95910~theSitePK:40941,00.html> | Accessed on: Dec 6 2016

*The independent variable – liberalism:* As previously explained, we are using three dimensions of liberalism (political, legal-institutional and economic). W Based on the criteria established by two of the most renowned liberal think tanks, The Heritage Foundation and Freedom House, and by the WB itself – we have defined the following indicators for each of the three dimensions.

Freedom in World's reports have as methodology the distribution of a questionnaire to specialists by country or region, internal and external to Freedom House, forming a scoreboard that, finally, labels each country as "Free" (final score of 1.0 - best possible situation - at 2.5), "Partially Free" (3.0 to 5.0), or "Not Free" (5.5 to 7.0 - worst situation). The experts' objective is to discern a country's de facto freedoms, realizing that there is a difference between them and the rights ensured only in the legislative body. The Index of Economic Freedom methodology is based on four indicators, with no weight difference between them, which in turn are composed of sub-indicators, which are used in this paper. A score from zero (worst situation) to 100 (best) is given to each sub-indicator, and the weighted average of these scores results in a general score that forms a ranking of countries. The Worldwide Governance Index Based is approached from six dimensions, which are the indicators listed below. Each country receives a score in the annual reports that can vary between -2.5 (worst institutional situation) and 2.5 (best situation). To match the demands of the Factor Analysis in this paper, all scores were equalized from 0.1 (weakest score, worst governance situation) to 1.0 (strongest score, best situation).

Missing data were filled in by the arithmetic mean of the two values immediately before and after. In case there is no value immediately before or after, the percentage of the difference between the three subsequent (or previous) values will be calculated, which will be used to calculate an arithmetic average and this average will be applied in an increasing or decreasing way to the value closest to the missing data, using the result to fill it. This was done with the following data: all 1996 Index of Economic Freedom indicators for Cambodia, Chad, Djibouti, Gambia, Namibia and Rwanda; "Corruption Control" and "Government Effectiveness" indicators of the "Worldwide Governance Index", for Cape Verde in 1996; all countries and indicators of the Worldwide Governance Index in the years 1997, 1999 and 2001.

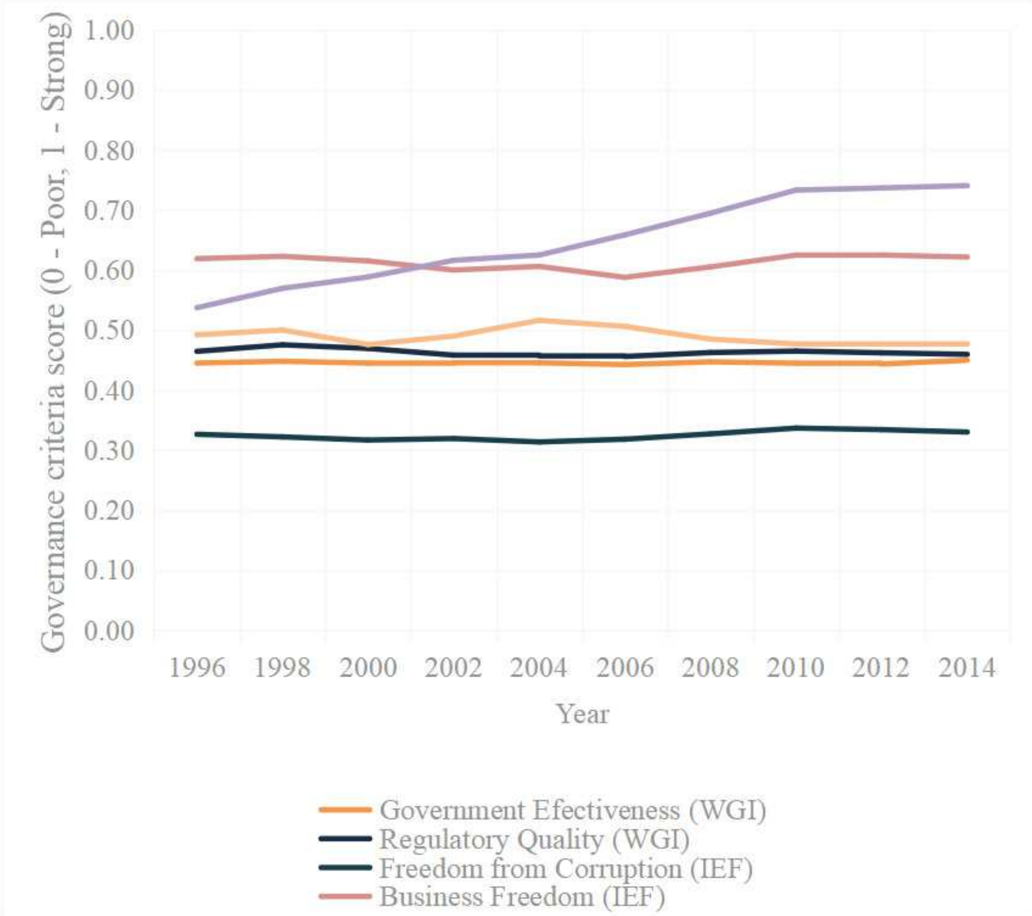
*Political liberalism: (i)* Political Rights; *(ii)* Civil Liberties; *(iii)* Property Rights; *(iv)* Voice and Accountability; and *(v)* Political Stability and Absence of Violence. The raw data for these indicators were drawn from: (*i* and *ii*) "Freedom in the World" by Freedom House (2016); (*iii*) the "Index of Economic Freedom" by Heritage Foundation (2016); and (*iv* and *v*) "Worldwide Governance Indicators" by World Bank (2016). From the ninety-nine countries, in average (1996-2014), South Africa shows the highest scores for Political Rights (0.92) and Zimbabwe the lowest (0.16).

*Legal-institutional liberalism:*; *(vi)* Freedom from Corruption; *(vii)* Government Effectiveness; *(viii)* Regulatory Quality; *(ix)* Rule of Law; and *(x)* Control of Corruption. The raw data for these indicators were drawn from: (*vi*) the "Index of Economic Freedom" by Heritage Foundation (2016); and (vii, viii, ix and x) from "Worldwide Governance Indicators" by World Bank (2016). In average, Chile shows the highest scores for Freedom from Corruption (0.70) and Haiti and Chad the lowest (0.14).

*Economic liberalism: (xi)* Government Spending*; (xii)* Business Freedom; *(xiii)* Monetary Freedom; *(xiv)* Trade Freedom; *(xv)* Investment Freedom; *(xvi)* Financial Freedom; and *(xvii)* Fiscal Freedom. The raw data for these indicators were drawn from the "Index of Economic Freedom" by Heritage Foundation (2016). In average, Estonia shows the highest scores for Business Freedom (0.83) and Haiti the lowest (0.38).

This is a set of seventeen indicators for each of the ninety-nine countries, in each of the nineteen years (31,977 individual data). Some interesting manipulations can be made with those data, far outreaching the main goals of this paper and inviting fellow researchers to make use of the database we are providing. For example, **Graphic 1** shows the overall variation of institutional performance, using the six indicators, from 1996 to 2014:

**Graphic 1. Evolution of the averages of the aggregated institutional quality indicators of 99 World Bank client states**




Source: Produced by the authors with information gathered from the Heritage Foundation (FIW) and The World Bank (WGI).

## 3.2 Estimation techniques used

To examine whether the evaluations of liberalism of the countries influence the values of the loans approved by the lender, it will be used the method of Multiple Linear Regression for Longitudinal Data. The choice of this model is subject to data availability, since for each variable of the problem are provided *n* cross-section units (countries) information and *t* periods (years). In this case, the most appropriate technique is one that considers the estimation of the relations between a dependent variable, , with a set of explanatory variables, X, in which the information presented in the form of Panel Data and can be represented by the equation:

$$Y_{it} = a + \beta x \beta, \delta x \beta, + it + \ldots + KxK,_{it} + I + u_{ti} \quad (1)$$

The subscripts $i = 1, \ldots, n$ denote the cross-section units (countries) and $t = 1, \ldots, T$ the year of information. The dependent variable, , represents the values of the loans approved to the customer countries in each year and the explanatory variables, *,* it, are the indexes of liberalism in countries, = 1, ..., seventeen denoting the seventeen indicators. Since it is not possible to exhaust all possible variation sources of the variable explained, the components of random errors must be incorporated into the test equation. The term *i* represents the idiosyncratic error out of the equation, which is independent of time, representing the specific features of the State-clients which are not described by the explanatory variables $X_{k,\ it}$. The term $u_{ti}$ represents the solely random term, that assumes to be identically and independently distributed with zero average and constant variance. The values *a*,β, ..., are the regression coefficients and are interpreted as the isolated effect of each explanatory variable on the dependent variable.

The method of regression estimation for panel data depends on the assumptions about the term *i,* that if it is not correlated with the explanatory variables $X_{k,\ it}$, then we have a compound error term $i + u_{ti}$ and the method "Panel Data with Random Effect" must be used, using a "Generalized Least Squares for Panel Data" estimator, GLS. If the term *i* is correlated with the variables *X*then the method "Panel Data with fixed effect" must be used, and to this end adopting the estimator "'between' ordinary least squares" or simply "Pooled Least Squares with dummies for each cross-section". If the term *i* is constant for all cross-section units, then an estimator for stacked data is considered, in which the model will be *0* +, known as the "Pooling Ordinary Least Squares" method, POLS.

Knowing what will be the most appropriate method for the sample available, the Hausman specification test (1978) should be applied, which compares the estimated results of fixed effect with random effect. The null hypothesis is that there is no correlation between the idiosyncratic term and the explanatory variables. Under $H_{0,}$ both estimators are consistent, but the "random effect estimator" is more efficient. Without considering $H_{0,}$ only the "fixed effect estimator" is consistent. So, if the statistic test does not reject $H_0$, only the result of estimates for random effect must be considered. Rejecting $H_0$ implies to consider only the estimates for fixed effect. If the latter is the case, you should still test the hypothesis that the idiosyncratic terms are common among the cross-sections (the State-clients) using a "F-test", in which the null hypothesis is that there is no distinction between units, being recommended the POLS method.

Once defined which method will be used to estimate the estimated regression coefficients, the interpretation carries the following principle: since the indicators are on a scale of zero to one and the dependent variable is in units of $1 mm, it can be interpreted the coefficient divided by ten as the variation (positive or negative) of loans approved for each 0.1-point increase in the liberalism indicator. For example: if the coefficient of the indicator of "Trade Freedom" is 12.5 (positive), then for each 0.1 increase of the indicator score we can affirm that the Bank loans tend to be higher on average at $1,250,000. The positive sign means that countries with higher indicators of liberalism tend to have larger loans, while the negative sign is exactly the opposite. The significance of the estimated coefficients is tested using a standard *t* test.

It should also be considered the possibility that there is a high correlation between explanatory variables, once an index of liberalism can be explained by a linear combination of a set of other indexes. It is not hard to happen, because the sub-indicators of liberalism are, in fact, dimensions of the same phenomenon, which is the political regime of a certain State and situations related to this sphere, even if not institutionalized. An example of this is the incidence of corruption as a negative dimension of the institutions, which contaminates the other indicators.

In this case, there is the possibility to exist high "multicollinearity" among explanatory variables, which can inflate the estimated variance of the model and reduce the statistical significance of each explanatory variable. When it happens, the variables that generate greater variance inflation should be prevented or a methodology for reducing the number of explanatory variables, known as "Factor Analysis" should be adopted (HAIR JR. et al., 2009).

In order to evaluate if there is inflation of the variance by excess of multicollinearity, we must calculate the statistic "Variance Inflation Factor" (VIF) computed for each explanatory variable of the model. The idea is to check whether the information contained in this variable can be obtained by a linear combination of other explanatory variables with a high level of determination. That is, it is estimated the regression of each explanatory variable with the other variables and from the coefficient of determination of this regression, the VIF statistic is calculated by the formula:

$$VIF(j) = 11 - Raux2 \quad (2)$$

where $Raux_2$ is the determination coefficient of the regression of *Xj* in the other explanatory variables. The explanatory variable exclusion rule will be used when the *VIF(j)>10*, that is, when 90% of the variation of the variable *Xj* is explained by a linear combination of the remaining variables, understood as high multicollinearity, able to inflate the variance of the model. The result led to the exclusion of the variable "Voice and Accountability", as **Table 2** shows that it surpassed the *VIF* value limit stated above:

**Table 2. VIF results**

| Variable | VIF | 1/ VIF |
|---|---|---|
| Voice and Accountability | 17.46 | 0.057263 |
| Political Rights | 9.83 | 0.101716 |
| Rule of Law | 9.40 | 0.106390 |
| Regulatory Quality | 8.97 | 0.111494 |
| Civil Liberties | 8.67 | 0.115404 |
| Government Effectiveness | 8.33 | 0.120024 |
| Control of Corruption | 5.89 | 0.169813 |
| Property Rights | 3.31 | 0.301666 |
| Freedom from Corruption | 2.95 | 0.338427 |
| Financial Freedom | 2.42 | 0.412958 |
| Investment Freedom | 2.31 | 0.433042 |
| Political Stability and Absence of Violence | 2.29 | 0.436522 |
| Business Freedom | 1.89 | 0.528490 |
| Trade Freedom | 1.48 | 0.674319 |
| Government Spending | 1.37 | 0.728925 |
| Monetary Freedom | 1.36 | 0.735039 |
| Fiscal Freedom | 1.31 | 0.763200 |
| Mean VIF | 5.25 | |

Source: Produced by the authors.

Otherwise, it is possible to reduce the number of variables by using Factor Analysis, replacing the set of explanatory variables for a smaller number of factors that explain most of the variance of the total set of variables. A classic example for this issue is to think of what would be the best angles to look at an object and have almost all of the information that this object can give us. So, given a large set of variables and the total variance generated by them, we can look at the same problem with a smaller number of factors that explain most of the variance.

The factors are constructed based on the eigenvalue of the variance matrix with all the variables of the problem. The bigger the eigenvalue associated with a factor, the greater its power of explaining the variance. The factors point vector directions, which explain the greater data variance in descending order, which in turn is associated with the set of variables that presents a greater degree of commonality (factor loadings) with the factor. Mulaik (1972), Kim and Mueller (1978), Latif (1994) and Carlos and Echeveste (2013) instruct that the application of Factor Analysis requires a large sample size, which is fully satisfied in this work: there are 31,997 observations on the liberalism of countries, namely, 1,881 observations for each of the seventeen variables.

Carlos and Echeveste (2013) suggest the construction of standardized factors for the interval (0.1) from the factor loading of each variable associated with the factor, as it is described by the following formula:

$$IS(F_{kn}) = i = 1J_{pixii} = 1J_{pix} 100 \quad (3)$$

Where $IS\ (F_{kn})$ is the institutional quality of country $n$ in the factor $k$; $j$ is the number of variables associated with the factor $k$; $pi$ is the module of the factor loading from the variable $i$ associated with the $k$ factor, and $xi$ is the score of the variable $i$ in the $k$ factor.

Once reduced the number of explanatory variables in some relevant factors that explain most of the variance of the set of variables, we can return to the problem of Multiple Linear Regression estimation seeking to relate the loan amounts approved to the built factors. Finally, **Table 3** shows the results:

**Table 3. Regression results after VIF and Factor Analysis**

| Dependent variable (y) | Explanatory variables (*x*) | Factor Analysis with rotation | |
|---|---|---|---|
| | | Fixed effects | Random Effects |
| **US$ mm per capita of loans approved by The World Bank (IBRD and IDA)** | Factor 1 - Fiscal Freedom | 5,662668 (0,195) | 4,733434 (0,272) |
| | Factor 2 - Monetary Freedom | -0,9091117 (0,778) | 0,0573828 (0,986) |
| | Factor 3 - Government Spending; Trade Freedom | 3,903521 (0,392) | 4,984988 (0,266) |
| | Factor 4 - Business Freedom | 3,82032 (0,427) | 4,932127 (0,295) |

| | | | |
|---|---|---|---|
| **US$ mm per capita of loans approved by The World Bank (IBRD and IDA)** | Factor 5 - Political Stability and Absence of Violence | 1,303405 (0,746) | 1,374264 (0,728) |
| | Factor 6 - Investment Freedom; Financial Freedom | -1,034269 (0,809) | -1,741447 (0,679) |
| | Factor 7 - Freedom from Corruption | 10,5718 (0,044) | **11,22638[2] (0,029)** |
| | Factor 8 - Property Rights | -5,870166 (0,162) | -5,441239 (0,188) |
| | Factor 9 - Control of Corruption | 9,012317 (0,276) | 5,17643 (0,525) |
| | Factor 10 - Political Rights; Civil Liberties | 0,5442817 (0,823) | 1,021262 (0,670) |
| | Factor 11 - Rule of Law | 3,719996 (0,709) | 5,516068 (0,573) |
| | Factor 12 - Government Effectiveness; Regulatory Quality | -19,61477 (0,053) | **-19,96368 (0,043)** |

Source: Produced by the authors.

# 4. Analysis of results

We will discuss the results obtained from the Factor Analysis for each of the three dimensions of liberalism.

*Political liberalism*: The first important result of this research is related to the fact that none of the five indicators of political freedom has come to the fore, especially the most emphasized by the liberals: "Property Rights". Deeper policy reform demands and the imposition of "liberal democracy" as a model by the WB cannot be observed empirically when we go beyond speech and observe the actual use of the Bank's capital. Thus, WB complies with article IV, section 10 of the treaty that composes itself (IBRD 2012), which speaks about political neutrality in relation to State-clients.

**2** Numbers in bold show the relevant results.

*Legal-institutional Liberalism*: Between the dimensions of liberalism, this is the most important to explain the loans approved by the WB from 1996 to 2014, since among its six indicators, three showed relevant results.

We identified positive correlation between the loans and the "Freedom from Corruption" indicator (for each positive point in its indicator in the overall time spam, the country received more 11,22638 thousand dollars than the average). The presence of corruption discourages any kind of investment, even the official – and with the possible exception of those provided by direct beneficiaries of a side deal. Corruption is usually regarded as a deficit in the public finances – and it could not be different – and soon, a bigger sign of possible default probed by the Bank. In addition, the embezzled money from development projects and programs can deplete the technical work of the Bank next to that country, which is a threat to its reputation.

It is interesting to note that the "Control of Corruption" indicator does not follow the same trend. This is a positive indicator – what the State-client actually does to curb corruption? – while "Freedom from Corruption" is a negative indicator, caring only about the general record of incidences without inquiring about their causes and combat against. Because it is more lenient, "Freedom from Corruption" can end up having a greater explanatory power. Finally, such indicators in its mirrored forms also reflect the priority given to the issue by the former World Bank President Paul Wolfowitz (2005-2007 tenure), but the fight against corruption has also existed in the tenure of his predecessor, James Wolfensohn (1995-2005 tenure).

The statistical tests indicated a negative correlation between the "Regulatory Quality" indicator and the Bank loans. It means that countries with greater difficulty in establishing a regulatory balance tend to receive more money from the Bank. Such an imbalance is typical of countries living a phase of incipient capitalism. The striking absence of market regulations indicates a possible lack of bureaucrats and public machine resources given the complexity of certain industrial activities. This is a typical client of the Bank, because in addition to contract loans, it needs the institution second greatest service: technical advice for development. If the "Regulatory Quality" of countries were a positive criterion for the approval of loans by the Bank, its portfolio of customers probably would reduce enormously, and would contravene its mandate of a "land flattener" institution for mature capitalist systems to come.

The indicator "Government Effectiveness" showed negative correlation with the loans. High scores in this indicator indicate a country where the Government practice is faithful to (and effective to meet) the legislative decisions ("enforcement"). Government behavior that could be predicted by "paper" decisions provides to the capital invested by the Bank something essential to any private capital: predictability. The government will fulfill what it promised. Thus, any political or economic instability during the period of the credit instrument contract will hardly go beyond a margin of error present in the analysis of the Bank staff regarding project's or program's "financial feasibility". Such effectiveness also relates to compliance with the liberist philosophy. An effective liberal government is the one that does not negatively startle the local and foreign private initiative with actions without legislative and constitutional basis. Business planned in a predictable environment are numerous and less shy, which can lead to economic growth, and soon, to greater tax collection. With the public coffers filled, there is less reason for a country to become a bad payer for the WB.

Together, "Regulatory Quality" and "Effectiveness of Government" are indicators of institutional and legal nature, and refer to an "anteroom" of economic liberalism. For each negative point in this factor, the countries received more 19,96368 thousand dollars than the average. It is not difficult to imagine that, under liberal criteria, a state struggling to regulate its economy certainly will have problems with its accounts, because both the lack of technical capacity and the lack of political will could lead to lower regulatory quality, indicating a general debility of creating and enforcing laws in all areas, and not only those related to markets and competitiveness. At the same time, the lack of effectiveness identified in a possible dissonance between the Executive and Legislative processes can make a hypothetical investor see that environment as unpredictable, endangering the return on investment. Institutions suggested by the Bank in 1992's "Governance and Development" booklet, such as power decentralization from the Federal sphere to the municipalities, and encouraging public *versus* private competition (usually for public services such as health and education), help to create a State governed by law and able to make them abided – without regulatory excesses but fairness. Soon, countries deficient in these two indicators are, to the Bank, ideal terrains for its loans and technical aid, since it enables creating institutions of "good governance" from their foundations. The negative correlation suggests that it is the nature of the Bank to be the financial organization that raises new institutions in countries where the ones desired by private investors are weak or nonexistent. This very Bank assumes the role of not acting with a strict banking rationality.

Finally, the absence of a correlation of the "Government Spending" indicator with the loans reinforces the hypothesis that the WB should not be called "a bank", because information such as a customer's debt is one of the first borrower's metrics to be observed by any private financial institution. It can be seen that the WB, more or less intentionally, conditionates its loans to countries with legal and institutional deficiencies, little access to financial alternatives, but showing goodwill in relation to the free exchange of goods and to the flourishing of a private sector. According to the words of Lord Keynes himself during the Bretton Woods Conference, what was to be called the "International Bank for Reconstruction and Development" was not, in fact, supposed to be a bank (SCHULER and ROSENBERG, 2013). It is a political public institution created by a geopolitical multilateral treaty.

*Economic liberalism*: As a financial institution, we were hoping that the WB would direct its lending to countries that effectively present conditions of paying it back, namely, countries which were open to international trade and private financial flows. Trade and financial liberalization are mechanisms that enable States to obtain strong currencies exchanges and refundable to the Bank (like USD). However, neither these nor any other of the six indicators of economic liberalism showed correlation with the loan amounts approved by the WB. If the conditionality of loans headed to liberist reforms ever were enforced, it could only have been before 1994.

This may be related to the fact that in the year of 1994, the starting *t* of this sample, the World Trade Organization (WTO) starts its activities and most countries had already started the process of trade liberalization, showing lesser variance in the respective indicator. Still, it is interesting to note that the WB have always been considered one of the "Washington Consensus" forerunners, but it does not apply to the analyzed period. Maybe, while entities such as the WTO and the IMF were acting on the main liberal agenda – trade international rules and sound public finance – it was the World Bank responsibility to tune what is between the political motivation of a country and its practical results in financial and commercial fields: the State bureaucracy, its processes, professionalism, and its compliance with a mature legal statute. In other words, the Bank approached the institutional reality, looking ahead to its important role in the economy.

In summary, the results indicate that there is no correlation between the approval of loans, by the IBRD and the IDA, and the adequacy of the State-clients with liberal criteria of governance from the political and economic dimensions. The WB loans are probably blind to the characteristics of countries such as political rights, civil liberties and the various freedoms advocated by classical liberalism: financial, trade, private business driving, monetary, and investment. Neither the main indicators of a liberal democratic nation showed correlation with the loan approvals:

property rights and rule of law. If there is a coercion to "liberalize" the institutional design of a state through a Bank loan conditionality, it happens after approval, and not before, which puts the Bank in a bargaining position inferior to what one should expect from an institution playing the role of a worldwide financial resources' gatekeeper.

The main findings above find echoes with most of the official transformations of the Bank's publications during the mid-2000s, such as the interest in "country ownership" (the recipient country has more independence on what to do with the money and less conditionalities) and that "(t)*he operational policy is consistent with a view that conditionality is not coercion to undertake reform, and does not prescribe policy content*" (WORLD BANK, 2005, p. ii). Controversially, but also echoing our findings, Woods (2006) points that the more democratic is a borrower-country, the more difficult for WB and IMF to work reforms alongside sympathetic executive leaders. And finally, we recover Santiso's criticism (2001, p. 9):

> Using conditionality to induce governance reform results in a fundamental paradox. It tends to make improvements in governance both a condition and a goal of development aid. Since these dual objectives can hardly be met in practice, the tension becomes a contradiction in operational terms. (...) Conditionality tends to undermine countries' ownership of the reforms and delay its implementation.

The Bank used to believe that a greater volume of aid should be directed to countries with weak policies – simply because they seemed to need it the most. But *empirie* showed that these very countries kept their "bad" policies. Critics of this position argue that aid to countries with such policies only foster corrupt and incompetent governments over time (DEVARAJAN, DOLLAR and HOLMGREEN, 2001). And finally, Woods (2006) had already alerted that the WB and the IMF are public institutions with public purposes and should not be evaluated like private investors and banks. She did not stop there (2006, pp. 1-2):

> Yet unleashing these market forces was not the core part of the original mandate of each organization. These public sector institutions were created not to feed global markets but to step in where markets fail and mitigate the harsh effects of global capitalism.

Which help us to understand that the liberal criteria that usually feeds the overall private banking expectations over lending is not applied to what is a multigovernmental organization for development and poverty easiness.

# 5. Final remarks

The aim of this paper was not to neglect the classic liberalism or "neo-liberal" influence over the World Bank, but to check to what extent it really affects the loan approval decision-making. If its loans are approved based on classic or neo-liberal judgements of the State-clients credit worthiness, it is possible to believe that the Bank practices some sort of political coercion, since it imposes political and institutional models in order to let States drink from its low-priced credit fountain. From the beginning of this paper, we have worked with the hypothesis that the previous sentence is an ideological creed rather than an empirically observed fact – at least after the Structural Adjustment Loans issued up to the early 1990s faded away.

The mere intellectual influence is part of the Bank's history and took place on the rational individualistic approach to the markets and their role on social and economic development. However, the accordance with classic liberalism stops here. Since the very nature of the Bank's capital is mostly State-owned, and its clients are also States, this intellectual influence has walked its path through a continuum that begins at a faded *laissez-faire* ideology but ends at something closer to Keynesianism, which had been basically an intellectual rival to figures like Mises and Hayek.

WB's very institutional nature does not fit with classic liberalism: a multigovernmental treaty created to help a community of State-nations to manage the world economy, frontally opposes the small State proposal issued by the defenders of *laissez-faire*. Being so, we found interesting to empirically test if the WB really unfolds its intellectual background to its State-clients in the form of political, economic and institutional coercion made through its sharpest teeth: the loans.

After running a statistical model and checking its results, we are very inclined to propose that the World Bank does not practices political coercion through its loans – at least during the *ex-ante* loan approval process. It also used to be common sense that the World Bank and the IMF are the only multigovernmental finance organizations that own "teeth", what is to say, that are able to coerce States as if they were at State-level. The empirical results of this paper suggest that even the World Bank is among the "toothless" group of organizations (but maybe we cannot extend this conclusion to the IMF). In addition, if we think about the role of the Bank as an institutional strengthener of its clients, we are talking about a financial institution that reduces its own relevance inasmuch as its clients are successful in their developmental enterprises. Conceptually, the Bank helps countries to improve their institutions to the point that they do not need external technical or even financial aid anymore.

The only significant correlation between the aspects of liberalism - represented here by quantifiable indicators from different liberal conservative think tanks and the World Bank itself – and the loans issued by the Bank to ninety-nine countries from 1996 to 2014 were: "Freedom from Corruption" (positive correlation), "Regulatory Quality*"* and "Government Effectiveness*"* (negative correlation for both). The first correlation is an obvious result when we are talking about any institution dealing with limited resources. Corruption is not a failure of institutional engineering, but an external attack to any social structure, no matter how fit it is meant to be. However, the negative correlation between indicators like "Government Effectiveness" and "Regulatory Quality" are a surprise. No bank would lend cheap money to ill designed companies and government agencies, but that is what the World Bank does. Being so, the argument first defended my J. M. Keynes himself during the Bretton Woods conference remains plausible: the (what later was named the) World Bank is not a bank, and we could add that its nature as a multilateral treaty with a clear commitment to world development cannot allow it to be similar to a private bank. The fact that it cannot be so, weakens its own power to decide which countries should be preferred targets of lending based on liberalism – and so, market and profit-oriented – criteria.

We also learned that institutions matter a lot to development economy, but it is likely that no institutional improvement derived from classical liberalism have taken place in the developing countries through political and financial coercion by the international organization called the World Bank during the *t* spam of this paper's econometric test (1996-2014).

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