

# The Economic and Political Determinants of IMF and World Bank Lending in the Middle East and North Africa

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**Summary.** — This paper assesses the economic and political determinants of IMF and World Bank program loans to the Middle East and North Africa. First we assess what is already known about the geo-political influences on aid flows to the Middle East and North Africa (MENA) region and the potential for this to operate via the IMF and World Bank. From this we conclude that there is scope for IMF and World Bank lending in the region to respond to the political interests of their major shareholders, particularly the United States. We support these arguments with both a qualitative and a quantitative analysis of the determinants of World Bank and IMF program lending to the region, focusing on both economic need in the MENA countries and the politics of donor interest before concluding.

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## 1. INTRODUCTION

The Middle East and North Africa (MENA) consists of the predominately Islamic cultures of the Gulf Arab countries, the Levant, the countries of North Africa, plus Iran, and the more industrialized country of Israel.<sup>1</sup> MENA assumes both political and economic significance. Politically, it is arguably the epicenter of world crisis, chronically war-prone, and the site of the world's most protracted conflicts (Hinnebusch, 2003, p. 1); economically, it owns the bulk of the world's oil reserves, driving in particular the USA economic engine. In light of the region's geo-politically and economically

strategic position in the world economy, it is clear that economic and political factors are inextricably linked when it comes to the manner in which the West, particularly the United States, responds to the region's needs.

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There is a long and rich theoretical and empirical literature on the determinants of the geographical allocation of foreign aid.<sup>2</sup> It is generally accepted that this allocation is influenced by both recipient need and donor interest and that multilateral aid is less susceptible to donor interest than bilateral aid (Maizels & Nissanke, 1984; Rodrik, 1995). In the past donor interest has often reflected the geopolitics of the Cold War, with pro-western regimes, regardless of economic need and their record on human rights, being large recipients of western aid.<sup>3</sup>

Even before the collapse of Communism in the late 1980s and early 1990s, a new theory was emerging to the effect that “Islam [is] the new Communism and [hence represents] a grave threat to Western civilization” (Niva, 1998, p. 27). Consequently, “rogue states” were isolated while pro-western regimes, particularly if they were threatened by Islamists, were rewarded for serving Western interests (Hubbell, 1998, p. 9). Hence, the end of the Cold War replaced the old dichotomy in the Arab World between conservative pro-Western and socialist pro-Communist Arab regimes with a new and less covert formula based on “friends or allies, or good or bad” regimes (Perthes, 1998, p. 30).

It is possible that past aid allocations to MENA have been influenced by United States interests in the region, and that the IMF and World Bank are not immune from such influences. It is often argued, particularly by the anti-globalization movement, that the two Washington-based multilaterals are strongly influenced by the economic and political needs of their major western shareholders, especially the United States. This influence can take two forms—determining the geographical flow of funds, that is, who gets what from the IMF and the World Bank; and influencing the conditionality attached to such funds, that is, program loan recipients are expected to undertake economic liberalization programs, which help to open up their economies to the global economy and Western economic penetration. In addition, we can speculate that if there is evidence that past financial flows into pro-western MENA countries have responded to donor interest rather than recipient need, then, given the post 9/11 foreign policy concerns of the west, this may well intensify in the future.<sup>4</sup>

In light of the above, this paper attempts to assess whether donor interest, particularly the political interests of the United States, have affected the flow of funds from the IMF and

World Bank to the MENA region. Although there is a large body of literature on the multiple determinants of aid allocation, much of the empirical work does not disaggregate aid by donors and when it does it tends to focus on bilateral donors. In addition, the more recent empirical work tends to employ panel data which aggregates recipients. Although there is a small but growing literature on the influence of the political preferences of the IMF and World Bank’s principal shareholders on lending decisions (Barro & Lee, 2001; Bird & Rowlands, 2001; Fleck & Kilby, 2001; Killick, 1995; Rowlands, 1995; Thacker, 1999) to the best of our knowledge, this is the first paper which attempts to specifically analysis this phenomenon in the geopolitically strategic MENA region. In addition, the fact that we concentrate on specific MENA countries enables us to capture political influence in a manner somewhat different from the existing studies which tend to look at IMF lending in aggregate. Such an analysis is timely given the new foreign policy interest of Western powers in MENA.

The remainder of this paper is divided up as follows. In the next section, we assess what is already known about the geo-political influences on aid flows to the MENA region and the potential for this to operate via the IMF and World Bank. From this we conclude that there is scope for IMF and World Bank lending in the region to respond to the political interests of their major shareholders. We support these arguments with both a qualitative and a quantitative analysis of the determinants of World Bank and IMF program lending to the region, focusing on both economic need in the MENA countries and the politics of donor interest before concluding.

## 2. POLITICS, AID, AND MENA—WHAT DO WE ALREADY KNOW?

Three facts are already established in the literature—bilateral aid flows are influenced by donor political interest; flows into MENA, most notably Egypt and Israel, are partly politically determined; and the United States wields considerable power and influence in the IMF and World Bank.

### (a) *Trends in aid flows to MENA*

The MENA region has been the second largest regional recipient of aid in the period since

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